

BMGT 741 – ADVANCED FINANCIAL MANAGEMENT

Term Project

Now it is time for a term project. The purpose of this project is to give you an opportunity to conduct a real world company analysis on a contemporary finance topic of your choice. This project will determine 25% of your grade. The report can vary in length, but is should not exceed 30 pages, including exhibits. It should be double spaced with normal margins.

It is my strong recommendation that you talk directly to the company's executives when possible. My sense is that many companies in the Washington area are willing to talk to our MBA students, and it will give you some direct, and even high level, exposure.

The project will involve a team of 3-5 students. The potential topics you may consider for the project include, but not limited to: *financial claims structure; financial restructuring and bankruptcy; going public or initial public offerings; corporate governance reform proposals*, etc. I suggest that you pick a topic area that you can consult with some firms in the Washington area. That will improve your analysis and afford you additional insights. The following are specific topic suggestions and guideline questions. You are by no means limited to them.

A. Financial Claims Structure: For this project, you may choose companies, such as Marriott International, Lockheed-Martin, AOL Time Warner, US-AIR, and do an analysis of its claims structure. Your analysis should include (but not limited to) the following issues:

1. How much debt does the company have?
2. Should it have more or less? Why? What is the likely influence of proposed elimination of dividend taxation? Use insights from the Miller-type analysis in discussing the interaction between taxation of equity income and debt finance.
3. Is the structure of debt (i.e., convertible bonds, callables, callable-convertibles, floating rate, dual currency, etc) reasonable? Is the claims structure too complex or simple?
4. Are there risk management or hedging dimensions to the company's financial structure? Are they reasonable and adequate?

B. Financial Restructuring /Bankruptcy Proceedings: For this project, you may choose a financially troubled company in the gypsum industry [e.g., US Gypsum, National Gypsum, Republic Gypsum] or a company in an airline industry or retail industry. Your analysis should include (but not limited to) the following issues:

1. How did the firm's cash flows and business risk affect its "performance"?
2. What factors led to changes in the capital structures of the firm? What is the role of corporate governance structure on its performance?
3. What are the risk-reward potentials for investors buying into this financially troubled firm? Would you buy the securities (bonds and stocks) after bankruptcy filings?
4. Discuss the changes in investment after any capital structure change or bankruptcy, if any, for firms in the industry.
5. Discuss the experience of its creditors in Chapter 11.

C. Going Public: For this project, you may choose a company in the computer industry (e.g., AOL Time Warner) or other industries, such as biotechnology and medical technology, and analyze issues relating to going public/initial public offerings. Your analysis should include (but not limited to) the following issues:

1. Provide a discussion and analysis of annual financial statements for the company and its competitors. Discuss industry and competitor's ratios, identifying financial strengths and weaknesses. Why do you think the company decided to go public?
2. Has the company performed "well" following the IPO? Investment/market share relative to its competitors?
3. Estimate the required rate of return for stock for at least one company in the industry using stock market data from the *Daily Stock Price Record* or from the *Wall Street Journal*.
4. Given information in the prospectus and other competitors what should be the offering price? Discuss the price set by the investment banker vs. the closing price after the first day of trading. Is there any difference? If so, should management be "upset"? Was the company priced incorrectly? If so, why?
5. Do you recommend the company for an investment - What are the risks and potential rewards?