



BRITISH COLUMBIA INSTITUTE OF TECHNOLOGY

School of Business

Program: Financial Management

Option: Accounting Degree

## Course Outline

**FMGT 7510**  
**Advanced Finance**

**Start Date:** January 10, 2001

**End Date:** April 18, 2001

**Course Credits:** 3

**Term/Level:** Degree

**Total Hours:** 45

**Total Weeks:** 15

**Hours/Week:** 3

**Lecture:**

**Lab:**

**Shop:**

**Seminar:** 3

**Other:**

### Prerequisites

**FMGT 7510 is a Prerequisite for:**

Course No.	Course Name
FMGT 4510	Finance 2

Course No.	Course Name
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### Course Calendar Description

This course builds on the fundamentals of finance, which are covered in FMGT 3510 and 4510. This is done by approaching the subject of finance in a more evaluative and strategic manner, looking at questions such as "what makes companies under-perform?", "what makes companies perform better?", and "how can companies avoid pitfalls and achieve their goals in the short- to- medium term?". In the search for answers to these questions, we will consider what financial markets want from companies and explore how a company's interest rate risk and foreign exchange risk can be managed.

### Course Goals

See Learning Outcomes section below.

### Evaluation

Mid-term exam	25%
Final exam	40%
Term paper	20%
Group presentation	10%
Participation	5%
	<u>100%</u>

## Term Paper (20%)

Students are required to prepare a research report on a current topic in corporate finance. You may select any topic that is of interest to you but you must do some research before you commit to a topic to ensure that you can find sufficient information or that the topic is not too broad. **A term paper proposal memorandum is due by the end of class on January 31.** In this memorandum, please list your proposed topic and sources of information that you plan to use as well as a tentative outline of your paper. **The paper itself is due at the end of class on March 21.**

Suggested topics include:

- The process of taking a company public.
- The process of taking a company private.
- The valuation of initial public offerings.
- Who benefits from corporate mergers?
- Current trends in venture capital and angel financing.
- Current trends in asset backed financing.
- Securitization of cash flows.
- Current trends in short-term (working capital) financing.
- Critique of the capital asset pricing model and a review of alternatives to CAPM.
- Financing international investments.
- Overview of the various international capital markets.

Your paper should follow the conventional format for college or university term papers (please consult a writer's handbook if you need help with this). In addition to the normal components of a term paper, your report should include:

- A review of the academic literature on the topic if applicable.
- Case studies and numerical examples to help explain your main points.
- If you are doing a "process" or "current trends" type of report, you should interview an expert working in that field and incorporate their comments in your paper.

Please limit your paper to 15 to 20 pages, including appendices. I will distribute a detailed making guide in the near future, which will assist you in preparing your paper.

## Group Presentation (10%)

Working in small groups, students will participate in a group presentation on current corporate finance trends and challenges facing a specific industry. After you have formed a group (a minimum of four and a maximum of five members), go to <http://www.spglobal.com/globalclass.html> and select three or four sub industries from the far right column of the table. **A presentation proposal memorandum is due by the end of class on January 31 (only one for each group please).** In this memorandum, please list the name of your group members and the sub industries that you have selected in order of preference. I will review your requests and assign an industry to each group in order to avoid duplication. Pick several companies from that industry and obtain as much information as you can about the industry focusing on the following:

- What is the outlook for the industry?
- What are the special challenges and opportunities facing the industry?

- ○ Are there any capital structure patterns noted among the companies that were the subject of your review?
  - How are the subject companies financed (both short-term and long-term)
  - What is their mix of debt and equity?
  - What are the features of any debt and/or preferred shares used?
  - Do the subject companies use any kind of convertible securities? What are the features of these convertible securities?
  - Are there any special features attached to the common shares of the subject companies?
- Are the companies in this industry engaged in financial risk management?
- What are the dividend policies of the companies in your industry?
- What are the underlying, qualitative reasons for the financing patterns and dividend policies that you have observed?

An easy way to find companies in a specific industry is to go to <http://moneycentral.msn.com> and do a symbol search using the industry tab (please see me if you need help with this).

Your presentation should be 10 to 15 minutes in length and should be as entertaining and informative as possible. I recommend that you use overheads and/or Power Point to make your presentation more appealing. I will distribute a detailed making guide in the near future, which will assist you in preparing for the presentation.

### **Class Participation (5%)**

○ **Attendance:** Half of your participation mark (2.5% of the total course mark) will be based on attendance. I will deduct ½ % for every class you miss (starting January 24), to a maximum of 2.5%. If you have perfect attendance, you will have a guaranteed 2.5%.

**Preparation of a company journal:** The other half of the participation mark will be based on a company journal that I want you to keep over the remainder of the course. Pick a Canadian or US public company and follow it closely. Start building a portfolio of information pertaining to the company. For example, you will want to:

- Get the company's most recent quarterly and annual reports.
- Familiarize yourself with the type of investments that the firm makes, how the firm is financed, its dividend policy and history and any special challenges or opportunities that the firm is facing.
- Clip any articles or press releases pertaining to your company.
- Track the closing stock price and trading volume on a daily basis and make note of any dramatic increases or decreases.
- Watch for any major announcements of acquisitions, divestitures, investments and/or financings involving your company.

My expectation is that you will bring the journal with you to class every week and you should be prepared to share any interesting or topically relevant information pertaining to your company with the rest of the class. I will not mark the journal other than to check twice during the term (the week before the mid-term exam and the week before the final exam) that it is being maintained.



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Date	Proposed Topic Coverage (subject to change)	Readings
January 10	<ul style="list-style-type: none"><li>• Introductions and course orientation</li><li>• Review of the fundamentals of corporate finance<ul style="list-style-type: none"><li>○ The 7 most important ideas of finance</li><li>○ The math of finance</li><li>○ Risk and return</li><li>○ Cost of capital</li><li>○ Valuation fundamentals</li><li>○ Basics of capital structure</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Brealey &amp; Myers ("BM") Chapters 35, 1, 2, 3</li></ul>
January 17	<ul style="list-style-type: none"><li>• Introduction to business valuation – Part 1<ul style="list-style-type: none"><li>○ Capitalized cash flow example</li></ul></li></ul>	<ul style="list-style-type: none"><li>• BM Chapter 4 &amp; supplementary articles</li></ul>
January 24	<ul style="list-style-type: none"><li>• Introduction to business valuation – Part 2<ul style="list-style-type: none"><li>○ DCF and asset based valuation examples</li></ul></li><li>• Using NPV for investment decisions</li></ul>	<ul style="list-style-type: none"><li>• BM Chapters 5, 6 &amp; 11</li></ul>
January 31	<ul style="list-style-type: none"><li>• Risk and return review</li><li>• Financing and valuation<ul style="list-style-type: none"><li>○ APV example</li></ul></li><li>• <b>Term paper proposal memorandum due</b></li><li>• <b>Group presentation proposal due</b></li></ul>	<ul style="list-style-type: none"><li>• BM Chapters 7, 8, 9, 19 &amp; supplementary article</li></ul>
February 7	<ul style="list-style-type: none"><li>• Clean up and exam prep.</li><li>• <b>Company journal check</b></li></ul>	
February 14	<ul style="list-style-type: none"><li>• Mid-term Exam (25%) – Coverage TBA</li></ul>	
February 21	<ul style="list-style-type: none"><li>• Overview of financing decisions</li></ul>	<ul style="list-style-type: none"><li>• BM Chapters 13, 14 &amp; 15</li></ul>
February 28	<ul style="list-style-type: none"><li>• Capital structure review<ul style="list-style-type: none"><li>○ M&amp;M revisited</li></ul></li></ul>	<ul style="list-style-type: none"><li>• BM Chapters 17 &amp; 18</li></ul>

Date	Proposed Topic Coverage (subject to change)	Readings
March 7	<ul style="list-style-type: none"> <li>• Debt financing                             <ul style="list-style-type: none"> <li>◦ Why do corporations fail?</li> </ul> </li> <li>• Student presentations</li> </ul>	<ul style="list-style-type: none"> <li>• BM Chapters 23 &amp; 24</li> </ul>
March 14	<ul style="list-style-type: none"> <li>• Options review                             <ul style="list-style-type: none"> <li>◦ Real options example</li> </ul> </li> <li>• Student presentations</li> </ul>	<ul style="list-style-type: none"> <li>• BM Chapters 20, 21, 22 &amp; supplementary articles</li> </ul>
March 21	<ul style="list-style-type: none"> <li>• Corporate risk management</li> <li>• Term paper due date</li> <li>• Student presentations</li> </ul>	<ul style="list-style-type: none"> <li>• BM Chapters 26, 27 &amp; supplementary article</li> </ul>
March 28	<ul style="list-style-type: none"> <li>• Evaluating corporate financial performance                             <ul style="list-style-type: none"> <li>◦ EVA example</li> </ul> </li> <li>• Student presentations</li> </ul>	<ul style="list-style-type: none"> <li>• BM Chapters 12 &amp; 28, EVA article</li> </ul>
April 4	<ul style="list-style-type: none"> <li>• Mergers and corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>• BM Chapters 33 and 34</li> </ul>
April 11	<ul style="list-style-type: none"> <li>• Cleanup and exam review</li> <li>• Company journal check</li> </ul>	
April 18	<ul style="list-style-type: none"> <li>• Final Exam (40%) – Coverage TBA</li> </ul>	