

FIN 370H (03420)
MW 9:30 a.m. – 11:00 a.m.

Spring 2019
CBA 5.328

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Office hours
MW 12:30 p.m. – 2:00 p.m.

Integrative Finance

Course Objective

Finance 370H is the capstone course for graduating seniors in the Department of Finance. This course provides 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. Students obtain this experience through the analysis of issues frequently encountered by financial decision-makers, predominately through the discussion of case analyses. 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 instructor will post other materials on Canvas as the course progresses.

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:

Ross, Stephen A., Randolph W. Westerfield, Jeffrey F. Jaffe, and Bradford D. Jordan, Corporate Finance: Core Principles and Application, 5th ed., New York, NY, McGraw Hill, 2018.

Berk, Jonathan, and Peter DeMarzo, Corporate Finance: The Core, 3rd ed., Boston, MA, Pearson, 2013.

Valuation, restructuring, and M&A references:

Koller, Tom, Marc Goedhart, and David Wessels, Valuation: Measuring and Managing the Value of Companies, 6th ed., New York, NY, John Wiley & Sons, Inc, 2015.

Gaughan, Patrick A., Mergers, Acquisitions, and Corporate Restructurings, 5th ed., New York, NY, John Wiley & Sons, Inc, 2011.

Grading

Final grades will be determined as follows:

	<u>Weight</u>
<p>Short Case write-ups</p> <p>Each student is responsible for writing and turning in a one-page summary of four cases during the semester. Each of these summaries will count 2.5% of the final grade. The group that a student is assigned to determines the specific cases that the student is responsible for summarizing. The cases that the members of each group are responsible for summarizing are indicated on pages 5 and 6 of this syllabus by “(short write-up: groups #)”, where # indicates the group numbers.</p>	10%
<p>First major case write-up</p> <p>Each student will <u>individually</u> prepare a written analysis of a case. The case will be distributed in class on March 6, 2019 and the analysis will be due on March 13, 2019. The report will not exceed six pages, including exhibits. See page 7 for additional details. A 5% penalty will be assessed for each day, or fraction thereof, that a case write-up is late. However, no write-up will be accepted after the case is discussed in class.</p>	30%
<p>Group presentation</p> <p>Students will be assigned to groups of four to five persons for group presentations during the last part of the course. Each group will be responsible for preparing and delivering a 30-minute presentation on a pre-assigned case. The case that each group is responsible for presenting is indicated on page 6 of this syllabus by “(presentation: groups #)”, where # indicates the group numbers.</p>	10%
<p>Second major case write-up</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 April 22, 2019, and the analysis will be due on Wednesday, May 1, 2019. The report will not exceed six pages (including exhibits). See page 7 of this syllabus for additional details. No case write-up will be accepted after the case is discussed in class.</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. Regular contributions to the discussion that demonstrate logical and thorough analysis will be required to earn 15%.</p>	15%
<p>Peer evaluation</p> <p>At the end of the semester, each member of the class will be asked to evaluate the contribution of other class members to the quality of the class discussion throughout the semester.</p>	5%

The primary basis for grading written assignments is content; however, professionalism in presentation is also given substantial weight. The writing skills component of the analysis considers formatting, spelling, grammar, punctuation, appropriateness, clarity, and thought. The following book is recommended for aiding in the preparation of written work: *Strunk, William, Jr. and E.B. White, The Elements of Style*.

Anyone who needs additional assistance in mastering writing skills can receive help through the Undergraduate Writing Center in the Flawn Academic Center, Room 211, or by calling 471-6222. The website for the Writing Center is <http://www.uwc.fac.utexas.edu/>

To be fair to other students, there will not be any extra-credit assignments. Course grades will be determined solely based on the assignments 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. The target GPA for the course is approximately 3.40. All course grades are final, except in the instance of a recording error.

Assignments that are submitted on a timely basis will be returned within two weeks after their due date. If you have a question about any grade assigned, you must submit the question in writing, within one week after the assignment is returned. Your inquiry should include your name, UT EID, section number, the title of the assignment, and a written explanation of why you think the grade is incorrect. The instructor(s) retain the right to raise or lower grades after review.

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 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 course, 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/>.

Access to Canvas

All students must have access to the Canvas web site for this course. The instructor(s) will use this venue to post class notes, assignments, announcements, and grades. They will also use the E-mail feature of Canvas to correspond with you. Check the site (and your E-mail) regularly to ensure that you have the most current information.

Web-based, password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar,

Main Building, Room 1. For information on restricting directory information see <http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html>.

Computers and Electronic Devices

Laptop/tablet computers will only be used in class when necessary to facilitate class discussions. Unless the instructor(s) specifically indicates that laptop/tablet computers can be used during a class period, all electronic devices (including, cell phones, MP3 players, etc.) should be stowed during the class session. Violation of this policy, including texting and web surfing during class, will reduce your class participation grade.

Religious holy days

By UT Austin policy, you must notify an instructor 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 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 when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
 - You should familiarize yourself with all exit doors of each classroom and building you occupy. Remember that the nearest exit door may not be the one you used when entering the building.
 - Students requiring evacuation assistance 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>.

Additional Comments

The requirements and recommendations for succeeding in this course are outlined in this syllabus. Since no extra-credit is available, you are encouraged to follow these policies and utilize office hours to maximize your understanding of the assignments and their specific requirements. The above policies provide the basic guidelines and code of conduct for this course. They are designed to reduce confusion and establish an equitable framework for the entire class. As a matter of principle, these policies will be enforced fairly and strictly.

The “spirit” of the course is just as important as the “rules and regulations.” The instructor(s)’ goal is to create a cooperative classroom environment. To that end, your constructive comments and suggestions are always welcome. Your feedback is an important element of course delivery and development.

Barring an emergency, the instructor(s) will be available during office hours and at additional times. You are encouraged to visit with the instructor(s) regarding the class assignments, concerns with the course, or just to say “hello.” You can also reach the instructors via telephone or email, and they will make every effort to return your call or respond to your email within one business day of its receipt.

Class Schedule/Readings

Introduction

- Jan 23 Lecture 1 – Course Introduction
Assignment: Review course syllabus and materials on course Canvas site

Managing Short Term Assets and Liabilities

- 28 Lecture 2 – Working Capital Management
Reading Assignment: Chapter 18, Short-Term Finance and Planning, Ross, Stephen A., Randolph W. Westerfield, Jeffrey F. Jaffe, and Bradford D. Jordan, Corporate Finance: Core Principles and Application, 5th ed., New York, NY, McGraw Hill, 2018.
- 30 Case 1: Jackson Automotive Systems [cash budgeting] **(short write-up: groups 1, 2)**
- Feb 4 Case 2: Jones Electrical Distribution [working capital] **(short write-up: groups 3, 4)**
- 6 Lecture 3 – Financial Forecasting
Reading Assignment: Chapter 19, Financial Planning and Managing Growth, Parrino, Robert, Thomas W. Bates, Stuart L. Gillan, and David S. Kidwell, Fundamentals of Corporate Finance, 4th ed., Hoboken, NJ, John Wiley & Sons, 2018.
- 11 Case 3: Tire City, Inc. [forecasting and external funds needed] **(short write-up: groups 5, 6)**

Financial Policies

- 13 Lecture 4 – Financial Policies: Capital Structure and Payout
Reading Assignment: Chapter 18, How Much Should a Corporation Borrow?, Brealey, Richard A., Stewart C. Myers, and Franklin Allen, Principles of Corporate Finance, 12th ed., New York, NY, McGraw Hill, 2016.
- 18 Case 4: Hill Country Snack Foods Co. [debt/equity choice] **(short write-up: groups 1, 2)**
- 20 Case 5: J. C. Penny Company [capital structure choice] **(short write-up: groups 3, 4)**
- 25 Case 6: Rockboro Machine Tools Corporation [payout policy] **(short write-up: groups 5, 6)**
Reading Assignment: Chapter 17, Dividends, Stock Repurchases, and Payout Policy, Parrino, Robert, Thomas W. Bates, Stuart L. Gillan, and David S. Kidwell, Fundamentals of Corporate Finance, 4th ed., Hoboken, NJ, John Wiley & Sons, 2018.
- 27 Case 7: Nat'l Railroad Passenger Corporation (“Amtrak”) Acela Financing [lease vs. buy] **(short write-up: groups 1, 2)**
Reading Assignment: Appendix to Chapter 16, Leasing, Parrino, Robert, Thomas W. Bates, Stuart L. Gillan, and David S. Kidwell, Fundamentals of Corporate Finance, 4th ed., Hoboken, NJ, John Wiley & Sons, 2018.

Risk Management

- Mar 4 Lecture 5 – Risk Management
Reading Assignment: Derivatives Overview, Richard Heckinger and David Mengle, Understanding Derivatives: Markets and Infrastructure, Federal Reserve Bank of Chicago, 2013.
- 6 Case 8: Hedging at Porsche [risk management] **(short write-up: groups 3, 4)**
The case for the first major case write-up will be distributed on March 6

Capital Budgeting

- 11 Case 9: Valuing Capital Investment Projects [capital budgeting exercise]
- 13 **No class on this day: The first major case write-up is due at 12:00 noon on March 13 in the Department of Finance office.**
- 18 **No class on this day (spring break)**
- 20 **No class on this day (spring break)**
- 25 Case 10: In-Class Discussion of First Major Case Write-Up
- 27 Case 11: Coke vs. Pepsi, 2001 [cost of capital and EVA] **(short write-up: groups 5, 6)**
- Apr 1 Case 12: New Heritage Doll Co. [capital budgeting – expansion] **(short write-up: groups 1, 2, 3)**

Valuation

- 3 Lecture 6 – Valuation
Reading Assignment: Choosing the Right Valuation Approach, Robert Parrino, CFA Institute Conference Proceedings, 2005.
- 8 Case 13: Buck Auto Care Products [valuing a private company] **(short write-up: groups 4, 5, 6)**
- 10 Case 14: Valuing Snap (A) [valuing a newly public company] **(presentation: groups 1, 2)**

Mergers and Acquisitions & Corporate Restructuring

- 15 Lecture 7 – Corporate Restructuring and Reorganization
Reading Assignment: Corporate Restructuring and Reorganization, James K. Seward, Chapter E8, in Warren Gorham & Lamont Handbook of Modern Finance, edited by Dennis Logue and James Seward (2000).
- 17 Case 15: Canadian Pacific Ltd: Unlocking Shareholder Value in a Conglomerate [restructuring/reorganization] **(presentation: groups 3, 4)**
- 22 Case 16: Buffett's Bid for Media General's Newspapers [acquisition] **(presentation: groups 5, 6)**
The case for the second case major write-up will be distributed on April 22
- 24 Case 17: IBP
- 29 Case 18: Transportation Displays, Inc. (C) [harvest strategies]
- May 1 **No class on this day: The second major case write-up is due at 12:00 noon on May 1 in the Department of Finance Office.**
- 6 Case 19: In-Class Discussion of Second Major Case Write-Up

Course Review and Wrap-Up

- 8 Lecture 8 – Course Wrap Up.
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.