

**UNIVERSITY OF WASHINGTON**  
*Foster School of Business*  
**Problems In Business Finance**  
**Fin 551**  
**Summer 2022**

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**COURSE OBJECTIVE**

This is an advanced finance course that deals with select problems in finance. In particular, we will cover:

- Advanced valuation techniques
- Capital Structure: Debt versus Equity choices
- Initial Public Offerings
- Corporate Restructuring
- Business Combinations
- Leveraged Buyouts
- Payout Policy
- Market for Corporate Control

To do so, we will make extensive use of a specialized set of diagrams called the Firm Schematic to visualize how financial decisions impact and are impacted by the risks the firm faces along with its assets, value chain, employees, suppliers, rivals, customers, and threats of industry entry.

This course will help students to:

- Evaluate debt versus equity choices from several perspectives including taxes, agency costs, information asymmetries and distress costs.
- Apply the WACC and APV methods to value companies considering the impact of financing structures on the value of the firm.
- Critically evaluate financial transactions for value creation.
- Recognize and interpret critical deal points, components and structures in reorganizations, acquisitions and LBOs.

- Structure deal terms to align incentives of the critical parties involved.
- Evaluate financial options in light of a firm's competitive environment.
- Recognize the sources of value creation in LBOs.
- Describe the nature of IPO underpricing, who bears the underpricing and why it takes place.
- Critically evaluate options for Initial Public Offerings.
- Work together to solve complex unstructured problems in teams.

#### REQUIRED MATERIALS

- Cases and readings are available via links provided on the Canvas pages.
- Additional course materials and course announcements are available on Canvas.

#### COVID & ONLINE CLASSES

The UW and Foster school have determined that classes during Spring quarter **will be conducted in person**. As in Winter quarter, students are expected to be in class **except in the event of a COVID emergency for you or your family**. That is, if you or a member of your immediate household has tested positive for COVID you may attend class via the Zoom link provided on each Module page. Please note that while we will do our best to answer questions from Zoom participants, the current state of our classroom technology means that attending via Zoom will be largely a passive experience. For this reason, the **option to attend online is only for students with COVID emergencies. It is not available for students with normal work obligations, etc.**

In the event that a new variant causes us to go back online, we will use the Zoom links found on the Module pages to conduct class remotely. In the event that we must return to the online environment, here are a few guidelines for how we will be conducting our Zoom sessions.

- **Please keep your microphone muted until you are ready to speak.** This cuts down on the amount of background noise that is audible to the class.
- **Please keep your video camera on if possible.** It is important for me (and the rest of the class) to be able to see your face and eyes in order to facilitate good discussions.
- Please note that, as discussed below, class participation is extremely important for the success of the class. After being used to in-person classes, Zoom can seem somewhat impersonal. It is easy at first to treat the class as if it were a YouTube video or a TV show and simply watch. It is important for all of us to recognize this and make the extra effort to ask questions, answer questions and make comments just as we do in an in-person format. If we all do this, we'll get used to Zoom quickly and use it to produce an excellent interactive class environment.

## GRADING AND WRITTEN DELIVERABLES

Your grade will be based on the following deliverables and your daily class work. As with all Foster classes, grades will be determined based on relative performance. That is, your final grade is determined by the number of standard deviations your final score is from the class mean. The deliverables will comprise 75% of our grade. The daily class work (i.e. participation) will comprise 25% of the grade. **For cases that are turned in, you should upload your write-up, in PDF format, to Canvas.** We will be turning in three cases over the course of the quarter. These cases are:

- **Diageo**
- **Alphabet**
- **RJR Nabisco**

Daily class work grades will be based on three things: 1) your presence-- it's hard to contribute to class learning when you are not in class, 2) my assessment of the extent to which you helped to make the online class a productive learning experience, and 3) my assessment of the depth of your command of the material.

## DAILY PREPARATION AND PARTICIPATION

Most of our class time will be devoted to discussion of assigned cases. To get the most out of class you must prepare conscientiously and participate actively. Failure to participate robs others of your perspective and increases the chances that the discussion will not be relevant to your interests and abilities. **Furthermore, participation is an important part (25%) of your grade. Those who fail to participate actively are effectively taking a zero for a substantial fraction of their course grade.** Those who participate actively and consistently by asking questions both of me and of other students, engaging in class debates and volunteering to present their solutions will receive high participation grades. Those who participate only sporadically and make only 'off-hand' or less substantial contributions will receive low participation grades. So please participate actively.

So what is conscientious case preparation? Read the case carefully; identify the principal issues to be addressed; attempt to analyze these issues using the appropriate tools or techniques; and note any action recommendations implied by your analysis. Alternatively, if you find yourself hitting a roadblock, try to articulate what your problem is. Often identifying roadblocks is as valuable as a complete analysis.

For each case assigned you will note below that I have posed detailed discussion questions. The questions play several roles depending on the case. Usually the questions are simply to help you get started on your analysis, and you should not feel constrained by them. Nor should you assume that answering all of the preparation questions necessarily constitutes a complete analysis. In other instances, I may give you additional information in the questions, or when the case is a mechanical one, I may ask you to perform specific calculations.

One extremely important thing to know about effective class participation is that it does **not** mean that you are expected to come to class with all the answers. The cases are designed to be difficult real-world situations. I don't expect anyone will have all the answers, even after conscientious preparation. *Everyone* will have some 'loose ends' in the case that they are uncertain about. If it were

otherwise, there would be nothing for you to learn in class, and I would have been guilty of selecting a case that was too simple. Bringing these questions and uncertainties to class and asking about them is an extremely important part of good participation. Good questions are quite often more significant for our discussions than good answers. Thus, you should bring your questions to class so that we can all benefit from them. In the end, the test of whether you are learning the material, and progressing adequately, should be how you feel *after* the class discussion, not before. You are doing fine if after a class discussion you believe you could adequately handle a similar situation in the future.

**If you are not prepared, please notify me before class so we can all avoid embarrassment.** If you have spent several hours on the case, but still feel unsure of your opinions, count yourself prepared. **If you have made the effort, you should never feel embarrassed by the result.**