

**USC Marshall Executive MBA Program-San Diego**  
**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.

***HBS Cases:***

Hansson Private Label, Inc.: Evaluating an Investment in Expansion, Product #:4021-PDF-ENG  
Spyder Active Sports—2004, Product #:206027-PDF-ENG

**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 the Hansson Private Label and Spyder Active Sports 2004 cases.

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](mailto: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 and a document with hints on how to approach the analysis. 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 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](mailto:copynow@trinity3in1.net), [emba.assignments@marshall.usc.edu](mailto:emba.assignments@marshall.usc.edu) and [plotts@marshall.usc.edu](mailto:plotts@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, challenge: 13, 14, 26, 28
3	1, 6, 10, 11
9	1, 2, 3, 4, 8, 11, 14, challenge: 25, 27
8	1, 2, 3, 5, 7, 12, 14, 15,
5	1, 16b
6	1, 2, 9, Hansson calculations, challenge: 23
10	1, 2, 4, 7, 9
11	1, 2, 3, 5, 7, 13-16, 28a

**Schedule for Theme 1**

Theme 1	Topic/Learning Objective/Discussion Questions	Reading
	<p><i>Course Introduction and Time Value of Money</i></p> <p><i>Discounted Cash Flow Valuation:</i></p> <ul style="list-style-type: none"> <li>• To understand discounted cash flow techniques for enhanced valuation applications.</li> <li>• To understand differences between simple and compound interest.</li> <li>• To understand the accounting and financial statement implications of compound interest.</li> <li>• 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.</li> <li>• 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.</li> </ul>	RWJ Chapters 1, 4

**Schedule for Theme 2**  
October 24-25 morning sessions

Date	Topic/Learning Objective/Discussion Questions	Reading and Deliverable
10/24	<p><i>Theme 1 Review, Financial Statements, Performance Measurement</i></p> <ul style="list-style-type: none"> <li>What do the numbers mean? We will discuss tools for analyzing company strategy and financial performance. We will focus on the following key areas:</li> </ul> <ol style="list-style-type: none"> <li><b>Profit</b> “How much money is the company making?”: Find the answer on the P&amp;L (Profit and Loss Statement aka Income Statement). Profit describes how much profit was earned or losses incurred over a certain period of time. Other words for profit are earnings, net income, and the bottom line. More profit is good, but cash flow is even better.</li> <li><b>Balance Sheet Strength:</b> This is an analysis of a company’s assets relative to its liabilities at a specific point in time. Generally more assets (what the company owns) and fewer liabilities (what the company owes) result in a stronger balance sheet.</li> <li><b>Cash Flow:</b> The difference between the amount of cash you end up with at the end of a certain period of time versus how much you started with. More positive cash flow is good. Cash is King! Decision-making rests on after-tax cash flows (rather than other metrics). <i>Note: this is where I attempt a reversal of Professor DeFond’s brainwashing techniques.</i></li> <li><b>Ratios:</b> Learning What the Numbers Are Really Telling You. The financial statements tell a story through performance ratios such as profitability, leverage, liquidity, efficiency, return on investment. We will interpret and analyze financial statements and ratios including market value measures such as P/E ratio, market/book ratio, enterprise value multiples.</li> </ol>	RWJ Chapters 2-3
10/25	<p><i>Valuing Stocks</i></p> <ul style="list-style-type: none"> <li>What methods of financial analysis and valuation can be used to determine if companies are creating value for shareholders?</li> <li>We will discuss how to utilize a DuPont approach in corporate and strategic analysis. This will allow us to consider external financing and growth. We will calculate and interpret internal and sustainable growth rates for firms and will discuss the determinants of growth.</li> <li>We will discuss how are stocks valued through the application of a discounted cash flow model. We will consider both dividends paid and capital gains and the impact of growth opportunities: net present value of growth opportunities (NPVGO).</li> </ul>	RWJ Chapter 3, Chapter 9 Quiz #1

**Schedule for Theme 2**

November 7-8 afternoon sessions

Date	Topic/Learning Objective/Discussion Questions	Reading Deliverable
11/7	<p><i>Interest Rates and Valuing Bonds</i></p> <ul style="list-style-type: none"> <li>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.</li> <li>What does the term capital structure mean and why do some companies decide to utilize debt to finance operations?</li> <li>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?</li> </ul>	RWJ Chapter 8
11/8	<p><i>Capital Budgeting</i></p> <ul style="list-style-type: none"> <li>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.</li> <li>Which capital budgeting methods <i>should</i> companies be using?</li> <li>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.</li> <li>Review the steps in the Baldwin Company example in the text.</li> </ul> <p>Article of Interest: <i>Inside the secret world of Trader Joe's</i> <a href="http://tinyurl.com/297usn3">http://tinyurl.com/297usn3</a>  <i>Hansson Private Label (HBS Case): financial exhibits will be provided in excel.</i></p> <ul style="list-style-type: none"> <li>Evaluate HPL's historical financial performance. How has HPL performed? Consider historical ROE decomposition and analysis of financial performance ratios and peer comparison.</li> <li>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. Perform a sensitivity analysis.</li> <li>Will the expansion position HPL for any form of sustainable competitive advantage? Will it allow HPL to improve long-term profitability? If HPL wants to decline the proposal, what practical alternatives does he have?</li> <li>What are the risks of the investment? What might be done to mitigate these risks?</li> </ul>	<p>RWJ Chapters 5-6</p> <p>Hansson Group Case (25%)</p>

**Schedule for Theme 2**

December 12-13 afternoon sessions

Date	Topic/Learning Objective/Discussion Questions	Reading and Deliverable
12/12	<p><i>Risk and Cost of Capital</i></p> <ul style="list-style-type: none"> <li>• Business is risky. You might not get paid by a customer, you might default on a bank loan, your company might get sued, etc. Risk typically is defined in terms of probabilities of certain outcomes. We will discuss the risk/reward relationship and methods to quantify risk.</li> <li>• Consider the historical relationship between the risk and return tradeoff, and its implications to corporate finance and the opportunity cost of capital for corporations.</li> <li>• 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.</li> <li>• 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?</li> <li>• Understand the concept of diversification and the difference between systematic and unsystematic risk. Which type of risk matters to investors?</li> <li>• Describe the capital asset pricing model (CAPM).</li> </ul>	<p>RWJ Chapters 10-11 Quiz #2</p>
12/13	<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"> <li>• There are many approaches to determine fair market value (FMV) of a firm. We will discuss discounted cash flow and the market multiples approach.</li> <li>• 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.</li> <li>• Perform a discounted cash flow valuation analysis to determine the value of Spyder. What are the risks to the valuation? Perform sensitivity analysis and address the uncertainty in the assumptions and valuation approach.</li> <li>• 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.<sup>1</sup></li> <li>• 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?</li> </ul>	<p>RWJ Chapter 9 pages 287-292</p> <p>Spyder Group Case (25%)</p>

<sup>1</sup> The implied value of Spyder will be impacted by the type of buyer (strategic/financial) and type of sale (controlling vs. non-controlling stake).