Spring 2014

Finance 423: Financial Analysis and Management

Nikhil P. Varaiya
Department of Finance
Office: SS 3124
E-mail: NVaraiya@mail.sdsu.edu

Office Hours: MW: 12:30PM – 2:00pm or by appointment

COURSE OBJECTIVE

To explore the role of the finance function in a shareholder value based framework. This framework recognizes that choosing between corporate strategic initiatives involves a balance between finance, marketing and operating decisions of a firm. The course will provide a comprehensive understanding of: financial analysis and planning; investment, capital structure, and cash disbursement decisions; valuation and corporate restructuring.

Student Learning Outcomes (SLOs)
1. Use Financial Statements to obtain Cash Flows for the firm and equity holders.
2. Use Financial Statements to evaluate firm performance.
3. Project Financial Statements (B/S, I/S, budgets, etc.).
4. Evaluate alternative financing options.
5. Calculate and project Free Cash Flow.
7. Calculate the cost of debt, cost of equity and the Cost of Capital.
8. Use DCF and other valuation techniques to value projects and firms; perform risk analysis; analyze M & A transactions, leveraged buyouts and initial public offerings.
9. Evaluate the economic and industry environment, domestic and international.
10. Develop hands-on, pro forma modeling skills using Excel.
11. Develop presentation and writing skills.

Required Material


Course Prerequisites:
Fin 321: Managerial Economics, Fin 325: Intermediate Finance, and

Grading Standard

1. Mid-term Exam 40%
2. Case Assignments 40%
3. Class Participation 15%
4. Bloomberg Certification 5%

Obtain two of four Bloomberg Certifications by completing Bloomberg Essentials Training Program at the Wells Fargo Financial Markets Lab (http://cbaweb.sdsu.edu/news/stories/2012/10/wells_fargo_financial_markets_lab) at Love Library, LL 261. One of the certifications must be the Equity Essentials Training Program.
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<td>January 22</td>
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| January 27, 29| Interpreting Financial Statements  
Higgins, Ch. 1: Problems 4, 6, 9, 11 |
| February 3, 5 | Evaluating Financial Performance  
Higgins, Ch. 2: Problems 5, 7 |
| February 10   | *Owen’s Precision Machining* |
| February 12   | Financial Forecasting  
Higgins, Ch. 3: Problems 8, 9, 10 |
| February 19   | *Case: Jones Electrical Distribution* |
| February 24   | Managing Growth  
Higgins, Ch. 4: Problems 4, 8 |
| February 25   | *Case: Polar Sports, Inc, Questions 1, 3* |
| February 26, March 3 | Valuation  
Higgins, Ch. 9: Problems 7, 11 |
| March 5       | *Case: Commercial Fixtures, Inc* |
| March 10      | *Case: Google Inc.’s Acquisition of AdMob: Questions 1, 4* |
| March 12, 17  | **MID-TERM EXAM – Parts I & II** |
| March 19, 24  | Financing Decision  
Higgins Ch. 5: Problems 6, 7  
Higgins Ch. 6: Problems 11, 12 |
| March 26      | *Case: Debt Policy at UST*  
*Case: Marriott Corp.: Cost of Capital: Questions 3, 6, 7* |
| April 7       | Investment Decision  
Higgins Ch. 7: Problems 3, 7  
Higgins Ch. 8: Problems 3, 9 |
| April 9, 14   | *Case: Diamond Chemicals PLC (A)*  
*Case: Flash Memory, Inc.; Questions 1, 2* |
| April 16      |                               |
| April 21      |                               |
| April 23, 28  | M&A and Corporate Restructuring  
Higgins Ch. 9: Problems 2, 3, 6 |
| April 30      | *Case: Takeover of Norton Co.* |
| May 5, 7      | Documentary: Inside Job  
Course Summary |
Case Preparation Questions

Owen’s Precision Machining (OPM)
1. Evaluate OPM’s historical and projected financial performance from the financial statement in Exhibit 1.
2. What operational or financial decisions can Christopher Owen make to pull OPM’s projected cash flows out of the red?
3. Was the lead time reduction offer from OPM’s raw materials suppliers worth the additional cost?
4. Evaluate OPM’s projected additional equipment needs relative to projected demand growth.
5. What else can OPM do to reduce its burn rate?

Jones Electrical Distribution
1. How well is Jones Electrical Distribution performing?
2. What drove the increase in Jones’s accounts receivable and inventory balances in 2005 and 2006?
3. Is Nelson Jones’s estimate that a $350,000 line of credit is sufficient for 2007 accurate?
4. When will Jones be able to repay the line of credit?
5. What could Jones do to reduce the size of the line of credit he needs?

Polar Sports, Inc.
1. Which factors should Mr. Weir consider in deciding whether to adopt level production?
2. What are the total savings from adopting level production?
3. Prepare pro forma income statements, balance sheets to estimate the amount of funds required and the timing of the needs under level production. Does Polar need more than $4 million to finance level production? Why or Why not?
4. Compare the liability patterns feasible under the alternative production plans. What implications do their differences have for the risk assumed by the various parties?
5. What would be the impact of unsold inventory on cash flows and projected cash savings?

Google Inc.’s Acquisition of AdMob
1. How do investors evaluate young technology companies such as Google and how do these investor evaluations in turn impact management decisions?
2. What is the role of acquisitions in Google’s growth strategy?
3. Evaluate the structure of the online advertising market as well as the structure of the mobile advertising segment (within the online advertising market).
4. How is AdMob positioned in the mobile advertising market segment?
5. How would you value AdMob at the end of 2009:
   (i) as a stand-alone firm, and
   (ii) as an acquisition target.

Commercial Fixtures, Inc.
1. What do you expect Albert Evans to bid for Gordon’s half interest? Why?
2. What should Gordon Whitlock bid for Albert’s half interest? Why?
3. What would you as an outside third party bid under the same conditions for the entire company (both halves)? Why?
4. How would you structure the purchase of the business?
Debt Policy at UST
1. What are the primary business risks associated with UST, Inc.? What are the attributes of UST, Inc.? Evaluate from the viewpoint of a bondholder.
2. Why is UST considering a leveraged recapitalization after such a long history of conservative debt policy?
3. Should UST undertake the $1 billion recapitalization? Calculate the marginal (or incremental) effect on UST’s value assuming that the entire recapitalization is implemented immediately (January 1, 1999).
   (a) Assume a 38% tax rate.
   (b) Prepare a pro-forma income statement to analyze whether UST will be able to make interest payments.
   (c) For the basic analysis, assume the $1 billion in new debt is constant and perpetual. Should UST alter the new debt via a different level or a change in the amount of debt through time.
4. UST Inc. has paid uninterrupted dividends since 1912. Will the recapitalization hamper future dividend payments?

Marriot Corp: Cost of Capital
1. Are the four components of Marriott’s financial strategy consistent with its growth objective?
2. How does Marriott use its estimate of cost of capital? Does this make sense?
3. What is the WACC for Marriott?
4. What types of investments would you value using Marriott’s WACC?
5. If Marriott used a single corporate hurdle rate for evaluating investment opportunities in each of its lines of business, what would happen to the company over time?
6. What is the cost of capital for the lodging and restaurant divisions of Marriott?
7. What is the cost of capital for Marriott’s contract services division?

Diamond Chemicals PLC (A)
1. What changes, if any, should Lucy Morris ask Frank Greystock to make in his DCF analysis? Why? What should Morris be prepared to say to the Transport Division, the Director of Sales, her assistant plant manager and the analyst from the Treasury Staff?
2. How attractive is the Merseyside project? By what criteria?
3. Should Morris continue to promote the project for funding?

Flash Memory, Inc.
1. Assuming the company does not invest in the new product line, prepare forecasted income statements and balance sheets at year-end 2010, 2011, and 2012. Based on these forecasts, estimate Flash’s required external financing: in this case all required external financing takes the form of additional notes payable from its commercial bank, for the same period?
2. What course of action do you recommend regarding the proposed investment in the new product line? Should the company accept or reject this investment opportunity?
3. How does your recommendation from question 2 impact your estimate of the company’s forecasted income statements and balance sheets, and required external financing in 2010, 2011, and 2012? How do these forecasted income statements and balance sheets differ if the company relies solely on additional notes payable from its commercial bank, compared to a sale of new equity?
4. As CFO Hathaway Browne, what financing alternative would you recommend to the board of directors to meet the financing needs you estimated in questions 1 – 3 above? What are the costs and benefits of each alternative?
Takeover of Norton Co.
1. Evaluate Norton Co. as a takeover target by BTR plc relative to BTR’s strategy as formulated in the mid-1960s.
2. Owen Green, Chairman of BTR “anticipated that Norton would fetch full price.” Discuss.
3. In light of valuation estimates of Norton in appendix 1, how should BTR formulate its bid for Norton Co. – magnitude and financing of its bid.

Documentary: Inside Job
Questions for consideration as you view the documentary will be provided prior to viewing it. These questions and additional background information will be posted on Blackboard.