Corporate Finance

Course Outline

I. Introduction

II. Basics of Financial Reporting

   a. Financial Statements

      i. Balance Sheets

      ii. Income Statements

      iii. Cash Flows

   b. Analysis and KPI

   c. Scandals and Enforcement

III. Financial Decision Making

   a. Analyzing Costs and Benefits

      i. Valuation Principle

      ii. Present Value and NPV Decision Rule

      iii. Time Value of Money

   b. Arbitrage

   c. The Law of One Price

   d. The Price of Risk

   e. Valuation

IV. Corporate Capital Structure

   a. Debt Ratio and Debt-to-Equity Ratio

   b. Levered and Unlevered Firm Value

   c. Leverage, Return, and the Cost of Capital

   d. Market Imperfections

   e. Debt or Equity Plan Calculations

V. Cost of Capital

   a. Estimating the Cost of Equity Capital

   b. Application of the Capital Asset Pricing Model

      i. Beta Factor

      ii. Expected Market Return

      iii. Risk-Free Return

      iv. Market Risk Premium

  c. Application of the Gordon Growth Model
  d. Estimating the Cost of Debt Capital
  e. Estimating Cost of Capital for a Project

VI. Long-Term Financing
  a. Debt Financing and Issuing Bonds
  b. Venture Capital and Raising Equity Capital
  c. Leasing

VII. Working Capital Management (Short-Term Financing)
  a. Cash Conversion Cycle (CCC)
  b. Management of Working Capital

VIII. Corporate Valuation
  a. Reasons, Approaches, and Factors of Valuation
  b. Modelling and Valuation
    i. Dividend-Discount Model
    ii. Total Payout Model
    iii. Free Cash Flow Valuation
    iv. Multiples

(A small choice of) Learning objectives

- Knowing how to work with important information from financial statements explaining the economic situation of a company.
- Understanding the “Law of One Price” as a basic idea of economic valuation.
- Having the ability to evaluate the relationship between Capital Structure, Debt, Profitability, Risk, and the Value of a Firm.
- Being able to compute the cost of capital with several approaches. An analysis of the cost of capital entails finding the rate of return, not only of the desired investment but as well of some other investment with an equal level of risk.
- Understanding the Beta-factor, which represents the quantity of systematic risk of exposure due to general market changes rather than idiosyncratic risk.
- Being able to explain in different ways how to refinance a corporation.
- Solving problems determining the corporate valuation with various approaches.

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Basic Literature:

- Berk/DeMarzo (2014): Corporate Finance
- Brealey/Myers/Allen (2014): Principles of Corporate Finance
- Gitman (2009): Principles of Managerial Finance
- Miller/Modigliani (1961): Dividend Policy, Growth, and the Valuation of Shares

Lecture: Methods and Expectations

There will be a various modes of interaction, including but not limited to:

- Traditional Lecture: I will instruct, explaining the material.
- In Class Work: You and groups of your choosing will collaborate to solve problems related to the material.
- Homework: I will provide problems and readings that you will be expected to have completed by the next lecture. Advantage: Practice solving problems in your own speed level for exam preparation.
- Readings & Discussion: I will provide you some academic papers that we are going to discuss in class.
- Student Teacher Interaction: Please, ask questions during the lecture! If you do not completely understand the material, it is more than likely that there are others as well