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Fundamentals of
Corporate Finance



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Eighth Canadian Edition

Fundamentals of Corporate Finance

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PREFACE

Fundamentals of Corporate Finance continues on its tradition of excellence that has earned it its status as market leader. The rapid and extensive changes in financial markets and instruments has placed new burdens on the teaching of Corporate Finance in Canada. As a result, every chapter has been updated to provide the most current examples that reflect Corporate Finance in today's world. This best-selling text is written with one strongly held principle—that Corporate Finance should be developed and taught in terms of a few integrated powerful ideas: Emphasis on Intuition, Unified Valuation Approach, and Managerial Focus.

An Emphasis on Intuition We are always careful to separate and explain the principles at work on an intuitive level before launching into any specifics. The underlying ideas are discussed first in very general terms and then by way of examples that illustrate in more concrete terms how a financial manager might proceed in a given situation.

A Unified Valuation Approach We treat net present value (NPV) as the basic concept underlying corporate finance. Many texts stop well short of consistently integrating this important principle. The most basic notion—that NPV represents the excess of market value over cost—tends to get lost in an overly mechanical approach to NPV that emphasizes computation at the expense of understanding. Every subject covered in *Fundamentals of Corporate Finance* is firmly rooted in valuation, and care is taken throughout the text to explain how particular decisions have valuation effects.

A Managerial Focus Students will not lose sight of the fact that financial management concerns *management*. Throughout the text, the role of the financial manager as decision maker is emphasized, and the need for managerial input and judgement is stressed. “Black box” approaches to finance are consciously avoided.

These three themes work together to provide a sound foundation, and a practical and workable understanding of how to evaluate and make financial decisions.

New to This Edition In addition to retaining the coverage that has characterized *Fundamentals of Corporate Finance* from the beginning, the Eighth Canadian Edition features enhanced Canadian content on current issues such as:

- **Perspective on the financial crisis of 2007–2009 and its aftermath, in particular, the European government debt credit crisis (Chapters 1, 12, and 24, among others).**
- **Updated and expanded coverage of corporate governance, social responsibility, ethical investing, and shareholder activism (Chapters 1, 8, and 23).**
- **Addition of a new chapter on Behavioural Finance (Chapter 26).**
- **Refocusing of the derivatives coverage on Enterprise Risk Management (Chapter 24).**

This book was designed and developed explicitly for a first course in business or corporate finance, for both finance majors and non-majors alike. In terms of background or prerequisites, the book is nearly self-contained, assuming some familiarity with basic algebra and accounting concepts, while still reviewing important accounting principles very early on. The organization of this text has been developed to give instructors the flexibility they need.

Just to give an idea of the breadth of coverage in the Eighth Canadian Edition, the following grid presents, for each chapter, some of the most significant features, as well as a few selected chapter highlights. Of course, in every chapter, opening vignettes, boxed features, in-chapter illustrated examples using real companies, and end-of-chapter materials have been thoroughly updated as well.

| Chapters | Selected Topics of Interest | Benefits to You |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PART ONE OVERVIEW OF CORPORATE FINANCE | | |
| Chapter 1 Introduction to Corporate Finance | <ul style="list-style-type: none"> • New material: Perspective on the financial crisis of 2007–2009 and its aftermath, in particular, the European government debt credit crisis • Goal of the firm and agency problems • Ethics, financial management, and executive compensation | <ul style="list-style-type: none"> • Links to headlines on financial crisis. • Stresses value creation as the most fundamental aspect of management and describes agency issues that can arise. • Brings in real-world issues concerning conflicts of interest and current controversies surrounding ethical conduct and management pay. |
| Chapter 2 Financial Statements, Cash Flow, and Taxes | <ul style="list-style-type: none"> • New material: Financial statements conforming to IFRS • Cash flow vs. earnings • Market values vs. book values | <ul style="list-style-type: none"> • Links to current practice. • Defines cash flow and the differences between cash flow and earnings. • Emphasizes the relevance of market values over book values. |
| PART TWO FINANCIAL STATEMENTS AND LONG-TERM FINANCIAL PLANNING | | |
| Chapter 3 Working with Financial Statements | <ul style="list-style-type: none"> • Using financial statement information | <ul style="list-style-type: none"> • Discusses the advantages and disadvantages of using financial statements. |
| Chapter 4 Long-Term Financial Planning and Corporate Growth | <ul style="list-style-type: none"> • Explanation of alternative formulas for sustainable and internal growth rates • Thorough coverage of sustainable growth as a planning tool | <ul style="list-style-type: none"> • Explanation of growth rate formulas clears up a common misunderstanding about these formulas and the circumstances under which alternative formulas are correct. • Provides a vehicle for examining the interrelationships among operations, financing, and growth. |
| PART THREE VALUATION OF FUTURE CASH FLOWS | | |
| Chapter 5 Introduction to Valuation: The Time Value of Money | <ul style="list-style-type: none"> • First of two chapters on time value of money | <ul style="list-style-type: none"> • Relatively short chapter introduces the basic ideas on time value of money to get students started on this traditionally difficult topic. |
| Chapter 6 Discounted Cash Flow Valuation | <ul style="list-style-type: none"> • Second of two chapters on time value of money | <ul style="list-style-type: none"> • Covers more advanced time value topics with numerous examples, calculator tips, and Excel spreadsheet exhibits. Contains many real-world examples. |
| Chapter 7 Interest Rates and Bond Valuation | <ul style="list-style-type: none"> • New material: Discussion of bond fund strategies at time of European government debt crisis • “Clean” vs. “dirty” bond prices and accrued interest • Bond ratings | <ul style="list-style-type: none"> • Links chapter material to current events. • Clears up the pricing of bonds between coupon payment dates and also bond market quoting conventions. • Up-to-date discussion of bond rating agencies and ratings given to debt. Includes the latest descriptions of ratings used by DBRS. |
| Chapter 8 Stock Valuation | <ul style="list-style-type: none"> • New material: Stock valuation using multiples • New material: Examples of shareholder activism at Canadian Pacific and Magna International | <ul style="list-style-type: none"> • Broadens coverage of valuation techniques. • Expands governance coverage and links chapter material to current events. |

| Chapters | Selected Topics of Interest | Benefits to You |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PART FOUR CAPITAL BUDGETING | | |
| Chapter 9 Net Present Value and Other Investment Criteria | <ul style="list-style-type: none"> • New material: Enhanced discussion of multiple IRRs and modified IRR • New material: Practice of capital budgeting in Canada • First of three chapters on capital budgeting • NPV, IRR, payback, discounted payback, and accounting rate of return | <ul style="list-style-type: none"> • Clarifies properties of IRR. • Current Canadian material demonstrates relevance of techniques presented. • Relatively short chapter introduces key ideas on an intuitive level to help students with this traditionally difficult topic. • Consistent, balanced examination of advantages and disadvantages of various criteria. |
| Chapter 10 Making Capital Investment Decisions | <ul style="list-style-type: none"> • Project cash flow • Alternative cash flow definitions • Special cases of DCF analysis | <ul style="list-style-type: none"> • Thorough coverage of project cash flows and the relevant numbers for a project analysis. • Emphasizes the equivalence of various formulas, thereby removing common misunderstandings. • Considers important applications of chapter tools. |
| Chapter 11 Project Analysis and Evaluation | <ul style="list-style-type: none"> • New material: Detailed examples added of scenario analysis in gold mining and managerial options in zoo management • Sources of value • Scenario and sensitivity “what-if” analyses • Break-even analysis | <ul style="list-style-type: none"> • Brings technique to life in real-world example. • Stresses the need to understand the economic basis for value creation in a project. • Illustrates how to apply and interpret these tools in a project analysis. • Covers cash, accounting, and financial break-even levels. |
| PART FIVE RISK AND RETURN | | |
| Chapter 12 Lessons from Capital Market History | <ul style="list-style-type: none"> • New material: Capital market history updated through 2011, new section on market volatility in 2008, In Their Own Words box on the crash of 2008 and the efficient markets hypothesis • Geometric vs. arithmetic returns • Market efficiency | <ul style="list-style-type: none"> • Extensively covers historical returns, volatilities, and risk premiums. • Discusses calculation and interpretation of geometric returns. Clarifies common misconceptions regarding appropriate use of arithmetic vs. geometric average returns. • Discusses efficient markets hypothesis along with common misconceptions. |
| Chapter 13 Return, Risk, and the Security Market Line | <ul style="list-style-type: none"> • New material: Correlations in the financial crisis • Diversification, systematic and unsystematic risk • Beta and the security market line | <ul style="list-style-type: none"> • Explains instability in correlations with a current example. • Illustrates basics of risk and return in straightforward fashion. • Develops the security market line with an intuitive approach that bypasses much of the usual portfolio theory and statistics. |
| PART SIX COST OF CAPITAL AND LONG-TERM FINANCIAL POLICY | | |
| Chapter 14 Cost of Capital | <ul style="list-style-type: none"> • Cost of capital estimation | <ul style="list-style-type: none"> • Contains a complete step-by-step illustration of cost of capital for publicly traded Loblaw Companies. |
| Chapter 15 Raising Capital | <ul style="list-style-type: none"> • Dutch auction IPOs • IPO “quiet periods” • Lockup agreements • IPOs in practice | <ul style="list-style-type: none"> • Explains uniform price auctions using Google IPO as an example. • Explains the OSC’s and SEC’s quiet period rules. • Briefly discusses the importance of lockup agreements. • Takes in-depth look at IPOs of Facebook and Athabasca Oil Sands. |
| Chapter 16 Financial Leverage and Capital Structure Policy | <ul style="list-style-type: none"> • New material: Pecking order theory • Basics of financial leverage • Optimal capital structure • Financial distress and bankruptcy | <ul style="list-style-type: none"> • Expands coverage of capital structure. • Illustrates the effect of leverage on risk and return. • Describes the basic trade-offs leading to an optimal capital structure. • Briefly surveys the bankruptcy process. |
| Chapter 17 Dividends and Dividend Policy | <ul style="list-style-type: none"> • New material: Recent Canadian survey evidence on dividend policy • Dividends and dividend policy | <ul style="list-style-type: none"> • Survey results show the most important (and least important) factors that financial managers consider when setting dividend policy. • Describes dividend payments and the factors favouring higher and lower payout policies. |

| Chapters | Selected Topics of Interest | Benefits to You |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PART SEVEN SHORT-TERM FINANCIAL PLANNING AND MANAGEMENT | | |
| Chapter 18 Short-Term Finance and Planning | <ul style="list-style-type: none"> Operating and cash cycles Short-term financial planning | <ul style="list-style-type: none"> Stresses the importance of cash flow timing. Illustrates creation of cash budgets and potential need for financing. |
| Chapter 19 Cash and Liquidity Management | <ul style="list-style-type: none"> Float management Cash collection and disbursement | <ul style="list-style-type: none"> Covers float management thoroughly. Examines systems that firms use to handle cash inflows and outflows. |
| Chapter 20 Credit and Inventory Management | <ul style="list-style-type: none"> Credit management Inventory management | <ul style="list-style-type: none"> Analysis of credit policy and implementation. Briefly surveys important inventory concepts. |
| PART EIGHT TOPICS IN CORPORATE FINANCE | | |
| Chapter 21 International Corporate Finance | <ul style="list-style-type: none"> Exchange rate, political, and governance risks Foreign exchange International capital budgeting | <ul style="list-style-type: none"> Discusses hedging and issues surrounding sovereign and governance risks. Covers essentials of exchange rates and their determination. Shows how to adapt basic DCF approach to handle exchange rates. |
| Chapter 22 Leasing | <ul style="list-style-type: none"> Synthetic leases Leases and lease valuation | <ul style="list-style-type: none"> Discusses controversial practice of financing off the statement of financial position (also referred to as off-balance sheet financing). Discusses essentials of leasing. |
| Chapter 23 Mergers and Acquisitions | <ul style="list-style-type: none"> New material: Expanded discussion of dual class stock, investor activism, and ownership and control Alternatives to mergers and acquisitions Divestitures and restructurings Mergers and acquisitions | <ul style="list-style-type: none"> Presents topical issues with Canadian examples. Covers strategic alliances and joint ventures and explains why they are important alternatives. Examines important actions such as equity carve-outs, spins-offs, and split-ups. Develops essentials of M&A analysis, including financial, tax, and accounting issues. |
| PART NINE DERIVATIVE SECURITIES AND CORPORATE FINANCE | | |
| Chapter 24 Enterprise Risk Management | <ul style="list-style-type: none"> New material: Enterprise risk management framework and insurance New material: Recent survey results on derivatives use Hedging with forwards, futures, swaps, and options | <ul style="list-style-type: none"> Illustrates need to manage risk and some of the most important types of risk. Relates material to practice by financial executives. Shows how many risks can be managed with financial derivatives. |
| Chapter 25 Options and Corporate Securities | <ul style="list-style-type: none"> Put-call parity and Black–Scholes Options and corporate finance | <ul style="list-style-type: none"> Develops modern option valuation and factors influencing option values. Applies option valuation to a variety of corporate issues, including mergers and capital budgeting. |
| Chapter 26 (New Chapter) Behavioural Finance: Implications for Financial Management | <ul style="list-style-type: none"> Introduction to Behavioural Finance Behavioural Finance and market efficiency Market efficiency and the performance of professional money managers | <ul style="list-style-type: none"> Introduces biases, framing effects, and heuristics. Explains limits to arbitrage and discusses bubbles and crashes, including the Crash of 2008. Expands on efficient markets discussion in Chapter 12 and relates it to Behavioural Finance. |

In addition to illustrating pertinent concepts and presenting up-to-date coverage, the authors strive to present the material in a way that makes it logical and easy to understand. To meet the varied needs of the intended audience, our text is rich in valuable learning tools and support.

Each feature can be categorized by the benefit to the student:

- Real Financial Decisions
- Application Tools
- Study Aids

Real Financial Decisions

We have included key features that help students connect chapter concepts to how decision makers use this material in the real world.

In Their Own Words Boxes A unique series of brief essays are written by distinguished scholars and by Canadian practitioners on key topics in the text. To name just a few, these include essays by Jeremy Siegel on efficient market theory and the financial crisis, Eric Lie on option backdating, and Heather Pelant on investment risk.

IN THEIR OWN WORDS...

Jeremy Siegel on Efficient Market Theory and the Crisis

Financial journalist and best-selling author Roger Lowenstein didn't mince words in a piece for the *Washington Post* this summer: "The upside of the current Great Recession is that it could drive a stake through the heart of the academic nostrum known as the efficient-market hypothesis." In a similar vein, the highly respected money manager and financial analyst Jeremy Grantham wrote in his quarterly letter last January: "The incredibly inaccurate efficient market theory [caused] a lethally dangerous combination of asset bubbles, lax controls,

thought that underlying collateral—the home—could always cover the principal in the event the homeowner defaulted. These models led credit agencies to rate these subprime mortgages as "investment grade."

But this assessment was faulty. From 2000 through 2006, national home prices rose by 88.7%, far more than the 17.5% gain in the consumer price index or the paltry 1% rise in median household income. Never before have home prices jumped that far ahead of prices and incomes.

This should have sent up red flags and cast doubts on using

Enhanced Real-World Examples There are many current examples integrated throughout the text, tying chapter concepts to real life through illustration and reinforcing the relevance of the material. For added reinforcement, some examples tie into the chapter-opening vignettes.

Web Links We have added and updated website references, a key research tool directing students to websites that tie into the chapter material.

Integrative Mini Cases These longer problems seek to integrate a number of topics from within the chapter. The Mini Cases allow students to test and challenge their abilities to solve real-life situations for each of the key sections of the text material.

Internet Application Questions Questions relevant to the topic discussed in each chapter, are presented for the students to explore using the Internet. Students will find direct links to the websites included in these questions on the Ross Connect site and linked out directly from the eBook.

Application Tools

Realizing that there is more than one way to solve problems in Corporate Finance, we include sections that will not only encourage students to learn different problem-solving methods, but will also help them learn or brush up on their financial calculator and Excel® spreadsheet skills.

Concept Building Chapter sections are intentionally kept short to promote a step-by-step, building block approach to learning. Each section is then followed by a series of short concept questions that highlight the key ideas just presented. Students use these questions to make sure they can identify and understand the most important concepts as they read.

Numbered Examples Separate numbered and titled examples are extensively integrated into the chapters. These examples provide detailed applications and illustrations of the text material in a step-by-step format. Each example is completely self-contained so students don't have to search for additional information. Based on our classroom testing, these examples are among the most useful learning aids because they provide both detail and explanation.

Key Terms Within each chapter, key terms are highlighted in **boldface** type the first time they appear. Key terms are defined in the text, and also in a running glossary in the margins of the text for quick reminders. For reference, there is a list of key terms at the end of each chapter and a full glossary with page references for each term at the back of the textbook.

Summary Tables These tables succinctly restate key principles, results, and equations. They appear whenever it is useful to emphasize and summarize a group of related concepts.

Key Equations These are called out in the text and identified by equation number. An Equation Index is available at the end of the book and a Formula Sheet can be found on the text's Connect site.

Chapter Summary and Conclusion These paragraphs review the chapter's key points and provide closure to the chapter.

Chapter Review Problems and Self-Test Appearing after the Summary and Conclusions and Key Terms, each chapter includes Chapter Review Problems and a Self-Test section. These questions and answers allow students to test their abilities in solving key problems related to the chapter content and provide instant reinforcement.

Concepts Review and Critical Thinking Questions This section facilitates students' knowledge of key principles, and their intuitive understanding of chapter concepts. A number of the questions relate to the chapter-opening vignette—reinforcing students' critical-thinking skills and the learning of chapter material.

Concepts Review and Critical Thinking Questions

- (LO3) What effect would the following actions have on a firm's current ratio? Assume that net working capital is positive.
 - Inventory is purchased.
 - A supplier is paid.
 - A short-term bank loan is repaid.
 - A long-term debt is paid off early.
 - A customer pays off a credit account.
 - Inventory is sold at cost.
 - Inventory is sold for a profit.
- (LO3) In recent years, Cheticamp Co. has greatly increased its current ratio. At the same time, the quick ratio has fallen. What has happened? Has the liquidity of the company

9. closely watched for semiconductor manufacturers. A ratio of 0.93 indicates that for every \$100 worth of chips shipped over some period, only \$93 worth of new orders is received. In February 2006, the semiconductor equipment industry's book-to-bill reached 1.01, compared to 0.98 during the month of January 2006. The book-to-bill ratio reached a low of 0.78 during October 2006. The three-month average of worldwide bookings in January 2006 was \$1.30 billion, an increase of 6 percent over January 2005, while the three-month average of billings in February 2006 was \$1.29 billion, a 2 percent increase from February 2005. What is this ratio intended to measure? Why do you think it is so closely watched?

(LO5) So-called "same-store sales" are a very important mea-

Questions and Problems We have found that many students learn better when they have plenty of opportunity to practise; therefore, we provide extensive end-of-chapter questions and problems. These are labelled by topic and separated into three learning levels: Basic, Intermediate, and Challenge. Throughout the text, we have worked to supply interesting problems that illustrate real-world applications of chapter material. Answers to selected end-of-chapter material appear in Appendix B (now available on Connect).

As described earlier in this Preface, students' learning and understanding of the chapter content is further supported by the following end-of-chapter materials:

- **Internet Application Questions**
- **Mini Cases**
- **Suggested Readings** (now available on Connect)



McGraw-Hill Connect™ is a web-based assignment and assessment platform that gives students the means to better connect with their coursework, with their instructors, and with the important concepts that they will need to know for success now and in the future.

With Connect, instructors can deliver assignments, quizzes, and tests online. Nearly all the questions from the text are presented in an auto-gradeable format and tied to the text's learning objectives. Instructors can edit existing questions and write entirely new problems. Instructors can track individual student performance—by question, assignment, or in relation to the class overall—with detailed grade reports. Integrate grade reports easily with Learning Management Systems (LMS) such as WebCT and Blackboard.

By choosing Connect, instructors are providing their students with a powerful tool for improving academic performance and truly mastering course material. Connect allows students to practise important skills at their own pace and on their own schedule. Importantly, students' assessment results and instructors' feedback are all saved online—so students can continually review their progress and plot their course to success.

Connect also provides 24/7 online access to an eBook—an online edition of the text—to aid them in successfully completing their work, wherever and whenever they choose.

Key Features

Simple Assignment Management

With Connect, creating assignments is easier than ever, so you can spend more time teaching and less time managing.

- Create and deliver assignments easily with selectable end-of-chapter questions and testbank material to assign online.
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
- Go paperless with the eBook and online submission and grading of student assignments.

Smart Grading

When it comes to studying, time is precious. Connect helps students learn more efficiently by providing feedback and practice material when they need it, where they need it.

- Automatically score assignments, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Instructor Library

The Connect Instructor Library is your course creation hub. It provides all the critical resources you'll need to build your course, just how you want to teach it.

- Assign eBook readings and draw from a rich collection of textbook-specific assignments.
- Access to all instructor resources:

Connect content Prepared by Merlyn Foo, Athabasca University.

Instructor's Manual Prepared by Lewis Stevenson, Brock University. The Instructor's Manual contains two main sections. The first section contains a chapter outline with lecture tips, real-world tips, and ethics notes. The second section includes detailed solutions for all end-of-chapter problems.

Computerized Test Bank Prepared by Sepand Jazzi, Kwantlen Polytechnic University. The computerized test bank is available through EZ Test Online—a flexible and easy-to-use electronic testing program—that allows instructors to create tests from book-specific items. EZ Test accommodates a wide range of question types and allows instructors to add their own questions. Test items are also available in Word format (Rich text format). For secure online testing, exams created in EZ Test can be exported to WebCT and Blackboard. EZ Test Online is supported at mhhe.com/eztest where users can download a Quick Start Guide, access FAQs, or log a ticket for help with specific issues.

PowerPoint® Presentation Prepared by Anne Inglis. The Microsoft® PowerPoint® Presentation slides have been enhanced to better illustrate chapter concepts.

Image Bank All figures and tables are available in digital format on the McGraw-Hill Connect™ site associated with this text, which can be found at mcgrawhillconnect.ca.

Excel® Templates (with Solutions) Prepared by Brent Matheson, University of Waterloo. Excel® templates are included with solutions for end-of-chapter problems indicated by an Excel® icon in the margin of the text.

- View assignments and resources created for past sections.
- Post your own resources for students to use.

eBook

Connect reinvents the textbook learning experience for the modern student. Every Connect subject area is seamlessly integrated with Connect eBooks, which are designed to keep students focused on the concepts key to their success.

- Provide students with a Connect eBook, allowing for anytime, anywhere access to the textbook.
- Merge media, animation and assessments with the text's narrative to engage students and improve learning and retention.
- Pinpoint and connect key concepts in a snap using the powerful eBook search engine.
- Manage notes, highlights, and bookmarks in one place for simple, comprehensive review.



No two students are alike. McGraw-Hill LearnSmart™ is an intelligent learning system that uses a series of adaptive questions to pinpoint each student's knowledge gaps. LearnSmart then provides an optimal learning path for each student, so that they spend less time in areas they already know and more time in areas they don't. The result is LearnSmart's adaptive learning path helps students retain more knowledge, learn faster, and study more efficiently.



Lyryx for Corporate Finance


Lyryx Assessment for Finance is a leading-edge online assessment system, designed to support both students and instructors. The assessment takes the form of a homework assignment called a Lab. The assessments are algorithmically generated and automatically graded so that students get instant grades and feedback. New Labs are randomly generated each time, providing the student with unlimited opportunities to try a type of question. After they submit a Lab for marking, students receive extensive feedback on their work, thus promoting their learning experience.

Please contact your iLearning Sales Specialist for additional information on the Lyryx Assessment Finance system. Visit lyryx.com.


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Through the development of this edition, we have taken great care to discover and eliminate errors. Our goal is to provide the best Canadian textbook available in Corporate Finance.

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Bradford D. Jordan
Gordon S. Roberts

| Chapters | Selected Topics of Interest | Benefits to You |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PART ONE OVERVIEW OF CORPORATE FINANCE | | |
| Chapter 1 Introduction to Corporate Finance | <ul style="list-style-type: none"> • New material: Perspective on the financial crisis of 2007–2009 and its aftermath, in particular, the European government debt credit crisis • Goal of the firm and agency problems • Ethics, financial management, and executive compensation | <ul style="list-style-type: none"> • Links to headlines on financial crisis. • Stresses value creation as the most fundamental aspect of management and describes agency issues that can arise. • Brings in real-world issues concerning conflicts of interest and current controversies surrounding ethical conduct and management pay. |
| Chapter 2 Financial Statements, Cash Flow, and Taxes | <ul style="list-style-type: none"> • New material: Financial statements conforming to IFRS • Cash flow vs. earnings • Market values vs. book values | <ul style="list-style-type: none"> • Links to current practice. • Defines cash flow and the differences between cash flow and earnings. • Emphasizes the relevance of market values over book values. |
| PART TWO FINANCIAL STATEMENTS AND LONG-TERM FINANCIAL PLANNING | | |
| Chapter 3 Working with Financial Statements | <ul style="list-style-type: none"> • Using financial statement information | <ul style="list-style-type: none"> • Discusses the advantages and disadvantages of using financial statements. |
| Chapter 4 Long-Term Financial Planning and Corporate Growth | <ul style="list-style-type: none"> • Explanation of alternative formulas for sustainable and internal growth rates • Thorough coverage of sustainable growth as a planning tool | <ul style="list-style-type: none"> • Explanation of growth rate formulas clears up a common misunderstanding about these formulas and the circumstances under which alternative formulas are correct. • Provides a vehicle for examining the interrelationships among operations, financing, and growth. |
| PART THREE VALUATION OF FUTURE CASH FLOWS | | |
| Chapter 5 Introduction to Valuation: The Time Value of Money | <ul style="list-style-type: none"> • First of two chapters on time value of money | <ul style="list-style-type: none"> • Relatively short chapter introduces the basic ideas on time value of money to get students started on this traditionally difficult topic. |
| Chapter 6 Discounted Cash Flow Valuation | <ul style="list-style-type: none"> • Second of two chapters on time value of money | <ul style="list-style-type: none"> • Covers more advanced time value topics with numerous examples, calculator tips, and Excel spreadsheet exhibits. Contains many real-world examples. |
| Chapter 7 Interest Rates and Bond Valuation | <ul style="list-style-type: none"> • New material: Discussion of bond fund strategies at time of European government debt crisis • “Clean” vs. “dirty” bond prices and accrued interest • Bond ratings | <ul style="list-style-type: none"> • Links chapter material to current events. • Clears up the pricing of bonds between coupon payment dates and also bond market quoting conventions. • Up-to-date discussion of bond rating agencies and ratings given to debt. Includes the latest descriptions of ratings used by DBRS. |
| Chapter 8 Stock Valuation | <ul style="list-style-type: none"> • New material: Stock valuation using multiples • New material: Examples of shareholder activism at Canadian Pacific and Magna International | <ul style="list-style-type: none"> • Broadens coverage of valuation techniques. • Expands governance coverage and links chapter material to current events. |
| PART FOUR CAPITAL BUDGETING | | |
| Chapter 9 Net Present Value and Other Investment Criteria | <ul style="list-style-type: none"> • New material: Enhanced discussion of multiple IRRs and modified IRR • New material: Practice of capital budgeting in Canada • First of three chapters on capital budgeting • NPV, IRR, payback, discounted payback, and accounting rate of return | <ul style="list-style-type: none"> • Clarifies properties of IRR. • Current Canadian material demonstrates relevance of techniques presented. • Relatively short chapter introduces key ideas on an intuitive level to help students with this traditionally difficult topic. • Consistent, balanced examination of advantages and disadvantages of various criteria. |