

VALUATION AND FINANCIAL DECISIONS

FINA 4310-002

Fall 2018

SYLLABUS

Meeting place and time: Tuesday, 6:30PM – 9:20, BLB 055

CLASS DETAILS:

Professor: Dr. Thomas C. Williams

Email:

Thomas.Williams@unt.ed

Phone: 940-565-2358

Office: BLB 325B

Office hours: Tuesdays 2 - 4pm, Wednesdays 12 – 2pm, and by appointment

ALL COURSE RELATED MATERIALS WILL BE POSTED ON BLACKBOARD. YOU MUST LOG INTO [HTTPS://LEARN.UNT.EDU/](https://learn.unt.edu/) TO ACCESS FIN 4310 COURSE MATERIALS.

COURSE DESCRIPTION & LEARNING OUTCOMES:

This course incorporates lectures, discussion sessions, and cases to review and build on your knowledge from FIN 3770. The objective of this course is to study the major decision-making areas of managerial finance such as capital budgeting techniques under uncertainty, corporate valuation, capital structure and dividend policy. Further, it introduces students to topics relating to IPOs and corporate reorganizations.

Upon completion of this course, students will be able to:

1. Analyze the financial health of a firm using its financial statement information.
2. Estimate a firm's cost of capital
3. Analyze capital structure decisions based on theories of capital structure.
4. Apply models of return and risk in analyzing investment decisions.
5. Evaluate investment projects using discounted cash flow techniques.

PREREQUISITES:

Completion of FINA 3770, ACCT 2010, and ACCT 2020 or equivalent courses (with a C or better)

REQUIRED MATERIALS:

Corporate Finance: Core Principles and Applications, Ross, Westerfield, Jaffe, and Jordan, 4th edition, published by McGraw Hill.

The text book is more of a reference source. It contains the descriptive part of a good chunk of what I discuss in class and has questions at the end of the chapter which you can answer to test your knowledge of each topic.

OUTSIDE READING:

The Wall Street Journal (WSJ) is an important part of the class, as it describes and discusses many aspects of the U.S. and global financial system. Students of FINA 4310 are expected to read the WSJ daily, so they can keep current with regard to the changing and evolving financial landscape.

Frequently, articles from the WSJ will be used and discussed in the class, and are an important part of the requirements of the course. WSJ material discussed in class will be as much required material as material in the textbook. In addition, quizzes and exams may ask questions relating articles discussed in class. To subscribe to the Wall Street Journal please visit wsj.com/fall18.

IN-CLASS PRACTICE

During most classes, we will attempt to solve practice problems on topics being discussed that day. To do well in the exams, it is important that you participate in these exercises. You do NOT turn them in to me for any credit. You do them IN CLASS so that you understand the material well. It is very important that you do all these problems in class or at home, on a regular basis. Remember: Keep testing yourself and work with study group of people who seem to understand this material better than you.

BLACKBOARD

The Blackboard website is your primary interface with the course. Access to the course instructions and class materials will be via Blackboard. I use it to post grades, upload useful supplemental material on a topic and to send out important announcements. You should be constantly checking Blackboard for any such updates.

GRADING:

Quizzes (3, 20% each; lowest grade is dropped)	50%
Final Exam	25%
Valuation Project	25%
<u>Total</u>	<u>100%</u>

All exams and other work will be graded on the following Grading Scale:

100-90	A
89-80	B
79-70	C
69-60	D
59 and below	F

All students will be graded according to the above scale and thus should not expect a "**curve**" in the class. Everyone will be treated the same under this grading system, so you can save yourself some time and embarrassment by not asking for a grade change if you made an 89.4, for example.

No student will be provided with opportunities to earn "extra credit" beyond the assignments described.

QUIZZES (50%) AND FINAL EXAM (25%)

Three quizzes will be given during the semester. The quizzes will be designed to prepare you for the final exam. The quiz will take approximately 1.5 hours. ***The final exam is comprehensive.*** The quizzes and final exam will be a mixture of short answer (and possibly multiple choice) questions, and work out problems. The final exam will be focused on topics that are addressed in the quizzes.

Formula sheet: No cheat sheet will be allowed in any exam. I will supply you with formula sheets during the exams (you will know ahead of time what is included these formula sheets). You are required to be familiar with them prior to the exam. I will not discuss or explain how to use these formulas during the exam. You are expected to memorize any material not included in the formula sheet.

VALUATION PROJECT (25%)

Valuation Case: Each student is required to prepare a valuation of a publicly traded U.S. firm with AT LEAST 3 YEARS OF PUBLICLY AVAILABLE FINANCIAL STATEMENTS. Students will determine the firm's cost of equity, cost of debt and weighted average cost of capital. Given the firm's publicly available financial statements, students will project/forecast future cash flows and provide a valuation of the firm. Students must explicitly justify all inputs to the valuation and include all relevant financial statements and information in an appendix.

NO TWO STUDENTS CAN USE THE SAME FIRM. In the discussions folder a thread has been created (Firm selection) in the "Valuation Project" forum for students to disclose what firm you are using. Students are responsible for checking the thread to make sure you choose a firm no one else has chosen. **If you use a firm that has already been selected or you change firms without changing your choice in the thread, you will automatically receive a 15% penalty!!!**

Late assignments will be marked down one letter grade for each day the assignment is late.

ATTENDANCE & PARTICIPATION:

Attendance will not be taken and will not figure directly into determining grades. However, class time will be spent discussing cases, WSJ articles, and current events. Since significant class time will be spent on class discussion I expect each student to be prepared to engage with classmates because you are responsible for all material discussed in class.

I assume that when you are not in class that you are deriving more utility from some other activity. Therefore, don't ask me "Is there anything that I need to go over?" but rather get brought up to speed by one of your classmates, study-group members, and/or the announcements and materials on Blackboard.

ACADEMIC HONESTY

Academic dishonesty is defined in the UNT Policy on Student Standards for Academic Integrity. Any suspected case of Academic Dishonesty will be handled in accordance with the University policy and procedures. Possible academic penalties include a grade of "F" in the course. You will find the policy and procedures at <http://vpaa.unt.edu/academic-integrity.htm>

If I suspect that you have engaged in academic dishonesty, I will deal with the situation as outlined in the University Policy shown above. You will be allowed to remain in the class during the entire time that the academic misconduct accusation is being investigated, adjudicated, and appealed. As noted above, the maximum academic penalty that can be assessed by an instructor is an F in the course. However, university officials use the academic misconduct information to decide if other misconduct sanctions are then to be applied, and the student has separate rights to appeal those decisions, remaining in the class until all appeals are exhausted.

DISABILITY ACCOMMODATION:

The University of North Texas makes reasonable academic accommodation for students with disabilities. Students seeking accommodation must first register with the Office of Disability accommodation (ODA) to verify their eligibility. If a disability is verified, the ODA will provide you with an accommodation letter to be delivered to faculty to begin a private discussion regarding your specific needs in a course. You may request accommodations at any time, however, ODA notices of accommodation should be provided as early as possible in the semester to avoid any delay in implementation. Note that students must obtain a new letter of accommodation for every semester and must meet with each faculty member prior to implementation in each class. For additional information see the Office of Disability Accommodation website at <http://www.unt.edu/oda>. You may also contact them by phone at 940.565.4323.

STUDENT PERCEPTIONS OF TEACHING (SPOT)

Student feedback is important and an essential part of participation in this course. The student evaluation of instruction is a requirement for all organized classes at UNT. The short SPOT survey will be made available to provide you with an opportunity to evaluate how this course is taught. You will receive an email from "UNT SPOT Course Evaluations via IASystem Notification" (no-reply@iasystem.org) with the survey link. Please look for the email in your UNT email inbox. Simply click on the link and complete your survey. Once you complete the survey you will receive a confirmation email that the survey has been submitted. For additional information, please visit the spot website at www.spot.unt.edu or email spot@unt.edu.

CLASSROOM CIVILITY:

Students are expected to assist in maintaining a classroom environment conducive to learning. To assure that all students have the opportunity to gain from time spent in class, students are prohibited from using cellular phones, making offensive remarks, reading the newspaper, sleeping, or engaging in any other form of distraction, without the permission of the instructor. Inappropriate behavior in the classroom will result in the student being requested to leave the class, at a minimum.

EAGLE CONNECT ACCOUNT

All students should activate and regularly check their EagleConnect (e-mail) account. EagleConnect is used for official communication from the University to students. Many important announcements for the University and College are sent to students via EagleConnect. For information about EagleConnect, including how to activate an account and how to have EagleConnect forwarded to another e-mail address, visit <https://eagleconnect.unt.edu/>

*** THE COURSE SCHEDULE WILL BE POSTED ON BLACKBOARD AND UPDATED REGULARLY *** CLASS

SCHEDULE*

<i>Date</i>	<i>Topic</i>
Week 1 – Aug 28	Introduction, Review of Corporate Finance (Ch. 1 & 2)
Week 2 – Sept 4	Financial Statements and Cash Flows (Ch. 2 & 3) <ul style="list-style-type: none"> • Free Cash Flows & Enterprise Value • Dupont Equation <u>Part 1: The Cost of Capital and Capital Structure</u> Risk and Return (Ch. 10)
Week 3 – Sept 11	Cost of Capital and Valuation (Ch. 12)
Week 4 – Sept 18	Capital Structure: Basic Concepts (Ch. 14) Case Discussion
Week 5 – Sept 26	Capital Structure: Limits to the Use of Debt (Ch. 15) <ul style="list-style-type: none"> • Case Discussion
Week 6 – Oct 2	QUIZ #1
Week 7 – Oct 9	<u>Part 2: Valuation Approaches</u> Discounted Cash Flow Approach <ul style="list-style-type: none"> • Sensitivity Analysis • Dell Example
Week 8 – Oct 16	Relative Valuation Approach <ul style="list-style-type: none"> • Dell Example
Week 9 – Oct 23	Mergers and Acquisitions and Recapitalizations
Week 10 – Oct 30	QUIZ #2
Week 11 – Nov 6	<u>Part 3: Other Managerial Finance Topics</u> Dividends and Other Payouts (Ch. 16)
Week 12 – Nov 13	Raising Capital (Ch. 19)
Week 13 – Nov 20	Short-term Finance and Planning (Ch. 18)
Week 14 – Nov 27	QUIZ #3
Week 15 – Dec 4	Review, Valuation Projects Due
Week 16 – Dec 11	FINAL EXAM

***NOTE: THIS IS A TENTATIVE COURSE OUTLINE. ALTERATIONS MAY BE MADE.**

Valuation Project Outline

Directions: All answers must be presented in a typed document form. ALL DATA SHOULD BE BASED ON 2017 FISCAL YEAR END.

1. Weighted Average Cost of Capital (WACC)
 - a. What is the market value of the firm's equity? State all necessary inputs.
 - b. Use the CAPM to determine the firm's cost of equity. Explicitly state your inputs (the risk-free rate, return on the market or the market risk premium, and beta). Briefly explain the reason or source of each.
 - c. Provide a summary of the firm's LONG-TERM and interest bearing debt obligations as of the 2016 fiscal year-end.
 - d. Determine the firm's before-tax cost of debt.
 - e. Estimate a tax rate for the firm and justify your choice.
 - f. What is the firm's WACC?
2. Determine the firm's unleveraged free cash flows to the firm (FCFF) for 2016.
 - a. Forecast FCFF for 2019 - 2021. Provide a basis you projections (growth assumptions, EBIT/Sales margins).
 - b. Use the Perpetuity Growth Rate Method to find the firm's terminal year value in 2021. Briefly explain how you arrived at your inputs; $FCFF_{2020} * (1+g) / (WACC)$.
 - c. Use the unleveraged FCFs to find the firm's value in 2018?
 - d. What is the value of the firm's equity on a per share basis?
3. Relative Valuation Approaches (For both approaches explicitly state your inputs and how you arrived at them)
 - a. Income Approach: Using data relating to the industry and/or a subset of competitors, provide a valuation of the firm's equity per share using
 - i. EV / Revenue
 - ii. EV / EBIT or EV / EBITDA
 - b. Market Approach: Using data relating to the industry and/or a subset of competitors, provide a valuation of the firm's equity per share using
 - i. P / E – PE ratio
 - ii. (P/E) / g – PEG ratio
4. Sensitivity Analysis: Since these valuations have multiple inputs (particularly DCF methods) and thus can be imperfect, provide a valuation range of the firm's equity on a per share basis.
 - a. Using the FCFF method,
 - i. Vary the WACC to create a valuation range. Be sure to explain how you arrived at the high and low end of your range.
 - ii. Vary EBIT to create a valuation range. Be sure to explain how you arrived at the high and low end of your range.
 - iii. Create a valuation matrix based on simultaneous changes in EBIT and the WACC.
 - b. Using the two Relative Valuation Approaches (Be sure to explain how you arrived at the high and low end of your range),
 - i. Create a valuation range for the Income Approach
 - ii. Create a valuation range for the Market Approach