

Corporate Finance I: Applied Corporate Finance (Master, 6 ECTS)

Winter Term 2014/15

Thursdays, 10.00 to 13.15, Room 00 235 RW 4

Course Description:

The purpose of this course is to introduce techniques of financial analysis, with emphasis on the main topics in corporate finance. The course focuses on concepts that can be applied directly to real-life financial decision making. The main topics covered include hurdle rates and the cost of capital (i.e., the investment decision), the mix of debt and equity and choosing the right kind of debt (i.e., the financing decision), the how-to and why return cash to shareholders (i.e., the dividend decision), and basic valuation. The course will consider both publicly listed firms and private firms, companies from different countries and industries as examples for application

Course Material:

Textbooks:

- Required:
 - Damodaran, A., Applied Corporate Finance, 3rd ed., John Wiley & Sons, 2010, see:
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/ACF3E/manuscript.htm
- Recommended (to refresh finance basics):
 - Berk, J. and DeMarzo, P., Corporate Finance, 2nd ed., Pearson International, 2011
 - Hillier, D., Ross, S., Westerfield, R., Jaffe, J. and Jordan, B., Corporate Finance, 2nd European Edition, McGraw-Hill, 2013
 - Brealey, R., Myers, S. and Allen, F., Principals of Corporate Finance, 10th Edition, McGraw-Hill International Edition, 2010

News articles from Financial Times or Wall Street Journal will be provided to discuss recent events in the context of the course

General information:

Course materials (slide sets and news articles) will be available from Reader (www.reader.uni-mainz.de).

Reading and preparing all relevant book chapters for class is expected. Classes will cover all main concepts but there is not enough time to cover every aspect.

There will be a tutorial complementing the course. The tutorial helps to apply the acquired tools and concepts to real-world problems. Parts of the tutorial will be web-based in the form of online webcasts and quizzes, others will rely on group discussions. Group discussions will mainly center on the news articles (provided via the Reader) in order to link the course content with recent real-world events. The tutorial will take place irregularly throughout the course as it will be tightly linked to the topics presented. (Therefore, the lecture is of a 4-hours framework per week, without a strict split between lecture and tutorial.)

Finally, there will also be presentations by practitioners, e.g. treasurers from German firms or analysts from financial institutions or information intermediaries. These presentations are intended to broaden the course's approach to corporate finance and provide in-depth information on specific topics.

Course Outline (deviations may occur):

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| Session 1: Nov 6 | Overview of class Foundations of Corporate Finance <i>Readings:</i> Chapters 1 and 2 |
| Session 2: Nov 13 | The objective in decision making: Choosing the right objective The basics of risk Defining risk, firm specific vs. macro risk Who is the marginal investor? <i>Readings:</i> Chapters 2 and 3 |
| Session 3: Nov 20 | Risk measurement: Why the CAPM isn't so bad after all Risk-free rates Equity risk premium <i>Readings:</i> Chapter 4 |
| Session 4: Nov 27 | Hurdle rates in practice: Beta and Jensen's alpha More on regression betas Betas and financial leverage |

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| | <i>Readings: Chapter 4</i> |
| Session 5: Dec 4 | Hurdle rates in practice: Bottom-up betas Cost of equity for private businesses <i>Readings: Chapter 4</i> |
| Session 6: Dec 11 | Hurdle rates in practice: Cost of debt Leases as debt Cost of capital <i>Readings: Chapter 4</i> |
| Session 7: Dec 18 | Measuring return on investments: Time weighted, incremental cash flow returns From earnings to cash flows Depreciation, capex and working capital Sunk costs and allocated expenses <i>Readings: Chapter 5</i> |
| Session 8: Jan 8 | Project interactions: Monte Carlo simulations NPV vs. IRR Side costs and benefits Options in projects Analyzing an existing project <i>Readings: Chapter 6</i> |
| Session 9: Jan 15 | Overview of the financing decisions: Types of financing The trade off of debt Optimal capital structure The optimal financial mix: The cost of capital approach The follow up to the optimal <i>Readings: Chapters 7 and 8</i> |
| Session 10: Jan 22 | The optimal financial mix: The enhanced cost of capital approach Determinants of optimal debt ratio Adjusted present value approach Relative analysis Actual vs. optimal: Follow up steps <i>Readings: Chapter 8</i> |
| Session 11: Jan 29 | The financing details: Timing and financing choices Approaches to finding the right debt Designing the right debt |

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| | <i>Readings:</i> Chapter 9 |
| Session 12: Feb 5 | Dividend policy: Dividend characteristics A framework for assessing dividend policy Dividends vs free cash flows Peer group approach <i>Readings:</i> Chapters 10 and 11 |
| Session 13: Feb 12 | Basic valuation: Intrinsic valuation Relative valuation Contingent claim valuation <i>Readings:</i> Chapter 12 |