

**251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**

**Detailed Reading List**

**Professor Grennan**



**Class 1, Monday, August 16, 2021**

*Topics: Introduction*

- Course Overview
- Corporate Finance Overview
  - The three decisions corporate executives make: investment, financing, and payout
  - Objective of corporate finance: maximize firm value
- The Language of Corporate Finance
  - Financial information helps executives, lawyers, and investors to better understand if the objective of corporate finance is met

*Casebook Reading:*

- Ch. 1 (pg. 1-5) of Carney, Bartlett and Geis (CBG)

**Class 2, Wednesday, August 18, 2021**

*Topics: Financial Reporting #1*

- Four principle financial reports
- Balance Sheets
  - Assets
  - Liabilities
  - Shareholders' Equity
- Legal relevance of balance sheet (Bolt v. Merrimack)
- Introduction to excel
- Perpetual Youth Balance Sheet excel exercise

*Casebook Reading:*

- Ch. 2, Sec.1 and Sec. 2.A (pg. 7-28) of Carney, Bartlett and Geis (CBG)

**Class 3, Monday, August 23, 2021**

*Topics: Financial Reporting #2*

- Income Statement

## **251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**

### **Detailed Reading List**

#### **Professor Grennan**

- Getting to net income
- Legal relevance of income statements (IMAX)
- Big example linking the balance sheet with the income statement
- Perpetual Youth excel exercise with income statements

#### *Casebook Reading:*

- Ch. 2, Sec. 2.B (pg. 29-52) of Carney, Bartlett and Geis (CBG)

### **Class 4, Wednesday, August 25, 2021**

#### *Topics: Financial Reporting #3*

- Statement of Cashflows
  - Operating
  - Investing
  - Financing
- Common metrics for analyzing financial statements
  - Equity investors' favorite metrics
  - Creditors' favorite metrics

#### *Casebook Reading:*

- Ch. 2, Sec. 2.C-D, and Ch. 2., Sec. 3 (pg.52-65) of Carney, Bartlett and Geis (CBG)  
[Note: Skip Alaiyan v. Insightful Corp]

### **Class 5, Monday, August 30, 2021**

#### *Topics: Financial Reporting #4*

- We will explore some famous scandals in history that forever changed aspects of financial reporting
- Scandals include: Enron, WorldCom, Bernie Madoff
- Legislation includes: Sarbanes Oxley Act (SOX) and Dodd-Frank Act
- Related concepts: fair value accounting vs. historical cost accounting, other experts reliance on audited financial statements

#### *Casebook Reading and Optional Watching:*

- Ch. 2, Sec. 3.D-E (pg. 65-70) of Carney, Bartlett and Geis (CBG)
- Movies: "Enron: The Smartest Guys in the Room" and "Wizard of Lies"

**251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**  
**Detailed Reading List**  
**Professor Grennan**

**Class 6, Wednesday, September 1, 2021**

*Topics: Financial Reporting #5*

- How does information get incorporated into stock prices
  - Common sources of information
  - Who reads financial statements?
  - Are market prices informational efficient? Why or why not?
- Tools for transitioning from financial statements (i.e., full of accounting discretion) to a corporate finance mindset
  - The time value of money
  - Valuing a stream of cash flows
  - Perpetuities and annuities

*Casebook Reading:*

- Ch3.1-3.2 (pg. 71-99) of Carney, Bartlett and Geis (CBG)

**No class on Monday, September 6 (Labor Day)**

**Class 7, Wednesday, September 8, 2021**

*Topics: Investment #1*

- Investment decision rules (NPV, IRR)
- Investment decisions rules are consistent with goal of firm
- Calculating after-tax cash flows necessary to make investment decisions according to the rules (initial outlay, incremental cash flows over project life, terminal value)

*Casebook Reading:*

- NPV and IRR are covered on pg. 96-99, cash flows are covered on pg. 158-163 in Carney, Bartlett, and Geis (CBG)

**Class 8, Monday, September 13, 2021**

*Topics: Investments #2*

- Big example of after-tax cash flow calculation
  - Initial outlay
  - Incremental cash flows over project life

## **251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**

### **Detailed Reading List**

#### **Professor Grennan**

- Terminal value
- Sensitivity analyses
- Investment during the pandemic

#### *Casebook Reading:*

- No reading

### **Class 9, Wednesday, September 15, 2021**

#### *Topics: Investment #3*

- In-class assignment: Ocean Carriers container ship investment
- Case objective: understand how discounted cash flow (DCF) is used to make investment decisions.
- Key concepts: NPV, IRR, initial outlay, calculation of after-tax cash flows, terminal value, tax considerations, depreciation, changes in net working capital, sensitivity of assumptions for long-term investment projects, and the goal of corporate finance

#### *Casebook Reading:*

- No casebook reading but in-class handout on Ocean Carriers

### **Class 10, Monday, September 20, 2021**

#### *Topics: Investment #4*

- From project investment to firm investment
- Discounted cash flow (DCF) methods for valuing equity and firms
- Terminal value calculations for firms
- Intro to M&A investment considerations such as organic vs. inorganic growth, types of synergies
- Intro to multiples and PE ratios

#### *Reading:*

- Harvard Business Review May 2020, "The Case for M&A in a Downturn" by Brian Salsberg <https://hbr.org/2020/05/the-case-for-ma-in-a-downturn>

### **Class 11, Wednesday, September 22, 2021**

#### *Topics: Investment #5*

## 251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021

### Detailed Reading List

#### Professor Grennan

- Multiples and comparable firms continued
- Conglomerates
- M&A investment valuation
  - Comparable firms and multiples approach
  - DCF approach

#### *Reading:*

- Harvard Business Review Dec. 2013, "Why Conglomerates Thrive Outside the U.S." by J. Ramachandran, K.S. Manikandan, and A. Pant <https://hbr.org/2013/12/why-conglomerates-thrive-outside-the-us>

### **Class 12, Monday, September 27, 2021**

#### *Topics: Investment #6*

- Weighted average cost of capital (WACC) calculation
- Estimating risk-free rates, equity market risk premium, and betas for WACC
- WACC best practices
- Are managers taking on the right amount of risk?

#### *Reading:*

- Harvard Business Review Article Jul-Aug. 2012, "Do You Know Your Cost of Capital?" by Michael T. Jacobs and Anil Shivdasani <https://hbr.org/2012/07/do-you-know-your-cost-of-capital>
- Harvard Business Review Article Mar-Apr. 2020, "Your Company Is Too Risk-Averse" by Dan Lovallo, Tim Koller, Robert Uhlener and Daniel Kahneman <https://hbr.org/2020/03/your-company-is-too-risk-averse>

### **Class 13, Wednesday, September 29, 2021**

**GE case study due before class.**

**Some groups will present their analyses**

### **Class 14, Monday, October 4, 2021**

#### *Topics: Financing #1*

- Introduction to leverage

## 251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021

### Detailed Reading List

Professor Grennan

- Levering and unlevering beta
- Levering and unlevering the cost of capital
- The adjusted present value (APV) approach to estimating the value of leverage

*Reading:*

- Harvard Business Review Article May-Jun. 1997, “Using APV: A Better Tool for Valuing Operations” by Timothy Luehrman <https://hbr.org/1997/05/using-apv-a-better-tool-for-valuing-operations>

### Class 15, Wednesday, October 4, 2021

*Topics: Financing #2*

- Using the APV approach to replicate KKR's bid for RJR Nabisco
- Different types of financing
- The process of raising capital for firms

*Casebook Reading:*

- Ch. 4.1-4.2 (pg. 193-205) in Carney, Bartlett, and Geis (CBG)

### Class 16, Wednesday, October 6, 2021

*Topics: Financing #3*

- Relative advantages and disadvantages of debt vs. equity
  - APV method for calculating optimal capital structure
  - Four important trade-offs
  - Modigliani and Miller propositions
- Capital structure adjustments in practice -- how to get from actual to optimal capital structure
- Legal relevance of capital structure adjustments
  - Quadrant Structure Product Company, Inc. v. Vertin
  - Revlon, Inc. v. McAndrews & Forbes Holding Inc.
  - S. Muoio & Co. LLC v. Hallmark Entertainment Investments

*Casebook Reading:*

- Ch. 4.3-4.5A (pg. 204-242) in Carney, Bartlett, and Geis (CBG)

**251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**  
**Detailed Reading List**  
**Professor Grennan**

**Class 17, Wednesday, October 13, 2021**

Topics: Financing #4

- Winfield Board example
- AirThreads acquisition example
- M&A transactions in perspective: strategic vs. financial buyers
- Financing M&A transactions (stock vs. cash)

Reading:

- Ch. 4.5.B (pg. 242-254) in Carney, Bartlett, and Geis (CBG)
- Harvard Business Review Sep. 2007, “The Strategic Secret of Private Equity” by Felix Barber and Michael Goold <https://hbr.org/2007/09/the-strategic-secret-of-private-equity>
- Harvard Business Review Jun. 2021 “Private Equity’s Mid-life Crisis” by Karim Khairallah and François Mann Quirici <https://hbr.org/2021/06/private-equitys-mid-life-crisis>

**Class 18, Monday, October 18, 2021**

Topics: Financing #5

- Legal issues that arise associated with stock issuances
  - Voting and economic dilution
  - Katzowitz v. Sidler et al.
- Legal issues that arise for preferred stockholders
  - Benchmark Capital Partners IV, L.P., v. Vague
  - Trados Incorporated Shareholder Litigation, In re,

Casebook Reading:

- Ch. 5.3A-B (pg. 261-287) and Ch.7.4-5 (pg. 528-620) in Carney, Bartlett, and Geis (CBG) [*Note: skim except for cases listed above*]

**Class 19, Wednesday, October 20, 2021**

Topics: Financing #6

- Common covenants included in debt contracts
- Legal issues that arise associated with debt issuances
  - MetLife v. RJR Nabisco
  - Morgan Stanley & Co. v. Archer Daniels Midland Company

## 251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021

### Detailed Reading List

Professor Grennan

- Katz v. Oak Industries

*Casebook Reading:*

- Ch 6.3 (pg. 347-372), 6.3E (397-405) in Carney, Bartlett, and Geis (CBG)

### Class 20, Monday October, 25, 2021

**Dell case study due before class.**

**Some groups will present their analyses**

### Class 21, Wednesday, October 27, 2021

*Topics: Payout #1*

- Cash management
- Compare (1) holding cash reserves, (2) reinvesting in the firm, and (3) returning cash to shareholders (i.e., "paying out" cash)
- Measures of payout (i.e., dividend yield, payout ratio)
- The effect of different forms of payout on share prices

*Casebook Reading:*

- Ch. 9.1-2 (pg. 735-747) and 9.5A-Bii (pg. 790-794) in Carney, Bartlett, and Geis (CBG)

### Class 22, Monday, November 1, 2021

*Topics: Payout #2*

- Reasons why firms change their payout policy
- Evaluating how much firms can afford to return to shareholders
- Payout vs. investment debate

*Casebook Reading:*

- Harvard Business Review Mar-Apr. 2018, "Are Buybacks Really Shortchanging Investment?" by Jesse M. Fried and Charles C.Y. Wang <https://hbr.org/2018/03/are-buybacks-really-shortchanging-investment>



**251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**  
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**Class 23, Wednesday, November 3, 2021**

*Topics: Payout #3*

- Legal Restrictions on dividends and buybacks
- David Einhorn's controversial request for payout from Apple

*Casebook Reading:*

- Ch. 9.3-5 (pg. 750-819) in Carney, Bartlett, and Geis (CBG)

**Class 24, Monday, November 8, 2021**

*Topics: Payout #4*

- Introduction to options: terminology
- Introduction to options: pricing and payoffs

*Casebook Reading:*

- Ch. 8.1-3 (pp. 621-646) in in Carney, Bartlett, and Geis (CBG)

**Class 25, Wednesday, November 10, 2021**

*Topics: Payout #5*

- Put-call parity
- Black-Scholes formula
- Sensitivity analysis for options pricing with Black-Scholes

*Casebook Reading:*

- Ch. 8.1-3 (pp. 621-646) in in Carney, Bartlett, and Geis (CBG) [Note: same as last class]

**Class 26, Monday, November 15, 2021**

*Topics: Payout #6*

- Introduction to employee and executive compensation
  - Considering cash signing bonus vs. options in the company

**251.5 Section 001, Berkeley Law Corporate Finance – Fall 2021**  
**Detailed Reading List**  
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- Real options
- How is it possible for a company to destroy option value?
  - Simons v. Cogan
  - Wood v. Coastal States Gas Corporation

*Casebook Reading:*

- Ch. 8.4 (pg. 654-717) in Carney, Bartlett and Geis (CBG)

**Class 27, Wednesday, November 17, 2021**

**IBM case study due before class.**

**Some groups will present their analyses**

**Class 28, Monday, November 22, 2021**

*Topics: Conclusion*

- Bringing it all together
  - Financing reporting
  - Investment decisions
  - Financing decisions
  - Payout decisions
- Considerations for the future of corporate finance

*Casebook Reading:*

- No reading