

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
BRYAN SCHOOL OF BUSINESS AND ECONOMICS
Master of Business Administration Program

CORPORATE STRATEGY AND THE FINANCE FUNCTION
MBA 625-11 Spring 2006
Course Syllabus

Instructor: Brian D. Johnson
Office: Bryan # 350
Cell Phone: (919) 434-5909
Home Phone: (919) 542-5570 (9:00 am - 9:00 pm)
Primary Email: BDJ@CarolinaCapital.com - ALWAYS use "MBA 625" in subject line
Secondary Email: BDJohns3@UNCG.edu – Please use the primary address above
Office Hours: Tuesday 5:00 pm – 6:00 pm and by appointment

I use my UNCG email address principally to send emails to the entire class list. Therefore, if you want a prompt reply, ALWAYS send your emails to my **primary email** address above. If you do not begin the subject line with "MBA 625", I cannot guarantee that I will see or respond to your email. I normally respond very promptly to email. If you suspect a technical problem, please send me a second email.

Prerequisites: MBA 605, 617, and 620

Purpose: As a follow-up to MBA 605, MBA 625 explores the linkage between a firm's financial policy and its corporate strategy.

Course Objectives:

1. Recognize the role played by the finance function in developing a global strategic plan.
2. Evaluate the extent to which a firm's investment, financing, and dividend decisions contribute to creating value for its common stockholders. Assess the degree to which these financial policies support the firm's overall corporate strategy.
3. Identify the major stakeholders in the modern corporation. Explain how the interests of the stockholders in a firm may be in conflict with other stakeholders.
4. Estimate the required rate of return for a firm, and where appropriate, its various divisions. Use this financial standard as a basis for making investment decisions that create value for the shareholders.
5. Estimate the firm's debt capacity and use it to choose a target capital structure that is consistent with the firm's overall corporate strategy.

Required Materials:

- 1) *Modern Corporate Finance: A Multidisciplinary Approach to Value Creation*, Shapiro and Balbirer (SB), © 2000.
- 2) Casebook, *Corporate Strategy and Finance Function MBA 625* © 2003.
- 3) Individual Case: Radio One, Inc.
- 4) Individual Case: Dividend Policy at FPL Group, Inc. (A)

Electronic Resource:

We will use Blackboard for this course. The site for Blackboard is <http://blackboard.uncg.edu>. Students enrolled in this course will have access to the applicable section of Blackboard. The course syllabus, case guidelines document, practice sets, Conway cases, handouts, examples, and other material deemed necessary will be posted to this site and available for download. **The handouts are an excellent resource for reviewing concepts that are important to the homework and case write-ups.**

Course Requirements / Grades: Your performance on three case write-ups, homework assignments, and class participation will determine your final grade. There will be no tests or exams in this course.

<u>Component</u>	<u>Weight</u>
Case Write-up #1	25%
Case Write-up #2	25%
Case Write-up #3	25%
Homework	15%
<u>Daily Class Participation</u>	<u>10%</u>
Total	100%

A	92 % and above
A-	90 – 91.99%
B+	88 – 89.99%
B	82 - 87.99%
B-	80 – 81.99%
C+	78 – 79.99%
C	70 – 77.99%
F	< 70.00%

Assignments: All assignments (homework and write-ups) are due at the beginning of class. Late assignments will be penalized a minimum of 10%. **Assignments WILL NOT be accepted after the due date. Assignments submitted after the due date will receive a failing grade.** We will be discussing each case extensively in class. Late submissions elevate the probability of academic integrity violations and provide an unfair advantage. If you will be traveling for business (or have a similar conflict) and expect to miss a class session, send me your completed assignment via email **before the beginning of class.** Call or email to confirm that I have received your assignment.

Academic Integrity Policy:

You are not permitted to solicit help (except from your instructor) or provide assistance on ANY assignment in this course. That includes all homework and case write-ups. All assignments require an *individual effort in accordance with the academic integrity policy*. Each student is required to complete all requirements of this course in all respects in conformity with UNCG’s Academic Integrity Policy. The paragraph below highlights students’ responsibilities regarding academic integrity. Please read the Policy. I will pursue any violation in accordance with all policies and procedures. Violations have serious consequences. Please see me if you are having difficulty.

Students should recognize their responsibility to uphold the Academic Integrity Policy and to report apparent violations to the appropriate persons. Students who do not understand the policy or its application to a particular assignment are responsible for raising such questions with their faculty member - before completing that assignment.

Homework:

A case specific homework assignment will be due for every case (except for those requiring a write-up or due on the same day as a case write-up). The homework questions for each case are included in the Case Guidelines document. Please print out all homework assignments in hardcopy form and include your intermediate steps, calculations, formulas, and assumptions to earn credit. Print out a second copy of your homework to use as a reference during discussion of the case in class.

Case Guidelines Document:

Guidelines for preparing case write-ups, case specific comments and questions, **and homework questions for each case** are included in the Case Guidelines document (on Blackboard). Please refer to the Case Guidelines document before preparing for each class session.

Class participation:

Finance is not a spectator sport; daily preparation is necessary to obtain the maximum benefit from this course. You will learn from your interaction with your fellow classmates as you discuss and debate the issues of each case. As a result, class participation is a course requirement. I expect each of you to be prepared to discuss the assigned cases in class.

As you read each case, take notes to identify the relevant issues. Be prepared to discuss and defend your position on each of the questions listed in the Case Guidelines. Interesting insights beyond the case questions are also welcome. Bring copies of the cases, your case notes, calculations, homework, calculator or laptop, and other supporting materials to class for reference during our discussions. In addition, please bring copies of all handouts to class.

To “encourage” your on-going involvement, 10% of your final grade will be determined by class participation. In the limit, students who simply turn in their written work and do not get involved at all in class discussions cannot earn an A.

To facilitate discussion and to reward you for your participation, **you are responsible for bringing a nameplate to every class session.** Please use a dark marker to allow me to read your name from the front of the classroom. You may use your first name, last name, or a nickname if you prefer. In addition, the seat you select for the first class will be yours for the entire 8-week session.

Teaching Methods and Course Requirements:

This course requires you to apply your knowledge of corporate finance to practical, real-world cases. Each case requires theoretical analysis, interpretation, and practical decision-making skills. Pure academic lectures will be the exception to the rule. Instead, learning will occur primarily through interactive discussions of the individual cases.

Weather Policy:

In the event of a severe weather event (ice, snow, hurricane, etc.), this class will strictly follow the University schedule. The University posts on the web site the status of classes (additionally, the area TV stations make announcements). When a weather event occurs, please refer to this source prior to class time.

Other Comments:

Absences in a case-intensive class meeting only once a week will compromise your learning objectives (and adversely affect your class participation grade). Please inform me in advance, if you have an unavoidable conflict that will prevent you from attending class. I will accept assignments early (via email attachment if necessary). However, I will not open any attachments containing a virus or enable macros in any office document.

Unlike some classes, this course relies heavily on the material taught in the prerequisites, notably MBA 605. You will be required to apply the following 605 concepts to real-world cases in MBA 625: CAPM, the Gordon growth model, financial statement analysis, depreciation, free cash flow, weighted average cost of capital, and basic bond and stock valuation.

While I will spend a short amount of time during our first session reviewing several of these concepts (and I will answer related questions during the optional review sessions), you are required to know this material before beginning this class. To help you identify areas of weakness, you will find several practice sets (with solutions) posted on blackboard. Please take the time to review them before class begins. **I have created a number of help topics on blackboard. These may be your most valuable resources in this class. Review them carefully before attempting the cases or attending the lectures.** Reread your 605 and 625 texts if you need additional help on this material.

The material and workload in this course will be difficult for some, especially if it has been some time since you completed MBA 605. Budget your time and begin your reading assignments, casework, and homework assignments as early as possible. If you are having problems understanding the subject matter or have any questions, contact me. I would be happy to work with you. Please do not wait until it is too late.

The cases will become increasingly difficult and complex and each new case will build on the previous cases. However, the analytical tools and frameworks that we use to analyze the early cases will also be applicable to the later cases. Generic spreadsheet tools and models that you build for early cases will greatly reduce the time required in later cases. Past students have found this to be an invaluable timesaving device. It will also help you learn the material and prevent errors that could seriously compromise your analysis.

I have made a number of important changes to this class based on comments from past students. I am interested in your feedback as well. If you have specific suggestions to improve any aspect of the course (cases, lectures, homework, blackboard, etc.), I would like to hear your opinion. However, the classroom is not the appropriate venue for these discussions. Please contact me outside of class via telephone, email, or arrange to meet me in my office. Similarly, if you would like to discuss your grade on an assignment, please see me outside of the classroom.

My Background

Corporate finance is inseparable from the financial markets and I hope to bring a unique viewpoint to our discussions of real-world cases. Here is a brief bio to give you an insight into my background. I graduated with high honors from the University of Illinois in Champaign/Urbana with a BS in Finance. While working full time as a fixed income portfolio manager, I simultaneously attended the part-time, evening program at the University of Chicago, where I earned an MBA degree with a specialization in finance and a concentration in statistics.

I have extensive capital markets experience managing fixed income portfolios for some of the largest and most sophisticated institutional clients in the world. I designed, programmed, and implemented the first return sensitivity based parametric approach actively used to control risk in fixed income portfolios. Based on this technology, I founded Lincoln Capital Management's fixed income index business. During my tenure, the business grew from \$0 to \$13.4 billion in assets under management, making Lincoln Capital the second largest manager of domestic fixed income index assets worldwide. While at Lincoln, I executed over \$250 billion in fixed income transactions.

I left Lincoln Capital Management and founded Carolina Capital Advisors, Inc. (CCA) to provide consulting services and state-of-the-art financial software applications to a small group of sophisticated investment advisors. While at CCA, I have focused on security valuation, prepayment, optimization, and artificial intelligence based decision-making tools.

Finance is a very exciting, dynamic, challenging, and rewarding field. I hope that by the end of our time together, you will share my enthusiasm for the subject. I look forward to working with you.

Tentative Schedule

Session 1. – Tuesday March 14, 2006

Reading: Syllabus & Case Guidelines

Reading: Text chapter 10.1, 10.2, 10.3

Reading: Conway A & Conway B (Blackboard)

Reading: All related help topics (Blackboard), **especially Pure play, beta, and leverage**

Review: Practice Sets (Blackboard)

Prepare for Discussion: Conway A & Conway B – see Case Guidelines

TURN IN FOR GRADING: Conway homework A & B - see Case Guidelines

Pre Break: Course Intro, Review, and *Conway A* – Required Rates of Return

Post Break: *Conway B* – Risk Adjusted Hurdle Rates by division

Session 2. – Tuesday March 21, 2006

Reading: Text chapter 6 & 11.1, Disney Case (casebook)

Reading: All related help topics (Blackboard)

Prepare for Discussion: Disney Case – see Case Guidelines

TURN IN FOR GRADING: Disney homework - see Case Guidelines

Pre Break: Disney Case – Financial issues, CAPM

Post Break: Disney Case – Business Strategy

Session 3. – Tuesday March 28, 2006

Reading: Text chapter 10.4 & Teletech and Euroland Foods, S.A cases (**both casebook**)

Reading: Capital-Rationing Handouts (Blackboard)

Reading: All related help topics (Blackboard), **especially Pure play, beta, and leverage**

Prepare for Discussion: Teletech and Euroland Foods, S.A cases

TURN IN FOR GRADING: Teletech and Euroland homework - see Case Guidelines

Pre Break: Teletech - single hurdle rate vs. risk-adjusted hurdle rate

Post Break: Euroland Foods, S.A. – capital Rationing

OPTIONAL Review Session – Saturday April 1, 2006 (this is not an April Fools joke!)

We will discuss the need for this session during session #3. If a sufficient number of students commit to attending, I will conduct the session. We would probably begin at 9:00 am and I will stay as long as necessary to answer your questions.

Session 4. – Tuesday April 4, 2006

Reading: Text Chapter 14 and Radio One case

Reading: Pecking Order Document (Blackboard)

Reading: Capital Structure Decision Framework - FRICTS (Blackboard)

Reading: All related help topics (Blackboard), **especially Capital Structure BE Analysis**

Prepare for Discussion: Radio One

TURN IN FOR GRADING: Radio One **Case Write-up** - see Case Guidelines

Pre Break: Capital Structure Lecture #1 – Break Even analysis and FRICTS

Post Break: Radio One – comprehensive investment analysis

Cases with names in *bold italics* will be handed out in class or posted on Blackboard.

Tentative Schedule: (continued)

Session 5. – Tuesday April 11, 2006

- Reading:** M&M w/ corporate taxes example (Blackboard)
- Reading:** Super Project case
- Reading:** All related help topics (Blackboard), **especially Capital Structure M&M**
- Prepare for Discussion:** Super Project (casebook)
- TURN IN FOR GRADING:** Super Project case homework - see Case Guidelines
- Pre Break:** Capital Structure Lecture #2 – M&M value of firm + cost of capital
- Post Break:** Super Project – cash flows and sensitivity analysis

Session 6. – Tuesday April 18, 2006

- Reading:** Continental Carriers (CCI) (**handout**)
- Reading:** American Home Products (AHP) (**handout**)
- Review:** Capital Structure Decision Framework Handout (Blackboard)
- Reading:** All related help topics (Blackboard)
- Prepare for Discussion:** CCI and AHP cases
- TURN IN FOR GRADING:** CCI Homework - see Case Guidelines
- TURN IN FOR GRADING:** AHP Homework - see Case Guidelines
- Pre Break:** *CCI* - capital structure
- Post Break:** *AHP* – capital structure

OPTIONAL Possible Review Session – Saturday April 22, 2006

Session 7. – Tuesday April 25, 2006

- Reading:** Text Chapter 15 and Tonka case (**Handout**)
- Review:** Dividend Policy Lecture Exhibits (Blackboard)
- Reading:** All related help topics (Blackboard)
- Prepare for Discussion:** Text Chapter 15 and Tonka case
- TURN IN FOR GRADING:** Tonka **Case Write-up** – See Case Guidelines
- Pre Break:** Dividend Policy Lecture
- Post Break:** *Tonka* – capital structure

Session 8. – Tuesday May 2, 2006

- Reading:** Du Pont case (**handout**)
- Reading:** FPL Group case (A)
- Reading:** All related help topics (Blackboard)
- Review:** Capital Structure Decision Framework Handout (Blackboard)
- Review:** Dividend Policy Lecture Exhibits
- Prepare for Discussion:** Du Pont
- Prepare for Discussion:** FPL Group (A)
- TURN IN FOR GRADING (*OPTIONAL*):** Du Pont homework
- TURN IN FOR GRADING:** FPL Group (A) **Case Write-up** – See Case Guidelines
- Pre Break:** Du Pont – Access to capital markets
- Post Break:** FPL Group (A) – dividend policy, strategy, and capital structure

The Du Pont homework is optional – not extra credit. The homework component will be worth 15% of the course grade for all students.

Blackboard Help and Review Topics

1. Bond Basics
2. Capital Structure BE Analysis
3. Capital Budgeting (FCF and Terminal Values)
4. Capital Structure Decision Framework
5. Capital Structure Lecture M&M
6. Capital Rationing
7. Cost of Equity Capital (Gordon and CAPM)
8. Efficient Case Analysis
9. Pecking Order
10. Pure Play, Beta, and Leverage
11. PV, NPV, IRR
12. Weighted Average Cost of Capital

These may be your most valuable resources in this class. Please read and review them thoroughly before each case and lecture. I created these help topics specifically to address problems that were encountered by prior 625 students.

Go through the examples in detail and create your own spreadsheet tools to recreate the solutions presented in these documents. These spreadsheet tools will be very valuable on the homework and case write-up assignments. Building the spreadsheets will also solidify your knowledge, or at least point out weaknesses that we can address in class or individually as needed.

If you have ideas for new help topics, please bring them to my attention. With enough notice, I may be able to create new help topics for this class. If not, your ideas will benefit future 625 students.