

Financial Management II

BFIN 2410
FALL 2014

Diane Denis
368B Mervis Hall
412-624-0296
diane@katz.pitt.edu

Course Description and Objectives

This course builds on the material covered in Financial Management I (The core course). The main objective of this course is to gain understanding of the theory and practice of financial decision making, especially as it concerns the financing and capital structure decisions. In Financial Management I you were introduced to the concept of capital budgeting and briefly to the cost of capital used in discounting future cash flows. In this course you will build a solid understanding of: i) the trade-off between risk and return and the role of capital markets in determining the cost of capital; and ii) firms' financing and capital structure choices and the effects of these choices on cost of capital, project value, and firm value.

After taking this course you should understand the main financial decisions facing the firm, how these decisions are related, and the tools that financial management offers in order to help evaluate these decisions.

Course Materials

1. Ross, Westerfield and Jaffe (RWJ), *Corporate Finance*, 10th edition, McGraw-Hill/Irwin Publishers.
2. Harvard case Blaine Kitchenware, Inc.: Capital Structure. It can be purchased directly from HBSP at the following link. <https://cb.hbsp.harvard.edu/cbmp/access/30513926>
3. Course materials posted on the CourseWeb page for this course.
4. A financial calculator - or a calculator that can at least handle exponents - is required.

Grading

Final Exam

There will be one exam at the end of the course. The exam is closed-book, but you will be allowed to prepare one 8.5" x 11" sheet of notes for your use during the exam. This note sheet must be hand-written (not typed) *by you*; you may use both sides of the sheet. Calculators will be needed.

The final exam will cover material in the assigned readings, problem sets, and cases, and all material covered in classroom lectures and discussion. Lectures often go beyond the scope of the textbook; therefore, it is important that you attend class regularly.

There will be no make-up exams and you must take the exam during your registered section.

Problem Sets and Case Write-Ups

There will be two assigned problem sets, one of which will be turned in for a grade. There will also be two assigned case write-ups, one of which will be turned in for a grade. All four assignments will be covered in class. The problem set and case write-up that are to be turned in are specified in the course schedule below. Students must work **individually** on the assignments that are to be turned in. **Hardcopy typed or neatly written** solutions are due by the beginning of the class period on the specified due date. Late submissions will not be accepted.

Participation and Preparedness

Course participants are expected to be well-prepared in class and to have reviewed the necessary material before each class. Students' active participation is welcome and will often be solicited.

Overall Grading

Assignment	Percent
Case write-up	20
Problem set	20
Final Exam	60
Total Grade	100

Other Course Policies

Academic Integrity

Students in this course will be expected to comply with the University of Pittsburgh's Policy on Academic Integrity. Any student suspected of violating this obligation for any reason during the semester will be required to participate in the procedural process, initiated at the instructor level, as outlined in the University Guidelines on Academic Integrity. This may include, but is not limited to, the confiscation of the examination of any individual suspected of violating University Policy.

Disabilities

If you have a disability for which you are or may be requesting an accommodation, you are encouraged to contact both your instructor and Disability Resources and Services (DRS), 216 William Pitt Union (412-648-7890/412-383-7355(TTY)), as early as possible in the term. DRS will verify your disability and determine reasonable accommodations for this course.

Classroom civility

To ensure the free and open discussion of ideas, students may not record (audio or video) classroom lectures, discussion, and/or activities without the advance written permission of the instructor, and any such recording, properly approved in advance, must be only for the student's own private use.

Cellular phones (calling or texting) are *not* to be used in the classroom during lectures and need to be turned off or on silence mode.

Contact information

It is easy and effective to email me your questions and I will reply as soon as I can, usually within 24 hours. I do not have scheduled office hours, but will gladly schedule appointments with you at any mutually agreeable time.

Course Schedule for Full-Time MBA Program

Tuesday, October 21 **Read:** RWJ Chapter 10

Thursday, October 23 **Read:** RWJ Chapter 11

Tuesday, October 28

Thursday, October 30 **Read:** RWJ Chapter 13

Tuesday, November 4 **Prepare:** Problem Set 1

Thursday, November 6 **Prepare:** Baker and Tang Corporation

Turn in: Individual case write-up

Study Questions

1. What is B&T's weighted average cost of capital (WACC)?
2. What type of investments should be evaluated using B&T's WACC?
3. What are the costs of capital for B&T's consumer products, medical devices, and pharmaceuticals divisions?
4. If B&T uses a single hurdle rate for evaluating investment opportunities in each of its lines of business, what are the likely consequences for the company over time?

Tuesday, November 11 **Read:** RWJ Chapter 16

Thursday, November 13

Tuesday, November 18 **Read:** RWJ Chapter 17

Thursday, November 20 **Read:** RWJ Chapter 18

Tuesday, December 2 **Turn in:** Problem Set 2

Thursday, December 4 **Prepare:** Blaine Kitchenware, Inc.: Capital Structure
Case Access: <https://cb.hbsp.harvard.edu/cbmp/access/30513926>
Study Questions

1. Do you believe Blaine's current capital structure is appropriate? Why or why not?
2. Should Dubinski recommend a large share repurchase to Blaine's board? What are the primary advantages and disadvantages of such a move?
3. Consider the following share repurchase proposal. Blaine will use \$209 million of cash from its balance sheet and \$50 million in new debt with a coupon rate of 6.75% to repurchase 14 million shares of its own stock at a price of \$18.50 per share. How would such a buyback affect Blaine? Consider the impact on, among other things, Blaine's EPS and ROE, its interest coverage and debt ratios, the family's ownership interest, and the company's cost of capital.

Course Schedule for Part-Time MBA Program

Thursday, October 23 **Read:** RWJ Chapters 10, 11

Thursday, October 30 **Read:** RWJ Chapter 13

Thursday, November 6

Prepare: Problem Set 1

Prepare: Baker and Tang Corporation

Turn in: Individual case write-up

Study Questions

1. What is B&T's weighted average cost of capital (WACC)?
2. What type of investments should be evaluated using B&T's WACC?
3. What are the costs of capital for B&T's consumer products, medical devices, and pharmaceuticals divisions?
4. If B&T uses a single hurdle rate for evaluating investment opportunities in each of its lines of business, what are the likely consequences for the company over time?

Thursday, November 13

Read: RWJ Chapter 16

Thursday, November 20

Read: RWJ Chapters 17, 18

Thursday, December 4

Turn in: Problem Set 2

Prepare: Blaine Kitchenware, Inc.: Capital Structure

Study Questions

1. Do you believe Blaine's current capital structure is appropriate? Why or why not?
2. Should Dubinski recommend a large share repurchase to Blaine's board? What are the primary advantages and disadvantages of such a move?
3. Consider the following share repurchase proposal. Blaine will use \$209 million of cash from its balance sheet and \$50 million in new debt with a coupon rate of 6.75% to repurchase 14 million shares of its own stock at a price of \$18.50 per share. How would such a buyback affect Blaine? Consider the impact on, among other things, Blaine's EPS and ROE, its interest coverage and debt ratios, the family's ownership interest, and the company's cost of capital.