MB 664 - Business Finance
Course Outline
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Course Objective
This course builds on topics addressed in MB 663 (Managerial Accounting). MB 664 focuses on key issues related to investment analysis, firm growth, business and financial risk, portfolio balance and financing of the firm.

Emphasis is placed on learning from the firm’s historical performance, how it compares to other firms in the industry and projecting/stress testing its future performance. Emphasis is also placed on making sound decisions regarding acquiring fixed assets if expansion is warranted, evaluating and ranking individual investment opportunities under conditions of risk, the optimal capital structure of the firm as it takes advantage of these opportunities, the factors that determine a firm’s creditworthiness, and how a lender might evaluate your credit application.

This course culminates with the team presentations of an investment situation involving a startup business in Guatemala and applying for a term loan and line of credit. I will serve as the Chief Credit Officer at the bank where you have submitted your loan application.

Course communications
The eLearning facility is being phased out this summer and the new facility for establishing course websites, eCampus, does not have a continuing education capability at the moment. Thus I will post files on the UVG website which you can access by clicking on the link for MB 664. If eCampus “Organization” option becomes available during the course, I will begin utilizing that facility and introduce you to that interface.
**Role of Website**

Check the Announcements file which details the topics to be covered each week. There will be work problems assignments in addition to a series of slide shows that I will cover in class with you on Fridays and Saturdays each week. My expectation is that you have reviewed the Thursday material, including work problem assignments, before we meet each Friday. I will briefly review selected Thursday material and ask if there are and questions before beginning coverage of the Friday material.

**Course Requirements**

There is no textbook or booklets for this course. Instead the course is based on a series of slide shows that address individual subject matter. These slide shows will be uploaded each week.

There will be a quiz the last afternoon of the first weekend of the course, a mid-term exam the last afternoon of the second week, and a final exam on the last afternoon of the third week. The final exam will be comprehensive in nature.

There will be 500 total points in this course. This point total is distributed as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quiz</td>
<td>50</td>
</tr>
<tr>
<td>Mid-term exam</td>
<td>100</td>
</tr>
<tr>
<td>Presentation/report</td>
<td>150</td>
</tr>
<tr>
<td>Final exam</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total points</strong></td>
<td>500</td>
</tr>
</tbody>
</table>

The final grade in this course will be determined as follows:

- **A** 94 – 100 percent
- **B** 87 – 93 percent
- **C** 79 – 86 percent
- **D** 70 – 78 percent
- **E** Less than 70 percent

**Course Outline**

**Part I:** Review of Managerial Accounting Concepts

**Part II:** Valuing Investment Opportunities
Part III: Adjustments for Business and Financial Risk

Part IV: Capital Structure, Expansion Diversification

Part V: Credit Scorecard Lending Decisions, Pricing Loans and Portfolio Migration

Part VI: Team Presentations

Team presentations
Objective: Applying key concepts in managerial finance related to analyzing the economic and financial feasibility of starting up a business located in Guatemala, applying for financing and understanding the reasons underlying the lending decision.

Project design:
1. The class into four individual teams consisting of three students.

2. Each team will develop a startup business proposal in Guatemala. Assume I chair the credit committee at Penson National Bank and will ultimately decide whether or not your startup company meets the bank’s underwriting standards for a new term loan and LOC.

3. The term loan will be used to acquire productive assets while the LOC will provide access to annual liquidity as needed.
   a) The firm can be based upon fact, fiction, or a combination of fact and fiction.
   b) The economic planning period is 5 years, at which time it is assumed you will sell the business and move on to other opportunities.
   c) While this firm may be fictional, you are to do background research on the industry and the size and growth of your startup firm must be plausible.
4. Expected phases of analysis:
   a) Description of operating costs excluding interest at the enterprise level, including:
      ▪ Develop enterprise budget(s) for the product(s) produced by your firm,
      ▪ Identify the current cost for the variable production inputs required by your firm’s operations,
      ▪ Identify the current cost of fixed inputs (land, buildings, machinery and equipment) required to operate your firm, and
      ▪ Identify the current productivity (e.g., yield) of resources used in each enterprise.
   
b) Develop a 5-year annual baseline projection reflecting the following factors:
      ▪ The expected number of unit sales, the price you expect to receive per unit of sales and the desired year-end inventory of your products,
      ▪ The amount of labor required per unit of output and the hourly cost of labor,
      ▪ The direct materials you need in your production process, the cost per unit of these materials and the desired year-end inventory of these materials,
      ▪ The unit cost of variable overhead as well as expected levels of annual depreciation and other fixed expenses,
      ▪ The unit cost of selling and administrative expenses,
      ▪ The expected annual levels for fixed overhead expenses, including advertising, insurance, office salaries, rent and property taxes,
      ▪ The beginning cash you plan to invest at the time of the firm’s startup,
      ▪ The initial planned capital expenditures when starting up the firm, including the purchase of buildings and equipment as well as any land acquired, and
      ▪ Summary of your management team’s expertise to operate this business in your chosen sector of the economy.
   
c) You should develop a skeletal business plan which not only reflects the cash and capital budgets referred to in sub-headings a and b above, but also concepts relating to your firm’s marketing plan for both acquiring inputs and selling your product.
d) You will be asked to provide me with a copy of your baseline scenario (what you expect to happen). Your next step is to evaluate your firm assuming two plausible alternative scenarios that reflect either: (1) a best and worst case scenario or (2) two adverse scenarios reflecting different levels of stress.

e) Identify your firm’s attitude toward risk, including business risk associated with projected annual net cash flows and financial risk associated with your use of leverage. Determine annual values of risk free rates of return, business risk premiums and financial risk premiums.

f) Follow the directions on the “READ ME” sheet in the model I provide you when running the model, including use of the macro buttons on the Indicators sheet. I will demonstrate this in class and show you a copy of a few presentations from previous classes.

g) You can begin developing the initial screens in your team’s Power Point show once you decide the nature of the business.

h) Once you have provided me with a copy of your “baseline scenario” spreadsheet model, I will then conduct my own alternative scenarios and indicate whether or not I will grant a term loan and annual line of credit requested in the context of the credit standards established by my bank.

5. Each team will present their analysis on the Saturday morning of the last week of this course. This should include a Power Point presentation describing the aspects of your proposed business as well as the results from your assessment of the startup firm’s economic and financial feasibility. I will immediately follow each team’s presentation with my assessment of your team’s credit application.

6. Your presentation before the class should last approximately 30 minutes. A penalty will be assessed if you deviate from this time allotment by more than 5 minutes. Do not read from note cards during your presentation.
7. The project will be worth roughly 30 percent of your total grade in this course.

   a) Each team’s presentation will be evaluated. An obvious minimum criterion for me is that your presentation demonstrates an understanding of the economic and financial feasibility issues associated with the startup business and an understanding of the credit decision process rendered by the bank. I will look for soundness of economic analysis (50%), quality of the oral presentation (20%), and content and style of the Power Point slide show (30%).

   b) You will be asked to provide your Power Point file to me by the end of class on the last Friday of this course. *No exceptions.*