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MBA 681.01: Financial Management

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The University of Montana
School of Business Administration
Department of Accounting and Finance

Course: MBA 681: Financial Management

Semester: Fall 2002
Section: 01: T&R 8:10-9:30 AM GBB L09
Professor: Tony Crawford

Office: 304 GBB
Office Phone: 243-2557
Office Hrs: Tues 12:00-2:00
Weds 10:00-12:00

Text Book:

Higgins, R.C., Analysis for Financial Management, 6th Edition, Irwin 2000. (Required)

Brunner, R.F., Case Studies in Finance, 4th edition, Irwin 2003. (Required)

Course Objective:

This is the only finance course in the core of the MBA program. Finance is a very broad topic. A full introduction to finance would require introductions to investing, banking, risk management, and corporate financial management. This course will concentrate on corporate financial management. Fortunately there are three fundamental pillars of Finance that extend to all sub fields of Finance. The first pillar is the time value of money, the second is asset valuation and the third is risk management. It is expected that you will have a foundation in basic time value of money techniques and a basic understanding of introductory valuation techniques (NPV, Dividend Discount Model, Bond Valuation) and we will review and expand on each of these topics this semester. Many of the tools we develop and the analysis we use is general enough to extend to other areas of finance.

This course focuses heavily on finance as a strategic business tool. In this course we will be studying how to value strategic business decisions, in particular what is the value of a firm's operating strategies, investment decisions and financing decisions?

This course focuses on corporate finance and many of the examples we use are larger corporations, however, the tools and principals we use in this course are equally applicable to small business. In particular the proper financial planning, investing and risk management are crucial to the success of firm's of all sizes. The final project in this course will provide an opportunity for some students to apply finance tools and principals to an entrepreneurial venture.

This is a 10 week course so much of the review that would be contained in a 15 week course is removed. As mentioned above I expect that you are familiar with the basic financial tools that are part of your MBA foundation requirements. The text I have assigned provides a fairly nice review of these basic tools. We will also be using numerous cases in effort to apply these basic tools. The cases will be covered in varying degrees of detail to be discussed later. Proper quantitative analysis is essential for successful financial decision making, however, equally important is knowing how to make decisions based on that analysis. Since you are working towards a degree in general management I have stripped much of the analysis from this course (Don't smile too big there is still plenty to go around), instead as general managers I expect you to be able to make strategic decisions based on the provided analysis. It is these decisions that I will grade you most heavily on!

Course Homework, Quizzes, and Exams:

Cases	30%
Case presentation	15%
Final Case Project	30%
Class Participation	<u>25%</u>
	100%

Cases:

We will use cases through-out the course. You will be assigned to case groups and I will assign discussion questions to each group. Typically we will cover a case in two parts. The first part will be a basic discussion of the problem at hand in which we will introduce the company, the protagonists and the problem. This portion of the case will be handled largely through class discussion I will not collect anything from this part, however, I may *informally* assign questions to groups and ask these groups to lead these discussions. For the second portion of the case, (usually covered in the next class period), each group will submit a written response to the questions assigned and also lead the discussion for those questions in class. The questions will consist of numerical analysis and/or qualitative discussions.

Case Presentation:

Each group will be assigned one case in which to perform a full case analysis and class presentation. The grade for this is two-fold; First your group will lead a discussion and field questions from your classmates on the day the case is assigned and you will submit a detailed report highlighting your answer to my questions and your conclusions.

Your grade will consist of a group grade, (assigned by me), and a group participation grade, provided through a group evaluation.

We will discuss this more in class.

Class Participation:

I have assigned class participation a large weight in your class score. Each of you brings a unique perspective to this course. Some of you have extensive Finance experience others next to none. This diversity adds a richness of the class coverage. Some of the discussion will be directed but I also look for participation throughout the course. Please feel free to interrupt me at any time if you have a relevant example or question to ask. I especially welcome the questions from those with a limited Finance background because you frequently bring a unique perspective. By not participating in class you are really cheating yourself and your classmates who may benefit from different perspectives.

Part of your class participation grade will be generated from your group evaluations. For those who have taken Jeff Shay's Entrepreneurship course the evaluation will look familiar.

Final Project:

For the first time the final project in this course will be a group project. You will have two alternatives. For those of you in Entrepreneurship you can perform an expanded financial analysis of your proposed business. The reason for this option is that there have been some grumblings that the financials constructed for business proposals in the past have been weak. Now you have the opportunity to improve your financials and for lack of a better term – “kill two birds with one stone.” If you choose this option you must answer a series of questions that will be distributed on my web-site shortly.

For those wishing a more traditional route I will provide an opportunity to evaluate a comprehensive text book case. Details to be provided shortly.

Collected Assignments:

All answers must be typed!!! Handwritten responses will not be accepted. Answers must be well organized. I reserve the right to reject any assignments that are disorganized or sloppy. Staple or bind loose pages (Do not fold or tear corners).

Assignments are due in class. Any assignment not turned into me in the appropriate class period will be penalized 20% and 10% for each additional day it is late assignments more than 2 days late will not be accepted!! For off-sight locations assignments will be collected together and mailed to me.

**Course Outline
(Tentative – Subject to Change)**

- Week 1: Basic Concepts and Review
Higgan's: Chapter 1,5
Brunner: pages (xxiii-xxvi)
Case 1: Ben and Jerry's Homemade Inc.
- Week 2: Financial Analysis – DuPont Model
Higgan's: Chapter 2
Brunner:
Case 6: The Financial Detective, 1996
- Week 3: Financial Planning, Growth Management
Higgan's: Chapter 3&4
Brunner:
Case 10: Deutsche Brauerei*
- Week 4-5: The Investment Decision Techniques and Cash Flow est.
Higgan's: Chapter 7
Brunner:
Case 17: The Investment Detective
Case 18: Fonderia Di Torino S.P.A
- Week 6-7: Cost of Capital
Higgan's: Chapter 8
Brunner:
Case 12: Best Practices in Estimating the Cost of Capital
Case 15: Coke vs. Pepsi, 2001.
- Week 7-8: The Financing Decision
Higgan's: Chapter 6
Brunner:
Case 28: An Introduction to Debt Financing
Case 30: MCI Communications Corp.
- Week 8-9: Business Valuation and Corporate Restructuring
Higgan's: Chapter 9
- Week 9-10: Introduction Risk Management
Readings to be distributed
Brunner:
Case 37: Enron Corporation's Weather Derivatives.
- Final Project: **Option A: Case To Be Announced**
Option B: Financial Analysis, Planning and Valuation of a business of your choice.

*** Bold designates graded cases!**

MBA 681
Day Class Schedule

Week 1:

Tuesday, September 3rd
Thursday, September 5th

- I. Introduction
- I. Introduction Cont.
- II. Introduce Ben and Jerry's Case

Week 2:

Tuesday, September 10th
Thursday, September 12th

- I. Case: Ben and Jerry's
- I. Financial Analysis
- II. Case: Financial Detectives

Week 3:

Tuesday, September 17th
Thursday, September 19th

- I. Financial Planning
- I. Capital Budgeting
- II. Case: Investment Detective
- III. Introduce Deutsche Brauerei

Week 4:

Tuesday, September 24th
Thursday, September 26th

- Case: Deutsche Brauerei
- I. Capital Budgeting Cont.
- II. Introduce Fonderia Di Torini S.P.A

Week 5:

Tuesday, October 1st
Thursday, October 3rd

- I. Case: Fonderia Di Torini S.P.A
- I. Cost of Capital A

Week 6:

Tuesday, October 8th
Thursday, October 10th

- I. Cost of Capital B
- II. Introduce Coke vs. Pepsi
- I. Financing Decision

Week 7:

Tuesday, October 15th
Thursday, October 17th

- I. Case: Pepsi vs. Coke
- I. Financing Decision Continued
- II. Introduce MCI Corp.

Week 8:

Tuesday, October 22nd
Thursday, October 24th

- I. Case: MCI
- I. MCI Case
- II. Business Valuation

Week 9:

Tuesday, October 29th
Thursday, October 31st

- I. Business Valuation Continued
- I. Risk Management
- II. Introduce Enron's Weather Derivatives

Week 10: (The End!!!!)

Tuesday, November 5th
Thursday, November 7th

- I. Case Enron's Weather Derivatives
- I. Polaroid Discussion - Wrap Up