AFCP8003

Corporate Finance

AFC term 2, Weekday attendance, Melbourne 2020

Department of Applied Finance

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General Information

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Credit points
10

Prerequisites
(AFCP801 or AFCP8001) or (ECFS865 and (ECFS867 or AFCP8004))

Corequisites

Co-badged status

Unit description
Corporate Finance is concerned with understanding the link between shareholder value and corporate investment and financing strategies. Students will explore how corporate finance skills can contribute to developing value creating strategies for an organisation. Building on valuation and financial analysis skills from pre-requisite courses, the unit explores how to value an organisation, and assess key investment decisions including capital investment projects, mergers, acquisitions and international investments. The impact on value of risk, optionality and strategic choices is also explored. Valuation approaches utilised include a range of Discounted Cash Flow models, Residual Income and Multiples valuation. The unit considers how to develop practical, value creating financing strategies, including the optimal mix of debt and equity, capital management and debt management strategies. Financing strategies in the context of M&A and international investments are also considered. The unit addresses how to calculate cost of capital for companies and projects, and how to incorporate financing impacts into a valuation. Practical issues in the implementation of the shareholder value objective, including the impact of governance strategies, alternative ownership structures and performance measures are considered.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at https://www.mq.edu.au/study/calendar-of-dates

Learning Outcomes

On successful completion of this unit, you will be able to:

ULO1: Apply the concept of shareholder value maximisation and evaluate the challenges to its implementation.

ULO2: Apply a range of valuation methods, including discounted cash flow, residual income, multiples and real options, in a "real world" context.

ULO4: Evaluate alternative capital structure and capital management strategies and evaluate major types of corporate finance transactions.

ULO3: Apply and critically analyse methods for incorporating risk into a valuation and investment decision.

ULO5: Evaluate, individually and as a group, alternative capital management strategies.

Assessment Tasks

Coronavirus (COVID-19) Update

Assessment details are no longer provided here as a result of changes due to the Coronavirus (COVID-19) pandemic.

Students should consult iLearn for revised unit information.

Find out more about the Coronavirus (COVID-19) and potential impacts on staff and students

General Assessment Information

To pass this unit the student needs to (1) Achieve an aggregate mark of 50 or more, and; (2) Pass the Final Exam.

Information - Extension Requests / Penalties

Mid-Unit Assignment (12%) and Major Assignment (18%)

No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission incurs a 20% penalty). This penalty does not apply for cases in which an application for Special Consideration is made and approved.

Late submissions will be accepted up to 96 hours after the due date and time.

Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.

Refer to MAFC Program Rules at https://mafcstudents.mq.edu.au/ for information on the University's Special Consideration Policy.

Mid-Unit Quiz (12%)

You are expected to make yourself available for assessment during the relevant quiz window.

Students who do not submit this task by the due date and time receive a result of zero. This penalty does not apply when an application for Special Consideration has been made and approved.

Students who do not attempt the quiz receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.

Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.

Refer to MAFC Program Rules at https://mafcstudents.mq.edu.au/ for information on the University's Special Consideration Policy.

Final Exam (58%)

You are expected to present yourself for examination at the time and place designated in the relevant MAFC Timetable at https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables.

Deferral of an examination is not permitted unless an application for Special Consideration is made and approved.

Students who do not attend receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.

Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.

Refer to MAFC Program Rules at https://mafcstudents.mq.edu.au/ for information on the University's Special Consideration Policy.

Delivery and Resources

Coronavirus (COVID-19) Update

Any references to on-campus delivery below may no longer be relevant due to COVID-19.

Please check here for updated delivery information: https://ask.mq.edu.au/account/pub/display/unit_status

CLASSES

Face-to-Face Teaching: Generally 36 hours.

Timetable: Detailed timetable for classes are on the Centre's website at www.mafc.mq.edu.au

Consultation Times:

Students who wish to contact any of the teaching staff may do so through:

- The unit's iLearn site, in relation to general queries (so that all students may benefit); or
- Individual consultation with the lecturer by email in the first instance, if necessary.
-

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Text:

Corporate Finance, McGraw-Hill/Irwin:

- Ross, Westerfield & Jaffe, **10th** edition, 2012 (ISBN 9780078034770) (RWJ)
- Ross, Westerfield, Jaffe & Jordan, **11th** edition, 2015 (ISBN 978-0077861759) (RWJJ)
- Ross, Westerfield, Jaffe & Jordan, **12th** edition 2018 (ISBN 978-1260091878) (RWJJ)

Either edition of this text can be used. Note that references to the text in the course notes refer to the 10th edition. There is also an ebook version available should you wish to purchase that.

In both cases purchase the TEXT ONLY versions. More expensive versions include access to Connect and LearnSmart however you will be able to access these directly via the unit's iLearn site.

Advanced Material:

- The unit notes make reference to Advanced sections and reading material. This is for students interested in following up particular aspects in greater detail.
- Students may assume these Advanced materials are not examinable unless otherwise advised.

Lecture Notes:

- Available electronically via iLearn.
- The lecture notes include a number of references to Wesfarmers. The student is encouraged to download and become familiar with the latest Wesfarmers Annual Report and visit its website. The Centre's use of Wesfarmers as a case company should not be construed as endorsement or criticism of its activities.
- iLearn will include a section for any identified errors in course notes and text book. Students should check iLearn to ensure they are advised of any changes or edits.

Study Problems:

- Students will have access to LearnSmart and Connect, which are online testing capabilities matched to the course textbook.

- Students are required to work systematically through a list of problems at the end ofeach topic. Some work is online, via RWJ's online learning resources, and the rest of the work is supplementary problems provided at the end of each topic's course notes.
- These problems will not be collected but they will help you prepare for the exams.
- Answers to the supplementary problems will be posted to iLearn.
- Some problems have an Excel symbol next to them in the text indicating there are spreadsheets available for download at the McGraw Hill website for the text at www.mhhe.com/rwj. These spreadsheets contain macros that you may need toadjust yoursecurity settings to use them. In any case, they are not very useful.
- You can do all the problems using Excel and in some cases we provide solutions in spreadsheet format. Please note however that you are not able to use Excel under examination conditions; you must solve problems using pen, paper and calculator. So it is advisable to ensure you can apply your analytical skills using a calculator.
- The unit requires you to develop skills as well as knowledge. The only way to develop those skills is to work through the problems at the end of each topic. You are strongly encouraged to attempt each problem prior to looking at the solution provided.

Pre-unit Materials:

- Students should review Topic 5 of AFCP8001 Portfolio Management & Valuation.
- Students wanting to review introductory Financial Statement analysis and financial modelling should review the gateway unit "Financial Statement Analysis & Modelling". For those wanting to review introductory material on discounting and valuation, review the gateway unit AFCP810 Finance Principles.

Useful References:

- Bodie, Kane and Marcus, *Investments*, McGraw Hill, any edition. (It may be useful to retain your PMV text book.)
- Copeland, Weston & Shastri, Financial Theory and Corporate Policy, 4th ed., Pearson Addison Wesley, 2003.
- There are books available to help develop your Excel skills, which are needed for assignments. Two helpful books are:
    - Craig W. Holden, Excel *Modelling in Corporate Finance*, 2nd ed., Pearson Prentice Hall, 2005; or
    - Michael Rees, *Financial Modelling in Practice*, Wiley, 2008.

Calculators:

- A financial calculator that can handle time value of money and cash flow calculations,

logs and power functions is required.

- The Hewlett Packard calculator hp17bII+ is recommended. The Texas Instruments BAII Plus is another good option.
- In examinations, hand held calculators are permitted. Mobile phones and computers are not permitted.

Assumed Knowledge: Mathematical content

- This unit relies heavily on present value techniques. Students should be able to use the general formula for calculating the present value of a series of cash flows, as shown below:

Present Value = Σn t=0 ((Cash Flow) / (1+K)t)t

as well as alternate expressions for calculating the present value of a series of cash flows using level and growing perpetuities and annuities.

You should review Chapter 4 of the textbook if you are not comfortable with this material.

- Finance has a high level of numerate content. Consequently this unit is, in parts, mathematical and arithmetical. As an indication of the level of algebra required, students should find the following problem easy to solve:

Solve for *Z*5: $1,000 =

$681.20(1+*Z*5/2)10

Assumed Access:

- Access to a computer with word processing and spreadsheet capability is assumed, as is general computer literacy.

TECHNOLOGY USED AND REQUIRED

Unit iLearn Site:

- Found by logging on to iLearn ilearn.mq.edu.au, then clicking on ***AFCP8003 Corporate Finance***.
- This is where you will find links to forums, downloadable resources and other important pages.
- The forum allows you to communicate with other students and lecturer(s) and may provide supplementary material.
- You are requested to post your questions to the forum at least 24 hours prior to the assignment submission date or the examination date. Questions posted after that time may not be answered. **Please try to not leave your questions to the last few days.**
- Students also have access to online teaching support material for the textbook.

LearnSmart is an online multiple choice test facility, and Connect provides further practice at assigned problems from the text. Students are strongly encouraged to use both of these services – full details about access and use of these will be provided in class.

Important Notice:

- It is important that you familiarise yourself with the unit's iLearn site.
- Students should check the unit's iLearn site regularly (minimum twice a week and prior to all lectures) and look for updates and distribution of materials (including case studies) related to the unit or assessments and, if relevant, participate in forum discussions.

Unit Schedule

Coronavirus (COVID-19) Update

The unit schedule/topics and any references to on-campus delivery below may no longer be relevant due to COVID-19. Please consult iLearn for latest details, and check here for updated delivery information: https://ask.mq.edu.au/account/pub/display/unit_status

TOPIC 1: SHAREHOLDER VALUE MAXIMISATION

Topics:

- Introduction
- The economic function of the corporation
- The corporate objective: to maximise shareholder value
- Some challenges to achieving shareholder value maximisation
- Governance and Corporate Control
- Alternative forms of governance and ownership
- Putting Shareholder Value Objectives into Practice: an Introduction to Value Based Management
- Market Participants Readings:
- RWJ Chapter 1
- M. Danielson, J. Heck and D. Shaffer, "Shareholder Theory – How Opponents and Proponents Both Get It Wrong", Journal of Applied Finance, Volume 18 No 2 Fall/Winter 2008
- M. J. Mauboussin and D. Callahan, "Capital Allocation: Evidence, Analytical Methods, and Assessment Guidance", Journal of Applied Corporate Finance, Volume 26, Number 4, Fall 2014

TOPIC 2: VALUATION PRINCIPLES: REVIEW & EXTENSION

Topics:

- Overview of Valuation Frameworks: OFCF, Residual Income and Multiples
- Review of DCF models: imputation, terminal values, consistency principle
- Review of Multiples Valuation
- Reconciling valuations under the alternative models
- Risk and Value
- Market Participants Readings:
- Portfolio Management & Valuation, Topic 5
- RWJ, Section 31.1 – 31.3, Section 9.2 – 9.3

TOPIC 3: VALUATION APPLICATIONS: PART #1

Topics:

- From Enterprise Value to Equity Value
- Sum of the Parts Valuation
- Valuing a divestment
- Valuing Equity Securities
- Valuing a company with Minority Interests

Readings

N/A

TOPIC 4: VALUATION APPLICATIONS: PART #2 - PROJECT EVALUATION

Topics:

- Capital Allocation Decisions
- What is Net Present Value (NPV)?
- Calculating NPV using the standard DCF model
- Application of project evaluation tools
- Managing the capital budget
- Market Participants and Practice Readings:
- RWJ Chapter 5, 6.1 – 6.4, 7.1 & 7.2
- Truong, G., G. Partington and M. Peat, “Cost of Capital Estimation and Capital Budgetting Practice in Australia”, Australian Journal of Management, Vol 33, No 1, June 2008

TOPIC 5: VALUATION APPLICATIONS: PART #3 - STRATEGIC FLEXIBILITY, VALUE & PROJECT SELECTION

Topics:

- Strategic Flexibility and Valuation: An Introduction
- Incorporating risk and strategic flexibility into Tasty Treats
- Using decision trees to evaluate risk and strategic flexibility
- Decision Tree Analysis of Tasty Treats Strategic Flexibility
- An extended example: Magna Charter Readings:
- RWJ Chapter 7.3 – 7.4, 22.10-11, 23
- Powell and Baker, Ch 4 extracts on Decision Trees (pp55-56 and 64-77)

TOPIC 6: WEIGHTED AVERAGE COST OF CAPITAL

Topics:

- Introduction
- Cost of Capital, Discount Rates: Project v Company
- Risk and the cost of capital
- Adjusting for different financial structures
- Cost of Capital in practice
- The International CAPM
- Market Participants and Practice Readings:
- RWJ Chapter 13
- James & Koller, Valuation in Emerging Markets

TOPIC 7: CAPITAL STRUCTURE & FINANCIAL STRATEGY

Topics:

- Introduction: the cash flow equation and financial strategy
- Effect of capital structure on Profit and hence on EPS and ROE
- The ‘tax / financial distress costs’ tradeoff model and the Modigliani and Miller (M&M) model
- Equity as an option – the Merton Model [Advanced]
- Agency costs models of capital structure
- Signalling models
- Financial Flexibility and Myers’ pecking order model
- Credit ratings and financial strategy
- Empirical evidence on capital structure
- Making capital structure decisions in practice: A process for selecting a capital structure

Readings:

- RWJ Chapter 16, 17, 22.9, 8.2 (pp 247 – 248)
- Denis, D., “Financial Flexibility and Corporate Liquidity”, Journal of Corporate Finance, 17 (2011), pp 667 -674

TOPIC 8: ALTERNATIVE VALUATION MODELS

Topics:

- Introduction
- The Assumed Financing Strategy underlying the use of WACC
- Alternative methods of incorporating financing effects in a valuation
- Generalising these results
- Choosing between WACC, APV and FTE
- Applications of APV and FTE

Readings

- RWJ Chapter 13 and 18

TOPIC 9: CAPITAL MANAGEMENT & EQUITY STRATEGY - PRE- READING

Topics:

- Institutional Framework for Equity Capital
- Equity financing
- Dividend policy overview
- Capital management transactions Readings:
- RWJ Chapter 20
- A Practitioner's Guide to Corporate Law, A Project of the NSW Young Lawyers Business Law Committee
- ASX Listing Rules: Chapter 7 - Changes in capital and new issues

TOPIC 9: CAPITAL MANAGEMENT & EQUITY STRATEGY - IN CLASS

Topics:

- Introduction
- Pricing an IPO
- Costs and benefits of a seasoned equity offering
- Dividend policy overview
- Capital management transactions
- Corporate Financial Policy and the Corporate Life Cycle

Readings

- RWJ Chapters 19, 20

TOPIC 10: EVALUATING ASSET BASED FINANCINGS

Topics:

- Introduction
- The market for asset based financings
- Evaluating a lease -- The search for comparative advantage
- Generalising the results

Readings

- RWJ Chapter 21
- AASB 117 Lease Fact Sheet

TOPIC 11: MERGERS & ACQUISITIONS

Topics:

- Introduction
- Value based thinking and M&A
- Evaluating some potentially dubious reasons for mergers and acquisitions
- Valuing synergies
- Calculating the Acquisition Cost and NPV of an acquisition when equity is used as consideration

Readings:

- RWJ Chapter 29
- Does M&A Pay? A Survey of Evidence for the Decision-Maker, Robert F Bruner

Learning and Teaching Activities

Strategy

The Master of Applied Finance degree adopts a deep teaching and learning strategy, in which students acquire and retain knowledge and also are able to make sense of the issues and concepts and apply them in the “real world”. The degree relies heavily on student engagement and participation by: (a) Continuous learning throughout the term. This is encouraged through a combination of students undertaking prescribed reading throughout the units and/or completion of practice problems, case studies, assignments, class presentations etc and interaction via forums in the unit’s iLearn site; and (b) Assessments, which enable the student to demonstrate their understanding of the learning objectives achieved through the continuous learning.

Student Participation

Students participate in this unit by: (a) Attending lectures and participating in class discussion; (b) Before each class, completing the recommended readings of notes and text, and working systematically through suggested problem sets; (c) Interacting on the unit's iLearn site; and (d) Completing all assessment tasks and exams. On average, the unit will require students to complete, for every hour of class time, approximately 3 hours private study.

Policies and Procedures

Macquarie University policies and procedures are accessible from Policy Central (https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- Academic Appeals Policy
- Academic Integrity Policy
- Academic Progression Policy
- Assessment Policy
- Fitness to Practice Procedure
- Grade Appeal Policy
- Complaint Management Procedure for Students and Members of the Public
- Special Consideration Policy *(**Note:** The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.)*

Students seeking more policy resources can visit the Student Policy Gateway (https://students.mq.edu.au/support/study/student-policy-gateway). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit Policy Central (https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: https://students.mq.edu.au/study/getting-started/student-conduct

Results

Results published on platform other than eStudent, (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in eStudent. For more information visit ask.mq.edu.au or if you are a Global MBA student contact globalmba.support@mq.edu.au

Student Support

Macquarie University provides a range of support services for students. For details, visit http://students.mq.edu.au/support/

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to help you improve your marks and take control of your study.

- Getting help with your assignment
- Workshops
- StudyWise
- Academic Integrity Module

The Library provides online and face to face support to help you find and use relevant information resources.

- Subject and Research Guides
- Ask a Librarian

Student Services and Support

Students with a disability are encouraged to contact the Disability Service who can provide appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

If you are a Global MBA student contact globalmba.support@mq.edu.au

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the Acceptable Use of IT Resources Policy. The policy applies to all who connect to the MQ network including students.