

USC Marshall Executive MBA Program-Los Angeles
Theme 2 Financial Management Syllabus and Schedule

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Introduction

Principles and practices of modern financial management; analysis of financial performance; valuation of investments; elements of financial decisions. *EMBA finance sessions will focus on value creation – building shareholder value inside and outside of the organization.*

Learning Objectives

This course will show you how managers use financial theory and analysis for strategic decision making and to solve practical problems. Our coverage of finance is designed to allow you to become comfortable with the fundamentals so that you can improve your proficiency in participating in financial and strategic discussions within your organization and with external analysts and service providers.

Course Objectives:

- To give you the capacity to understand the theory and apply the techniques developed in corporate finance.
- To develop your analytical skills and communication strategies for discussing the merits and possible risks of strategic investments.
- Introduce the standard financial tools for assessing the attractiveness of a proposed capital investment and examine issues surrounding capital planning process.

Topics:

- Perform and apply financial statement and capital budgeting analyses for corporate decision-making.
- Understand stock and bond valuation fundamentals and consider trade-offs to using both forms of capital to finance operations.

Course Materials

Textbook: *Corporate Finance* by Ross, Westerfield, Jaffe 10/e ISBN 0078034779 Publisher: McGraw-Hill The text is required and is not considered supplemental. For a complete understanding of the material it is crucial that students review chapters and discussion questions prior to our class meetings.

Other: Barron's Dictionary of Finance and Investment Terms, assigned HBS case studies and readings, *The Wall Street Journal* - special student pricing available (also available USC Crocker online resources).

Financial Calculator

You are not required to purchase a financial calculator. However, financial calculators do simplify many of the problems. I personally use the HP 12-C. I have also heard positive reviews of the TI-BA II Plus calculator.

Course Grades

Your final score will represent how you perform in the class relative to other students. In accordance with the grading standards for Marshall MBA courses, all EMBA themes have a target average grade of 3.4 (on a 4-point scale).

Study Group Case Analysis Assignments (50% of your Theme 2 finance score)

We will analyze real companies and work through problems by analyzing different scenarios and courses of action. In your analysis of our two HBS case studies you should place yourself in the role of the decision maker as you read through the situation and identify the problems and issues. The next step is to perform the necessary analysis. To get the most out of cases, you should read and reflect on the case individually, and then meet in study group teams prior to class to "warm up" and discuss your findings with other classmates. In class we will probe underlying issues, compare different alternatives, and finally, suggest courses of action in light of the objectives of the case.

The cases have been included in the curriculum as a means to provide this self-study and practice in analysis. Study groups will be asked to prepare a pre-session case study analysis on (2) HBS cases this Theme: 1) Hansson Private Label; 2) Spyder Active Sports

Work in a group of your choice (please do not exceed 6 students). If your group seeks clarification on material presented in the case please e-mail your question to plotts@marshall.usc.edu and responses will be compiled and sent to all members of the class.

Case questions are listed in the syllabus. For both cases you will receive supplementary excel spreadsheets via e-mail. A case analysis summary should consist of a 3-4 page written executive summary addressing the case questions with supporting computations and tables in a separate appendix (if relevant). All case assignments are due on their respective due dates at the beginning of class. The cover sheet of each written assignment should contain the first and last names of the students submitting the assignment arranged alphabetically. The submission process for your assignment will be through our reprographics vendor, Trinity Reprographics, who will subsequently print all the files and send them to Prof. Plotts in a bulk distribution. Please plan to submit your project on time.

Trinity Reprographics Case Submission Process:

- Don't forget to put your name (list all names) on Page 1 of the document. Please submit only one project per group.
- Send an email to Trinity Reprographics copynow@trinity3in1.net, and the EMBA Program Office assignments mailbox, which is EMBA Assignments emba.assignments@marshall.usc.edu.
- Fill in your name(s) in the subject line of the email after "Project for Julia Plotts"
- If you want to confirm your assignment was received, please cc: yourself when sending it. This will assure you that it has been sent and can serve as your receipt confirmation.
- Attach your file and send.

Theme 2 Finance Quizzes (50% of Theme 2 Finance score). There will be two multiple choice/short answer quizzes during Theme 2 Finance. The dates of the quizzes are noted in the schedule.

Optional Text Practice Problems

Recommended text problems will not be collected or graded. They are optional. The problems may solidify your understanding of the key course concepts.

Chapter	Optional Additional Practice Problems
4	2, 3, 7, 11, 12, 13, 14, 26, 28
3	1, 10, 11, 14, 16, 17
9	1, 4, 7, 8, 9, 11, 12, 14, 25, 27
8	1, 2, 3, 5, 7, 12, 14, 15,
5	1, 2, 5, 6, 11
6	1, 2, 3, 4, 11, 20, 23, 28, Hansson Case calculations
10	1, 2, 4, 7, 9
11	1, 2, 3, 5, 7, 13-16, 28a

Schedule for Theme 1

Date	Topic/Learning Objective/Discussion Questions	Reading
8/27 2:00pm- 3:30pm	<p><i>Course Introduction and Time Value of Money</i> <i>Discounted Cash Flow Valuation:</i></p> <ul style="list-style-type: none"> • To understand discounted cash flow techniques for enhanced valuation applications. • To understand differences between simple and compound interest. • To understand the accounting and financial statement implications of compound interest. • Understand how to compute present value, future value and the net present value of any set of cash flows and apply shortcuts to value special sets of regular cash flows called perpetuities and annuities. 	RWJ Chapters 1, 4
8/28 7:45am- 9:15am	<p><i>Application of Time Value of Money</i> Optional: <i>Chapter 20 Raising Capital</i> Review pages 621-626 on early stage financing and venture capital.</p> <ul style="list-style-type: none"> • During our financial management session we will review an example on how venture capitalists apply time value of money to determine equity investments in start-ups. • We will review Mathematical Tables in Appendix 1 (pages 974-981) for solving time value of money calculations without the use of a financial calculator. 	RWJ Chapter 4, 20

Schedule for Theme 2
September 20-21 morning sessions

Date	Topic/Learning Objective/Discussion Questions	Reading and Deliverable
9/20 am	<p><i>Theme 1 Review, Financial Statements, Performance Measurement</i></p> <ul style="list-style-type: none"> • Understand how decision-making rests on after-tax cash flows (rather than other metrics). Note: this is where I attempt a reversal of Professor DeFond’s brainwashing techniques. • Review the basic approaches to ‘slicing’ financial statement information to enhance decision-making and/or analysis. • Interpret and analyze financial statements and ratios. • Interpret market value measures such as P/E ratio, market/book ratio, enterprise value multiples. • Understand how to utilize a DuPont approach in corporate and strategic analysis. • External financing and growth – calculate and interpret internal and sustainable growth rates for firms. Understand the determinants of growth. <p><i>Please prepare a 1-page personal biography. Please bring a hard copy our first weekend (a sample will be provided).</i></p>	RWJ Chapters 2-3 Student Bio
9/21 am	<p><i>Valuing Stocks</i></p> <ul style="list-style-type: none"> • How are stocks valued through the application of a discounted cash flow model; dividends vs. capital gains? What is the impact of growth opportunities: earnings and dividends versus net present value of growth opportunities (NPVGO). • Review the <i>Online article “Creating value: An interactive tutorial” November 2010¹</i> http://tinyurl.com/qd5hdf In this video presentation, McKinsey partner Tim Koller explores the four guiding principles of corporate finance that all executives can use to focus on value creation during strategic decisions. Koller mentions that a typical large company in the U.S. and Europe is valued at 15-16x Price/Earnings, what characteristics justify either a higher or lower valuation? Look up two comparable publicly traded companies on the Internet to gain familiarity with their valuation multiples such as P/E. If you don’t have an industry or company that interests you, please analyze Target and Wal-Mart’s financial metrics and compare to the data discussed by Koller. 	RWJ Chapter 9 Quiz #1

¹http://www.mckinsey.com/insights/corporate_finance/creating_value_an_interactive_tutorial

Students may be asked to complete a brief, free registration to access the McKinsey & Company Insights and Publications.

Schedule for Theme 2
October 4-5 afternoon sessions

Date	Topic/Learning Objective/Discussion Questions	Reading Deliverable
10/04 pm	<p><i>Interest Rates and Valuing Bonds</i></p> <ul style="list-style-type: none"> Gain fundamental insights into the valuation of debt (government and corporate bonds). Understand the relationship between market interest rates and bond prices and the implications for firms' borrowing rates. What does the term capital structure mean and why do some companies decide to utilize debt to finance operations? In May 2009 Microsoft raised capital through its first-ever bond offering. At the time of the offering MSFT had \$25.3 billion in cash and equivalents. A company spokesperson stated, "the company is not in need of financing." In September 2010 MSFT sold \$4.75 billion in debt at the lowest corporate borrowing rates on record for its three-year notes. In April 2013 Apple raised \$17 billion in a record debt offering. Prior to our class session, research the terms of these debt offerings and the current quote. Both companies have huge cash "war chests" and historically have never utilized debt. What is the incentive to sell the bonds? 	RWJ Chapter 8
10/05 pm	<p><i>Capital Budgeting</i></p> <ul style="list-style-type: none"> Introduce the standard tools for assessing the attractiveness of a proposed capital investment; discuss the complementing of DCF analysis with industry analysis; examine issues surrounding the capital planning process. Which capital budgeting methods <i>should</i> companies be using? Why does the world of finance place the emphasis on cash flows (over accounting's income)? <i>Note: this is where I attempt a reversal of Professor DeFond's brainwashing techniques.</i> When performing capital budgeting sunk costs must be ignored, whereas opportunity costs and side effects must be considered. Try to think of a few real life examples of where this might be difficult. Review the steps in the Baldwin Company example in the text. <p>Article of Interest: <i>Inside the secret world of Trader Joe's</i> http://tinyurl.com/297usn3 <i>Hansson (HBS Case): financial exhibits will be provided in excel.</i></p> <ul style="list-style-type: none"> Evaluate HPL's historical financial performance. How has HPL performed? Consider historical ROE decomposition and analysis of financial performance ratios and peer comparison. Utilizing the data provided, determine whether the expansion project is attractive in strategic and economic terms. Calculate the total project cash flows, NPV, IRR, and payback period given the supplied project forecasts. To which key assumptions is the NPV most sensitive? What might be done to mitigate the project risks? Will the expansion position HPL for any form of sustainable competitive advantage? Will the expansion allow HPL to improve long-term profitability? If HPL wants to decline the proposal, what practical alternatives does he have? 	RWJ Chapters 5-6 Hansson Group Case (25%)

Schedule for Theme 2

November 15-16 morning sessions

Date	Topic/Learning Objective/Discussion Questions	Reading and Deliverable
11/15 am	<p><i>Cost of Capital</i></p> <ul style="list-style-type: none"> • Demonstrate the historical relationship between the risk and return tradeoff, and its implications to corporate finance and the opportunity cost of capital for corporations. • Building upon the knowledge gained from Professor Porter’s statistics sessions, we can utilize statistical concepts such as regression analysis to help us understand financial risk. • Identify which types of securities have historically had the highest returns and which have been the most volatile. Understand the definition of risk in finance. Why is there an equity risk premium? • Understand the concept of diversification and the difference between systematic and unsystematic risk. Which type of risk matters to investors? • Describe the capital asset pricing model (CAPM). • Building on our discussion about security valuation (stock and bond valuation) and capital budgeting we will discuss how various risk/return models are utilized in a practitioner setting. 	RWJ Chapters 10-11 Quiz #2
11/16 am	<p><i>Intro to Valuation</i> <i>Spyder Active Sports (HBS Case) financial exhibits will be provided in excel.</i></p> <ul style="list-style-type: none"> • Identify the different “exit” options that are feasible for Spyder in 2004, and analyze the benefits and costs of each alternative. Consider the interests and needs of the owner(s), the current state and future prospects of the company, and the current state of the financial markets. • During the session we will review a discounted cash flow valuation analysis of Spyder utilizing its forecast in exhibit 5 of the case. We will also discuss alternatives for the appropriate discount rate and terminal value. As a part of your preparation for the session attempt the DCF valuation analysis to determine the value of the company. What are the risks to the valuation? Perform sensitivity analysis and address the uncertainty in the assumptions and valuation approach. • Spyder is not publicly traded; but we can still apply the market approach (price multiples) to estimate the company’s implied value. Evaluate the financial data provided for Spyder and also the comparable publicly-traded company price multiples (Exhibit 11) and comparable past merger and acquisition multiples (Exhibit 9) to determine an estimated “implied” value for the company in 2004.² • Compare the alternative transactions described on the last page of the case. Which one would you choose if you were: 1) David Jacobs; 2) a general partner in CHB Capital; 3) Shimokubo? Who else is affected by this choice? 	RWJ Chapter 9 pages 287-292 Spyder Group Case (25%)

² The implied value of Spyder will be impacted by the type of buyer (strategic/financial) and type of sale (controlling vs. non-controlling stake).