The objective of this course is deepen your understanding of the many issues faced by firms as they identify valuable investment opportunities, raise funds for those investment opportunities, distribute profits to share-holders and debt-holders and deal with the consequences of both good and bad investment financing decisions. We will expand on the concepts that you have learned in FINA 760 or in DMSB 715.

Class time will be divided between lectures and case studies. My lectures will briefly review concepts from prior courses. The bulk of my lectures will present advanced material that will be new to you. It is assumed that you understand the concepts from your earlier finance and accounting courses. If not, it is your responsibility to review. In order to reduce your note-taking, my lecture notes will be available on the class web-site in PowerPoint format.

Because of the compressed and one-day-a-week meeting schedule, timing will be interesting – to say the least! In my experience your brain is not useful brains for three full hours on Wednesday nights. Thus, I intend to mix live lecture with recorded lecture on an ad-hoc basis. If it is 8:30 pm and everyone seems dead, I will call it quits for the night and fill in the rest of the lecture material with pre-recorded versions.

In addition to lectures, we will spend a significant amount of time analyzing cases. These cases have been written by leading researchers in the field of finance and discuss actual financial problems and resulting decisions made by firms. The cases provide an excellent means of illustrating the concepts discussed in lecture and in the text, but in complicated real world environments. With both cases and lecture, our focus will be on practical applications of material.

Case analysis will be done in groups of 2 to 4 students. I will provide a framework of questions to be addressed for each case. Every group is required to hand in a 2 to 4 page recommendation memorandum for each case. The memos are due before class starts on the day that the case is discussed (see the section on recommendation memorandum for details.)

I cannot emphasize enough, how important your contributions will be to the success of this class. Case study classes live and die on the enthusiasm of the students. I don’t care how outlandish your views are on a particular case. If you think you can justify your viewpoint, I (and the class) want to hear it! Note: if you are not physically present for class, by definition, you are not participating.
Textbook


Course Pack

The Course Pack with the cases that we will cover is available via Harvard Business Publishing at https://cb.hbsp.harvard.edu/cbmp/access/28342033. It costs $39.50. While you can share a course pack with other students, it is forbidden to make multiple electronic or hard copies. Doing so is a gross violation of copyright laws. Your purchasing of the course pack entitles you to one copy.

Case Memorandum

As noted, each group is required to submit a 2-4 page recommendation memorandum for each case. These must be typewritten and double spaced. I would like a hard-copy and an electronic copy. Technical appendices such as spreadsheets are typically necessary to back up your recommendations. I will grade you on quality, clarity and correctness of your arguments. Writing and presentation quality certainly counts. Approach the memorandum as if you are making a concise recommendation to your boss.

The first paragraph of the memo should briefly outline the overall problem presented by the case. If the case questions entail a final recommendation then your recommendation should also be included in the first paragraph. The body of the memo should answer the assigned questions and provide the justification for why your recommendation is the correct course of action. Remember that your boss is a busy person and he/she expects you to be able to make a concrete and concise recommendation. Take a stand and support your stand! Don’t spend an inordinate amount of time summarizing the contextual detail that is already provided in the case.

Note that late assignments will not be accepted. Also note that “solutions” to any particular case are widely available on the internet – usually for small fee. Please avoid the temptation of looking at these solutions. The purpose of the electronic copy is to check that your work does not draw on those purported “solutions”.

Peer Evaluation

Participation levels inside groups often vary. This is an everyday fact of life, particularly in the modern day work environment where much of your work will be done in groups. Success of any group requires participation and contribution by all members. Failure to convince your fellow teammates that you are contributing your fair share will result in a significant grade reduction. Following case presentations, members of the presenting group will be required to fill out the attached peer evaluation form. This form must be completed by all members of your group, or else you will all receive a 0 for the peer evaluation component of your grade.
Attendance and Participation:

Attendance is mandatory on days when cases are discussed. One unexcused absence will impact your class participation grade. With every additional unexcused absence, I retain the right to subtract 5% from your final numerical grade. A valid excuse means medical documentation that you were deathly ill, legal documentation that you were in jail, or prior approval from me to miss class for a valid conflict.

As noted, class participation is very important for this class to succeed. Your class participation grade will be based on my subjective evaluation of quality and level of your participation in class discussion. Disruptive behavior such as arriving late or conducting conversations that are not part of the class discussion will negatively affect your participation grade.

Exams

There will be two exams in this course covering material discussed in the lectures and in the cases. These exams will be a mixture of true/false, multiple choice and essay questions. The exams are not cumulative.

Grading

The weighting scheme for the different elements of the course will be as follows:

<table>
<thead>
<tr>
<th>Element</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memoranda</td>
<td>50%</td>
</tr>
<tr>
<td>Peer Evaluation</td>
<td>5%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Exam #1</td>
<td>15%</td>
</tr>
<tr>
<td>Exam #2</td>
<td>20%</td>
</tr>
</tbody>
</table>

Grade cutoffs:

\[ F < 60 \leq D < 65 \leq C < 77 \leq C+ < 79.5 \leq B < 87 \leq B+ < 89.5 \leq A. \]

Academic Honesty

University of South Carolina Honor Code:

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline.

The Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:
1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.
2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person’s work or ideas without proper acknowledgment of source.
5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor’s ability to evaluate accurately a student’s competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

For more information about academic integrity issues, go to the following website:

http://www.sc.edu/academicintegrity/

Academic Integrity

You may use any information source for background information for your write-ups and case presentations. Information obtained from an outside source, however, should be properly attributed via footnotes or other references. The only source of information you are prohibited from using is outside solutions to the case being analyzed. Utilization of outside solutions, whether obtained from prior students or the web, will result in severe punishment. Your group is not to discuss the case with other groups in either this class, other sections of this class or previous classes.

Representative Course Outline

W. Sep 03: Lecture: Introduction
Lecture: Monitoring the business via financial statements
Lecture: Estimating the Cost of Capital

Readings: Option 1: “Financial Statement Ratios” and “Budgeting” posted as pdf’s on Blackboard in the Course Documents/Readings section. Option 2: “Introduction to Financial Ratios and Financial Statement Analysis” (9-193-029) and “Note on Financial Forecasting” (9-206-048). The readings in Option 2 are optional components of the course pack and cost $3.95 each. The two pdfs that I have posted, while not as well written, are open source and free.

Also read chapter 1 of Damodaran.
W Sep 10: Case #1: Hartsville Supply  
Lecture: Estimating the Cost of Capital


Sat Sep 13: While this is a scheduled Saturday, it is also the day of a home football game versus Georgia at 3 pm. In other words, traffic is going to be a mess and I don’t plan on having class this day.

W Sep 17: Case #2: Midlands Energy Resources Cost of Capital  
Lecture: Cash Flows NPV & IRR

Readings: Chapters 5 and 6 of Damodaran

W. Sep 24: Cases #3 & #4: Ocean Carriers and Compass Marine.  
Lecture: Capital Budgeting Errata. Equivalent Annual Cost exercise. Take-home exam.

W. Oct 1: Case #5: Rosetta Stone IPO.  

Readings: Chapters 7, 8 and 9 of Damodaran. Posted on Blackboard in the Course Documents/Reading section: What Managers Think of Capital Structure Theory.

W. Oct 8: Case #6: Swedish Match  
Lecture: Payout Policy

Readings: Chapters 10 and 11 of Damodaran.

Using Bloomberg for Corporate Finance Problems.

Readings: TBD

W. Oct 15: Case #8: Student Educational Loan Fund and/or Hedging Currency Risk at AFIS

Final Exam.
Course Objectives: Students will be able to -

- Prepare pro-forma financial statements based on historical performance ratios coupled with sales forecasts.
- Estimate a company’s Weighted Average Cost of Capital for both domestic and international projects.
- Calculate Free Cash Flows using both the Direct and Indirect methods.
- Calculate the Net Present Value and Internal Rate of Return of investment projects.
- Evaluate investment projects using the Equivalent Annual Flows technique.
- Estimate the value of a company using Free Cash Flow techniques and comparable company multiples.
- Model the valuation of real options in capital budgeting.
- Describe the factors that affect a firm’s Optimal Capital Structure.
- Understand the costs and benefits of the various methods of returning cash to shareholders.
- Hedge interest rate and currency risk using operational hedges and derivative securities.