

**Culverhouse College of Business
University of Alabama**

FI 410 Intermediate Financial Management
Spring 2015
Office hours: MW 10:30 – 11:30

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Class Website: bama.ua.edu/~aagrawal/FI_410.htm

Course Objectives This course provides a foundation for making long-term corporate financial decisions. We will cover four major topics: investment decisions, financing decisions, dividend policy, and mergers and acquisitions.

Course Description The material covered is about two-thirds quantitative and the rest conceptual.

Pre-requisites FI 302

Required Text Brealey, Myers and Allen, *Principles of Corporate Finance*, Special edition with Solutions Manual, Irwin McGraw-Hill (2015, ISBN: eBook: 9781-3083-66319; Print book: 9781-3083-66289).

Calculator TI BA II Plus

Required Wall Street Journal. Subscription (print + online): 15 weeks: \$15.00; 52 weeks: \$99.95. Order online at: www.wsj.com/studentoffer

Attendance Required at all the sessions, including the project presentations. More than three absences can lead to the grade being withheld.

Grading	Quiz 1	10%
	Test 1	20%
	Quiz 2	10%
	Test 2	20%
	WSJ Quizzes (online)	10%
	Team Project:	
	Class Presentation	10%
	Written Report	10%
	Class Participation	10%

No make-ups, unless pre-arranged.

WSJ Quizzes These will be based on stories in the Wall Street Journal. There will be 10 quizzes over the semester. For each quiz, you will receive an e-mail with a link to the online quiz. Each quiz will have about 10 questions. Each question will be based on a WSJ story, the link to which will be provided with the question.

Practice Problems Page 6 shows a list of selected practice problems from the end of each chapter (labeled *Problem Sets* in the text). This is a quantitative course, and solving these problems as we go over each chapter is the key to grasping the material. Try to work out each problem yourself, then compare your solution with the *Solutions Manual*.

Course Notes Course notes on each chapter, with space for taking your own notes, will be handed out periodically in the class. If you miss a set of notes, you can print them from the class website.

Tests The tests consist of two parts: problem solving and multiple-choice problems. Problems on the problem-solving portion of the test will be similar to the practice problems. My tests come with a formula sheet. A sample test or quiz will be available via the class website prior to each test.

Class Participation The grade for class participation will be based on my (subjective) assessment of the quantity of your positive participation in the class. Regular attendance is obviously a pre-requisite to class participation. Positive classroom participation consists of asking pertinent questions in class and answering questions posed to the class. Negative classroom participation such as being late, private conversations and any other disruptive activity can lead to a reduction in C.P. points.

Team Project Analyze the financial and business decisions of a public company of your choice. I need a note with the names of your team members and your **top two company choices within one week after Test 1. A team consists of two members**, so you just need one partner. Detailed guidelines for the project are enclosed. Each team has to make a class presentation and submit a written report.

• **Presentations** These will be after Test 2. Each team has about 15 minutes to present its analysis and recommendations. The presentations should be professional.

• **Written report** A ten page typewritten analysis is **due within two days** of your presentation, except that reports of the teams that present on the last day of class are **due that day. Late reports will not be accepted.**

Academic dishonesty All students the University are expected to be honorable and to observe standards of conduct appropriate to a community of scholars. The University expects from its students a higher standard of conduct than the minimum required to avoid discipline. Academic misconduct includes all acts of dishonesty in any academically-related matter. The Academic Misconduct Disciplinary Policy will be followed in the event of academic misconduct.

Syllabus/Reading Assignment

<u>Topic</u>	<u>Chapter</u>
Net Present Value and Other Investment Criteria	5
Making Investment Decisions with the NPV Rule	6
Risk and the Cost of Capital	9
Quiz 1	
Project Analysis	10
An Overview of Corporate Financing	14
How Corporations Issue Securities	15
Test 1	
Payout Policy	16
Does Debt Policy Matter?	17
How Much Should A Company Borrow?	18
Financing and Valuation	19
Quiz 2	
Mergers & Acquisitions	31
Test 2	
Project Presentations	

Company Analysis

Assignment

Analyze the financial and business decisions of a public company of your choice. Start by giving some background information about the company. Then analyze four major decisions made by the company and the outlook for its stock. Can the company increase its value by changing any of its financial policies?

1. Background

Year of incorporation

Year of initial public offering (IPO)

Current business (include sales breakdown by lines of business)

Brief history (including major acquisitions)

Exchange listing

Ownership structure (% of equity owned by Institutions, and by Officers and Directors;

Names of, and % of equity owned by, the two largest blockholders)

Analyst following (Number, Firm Names if only a few analysts follow the stock)

Board structure [% of directors that are: insiders (employee), outsiders but affiliated (e.g., ex-employees, customers, suppliers or service providers, e.g., the firm's lawyers, bankers, consultants, etc.), independent]

2. Capital Structure

Compute the capital structure of the firm as follows for each of the last 3 years. Use market values of common stock and preferred stock, and book value of long-term debt.

	\$m	%
Long-term Debt, D		
Preferred Stock, P		
Common Stock, S		
Firm Value, $V = D + P + S$		<u>100</u>

• Analysis

- How does the capital structure of the company compare with its industry?
- Can you explain the company's choice of capital structure?
- Do you agree with the company's choice? Why or why not?
- Can the company increase its value by changing its capital structure? Explain.

3. Dividend Policy

Compute the dividend per share, earnings per share, stock price, payout ratio, and dividend yield at the end of each of the last 3 years for the company. Then answer the four questions in item 2, as they relate to the company's dividend policy (as measured by the payout ratio and dividend yield).

4. Growth

- Growth rate in firm size (Sales, Total assets, Firm value, Number of employees) over the last 5 years.
- Lines of business that have grown, stayed the same, vs. shrunk over the last 3 years.
- Lines of business that are expected to grow vs. stay the same vs. shrink in the future.
- How much of the growth is internal vs. through acquisitions? How does the company's choice compare with its industry? Does the company's choice make sense? Explain.

5. Liquidity Policy

Compute the Cash, Quick and Current ratios at the end of each of the last 3 years. These are the ratios to Current Liabilities of: Cash and Marketable Securities, (Current Assets - Inventories), and Current Assets. Then answer four questions in item 2, as they relate to the company's liquidity choice.

6. Stock Outlook over the next 1, 3 and 5 years

- How has the stock performed relative to the market and industry over the last 3 years?
- What is the lagged and leading P/E?
- What are the prospects for business and earnings growth?
- What do the analysts say?
- What do you think?
- Is there anything that you would do to improve the company's valuation? How is the profitability of the various lines of business? Does the company have any hidden assets (e.g., a Sears Tower) that you think are not incorporated in the stock price?

Data sources (Partial list)

Computer Databases

Mergent Online: Financial information and annual reports of public companies

OneSource: Analyst reports

Morningstar Document Research (formerly 10-K Wizard): SEC filings

Factiva: Business news and company profiles

Bloomberg: Comprehensive investment information

Hoover's Online: In-depth profiles of companies and industries

Web sites

SEC's Edgar database: www.sec.gov

Yahoo! Finance: <http://quote.yahoo.com>

Print sources

Moody's manuals (Industrial, Transportation, Public Utility, Bank and Finance)

Value Line Investment Survey

Standard and Poor's

Million Dollar Directory

Periodicals: Wall Street Journal, Money magazine, etc.

Practice Problems

Chapter	Problem sets
5	1-16
6	1-18, 20, 21, 24, 25, 27, 28, 30
9	1-22
10	1-7, 9-11, 13, 18
14	1-12
15	1-19
16	1-4, 6-9, 11-20, 22
17	1-25
18	1-7, 11-13, 15
19	5, 6, 8, 10, 13, 16, 17
31	1-6, 9-15