

Website for this class: http://www.stern.nyu.edu/~adamodar/New_Home_Page/triumdesc.html



CORPORATE FINANCE SYLLABUS AND OUTLINE

Aswath Damodaran

Course Objectives

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- To give you the capacity to understand the theory and apply, in real world situations, the techniques that have been developed in corporate finance.
 - Motto for class: If it cannot be applied, who cares?.
- To give you the big picture of corporate finance so that you can understand how things fit together.
 - Motto for class: You can forget the details, but don't miss the storyline.
- To show you that corporate finance is fun.
 - Motto for class: Are we having fun yet?

Class Outline

Session #	Topics
1	Introduction to Corporate Finance The Objective in Corporate Finance Introduction to Risk
2	Measuring Risk
3	From risk to hurdle rates
4	Measuring Investment Returns The Debt/Equity Tradeoff
5	Optimal Financing Mixes and Types
6	Dividend Policy Valuation

Tests, Projects and Other Unpleasant stuff!

- There will be two quizzes, one at the start of session 3 and the other at the start of session 5.
 - ▣ Each quiz will be 30 minutes in length and cover the material from the prior day.
 - ▣ The quizzes are open book, open notes
 - ▣ Each quiz will be worth 25% of your grade.
- There will also be a comprehensive project that will be due above five weeks after the last class. This project will be worth 50% of your grade. You can get more information on what the project involves by going to the website for the class.



CORPORATE FINANCE
THE PROJECT

Aswath Damodaran

What this project involves...

- You should consider this project a live lab experiment that you will be doing in class for the next few sessions. While I will try to apply the principles of corporate finance to the companies I have chosen - Disney, Bookscape... etc. - you will be applying the same principles to your company.
- Many of the numbers will be worked out in class as you go through the material.
- After the course is over, you should write a corporate financial analysis of your company, using the numbers that you have generated in class. It should be short (<10 pages) and focus less on mechanics (I know how the equation for levered betas) and more on the results/ recommendations. Think of yourself as an advisor to the top management of the company, writing an executive summary of what the company does well, what it does badly and what you would change about it.

I. Stockholder Analysis

- Who is the average investor in this stock? (Individual or pension fund, taxable or tax-exempt, small or large, domestic or foreign)
- Who is the marginal investor in this stock?

Applies material from: Session 1

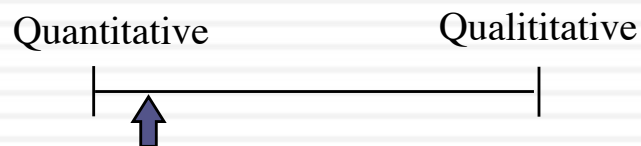


Spreadsheets:	-
Useful Data Sets:	Insider Holdings by Industry Institutional Holdings by Industry

II. Risk and Return

- What is the risk profile of your company? (How much overall risk is there in this firm? Where is this risk coming from (market, firm, industry or currency)? How is the risk profile changing?)
- What is the performance profile of an investment in this company? What return would you have earned investing in this company's stock? Would you have under or out performed the market? How much of the performance can be attributed to management?
- How risky is this company's equity? Why? What is its cost of equity?
- How risky is this company's debt? What is its cost of debt?
- What is this company's current cost of capital?

Applies material from: Sessions 2-3

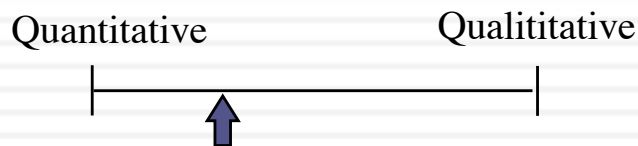


Spreadsheets: numberchecker2016.xls
Useful Data Sets: Betas by Industry
Jensen's Alpha by Industry
Cost of Debt/Capital by Industry

III. Measuring Investment Returns

- Is there a typical project for this firm? If yes, what would it look like in terms of life(long term or short term), investment needs and cash flow patterns?
- How good are the projects that the company has on its books currently?
- Are the projects in the future likely to look like the projects in the past? Why or why not?

Applies material from: Session 4

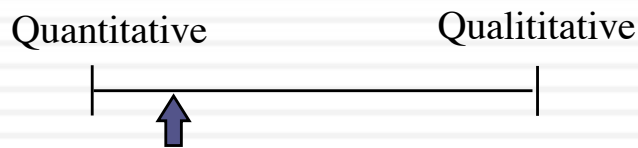


Spreadsheets:	capbudg.xls
Useful Data Sets:	ROE and Equity EVA by Sector ROC and EVA by Sector

V. Optimal Capital Structure

- Based upon the cost of capital approach, what is the optimal debt ratio for your firm?
- Bringing in reasonable constraints into the decision process, what would your recommended debt ratio be for this firm?
- Does your firm have too much or too little debt
 - ▣ relative to the sector?
 - ▣ relative to the market?

Applies material from: Session 5



Spreadsheets:	capstru.xls
Useful Data Sets:	Earnings Variance by Industry
	Market Debt ratio Regression

VI. Mechanics of Moving to the Optimal

- If your firm's actual debt ratio is different from its "recommended" debt ratio, how should they get from the actual to the optimal? In particular,
 - ▣ should they do it gradually over time or should they do it right now?
 - ▣ should they alter their existing mix (by buying back stock or retiring debt) or should they take new projects with debt or equity?
- What type of financing should this firm use? In particular,
 - ▣ should it be short term or long term?
 - ▣ what currency should it be in?
 - ▣ what special features should the financing have?

Applies material from: Session 5

Quantitative

Qualitative



Spreadsheets:

Useful Data Sets: Firm Value Sensitivity by Industry

VII. Dividend Policy

- How has this company returned cash to its owners? Has it paid dividends, bought back stock or spun off assets?
- Given this firm's characteristics today, how would you recommend that they return cash to stockholders (assuming that they have excess cash)?

Applies material from: Session 6

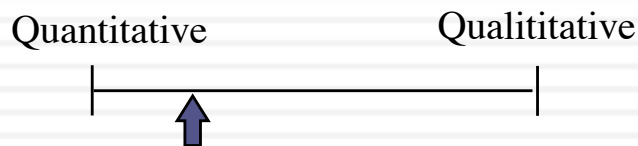


Spreadsheets:	dividends2016.xls
Useful Data Sets:	Yields/Payout by Industry
	Tradeoff Variables by Industry

VIII. A Framework for Analyzing Dividends

- How much could this firm have returned to its stockholders over the last few years? How much did it actually return?
- Given this dividend policy and the current cash balance of this firm, would you push the firm to change its dividend policy (return more or less cash to its owners)?
- How does this firm's dividend policy compare to those of its peer group and to the rest of the market?

Applies material from: Session 6

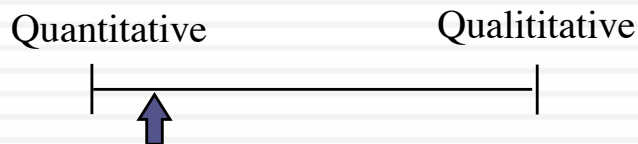


Spreadsheets:	dividends2016.xls
Useful Data Sets:	Cap Ex Ratios by Industry
	Working Capital Ratios By Industry
	Debt Ratios by Industry

IX. Valuation (Optional)

- How fast do you expect operating income to grow at this firm in the immediate future?
- How long do you think it will be before your firm reaches stable growth?
- What is your estimate of value of equity in this firm? How does this compare to the market value?

Applies material from: Session 6



Spreadsheets:	fcffsimpleginzu2016.xls
Useful Data Sets:	Betas by Industry
	Growth Fundamentals by Industry
	Cap Ex and Wkg Cap by Industry