Course Description (Prerequisite: FINC 450)

Recently, rapid economic, technological and political changes have significantly increased the turbulence level in the global business environment. We have also witnessed declining survival rates and diminished profitability across many sectors of the economy. FINC 453 offers an integrated financial and strategic perspective on how successful corporations manage their operational and financial resources (cash, debt, equity, plant and equipment) to undertake value enhancing investment opportunities under turbulent environments. Specifically, the course discusses the role that liquidity, leverage, real options, M&A, and restructuring play in guiding a firm’s investment expenditures in increasing efficiency in core assets and (or) creating future growth through breakthrough opportunities. Further, the students will be provided with an opportunity to conduct an in depth enterprise-wide evaluation of a company to assess whether it is optimally positioned to grow and enhance its market cap into the future.

Learning Outcomes

Thorough and comprehensive grounding in firm valuation theory and its application in areas such as raising capital, cost of capital, real options, mergers and acquisitions, and restructuring.

Text Book


Class Presentations will be on Sakai. Note, the presentations are not intended to be substitute for the chapters in the book. They are complementing the material in the book and those covered in the assigned articles. Students are responsible to carefully study all sources.

Evaluation

The final grade will be based on individual evaluation (mid-term exam, and assignments) as well as group evaluation (group presentation and final report, see Appendix A). A representative set of end-of-chapter problems is included in Appendix (B). These problems will assess your analytical and conceptual understanding of the concepts and theories advanced in the course. They will not be graded or collected. Students are responsible to do the problems on their own. Solutions are found on Sakai. In addition, other representative problems and questions are discussed during the class time.

Key for success in this course

This is an analytical and financial strategy course. You will be facing a fair amount of formulae, statistics, numerical analyses, and conceptual essay-typed questions. You need to regularly keep up-to-date with all material. In addition, the following success factors are important.

1. Complete all homework assignment and understand them fully.
2. Doing the homework assignment alone does not guarantee success. You also need to fully master the concepts and examples provided in the lectures. So, please use office hours and appointments judiciously.
3. Select the company you will be analyzing early on in the term.
4. Be current on financial news covered by outlets such as the Wall Street Journal, Financial Times, etc.
Group Project Objective

(1) Applying the knowledge from the course to a specific business situation,
(2) Developing and delivering a clear and interesting presentation of the case,
(3) Evaluating the adequacy of an argument, position, and plan,
(4) Posing worthwhile questions, and
(5) Offering and receiving criticism in a professional manner.

Course grade framework

1. 2 equally weighted take-home assignments 20 %
2. In-Class Mid-term Exam 40 %
3. Final Group Project Presentation 10 %
4. Final Report 30%

Total 100

Grading Scale

A, A+  90 – 100
B+/A-  86 – 89
B    80 – 85
B-    75 – 79
C    70 – 74
D    60 – 69
F    Below 60

Course Policies

Academic honesty and honor code will be enforced strictly in the course. Please see: http://www.luc.edu/eblast/gsb/honor_code.pdf for more information.
CLASS SCHEDULE

Aug. 26 (Week 1)  Macro-economy, Financial Markets and Risk-Return Tradeoffs
• RWJ: Chapters 10, 11
• NOTE: Chapter 10 presents basic statistical knowledge previously covered in the MBA program. You are expected to read (review) this chapter prior to the first class.

Sept. 2-9 (Weeks 2, 3)  Financial Flexibility, Cost of Capital, and Valuation
• RWJ: Chapters 16 and 17

Sept. 16 (week 4)  Le Beau Footwear: A Business Valuation Case for a Privately-Held Firm
• This case provides a rich and comprehensive example of the application of the accounting return on investment (ROI) and the market-based opportunity cost of capital (OCC) techniques to valuation of a privately-held firm. Further, the case demonstrates a sharp example of adjustments that can be made to capture the valuation implications of initial public offering (IPO) and small firm effects.

Sept. 23 (Weeks 5)  Options and Corporate Finance
• RWJ: Chapters: 22,23
  o Triantis (2005), “Realizing the Potentials of Real Options,” Journal of Applied Corporate Finance (JACF).

Assignment (I) due on Sept. 23 (week 5) (TBD)

Sept. 30 (week 6)  Mid-Term Exam

Oct. 7-14 (Week 7, 8)  Managing Corporate Risk by Swaps and Duration Strategies
• RWJ: Chapter 25
Oct. 21 (Week 9)  Strategic Change, Mergers and Acquisitions, and Corporate Performance

- RWJ: Chapters: 29

Assignment (II) due on Oct. 21 (week 9): (TBD)

One-Page Summary and the complete power point presentation due on Week 9.

Oct. 28 (Week 10)  Group Project Presentations (Final written report due in Week 10).
Group Presentation Project: Company Resources & Investment Strategy Evaluation

You are expected to select a publicly traded U.S. or multi-national company (excluding the financial industry) with a minimum market cap of $10 billion. Your task is to conduct an in depth enterprise-wide evaluation, over a five-year period, of the company’s financing and investment strategies and assess whether it is optimally positioned to grow its market cap in the future. Specifically, your report should include several components.

1. An industry or sector-based analysis including competition, market structure, pricing, innovation, risk, technological change (disruptive technologies), profitability, and global factors.

2. An analysis of the company’s overall risk profile and risk management strategies. Specifically:
   - Compare and contrast key risk-related variables of interests such as cash flow variability, Beta, leverage, liquidity, etc. with industry norms over the five-year horizon.
   - Does the company have a chief risk officer and a risk management department? What is the risk management philosophy? Has then risk management system performed successfully?
   - Does the company use derivatives, interest rate and currency swaps to manage overall financial and operating risk? Give examples.

3. An analysis of the company’s overall growth and innovation strategy focusing on:
   - What growth opportunities has been pursued by the company?
   - Were they focused on expanding existing capacity or on new opportunities?
   - Were there M&A activities? Did they create value? Why?

4. An analysis of the company’s overall financial strategy to fund its growth activities.
   - Compare the company’s financial strategy with that of its industry.
   - Which capital structure theory best describes the company’s financial strategy: tradeoff theory, pecking order hypothesis, or neither?
   - Using the Capital Asset Pricing model, capital structure theories, and considering insights gained from the Le Beau Footwear: A Business Valuation Case for a Privately-Held Firm, calculate your company’s current overall cost of capital (Ignore personal taxes).

5. What is your overall assessment of the company’s prospect for future market cap growth?

Please note that I expect all work to be original, not excerpted from buy or sell side industry investment research. Analysis should balance both qualitative and quantitative approaches. Each group will prepare a written report (maximum 15 pages single-spaced) as well as 10-15 minute formal presentation followed by a 5-7 minutes of Q&A. Presentation should be emailed to students and the instructor by week 9 in the program. Students who are not presenting are expected to ask questions from the presenters. The due date for the written report is week 10.
Appendix (B): Problem Set (RWJ)

Chapter 10: All problems except 20, 21, 27, and 28.
Chapter 11: 8, 9, 10, 11, 16, 17, 23, 25, 31, and 33
Chapter 16: 3, 6, 7, 12, 13, 18, 25, and 28
Chapter 17: 1, 3, 6, and 8
Chapter 22: 6, 10, 11, 13, 15, 18, 21, 22, 24, and 30
Chapter 23: 1, 5 and 6
Chapter 25: 6, 7, 8, 10, 11, and 12
Chapter 29: 1, 7, 8, 9, 10