

Syllabus 課程大綱
Financial Management: Theory and Policy

Fall 2021

Professor: Jie-Haun Lee 李志宏

Class hours: 14:00-17:00 Wed.

Office hours: 2:00 p.m.-4:00 p.m. Tue. or by appointment

Phone: Ext. 81116

I. Course Objectives

This course is to prepare students for familiarity with the theories and strategies relevant to corporate financial management. Students learn to apply financial concepts and tools to financial decision making through the analyses and discussions of case studies. Students also need to practice thinking about the relationship between corporate financial decisions and business strategies. In this course, we will touch on the topics including Working Capital Management and Business Strategies, Financial Diagnosis and Analysis, Capital Budgeting and cost of Capital, Corporate Governance , Corporate IPO and Fund Raising Strategies, Capital Structure, Dividend Policy, Financial Distress and Restructuring, Mergers and Acquisitions, Corporate Restructuring and Ethics, the Optimal Financial Decision and Value Creation, etc.

II. Grading Policy

There are three main components to the grade in this class: class participation, three case study reports, and a class learning report. This class requires the full commitment of students including pre-class preparation and in-class participation. The weighting of class participation will be 30%. The 60% of the course grade involves three case study reports. The reports should be case studies and analyses. The students will work in groups and have to present their reports at the midterm and end of this class. The remaining 10% of the course grade is assigned to a class learning report. Students should describe what they have learned and what they think about financial decisions and

strategies for the learning report.

III. Groups

Students will work in groups on pre-class discussion and case analysis reports. Groups will be pre-assigned by the instructor. Each group basically consists of around seven students.

IV. Textbook and Reference

1. Corporate Finance, Forth Edition, Berk and DeMarzo, Pearson Education. (新陸書局)
2. Financial Markets and Corporate Strategy, Grinblatt and Titman, McGraw Hill (新月圖書)
3. 財務管理—新觀念與本土化 Financial Management: New Concepts with Unique Domestic Examples, 謝劍平, 智勝出版

V. Course Outline

(1) Introduction

(2) The CFO's views on Financial Management

Reading Materials:

1. Can You Say What Your Strategy Is? David J. Collin and Michael G. Rukstad, Harvard Business Review, April, 2008. (一句話說策略？大衛．柯里斯及麥可．拉克斯塔德，哈佛商業評論全球繁體中文版新第 38 期，2009 年 10 月號)
2. The Finance Function in a Global Corporation, Mihir A. Desai, Harvard Business Review, July, 2008. (跨國運籌的財務長，米赫．德賽，哈佛商業評論全球繁體中文版新第 23 期，2008 年 7 月號)

Case Study

Case: HBR Case Study: Play It Safe or Take a Stand? Nov 1, 2010, R1011X-PDF-ENG.

Assignment Questions:

1. What are the responsibilities and functions of a Chief Financial Officer?
2. If you were Scott Beckett, the vice president of Oil and Gas

Products, what decision would you expect from Shirley?

3. If you were Walter Albright, VP of research and development, what decision would you expect from Shirley?

4. If you were CEO, Carl Switzer, what recommendation would you expect from Shirley?

5. Before Shirley makes a decision, what does she need to take in account?

6. Should Shirley simply moderate the debate or recommend a course of action?

(3) Working Capital Management and Business Strategy

Reading Materials:

1. Working Your Assets to Boost Your Growth, Miles Cook, Pratap Mukharji, Lorenz Kiefer, and Marco Petruzzi, Finance Basics for Managers, HBR Guide to Finance Basics for Managers, Harvard Business Press Books, Oct 9, 2012 (活化資產以促進成長，邁爾斯．庫克，普拉塔普．穆克哈吉，羅倫斯．基佛，馬可．沛楚基，哈佛商業評論全球繁體中文版，2016 年 04)

2. What's Your Working capital Model?A Case Study, John Mullins and Randy Komisar, Finance Basics for Managers, HBR Guide to Finance Basics for Managers, Harvard Business Press Books, Oct 9, 2012 (你的營運資金模式為何？個案研究：道瓊公司，約翰．穆林思與藍迪．高米沙，哈佛商業評論全球繁體中文版，2016 年 04 月)

3. Are You the Weakest Link in Your Company's Supply Chain? Reuben E. Slone, John T. Mentzer, J. Paul Dittmann, Harvard Business Review, Sep 1, 2007, R0709H-PDF-ENG (誰讓供需斷了線？魯本．史隆，約翰．曼薩爾與保羅．狄特曼，哈佛商業評論全球繁體中文版，2007 年 09 月)

Lecture

1. Predicting a firm's financial distress the Merrill Lynch CO. Statement of Cash Flows(9B12B011)

2. Dell's Working Capital, 2003, Ruback, Harvard Business School, (9-201-029)

Case Study:

Supply Chain Finance at Procter & Gamble, 2017 (9-216-039)
(with spreadsheet supplement)

Assignment Questions :

1. Why did P&G extend its payment terms for suppliers in April 2013?
2. What was the likely impact of the new payment terms on P&G's financial statements and its funding needs? on Fibria's financial statements and funding needs?
3. Why did P&G simultaneously launch the SCF program in April 2013, along with the new payment terms? How does the SCF program work and who benefits from it? Is the SCF financing rate competitive?
4. P&G claims that SCF is a win-win-win program? Is that true? Does anyone lose?
5. Should Fibria continue to use the SCF program?
6. (Optional) In general, should large buyers pay smaller suppliers with extended terms? What is the argument for having P&G pay its A/P quickly?

(4) Financial Diagnosis and Analysis

Reading Materials:

1. Assessing a Company's Future Financial Health, Thomas R. Piper, May 2012, 9-911-412.
2. Innovation Killers: How Financial Tools Destroy Your Capacity to Do New Things, Clayton M. Christensen, Stephen P. Kaufman, and Willy C. Shih, Harvard Business Review, January 2008
3. Which Levers Boost ROI? Margeaux Cvar and John A. Quelch, Harvard Business Review, Jun 1, 2007, F0706B-PDF-ENG (妙手拉抬投資報酬率, 哈佛商業評論繁體中文版, 10 期, 2007 年 6 月號)

Case Study

AT&T Versus Verizon: A Financial Comparison, 2017, 9-917-514

Assignment Questions:

1. What trends do you see in the overall wireless and wireline

industry? Will wireline communication networks eventually disappear? Describe the overall strategy for each firm and what you expect to see going forward.

2. For each company, consider the consolidated financial results and provide a margin analysis. What themes are being played out for either or both companies? Please describe them.

3. Please describe any adjustments you would make when considering the data.

4. Create a reorganized balance sheet for each company showing net operating assets. Next, create a separate table showing net working capital and the net working capital ratios for each of the respective line items.

5. Has either, or both, company(s) been reinvesting in its business? Please provide your evidence.

6. Provide a set of modified DuPont ratios for each firm. What is each firm's return from financial leverage and operating leverage? Assume the pre-tax cost of short-term borrowing is 2% and the marginal corporate tax rate is 40%.

7. Calculate the unlevered free cash flow for each firm.

8. For each firm, what is the trend in postpaid wireless subscribers and total wireless subscribers? What is the trend in average revenue per user (ARPU), as well as EBIT and EBITDA margins?

9. What are the driving factors behind each firm's wireless and wireline performance? Explain the likely relationships.

(5) Case Study Report (Midterm I)

Assigned Case: Manish Enterprises: A Growth Versus Profitability Dilemma, Aug 22, 2014, W14389-PDF-ENG. (with spreadsheet supplement)

(Students will work in groups on the case study report. Each group has to turn in the PPT. and study report before the class)

(6) Capital Budgeting and Cost of Capital

Reading Materials:

1. Do you know Your Cost of Capital, Michael T. Jacobs and Anil

Shivdas, Harvard Business Review, July-August 2012 (投資前的計算題，麥可．賈可布斯及亞尼爾．許達沙尼，哈佛商業評論全球繁體中文版新第 78 期，2013 年 2 月號)

2. Finance Reading: Cost of Capital, Timothy A. Luehrman, Harvard Business School Publishing - Higher Ed, May 4, 2017, 8293-PDF-ENG

Case Study:

Globalizing the cost of capital and capital budgeting at AES, Mihir Desai, 2006 (9-204-109) (with spreadsheet supplement)

Assignment Questions:

1. How would you evaluate the capital budgeting method used historically by AES? What's good and bad about it?
2. If Venerus implements the suggested methodology, what would be the range of discount rates that AES would use around the world?
3. Does this make sense as a way to do capital budgeting?
4. What is the value of the Pakistan project using the cost of capital derived from the new methodology? If this project was located in the U.S., what would its value be?
5. How does the adjusted cost of capital for the Pakistan project reflect the probabilities of real events? What does the discount rate adjustment imply about expectations for the project because it is located in Pakistan and not the U.S.?

(7) Corporate IPO and fund raising Strategy

Reading Materials:

1. Google's CEO on the Enduring Lessons of a Quirky IPO , Eric Schmidt , Harvard Business Review, May 1, 2010, R1005J-PDF-ENG. (Google 另類上市啟示錄，哈佛商業評論繁體中文版，45 期, 2010 年 5 月號。)

2.1. Give My Regrets to Wall Street, Harvard Business Review Case, Feb 1, 2004, R0402X-PDF-ENG (哈佛個案研究：悔教公司拚上市？馬克．富里戈，喬爾．利特曼，哈佛商業評論全球繁體中文版，2014 年 7 月)

2.2. Give My Regrets to Wall Street (Commentary for HBR Case

Study), Harvard Business Review Case Discussion, Feb 1, 2004, R0402Z-PDF-ENG (哈佛個案研究評論篇： 悔教公司拚上市？ 徐贊， 艾德． 納斯包姆， 約翰． 穆希林， 湯姆． 科普蘭， 哈佛商業評論全球繁體中文版， 2014 年 7 月)

Case Study:

Alibaba's IPO Dilemma: Hong Kong or New York? W14598-PDF-ENG (with spreadsheet supplement)

Assignment Questions:

1. Describe dual-class share structure. Is Alibaba's "partnership structure" different from dual-class share structure? Does "voting premium" mean that "minority" shareholders are losing money?
2. Why do NYSE and NASDAQ allow dual-class share structure while HKEx does not? If you were Charles Li, what would you do?
3. What are the pros and cons of listing in Hong Kong versus New York? If you were Jack Ma, where would you list? Under what conditions?
4. What is your valuation of Alibaba?
5. When is the optimal time for Alibaba to go public?

(8) Capital Structure

Reading Materials:

1. Use Customer Cash to Finance Your Start-Up, John Mullins, Harvard Business Review, Jul 1, 2013, F1307A-PDF-ENG (五大模式取得金援 (Use Customer Cash to Finance Your Start-Up), 約翰． 穆林思 John Mullins, 哈佛商業評論全球繁體中文版新第期， 2013 年 7 月號)
2. MANAGEMENT OF FINANCIAL POLICY DECISIONS: CAPITAL STRUCTURE POLICY, April, 2016, Darden Business Publishing, UV7078.

Case Study:

1. FINANCIAL STRATEGY AT BAA PLC (A), 2010, IMD438
2. FERROVIAL CONQUERS THE UK: FOLLOWING IN THE STEPS OF PHILIP II (B)

Assignment Questions

BAA Case:

1. How would you characterize BAA's business? How profitable is it? Has the company invested wisely over the last few years? Is the financial policy aligned with the overall company strategy?
2. What is BAA's optimal capital structure? In particular, given the characteristics of the firm's assets, which financial structure would you recommend to Margaret Ewing?
3. Is BAA a good takeover target?

Ferrovial Case:

1. How does the M&A market act as a discipline device for CFOs? What is the value created by financial policy?
2. How do credit markets work? Why is syndication an attractive mechanism to raise debt?
3. What is project-based lending? How is project finance different from traditional corporate finance?
4. What is the role of financial acquirers (Goldman Sachs) compared with corporate acquirers (Ferrovial)?

(9) Dividend Policy

Reading Materials:

1. Is a share buyback right for your company, Harvard Business Review, 2001.
2. Controlling Stockholders and Disciplinary Role of Corporate Payout Policy: a Study of the Times Mirror Company, 2000, DeAngelo and DeAngelo, Journal of Financial Economics 56, 153-207.

Case Study:

Financial Policy at Apple, 2013 (9-214-085) (with spreadsheet supplement)

Assignment Questions:

1. From the beginning of 2000 until its peak in 2012, Apple's stock price rose from \$27.97 to \$702.10, an increase of over 25 times. What specific attributes of their operational performance

account for this stock performance?

2. Apple's stock price decreased by 37% from its peak in September 2012 until the end of March 2013, from \$702.10 to \$442.66. Again, what specific attributes of their operational performance account for this stock performance?

3. Why does Apple hold so much cash? How much "excess" cash do they have? How much cash would they have after five years if they distributed all of their "excess" cash to shareholders in 2012? Use Exhibit 10 to forecast Apple's financial status over the next five years.

4. If Apple chose instead to commit to an annual dividend from 2012-2017, how much do you think they could afford to distribute each year?

5. Quantitatively compare the results of a share repurchase, dividend, and iPref issuance. Assume that Apple will use all excess cash for share repurchases, dividends and, in the case of iPref, will issue five per share. For the iPref analysis, assume a constant P/E ratio of 10.0x as Einhorn did. How does this assumption impact the analysis?

6. What should Cook and Oppenheimer do?

(10) Case Study Report (Midterm II)

Assigned Case: Airbus A3XX: Developing the World's Largest Commercial Jet (A), (9-201-028) (with spreadsheet supplement)

(Students will work in groups on the case study report. Each group has to turn in the PPT. and study report before the class.)

(11) Corporate Governance

Reading Materials:

1. Whatever Happened to the Take-Charge Manager? Nitin Nohria, James D. Berkley, Harvard Business Review, Jan 1, 1994, 94109-PDF-ENG (負責任的經理人到底出了什麼事，詹姆斯·柏克利，林汀·諾瑞亞(哈佛商業評論精選/領導第八章)，Jan. 1, 2007)

2. Governance and Performance Changes after Accusations of Corporate Fraud 2006, Financial Analysis Journal.

3. Corporate Governance 2.0, Guhan Subramanian, Harvard Business Review, March 2015

Case Study:

Milking Money out of Parmalat, Francesca Toninato, 2005 (0-305-041, IES119)

Assignment Questions:

1. How were the foundations of Parmalat laid? What were Mr. Tanzi's major business intuitions?
2. What were the roots of Parmalat's financial problems? What was the "usual mechanism" used at the base of the scandal?
3. Keeping in mind that the Parmalat investigation is still under way, and no sentence has yet been handed down, can you briefly summarize the major players involved and their respective responsibilities?
4. Do you think Parmalat is a purely Italian scandal? Was the Collecchio Group aligned with Italian corporate governance best practices?

(12) Mergers and Acquisitions

Reading Materials:

1. Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed, Dennis Carey, Harvard Business Review, May 1, 2000, R00312-PDF-ENG. (向收購大師汲取經驗：探討成功合併課題的執行長圓桌會議, 2002, 哈佛商業評論 .)
2. Stock or Cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions, Alfred Rappaport, Mark L. Sirower, Harvard Business Review, Nov 1, 1999, 99611-PDF-ENG. (股票或現金？併購過程買賣雙方的交換，2002，哈佛商業評論 .)
3. Are You Paying Too Much for That Acquisition? Robert G. Eccles, Kersten L. Lanes, Thomas C. Wilson, Harvard Business Review, Jul 1, 1999, 99402-PDF-ENG. (你是收購交易的冤大頭嗎？2002, 哈佛商業評論)

Case Study:

Buffett's Bid for Media General's Newspaper (9-213-142) (with spreadsheet supplement)

Assignment Questions:

1. Why does Warren Buffett want to buy MEG's newspaper division?
2. Is MEG's newspaper division worth \$142 million?
 - a. Start by valuing the newspaper division, assuming the cash flow forecast in Exhibit 10 is reasonable. For the purposes of this analysis, assume a market risk premium of 6%, a debt beta of 0.20, a closing date for the transaction of January 1, 2012 (you can ignore half-year discounting), and a reduction of \$30 million in your valuation of the entire newspaper division to reflect the fact that the The Tampa Tribune is excluded from the purchase agreement.
 - b. Are the cash flow forecasts reasonable? What are the critical assumptions you need to make for the newspaper division (again, less The Tampa Tribune) to be worth \$142 million? To be worth more than \$142 million?
3. How much value, if any, does Buffett derive from the credit agreement?
4. As a current lender to MEG, would you refinance the \$225 million term loan that is coming due? Would you refinance the term loan as a new lender?
5. What should MEG's CEO Marshall Morton do? What are his options?

(13) Corporate Restructuring and Ethics**Reading Materials:**

1. Good directors and bad behavior, Prentice, 2012, BH496-PDF-ENG.
2. The bottom-line benefits of ethics code commitment, Gilley, Robertson, and Mazur, 2010, BH366-PDF-ENG.

Case Study:

Marriott Corporation (A), 9-394-085

Assignment Questions:

1. Why is Marriott's chief financial officer proposing Project Chariot?

2. Is the proposed restructuring consistent with management's responsibilities?
3. The case describes two conceptions of managers' fiduciary duty (p. 9). Which do you favor: the shareholder conception or the corporate conception? Does your stance make a difference in this case?
4. Should Mr. Marriott recommend the proposed restructuring to the board

(14) Bankruptcy and Restructuring

Reading Materials

1. What a Toys "R" Us Comeback Could Look Like, Kevin M Dulle, B Joseph Pine II, Harvard Business Review Digital Article, Nov 30, 2018, H04OEP-PDF-ENG (重返市場的玩具反斗城如何重生，凱文．杜勒 Kevin M. Dulle，約瑟夫．派恩二世 B. Joseph Pine II，哈佛商業評論全球繁體中文版, 2019/01/16)

Case Study:

Restructuring JAL (9-214-055)

Assignment Questions:

1. How did JAL get into this situation? What are Seto's options?
2. How does bankruptcy work? What tools/rights would be available to Seto? What is the economic rationale behind these tools?
3. What are the costs of being in bankruptcy? Do any of these costs start before bankruptcy? How does this affect a firm's capital structure decision outside of distress?
4. What should Seto do?
5. Discuss bankruptcy as an institution designed to address the frictions highlighted in class.

(15) Corporate Value, Investor Relations and Communications, and Transformation Driver

Reading Materials

1. How to Win Investors Over? Baruch Lev, Harvard Business Review, Nov 1, 2011, R1111B-PDF-ENG (經理人與投資人雙贏, 巴魯克．列夫 Baruch Lev，哈佛商業評論全球繁體中文版,

2011 年 11 月號)

2. Managing Investors, Samuel J. Palmisano, Justin Fox, Harvard Business Review, Jun 1, 2014, R1406E-PDF-ENG (管理投資人，山姆．帕米沙諾 Sam Palmisano，採訪者：賈斯汀．福斯 Justin Fox，商業評論全球繁體中文版，2014 年 6 月號)

Case Study:

Generating Higher Value at IBM (A) (9-215-058) (with spreadsheet supplement)

Assignment Questions:

1. Why did IBM create and publicly announce the 2010 EPS Roadmap in May 2007?
2. How would you assess IBM's financial performance both before (from 2004-2006) and after (from 2007-2009) announcing the 2010 Roadmap? Analyze case Exhibits 1, 2, and 3 for levels, trends, changes in financial performance. Hint: what has happened to IBM's ROE (return on equity) and cash flow over the 10 years? Why and how did they change?
3. Was the 2010 Roadmap successful?
4. How does the 2015 Roadmap differ from the 2010 Roadmap? Has the 2015 Roadmap been successful so far (up to May 2014)?
5. What should CEO Rometty and CFO Schroeter do as of May 2014: affirm the 2015 EPS Roadmap (and the \$20 target), adjust it, or abandon it?
6. What should Sofia Johnson recommend to her clients—buy, hold, or sell IBM shares?

(16) Financial Decision and Value Creation

Reading Materials:

1. Framework for Financial Decision, March-April 171, Harvard Business Review, No. 71211

Case Study:

Northampton Group Inc. : How to Increase Shareholder Value, 2011, Ivey, W1104

Assignment Questions:

1. How would you describe Northampton's current financial situation? What role is being played by the current economic conditions in which Northampton finds itself? How does Northampton's position compares to that of its competitors?
2. Why does Patel believe that Northampton is currently undervalued?
3. What are the costs and benefits of the alternatives that Patel is considering to improve the value being provided to Northampton's shareholders?
4. What alternative should Patel recommend to the board of directors? What arguments should be made to support this choice?

(17) The Optimal Financial Decision and Strategies

Reading Materials

1. Structuring Corporate Financial Policy: Diagnosis of Problems and Evaluation of Strategies, Robert F. Bruner, Sean Carr, Katherine L. Updike, University of Virginia Darden School Foundation, Apr 5, 1994, UV0102-PDF-ENG

Case Study:

Molycorp: Financing of Production of Rare Earth Minerals (A) (9-214-054) (with spreadsheet supplement)

Assignment Questions:

1. What are the key elements of Molycorp's business plan? What are the key risks facing Molycorp as it implements its plan?
2. What is a reasonable (market value) leverage ratio for Molycorp? In your opinion, is Molycorp currently at its optimal leverage ratio?
3. What is Molycorp's total external financing need between July 2012 and December 2012? What is its financing need in 2013? Develop a comprehensive funding plan to meet Molycorp's financing needs through the end of 2013. Specifically, of the three alternatives listed on page 5 of the case, which one or ones would you issue, in what amounts, and when? Explain your reasoning.

4. Is Molycorp's equity fairly priced at \$11.49 per share? What terminal value assumptions would be consistent with an \$11.49 share price, assuming the cash flow forecasts in Exhibit 9 are reasonable? Assume a market risk premium of 6.0%, a corporate tax rate of 35%, and a debt beta of 0.30.
5. Would you invest in Molycorp in August 2012? Why or why not? What are the most important risks that you would take into account in making this decision?

(18) Case Study Report (Final)

Assigned Case:

FANUC Corporation: Reassessing the Firm's Governance and Financial Policies May 3, 2017, (216042-PDF-ENG) **(with spreadsheet supplement)**

(Students will work in groups on the case study report. Each group has to turn in the PPT. and study report before the class)

VI. Handouts

Handouts such as class notes and other reading materials will be provided in advance of the class.