

BA435: CORPORATION FINANCIAL MANAGEMENT

Winter 2009

Professor: Scott Fullwiler, Ph.D.

Time and Place: MWF 12:00 to 1:05 pm, WBC 117

Office Hours: MTH 1:20-2:20pm, and by appointment

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COURSE DESCRIPTION:

This course is a continuation of BA334 providing more in-depth application and integration of tools of financial analysis learned in that course, but also adding new analytical tools that will likewise be integrated and applied. The additional material here includes the cost of capital, capital structure, and company valuation, while previous topics such as financial planning and capital budgeting are significantly expanded upon. Applications will involve gathering and analyzing data on real-world corporations, financial modeling in Excel, and complex case studies. Finally, class readings will consider recent literature in the field regarding balancing or otherwise reconciling the traditional goals of financial management with evolving views on the appropriate role of business in society.

A note on prerequisites: You are expected to have a basic understanding of BA334, AC121/122, and CS100/102 (for the latter, mostly a working understanding of how to use Excel). If you do not recall some of this material when it arises, then it is your responsibility to bring yourself up to date, not mine. There is a natural progression to the material covered throughout the business curriculum, and it simply must be expected that you have taken basic knowledge with you from these courses (just as in progressions through a foreign language or a math curriculum, for instance). Last but not least, please be advised that **there is a significant increase in difficulty in this course compared to BA334.**

COURSE GOALS AND OBJECTIVES:

Goal 1: Demonstrate mastery of the basic tools of financial analysis

Objectives:

1. Demonstrate overall competence with basic financial concepts and tools such as determining relevant cash flows, time value of money, risk, financial ratios, and so forth.
2. Proficiency in using Excel functions for basic tools of financial analysis.

Goal 2: Demonstrate continued ability to apply finance tools to financial analysis

Objectives:

1. Beyond mastery of individual financial tools, demonstrate ability to synthesize the basic tools and concepts in the analysis of financial problems in different contexts.
2. Demonstrate ability to gather and evaluate data and other information, assess different types of risk, and reach sound conclusions in the context of financial planning, corporation valuation, capital budgeting, and capital structure.
3. Apply financial techniques and Excel background to the modeling and analysis of financial problems.

Goal 3: Continue to improve skills in oral and written presentation and communication

Objectives:

1. Demonstrate ability to write clear, organized, and well-argued essays and reports with almost NO grammatical or structural errors.
2. Be able to clearly communicate and present financial analysis or in both oral and written forms.

COURSE MATERIALS:

- Aswath Damodaran. 2006. *Applied Corporate Finance: A User’s Manual*. Hoboken, NJ: John Wiley and Sons.
- Stephen Davis, Jon Lukomnik, and David Pitt-Watson. 2006. *The New Capitalists: How Citizen Investors Are Reshaping the Corporate Agenda*. Boston, MA: Harvard Business Press.
- PRIMIS Packet—this contains case studies that will be used in the course and Standard & Poor’s Market Insight certificate, which is a data source we will use throughout the semester.
- Simon Benninga. *Financial Modeling*. 3rd Edition. MIT Press, 2008. (\$60 on Amazon.)
- Simon Benninga, *Principles of Finance with Excel*. Oxford University Press, 2006. (\$70 new, \$50 used on Amazon.)

COURSE GRADES:

The following scale will be used in assigning grades:

93% and above	A	80% to 82.9999%	B-	67% to 69.9999%	D+
90% to 92.9999%	A-	77% to 79.9999%	C+	63% to 66.9999%	D
87% to 89.9999%	B+	73% to 76.9999%	C	60% to 62.9999%	D-
83% to 86.9999%	B	70% to 72.9999%	C-	Below 60%	F

Your course grade will be determined by your performance on the coursework described below and the attendance policy (also described below), which will be assigned the following relative weights:

<i>Item</i>	<i>Weight</i>
Participation	9%
<i>The New Capitalists</i> Essays/Outlines and Review	15%
Excel Projects	28%
Case Studies	28%
Comprehensive Final Exam	<u>20%</u>
	100%

All decimals on final grades in each category listed above will be rounded up (e.g., a score of 79.3% will be rounded up to 80%). However, your cumulative grade for the course will not be rounded up or down (e.g., a course average of 79.999% will receive a final grade of C+).

Participation:

This will be determined by your contributions in class, which will be evaluated based upon two criteria: (1) preparedness for class (reading required materials for the day, being prepared to discuss relevant questions, etc.), and (2) verbal contributions during class time, both with the larger class and in smaller groups. Special note will be taken of those students willing to provide their own analysis or answer questions when the rest of the class appears less able or willing to do so. Please note, however, that verbal contributions to class meetings are NOT necessarily measured by *quantity* of contributions; instead, the *quality* of contributions—in terms of asking relevant questions, providing reasoned analysis, and otherwise enhancing class discussions—is far more important. In other words, it is theoretically possible for the people talking the most in class to not receive the highest participation grades in the class.

New Capitalists Essays and Report:

Periodically, short chapter reviews from *The New Capitalists* will be due. Near the end of the semester, a longer review of the book will be due. A handout will be posted to my.wartburg with more complete information.

Excel Projects:

There will be several projects that you will complete in teams using Excel. These will involve gathering real-world data on selected companies in many cases, and then analyzing the data or building financial models using the data.

Case Studies:

In the PRIMIS packet there are case studies that we will cover at specific times during the semester. Teams will be required to come to class prepared to discuss the case study, and then to prepare an analysis of the case study after the class discussion that will be handed in a few days later.

Comprehensive Final Exam:

The final exam will be in-class and comprehensive. You will receive a study guide to narrow down required material for studying purposes in the last week of the semester.

Attendance Policy:

For every class beyond 4 that you miss, your final percentage will be reduced 0.5%; if you miss 0, 1, 2, or 3 total classes, 1%, 0.75%, 0.5% or 0.25% will be added to your final percentage, respectively. Excused absences are given at my discretion; in general, an excused absence will only enable you to hand assignments in late without penalty but will still count toward your four allowable absences.

NOTES ON MY POLICY/VIEWS ON ASSIGNED WORK:

1. Regarding **late work**, it is not possible to grade consistently, or be fair to people who take trouble to do assignments on time, if I am absorbing a continual stream of late work. Therefore, late assignments will be **penalized three percent (3%) of the total possible points for every day that they are late**. Please note **that assignments handed in even one minute after I have collected them or a due date and time has otherwise passed are considered to be one day late**. **Assignments handed in the next day** (beginning at 12:01am the following day) **are considered two days late, and so forth** (again, each respective day for assessing an additional penalty will begin at 12:01am). Further, once I have either provided the class with answers or have returned an assignment to the class or even to one member of the class, late work will no longer be accepted.
2. Anything and everything you **hand in** will be assessed not only for content but also writing skills such as spelling, correct language usage, and punctuation. See the file on <http://my.wartburg.edu> titled **"Grading Criteria for Assignments"** for the criteria I will use on all graded work.
3. My classes are intended to be challenging. This means that, if all goes as planned, **there will be several instances in which you find the course material or assignments difficult, and some periods in which you find it very difficult**. I will provide you with many opportunities **in class, every day**, to slow down the pace of the course (within limits) and to ask questions, receive clarification, and so forth. While I accept much responsibility for organizing material and assignments as coherently as possible, education and learning are two-way streets, and thus I place substantial responsibility on you to take advantage of these opportunities. If you do not understand but you do not tell me, then I will continue to proceed through course material and assignments—in short, I am not a mind reader and I therefore can only go on the feedback you verbally provide. Note also, since this is a finance course, I view it to be a very bad financial decision to pay tuition only to sit in the classroom and be confused.

IMPORTANT HOUSEKEEPING ITEMS:

1. *Academic Integrity/Honesty*: Academic integrity is one of the basic principles of a college community. **By attending Wartburg College, students are demonstrating their dedication to the Honor Code. The Honor Code reminds students of their responsibility to promote academic honesty by opposing cheating and plagiarism and reporting dishonest work.**

ALL assignments are done by you (and nobody else) with no help or collaboration whatsoever unless EXPLICITLY allowed in writing by me. This means that you cannot defend yourself after the fact by claiming that I did not explicitly prohibit such activity on any assignment.

Any form of academic dishonesty will result in one or more of the following sanctions: a) loss of points for that specific assignment or exam; b) reduction in the final course grade; c) issuance of a grade of "F" for the entire course.

2. ***Commitment to Students with Disabilities:*** The Americans with Disabilities Act of 1990 (ADA) provides protection from illegal discrimination for qualified individuals with disabilities. Students requesting instructional accommodations due to disabilities must arrange for such accommodations by contacting Pathways Associate for Testing and Advising Carla Coates. She can be reached at the Pathways Center, 314 Vogel Library, Wartburg College, Waverly, IA 50677, 352-8230, carla.coates@wartburg.edu. Presenting documentation of a student's disability early (before the beginning of classes) is helpful and often necessary to secure needed materials in a timely way. Accommodations should be requested PRIOR to affected assignment due dates. For more detailed information, please see <http://www.wartburg.edu/pathways/testing/AccomodationProcessStudents.pdf>
3. ***Harassment:*** Everyone in the class will conduct themselves in a mature and professional manner. I will not, nor will Wartburg College, tolerate any form of harassment in the classroom (including, but not limited to, harassment related to gender, race, or lifestyle). If you have a complaint, please bring it to my attention or to the attention of the Dean of Students.
4. ***Incompletes:*** Incompletes will be given only in rare cases of extreme personal or familial difficulties that prevent a student from completing the semester's work, and in those cases only if the student has a passing grade (C- or better) *and* has completed a substantial percentage of the course.
5. ***Extra Credit:*** You should expect that there will be no opportunities for extra credit during the semester. In particular, there will be absolutely NO opportunities for extra credit on an individual basis, as this would be unfair to others in the class. Rather than hoping for extra credit opportunities, take responsibility for your performance in the course throughout the semester by following the advice provided above.

COURSE OUTLINE:

Class 1: Foundations—An Integrated Framework (1/5)

- Damodaran, Ch. 1, "The Foundations."
- Read through the syllabus completely before the next class period.
- Register for S&P data before next class period.

Class 2: Foundations—Value Maximization and Stakeholders (1/7)

- Damodaran, Ch. 2, "The Objective in Decision Making."
 - Prepare to discuss questions 1-15.

Class 3: Foundations—Finance and the Business Model (1/9)

- Damodaran, "Appendix 2: Financial Statements," pp. 603-614.
- Davis, Lukomnik, and Pitt-Watson, Ch. 1, "The Civil Economy: The Democratization of Ownership," pp. 3-24.
 - 200 word summary due at beginning of class.

Class 4: Foundations—Case Study on Finance and the Business Model (1/12)

- Case study: Net Flix

Class 5: Financial Planning Models—The Basics (1/14)

- Benninga, *Principles of Finance with Excel*, Ch. 10, “Using Financial Planning Models for Valuation,” pp. 268-286 ONLY.
 - Prepare for exercises 1-15 using the template provided on my.wartburg.
- Need to have industry choice approved for your team by start of today’s class

Class 6: Financial Planning Models—The Basics (cont’d) (1/16)

- Benninga, *Financial Modeling*, Ch. 3, “Financial Statement Modeling,” pp. 103-113, 118-127 ONLY.
 - Prepare to discuss exercises 1-6.
- Select companies for building financial models with S&P data.
- Davis, Lukomnik, and Pitt-Watson, Ch. 2, “Business Past: The Uncivil Economy,” pp. 25-38.
 - 200 word summary due at beginning of class.

Class 7: Financial Planning Model—Modeling a Real Company (1/19)

- Benninga, *Financial Modeling*, Ch. 4, “Building a Financial Model: The Case of PPG Corporation,” pp. 135-148, 152-156, 163-176 (Appendix) ONLY.
 - Prepare to discuss exercise 1 using the template provided on my.wartburg.

Class 8: Financial Planning Model—Modeling More Real Companies (1/21)

- In-class work day to prepare financial models for your team’s companies.

Class 9: Financial Planning Models—Case Study (1/23)

- Case study: Deutsche Brauerei

Class 10: Financial Planning Models—Case Study (cont’d) (1/26)

- Case study: Deutsche Brauerei
- Davis, Lukomnik, and Pitt-Watson, Ch. 3, “The Future Corporation: A Capitalist Manifesto,” pp. 39-64.
 - 200 word summary due at beginning of class

Class 11: The Weighted Average Cost of Capital—Modeling Equity Risk (1/28)

- Damodaran, Ch. 3, “The Basics of Risk,” pp. 50-77 ONLY.
 - Be prepared to discuss problems 1-16.
- Damodaran, “Appendix 1: Basic Statistics,” pp. 596-602.

Class 12: The Weighted Average Cost of Capital—Modeling Equity Risk (cont’d) (1/30)

- Damodaran, Ch. 4, “Risk Measurement and Hurdle Rates in Practice,” pp. 91-119 ONLY.
 - Be prepared to discuss problems 1, 3, 4, 5, 9, 10, 11, 12 (a,b,c,d), 13 (a,b), 14, 15 (a,b,c), 16a, 22.
- Benninga, *Financial Modeling*, Ch. 2, “Calculating the Cost of Capital,” pp. 39-65 and pp. 92-101 ONLY.

Class 13: The Weighted Average Cost of Capital—Modeling Equity Risk (cont’d) (2/2)

- Damodaran, Ch. 4, “Risk Measurement and Hurdle Rates in Practice,” pp. 120-137 ONLY.
 - Be prepared to discuss problems 2, 6, 7, 8, 12e, 13c, 15d, 16b, 17, 18, 19, 20, 21, 23.
- Davis, Lukomnik, and Pitt-Watson, Ch. 4, “Institutional Investors: Mobilizing Ownership,” pp. 65-98.
 - 200 word summary due at beginning of class.

Class 14: The Weighted Average Cost of Capital—Equity, Debt, and the WACC (2/4)

- Damodaran, Ch. 3, “The Basics of Risk,” pp. 77-85 ONLY.
- Damodaran, Ch. 4, “Risk Measurement and Hurdle Rates in Practice,” pp. 137-153 ONLY.

Class 15: The Weighted Average Cost of Capital—WACCs for Actual Firms (2/6)

- Benninga, *Financial Modeling*, Ch. 2, “Calculating the Cost of Capital,” pp. 66-86 ONLY.
- Benninga, *Financial Modeling*, Ch. 4, “Building a Financial Model: The Case of PPG Corporation,” pp. 156-161 ONLY.
- Benninga, *Principles of Finance with Excel*, Ch. 16, “The Security Market Line and the Cost of Capital,” pp. 482-484 ONLY.

Class 16: The Weighted Average Cost of Capital—WACCs for Actual Firms (cont’d) (2/9)

- In-class work day to prepare WACC’s for your team’s companies
- Davis, Lukomnik, and Pitt-Watson, Ch. 5, “Board of Directors: A New Accountability,” pp. 99-120.
 - 200 word summary due at beginning of class

Class 17: The Weighted Average Cost of Capital—Case Study (2/11)

- Case Study: Cost of Capital at Ameritrade

Class 18: Capital Budgeting—Project Cash Flows (2/13)

- Damodaran, Ch. 5, “Measuring Return on Investments,” pp. 161-188 ONLY.
 - Be prepared to discuss examples in the text in tables 5.2, 5.3, 5.4, 5.5, 5.6, exhibits 5.1, 5.2, 5.3, 5.4, and in-chapter questions 5.1, 5.2, 5.3, 5.4, 5.5, 5.6.

Class 19: Capital Budgeting—Measuring Returns (2/16)

- Damodaran, “Appendix 3: Time Value of Money,” pp. 615-627 (refresher reading, if necessary).
- Damodaran, Ch. 5, “Measuring Return on Investments,” pp. 188-223 ONLY.
 - Prepare to discuss questions 1-21.
- Davis, Lukomnik, and Pitt-Watson, Ch. 6, “Monitoring the Market: The Information Moguls,” pp. 121-146.
 - 200 word summary due at beginning of class.

Class 20: Capital Budgeting—Additional Issues (2/18)

- Damodaran, Ch. 6, “Project Interactions, Side Costs, and Side Benefits,” pp. 229-256 ONLY.
 - Prepare to discuss questions 1-21.

Class 21: Capital Budgeting—Monte Carlo Analysis (2/20)

- Notes and discussion of Monte Carlo analysis for projects.
- In-class work day for project analysis.

Class 22: Capital Budgeting—Real Options (2/23)

- Damodaran, “Appendix 4: Option Pricing,” pp. 628-638.
- Damodaran, Ch. 6, “Project Interactions, Side Costs, and Side Benefits,” pp. 256-270 ONLY.
- Davis, Lukomnik, and Pitt-Watson, Ch. 7, “Accounting Standards: Escaping Brother Luca’s Boxes,” pp. 147-172.
 - 200 word summary due at beginning of class.

Class 23: Capital Budgeting—Case Study (2/25)

- Case Study: Diamond Chemicals PLC (A)

Class 24: Capital Budgeting—Case Study (cont'd) (2/27)

- Case Study: Diamond Chemicals PLC (B)

Class 25: Capital Budgeting—Case Study (cont'd) (3/9)

- In-class wrap up of case studies.

Class 26: Capital Structure—Types of Financing and the Firm's Life Cycle (3/11)

- Damodaran, Ch. 7, "Capital Structure: Overview of the Financing Decision," pp. 275-305 ONLY.
 - Prepare to discuss questions 1-17.

Class 27: Capital Structure—Benefits of Debt (3/13)

- Damodaran, Ch. 7, "Capital Structure: Overview of the Financing Decision," pp. 305-332 ONLY.
 - Prepare to discuss questions 18-29.
- Davis, Lukomnik, and Pitt-Watson, Ch. 8, "NGOs and Capital: Civil Society Meets the Civil Economy," pp. 173-204.
 - 200 word summary due at beginning of class.

Class 28: Capital Structure—Optimal Financial Mix (3/16)

- Damodaran, Ch. 8, "Capital Structure: The Optimal Financial Mix," pp. 339-375 ONLY.
 - Prepare to discuss questions 1-14, 15a.

Class 29: Capital Structure—Optimal Financial Mix (cont'd) (3/18)

- Damodaran, Ch. 8, "Capital Structure: The Optimal Financial Mix," pp. 375-386 ONLY.
 - Prepare to discuss questions 15b, 16-22.
- Benninga, *Principles of Finance with Excel*, Ch. 21, "The Evidence on Capital Structure," p. 626-641.

Class 30: Capital Structure—Choosing the Right Mix (3/20)

- Damodaran, Ch. 9, "Capital Structure: The Financing Details," pp. 396-439.
 - Prepare to discuss questions 1-16.

Class 31: Capital Structure—Choosing the Right Mix (cont'd) (3/23)

- In-class work day for capital structure analysis of your companies.
- Davis, Lukomnik, and Pitt-Watson, Ch. 9, "Action Memos: The New Capitalist Agenda," pp. 205-240, and "Epilogue," pp. 241-244.
 - 200 word summary due at beginning of class.

Class 32: Capital Structure—Case Study (3/25)

- Case Study: Deluxe Corporation

Class 33: Company Valuation—Different Methods of Fundamentals Analysis (3/27)

- Damodaran, Ch. 12, "Valuation: Principles and Practice," pp. 531-578 ONLY.
 - Prepare to discuss questions 1-12.

Class 34: Company Valuation—Understanding Terminal Values (3/30)

- Damodaran, Ch. 12, “Valuation: Principles and Practice,” focus on discussion of terminal values.
- Handout on Terminal Values.

Class 35: Company Valuation—Valuation Using Excel (4/1)

- Benninga, *Principles of Finance with Excel*, Ch. 10, “Using Financial Planning Models for Valuation,” pp. 280-284 and 286-298 ONLY.
 - Prepare for exercises 16-24 using the template provided on my.wartburg.
- Benninga, *Financial Modeling*, Ch. 3, “Financial Statement Modeling,” pp. 113-118 ONLY.
 - Prepare for exercise 7 using the template provided on my.wartburg.
- Benninga, *Financial Modeling*, Ch. 4, “Building a Financial Model: The Case of PPG Corporation,” pp. 148-151, 161-163 ONLY.
 - Prepare for exercise 2 using the template provided on my.wartburg.

Class 36: Company Valuation—Comparable Firms and Relative Valuation (4/3)

- Damodaran, Ch. 12, “Valuation: Principles and Practice,” pp. 579-589 ONLY.
 - Prepare to discuss questions 13-20.
 - Prepare to discuss Benninga, *Financial Modeling*, Ch. 3 (exercise 8) and Ch. 4 (exercise 3).
- Davis, Lukomnik, and Pitt-Watson review due by 5pm.

Class 37: Company Valuation—Case Study (4/6)

- Case Study: Jet Blue Airways IPO Valuation

Class 38: Company Valuation—Valuation Wrap-Up (4/8)

- In-class work day for team assignments and review for final exam.

COMPREHENSIVE FINAL EXAM: FRIDAY, APRIL 17, 12-2PM