FINA 365 – Corporate Financial Analysis
Spring 2017 Syllabus

Section, Room, Time:
Section 001; DMSB 109; TuTh 8:30 – 9:45AM
Section 002; DMSB 109; TuTh 10:05 – 11:20AM
Section 003; DMSB 109; TuTh 11:40AM – 12:55PM

FINAL EXAM, ALL 3 SECTIONS: Saturday, April 29, 4:00PM, DMSB 123

Instructor: Robert P. Hartwig
Phone: 803.777.6782
Email: Robert.hartwig@moore.sc.edu
Office: DMSB 427A
Office Hours: TuTh 1:30PM – 3:30PM

Required Text
Fundamentals of Corporate Finance, 3rd Edition, Pearson, with MyFinanceLab access. Authors: Jonathan Berk, Peter DeMarzo, Jarrad Harford. MyFinanceLab access is required, as most homework will be assigned via MyFinanceLab and Blackboard.

To ensure the correct material is purchased for this class, please ONLY go through one of these two channels:

1.) USC Campus Bookstore (Bookstore is willing to price match if a lower price is found for same material)

2.) mypearsonstore.com

You have two choices for the text with access to MyFinanceLab: an eText version or a loose leaf (physical paper copy to put in binder) version. The two vary by price and preference to have a physical copy or just an eText version:


Other Recommended Reading and Information
In order to get a good feel for the topics in the course as they are presented in the “real” world, I encourage you to read or visit websites including: Wall Street Journal, Bloomberg, Financial Times, The Economist, CNBC.com, The New York Times, etc. I will occasionally post articles or links on Blackboard from one of these or similar sources. These should be regarded as required reading, and you are likely to see exam questions referring to them.

Course Prerequisites
Students are officially required to have taken FINA 363. You should have good familiarity with mathematics and statistics, and should be able to use Excel spreadsheets and associated functionality.
Calculator
You will need an advanced financial calculator to complete the homework and on exam. Suitable calculators include the Texas Instruments BA II Plus or HP 12C. The focus for calculations is largely on grasping the nature of cash flow projection and valuation, so the use of Excel for homework assignments and the valuation assignment, and a calculator on exams, is required.

Course Overview
This course is an extension of material covered in FINA 363, and in particular will focus on topics in corporate finance. Students are assumed to have a grasp of the material from 363, though there may be some review/overlap as we delve more deeply into specific corporate finance subject matter.

Course Learning Objectives:

A. Corporate Finance Overview and Financial Statement Analysis
   - Understand the different organizational structures of corporations
   - Understand value maximization as a goal for corporate decisions
   - Identify conflicts of interests between managers and owners and how they are mitigated
   - Explain how managerial decisions impact the Balance Sheet and Income Statements
   - Measure firm performance using financial ratios
   - Develop a Financial Planning Model for a firm
   - Estimate the financial requirements needed to sustain future growth
   - Explain how external financing interacts with the dividend policies

B. Cash Flow Valuation, Interest Rates, Bond Pricing and Stock Valuation
   - Develop a deep understand of the time value of money (TVM) concept
   - Develop a spreadsheet model to calculate present value of expected cash flows
   - Understand the economic and financial determinants of current and expected future interest rates
   - Understand bond terminology
   - Be able to compute price bonds and yields maturity for various types of bonds
   - Understand the distinction between various categories of stock and the trading structures in various equities markets (e.g., NYSE, NASDAQ)
   - Be able to value a stock based on its expected future dividends as well as by its total payout and the limitations that apply to these models

C. Capital Budgeting
   - receivable, accounts payable, inventory, etc. Identify all relevant (incremental) cash flows in the capital budgeting process
   - Calculate expected cash flows given information about sales, production costs, taxes, depreciation, etc.
   - Calculate the value of a project using Net Present Value, Payback Rule, Profitability Index, and Internal Rate of Return
• Conduct scenario/sensitivity analyses of future cash flows and break-even analysis based on changes initial assumptions
• Conduct cost analysis of a project by differentiating between fixed and variable costs
• Construct a valuation model for a firm given information on sales, costs of goods sold, depreciation, tax rates, accounts

D. Risk, Cost of Capital, Capital Structure
• Explain the relation between required (expected) return and systematic risk
• Explain the determinants of a project’s cost of capital
• Use the Capital Asset Pricing Model (CAPM) to estimate the cost of equity capital
• Calculate equity betas using return data
• Identify the appropriate risk-free rate for a project
• Demonstrate the impact of financial leverage on risk for the shareholders
• Use the Dividend Growth Model to calculate the Cost of Equity
• Estimate the Cost of Debt
• Calculate the weighted average cost of capital (WACC)
• Calculate how EPS and ROE are affected after a firm changes its capital structure
• Demonstrate how the variability of EPS and ROE increases with financial leverage
• Understand how equity capital is raised
• Demonstrate an understanding of Payout Policy and the advantages and disadvantages of dividends and share repurchases

Evaluation
The course’s graded assignments will consist of the following: two exams during the term; a cumulative final exam (weighted more heavily with material covered since Exam 2); homework assignments and/or In-Class Exercises.

Grading Components and Weightings

Homework and Assignments: 10%
Valuation Project: 15%
Exam 1: 20%
Exam 2: 25%
Final Exam: 30%
(Note: The final will be cumulative but more heavily weighted toward material covered after Exam 2)

Grade Scale
A: 90-100
B+: 87-89
B: 80-86
C+: 77-79
C: 70-76
D: 60-69
F: 59 and below
**Blackboard & Pearson MyFinanceLab**
I will post relevant updates, materials, and information to Blackboard on a regular basis. These may include syllabus updates, summaries of notes or concepts, presentations, problems and solutions, etc. You should check Blackboard daily for new information or potential changes.

**Exams and Assignments**
Homework will be assigned periodically via Blackboard and MyFinanceLab throughout the semester, typically consisting of problem sets. If you do not complete a homework assignment, you will receive a score of zero for the missed assignment. You are encouraged to work together in study groups on homework.

Due dates and times for all assignments will be clearly listed on Blackboard/MyFinanceLab. Assignments typically provide plenty of time between the date announced and due the date. It is your responsibility to keep up with assignments, and submit them on time. I will not accept late assignments. All assignments are to be submitted via MyFinanceLab. I will not accept assignments via email.

Exams will be held in class and at the listed Final Exam time. If for any reason you miss Exam 1 or Exam 2, the points for that exam will be assigned to the Final Exam. For each exam, you are permitted a formula sheet, which I will provide. The only items permitted during the exam are: formula sheet, the exam form, No. 2 pencils, a Scantron form, and a calculator. Cell/Smart phones are absolutely not permitted during the exam, and may not be used as calculators. There is no sharing of any resources during the exam. Any violation of these guidelines will result in a grade of zero for all involved parties on the exam, and will be considered a violation of the Honor Code.

**Stock Valuation Project:**

- **Stock Valuation Project:**
  You are expected to use financial models and concepts presented during the course by working with a valuation project in order to gain some experience in the practice of corporate finance. Your task is to analyze the stock price of a company and give an estimate of the stock price. You need to submit a report of your valuation which is due by 5PM on Friday, April 7. The report should include:

  - an written introduction about the company (based on research you’ve conducted)
  - written plus supporting charts/tables/graphs
  - an estimate of the market risk premium based on your calculations;
  - a calculation of the cost of equity of the company;
  - two estimates of the stock price that are based on your calculations using (1) the dividend-discount model and (2) the method of comparables;
  - a conclusion to the report, which includes your estimate of the stock price.
  - an appendix, which contains your MS Excel spreadsheet that presents your calculations.

Please begin to prepare for this activity by forming working groups of 3-4 persons. The introductory lecture on the stock valuation project will be provided on Thursday, March 2. For more details on this project, please refer to the ‘Stock Valuation Project’ part of the
lectures. Your group can include people from any of my three sections of FINA 365. It may be necessary for me to add a person to your group.

Classroom Participation and Attendance
It is critically important that you attend every class. We will be moving through material rather quickly. If you miss a class, it is your responsibility to keep up with the material. Missing classes will most likely lead to poor homework and exam performance. Attendance will be taken randomly. Regular participation in class and strong attendance (both indicators of student effort) can make a difference in your grade.

University of South Carolina Honor Code
All forms of academic dishonesty are prohibited. These include cheating, plagiarism, lying in academic matters, fraud, bribery, unauthorized access to tests and examinations. I expect that you follow the highest possible interpretations of the honor code. Here is a link to the USC Honor Code:

https://www.sa.sc.edu/academicintegrity/honor-code-policy-information/

Darla Moore School of Business Code of Student Conduct for Undergraduate Students
In addition to the USC Honor Code, you are expected to be aware of and follow the DMSB Code of Conduct for Undergraduate Students, found here:

http://moore.sc.edu/studentlife/studentrightsandresponsibilities/studentcodeofconduct.aspx
### Anticipated Course Schedule

(Subject to change at the instructor’s discretion)

<table>
<thead>
<tr>
<th>WEEK OF</th>
<th>TOPIC AND READINGS</th>
<th>READINGS</th>
<th>ASSIGNMENT</th>
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<tbody>
<tr>
<td>Jan. 9</td>
<td>Course Overview, Corporate Finance &amp; the Financial Manager, Intro. to Financial Statement Analysis</td>
<td>Ch. 1-2</td>
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<tr>
<td>Jan. 16</td>
<td>Intro. to Financial Statement Analysis, Time Value of Money</td>
<td>Ch. 2, 3, 4</td>
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<tr>
<td>Jan. 23</td>
<td>Interest Rates Bond Valuation</td>
<td>Ch. 5 Ch. 6</td>
<td>HW #1 Posted (1/24)</td>
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<tr>
<td>Jan. 30</td>
<td>Investment Decision Rules</td>
<td>Ch. 8</td>
<td>HW #1 Due (1/31) HW #2 Posted (2/2)</td>
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<tr>
<td>Feb. 6</td>
<td>Fundamental of Capital Budgeting</td>
<td>Ch. 9</td>
<td>HW #2 Due (2/9)</td>
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<tr>
<td>Feb. 13</td>
<td>EXAM 1 (Tuesday, Feb. 14) No Class on Thursday, Feb. 16</td>
<td>Exam Covers Chapters 1-6, 8, 9</td>
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<tr>
<td>Feb. 20</td>
<td>Stock Valuation: A First Look</td>
<td>Ch. 7</td>
<td>HW #3 Posted (2/21)</td>
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<tr>
<td>Feb. 27</td>
<td>Stock Valuation: A Second Look Discussion of Valuation Project (Th. 3/2)</td>
<td>Ch. 10</td>
<td>HW #3 Due (2/28)</td>
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<td>Mar. 6</td>
<td>Spring Break—No Classes</td>
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<td>Mar. 13</td>
<td>Risk and Return in Capital Markets Systemic Risk and the Equity Risk Premium</td>
<td>Ch. 11, 12</td>
<td>HW #4 Posted (3/16)</td>
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<td>Mar. 20</td>
<td>The Cost of Capital Raising Equity Capital</td>
<td>Ch. 13</td>
<td>HW #4 Due (3/23)</td>
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<tr>
<td>Mar. 27</td>
<td>EXAM 2 (Tuesday, Mar. 28)</td>
<td>Exam Covers Chapters 7, 10-13</td>
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<td>Apr. 3</td>
<td>Raising Equity Capital VALUATION PROJECT DUE (Fri. 4/7)</td>
<td>Ch. 14</td>
<td>HW #5 Posted (4/4)</td>
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<td>Apr. 10</td>
<td>Capital Structure</td>
<td>Ch. 16</td>
<td>HW #5 Due (4/11) HW #6 Posted (4/13)</td>
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<tr>
<td>Apr. 17</td>
<td>Payout Policy</td>
<td>Ch. 17</td>
<td>HW #6 Due (4/20)</td>
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<td>Apr. 29</td>
<td>COMPREHENSIVE FINAL EXAM COMMON EXAM</td>
<td>DMSB 123; 4-6PM</td>
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