

Syllabus

Applied Corporate Finance, BA 4310

Spring 2013
Tuesdays, 4 – 6:45pm
JSOM 2.107

Professor Contact Information

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Course Pre-requisites

MATH 1326, STAT 3360, BA 3341, BA 3390 with a C or better.

Course Description

Integrates a variety of advanced topics in corporate financial decision making in examining the development of the financial strategy of the firm. Emphasis will be placed on the valuation of the firm and the impact of financial markets on corporate investment and financing decisions.

Student Learning Objectives/Outcomes

1. Be able to value a firm using different methodologies.
2. Be able to analyze how financing decisions influence firm value.
3. Be able to solve complex corporate asset management problems.

Required Textbooks and Materials

1. Corporate Finance, 10th Edition, by Stephen A. Ross, Randolph W Westerfield, and Jeffrey Jaffe. ISBN-13 9780078093876 (unbound edition with Connect Plus code).
2. Financial Calculator, such as the HP-12C or the TI BAII Plus
3. Suggested Course Materials/Readings: The Wall Street Journal and other financial periodicals, such as Barron's, the Economist, Financial Times, and professional journals, such as Journal of Finance, Review of Financial Studies, Financial Analysts Journal

Tentative Class Schedule

	Topic	Readings
January 15	Introduction, Basics of Valuation	Chapters 1 – 6,8,9
January 22	Real Options	Chapter 7
January 29	Risk and Return	Chapters 10,11,14
February 5	Risk and Return II	Chapters 12, 13
February 12	Capital Structure	Chapters 16,17
February 19	Valuation of the levered firm	Chapter 18
February 26	Leasing	Chapter 21
March 5	Exam I (McGraw-Hill Connect, 4:00 – 5:30PM)	
March 12	Spring Break	
March 19	Option Valuation II	Chapter 22
March 26	Option Valuation III	Chapter 23
April 2	Derivatives and Hedging	Chapter 25
April 9	Short Term Credit and Inventory	Chapter 28
April 16	Mergers and Acquisitions, Bankruptcy	Chapters 29,30
April 23	Exam II (in class, regular time and place)	
April 30	Review of the project assignment	

Grading Policy

Class Participation 20%

Exam I 20%

Exam II 20%

Homework Assignments 20%

Project 20%

Each student is responsible for staying current with university drop/withdrawal deadlines.

Class participation

I expect that you will arrive at each lecture having read the corresponding chapter in the textbook. Please make sure that you can describe the key concepts listed in the third slide of the corresponding PowerPoint presentation. In class, I will call on students asking to explain these concepts. Correct answers will earn one point, while incorrect answers will earn a negative one point. If the called student is absent without a legitimate reason, two points will be deducted. Legitimate reasons to be absent from class must be discussed with me in advance. Additional questions may be asked throughout the lecture

with positive points assigned for correct answers. I will also sometimes ask all students to solve numerical problems in class. Points will be awarded for clear progress toward the solution. Active class participation is expected from every student.

All cell phones must be turned off once class begins. Laptops can be used in class as long as they are utilized for academic purposes and not to watch movies, sports events, surf the Internet or other activities that may disrupt the class or other students. Your whole-hearted attention and participation are expected during each class.

Exams

The exams will contain concept questions and analytical problems. The questions and problems will be either multiple-choice or short answer. The first exam will be open book and will take place on McGraw-Hill Connect during regular class time (you will have one and a half hours, from 4 to 5:30 PM). The second exam will be closed book and closed notes and will take place in class during the regular class time. You can bring with you a non-programmable financial calculator. The traditional 100-point maximum grade per exam will be followed. Final semester grades will be assigned letter grades such as A (90-100), B (80-89), C (70-79), D (60-69), F (59 or below). In addition, +'s and -'s will be used, per the following example: 80-83 (B-), 84-86 (B) and 87-89 (B+). Unless there is a computational error, absolutely NO final semester grades will be changed. The time to be concerned about your grade is NOW and NOT the end of the semester.

There will be no make-up assignments or exams. If you have a legitimate reason to be absent from the first exam, you must discuss this issue with me in advance. I reserve the right to determine a legitimate reason for missing an exam. If a student is excused from the exam, the weight will be distributed equally to all the remaining grade components. All students must take the second exam to successfully pass the course.

Homework

There will be a homework assigned each week through McGraw-Hill Connect. The due date will be Monday before the next lecture (note that the first homework is due January 21). Please make sure to submit your work on time as late submissions will have a penalty of 20% per day. There will be a practice assignment corresponding to each of the homework assignments. Completing these practice assignments is not required, but strongly encouraged as both the corresponding homework and the exams will have at least half of the problems literally copied (potentially with some numbers changed) from these practice assignments.

There will be a course project. The final product will be due at the end of the semester. Additionally, progress on the project will be evaluated twice during the semester. The detailed description of the project and the requirements is below.

Project Description

Students will form groups with no less than three and no more than five students. Each group will identify a publicly-traded company (listed on NYSE or NASDAQ), either a large cap or a mid-cap concern (minimum market capitalization of \$5 billion) that pays a cash dividend, to analyze and value. It is highly recommended that a large company operating in multiple industries (such as GE) not be chosen.

There is no page number minimum or maximum. The length of each paper can be impacted by the company chosen, as well as the primary industry in which it operates. Reports will be evaluated based on the quality of the analysis, the quality of the writing, and the presentation clarity. The highest academic standards are expected when citing sources and failure to do so will result in a failing grade for the respective project. Further guidance and instructions will be provided during the course of the semester according to the schedule provided below.

Students with long-term interest in finance will benefit greatly from becoming familiar with Bloomberg and Capital IQ data providers (SM 1.215).

The purpose of the project is:

1. To further the student's knowledge of valuation analysis.
2. To provide concrete evidence of student's ability to apply classroom study and theory to a real world example.

Project Report Outline

1. (5 points) Company description, including:
 - a. Mission statement
 - b. Primary and secondary markets/products (foreign and domestic).
 - c. Business risks and outstanding litigation
 - d. Main strengths and weaknesses (brief SWOT analysis)
2. (5 points) List firms in the peer group. Use the same peer group throughout the paper.
3. (15 points) Pro forma balance sheet and income statements for the next five years. Include the following discussion:
 - a. List assumptions used for building these statements
 - b. Provide justification of the assumptions, in particular discuss how they are related to
 - i. the firm's past performance
 - ii. the firm's peer group
4. (10 points) Ratio Analysis:
 - a. Discuss five ratios that you consider most informative for your company. In particular, discuss
 - i. their time trends
 - ii. how they compare to those for the peer group
5. (5 points) CFFA for the next five years (using your pro forma statements)
6. (5 points) Forecast of CFFA for years 6 and on. Explain and justify your assumptions.

7. (30 points) Firm valuation using
 - a. WACC approach
 - i. Book value can be used for debt weighting (assuming book equates to market).
 - ii. Use market capitalization for common equity weighting.
 - iii. CAPM should be used to estimate required return on common equity
 - iv. Discuss how does the current capital structure compare with the firm's optimal structure
 - v. Discuss how much the deviation from the optimal capital structure (if any) reduces the firm value
 - b. Flows to Equity approach
 - c. Adjusted Present Value approach
8. (5 points) Sensitivity analysis (you can limit discussion to sensitivity of NPV to one item)
9. (5 points) Scenario analysis for at least two additional scenarios: pessimistic and optimistic
10. (5 points) Conclusion, where you may make recommendations and/or discuss whether
 - a. the company's common shares over-, under- or fairly valued
 - b. the company may be an attractive target for someone in the peer group
11. (5 points) Additional tables & figures (5 points)
12. (5 points) Properly cited sources.

Project Schedule

The deadline for all submissions is midnight of the corresponding day. As with homework assignments, late work will receive a discount of 20% which will be applied to the total grade for the project. For instance, if you submit the first part late by one day, the second part late by two days, and the final part on time, even if the quality of your work is worth 100 points, you will receive only $100 * (1 - 0.2 - 0.2 * 2) = 40$ points for the project. Thus, make sure to submit on time!

- January 29 – complete the following preliminary work:
 - identify what group you belong to
 - choose a company to investigate.
 - choose a group representative who will send me an email (please use the UTD email provided in the syllabus); the email should contain:
 - the list of group members
 - the company name.

the email should be cc'd to all group members (to make sure everyone is on the same page)
- February 12 – submit parts 1 through 4; continue working on part 5 and on
- February 19 – feedback on parts 1 through 4
- March 26 – submit parts 1 through 7; continue working on the remainder
- April 2 – feedback (mainly) on parts 5 through 7
- April 30 – in-class discussion, addressing remaining concerns
- Submit the final document

Student Conduct & Discipline

The University of Texas System and The University of Texas at Dallas have rules and regulations for the orderly and efficient conduct of their business. It is the responsibility of each student and each student organization to be knowledgeable about the rules and regulations which govern student conduct and activities.

The University of Texas at Dallas administers student discipline within the procedures of recognized and established due process. Procedures are defined and described in the Rules and Regulations of the Board of Regents of the University of Texas System, Part 1, Chapter VI, Section 3, and in Title V, Rules on Student Services and Activities of the Course Syllabus Page 8, University's Handbook of Operating Procedures. Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations (SSB 4.400, 972/883- 6391). A student at the university neither loses the rights nor escapes the responsibilities of citizenship. He or she is expected to obey federal, state, and local laws as well as the Regents' Rules, university regulations, and administrative rules. Students are subject to discipline for violating the standards of conduct whether such conduct takes place on or off campus, or whether civil or criminal penalties are also imposed for such conduct.

The faculty and administration of the School of Management expect from our students a high level of responsibility and academic honesty. Because the value of an academic degree depends upon the absolute integrity of the work done by the student for that degree, it is imperative that a student demonstrate a high standard of individual honor in his or her scholastic work. We want to establish a reputation for the honorable behavior of our graduates, which extends throughout their careers. Both your individual reputation and the school's reputation matter to your success. The Judicial Affairs website lists examples of academic dishonesty. Dishonesty includes, but is not limited to cheating, plagiarism, collusion, facilitating academic dishonesty, fabrication, failure to contribute to a collaborative project and sabotage.