

MBA 637
Financial management & Valuation (3 hrs)
Western Carolina University
Syllabus, Spring 20xx

Meeting Room: 0xx Karpen Hall, UNCA
Meeting Time: 6:00—8:50pm, M
Phone (UNCA): 828-251-6642

Instructor's Office Hours:
MW:

Instructor Information:

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Course Description

This course provides a framework for analyzing financial management and investment decisions. Practical tools for financial decisions and valuation are studied. There are seven main sections to the course, whose content ranges from foundational principles to tactical and strategic issues: (1) Cost of Capital Estimation, in which project expected returns are estimated; (2) Capital Budgeting, in which optimal criteria for project selection are applied; (3) Techniques of Valuation, which includes weighted average cost of capital (WACC), adjusted present value (APV), comparable trades, real options, and venture capital (VC) method; (4) Financing Policy, in which theoretical and practical issues relating to capital structure and dividend policies are analyzed and discussed; (5) Tactical Financing Decisions, including lease financing and the funding with hybrid instruments; (6) Investment Banking, covering capital acquisition, IPOs, financial restructuring, and mergers & acquisitions; and (7) Risk Management, dealing with the use of swaps and futures. The challenges and opportunities arising from international linkages and continual innovation in financial products and practice are taken into consideration throughout the course.

Course Aims & Objectives

By the end of this course, the student will be able to:

1. Estimate cash flows, risk, required returns, and value of capital projects;
2. Discuss the effect of inflation volatility, exchange rate volatility, and lack of liquidity on cash flow projections, terminal value, and liquidation value for projects in emerging markets;
3. Describe the essential elements of the Capital Asset Pricing Model (CAPM), and the Arbitrage Pricing Theory (APT) along with their approach to modeling the price of risk;
4. Discuss why and how asset pricing models should be modified for application to emerging countries;
5. Estimate the equity risk premium and discuss its role in the determination of required returns;
6. Apply the net present value (NPV), internal rate of return (IRR) and adjusted present value (APV) method of investment valuation;
7. Use basic options analysis to incorporate into the project valuation process the flexibility of investing in stages or having the option to abandon, and discuss the particular need of building in this flexibility for more volatile economies;
8. Calculate free cash flows to the firm and the weighted average cost of capital, based on relevant financial statement and market information;
9. Discuss the rationale for mergers, and the chief methods of valuing an acquisition target company;

Course Aims & Objectives...(continued)

10. Apply the Free Cash Flow (FCF), APV and market multiples approaches to valuation, critically evaluate the use of each multiple, and appraise the usefulness of “valuation by parts” represented by the APV method in valuing more complex global investments that might involve multiple currency cash flows and varied costs of financing;
11. Describe the venture capital (VC) method of valuation, and contrast it with the traditional discounted cash flow approach to valuation;
12. Define the concepts of the yield curve and the term structure of interest rates, and discuss how knowledge of term structure theory can be used in financial management.
13. Calculate the value of equity and bonds, using discounted cash flow techniques;
14. Discuss the effect of risk management tactics on optimal leverage;
15. Explain the parity conditions of international finance (forward-spot parity; purchasing-power parity; and interest rate parity), and discuss the major forces that influence the value of free-floating currency;
16. Identify sources of risk to the business, suggest strategies to manage risk, construct basic options-, futures-, and swaps-based strategies to hedge exposure to interest rate and exchange rate fluctuations, and analyze the effectiveness of various options-, futures-, and swaps-based strategies to hedge risk;
17. Describe the financial engineering and use of innovative, customized securities designed, for instance, with options and futures, including collateralized debt obligations (CDOs) and credit default swaps (CDSs);
18. Discuss the implications of government intervention, high and unpredictable volatility, macroeconomic disequilibria, tax legislation, bankruptcy laws, and capital rationing on both the optimal leverage and frequency of revising the optimal leverage in emerging markets;
19. Delineate the effects of information asymmetry, agency problems, bankruptcy costs, clientele considerations and taxes on the firm’s financing and payout policies;
20. Discuss and explain unique financing tendencies of new, high-tech companies;
21. Suggest possible effects of capital structure and payout policies on firm valuation;
22. Describe possible reasons for the use of preferred stock, warrants, and convertibles in corporate financing;
23. Discuss the effect of the quality of corporate governance on valuation;
24. Compare and contrast the capital structure and dividend policies usually adopted by firms in developed economies with those typical of firms in emerging economies, and provide potential explanations for any observed differences in financing policy;
25. Distinguish between operating and financial leases ; implement-lease versus-purchase decisions, and identify the financial statement effects of leases; and
26. Describe the process and considerations involved in various methods of raising financing in capital markets, including private placements, IPOs, and seasoned offerings; and
27. Discuss the purpose and evolving role of private equity (PE) and venture capital (VC) in global finance, the structure of the PE and VC industries, and the basic differences in the nature and size of transactions undertaken by PE and VC.

Required & Recommended Materials

1. The following text is required:

Principles of Corporate Finance, 10/e, (2011), Brealy/Myers/Allen, McGraw-Hill/Irwin

2. The following text is recommended (but not required) as a supplement:
Analysis for Financial Management, 10/e, (2012), Higgins, McGraw-Hill/Irwin
3. Additional required materials (articles and notes) as provided by the instructor.
4. A computer with a spreadsheet program, or a financial calculator, is required.

Accommodation for Students with Disabilities (quote)

“Western Carolina University is committed to providing equal educational opportunities for students with documented disabilities. Students who require disability services or reasonable accommodations must identify themselves as having a disability and provide current diagnostic documentation to Disability Services. All information is confidential. Please contact Carol Mellen for more information. Phone: (828) 227-7127; E-mail:mellen@email.wcu.edu.”

Academic Honesty Policy (quote)

“Western Carolina University, as a community of scholarship, is also a community of honor. Faculty, staff, administrators, and students work together to achieve the highest standards of honesty and integrity. Academic dishonesty is a serious offense at Western Carolina University because it threatens the quality of scholarship and defrauds those who depend on knowledge and integrity. Academic dishonesty includes:

- a. **Cheating**—Intentionally using or attempting to use unauthorized materials, information, or study aids in any academic exercise.
- b. **Fabrication**—Intentional falsification of information or citation in an academic exercise.
- c. **Plagiarism**—Intentionally or knowingly representing the words or ideas of someone else as one’s own in an academic exercise.
- d. **Facilitation of Academic Dishonesty**—Intentionally or knowingly helping or attempting to help someone else to commit an act of academic dishonesty, such as knowingly allowing another to copy information during an examination or other academic exercise.”

(For a complete statement, please visit <http://www.wcu.edu/4595.asp#acadhon>).

Attendance Policy

Attendance is taken each class period. Students are expected to attend all classes, and keep the instructor informed of any problems that might hinder class attendance. There is usually a strong negative correlation between number of absences and course grade.

Grading Scheme

Element	Target Date	Weight
Test 1	02-23-xx	.20
Test 2	04-05-xx	.20
Valuation Project & Presentation (Group)	04-26-xx	.25
Final (cumulative)	05-03-xx	.25
Assignments	Fortnightly	.10
Percentage Score	Letter Grade	
90-100	A	
80-89	B	
70-79	C	
60-69	D	
0-59	F	

Valuation Project

This project is completed by a group of 3-4 students. The group agrees upon an industry of interest, and each student in the group picks a company within that industry. The objective is to apply many of the tools developed in class to arrive at the valuation of each of the firms selected.

These are the essential elements of the project (more detailed instructions will be provided separately on the first day of class): (1) Discounted cash flow (DCF) valuation using an appropriate model, with justification of model choice; (2) Delineation of assumptions in the DCF model, and analysis of the sensitivity of valuation to your assumptions (growth rate, growth phases, estimated capex, etc); (3) Valuation by comparables, including criteria for choice of comparable firms and multiples/value indicators; and (4) Reconciliation of alternative valuation figures to provide a single value estimate and a buy/sell recommendation.

Each group will be given a maximum of 15 minutes to make a presentation of their valuation exercise during the last class of the semester. Additional details of the requirements for this presentation and format of the written proposal will be provided by the instructor.

*Tentative Course Schedule**

Date	Assigned Reading**	Topic
01-12-xx	Chapters 2, 3, 4, & 5	DCF Methods: IRR; NPV; Growing annuities;
	Bonds	
01-19-xx	Chapters 6, 7, 8 & 9	NPV Apps; Risk, Return, CAPM/APT, Cost of Cap.
01-26-xx	Chapters 10, 11 & 12	Project Valuation; Economic Rents; Agency Issues
02-02-xx	Chapter 13 & 14	Market Efficiency, Behavioral Fin; Raising Capital
02-09-xx	Chapters 15/Test 1	Raising Cap: Instruments & Process; VC; IPOs; etc
02-16-xx	Chapters 16 & 17	Payout Policy; Capital Structure
02-23-xx	Notes Package & Chp 28	Fin Analysis; Managing Growth; Business Valuation
03-01-xx	Mid-Term Break	N/A
03-08-xx	Chapters 18 & 19	Valuation & Optimal Financing Policy
03-15-xx	Chapters 20 & 21/ Test 2	Options Introduction
03-22-xx	Chapters 22; 23 & 24	Real Options; Debt Value; VaR; Hybrid Instruments
03-29-xx	Chapters 25, 26 & 27	Valuing Leases; Managing Risk:
	Opt/Futures/Swaps	
04-05-xx	Easter/Spring/Etc. Break	N/A
04-12-xx	Chapters 31, 32 & 33	Mergers & Restructuring; Pvt Equity; Bankruptcy
04-19-xx	Chapters 29 & 30	Financial Planning & Working Capital Mgt
04-26-xx	Review & Presentations	Valuation Project Deadline
05-03-xx	Final Exam	

*Subject to change, depending on student need and class progress. Additional material (articles/cases) will be provided or recommended by the instructor.