



UNIVERSITY OF CALGARY
HASKAYNE SCHOOL OF BUSINESS

Corporate Finance

Course Outline

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May 7, 2020

Purpose of the course

What is corporate finance?

Review of the course outline

Appendix

- How valuable are communication skills

Theme of the course

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The course prepares the student for a position in a finance department of a **corporation** (or another type of position with a **corporate finance** focus).

- Corporate finance analyst, junior treasurer, or risk analyst;
- For a brief overview of such careers and relevant links, see www.careers-in-finance.com/cf.htm

If you aspire to be an **Investment Banker**, a **Corporate Banker**, a **Financial Analyst**, or a **Portfolio Manager**, you still need to understand well corporate finance and how a finance department operates.

Even if you are more interested in a management role in corporate strategy, or in marketing, or in operations/production, you still need to understand the role of corporate finance to succeed in a private firm (and even more so if you want to be an entrepreneur).

All organizations, even in the public sector, NGOs, etc., need to manage their financial resources on a rational basis using corporate finance tools.

There are a lot of corporate finance positions in Calgary.

- The local chapter of the [CFA Institute](#), the [CFA society Calgary](#) has about 1,700 members and 1,500 candidates, and growing (+6% year/year).

Job Demographics	Top 10 Employers
1 Corporate Financial Analyst	1 RBC
2 Portfolio Manager	2 BMO Financial Group
3 Research Analyst	3 Scotiabank Group
4 Other	4 TD Bank Financial Group
5 Chief-level Executive	5 CIBC World Markets Inc
6 Investment Banking Analyst	6 Suncor Energy Inc
7 Trader	7 TransCanada Corp.
8 Financial Advisor	8 Enbridge Inc.
9 Risk Manager	9 Mawer Inv. Management Ltd
10 Consultant	10 ATB Financial

What is the 'Finance Department' ?

The department headed by the **Chief Financial Officer** (the CFO) is often referred to as the 'Finance Department'. It is a little bit of a misnomer as different functions usually reside there...

- Accounting (often single report to CFO)
 - ▶ Transaction processing
 - ▶ Reporting and analysis (financial, management, regulatory)
 - ▶ Operating budget
- 'Finance' (single or multiple report to CFO)
 - ▶ **Treasury** (working capital management and capital raising)
 - ▶ **Investor relations** (**shareholders** and **debt-holders**)
 - ▶ **Capital budgeting**
 - ▶ **Mergers, acquisitions and divestitures**
 - ▶ **Risk management**
 - ▶ **Pensions**
- Tax (single report to CFO)

Internal Audit now typically reports to the **Audit committee** of the **Board of Directors**.

Different 'views' of the firm (perspectives)

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A given firm can be viewed from different perspectives of the same reality.

- Legal (legal rights and obligations, concept of **limited liability**)
- Accounting (historical data compiled on an accrual basis, to control assets and estimate profits)
- **Finance** (focus on cash flows and market values, including growth and **real options**)
- Economic (in particular what are the positive and negative **externalities** created by the firm?)
- Social (the **corporate social responsibility** perspective)
- Environmental (the **sustainability** perspective)

The legal and accounting views are normative and long-established (norms prescribed by custom and/or validated by the state, while being updated from time to time).

Finance is taking an economic view of the firm mostly from the perspective of the providers of capital (the shareholders and the debt-holders).

- Prescriptive (since theory-based and empirically tested)
- Use all information available, is market-driven and is evolving on its own
- Often at odds with itself (prescription versus what practitioners can be observed to do)

An accounting balance sheet (simplified)

Assets	Liabilities and Shareholders' Equity
Current assets	Current liabilities
Cash and cash equivalent	Short-term debt
Accounts receivable	Accounts payable
Inventories	Non-current liabilities
Prepaid expenses	Long-term debt
Non-current assets	Deferred tax liabilities
Property, plant and equipment	Equity
Intangible assets	Paid-in capital
Investments in associates & JVs	Retained earnings
Other non-current assets	Non-controlling interest
Total Assets	Total Liabilities and Shareholders' Equity

All of the above at *book value* using *historical cost* (i.e. does not reflect market value).

A 'finance' balance sheet

Assets

Existing assets

- Comprise all existing assets (regardless of their nature)
- Generate current cash-flows

Future assets

- Will generate additional cash flows in the future
 - To be 'created' out of real options (i.e. projects)
-

Total Enterprise Value

Sources of capital

Debt (i.e. legal obligations)

- Fixed claim on the current and future cash flows and assets
- Fixed maturity (i.e. to be repaid)
- Has a market value*

Equity

- Residual claim on the current and future cash flows and assets
 - In perpetuity (no fixed maturity)
 - Has a market value*
-

Total Enterprise Value

The enterprise value is debt + equity at *market value* (reflecting current as well as future cash flows as present valued by *capital markets* as of today).

What is the core of 'Corporate Finance' ?

The focus of corporate finance is to **maximize the value of the firm** by making rational decisions regarding **capital** sourcing, allocation of capital between projects, and payout to shareholders.

- Without intentionally taking advantage of stakeholders or society or the environment by design.

Investment decisions (**capital allocation** internal to the firm)

- Deploy capital by investing in projects expected to earn more than the risk-adjusted cost of capital. Merge, acquire or divest when needed.
- 'Earn' calculated on a cash basis to reflect the time value of money.

Financing decisions (**sourcing capital** like debt or equity)

- Raise capital to minimize the overall **cost of capital** and funding risk.

Payout decisions (**returning capital** by way of **dividends** and **stock buybacks**)

- Design the optimal way to return unused/surplus cash to shareholders.

Such finance **decisions** are interrelated and **influence each other** over time.

Strategy and goals of the firm

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All for-profit firms have strategies and goals (all organizations do).

- Some firms develop strategies and goals in a very deliberate process resulting in an explicit strategic plan approved by the Board of Directors.
- Other firms are less formal in their approach while some firms act in an opportunistic manner, but they still have strategies and goals.

All functional areas and divisions of a firm are expected to collaborate with each other

- Functional areas and divisions working together enables the successful implementation of the strategy and achieving goals in the most efficient, sustainable, and profitable manner possible.
- Being the interface between the real economy and the financial economy within a firm, corporate finance has managerial aspects.

In this course we will review several of the many ways a firm can **use finance as a value-creation device in a strategic manner**.

- **Each of the four cases has a strategic dimension** to be identified and understood.
- Some aspects of finance might look somewhat trivial at first sight, but often play in fact a critical role in the long-term success of a firm.

Strategy and finance through the firm life-cycle

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Firms, and even industries, like humans and other living organisms, experience a **life cycle.**

- Strategy and finance decisions often reflect the firm's life cycle stage.
- In finance life-cycle stage is often according to growth in revenue, cash-flows and profits.
- It is also according to how valuable is the portfolio of real options (i.e. future growth).

Life-cycle phase	Strategy	Finance
Start-up	Develop USP, plan and launch	Venture Capital
High growth	Quickly acquire market share	IPO (raise equity)
Slow growth	Expand (e.g. new markets, new products, acquisitions)	Start payout and raise debt
Mature	Defend/monetize market share	Increase payout
Decline	Divest and/or restructure	Private Equity

FNCE 451 is a corporate finance course

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The course focuses on the decisions undertaken and implemented by financial managers to the benefit of all stakeholders and for the purpose of increasing the long-run value of the firm, notably by meeting or exceeding the risk-adjusted return expectations of shareholders while ensuring that the firm can comply with its obligations toward other providers of capital, notably the debtholders.

The course provides a coherent analytical framework to structure corporate finance decision-making on a rational basis through:

- a) review of models and hypotheses;
- b) review of empirical studies;
- c) case analysis, online simulation and problem solving to develop implementation skills.

There is also a requirement to acquire skills in using modern information systems by completing online the Bloomberg Market Concepts certification (BMC).

Course Objectives

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- Apply and **critically evaluate** corporate finance models and techniques.
- Exercise **critical judgment** in weighting the benefits of the analytical corporate finance approach against its limitations, and balance these from a managerial perspective.
- Identify and analyze the key challenges and opportunities financial managers are confronted with within a given organizational situation, industry context and economic climate, and **determine the relative importance** of said challenges and opportunities.
- Create processes to best resolve the said challenges or exploit the said opportunities by **developing analysis, creating alternatives and proposing recommendations**, in order to contribute fully toward achieving the strategy and goals of the firm, notably in term of value creation in a suitable and practical manner.
- Use advanced numeracy and quantitative corporate finance techniques **using Excel**.
- Develop **business case analysis and writing skills**, notably the appropriate formatting of financial information (e.g. tables) and usage of the finance writing style.
- Engage and work effectively in groups.
- Demonstrate proficiency when using a modern information system to support research and analysis of corporate finance issues.

Grade Distribution

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Assessment	Weighting
Online Assignments (five)	20%
Group Projects (four reports)	24%
Peer Review (mandatory)	4%
Bloomberg Market Concepts	5%
Simulation	12%
Midterm Exam	15%
Final Exam	20%
Total	100%

Assignments

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The assignments are graded exercises to be completed online individually (see instructions in D2L).

- Each assignment is worth 4% and each question has uniform weight.
- Assignments are good preparation for the examinations (midterm and final).

The assignments will be posted on McGraw-Hill Connect (**must use your name as per your userid**).

- <https://connect.mheducation.com/class/r-wells-fnce451-spring-2020>
- The due dates are firm, but you have two tries for answering each question.
- Hint: use Excel for two-way calculations and answers are provided one hour after deadline.

Assignment	Due by midnight on	Chapters
1	May 18, 2020	4, 5, 6, 7, and 8
2	May 27, 2020	10, 11, and 13
3	June 3, 2020	16, 17, and 18
4	June 10, 2020	19
5	June 15, 2020	20

Group Projects: Four case reports

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Up to 12 groups of four or five students.

- Form your group using the D2L form available for this purpose and submit it to the D2L dropbox.

Case reports must follow an executive summary format (**per required headings and sequence**).

- up to two pages for text (address the issues per instructions provided);
- thought processes need to be well explained (and not 'only quant');
- up to five pages for supplementary material (tables and figures).

Each case report has to be submitted in a **single pdf file** to the D2L dropbox by no later than the start of class (otherwise report not graded and count for a 0).

Grading

- each report is worth 6% of the final grade;
- marks will be lost for poor writing or poor tables (an online T/A session will be held for tables);
- hint: address the issues per instructions provided by Instructor.

See detailed instructions in D2L

Your writing and teamwork skills

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Each and every student is expected to demonstrate having analytical, writing and teamwork skills commensurate to what is expected in an intermediate finance course like FNCE 451.

- Communication skills are very valuable career-wise (see last three slides in appendix), but require a lot of time and effort to develop.

It is up to each student to put in the time and effort required for your team to perform well (i.e. 'pull your weight') and fine-tune the write-up.

- Follow instructions provided by Instructor;
- A recommendation needs to be actionable (and fact/analysis based);
- The analysis needs to be focused and uses judgment/logic;
- You need to use proper and precise finance terminology;
- Try to avoid superlatives like huge, minuscule...
- Write as if you were writing to the CFO or a management committee.

Teamwork skills and efforts provided will be subject to peer review (4% of course grade).

Online Capital Budgeting Simulation

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Online graded exercise scheduled to be held on **June 16, 2020** (see instructions in D2L).

- High quality simulation provided by Harvard Business Publishing.
- Over a five-year period you develop and implement a capital budgeting strategy aiming at creating the most value for the firm.
- At different points in time, you consider providing funding (or not) to various projects (each of which has distinct characteristics) while having to face capital budget constraints.
- The exercise has to be completed on an individual basis and is worth 10% of the final grade (no deferral will be granted).
- Grade is as per adjusted present value achieved.
 - ▶ Verified against a combination of EBITDA and Assets.
- Cost to student expected to be nil (special budget provided for this class).
- This simulation allows you to better understand the capital budgeting process over a multi-year horizon (in a simulated but nevertheless realistic setting).
- It provides a sort of capstone activity for the course.

Bloomberg Market Concepts

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In finance, it is common nowadays to rely on a modern information system like Bloomberg or Thomson Reuters for data gathering and analysis (and much more). It is expected of finance professionals to be knowledgeable of such systems and have acquired some degree of proficiency.

Bloomberg provides a comprehensive introductory online course which can be completed for free.

- Register [here](#) using your name (same as UCID card), your UofC email, and **code YW5QCTXJSL**;
- A pay screen may appear, but the amount will be \$0 if you used your UofC email;
- You can then log in regularly [there](#) to complete 'Core Concepts';
- Upon completion of BMC, you may update your resume accordingly.

Completion of the course is worth up to 5% of course grade.

- Take the time required to go through the course (about 6 to 8 hours);
- Mark as per marks obtained in the Bloomberg system.

It is highly recommended to complete this certification early in the course (see instructions in D2L).

- **Deadline for completion has been set to May 30, 2020.**

Contextualization of previously acquired knowledge

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Students attending FNCE 451 have previously completed an intro course to finance (FNCE 317).

- Please refresh this knowledge and learn how to apply it using Excel (next slide).
- It is usual in a finance curriculum that once having completed an introductory course, students take a minimum of two intermediate courses (e.g. Corporate Finance, and the other being Investments).
- On key purpose of intermediate finance courses is for students to further understand what was presented in the introductory course and learn how to apply such knowledge to a specific context.
- Furthermore, because of time limitation, an introductory course often limits itself to the key traditional models. In an intermediate course, it is important for students to understand the severe limitations of these key traditional models, and that not only alternate models exist but they have to be taken into consideration.
- Finally, in an intermediate finance course, students are typically exposed to how finance concepts are actually used by practitioners, as well as being presented with potential explanations why practitioners apparently deviate from the prescriptions of the traditional finance theory.

To avoid unnecessary repetition with the introduction to finance course you took, as indicated in the syllabus, some material is provided in D2L for self-study and will be covered in two online T/A sessions.

- Time Value of Money and how to best use Excel;
- Valuation of Bonds and Stocks.

It is important to review the material as per the course schedule.

In an introduction to finance course, you typically use a finance calculator to develop solutions and find answers. In an intermediate finance course, you have to develop the Excel skills required to solve more complicated problems and help structure more comprehensive solutions. It is suggested you use 'Time Value of Money' and 'Valuation of Bonds and Stocks' to develop your Excel skills.

The open-book exams will be on-line on Connect like an assignment, but with limited time and one try.

- The mid-term will have 20 questions and the final 25.
 - ▶ A variety of multiple choice and numerical 'fill-in the blanks' questions will be used.
- The final will overweight the material covered after the mid-term.
- This is an individual assessment and the academic code of conduct applies.

The questions will test your knowledge and skills acquired as follows:

1. Assignments
2. Cases
3. Slides
4. Textbook chapters

There will be review sessions prior to the mid-term and prior to the final.

- If you wish specific issue or assignment question reviewed, you are invited to send an email ahead of these two review sessions.

Throughout the course and for the examinations, Excel is used to support learning and assessment.

How valuable are communication skills?

The Bloomberg Job Skills Report 2016: What Recruiters Want

- See <https://www.bloomberg.com/graphics/2016-job-skills-report/>.

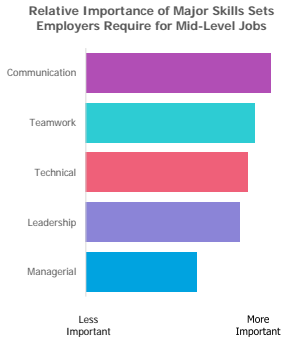
The recruiters surveyed also listed out their number one dream skill by industry, where the resounding winner was “communication skills”, the most wanted in eight of the 11 industries covered:

- Chemicals – communication skills (68%)
- Consulting – communication skills (72%)
- Consumer – leadership skills (70%)
- **Energy** – analytical thinking (82%)
- **Finance** – communication skills (74%)
- Healthcare – communication skills (60%)
- Manufacturing – communication skills (64%)
- Pharmaceuticals – communication skills (74%)
- Retail – analytical thinking (67%)
- Technology – communication skills (56%)
- Transportation – communication skills (80%)

How valuable are communication skills?

Recruitment: Skills Sets Evaluated

Employers rank communication and teamwork skills as most important when hiring business graduates



To assess the skills that employers require of recent business graduate hires, survey respondents were asked to allocate 100 points across five major skill sets—communication, managerial skills, teamwork, leadership, and technical skills—based on their relative level of importance when hiring a recent MBA or business master's graduate for a mid-level job position.

Employers ranked communication skills as most important, followed by teamwork, technical skills, leadership skills, and managerial skills.

There are some regional variations:

- **United States and Asia Pacific:** Communication and teamwork ranked most important.
- **Europe:** Teamwork was rated most important, followed by communication and technical skills.
- **Latin America:** Leadership, technical skills, and teamwork are top-ranked.

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How valuable are communication skills?

Recruitment: Specific Skills

Top five specific skills are from the communication and teamwork domains

Skills Companies Seek in Graduate Business School Hires, Based on a Standardized Analysis of Skill Proficiency



Employers who plan to hire business school graduates in 2017 were asked to designate the proficiency level for 25 specific skills within five broader categories that they would require of a candidate being considered for a mid-level position. Employers ranked the specific subsets of skills in each category in order of proficiency level (from 'not required' to 'expert'). To compare the importance of each specific skill a Standardized Proficiency Rating was calculated for each skill.*

Of the five top-ranked skills, four fall within the communications category: *Oral communication, listening skills, written communication, and presentation skills.*

Overall, 4 of 5 skills related to teamwork—*adaptability, valuing others' opinions, ability to follow a leader, and cross-cultural sensitivity*—rank among the top 10 most important skills.

Managerial skills were consistently rated as least important, possibly because employers assume graduate business candidates have already honed these skills.

*Proficiency levels were calculated by multiplying the number of points respondents allocated to the overall skill (out of 100 total) by the level of proficiency rating recorded for the specific skill. Proficiency ratings were set on a 5-point scale, ranging from 0 (not required) to 5 (expert).

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