

University of Alabama

**FI 411 Corporate Financial Policy
Fall 2001**

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Course description An integrative course designed to help you develop problem-solving skills in finance. Cases will be used to allow you to apply your knowledge to solve specific business problems. Writing proficiency is required for a passing grade in this course.

Objectives To provide you with the opportunity to analyze corporate finance problems in a real business setting, and to help you develop the ability to discuss the relative merits of alternative decisions.

Pre-requisites FI 301 and 302. FI 311 and familiarity with computer spreadsheets (such as Excel) is strongly recommended.

Text

. **Required** Robert F. Bruner, *Case Studies in Finance: Managing for Corporate Value Creation*, Third edition, Irwin-McGraw Hill, 1999.

. **Reference** Any corporate finance text will serve as a reference for review of fundamental finance concepts, tools and techniques. If you don't have a corporate finance text, the following is an excellent text, available at the bookstore:

Ross, Westerfield and Jaffe, *Corporate Finance*, Fifth edition, Irwin-McGraw-Hill, 1999.

Recommended The Wall Street Journal

Grading	Cases:	Presentations	25%
		Written reports	25%
	Project:	Presentation	15%
		Written report	15%
	Class Participation		20%

The grade for class participation will be based on my (subjective) assessment of the quantity of your high quality participation in the class. Regular attendance is obviously a pre-requisite to class participation, and is *mandatory*.

Cases

You are responsible for analyzing several cases during the semester. The task is twofold: to make a class presentation and to submit a written report. We will generally discuss one case per week. For most cases, there will be two presentations in the first class, a third presentation in the next class, followed by an open class discussion. Quality participation in this discussion will count toward the class participation grade. Questions from the class are also allowed during the presentations.

• Presentations

You have about 35 minutes to present your analysis and recommendations. The presentation should be professional. Use the overhead projector. Make use of computer-generated graphs, charts and tables, as needed. Excel files containing the data in the exhibits of the following cases is available in the Microsoft Outlook public folder for this class (<http://www.cba.ua.edu/mail>): Teletech, Empirical Chemicals (A & B), Northboro Machine Tools, DLJ, Polaroid, Rosario Acero, and Home Depot.

• Written report

A typewritten analysis of up to five pages is due within two days of the last presentation of a given case. No late reports will be accepted. Organize the report in a logical fashion.

Project

As part of the course, you have to analyze the financial and business decisions of a public company of your choice. Give me a note with the names of your top two company choices by **Wed., Sep. 5**. Detailed guidelines for the project are enclosed. Again, you have to make a class presentation and submit a written report.

• Presentations

These will be toward the end of the course. You have about 35 minutes to present your analysis and recommendations. The presentations should be professional. Questions from the class are allowed during the presentations.

• Written report

A typewritten analysis of up to ten pages is due within two days following each presentation, except that the reports for the presentations on **Wed., December 5** are due that day. No late reports will be accepted.

Course Outline

Mon. 8/27	5	The Financial Detective
Wed. 8/29, Wed. 9/5	6	Oracle Systems Corp.
Mon. 9/10, Wed. 9/12	1	Warren E. Buffet
Mon. 9/17, Wed. 9/19	14	Boeing 777
	12	Read: “Best Practices in estimating the cost of capital”
Mon. 9/24, Wed. 9/26	15	Teletech Corp.
Mon. 10/1, Wed. 10/3	17	Vesuvio Fonderia S.p.A.
Mon. 10/8, Wed. 10/10	18	Empirical Chemicals (A)
Mon. 10/15, Mon. 10/22	19	Empirical Chemicals (B)
Wed. 10/24, Mon. 10/29	23	Northboro Machine Tools Corp.
Wed. 10/31, Mon. 11/5	24	DLJ
Wed. 11/7, Mon. 11/12	28	Polaroid Corp.
Wed. 11/14 , Mon. 11/19	29	Rosario Acero S.A.
Mon. 11/26	51	Home Depot, Inc.
Wed., 11/28 – Wed. 12/5		Project Presentations (3 classes)

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. The last page of the report should list your information sources.

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 % owned by) owners of 5% or larger blocks)
- . Analyst following (Number, Firm Names if only a few analysts follow the stock)
- . Board structure (% of directors that are: insiders (employee); outsiders but affiliated (i.e., ex-employees or those who have a business relation with the firm, e.g., the firm's lawyers, bankers, consultants, etc.,); independent)

2. Capital Structure

Compute the capital structure of the firm (measured as L/V and T/V ; L = book value of long-term debt; $T=L+S+C$; S = book value of short-term debt; C = book value of convertible debt; $V = T +$ book value of preferred (including convertible preferred) stock + market value of equity) at the end of each of the last 5 years.

• 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 payout ratio (=dividend per share / earnings per share) and dividend yield (=dividend per share / stock price) for each of the last 5 years. 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. Capital Investment

- Growth 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 5 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 5 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 one and five years

- How has the stock performed relative to the market and industry over the last 5 years?
- What is the lagged P/E (based on the last fiscal year's eps)? How about the leading P/E (based on the consensus of analysts' forecasts of eps for the next fiscal year)?
- 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?

Partial list of data sources

Computer Databases (Bruno Library)

FIS Online: Financial and other data

Disclosure Select: SEC Filings: Annual reports, proxy statements, ...

Investext: Analyst reports

Bloomberg: Financial data, news, company and industry information

Lexis/Nexis: News, SEC filings, ...

Dow Jones Interactive: News, financial data

Web sites

- SEC's Edgar database: www.sec.gov
- Yahoo! Finance: <http://quote.yahoo.com>
- DLJ Direct (Link from Yahoo! Finance)

Print sources

- Moody's manuals (Industrial, Transportation, Public Utility, Bank and Finance)
- Value Line Investment Survey
- Standard and Poor's:
 - Corporation Records
 - Industry Surveys
 - Register of Corporations, Directors and Executives
- Million Dollar Directory
- Publications of industry associations
- Periodicals: Wall Street Journal, Money magazine, etc.