Syllabus (Spring 2009)

FINA 7330: Advanced Corporate Finance

NOTICE: This is a preliminary draft of the syllabus. An updated version will be distributed in the first class.

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This is the syllabus for this course. This page can be found through the University of Houston's Vista/WebCT at http://www.uh.edu/webct. It may be easier to bookmark this page directly. In fact, you should use this web site, only, since I will not be using WebCT/Vista at all. A PDF version of this web page can be downloaded here.

Course Overview:

Building on the core finance class, we examine financial decisions that managers face, with an emphasis on how decisions on the financing side of a firm’s business can create or destroy value. We will develop the ideas and tools that help you make decisions, and we will apply this knowledge when working on case studies.

Specific issues covered include:

- Valuing businesses while building in capital structure effects,
- Capital structure and corporate strategy,
- Costs of financial distress and conflicts between different investor groups,
- Effects of financing decisions on managerial incentives,
- Issuing securities,
- Dividends and share repurchases,
Options basics and applications.

Throughout the course, our primary viewpoint is that of a corporate financial manager; however, since corporations get funds from investors, we will often look at issues from an investor’s point of view and then examine the implications for managers.

You will notice that valuation is a central theme in this course: In order to make or understand financial decisions, you need to examine what consequences they have (we will focus on risky future cash flows) and how to compare the alternatives. You need to practice the proper approach to valuation: the expected future cash flows matter!

You will also be surprised to learn that while we deal with numbers a lot, I will rarely insist that one particular answer or point of view is "correct", and all others are "wrong". You will learn to use tools that improve your decisions, but they do not automatically or mechanically produce easy answers. Experience and common sense will remain essential, and these tools will allow you to make better-informed decisions (and to avoid certain types of mistakes).

This course is essential for anyone planning a career in finance, whether at a corporation or a financial institution. It is recommended for all business students, since any decision made in corporations may add or destroy value, and this course will improve your ability to judge whether value is being added or not.

Course Outline

The course outline is only tentative; depending on the progress that we make, it may change.

<table>
<thead>
<tr>
<th>Date</th>
<th>Class</th>
<th>Topics covered and to be prepared (numbers refer to sections in the class notes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 20, 2009</td>
<td>Class 1</td>
<td>0, 1: Overview; review of capital budgeting, CAPM, etc.; 2: Capital structure: introduction;</td>
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<tr>
<td>Jan. 27, 2009</td>
<td>Class 2</td>
<td>/Team lists due!/ 3: Weighted average cost of capital (WACC)</td>
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<tr>
<td>Feb. 3, 2009</td>
<td>Class 3</td>
<td>/Teams must choose a firm!/ Talk through first part of the Marriott case; 4: Valuation: adjusted present value (APV)</td>
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<td>Feb. 10, 2009</td>
<td>Class 4</td>
<td>CASE: Marriott Cost of Capital; 4: Valuation: adjusted present value (APV)</td>
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<tr>
<td>Feb. 17, 2009</td>
<td>Class 5</td>
<td>5: Financial distress</td>
</tr>
<tr>
<td>Feb. 24, 2009</td>
<td>Class 6</td>
<td>6: Issuing securities</td>
</tr>
<tr>
<td>Mar. 3, 2009</td>
<td>Class 7</td>
<td>CASE: Joyce's Juice; 7: Capital structure</td>
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<tr>
<td>Mar. 10, 2009</td>
<td>Class 8</td>
<td>8: Payout policy: dividends and stock repurchases</td>
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<tr>
<td>Mar. 17, 2009</td>
<td>Class 9</td>
<td>No Class: Spring Break</td>
</tr>
<tr>
<td>Mar. 24, 2009</td>
<td>Class 10</td>
<td>CASE: National Convenience Stores</td>
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<tr>
<td>Mar. 31, 2009</td>
<td>Class 11</td>
<td>9: Options — basics, valuation</td>
</tr>
<tr>
<td>Apr. 7, 2009</td>
<td>Class 12</td>
<td>CASE: FPL</td>
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<tr>
<td>Apr. 14, 2009</td>
<td>Class 13</td>
<td>9: Options — basics, valuation; 10: Investment projects as options</td>
</tr>
<tr>
<td>Apr. 21, 2009</td>
<td>Class 14</td>
<td>11: Corporate securities as options</td>
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</tbody>
</table>
**Prerequisites:**

**Finance:** You should have taken FINA 6335 (Managerial Finance). You need to have practiced "time value of money" calculations: discounting of future cash flows, given a rate of return; calculating the present value of annuities and perpetuities; some familiarity with the CAPM and betas.

**Accounting:** You need some basic knowledge. If you don't know what assets, liabilities, EBITDA, EBIT, Net Income, Operating Cash Flow, etc. mean, you definitely need to improve your knowledge. You may want to use the two Merrill Lynch brochures on understanding financial statements that I mention (with web-link) on the "materials" web page (they are well written, and free!).

**Maths:** I will assume that you have a working knowledge in basic algebra and statistics. The level of mathematics that you will need for this course is not very high, but if you are not comfortable working with equations with “x” and “y”, you may be at a disadvantage. Working in the finance field requires quantitative skills, and the courses that follow this one will not be easier.

**Computer skills:** This course involves some number-crunching, and spreadsheet software (Microsoft Excel, Lotus 1-2-3, StarOffice Calc, Google Spreadsheets, etc.) will come in extremely handy. In fact, you will be at a considerable disadvantage when working on the case studies, if you are not familiar with spreadsheet software. If you do not regularly use spreadsheet software, this is the ideal time to learn how to use it.

**Equipment:**

You will need a calculator in the exams, and you will sometimes find it useful in class. A basic scientific calculator that does powers is fine. If you have a financial calculator, you can use it in this class. Two remarks on exams. First, no computers are allowed. Second, you may use a financial calculator, but you must nevertheless convince me that you know what you are doing: just writing down a result or the variables you keyed in is not convincing; you should write down both the correct formula and the correct result. If your answer seems unconvincing, you won't get full credit, even if the numbers are right.

I assume that you have access to a computer and spreadsheet software. I also assume that you have access to the web, and that you regularly check your email.

**Readings and other materials**

Required readings (lecture notes and case studies) are in the course packet, available at the Copy Center (Melcher Hall, room XXX). (For a list of the contents of this course packet, please click here.) You should bring it to every class. The lecture notes have gaps where you should add your own comments, answer questions, take down details of calculations, etc. The lecture notes help me structure the course, and they make your life easier because you do not have to write down everything. They will also make it easier for you to compare your notes with other students', or to ask me clarifying questions.

Additional materials will be handed out during the semester. It will also be downloadable from the Materials page.
There is **no required textbook** for the course. If you would like to buy a textbook anyway, and you need advice on which book to get, please check out the [Materials page](#).

**Accessibility Statement:**

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.

**Classes**

<table>
<thead>
<tr>
<th>Class</th>
<th>When</th>
<th>Where</th>
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<tbody>
<tr>
<td>Section 01, Class #16722</td>
<td>Tuesday, 6:00PM - 9:00PM</td>
<td>MH 140</td>
</tr>
</tbody>
</table>

Class participation is mandatory. The course is a mix of lecture/discussion and cases. I expect students to come to class prepared for active participation in both situations.

To make the most efficient use of limited class time, students who miss a class or are late are responsible **themselves** for getting notes, assignments, and announcements from their classmates. Handouts may be obtained from me outside of class, or you can download them from the [Materials page](#).

**Classroom Etiquette**

- Please remember to turn off your cell phones, in particular during exams.
- If you bring your notebook into the classroom, please act in a mature fashion: no emailing, surfing of web pages, etc., i.e., activities that distract you and (much more importantly) other students sitting near you. As I explain below, there is a participation component in the overall course grade --- violating this no-internet rule will *seriously* reduce your participation score.

**News**

If something should come up (e.g. schedule changes, corrections of materials, announcements, etc.) I will let you know by email, and I will post messages on the [News page](#).

**Getting in touch with me**

The easiest way will be to use email: povel@uh.edu. My office phone number is (713) 743-4759. My office is Melcher Hall 230D.

Scheduled office hours: Tuesday, 1:30-3:00pm. You can also try to get in touch at other times, but please do not come to my office right before class, when I am busy preparing for class. It is important that you contact me immediately if you are uncertain or worried about your performance: I may be able to give you feedback on your performance, what you can improve, etc. The sooner problems are identified, the better.

**Teaching Assistant**

Teaching Assistant: Raymond Foo, a Finance Ph.D. student here at Bauer. He will assist me in grading the cases, and he may hold review sessions during the semester. He will not hold office hours: if you have problems or questions, discuss them with your teammates, or get in touch with me.

**Cases**
There will be four written cases. Specific instructions are provided for each case (in the course packet, typically on the pages that precede the case).

The cases and the write-ups must be prepared in groups of 3-4 people. You must give me a list of your group members in the second week of class; groups may not be changed without my permission.

When working on the cases, you are free to make use of all class materials, but do not use outside sources without my permission, and do not get help from anyone outside your group. I regard use of outside sources or help without my permission as academic misconduct.

Case write-ups are due before class on the day we will discuss the respective cases. In addition to handing in a write-up, please also send me your spreadsheets (by email), so the teaching assistant and I can check how you calculated your numbers. Please send your spreadsheet as an email attachment, both to my address (povel@uh.edu) and the TA's (Raymond) (rcfoo@mail.uh.edu).

The schedule is preliminary and may be changed.

Please set aside enough time to work on the cases. Most of them involve valuations of businesses or business segments which are not straightforward. Don't expect to discover immediately what valuation approach is reasonable; this is more likely to come out of a time-consuming trial-and-error process, involving work on your own and with your teammates. The ideal approach is for every team member to prepare a rough sketch of a possible write-up, including in particular spreadsheets; then you can meet, discuss your ideas and put together a team write-up that you will hand in. You should resist the temptation to free-ride on your team members' efforts: in the past that led to inferior performance in class and in exams.

**Public-Firm Project**

Within the first two weeks, I will expect you to form teams to work on cases. The same teams need to choose a publicly traded firm (a firm listed on one of the major exchanges, like the NYSE or Nasdaq) that they would like to track during the semester. I will expect you to be informed about this firm as we discuss various topics, e.g., capital structure (what leverage does it have? types of debt? etc.); payout policy (dividends? changes in dividends? share repurchases? etc.); etc.

Also, at the end of the course, I expect you to prepare a short valuation of your firms, using the tools that we discussed in class. There will be short presentations in the last class, where each team is given time to present the firm, and its valuation. Other students may ask questions about the techniques and assumptions used. More information on this will be made available as we progress through the course. I expect you to choose your firm before the start of the third class.

**Exams**

There will be two short quizzes (of about one hour) and one final exam. The final will be cumulative, i.e., it will include topics from the entire course.

The quizzes and the final exam are closed-book / closed notes. However, you are allowed to bring a "cheat-sheet" with notes, written on one side of one sheet (8.5"x11") for the quizzes and both sides of one sheet (8.5"x11") for the final. I regard these "cheat-sheets" as helpful tools for studying: You should carefully put together material that you feel will help you in the exams; that will help you structure the material, recall essential formulas and procedures, etc. You should start working on your "cheat-sheet" from the first class, and you should plan to re-write it often.
You should bring a calculator. If you decide to use a financial calculator, make sure you know how to operate it; see above, under Equipment.

We can schedule a review session before the Finals, if you are interested. To enhance productivity, this would be a questions-only session, meaning that I won't prepare any questions myself. Obviously, participation in these review sessions will be absolutely voluntary (attending it will not improve your participation grade).

**Grading**

Your overall grade for the course is based on your performance in the quizzes and the final exam, the case studies, the team presentation on the public company that you selected, and on your class participation. This is used to compute a "base grade", and your class participation may improve or worsen this grade.

When calculating the "base grade", the two quizzes each get a weight of 1/8 (together 1/4); the final exam gets a weight of 1/4; and the case write-ups get a weight of 1/10 each, and the team presentation on the chosen publicly traded firm also gets a weight of 1/10. In case things don't go well in the quizzes: if the final exam score is higher than the score on the two quizzes, I will reduce the weight on the quizzes to 1/12 each, and increase the weight on the final exam to 1/3 (this doubles the weight on the final, compared with the midterms).

Class participation: If your individual class participation is strong, I will add a third of a grade to your "base grade": for example, an A- would become an A. Students with a weak performance in class may have their base grade decreased by a third of a grade (e.g., from A- to B+). Please take class participation seriously, not only because it affects your grade, but because it helps you learn. The purpose of grading class participation is to encourage you to take active control of your learning: the more involved you get and the better prepared you are, the more you will benefit from this class.

The participation evaluation will include a peer-assessment on contributions within case teams: each member will grade the other members' performance at the end of the term.

Questions about grading: Requests for a regrade must be made in writing within two weeks of the time the graded work is returned, and must clearly and specifically explain where and why you think you were graded incorrectly.

**Academic Misconduct**

Academic Honesty: The University of Houston’s Academic Honesty Policy is strictly enforced by the Bauer College and by this professor. A discussion of the policy is included in the UH Student Handbook, [http://www.uh.edu/dos/publications/handbook.php](http://www.uh.edu/dos/publications/handbook.php). It is your responsibility to fully understand and comply with all principles contained within this Handbook. Please make sure you understand this policy and in particular, you understand the meaning of plagiarism.

Last update: December 8, 2008