



# Financial Analysis

## Syllabus Spring 2009

### Course Objectives

This course is designed to provide you with an opportunity to develop your financial analytical skills. The class is designed to allow you to integrate the various areas of finance into a decision framework. As such it is expected that you will be a very active partner in the educational process. Lectures as a vehicle will be minimal. Instead student presentations, student discussion sessions, and group work will make up the majority of your experience.

The course is designed to require you to grapple with the difficulty of decision making under conditions of uncertainty. It is expected that you will be faced with ambiguous situations which will require that a number of judgements be made. These situations will require a combination of financial theory and practice. It is unlikely that these assignments will result in clear and unambiguous solutions. You will be required to draw on your previous experiences from a variety of areas in order to successfully complete the class requirements.

A particularly important goal in this class is to obtain an understanding and appreciation of the valuation process in markets, under conditions of risk or uncertainty. The essence of finance, in the final sense, is an understanding of how various decisions influence value. As someone has suggested almost all assets are good investments *at the right price/value*.

For most of you this class represents the terminal experience in corporate finance (If the phrase terminal experience sounds like you are going to die, don't worry no one has yet—it's just "educationeze" for the last course in a sequence.) and therefore represents a last opportunity to integrate various disciplines.

#### In particular you are expected:

To develop critical thinking and problem solving competencies, at both the individual and group levels, of financial statement analysis, financial planning, principles of valuation, capital budgeting, capital structure, and issues in financial policy, and to apply financial theory to analyze real life situations in an uncertain environment with an incomplete data set.

#### You should be able to:

- Use Financial Statements to evaluate firm performance.
- Project Financial Statements (B/S, I/S, budgets, etc.).
- Use Financial Statements to obtain Cash Flows for the firm and equity holders
- Calculate and project Free Cash Flow.
- Determine financial drivers of Free Cash Flow.
- Calculate the cost of debt, cost of equity and the Cost of Capital.
- Use DCF and other valuation techniques to value projects and firms; perform risk analysis; analyze Mergers, Acquisitions, Leverage Buyouts and Initial public offerings.
- Evaluate alternative financing options.
- Evaluate the economic and industry environment, domestic and international.
- Develop hands-on, pro forma modeling skills using a spreadsheet and/or modeling language.
- Develop presentation and writing skills.

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#### Course Prerequisite

The specific prerequisite for this class is Finance 321 and 325. with Accountancy 326 strongly recommended. Since the prerequisite for Finance 325 is Finance 323 all of you have also completed the lower division requirements for business students. The two prerequisite will not be waived. See me if you have a question

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## Case Procedures

The major learning vehicle in this class will be cases. The cases are designed to allow you apply decision making to business situations. The most important element of a case is the process, not the “answer.” Very few cases have an unambiguous solution—If it did I probably would not choose it. You should begin to appreciate that very few problems have neat clean solutions. Your participation in the case process is a critically important part of learning. You will be individually involved in every case to some degree. Everyone will be assigned to a team responsible for three detailed case analysis.

Every student is expected to read the case and be prepared to discuss it. In order to accomplish this each student must prepare an individual strategy paper for each case that is assigned. It is due on the day the case is scheduled for presentation and you must attend in order to turn it in. Late papers will not be accepted. This paper should be three pages, double spaced and printed. It should contain four parts.

The first should identify the problem. What is the issue the firm faces? Is there more than one? What are the necessary assumptions in order to solve the problem? The second part should define the options or alternatives that would solve the problem. It is clearly possible that there is more than one, although the usual number is limited. The third part should describe the process of how you would decide which alternative solution is best. Note that this only requires that you describe the methodology, *it is not a solution*. The last part consists of one question that you would like to ask the teams about the case.

I will record at least a check for each paper.

In most cases I will grade your paper in greater detail. You must *attend* the entire class in order to submit a strategy paper. Writing the paper, if you do it conscientiously, is a start in the learning process but you need to evaluate your work based on the presentations and class discussion. If you don't participate in that you will continue to make the same mistakes. So active participation in the classroom is essential to learning.

*Team Assignments.* I reserve the right to assign each class member to a team, however, if you wish to form a team it will likely be acceptable to me. The exact team size will depend on class size. Everyone must be a member of a team. As a member of a team you will share responsibility for a detailed case preparation. Each team will prepare two written cases. In addition every team will be involved in three oral presentations. Each team member must participate in the oral presentations. (See Case Presentation Days below for an explanation.) Every team will provide a written solution for the first case that is assigned (Hopin), no oral report will be due.

The teams will not necessarily all be the same size. Although I don't expect it, some changes may be necessary during the semester. It is the team's responsibility to organize itself in whatever mode seems most appropriate.

Please appoint one individual as the liaison between me and the team. All communications I send to the team collectively and all official submissions from your team will come through the liaison person. Everyone is of course free to see me, collectively or individually. The purpose of the liaison person is to make sure that if I wished to give the team a handout, or ask a question I have a

person I can call specifically. This makes sure that little things don't fall through cracks.

### Instructors Role

It is useful to clarify my role in the case analysis. The idea behind doing cases is that it gives the student the opportunity to deal with class material in a very active environment. This active involvement allows you to extract the important learning points from the case. This is quite different from a lecture environment. (There will be lectures, particularly at the beginning and during the work periods throughout the semester.)

While you may be somewhat apprehensive, by this time in your University career you have sufficient background to develop ideas and solutions on your own. What you probably need is some practice. All of us ultimately have to learn to solve problems without the crutch of having a teacher or parent available for obtaining a solution (This is probably a good thing since frequently they don't have an answer anyway). One day, very soon, you will wake up and discover that you are expected to be the expert

Therefore, I will *not* be available to provide solutions to the cases. I will *be* available for discussion on generally applicable concepts and theory, but you must arrive at a solution on your own. Do not be surprised if you leave your conversation with me with more question than you had when it started. If you believe that you are here to learn answers you have a static view of the world. We hope that after you leave the University you will be able to solve problems for which we have no current solution, as well as providing solutions for problems that we have not yet even identified. Experience has shown that students with your background, if they apply themselves, do very well in the solution of these cases. Good luck and I hope that you will find the experience rewarding and stimulating.

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### Contacting Me

My office is SS 3306, the phone number is (858)254-1341 and it is on voice mail. You can contact me (preferred method) at: Pieter.Vandenberg@sdsu.edu.

Office hours are 4-4:50 PM Thursdays and by appointment.

# Finance 423 Day Class Planning Calendar

# Jan/Feb

Class Meeting Times  
10:00AM - 11:50AM

JANUARY  
1 2 3  
4 5 6 7 8 9 10  
11 12 13 14 15 16 17  
18 19 20 21 22 23 24  
25 26 27 28 29 30 31

MARCH  
1 2 3 4 5 6 7  
8 9 10 11 12 13 14  
15 16 17 18 19 20 21  
22 23 24 25 26 27 28  
29 30 31

\*These are given as reference (Chapter Numbers)  
MCK, is the *Valuation* text  
BM is Brealey and Myers (8th Edition)

18	19	20	21	22	23	24
				Introduction		
25	26	27	28	29	30	31
		Ethics Lecture/Film/ Discussion		Valuation [MCK 1,2,3,4]		
1	2	3	4	5	6	7
		Valuation [BM 4, 5, 6, 10, 11, 12, 19]*		Valuation [MCK 5,6,7]		
8	9	10	11	12	13	14
				Hop-in Food Stores Inc. Solution Due {All Teams}		
15	16	17	18	19	20	21
	Last day to Add/ Drop	Modeling [BM 15,29,31, MCK 8, 9, 10,11, 12,13, 14, 17]				
22	23	24	25	26	27	28
		Hopin and Financial Modeling Continued		Presentation: Diamond Chemicals {Teams:1,2}		
				Presentation: FED of Richmond A&B {Teams 3,7}		
		Work Period		Enrichment Assignment Due		

2008 S M T W T F S



# Finance 423 Day Class Planning Calendar



# March

1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

Work Period

Presentation:  
Jacobs Division 2003  
{Teams 4,5}

Work Period

Presentation:  
Chausson Body  
{Team 6}

Work Period

Presentation:  
Mushroom A&B  
{Teams 3,1}

We're half way!

Work Period  
[BM 6]

Presentation:  
Fantastic  
{Teams 4,7}  
Enrichment Assignment Due

Holiday

Class Meeting Times  
10:00AM-11:50AM

FEBRUARY  
1 2 3 4 5 6 7  
8 9 10 11 12 13 14  
15 16 17 18 19 20 21  
22 23 24 25 26 27 28

APRIL  
1 2 3 4  
5 6 7 8 9 10 11  
12 13 14 15 16 17 18  
19 20 21 22 23 24 25  
26 27 28 29 30

## What's a Work Period?

The schedule has a number of work periods throughout the semester. These periods are set aside for a variety of activities. Many of these periods will be devoted to a continuation of discussion of the evening's case. Some may be lectures may be strictly enrichment material unrelated to a specific case.

# Finance 423 Day Class Planning Calendar

# April

			1	2	3	4
					Holiday	
	5	6	7	8	9	10
			Work Period [BM 20,21,22,23,26 MCK 12]		Presentation: Burlington Northern {Team 5}	
	12	13	14	15	16	17
			Work Period [BM 14,15,17,18,19,25]		Presentation: Van Dusen Air Inc {Teams 6,3}	
Class Meeting Times 10:00AM-11:50AM	19	14	21	22	23	24
			Work Period [BM 27,28, MCK 9,11]		Presentation: Koppers {Team 2}	
	26	27	28	29	30	
			Work Period		Omni Services {Teams 1,4}	Enrichment Assignment Due

MARCH  
 1 2 3 4 5 6 7  
 8 9 10 11 12 13 14  
 15 16 17 18 19 20 21  
 22 23 24 25 26 27 28  
 29 30 31

MAY  
 1 2  
 3 4 5 6 7 8 9  
 10 11 12 13 14 15 16  
 17 18 19 20 21 22 23  
 24 25 26 27 28 29 30  
 31



# Finance 423 Day Class Planning Calendar



# May

						1	2	
	3	4	5	6	7	8	9	
			Presentations: Acquisition of Consolidated Supply {Teams 7,5}			Presentation: Genzyme/Geltex {Teams 2,6}		
	10	11	12	13	14	15	16	
			Review	Last Day of Classes				
	17	18	19	20	21	22	23	
			Final Exam 10:30 to 12:30 PM					8 AM Commencement
	24	25	26	27	28	29	30	
	31							

Class Meeting Times  
10:00AM-11:50AM

APRIL  
1 2 3 4  
5 6 7 8 9 10 11  
12 13 14 15 16 17 18  
19 20 21 22 23 24 25  
26 27 28 29 30

JUNE  
1 2 3 4 5 6  
7 8 9 10 11 12 13  
14 15 16 17 18 19 20  
21 22 23 24 25 26 27  
28 29 30

## Case Presentation Days

On presentation days there are two teams assigned to present the proposed case solution. The first team will be the Alpha Team and the second team will be the Beta Team (not every case will have a Beta Team). Teams will be formed and assigned to the cases during the 2nd week.

The Alpha Team is expected to have a professional presentation ready. You may choose the most effective way to present your solution. I expect that you will limit severely the use of the blackboard for any prepared remarks. You might use it for answering unexpected questions. However, you should learn to “anticipate unexpected questions.” I would normally expect that you would use professional looking projections to present your solution along with appropriate handouts. *At minimum* you need to distribute any numerical solutions in the form of handouts. *Do not expect the audience to listen to a speech without visual aids.* You are free to use other visual aids if you believe that they will be more effective at presenting your solution.

In developing presentations remember to have a beginning, a middle, and an end. First, give the audience some idea of where you are going. Second, take them there in a logical, straight forward manner. Third, give a brief summary of your conclusion at the end of your presentation. Remember to use the suggestions in Harrington to help with the presentation. You will have 45 minutes.

The Beta Team will also have to have a professional presentation ready, with the same ground rules. Their actual presentation should highlight the differences between the Alpha Team's solution and theirs. Therefore in preparing their presentation they should realize that the history and general facts of the case will likely already have been given and therefore should not be repeated. The Beta Team will have a few minutes after the Alpha Team finishes to fine tune their presentation. They will then have a maximum of 30 minutes to present their findings. During this time the team should describe their solution and particularly emphasize any differences between their solution and the Alpha Team's as well as highlighting areas of agreement.

They should also point out any disagreement they may have about the underlying assumptions and facts of the case as presented by the Alpha Team. It is not their purpose to try and “one up” the Alpha Team. The Alpha Team will have a chance to make a quick rebuttal statement if it appears to be appropriate. It is *expected* that the rest of the class will also join in the discussion. This should enhance the opportunity for everyone

to learn from the case. The teams should arrange their presentations so that every member has an opportunity to present orally each time.

*Written Solutions.* The Beta Team will always be required to turn in a written solution on the presentation day. This written solution is from eight to ten pages in length, plus required supporting appendixes. The main body of the paper is to be written as a consulting report. Given the schedule half of the teams will act as an Alpha teams twice and a Beta Team once and the other half will act as a Beta team twice and an Alpha Team once. Each team will present two written cases, if your team is an Alpha Team twice a written case will be due with your last Alpha presentation. Once the teams are formed team numbers will be assigned.

### Special Note

Please consider that team work is not breaking a large task into pieces and letting each person do a piece and meeting the night before it is due to put it together. Team work requires meetings, discussion and interchange of ideas.

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## Writing Reports

In general any material that you turn in should be printed and well written. How well something is written will likely have a direct bearing on the reaction of the reader. No matter how clever you are, if the report is poorly written and has an unprofessional format the reader will likely react negatively. This is true whether it's a college professor, a potential employer, or your boss!

In writing your report remember that a busy executive, the type of individual you will likely be writing reports for, expects you to come to the point quickly and to support your recommendation and analysis. The reader does not expect to have to do the work that you were hired to do. For example do not say, “if you look at the appendix material carefully you will see.....” It is your job in the report to do the analysis and tell the individual what the results are. Thus a report is not a compendium of data. While it is acceptable (probably required) to attach supporting documents, tables etc. the report should be understandable and definitive even if the supporting documents were removed from the report.

*Selected Darden Cases*, Montezuma Press (Be sure you get the one under my name.)

Mckinsey, et al, *Valuation*, Wiley, 4th ed., 2005 (MCK)

You will probably also want access to at least one standard finance reference book (Brealey and Myers 8th or 9th edition is recommend) and a computer with appropriate software. The class web pages are located at: [www.vandenberg.info](http://www.vandenberg.info). It is presumed that you will regularly check the material on this site.

### Resource Material

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## How Am I Graded?

I will return grades on each assignment as soon as I finish the grading. If you wish to discuss your grade please come by and see me. Because some teams will have to go first and some will go last for the first round of cases (i.e. the first 4) I will withhold my grades until after the 4th case. I will then meet with each team to talk about your work and to give you your grade. After this initial grading period teams can obtain their grades from me as soon as I complete the grading process, usually by Monday of the following week. I will also give you a written report periodically on your strategy paper scores. Feel free to ask me what your grade was on any assignment.

All of the work you submit will be graded by me, *not* a grader. *All exams, cases and other assignments will be kept by me.* If you wish to keep a copy be sure to make it before you turn it in (A word to the wise keep a copy!). I will provide regular grade reports.

The following are the assignments for this class along with the weights for each major group:

Presentations and class participation	25%
Written Cases (Incl: Hopin 5%)	25%
Final	20%
Enrichment Assignments	5%
Strategy Papers	<u>25%</u>
Total	100%

I will assume that grades on team work will be equally distributed. If the team wishes to unequally distribute points then the *next* period after a case is presented give me a distribution of points for each team member to be determined by the team. These points are to assigned based on

the teams collective opinion as to the relative overall contribution of each individual during the evaluation period. You can assign a weight for each individual between zero (no credit) and one (full credit). This decision is to be made as a group and everyone *must have the opportunity to participate*, with the final decision made in whatever way you normally make decisions. Whatever you decide is final. In the grading process those with low scores will have their grade lowered, no one will have their grade raised.

In assigning your final grade I may lower your overall grade to be more reflective of your work if your individual work grades are significantly lower than your group grades. Your final numerical average will be converted into a grade using the follow schedule:

<u>Percent</u>	<u>Mid Point Grade</u>
100 - 90	A
89 - 80	B
79 - 70	C
69 - 60	D
59 -	F

If you are significantly above or below the mid point you will receive a plus or minus. You might still receive a higher grade than the above if you are *very* close to the cutoff line. i.e. you might still get a "B-" if your average was slightly below 80% (but close). Whether you receive the higher grade will depend on a variety of factors. I will pay close attention to your record of participation and the quality of your individual assignments. Also attendance is important, since you can't participate if you are absent, please read my classroom attendance policy on my website's FAQ's.

## Enrichment Assignments

Each individual student is required to turn in three enrichment reports these will be due on the last Tues-

day of the month (See Schedule). Enrichment reports consist of two double spaced printed page. The first half page will be a bibliographic entry and a brief summary of an article you have read during the month from a business periodical. You may read any academic finance journal (e.g., *Journal of Finance*, *Financial Management*). You may read a more popular business or finance journal (*Fortune*, *Business Week*, *Forbes*). Or finally you may choose an article from a newspaper such as the *Wall Street Journal*. In this case *do not* choose a straight news report, instead choose a longer article that offers some analysis. The kind frequently found in the first column of the WSJ, or a similar type of article. If you are choosing an academic journal you may choose any issue since 2006, if you choose a more popular journal it must be dated 2009 or later.

The second part of the report should describe what you learned from reading the article in light of the financial theory your already know. Does it seem reasonable? Is it consistent or inconsistent with things you have learned? Why?

As an example do not say you learned (this example is taken from a cover story about Time Warner in a issue of *Business Week*) that HBO's growth (a Time Warner unit) had slowed significantly and as a result profit were down. These are facts, they do not improve your problem solving ability. Instead you might read the article and describe, as well as comment on, Time Warner's plan to sell equity with a rights offering in order to retire a large debt obligation. This plan is invoking significant resistance from shareholders. What is unique about the plan? What does theory tell you about the likely reaction of shareholders to such a plan? Are there other alternatives Time Warner might choose? Remember you only have a page and half. I will be quite liberal in what I will accept. I will consider the quality and difficulty of the effort when grading.

You should begin to develop, if you haven't already, a method for maintaining and improving your understanding of the business environment. You should read on a regular basis some professional publications related to your field and interests. Either subscribe to some publications or obtain them in some other way, but read them. It's not even important that these be ultra current. From a news standpoint yesterday's WSJ may be old hat, but for the purpose of developing your understanding and expanding your horizons it is more than adequate.