

# CORFI

## Corporate Finance

### 1. Introduction

In this course we will look at corporate long-term financing. The ultimate goal of corporations is to undertake profitable projects (e.g., a plant expansion) and finance them efficiently (e.g., issuing debt or equity). The time and uncertainty of investment payoffs make these problems nontrivial and essential for long-term success. Corporate Finance answers to the following questions: How can we value and choose projects? How should corporations obtain financing? What is the value of a company? How much value does a specific strategy add to the firm?

The aim of this course is to give you a framework to understand these issues in theory and in practice. We will see how to apply discounted cash flow methodologies to value firms, stocks, corporate bonds, and risky projects. We will use the CAPM model to estimate a firm's cost of equity and we will learn how to estimate the weighted average cost of capital (WACC). We will analyze the impact of the firm's capital structure to its value. We will discuss whether firms should reinvest their profits or redistribute cash to their shareholders. Lastly, we will apply these methods to consider the value created (or destroyed) by several types of financial transactions (M&A, LBO, IPO, etc.).

### 2. Objectives

The purpose of this course is that students are able to critically analyze corporate decisions from a financial perspective. After the course, you should be able to:

- Compute the expected rate of return for investment projects
- Apply several valuation methods to value projects and companies
- Evaluate the capital structure of a firm
- Identify ways to return money to shareholders

### 3. Content

The course is divided into four modules:

**Project Evaluation & Capital Budgeting** (5 sessions): This module provides the basic tools to make decisions on projects. What is the value of a project? Should the firm undertake it?

**Valuation Methods** (5 sessions): This module develops different methodologies used to value a firm and discusses different ways to create corporate value.

**Cost of Capital** (3 sessions): In this module, we will analyze the cost of equity and the cost of debt in financial markets—leverage, risks, and the average cost of capital.

**Shareholder Value Maximization—Payout, Buyout, and Exit** (4 sessions): The last module of the course discusses the ways of returning value to the shareholders and covers payout policy, venture capital/private equity (VC/PE), leveraged buyouts (LBOs), and shareholder value maximization.

## 4. Methodology

**Method:** The course is case-based, supported by lectures and review sessions. Cases, technical notes, and readings will be assigned for each session. Cases require heavy preparation. You are expected to participate constructively in class discussions.

### Textbooks and materials:

Ross, S., R. Westerfield, and J. Jaffe (2003) *Corporate Finance*, McGraw-Hill, 6th edition (RWJ).

Martinez Abascal, E. (2012) *Finance for Managers*, McGraw-Hill (EMA).

Preparation sheets show detailed instructions for each session, with reading requirements from textbooks, technical notes, and articles. Other supportive material will be provided through Global Campus.

**Valuation project:** Details to be announced on April 30, 2013; projects will be due by May 31, 2013.

**Office hours:** Wednesday 3.30–4.30pm (please call my assistant to set an appointment).

**Tech requirements:** Bring an old-school calculator; cell phones shut off.

## 5. Evaluation

Your final course grade will depend on four components:

- Quizzes & cold-calls (20%)
- Midterm (30%)
- Company Valuation Project (20%)
- Final Exam (30%)

## 6. Outline

Session	Title / Material
1	<b>The Big Picture of Corporate Finance—Methodology</b> (Lecture) Article: Graham, J. R. and H. Campbell (2002) How Do CFOs Make Capital Budgeting and Capital Structure Decisions?", <i>Journal of Applied Corporate Finance</i> 15, pp. 8–23 Charts and fomulae distributed in class
	<b>Project Evaluation &amp; Capital Budgeting</b>
2	<b>Free Cash Flows, Equity Cash Flows, Net Present Value, Internal Rate of Return</b> Case: IESE F-760-E, AC Hotels. Investment in New Hotels Textbook: EMA Chapter 7
3	<b>Other Critical Criteria: Sunk Costs, Cannibalization, Strategic Fit</b> Case: IESE F-760-E, AC Hotels. Investment in New Hotels (cont.)
4	<b>Project Finance; Direct Cash Flows Computation</b> Case: IESE F-886-E, A Wind Farm Project Finance Deal Technical Notes: HBS 210-061, An Overview of Project Finance & Infrastructure Finance 2009 Update; HBS 9-203-040, Project Finance Glossary
5	<b>Project Structuring &amp; Risk Mitigation Strategies</b> Case: IESE F-886-E, A Wind Farm Project Finance Deal (cont.) Article: Kaplan R. S. and A. Mikes (2012) Managing Risks: A New Framework, <i>Harvard Business Review</i> , June
6	<b>Debt vs. Equity Financing</b> Case: IESE F-823-E, Logisware Article: Williamson, O. E. (1988) Corporate Finance and Corporate Governance, <i>Journal of Finance</i> Vol 43, No. 3, pp. 567–591 Textbooks: RWJ Chapters 14, 15, and 16; EMA Chapter 9

	<b>Valuation Methods</b>
7	<b>Business Valuation (Lecture)</b> Article: Luehrman T. (1988) What Is It Worth? A General Manager's Guide to Valuation, <i>Harvard Business Review</i> , May-June
8	<b>Valuation with Multiples</b> Case: IESE F-845-E, Volkswagen AG: Valuation in 2009 Technical Note: HBS 9-206-039 Corporate Valuation and Market Multiples Article: Goedhart, M., T. Koller, and D. Wessels (2005) The right role for multiples in valuation, <i>McKinsey Quarterly</i> , Spring
9	<b>Valuation with Discounted Cash Flows</b> Case: IESE F-853-E, Publicizing Know-How: DGA's Initial Public Offering Technical Note: HBS 9-295-155, An Introduction to Cash Flow Valuation Methods Textbooks: RWJ Chapter 19.1-19.8; EMA Chapter 10
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10	<b>Review Session</b>
11-12	<b>Midterm Exam</b>
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	<b>Valuation Methods (cont.)</b>
13	<b>Valuation of an M&amp;A using Multiples</b> Case: HBS 9-291-033, Interco Textbook: RWJ Chapter 30
14	<b>Valuation of an M&amp;A using WACC</b> Case: HBS 9-291-033, Interco (cont.) Technical Note: HBS 9-202-128, Note on the Equivalency of Methods for Discounting Cash Flows
	<b>Cost of Capital</b>
15	<b>Cost of Equity and Cost of Debt (Lecture)</b> Textbook: RWJ Chapters 10, 11, and 12 Exercise on betas and cost of capital (on Global Campus)
16	<b>Unlevering and Relevering Returns to Estimate the WACC</b> Case: HBS 4129: Midland Energy Resources, Inc.: Cost of Capital Technical Note: HBS 9-288-036, Leveraged Betas and the Cost of Equity
17	<b>WACC per Division</b> Case: HBS 4129: Midland Energy Resources, Inc.: Cost of Capital (cont.) Article: Holthausen R. W. and M. E. Zmijewski (2012). Pitfalls in Levering and Unlevering Beta and Cost of Capital Estimates in DCF Valuations, <i>Journal of Applied Corporate Finance</i> 24 (3)
	<b>Shareholder Value Maximization—Payout, Buyout, and Exit</b>
18	<b>Payout Policy</b> Case: HBS 9-204-066, Dividend Policy at Linear Technology Articles: "Hordes of hoarders," by J. Authers, <i>Financial Times</i> , January 29, 2012; "Investors weigh prospects for dividend catch-up," by T. Demos, A. Makan, and D. McCrum, <i>Financial Times</i> , February 20, 2012 Textbook: RWJ Chapter 18
19	<b>Private Equity</b> Case: IESE F-852-E, Barbarians at the Gate: RMS Teleinformatics' Acquisition by a Private Equity Fund Technical Note: Stanford GSB E-95, A Note on Valuation of Venture Capital Deals Textbook: RWJ Chapter 19.9

- 20 **Leveraged Buyout (LBO) and Management Buyout (MBO)**  
Case: HBS 9-291-008, John M. Case Company  
Technical Notes: IESE E-12-E, Negotiating a Venture Capital Deal III: Structuring a Buy-Out;  
HBS 902-004, Technical Note on LBO Valuation (A): LBO Structure and the Target IRR  
Method of Valuation  
Article: Stancill, J. (1988). LBOs for Smaller Companies, *Harvard Business Review*, January-February  
Textbook: RWJ Chapter 17
- 21 **Shareholder Value Maximization vs. Corporate Social Responsibility**  
Case: IESE F-858-E, Other People's Money  
Article: Davis I. (2005). What is the Business of Business?, *McKinsey Quarterly* 3
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- 22 **Review Session**  
23-24 **Final Exam**
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## 7. Professor's biography

Marian Moszoro earned his Ph.D. in Financial Economics from the Warsaw School of Economics. In 2005-2006, he was appointed Undersecretary of State and Deputy Minister of Finance of Poland, the youngest ever in that position. He was also Chairman of Bank BGK that specializes in servicing the public finance sector, Chairman of the Export Insurance Policy Committee, and member of more than 10 government committees. In 2009-2011, he was a visiting scholar at Haas School of Business, University of California, Berkeley under Nobel laureate economist Oliver Williamson.



Prof. Moszoro's research encompasses three areas: (a) project finance and public-private hybrids, (b) public contracts, scrutiny, and political economy, and (c) governance, risk perception, and asset pricing. He has published four books, several book chapters and journal articles, and more than 15 business case studies. He has lectured and presented his research at: Yale University; University of California, Berkeley; University of Southern California; University of Maryland; George Mason University; IESE, Barcelona; Université Paris-Sorbonne; Université Paris-Dauphine; Technische Universität Berlin; The World Bank, Washington, DC; London School of Economics; IAE, Buenos Aires; FGV, Sao Paulo; and the Financial Supervision Authority (KNF), Warsaw.

Prof. Moszoro has in-field experience in various industries and has been consultant in corporate finance, strategy, and public-private contracting. He relates his professional experience to cutting-edge research and true passion for teaching. Students also voted his Project Finance MBA course the best course for three consecutive years. He has successfully completed a dozen triathlons and marathons, and still actively plays rugby.