

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
Joseph M. Bryan School of Business and Economics
Department of Accounting and Finance
Fall 2015

MEETING TIME AND PLACE

MBA 707.01, Financial Management
6:30 pm – 9:30 pm on Thursdays, Bryan School Bldg., Room 204

PREREQUISITES

MBA 701 (Quantitative Analysis for Decision Making); MBA 702 (Financial and Managerial Accounting)

INSTRUCTOR INFORMATION

Instructor: Daniel T. Winkler
Office: 383 Bryan Bldg. (Department of Accounting and Finance Office)
Phone: (336) 256-0530
E-mail: dt_winkler@uncg.edu (preferred method of communication)
Office Hours: 12:30 pm – 1:45 pm on Thursdays before class and by appointment

COURSE DESCRIPTION

Financial decision-making; topics include time value of money, risk and return, valuation of securities, financial options, cost of capital, capital budgeting, working capital policy, financing decisions.

REQUIRED RESOURCES

Douglas R. Emery, John D. Finnerty, and John D. Stowe. *Corporate Financial Management*, 4th Ed., Wohl Publishing, 2011. ISBN: 978-1-935938-00-2

Darden Business Publishing. There is an assigned case for in-class discussion and assigned notes/readings that can may be purchased and downloaded online at: <https://store.darden.virginia.edu/>. Some cases and notes may be also available through interlibrary loan with sufficient lead time; please contact interlibrary loan at the Jackson Library if you are interested in this possibility. The Tentative Schedule (last two pages of the syllabus) lists the cases to be used in-class and for case write-ups.

Assigned Article: A readings article has been assigned, and the reference for the article has been provided. To find it, you can go online to the Jackson Library (library.uncg.edu), search the Journal A – Z list, find the journal and issue, and download the article.

MS Office: MS Word and Excel will be utilized in this class. You should be prepared to bring a laptop computer to class.

STUDENT LEARNING OUTCOMES

1. To state the major stakeholders in the modern corporation, describe how the interests of the stockholders in a firm may be in conflict with other stakeholders, and the role of ethics;
2. To understand the economic context and environment where decisions are made by business leadership and management;
3. To further students' understand and the interpretation of financial statements;
4. To solve time value of money problems (TVM) and be ready to apply TVM techniques in the work environment including to bond and stock valuation;
5. To identify the risk and return characteristics of financial securities, compare these characteristics and perform data analysis and interpretation;
6. To recognize financial options and apply option principles to other firm settings;
7. To apply risk and return estimation methodologies, including to the valuation of equity and debt claims and the firm's cost of capital;
8. To identify relevant incremental cash flows, and apply capital budgeting techniques to these cash flows;
9. To contrast working capital policies in terms of risk and profitability;
10. To evaluate financing alternatives and the financial structure of the firm.

TEACHING METHODS

This course will use multiple instructional methods. All topics will be taught with lectures to introduce the principles, foundations and concepts. PowerPoint slides will be placed on Blackboard for students to review. The lecture, however, will focus on topics that do not always correspond to the PowerPoint slides.

With the exception of student learning outcome #1, all others will have assigned problems from the textbook chapters. You will have an opportunity to ask questions about these problems in class, and the instructor's manual with the solutions is available on Blackboard.

Certain topics that involve contrasting, evaluation or application will often use the case method. Multiple cases and advanced problems are assigned and will often be discussed in class. These cases and advanced problems will help students learn to apply finance methods and techniques.

Articles from *The Wall Street Journal* will be placed on Blackboard for you to read before each class, and they will be discussed at the next class meeting. The participation grade encompasses discussion of these articles in class.

EVALUATION AND GRADING

Case and Financial Analyses:

A case and two financial analyses are assigned. The case is for in-class discussion and it is from Darden Business Publishing. You can prepare the in-class case on your own but you can work with others too. The other two assignments are not cases per se, but financial analyses using data from Morningstar data. These assignments should be done as a team. You will need to analyze the data and provide a case-like write-up. The data is assembled in a folder in Canvas and the questions are provided at the syllabus. The case write-ups should be no longer than *four* pages inclusive of exhibits (such as tables, charts and figures). The

team should consist of no more than three students. You are free to form your own teams and should work to form a team within the first few classes.

There are specific directions you need to follow for the financial analyses. In addition to the write-up itself, a cover page should be provided that includes the name of the company, student names, the class (MBA 707.01 – Financial Management), the term (Fall or Spring 20XX) and the date. Please provide an assessment of group members' contributions on the last page of the write-up.

The recommended solution must be based on the available data provided in the Canvas folder for the company (with the exception of commonly known factual data) and address the decision and/or questions. Please answer the questions provided on a question-by-question format as these questions are numbered. Other specific instructions will be provided in class or posted online.

The grades on the case write-ups will be based on the ability to provide a feasible solution, one that is also supported from the facts as given, and one that has a solid financial foundation. In addition, you will be graded on grammar, spelling, punctuation, format and general appearance of your case write-up. The financial analyses questions are shown on the last page of the syllabus; you should directly refer to these questions when doing the case write-up.

In an effort to have objective evidence of each member's contribution for the financial analyses, it is strongly suggested that all team members work the questions separately prior to meeting with the team. Group members should also keep a record of all the work done by each member. If a group is unable to make a decision on each member's contribution, the written documentation should be attached for me to evaluate. My decision will be final.

The write-ups are due at the beginning of class on the date when it is due. Late write-ups will not be accepted, or at my discretion, only with a substantial penalty. Please upload a copy of your write-up to Canvas, making be sure that it is in MS Word format. The electronic copy of the case will be marked with my comments and returned to team members. Be sure to copy your Excel spreadsheet into the Word document. I would also recommend that you upload your Excel spreadsheet to Canvas so that I can follow your calculations if needed.

Exams:

In addition to the cases, there will be two midterm exams and a final exam. The midterm exams and final exam will likely have multiple choice questions to test basic knowledge and comprehension of principles and concepts. Open-ended problems will be used mainly to see if you can apply the principles and concepts for solving problems, analyzing situations, and evaluating alternatives. The final exam will cover topics following Exam 2 and also selected topics from earlier in the semester.

There are no makeup exams. If you contact me prior to the exam period and I determine that you have a legitimate reason for missing the exam, you may have the weight of the missed exam placed on the final exam. Also, you may also be able to take an early exam by notifying me at least 48 hours in advance of the regularly scheduled exam subject to my approval. Any request for special accommodations such as extra time to take exams must come through the Office of Disability Services with the appropriate paperwork. For more information, please visit <http://ods.dept.uncg.edu/services/>.

Participation and Attendance:

Attendance is expected in this class, and therefore, the instructor will keep an attendance record. The first step towards having first-rate participation is for students to be present in class. Missing a class will reduce

the participation grade by 5 - 10 points per class. The student is responsible for any announcements made during class even if the student is absent.

Class participation is also part of the overall class grade. Participating in class offers you the opportunity to learn from the diverse experiences and knowledge of colleagues. The participation will be based on your involvement in the class discussions that includes WSJ articles and assignments. An “A” grade for participation requires frequent and insightful comments, while a “B” grade reflects moderate participation and useful comments. A student who are not proactive in discussions or who is unprepared to actively participate on a regular basis will not receive a “B” grade or better. I keep an attendance and participation roster to help me keep a record of frequent and insightful comments.

Although a student’s attitude is not explicitly in the participation grade, it may be considered in the determination of the final grade. Discourteous and/or unprofessional behavior to me and/or fellow students may adversely affect a student’s grade. The amount of the grade reduction is at my discretion.

The cases, mid-term exams, final exam, and participation and attendance will be weighted as follows:

Exam 1	15%
Exam 2	15%
Final Exam	20%
Group Case 1	20%
Group Case 2	20%
Participation and Attendance	<u>10%</u>
Total	100%

The grading scale for assigning final grades is as follows:

Letter Grade	Numerical Score	Letter Grade	Numerical Score
A	92-100	B-	80-81.9
A-	90-91.9	C+	78-79.9
B+	88-89.9	C	70-77.9
B	82-87.9	F	0 – 69.9

Once everything is taken into consideration, the numerical score is rounded no more than one-half point to determine your letter grade. Once final grades are submitted, I will not change grades based on subjective considerations or re-grade old exams or cases.

ACADEMIC INTEGRITY AND STUDENT CONDUCT POLICIES

You are required to sign the Academic Integrity Policy on all major work submitted for the course. In addition, adherence to the Academic Integrity Policy (<http://sa.uncg.edu/handbook/academic-integrity-policy/>) is expected and required of you for all exams, cases, and other assignments. Failure to abide by this policy will result in disciplinary action. In addition, the Bryan School has adopted faculty and student guidelines about expected behavior. For more information on these guidelines is available at <http://bae.uncg.edu/students-resources/>.

ADDITIONAL REQUIREMENTS

The Bryan School has adopted expectation guidelines for faculty and students which can be found at http://bae.uncg.edu/assets/faculty_student_guidelines.pdf. We will adhere to these guidelines.

Tentative Schedule

August 20

Ethics in Financial Management

Reading: Chapters 1 and 2

Reading: Ali M. Fatemi and Iraj J. Fooladi. 2013. "Sustainable finance: A new paradigm," *Global Finance Journal* 24: 101-113.

Review of Financial Analysis

Read Chapter 3 and Appendix; this should be a review from MBA 702 (class discussion focused on case)

Problems: A1, A2, Appendix Review

In-Class Group Case Discussion: (Ratios Tell a Story (2013) -- Darden Case UVA-C-2350)

August 27

Time Value of Money

Reading: Chapter 4

Time Value of Money

Chapter 4 Problems: A3, A4, A9, A11, A13, A22, A24, A26, B6, B9, B10, B16, B21, B29, B31, B32

September 3

Time Value of Money Continued . . .

Chapter 4 Problems: A3, A4, A9, A11, A13, A22, A24, A26, B6, B9, B10, B16, B21, B29, B31, B32

Working Capital: Liquidity Management; Accounts Receivable; Financial Forecasting

Reading: Chapters 22: Section 22.1, 22.2, 22.3 (skip Float Management); 22.4; Chapter 23: Section 23.1, 23.2 (skip Credit Scoring Models); 23.3; Chapter 24 (Section 24.3)

September 10

Working Capital Continued . . .

Problems: Chapter 22: A3, A10, B11; Chapter 23: A1, B1, B2, B8; Chapter 24: B1, B4

Reading: Working Capital: A Summary of Ratios by Industry (Darden Note UVA-C-2348)

September 17

Exam 1: 1st half of class

Valuation of Bonds and Stock

Reading: Chapter 5

September 24

Valuation of Bonds and Stock Continued . . .

Chapter 5 Problems: A5, A6, A10, A12, A14, B5, B7, B11, B18, B20

Risk and Return: Stocks

Reading: Chapter 6

Problems: A2, A3, B10, B12, B14

October 1

Group Case 1 Write-up Due: (Hooker Furniture Corp.: Financial Analysis Part I)

Risk and Return: Stocks Continued . . .

Chapter 6 Problems: A2, A3, B10, B12, B14

Risk and Return: Asset Pricing Models and Capital Market Efficiency

Reading: Chapter 7, 15 (pp. 441-455 only)

October 8

Risk and Return: Asset Pricing Models and Capital Market Efficiency Continued . . .

Chapter 7 Problems: A4, A8, B1, B5, B8, C4

Reading: Applying the Capital Asset Pricing Model (Darden Note UVA-F-1456)

In-Class Problem Analysis: Risk and Return Practice Problem (Excel spreadsheet on Blackboard)

Cost of Capital

Reading: Chapter 8

October 15

Practice Problem (Outside-of-Class): Ford Motor Co. Risk and Return (Excel spreadsheet on Blackboard)

Cost of Capital Continued . . .

Chapter 8 Problems: A1, A2, A6, A8, A9, B6, B7 (assume annual coupon payments), B10

Reading: The Cost of Capital: Principles and Practice (Darden Note UVA-F-1710)

October 22

Exam 2: 1st half of class

Business Investment Rules

Reading: Chapter 9

October 29

Business Investment Rules Continued . . .

Chapter 9 Problems: A4, A8, B6, B9, B10, B17

Capital Budgeting Cash Flows

Reading: Chapter 10

In-Class Problem Analysis: Perma-Filter Co. and Jip-Sum Corp. (on Blackboard)

November 5

Group Case Write-up Due: (Hooker Furniture Corp.: Financial Analysis Part II)

Capital Budgeting Cash Flows Continued . . .

Chapter 10 Problems: A6, A8, A11, B5, B7, B13, B19

Options

Reading: Chapter 12

Problems: Chapter 12: A3, A6, B3, B4

November 12

Options Continued . . .

Problems: Chapter 12: A3, A6, B3, B4

Capital Structure

Reading: Chapter 17 (skip Sections 17.6, 17.7)

November 19

Capital Structure Continued . . .

Problem: B1, B3, B11

December 3

Final Exam (7:00 – 10:00 p.m.)

Hooker Furniture Corp. (HOFT) Case Questions

Case 1: Hooker Furniture Company (Part I)

1. Examine the financial information provided for HOFT in the income statement, balance sheet and statement of cash flows from 2010.01 – 2015.01. Contrast the sources and uses of funds in 2010.01, 2013.01 and 2015.01. How have operating, investing and financing activities changed over these years, and why? What trend does this mean to the financial health of the company in 2015?
2. Assume that HOFT will have net income of \$10 million in 2015.1 - 2016.1. If the firm needs a \$30 million cash balance to operate effectively, and if HOFT plans to repurchase 1 million shares of their stock at the market price at the end of March 2015 (1st quarter) how much funds would need to be borrowed? Create a pro forma statement of cash flows for 2016.1 using a format similar to the historical statement of cash flows for HOFT. Assume that HOFT would pay the same dividend per share as in 2014 - 2015. In addition, the other account balances would be the same as in 2015.1 statement of cash flows and no other debt issuance or debt repayment will take place.
3. Use the DuPont system of ratio analysis to examine the return on equity (ROE) of HOFT from 2010.1 to 2015.1. What are the underlying cause(s) of the change in ROE? After identifying the underlying cause(s) from the DuPont analysis, examine the liquidity, efficiency and profitability ratios to identify improvement or deterioration in ratios affecting ROE.
4. Examine the cash conversion cycle (CCC) from 2010.1 to 2015.1. What has happened to the CCC over this time period, and why? If HOFT can reduce their net days inventory, equal to days inventory outstanding minus days payable, by 10 days, how much cash could be freed up by this strategy?

Case 2: Hooker Furniture Company (Part II)

1. There are several approaches that can be used to estimate the cost of equity capital. These are the constant dividend growth rate model, the inverse of the E/P ratio, and the capital asset pricing model (CAPM). Please estimate the cost of common equity using all three approaches. Explain your assumptions, the strengths and weaknesses of each approach, and the favored model that you would apply to HOFT and why.
2. What is the weighted average cost of capital (WACC) for HOFT based on your chosen approach?
3. There is another approach to valuing equity! Recall that free cash flows are the cash flows actually available to investors after the company has made investments in fixed assets and working capital to sustain operations. The present value of these free cash flows at the WACC is the enterprise value which is the market value of total stock plus debt investment in the firm. Much like the approach taken to value non-constant growth stock, you can find the present value of the free cash flows during the non-constant growth period, and then add to it the present value of the terminal value. The terminal value is the present value of the free cash flow stream that occurs at the end of the non-constant growth period. Although free cash flows have been quite variable, let us assume that free cash flows are estimated to be \$16 million for 2016.1, and that the free cash flows will grow by 10% for two additional years. Thereafter the growth rate will be 2.5% annually into the foreseeable future. Estimate the enterprise value of the firm and the price per share of common stock for HOFT.
4. Based on your analysis in #3 and the market price, would you purchase HOFT stock and add it to your portfolio? Why or why not?