

FIN 370H
MW 9:30 a.m. – 11:00 a.m. (03565)
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Spring 2014
GSB 5.153
Office hours
M 1:30 – 3:00 pm, or by
appointment

Integrative Finance (Honors)

Course Objective

Finance 370 is the capstone course for graduating seniors in the Department of Finance. The primary objective of the course is to expose students to the types of issues that they are likely to encounter as a financial professional in a corporate environment. Finance 370 is intended to provide students who already have a basic understanding of financial theory and the related analytical techniques with experience in the application of that theory and those techniques. This experience is obtained through the analysis of issues frequently encountered by financial decision-makers. The main emphasis is on the identification of value creating strategies and investments for the firm.

Course Packet and Useful References

The course packet, which is available at the University COOP, contains daily assignments, readings, and the cases that will be discussed during the course. **The course packet is the only required text.** However, students may find the following books to be useful references at various times during the course.

General references:

- Higgins, Robert C., Analysis for Financial Management (9th ed.), New York, NY, McGraw Hill/Irwin, 2007.
- Ross, Stephen A., Randolph W. Westerfield, and Bradford Jordan, Fundamentals of Corporate Finance (8th, 9th, or 10th ed.), New York, NY, McGraw Hill/Irwin, 2008, 2010, or 2012.
- Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, Corporate Finance (8th, 9th, or 10th ed.), New York, NY, McGraw Hill/Irwin, 2008, 2010, or 2012.

Valuation, restructuring, and M&A references:

- Bruner, Robert F., Applied Mergers and Acquisitions, New York, NY, John Wiley & Sons, Inc, 2004.
- Gaughan, Patrick A., Mergers, Acquisitions, and Corporate Restructurings (4th ed.), New York, NY, John Wiley & Sons, Inc, 2006.
- Koller, Tom, Marc Goedhart, and David Wessels, Valuation: Measuring and Managing the Value of Companies (5th ed.), New York, NY, John Wiley & Sons, Inc, 2010.

Course-related information, including the syllabus and handouts, will be posted on Blackboard.

Grading

Final grades will be determined as follows:

| | <u>Weight</u> |
|---|---------------|
| <p>Case opening presentation</p> <p>Students will form groups of approximately five persons. Each group will be responsible for opening the discussion of one case during the semester. The group will have 15 minutes to summarize the key facts of the case and to describe their analysis and recommendations. The Group responsible for opening each of six cases is noted on page 5 of this syllabus by “(Grp #)”, where # indicates the group number (to be assigned once groups have been formed).</p> | 5% |
| <p>Midterm case</p> <p>Each student will <u>individually</u> prepare a written analysis of a case. The case will be distributed in class on February 19, 2014 and the analysis will be due in class on February 26, 2014. The report will not exceed six pages, including exhibits. See page 7 of this syllabus for additional details.</p> | 20% |
| <p>Valuation/negotiation case</p> <p>Students will form groups of approximately five persons. Each group will be responsible for preparing a written report describing the valuation of a business (maximum of 8 pages, including exhibits) and negotiating the purchase or sale of this business with another group.</p> | 15% |
| <p>Final case</p> <p>The final assignment in this course will consist of a written case analysis (<u>individually</u> prepared). The case will be distributed on the last day of class, April 30, 2014, and the analysis will be due by 9:00 a.m. on Wednesday, May 7, 2014. The report will not exceed six pages (including exhibits). See page 7 of this syllabus for additional details.</p> | 30% |
| <p>Class participation</p> <p>This portion of the grade will be based on the contribution of each individual student to the class discussion throughout the term. It will be based on the quality and quantity of class participation. Quality will be the far more important of the two dimensions. While each comment will be judged on its merits, worrying about each comment is counterproductive. What is important is your overall contribution to moving the class forward during the semester. Relatively frequent contributions to the discussion that demonstrate logical and thorough analysis will be required to earn 25%.</p> | 25% |
| <p>Peer evaluation</p> <p>At the end of the semester, we will ask each member of the class to evaluate the contribution of other class members to the quality of the class discussion throughout the semester.</p> | 5% |

To be fair to other students, we will not give any extra-credit assignments. Course grades will be determined solely by the system described above. At the end of the course, each student will be assigned a letter grade of A, A-, B+, B, B-, C+, C, C-, D+, D, D-, or F for the course.

Class attendance

All students are expected to be seated and ready at the beginning of class. If you miss a class, you are responsible for any material that you miss, including any administrative announcements.

Policy on scholastic dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, we have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Students with disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Religious holy days

By UT Austin policy, you must notify us of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Campus safety

- Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:
- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

Class Schedule/Readings

Introduction

Jan 13 Lecture 1

Managing Short Term Assets and Liabilities

15 Lecture 2

Assignment: Read Chapter 19 from Fundamentals of Corporate Finance (2nd Ed.) by Berk, DeMarzo, and Harford (in the course package).

20 No Class – MLK Holiday

22 Case 1: Kota Fibres, Ltd. [short term cash management]

27 Case 2: Dell's Working Capital [working capital management]

Financial Policies

29 Lecture 3

Assignment: Read Chapter 16 (including the appendix on leasing) from Fundamentals of Corporate Finance (2nd Ed.) by Parrino, Kidwell, and Bates (in the course package).

Feb 3 Case 3: Hill Country Snack Foods Co. [debt/equity choice]

5 Case 4: Primus Automation Division, 2002 [leasing decisions]

10 Case 5: Aluminium Bahrain (Alba): The Pot Line 5 Expansion Project [project finance]

12 Case 6: Gainesboro Machine Tools Corporation [payout policy]

17 Case 7: Ford Motor Company's Value Enhancement Plan (A) [financial restructuring]

Risk Management

19 Lecture 4

Assignment: Read the following:

Chapter 30 from Corporate Finance (2nd Ed.) by Berk and DeMarzo (in the course package).

Morgan Stanley Roundtable on Enterprise Risk Management and Corporate Strategy, Journal of Applied Corporate Finance (Summer 2005), pp. 32 – 61 (in the course package).

24 Case 8: Foreign Exchange Hedging Strategies at General Motors: Transactional and Translational Exposures [risk management]

26 **Case 9: Midterm Case**

Investment Decisions and Valuation

Mar 3 Lecture 5

Assignment:

Scan: Chapters 11 and 13 from Fundamentals of Corporate Finance (2nd Ed.) by Parrino, Kidwell, and Bates. (in this course package).

Read: Pages 580-594 in Chapter 18 from Fundamentals of Corporate Finance (2nd Ed.) by Parrino, Kidwell, and Bates. (in this course package).

Read: Parrino, R., Choosing the Right Valuation Approach, 2005 CFA Institute Conference Proceedings, pp. 15-24.

5 Case 10: Tottenham Hotspur plc [valuation]

10 No Class – Spring Break

12 No Class – Spring Break

17 Case 11: IBP [valuing an LBO]

Assignment: Read the following (all in the course package):

Dillon, Nancy, DLJ Knows Where the Beef Is, New York Daily News (October 3, 2000).

Mehring, Jaine I., Analyst Report on IBP, Inc., SalomonSmithBarney, October 2, 2000, pp. 1– 4.

McMillin, John. M. and Jeffrey G. Kanter, Analyst Report on IBP, Inc., Prudential Securities, October 3, 2000, pp. 1– 5.

Mehring, Jaine I., Analyst Report on IBP, Inc., SalomonSmithBarney, October 4, 2000, pp. 1– 9.

19 Case 12: Investing in Sponsor-Backed IPOs: The Case of Hertz [valuing an IPO] (**Grp 1**)

24 Case 13: Dow Chemical's Bid for the Privatization of PBB in Argentina [risk and valuation] (**Grp 2**)

26 Case 14: Sprigg Lane (A) [valuation and simulation]

Assignment: In addition to the case, read the following (both in the course package):

Monte Carlo Simulation, Section 10.2 in Chapter 10 of Principles of Corporate Finance (6th ed.) by Richard A. Brealey, Stewart C. Myers, and Franklin Allen, New York, NY, McGraw Hill/Irwin, 2000, pp. 268 – 275.

Ruback, R., Downsides and DCF: Valuing Biased Cash Flow Forecasts, Journal of Applied Corporate Finance 23, Spring 2011, pp. 8-17.

Corporate Restructuring and Reorganization

31 Lecture 6

Assignment: Read: Corporate Restructuring and Reorganization, James K. Seward, Chapter E8, in Warren Gorham & Lamont Handbook of Modern Finance, edited by Dennis Logue and James Seward (1999) (in the course package).

Apr 2 Case 15: WL Ross and Plascar [financial restructuring] (**Grp 3**)

7 Case 16: The Loewen Group, Inc. (Abridged) [restructuring a financially distressed firm] (**Grp 4**)

9 Case 17: NEC Electronics [restructuring a business] (**Grp 5**)

Mergers and Acquisitions

14 Lecture 7

Assignment: Read Chapter 22 from Fundamentals of Corporate Finance (2nd Ed.) by Berk, DeMarzo, and Harford (in the course package).

16 Case 18: The MCI Takeover Battle: Verizon versus Qwest [evaluating an acquisition] (**Grp 6**)

21 Case 19: Dow's Bid for Rohn and Haas [evaluating acquisition transactions]

23 Case 20: Negotiation Case [valuation and acquisition negotiation]

Assignment: This case and the associated assignment will be handed out in early March.

28 Guest Lecturer [TBD]

Assignment: TBA

Course Review and Wrap-Up

30 Lecture 8

Assignment: Review your course notes.

Instructions for Preparing Written Case Analyses

Case Analysis

1. Read the case carefully. Identify the significant points and relationships. Use the exhibits to help you understand and/or interpret the text.
2. Analyze the data presented in the case and evaluate it in light of the situation. Try to understand not only the present situation, but also its historical origin and how it developed.
3. Decide what the major problems are and, if appropriate, prioritize them.
4. With the problems in mind, identify the feasible alternative courses of action. Determine what additional information is necessary to evaluate the alternative courses of action. Obtain that additional information.
5. Decide what your specific recommendation is to be. In doing so, use your understanding of the alternatives to frame a solution to the problem(s), and predict and evaluate the probable consequences of your solution.
6. Decide how you will organize the presentation of your solution to the case.

Document Organization

1. **Problem Statement:** Identify the problem(s) concisely, using whatever case facts are necessary to show significance and/or priority.
2. **Analysis:** Avoid generalities. Be as specific as possible. Express your ideas clearly, supporting them adequately with evidence, explanation, and references to appropriate exhibits. The strengths and weaknesses of alternative courses of action should be developed. The analysis should build to support your recommendation. Reasons for accepting or rejecting alternatives should be stated and, if necessary, defended.
3. **Recommendation:** State your recommendation clearly and in detail sufficient to guide implementation. Discuss both the positive and negative results of following your recommendation and why you think that it is the appropriate course of action. Make sure that the recommendation follows logically from your analysis.

Document Format

The case solution will be written as a report to senior management. The first page should provide a short executive summary that is no more than two paragraphs long. The detailed analysis should be presented on the following pages. All pages should be numbered and the document typed with one-inch margins and double spacing. Use a 10 point font or larger. Tables, Charts, spreadsheets, or any other supporting materials may be attached as exhibits. Each exhibit must be referred to in the text and clearly labeled.