

THE UNIVERSITY OF BRITISH COLUMBIA
Sauder School of Business
BAFI 500
BASIC CORPORATE FINANCE

Instructor: Ron Giammarino

Course Objective: The objective of this course is to study two important areas of corporate financial management: Cash Management and Valuation. Cash management involves the characterizing the cash requirements for a particular operating proposal and development of a plan for managing these requirements. The cash flows identified in the first part of the course form the basis of the value of the firm. Value maximization requires that managers pick the plan that has highest value. Valuation deals with the techniques used to determine how much an operating plan is worth. Discounted cash flow is the standard approach to valuation. We will focus on the way in which time, risk, and capital structure (i.e. the way in which a firm is financed) and taxes are integrated into the valuation process.

Required Material:

- Required Material:
 - **(BMA)** *Principles of Corporate Finance*, Brealey, Myers and Allen, 8th edition, 2006.
 - Two case studies:
 - Clarkson Lumber Co
 - Hampton Machine Tools
- Supplementary material: We will use basic spread sheet modeling techniques in this course. If you would like to develop these modeling skills further, I recommend the following text to you.
 - **(B)** Benninga, Simon, *Principles of Finance with Excel*, Oxford University Press, First Edition, 2005.

Evaluation of Students:

- Participation 15%
- Group Case Report 30%
- Final Exam 55%

Attached to this outline is a formula sheet. This sheet will also be attached to the final exam.

Prior Preparation: Before the first class, please read Clarkson Machine Tools. This case will be discussed in class.

Evaluation of Students:

- Case Report on Hampton Machine Tools Due Monday October 16.
 - Please form groups of three.
 - Your report should contain no more than 5 pages of text plus 3 pages of supporting analysis.
 - The report must be legible so font size should be no less than 10 pt and 11 or 12pt

is preferred. The cases will be graded for both analysis and clarity of presentation.

- Contribution to Class: 15%
- Final Exam: 55%

Suggested Case Questions

Your case reports can deal with any aspect of the case that you find interesting and challenging. The following questions might help you in considering each case.

Clarkson Lumber (Class Discussion)

1. Why is Clarkson in need of additional financing given that it has been profitable?
2. Do you agree with Mr. Clarkson's estimate of his cash requirements?
3. How would you solve Clarkson's financial problem?

Hampton Machine Tools. (To be handed in)

1. Why is Hampton in need of additional financing?
2. Based on the information in the case, prepare pro forma cash budget and pro forma income statements and balance sheets for the September through December period.
3. Critically evaluate the loan request and present a recommendation on how to respond to Mr. Eckwood's request.

Provisional Course Outline

| <u>DATE</u> | <u>TOPIC</u> | <u>READING</u> |
|------------------------|---|--|
| September 30 | Intro and Financial Planning | BMA Chapter 1 The ABC Corp. Example Note on Doing Simulation |
| October 1 | Clarkson Lumber Discussion Time Value of Money | BMA Chapters 2, 3, 4 |
| October 2 | Investment Decisions An introduction to Risk | BMA Chapters 5, and 6 BMA Chapter 7 (not on exam) |
| October 3 October 4 | The Use of Debt and Equity Valuation | BMA Chapters 17 and 18 BMA Chapter 19 |