SYLLABUS FOR
MBA 777-001
Spring 2010

FUNDAMENTAL PRINCIPLES OF CORPORATE FINANCE

Instructor: Joey Engelberg

I. Course Objectives and Style

Welcome to MBA 777! I am looking forward to working with you. I hope we can learn as much as possible in the 7 weeks that we will spend together.

The course focuses on the fundamental concepts of corporate finance and how to apply them. The primary focus is on valuation (including the WACC approach, APV approach, multiples and real option valuation) and capital structure. We will build on the knowledge you already have about some of these topics from MBA 771 and MBA 772, but deal with the issues in much greater depth and detail. Moreover, we will focus a substantial part of the course on detailed discussions of case studies. Both lectures and case discussions are vital parts of the course.

The objective of this course is to learn how to apply some of the most important concepts of corporate finance to many practical situations – and, in particular, how to perform various kinds of valuations (for example, valuing a firm undergoing a leveraged recapitalization using APV). The emphasis is on how to actually perform valuations. Learning by doing will be important. At the end of the course, you should be able to do all types of valuations you are likely to encounter in practice. The course also aims to deepen your knowledge and understanding of other important areas of corporate finance, including capital structure, real options, and financial distress and bankruptcy. The course will equip you with the skills and knowledge that everybody practicing corporate finance should have. It should also prepare you for the second-year electives in corporate finance (as well as corporate finance internships and jobs).

II. Course Website

You can find the course website at:

https://intranet.kenan-flagler.unc.edu/applications/courses/SectionDetail.aspx?id=5292

I will post the slides, problem set, problem set solutions, and other documents there.
III. Office Hours:

Mondays 5:00-6:30 and Tuesdays 4:30-6:00. My office number is McColl 4218. You can also always make an appointment for a different time. My email address is joseph_engelberg@unc.edu. You are strongly encouraged to clarify any questions as early as possible.

IV. Prerequisites

The course requires the knowledge of the basic concepts of finance developed in MBA 771 and MBA 772.

V. Readings

A course pack with readings and the cases will be available from the Entrepreneurship Club.


VI. Grading

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<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
<tr>
<td>Individual Problem Set</td>
<td>15%</td>
</tr>
<tr>
<td>Final Take-home Case</td>
<td>30%</td>
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<tr>
<td>Case Write-Ups (groups)</td>
<td>35%</td>
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Instead of a midterm and final examination, there will be two take-home assignments that have to be done individually. The final take-home assignment will be distributed at the end of the last class on February 24. It is due on March 3rd by 12 noon.

For the case write-ups, you will form groups of 3, 4, or 5 persons. Each group is responsible for a case write-up for each case. Your three highest case grades will count for the grading; I will drop your lowest score. I will supply you with questions that will guide your write-up. The write-ups should not be longer than 3 pages (excluding exhibits). If you include exhibits, please refer to them in the text and make it clear why they are included.
VII. Course Outline

The following class schedule is tentative. We will sometimes take a little bit more and sometimes a little bit less time for a topic than planned. I will announce any adjustments in class. All readings are in the course pack.

1.) Session 1 (January 6):

Topic: Introduction to course.

2.) Session 2 (January 11):


3.) Session 3 (January 13):

Topic: Valuation with Financing: WACC, APV and CCF.

Reading: Note on Adjusted Present Value (HBS 9-293-092)

Assignment: Sampa Video.

4.) Session 4 (January 20):

Topic: Valuation with Financing (cont’d). Begin Valuation with Multiples.


5.) Session 5 (January 25):

Topic: Valuation with Multiples and Terminal Values.

Assignment: Calaveras Vineyards.

Assignment Due: Sampa Video.
6.) Session 6 (January 27):

**Topic:** Real Option Valuation.

**Reading:** *Capital Projects as Real Options* (HBS 9-295-074)

7.) Session 7 (February 1):

**Topics:** Real Option Valuation (cont’d).

**Assignment:** MW Petroleum.

**Assignment Due:** Calaveras Vineyards.

8.) Session 8 (February 3):

**Topic:** Calaveras Vineyards.

**Assignment:** Distribution of Problem Set. Due date: February 8.

9.) Session 9 (February 8):

**Topic:** No class – individual problem set due today.

10.) Session 10 (February 10):

**Topic:** MW Petroleum.

**Assignment due:** MW Petroleum.

11.) Session 11 (February 15):

**Topic:** Capital Structure: Pecking Order and other arguments.

**Reading:** *Still Searching for Optimal Capital Structure* (Stewart C. Myers, Journal of Applied Corporate Finance)

**Assignment:** USG Corporation.
12.) Session 12 (February 17):

**Topic:** Capital Structure: Costs of Financial Distress.

**Reading:** *Note on Bankruptcy in the United States* (HBS 9-292062)

13.) Session 13 (February 22):

**Topic:** USG Corporation.

**Assignment due:** USG Corporation.

14.) Session 14 (February 24):

**Topic:** Conclusion and Review. Discuss individual take-home assignment.

*Final Assignment DUE MARCH 3rd AT 12 p.m. NOON*