Warrington College of Business University of Florida

COURSE INFO:

Course: FIN5439 – Capital Structure and Risk Management

Term: Spring 2017 **Schedule:** Class: T, R

Time: Sessions 5-6 (11:45 – 13:40), HGS 150 (Hough 150)

CONTACT INFO:

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Office Hours: Wed: 10:00-12:00, Thu: 9:00-10:00 and by appt.

PREREQUISITES:

You should be familiar with the basics tools of financial (investment) decision making, including the risk-return relationship, valuation, cost of capital, and time value of money. You should also understand the basics of financial accounting, financial markets (e.g., market efficiency, sources of financing), and the basics of investment valuation (e.g., dividend models, P/E, time value).

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I. STATEMENTS

The University of Florida Policy on Course Syllabi requires a section on academic honesty to be included in all syllabi:

- A. The Academic Honesty Guidelines at the University of Florida are designed to develop and engender a community of honor, trust and respect. The academic community of students and faculty at the University of Florida strives to develop, sustain and protect an environment of honesty, trust and respect. Students within the system receive the benefits of the academic pursuit of knowledge, free from the obstacles of lying, cheating and stealing. In return, the Academic Honesty Guidelines demand that students act with integrity in all of their endeavors. Exhibiting honesty in academic pursuits and reporting violations of the Academic Honesty Guidelines will encourage others to also act with integrity. Every student who approaches their studies with honesty and forthrightness suffers when another student attains an unfair advantage by cheating.
- B. An academic honesty offense is defined as the act of lying, cheating, or stealing academic information so that one gains academic advantage. As a University of Florida student, one is expected to neither commit nor assist another in committing an academic honesty violation. Additionally, it is the student's duty to report observed academic honesty violations. The following actions are examples of violations of the Academic Honesty Guidelines:
 - 1. Cheating: The improper taking or tendering of any information or material which shall be used to determine academic credit. Taking of information includes, but is not limited to, copying graded homework assignments from another student; working together with another individual(s) on a take-home test or homework when not specifically permitted by the teacher; looking or attempting to look at another student's paper during an examination; looking or attempting to look at text or notes during an examination when not permitted. Tendering of information includes, but is not limited to, giving your work to another student to be used or copied; giving someone answers to exam questions either when the exam is being given or after taking an exam; giving or selling a term paper or other written materials to another student; sharing information on a graded assignment.
 - 2. Plagiarism: The attempt to represent the work of another as the product of one's own thought, whether the other's work is published or unpublished, or simply the work of a fellow student. Plagiarism includes, but is not limited to, quoting oral or written materials without citation on an exam, term paper, homework, or other written materials or oral presentations for an academic requirement; submitting a paper which was purchased from a term paper service as your own work; submitting anyone else's paper as your own work.
 - 3. Bribery: The offering, giving, receiving, or soliciting any materials, items or services of value to gain academic advantage for yourself or another.
 - 4. Misrepresentation: Any act or omission with intent to deceive a teacher for academic advantage. Misrepresentation includes using computer programs generated by another and handing it in as your own work unless expressly allowed by the teacher; lying to a teacher to increase your grade; lying or misrepresenting facts when confronted with an allegation of academic honesty.
 - 5. Conspiracy: The planning or acting with one or more persons to commit any form of academic dishonesty.
 - 6. Fabrication: The use of invented or fabricated information, or the falsification of research or other findings with the intent to deceive for academic or professional advantage

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II. POLICIES

A. ATTENDANCE

- 1. Fact: Graduates with (content) knowledge and skills get better jobs.
- 2. Assumption: You want a (better) job.
- 3. Logic: Therefore, you want knowledge and skills.
- 4. Fact: Much of the content/skills in my course are only delivered in the classroom, not the text.
- 5. Data: In an analysis of previous courses, I tracked quiz scores and attendance. Of 8 points:
 - a. Avg score = 2.00 for those who missed 2 days of 2 days leading up to a quiz.
 - b. Avg score = 4.75 for those who missed 1 day of 2 days leading up to a quiz.
 - c. Avg score = 7.09 for those who missed 0 days of 2 days leading up to a quiz.
- 6. Finding: Those who attend, learn more content.
- 7. It follows: Show up, engage.

B. CLASSROOM FORMAT

- 1. Discussion and lecture to complement the readings. Lectures are <u>not</u> sufficiently detailed to replace readings. Readings alone are insufficient. Do both.
- 2. During discussions, engage. My professional (and life) advice: don't spectate, participate.
- 3. If assigned topics/questions are exhausted, we often do (unplanned) in-class exercises using real data, in real-time to apply what we have learned. You learn more by doing.
- 4. When time permits, we might discuss related topics and skills that will make you more successful business people. *Just ask if you want to discuss careers, industries, etc.*

C. COMMUNICATIONS

- 1. Email and in-class announcements are the primary mechanisms for communicating, so:
 - a. Check your email early and often; and
 - b. You are responsible for asking classmates for missed in-class announcements.

D. WRITING STYLE

1. Write memos as if you were doing so in business. Cite work that is not your own.

III. THE COURSE

A. OBJECTIVES/OUTCOMES SOUGHT

- 1. This course is intended to develop financial competencies that are foundational elements of a business education that will help you identify, quantify, create, and obtain economic value.
- 2. My pedagogical intent centers on <u>intuition</u>. In short, finance concerns relationships among time, value, and risk. We use lots of formulae to represent these relationships. While you need to learn these formulae for the course, five years from now you many not recall an exact formula, but you should still recall the underlying relationship(s) represented.

B. TEXTBOOK/CONTENT

- 1. Optional:
 - a. Brigham & Daves, Intermediate Financial Management, 11e or later.
 - b. Brigham & Ehrhardt, Financial Management: Theory and Practice, 15e or later.
 - c. Brealey, Myers, Allen, Principles of Corporate Finance, 11e or later.
- 2. Subscribe to and read the Wall St. Journal during this course.
- 3. Watch CNBC or Bloomberg TV.

C. ELECTRONICS

- 1. You need a financial calculator with a five-button TVM function.
- 2. During quizzes and exams you will have <u>only</u> your calculator; no phones, no laptops, etc.

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- 3. You will need a computer with Excel for in-class exercises.
- 4. It is against UF policy (and Florida law) to record video or audio without explicit permission (of every student in class, and ME). This policy enables us to speak with candor without fear of showing up on _____ (← your favorite social media platform). Now is the time to ask "silly" questions.
- 5. **No phones (or anything else) on during class.** At some point, I might ask you to find data, look up a firm, do some Excel. At THAT point, you may turn on laptops, etc.
 - a. **Do not take pictures of what is on the board. Write it down.** All research on pedagogy tells us that the act of writing things helps learning. Taking pictures does not.
 - b. I have experimented with courses in which I allowed texting, surfing, messaging, posting, snapchatting, faxing (still reading?), etc. versus those in which I banned everything. The paper and pens (to take "notes") class outperformed the distracted class by 26 bps (26 points higher on quiz and exam scores). It was not even close.

D. GRADING

- 1. Philosophy Your grade will reflect both your level of effort and your subject mastery.
 - a. Prepare, attend, participate. This demonstrates to me that you are learning.
- 2. Components

a.	Participation/attendance	25% (from -14 to 28 points, scaled as % of highest score)
b.	Quizzes (x3)	15%
c.	Assignment 1	10%
d.	Assignment 2	10%
e.	Assignment 3	40%
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- 3. Participation
 - a. I track attendance and participation. Participate and engage, especially in the case discussions. Hint: show up, sit toward the front, speak up, introduce yourself, use a nametag. Participation grading looks like this:
 - (a) 2 points engaged, discussing, prepared, making good points, cross-examining classmates respectfully.
 - (b) 1 point present, but not participating fully. Or, absent with notes submitted.
 - (c) 0 point not there, no notes submitted.
 - (d) -1 points distracting others, unprepared (e.g., did not prepare the case, or read), on any type of electronic device other than when we are doing Excel, data exercises.
 - b. In the event of unavoidable absence, inform me beforehand. Email to me (before class) a 1-page max outline (bullets, not prose) of key points from the chapter/topic, plus answers to the assigned problems (if any). You will then have important reference materials.
- 4. Grades:
 - a. A through F, scaled per typical UF/Warrington scales.

E. TEAMWORK

- 1. Form <u>teams of students</u> and maintain these groups throughout the course. One assignment should be turned in per team for team assignments.
- 2. In (most of) the corporate world, teams are the norm. Teams will be made up of individuals with varying levels of ability and willingness to contribute. However, both here and in the corporate world you will be judged on the team's output. As such, a skill that will serve you is the ability to "manage" the team process to maximize the quality of team output. You are in a situation in which you are individually responsible for the output, but have no individual authority over the team, per se. Learn to self-manage dead weight and help the team perform well. If a problem persists, please discuss it with me.

F. ASSIGNMENTS

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1. Details:

- a. <u>Assignment 1</u> Equity Valuation project (team). See Canvas for details.
- b. <u>Assignment 2</u> Debt Issuance. See Canvas for details.
- c. <u>Assignment 3</u> Capital Structure Project (team). See Canvas for details.

2. *Choice of firm:*

- a. You must submit to me a list of your top 3 choices for the target firm as shown on the syllabus. I will choose the firm to ensure no two teams do the same firm.
- b. You may use the same firm for all projects.

3. Submission:

- a. A single file in PDF or Word, includes all exhibits, graphs, charts, Excel, etc., must be submitted to BEFORE the class session in which it is due.
- b. Due as shown on schedule below.

4. Presentations:

a. Some assignments will be briefly presented in class. Very short 5-10 minutes, several slides or the (Excel) models, if they can be clearly presented. Make it understandable.

Late policy:

- a. Assignments help you learn. Late assignments will not earn full credit. You must do the assignments anyway...so why not do them on time.
- b. 1 minute 24 hours late, lose 20%;
- c. 24 48 hours, lose 30%;
- d. 48 hours +, lose 50%.

G. HOMEWORK

1. Cases and readings should be read and prepared BEFORE CLASS.

H. IN-CLASS QUIZZES

1. There will be a few very short quizzes on the topics from class and/or projects. If you are in class, you should be well prepared for these quizzes.

I. EXAM

1. Final exam is your final project.

J. SCHEDULE

1. See schedule below; (*Dates will likely shift*).

SESSION-BY-SESSION SCHEDULE:

Q = Questions (at end of chapter)

P = Problems (at end of chapter)

"Do" means do it but no need to turn it in

"Due" means do it and turn it in to me

"XL" = Excel sheet

Read Chapters "BE" refers to Brigham & Erhardt. If you use a different text, map it to the topic.

Date		Sess	Topic	Read	Assignment
01/03/17	T	1	Intro & Assessment		
01/05/17	R	2	Excel, Morningstar, Finra Equity valuation - recap	BE 7	Read about Nobel prize winners in finance (Economics Prize).

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					Read BE 7 or any chapter on equity valuation. Identify 5 methods of valuing equity.
01/10/17	Т	3	Dividends/Repurchases	BE 14	
01/12/17	R	4	IPOs, Banking	BE 18	Due: email top 3 firms for project 3
01/17/17	T	5	Securities Issuances, cont. In-class Excel (Groupoff)	BE 18	In-class Excel exercises In-class Excel: IPO model
01/19/17	R	6	IPO Project Presentations		Due: (A#1) IPO Project Quiz 1: Equities
01/24/17	T	7	Bond valuation	BE 5	
01/26/17	R	8	Other types of debt Bond Issuance Presentation	BE 20	Due: (A#2) Debt Project Quiz 2: Debt
01/31/17	Т	9	K Structure	BE 15	Read: Cohen articles Due: email top 3 firms for project 2
02/02/17	R	10	K Structure	BE 24 (scan)	In-class K Structure Example
02/07/17	T	11	K Structure	BE 19 (scan)	K Structure Example (cont'd)
02/09/17	R	12	Options	BE 8	In-class: options practice
02/14/17	Т	13	Options, Real Options, Futures, Forwards, Swaps	BE 23 (san) BE 26 (scan)	Read: article on Risk Mgmt
02/16/17	R	14	K Structure Presentations		Quiz 3: K Structure and Options
02/21/17	Т		Final Project Due		Due: (A#3) K Structure Project
Optional Day TBD			Stats/Methods/In-class EXCEL practice	OLS	Read chapter on OLS Read chapter on Distributions Read chapter on Sampling Read chapter on T-tests Read chapter on Event study

Jan 3 first session Feb 17 last sessions Feb 20-24 is final exam time

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