

FINANCE 425

Syllabus - Spring 2012*

Instructor details:

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TA Details:

TBD

Class details:

Section 1: Tu/Th, 12:00-1:15 pm, Todd 409
Section 2: Tu/Th, 2:50-4:05 pm, Todd 409
Website: <http://www.cb.wsu.edu/~nwalcott/finance425>
Office hours: Tuesdays 1:30 – 2:30 pm and by appointment

Course Objectives:

“All decisions are financial decisions,” or so wrote Arthur Stone Dewing in his monumental 1953 text on corporation finance. In a literal sense, Dewing overstates the case, but interpreted more broadly his statement does reflect the pervasive importance of money and finance in personal and business affairs. For even when actions or decisions are not motivated by financial considerations, they invariably have monetary repercussions. Moreover, financial measures such as earnings per share, return on equity, and the debt-to-equity ratio have become the yardsticks by which business performance is measured; so even when no decision is involved, simply keeping score involves finance.

The purpose of Finance 425 is to give you a thorough introduction to financial management that blends appropriate amounts of relevant theory with practical application. The course will provide a conceptual foundation for analyzing a firm’s financial decisions. We will emphasize modern finance theory and analytical tools, and use them to analyze selected financial issues of the firm. The issues include:

- Financial Analysis
- Sustainable Growth
- Investment Decisions
- The Cost of Capital
- Capital Structure Decisions
- Financial Planning
- Business Valuation
- Developing Financial Strategy
- Mergers and Acquisitions

The course will be a mixture of lectures and case discussions. We will look at the theory and focus on the theory to make financial decisions for the firm. What you learn in this course will help you be more successful in your job, understand the strategy and operations of your future employer, and increase your effectiveness in your future working roles as manager, competitor, consultant, or investor.

Finance 425 draws from and integrates material in your previous finance, economics, accounting, and quantitative methods courses. Specifically, you should be familiar with the basic financial tools of net

present value, valuing stocks and bonds, the capital asset pricing model (CAPM), and the efficient markets hypothesis. If you need a refresher, refer back to your materials from Finance 325.

Required Material:

- Finance 425 Coursepack: Cases and reading material available at the bookstore under the Finance 425 course title. This coursepack is also available as an e-book from the publisher at a discounted price. More information will be available about this option on the first day of class.

Recommended Material:

- Any intermediate corporate finance textbook.

The coursepack includes sections of reading material that adequately cover the concepts that we will discuss in this course. In addition to the lectures, a textbook is not required. However, you may prefer to have additional resources to help with the more difficult subjects of this course. The textbook from your Finance 325 course (e.g. Brealey, Myers and Marcus' textbook Fundamentals of Corporate Finance) will work just fine. I have placed a copy of the Brealey, Myers, and Marcus textbook on reserve in Holland Library.

- A subscription to *The Wall Street Journal* (comes with free access to WSJ-online)

Office Hours:

If you have been attending class but are still falling behind, visit me during my office hours. I have scheduled office hours so that you can be sure that I will be in my office if you trek over to Todd Hall. I have formal office hours on **Tuesdays** from **1:30 pm** to **2:30 pm**. I will hold additional office hours in the week prior to an exam. If you need to see me, but cannot attend scheduled office hours, e-mail, call, or see me for an appointment (give me alternative times that would be convenient for you). These meetings will be much more productive if you come well prepared, and you can express your difficulties in terms of a specific problem or concept covered in class.

Grading:

The course grade is based on the following factors:

Daily Classwork:	35%	
Case Summaries:	10%	
Assignments:		
Financial Statement Analysis	10%	
WACC	15%	
Firm Valuation	15%	
<u>Final Exam</u>	<u>15%</u>	(Monday, April 30 th , 1-3pm, room TBD)
Total:	100%	

The target distribution for this course sets the average course grade at a B/B-.

Daily Classwork:

It is essential that you prepare conscientiously for class. The preparation and related in-class discussion provide most of the learning experience. Plan to spend two to three hours preparing for each class session. You should be ready to present an overall analysis of the case, or address one or more of the case discussion questions, when called upon. Your daily classwork grade will depend heavily on the quality of your contributions to class discussions. You may feel free to work in groups in preparing for class.

So what is conscientious case preparation? Read the case thoroughly; identify the principal issues to be addressed in the case; attempt to analyze these issues using your common sense and any appropriate tools or techniques; and note any action recommendations implied by your analysis. Alternatively, if you find yourself hitting a roadblock, try to articulate what your problem is. Oftentimes, identifying roadblocks is as valuable as a complete analysis. To help you in your analysis, I will post spreadsheets on the class website with data from “relevant” exhibits to most of the cases.

For each case assigned you will note below that I have posed one or more preparation questions. The questions play several roles depending on the case. Usually the questions are simply to help you get started on your analysis, and you should not feel constrained by them. Nor should you assume that answering all of the preparation questions necessarily constitutes a complete analysis. In other instances, I may give you additional information in the questions, or when the case is a mechanical one, I may ask you to perform specific calculations. My general advice is always to read the preparation questions, but do not feel overly constrained by them.

Do not be surprised if after conscientious preparation you still feel there are some loose ends in the case you are not certain about. If it were otherwise, there would be nothing for you to learn in class, and I would have been guilty of selecting a case that was too simple. Your test of whether you are learning the material, and progressing adequately, should be how you feel after the class discussion, not before. You are doing fine if after a class discussion you believe you could adequately handle a similar situation in the future.

I tend to vacillate between asking for volunteers and calling on individuals. **If you are not prepared, please notify me before class, and we can both avoid the embarrassment.** If you have spent several hours on the case, but still feel unsure of your opinions, count yourself prepared. If you have made the effort, you should never feel embarrassed by the result.

Opportunities for participation extra-credit:

Finance Industry Night: Every year, the WSU finance department hosts finance industry professionals to discuss their professions, and this discussion is open to students. Students who attend the Finance Industry Night will earn extra-credit participation points (equal to a day of participation in class). The date of this event has not yet been set; I will announce the date and time of the Finance Industry Night as soon as it has been determined.

Create a profile on LinkedIn.com: The WSU Business School is trying to encourage students to join the professional networking site LinkedIn.com. This site allows students to network with current and former Cougs to find internships and employment upon graduation. Students can earn extra-credit participation points (equal to a day of participation in class) by creating a profile on LinkedIn.com. To obtain the extra credit, do the following:

1. Join LinkedIn.com and create a profile. Be sure to include your planned graduation date in your education profile.
2. Join the “WSU College of Business Students and Alums” group.
3. Print your entire profile (click on “Profile” at the top of the page, click on the “View Profile” tab, and then print) and turn it in to me.

Case Summaries:

To help (force) you to prepare for the case discussions, you will be required to prepare a ½ to 1 page summary of each case we cover in class. This summary should contain 1 or 2 paragraphs describing the situation and decision that is encountered in the case, and 1 or 2 paragraphs describing your analysis. I will collect these summaries at the beginning of class each day (if you want to refer to your summary during the class period, bring two copies to class). You do not have to prepare case summaries for the cases that are assigned as case assignments (see next section).

While I welcome and encourage collaboration within groups to prepare for these cases, I want individual summaries from each student. Put another way, I should not receive identical summaries from different students. Case summaries are due at the beginning of class, and late summaries will not be accepted. If you cannot attend class on the day that a case summary is due, I will accept summaries attached to emails that arrive in my inbox before the beginning of class.

Assignments:

Finance 425 is a “Writing in Major” course in the finance department. In accordance with this designation, the assignments in the course will be written analyses done by you related to concepts covered in class. Each assignment should be done individually (i.e. no group work on the assignments). This means you should not work with ANYONE... **including parents, siblings, or material that exists on the internet.** You must submit hard copies of each assignment.

Your grade on these assignments will be based on two components: the quality of your analysis and the quality of your writing. I will distribute the assignments during class and will post them on the class website. I will also give you guidance on how to write the assignments.

As per the “Writing in Major” policy, you have the option of submitting these assignments into me early for feedback so that you can make changes in your final submission. The deadline for submitting assignments for feedback is ONE WEEK prior to the due date of each assignment. There are no exceptions to this policy. The assignments are due at the beginning of the class on the due date. No late assignments are permitted without my authorization, and any late assignments accepted will be subject to late penalties. As with case summaries, I will accept assignments by email from students who are unable to attend class, but the emails must be received prior to the beginning of class. Any emailed assignments should be properly formatted for printing.

Final Exam:

The final exam in this class will be an in-class exam. All material covered during the semester will be fair game for the final exam. The final exam schedule for the WSU puts our final exam time on Monday, April 30th, 1-3pm (it is listed under block finals). To accommodate both sections, I will reserve a larger classroom within Todd Hall for the final exam. I will let you know the location of the final exam when the room is booked.

Special Arrangements:

Students with Disabilities: Reasonable accommodations are available for students with a documented disability. If you have a disability and may need accommodations to fully participate in this class, please visit the Disability Resource Center (DRC). All accommodations **MUST** be approved through the DRC (Washington Bldg, Room 217). Please stop by or call 509-335-3417 to make an appointment with a disability specialist. The DRC website is <http://www.drc.wsu.edu>.

Academic Misconduct:

I take academic misconduct cases very seriously. Any student found in violation of academic regulations (as defined by the WSU Office of Student Conduct) will automatically receive an F in the course and will be reported to the Office of Student Conduct, with no exceptions.

Safety on WSU Campus: The WSU Provost's Office has issued the following statement:

The University has developed a resource in support of our commitment to the safety of students, faculty, staff, and visitors. The Campus Safety Plan, which can be found at <http://safetyplan.wsu.edu>, contains a comprehensive listing of university policies, procedures, statistics, and information relating to campus safety, emergency management, and the health and welfare of the campus community. I ask that all faculty, staff, and students visit this website as well as the University emergency management website at <http://oem.wsu.edu/emergencies> to become familiar with the campus safety and emergency information provided. Faculty members should provide these links to students by mentioning them in class, including them in every course syllabus, and posting them on course websites. Additionally, I ask that all faculty discuss classroom emergency information with their students for each individual classroom or laboratory where they teach. Everyone should also become familiar with the WSU ALERT site (<http://alert.wsu.edu>) where information about emergencies and other issues affecting WSU will be found. This site also provides information on the communication resources WSU will use to provide warning and notification during emergencies. It should be bookmarked on computers. Finally, all faculty, staff, and students should go to the myWSU portal at <http://my.wsu.edu> and register their emergency contact information for the Crisis Communication System (CCS). Enter your network ID and password and you will be taken to the myWSU main webpage. Look for the Emergency Notification box on the right side of the page and click on Register to be taken to the registration page where you can enter you cell, landline, and email contact information.

Course Schedule

1. Tuesday, January 10 – **Introduction to Financial Analysis**

Lecture: Overview of Syllabus
Financial Ratio Analysis

2. Thursday, January 12 – **Financial Ratio Analysis**

Read: Higgins, Chapter 2, “Evaluating Financial Performance”
Lecture: Continuation of Financial Ratio Analysis

3. Tuesday, January 17 – **Financial Ratio Analysis**

Prepare: Ratios Tell a Story – 2009 case

- a) Match the 13 anonymous firms with the correct industry, using the data given in the case. Be prepared to discuss why you matched the firms the way you did.

4. Thursday, January 19 – **Financial Ratio Analysis**

Prepare: Ratios Tell a Story – 2009 case (continued)

5. Tuesday, January 24 – **Financial Analysis/Growth Management**

Read: Higgins, Chapter 4, “Managing Growth”

Prepare: Spencer Sporting Goods case

- a) What are Spencer's main strengths and weaknesses at the present time?
- b) Why does this profitable company need money?
- c) What was Spencer's sustainable growth rate over the past 4 years? How do these sustainable growth rates compare to actual growth rates in sales? What conclusions do you draw from this comparison?