

## 2014 BUSI 3500 Applied Corporate Finance Section A & B

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Instructor:	Dr. Isaac Otchere	Office:	1712 DT
Section A:	Tuesday 8:35 – 11:25	Classroom:	Southam Hall 402
Section B:	Tuesday 11:35 – 2:25	Classroom:	Southam Hall 402
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### Prerequisites

[BUSI 2505](#) with a grade of C+ or higher in each [ECON 2009](#) and [STAT 2606](#) with a grade of C- or higher in each.

The School of Business enforces all prerequisites.

### This Course is prerequisite for

BUSI 4500 Advanced Corporate Finance and BUSI 4510 Mergers and Acquisition (with a grade of C- or higher).

### Course Objectives

This course focuses on applying the finance tools learned in BUSI 2504 and BUSI 2505 to business decisions. Topics to be discussed will include issues relating to risk and return, cost of capital, capital budgeting, capital structure, payout policy, and firm valuation. Material will be covered in more depth than in earlier courses. The course will use lectures, complemented by cases as a means of enriching student understanding of the important concepts and practices of corporate finance.

On successful completion of this course you will be able to:

- Identify and discuss corporate governance issues affecting corporations
- Explain the trade-off between risk and return, and compare the perspective of a firm making project decisions to that of outside investors evaluating the firm
- Analyze long-term investment, financing and payout decisions of a corporation and be able to identify and discuss the theory and practice of Cost of capital, Capital structure, and Dividend policy.
- Value a firm using different valuation approaches

### Required Text

Aswath Damodaran, **Applied Corporate Finance: A User's Manual**, 3<sup>rd</sup> Edition, Wiley, 2011.

SUPPLEMENTARY TEXT: Forester, Dunbar, Hatch, Shaw and Wynant, **Cases in Financial Management**, 4<sup>th</sup> Edition, Prentice-Hall, 2003. A copy of this text is available on reserve at the MacOdrum Library.

<b>Grading</b>		<b>Due date</b>
Case analysis (Group work)	10%	TBD
Live case study (Group work)	15%	Day of last lecture
Quizzes (3)	15%	TBD
Midterm Test	20%	Oct 18
Final Examination	40%	TBD

**NB: Successful completion of the course requires a pass (at least 50%) of the final examination mark.**

**Case analysis (Group work):** One of the most important requirements for this course is a thorough preparation and analysis of the assigned case and active participation in the classroom. Therefore, you should form your group on the first day of class. Each group will have 5 members. You are responsible for choosing your teammates. One of the group members should email your group list to the instructor soon after the first class. Cases will be assigned after the first class. Each group will be responsible for analyzing, preparing a detailed write-up, and presenting the assigned case to the class. The write-up will be word-processed and professionally written with a maximum length of 3000 words (excluding appendices). The first page of your report will consist of an executive summary of the group's analysis and recommendations. The subsequent pages will document the analysis and reasoning. Numerical analyses that are referred to in the write-up should be provided as appendices. The group also will give a verbal presentation of the case on the dates indicated in the class schedule outlined below. The group will hand in the case report at the beginning of the class presentation. Each group also will prepare and give to the whole class copies of any calculations and/or tables the members consider to be relevant.

Cases will be evaluated using the following criteria:

- a. Thoroughness of preparation (as revealed in class discussion and written report)
- b. Knowledge and application of relevant theories and techniques
- c. Ability to present a well-prepared analysis
- d. Ability to formulate and present sound diagnosis and recommendations
- e. Ability to identify strengths and weaknesses in the analysis, diagnosis, recommendations and criticisms of other students' work

**Case preparation:** Learning in class will focus more on the thought process in analyzing business situations, than on the solutions per se. In order to derive maximum benefits from the cases, it is essential that you mentally 'get inside' the case situation. Do not approach a case as you would a chapter in a book or an article in a magazine. You are not an observer, but a participant. If a case centers on a decision that needs to be made, put yourself in the shoes of the decision maker. Feel the frustration he or she feels with respect to data limitations. Feel the pressures he or she feels with respect to difficult tradeoffs, limited resources, political conflicts, or whatever. Once in class, share your ideas with others. In preparing the cases, the following simple rules may be useful:

(1) Adopt a management posture in analyzing cases. Use the assignment questions as a guide only. Your answer should highlight what you, as a manager, see as the strengths or weaknesses in a given situation.

(2) Familiarize yourself with the facts of the case. Outline the industry and competitive context and the core strategic tasks that the firm should excel at.

(3) Support your analysis with facts from the case. Most cases will not contain all data you might like to have. Nevertheless, you'll be surprised at how easily you can make accurate inferences and useful assumptions, if you simply give the current management the benefit of the doubt.

**Live case study (Group work):** Throughout the semester, each student will work in a group to investigate the financial aspects of a Canadian company listed on the Toronto Stock Exchange. Select your company after the first class and email it to the instructor. The goal of this exercise is to provide you an opportunity to apply the concepts that will be discussed in class to a real company and to evaluate whether the company is maximizing value for its shareholders and, in the end, whether the firm is underpriced or overpriced in the marketplace. Details of this assignment are provided in a separate handout available on CuLearn. Also, an example of a live case study is available on CuLearn for your perusal. Sedar.com is a good source of information on companies listed on the Toronto Stock Exchange. This assignment should be submitted to me at the beginning of last class.

**Peer Evaluation:** The purpose of the peer evaluation is to provide feedback to the instructor regarding the contribution to the group projects of individual group members. For whatever reason, some members of the group may not contribute as much as everyone else. To ensure that each member of the group gets the correct credit for his/her work, each student should submit, either by email or by hard copy (with your name and signature), the rating of the members of your group on the day the particular group work is due. The marks for each individual will be averaged to get the weighting for evaluating the group work. Each group is allocated a total of 100 points to be distributed amongst the group members. Based on your estimation of the contribution of each member of the group, distribute the points among your team mates, including yourself (The total should be 100). For example, if your group consists of four individuals and if each contributed equally, each member (including yourself) should be allocated 25 of the 100 points. If I do not receive this form from an individual student, I will assume that the student has chosen to distribute the points equally amongst the group members.

**Quizzes (3 quizzes):** To encourage you to keep up with the course material and to measure your understanding of the material, I will administer 3 in-class quizzes. Each quiz will be 20 minutes in duration and it will consist of multiple choice questions. At the end of the lecture preceding the week of a quiz, you will be informed of the topics that will be tested. Note that there will be no make-up quiz.

### **Mid-term Exam**

The mid-term test will be held in the week shown in the class schedule. The venue and time for the test will be determined in due course. For this test, you will be required to know the materials that will be covered in the first four weeks (chapters 1-6 of the text book). In fairness

to all students, no make-up mid-term exam will be administered. In the case of a valid excuse for missing the mid-term test, supported by evidence (for example medical certificate), the mid-term exam weight may be added to that of the final exam.

**Final Exam:** The final examination will test your understanding of the concepts covered in both the lecture and case components of the course. It will be held during the final examination period. The exam format will be explained during the last week of class. Given the nature of this examination, the only valid excuse for missing the exam is one of a medical nature and must be documented by a medical certificate. If the exam is missed for medical reasons, students will have to apply for a deferred examination. Practice questions that will be posted on CuLearn will help you prepare for the exams.

The date and location of the final exam will be announced through the University's normal procedures for such matters. Be sure that you are available for the final exam. **Allowance will not be made for conflicting travel plans.**

Only Texas Instruments BA II Plus calculators can be use in the examination. Translation dictionaries are allowed as long as they are in print format and do not contain any handwritten notes. Electronic translation dictionaries are not allowed.

**NOTE:** 1. The final exam will be comprehensive, covering material from the entire course. If you are awarded less than 50% on the final exam, you will receive an "F", regardless of your total mark in the course.

2. Students who do not demonstrate a minimum level of performance during the term will not be allowed to defer the final exam. The requirement for satisfactory in-term performance is an overall mark of 50% or better on the assignments and quizzes. Students with unsatisfactory in-term performance who miss the final exam will be awarded FND for the course.

### **What is expected of you**

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1. Attend all lectures. The topics that will be covered in this course are cumulative. Missing a lecture could adversely affect your understanding of subsequent materials. I will take attendance of students at each lecture.
2. Individually read and prepare all the assigned cases. Then meet with your group to discuss each other's ideas and analyses.
3. Active class participation. Read and prepare the assigned cases and be prepared to participate in the discussion. Much of the learning from cases comes through participation and discussion, including discussion within your group before class.
4. Assemble a group and pick your company for the Live Case Study as soon as possible. You should pick a company that has good disclosure and research coverage. To be able to do a good analysis, you should start sooner rather than later.

5. Read the relevant chapters of the textbook before attending lectures.
6. Attempt the assigned practice questions. You may browse the Applied Corporate Finance Website and try some of the chapter questions.
7. Read the business section of at least one major newspaper (e.g. The Globe & Mail, Report on Business or The National Post (Daily), and The Wall Street Journal) to keep up with the latest developments in the Finance community.
8. Write all quizzes and the exam. Participate actively in your group work.

Best wishes,  
Dr Isaac Otchere

## Course Schedule

<b>Week</b>	<b>Lecture/Case*</b>	<b>Readings: Damodaran (D) Case Book (CB)</b>
Sept 9	Introduction: the objective of corporate finance decisions and Governance issues.	D1, D2
16	Risk measurement and determination of cost of capital in practice I	D3, D4
23	Risk measurement and determining the cost of capital in practice II	D3, D4
30	Practical issues in capital budgeting I	D5, D6
Oct 7	Practical issues in capital budgeting II including Project (Real) Options <b>Case: Cost of capital – Telus Corp.</b>	D5, D6 CB#15
14	Valuation I <b>Case: Capital budgeting – Laurentian Bakeries</b>	D12 CB#21
<b>18</b>	<b>Mid-Term test</b>	
21	Valuation II <b>Case: Valuation – Rushway Brothers Lumber</b>	D12 CB#23
28	<b>Fall Break</b>	
Nov 4	Capital structure I <b>Case: Valuation –Oxford Learning Centres Inc</b>	D7, D8 CB#24
11	Determining Optimal Capital structure in practice <b>Case: Capital structure – Rocky Mountain</b>	D8, D9 CB#14
18	Dividend policy I	D10
25	Dividend policy II <b>Case: Dividend policy – Champion Road</b>	D11 CB#22
Dec 2	Introduction to Mergers and Acquisitions <b>Case: M&amp;A: United Grain Growers Limited</b> Wrap up <b>Live case study due</b>	D10, D11 CB#28

\*While every attempt will be made to keep to the schedule above, circumstances may necessitate modifications during the semester.

## **IMPORTANT ADDITIONAL INFORMATION**

### **Required calculator in BUSI course examinations**

If you are purchasing a calculator, we recommend any one of the following options: Texas Instruments BA II Plus (including Pro Model), Hewlett Packard HP 12C (including Platinum model), Staples Financial Calculator, Sharp EL-738C & Hewlett Packard HP 10bII

### **Group work**

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, follower-ship and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your professor may assign one or more group tasks/assignments/projects in this course. Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

### **Academic Accommodations for Students with Disabilities**

The Paul Menton Centre for Students with Disabilities (PMC) provides services to students with Learning Disabilities (LD), psychiatric/mental health disabilities, Attention Deficit Hyperactivity Disorder (ADHD), Autism Spectrum Disorders (ASD), chronic medical conditions, and impairments in mobility, hearing, and vision. If you have a disability requiring academic accommodations in this course, please contact PMC at 613-520-6608 or [pmc@carleton.ca](mailto:pmc@carleton.ca) for a formal evaluation. If you are already registered with the PMC, contact your PMC coordinator to send me your **Letter of Accommodation** at the beginning of the term, and no later than two weeks before the first in-class scheduled test or exam requiring accommodation (*if applicable*). After requesting accommodation from PMC, meet with me to ensure accommodation arrangements are made. Please consult the PMC website for the deadline to request accommodations for the formally-scheduled exam (*if applicable*).

- - The deadlines for contacting the Paul Menton Centre regarding accommodation for final exams for the December 2014 exam period is November 7, 2014 and for the April 2015 exam period is March 6, 2015.

### **Religious observance**

Students requesting academic accommodation on the basis of religious observance should make a formal, written request to their instructors for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory academic event. Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student. Students or instructors who have questions or want to confirm accommodation eligibility of a religious event or practice may refer to the Equity Services website for a list of holy days and Carleton's Academic Accommodation policies, or may contact an Equity Services Advisor in the Equity Services Department for assistance.

### **Pregnancy**

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. The student must then make

an appointment to discuss her needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

### **Academic Integrity**

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another’s ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated. Penalties may include expulsion; suspension from all studies at Carleton; suspension from full-time studies; a refusal of permission to continue or to register in a specific degree program; academic probation; and a grade of Failure in the course, amongst others. Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at <http://www2.carleton.ca/sasc/advisingcentre/academic-integrity/>.