

UNIVERSITY OF COLORADO

Leeds School of Business
Prof. Ronald W. Melicher
Office: Koelbel Building, Room S405G
Office Hours: M & W 2:00-3:15 PM,
& by Appointment

APPLIED FINANCIAL MANAGEMENT

MBAX 6210, Section 800, Spring, 2008
Time: MW 3:30-4:50 PM
Classroom: KBOL S127
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Course Description:

This course emphasizes financial decision-making and the formulation of financial strategies that will maintain and enhance business values. Case studies are used as the vehicle for learning to prepare financial plans, make capital structure decisions, and value projects and businesses. Topics include short-term and long-term financial planning, estimating the cost of financial capital and setting target debt policies, and making valuation estimates using discounted cash flow (enterprise and equity approaches) and multiples methods. Acquisition valuation methods, leveraged buyouts, and initial public offerings also are covered.

Course Objective:

The primary objective is to develop an understanding and working knowledge of how finance practices, techniques, and theories are currently applied in business with the learning vehicle being case settings. Students should be able to apply necessary analytical finance skills and convey analytical insights in recommending specific and comprehensive solutions to the cases. Integration of materials from prior courses in accounting, finance, and managerial economics is encouraged as part of the analytical process. Student learning objectives include the demonstration of financial planning, cost of financial capital, and firm valuation knowledge and skills. Learning assessment is measured by performance on case write-ups and learning exercises.

Required Materials:

Course Packet and Case Packet:

Both are available at the CU Campus Bookstore.

Textbook:

Eugene Brigham and Michael Ehrhardt, **Financial Management: Theory and Practice**, Twelfth Edition (Thomson/South-Western, 2008). [referred to as **B&E**]

Reference Book:

Robert Higgins, **Analysis for Financial Management**, Eighth Edition (Irwin/McGraw-Hill, 2007). [referred to as **H**]

When You Have the Time:

1. Peter Bernstein, **Capital Ideas: Improbable Origins of Modern Wall Street** (Free Press, 1992)
2. Peter Bernstein, **Against the Gods: The Remarkable Story of Risk** (John Wiley & Sons, 1996).
3. Robert Schiller, **Irrational Exuberance** (Broadway Books, 2001).
4. Jeremy Siegel, **Stocks for the Long Run**, Fourth Edition (McGraw-Hill, 2008).

Procedures and Expectations:

Students are expected to abide by the University of Colorado Student Honor Code, attend all class sessions, be prepared to discuss each day's assigned topic or subject matter, and behave in a professional manner. Honor code information is available at <http://www.colorado.edu/academics/honorcode>. The honor code pledge is: **“On my honor, as a University of Colorado at Boulder student, I have neither given nor received unauthorized assistance on this work.”**

Students with disabilities who qualify for academic accommodations must provide a letter from Disability Services (which determines accommodations based on documented disabilities) and discuss specific needs with the professor, preferably during the first two weeks of class. For more information, please refer to: <http://www.colorado.edu/disabilityservices>. In the event of a conflict between religious obligations and scheduled assignments and exams, a mutually satisfactory solution will be reached (for University policies see: http://www.colorado.edu/policies/fac_relig.html). University policies regarding classroom behavior is available at: <http://www.colorado.edu/policies/classroombehavior.html>. University policies regarding discrimination and harassment are available at: <http://www.colorado.edu/policies/discrimination.html>.

Assignments:

Students will form (or be assigned to) a team or group that typically consists of four students. Each group will prepare four major written reports [approximately five pages in length (single spaced with double spacing between paragraphs with ample use of sub-headings) plus supporting documentation]. Written reports are expected to be in the form indicated in the instructions distributed to the class. The starting point for each case is a “**base case**” or **business as usual (BAU) scenario**, i.e., an indication of what is likely to happen in the future if the firm continues to operate as it has in the past.

Each team/group also will be responsible for one group oral case presentation (Group 1 will be first, followed by Group 2, etc.). A one-page executive summary plus supporting documents is required for three “minor” cases (i.e., cases when a group is not writing a major case). **Each written case (major or minor) must be the group’s own effort and product. No portion is to be extracted from previously prepared case analyses or solutions.**

Students also are responsible for current examples of financial management in practice as reported in **Business Week**, **Fortune**, and the **Wall Street Journal**. Problem assignments and article readings from academic journals also may be required.

Grading Procedures:

The final grade will be based on four major group-written cases (16.25% each, for a total of 65%), minor cases and the oral case presentation (5%), class participation (5%), and one “learning exercise” or exam (25%). The “learning exercise” will be a series of problems similar to those assigned and/or covered in class and which review the concepts, tools, and techniques applied in preparing the various cases. A portion of the exam may be out-of-class.

Course Outline:

<u>Date</u>	<u>Topic</u>	<u>B&E and H Readings</u>	<u>Cases and Other Assignments</u>
<u>Week 1</u>			
Jan. 14	Introduction & The Financial Goal: Value Enhancement	B&E: Ch 1 H: Ch 1	In-Class Activities
Jan. 16	Evaluating Financial Performance	B&E: Ch 3,4 H: Ch 2	Pr: Salzburg Technology
<u>Week 2</u>			
Jan. 21	Martin Luther King, Jr. Holiday		No Class
Jan. 23	Intro. To Financial Planning	B&E: Ch 14 H: Ch 3	Pr: Minoso Corporation Programmed Exercise
<u>Week 3</u>			
Jan. 28	Long-term Financial Planning		The Body Shop Int’l (1)
Jan. 30	Short-term Financial Planning	B&E: Ch 22	Pr. Artero Corporation Pr. Salzburg (revisited)
<u>Week 4</u>			
Feb. 4	Short-term Financial Planning		Toy World, Inc. (2)
Feb. 6	Sustainable Sales Growth Rates	H: Ch 4	Pr. Minoso (revisited)
<u>Week 5</u>			
Feb. 11	Planning/Restructuring to Build Value		Advanced Medical (3)
Feb. 13	Cost of Financial Capital	B&E: Ch 10,16 H: 8	Pr: Norton Manufacturing Marriott Corp: Cost of Capital [review] (4a)
<u>Week 6</u>			
Feb. 18	Cost of Capital & Debt Restructuring		Marriott Corp (A) (4b)
Feb. 20	Economic Value Added (EVA) Target Debt & Dividend Policies	B&E: Ch 3 B&E: Ch 16,18 H: 6	Pr. Worldwide

Week 7

Feb. 25	Value Drivers & Creation Strategies		The Battle for Value: FEDEX vs. UPS (5)
Feb. 27	Capital Investment Decisions	B&E: Ch 11,12 H: 7,8	Pr: Bell Manufacturing Pr: Zendella Company

Week 8

Mar. 3	Project Analysis & Evaluation		Pressco, Inc. (6)
Mar. 5	Replacement Decisions & Real Options	B&E: Ch 12	Pr: Medical Manufactur'g

Week 9

Mar. 10	Capital Investment Strategies: Risky Investments & Capital Rationing		Euroland Foods (7)
Mar. 12	Firm Valuation: Discounted Cash Flows	B&E: Ch 15 H: 9	Pr: Datamatrix, Inc.

Week 10

Mar. 17	Firm Valuation: DCF Enterprise Method Investment Banking and Initial Public Offering (IPO) Process		Pr: Wok Yow Imports
Mar. 19	Firm Valuation: IPO, etc.	B&E: Ch 19	Eskimo Pie Corp (8)

Week 11

Mar. 24	Spring Break		
Mar. 26	Spring Break		

Week 12

Mar. 31	Mergers, Buyouts, etc. Multiples-Based Valuations	B&E: Ch 25 H: 9	Pr: Global Corporation
Apr. 2	Acquisitions & Valuing Companies		Interco (9)

Week 13

Apr. 7	M&A Strategies: Synergy Implications	B&E: Ch 21,25	Pr: Wok Yow (revisited)
Apr. 9	Leveraged Buyouts: MBOs & LBOs		John M. Case Co (10)

Week 14

Apr. 14	International Finance: China	B&E: Ch 26	SAIF: May 2004 (11a) & BabyCare Ltd (11b)
Apr. 16	Course Summary and Review		

Week 15

Apr. 21, or Apr. 23	Learning Exercise (2:00-4:50 PM)		In-class Exam
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GUIDELINES FOR ORGANIZATION OF WRITTEN REPORTS

Focus: For each case, assume that you are a member of a consulting organization that has been hired by the top management of the firm being analyzed. In order to earn your “consulting fee,” you are to make an independent assessment of the problems/issues faced by the firm, analyze alternatives for addressing these problems/issues, and make specific recommendations to top management as to what should be done. The ultimate objective of your recommendations should be the formulation of a financial plan or strategy that is feasible and reasonable and which will enhance the value of the firm to its owners.

Suggested Outline:

Following is a suggested outline for the consulting reports. A report should be approximately five single-spaced pages of text (make liberal use of headings and sub-headings, double-space between paragraphs, number each page, etc.) plus supporting documentation (tables, charts, spreadsheets). The final report should look “professional” and be something that you would be “proud” to submit to a client.

EXECUTIVE SUMMARY:

Provide a one-page summary of the major problems/issues addressed, your specific recommendations, and indicate how the firm’s value will be enhanced if the recommendations are followed. [Note: the “executive summary,” while placed at the beginning of your report, should be prepared only after the full report has been completed.]

A. INTRODUCTION:

Describe (convey your understanding of) the firm’s business model in terms of how the firm generates revenues, makes profits, and produces free cash flows, or plans to do so in the future.

B. PROBLEMS AND ISSUES:

Provide a comprehensive statement of the problems or issues faced in the case and **which you will address** in the analysis section.

C. NUMERICAL ANALYSIS AND ANALYTICAL INSIGHT:

This section should show the results of your comprehensive numerical and qualitative analyses. Please use sub-headings to separate your different kinds of analysis. It is important to convey in writing your analytical interpretations or insights based on the analysis. Express your ideas succinctly and clearly. Summary tables, charts, or graphs are appropriate here with detailed supporting information being provided at the end of the report.

D. RECOMMENDATIONS:

Recommendations for each of the previously stated problems should be provided here. The recommendations should be both specific and comprehensive and should follow directly from the presented numerical analyses.

E. SUPPORTING DOCUMENTATION:

This section should contain the detailed analysis. Computer output from financial models and other analyses need to be accompanied by a detailed explanation of inputs and assumptions. Tables, charts, and graphs should be numbered or lettered and also should be accompanied by adequate explanations.

F. ENDNOTES AND REFERENCES:

Provide proper footnote or endnote citations to data and information sources used in the final report. Specific bibliographic citations should also be provided in a standard acceptable format under the heading “references.”