

## **Applied Corporate Finance and Investment Banking**

This is the BEM “lab” course. Stress is on bridging the gap between theory and practice, a gap that can be alarmingly high. Throughout the course we will use current financial data and attempt to integrate it with the theories you learned from Professor Jin in BEM 103. This requires a detailed understanding of the limitations of the data in relation to the assumptions of financial theories. The organizing theme of the course is valuation because all financial decision making can be reduced to an appropriate comparison of estimated values.

I have found that to understand an issue a student must be able to explain it. Consequently, the entire grade for this course is based on participation. In addition to lecturing, I will call on specific students to answer a series of questions. It will be a bit like a scientific version of a Harvard law school class. Don't panic if you don't know answer to some of the questions because I suspect that will be common. However, if it becomes a habit, your grade will suffer. To perform well, it is **critical** that you do the reading **prior** to each class session. For those of you who do go into business related fields, there is a side benefit to the participatory approach. Because corporate events are fast moving, business ideas are usually evaluated in Q&A sessions similar to those in this course.

Prerequisites: Prior or concurrent registration in BEM 103 or instructor consent

Time: Monday 6-8:50 pm in Baxter 25.

Office hours: Monday 5-6 and by appointment in Baxter 136, bcornell@hss.caltech.edu

TA:

Text: **Required: Holthausen and Zmijewski, (HZ) *Corporate Valuation: Theory, Evidence and Practice***

Related Books on Valuation

Damodaran: *Damodaran on Valuation*. Also Damodaran.com  
Cornell: *Corporate Valuation*.

Koller, Goedhart and Wessels: *Valuation: Sixth edition*.

Penman: *Financial Statement Analysis and Security Valuation: Fifth Edition*,

Pratt: *Valuing a Business: Fifth edition*

Hull: *Options, Futures and Other Derivatives: Tenth edition*

Materials: Available for download

## Reading Assignments and Course Schedule

*Note: Reading should be done **prior** to the week under which it is listed.*

**Week 1 (1/7): Introduction to the course. Conceptual problems in applied finance: What is a firm? What is it supposed to do from a financial point of view? Why is valuation at the heart of financial decision making? The relation between market value and book value.**

To prepare for the class spend some time working with the Yahoo and Google finance sites. Be able to download and analyze stock price data and corporate financial statement data.

Reading. HZ Chapter 1.

**Week 2 (1/14): Discounted Cash Flow Valuation. The basic model with no debt. Adding debt to the equation. Value of equity versus the value of the firm and the enterprise value. The role of taxes.**

Reading. HZ Chapter 3, 5.

**Class presentation: Project 1.**

**Week 3 (1/21): Sources of financial data. Forecasting future free cash flow. The role of analysts.** [CompassLexecon presentation on modern financial data services.](#)

Reading. HZ Chapter 6, 7.

**Week 4 (1/28): More on DCF. Working with the APV and WACC versions of the model.**

**Class presentation: Project 2, 3.**

Reading. Analyst report, Tesla. Cornell and Damodaran: Tesla – Anatomy of a Run-up. HZ Chapter 4.

**Week 5 (2/4): The cost of capital.**

What is the “cost of capital?” What are its components? What are its determinants? What is a practical approach for estimating it? Why is the cost of capital used as the discount rate in valuation?

**Class presentation: Project 4.**

Reading. HZ Chapter 8, 9, 10, 11.

**Week 6 (2/11): Multiple based valuation. Marketability discounts. The impact of employee stock options.**

How are comparable companies selected? How are multiples chosen and applied. What about adjustments to the multiples or the thing being multiplied? Introduce some important

valuation complications including employee stock options, core versus temporary earnings, liquidity discounts and control premiums.

**Class presentation: Project 5.**

Reading. HZ Chapter 13, 14.

**Week 7 Thursday (2/18): Added valuation issues. Mergers and acquisitions. Control Premiums. Application of event studies.**

Reading. HZ Chapter 16 up to page 692.

**Class presentation: Project 6.**

**Week 8 (2/25): Presentation by Jason Hsu on the structure and operation of the institutional investment market.**

Reading. Arnott, Hsu and Moore: Fundamental Indexation.

**Class presentation: Project 7.**

**Week 9 (3/4): Presentation by Marty Willhite on– the sale of Legendary Entertainment to Wanda group in China and follow-up private equity firm.**

Reading. None

**Class presentation: Project 8.**

**Week 10 (3/11): Raising Capital and Valuation. Venture Capital. IPOs**

Ritter on IPOs

**Class presentation: Project 9?**