

PRINCIPLES OF MANAGERIAL FINANCE
SEMESTER AT SEA COURSE SYLLABUS
University of Virginia, Academic Sponsor

Voyage: Fall 2015

Discipline: Commerce/Business

Course Title: SEMS 2500-105: Principles of Managerial Finance

Division: Lower

Faculty Name: Andrea Alston Roberts

Credit Hours: 3; Contact Hours: 38

Class hours: B Days, 13:00 – 14:50

PRE-REQUISITES: Students are **REQUIRED** to have taken an introductory financial accounting (or equivalent) course prior to enrolling in this course.

COURSE DESCRIPTION: This course introduces students to two broad concepts:

1. What capital investments should the firm take on? That is, what lines of business should it be in, and what sorts of buildings, machinery, and equipment should it acquire?
2. What do outside investors think about when deciding to invest in a firm?

We will explore both sets of questions by first introducing the student to basic definitions, concepts, and tools. In particular, the course will provide an introduction to how the market economy works and then cover the importance of financial statements, time value of money, and discounted cash flows. The student is then introduced to net present value and its use in making capital investment decisions. Towards the end of the course, we discuss how investors think about risks and returns when making investment decisions and what investors charge companies to invest (the cost of capital). This course will most definitely take advantage of the intercultural learning experience to broaden your understanding of how differing labor, tax, political, cultural, and general economic environments can affect a company's returns.

Various teaching techniques will be used including: some lecture, homework, cases, and a team project. In order for students to be successful in this course, they must keep up with the material and come to class prepared.

REQUIRED TEXTBOOK AND RESOURCES:

1. The Essentials of Corporate Finance, Ross, Westerfield, and Jordon 8th edition, McGraw Hill ISBN 978-0-07-803475-6. You **MUST** purchase the book **BEFORE** the voyage starts; it will NOT be available at the ship's bookstore. Students can purchase an e-book version directly from CourseSmart at www.coursesmart.com or obtain a hard copy from one of several other websites. This book is your major resource for this course. It is very **IMPORTANT** that you purchase it.
2. Financial calculator and/or access to Excel. Warning! I use Excel and do not use financial calculators. Many problems will require that you can either use a financial calculator or Excel. I can help you with Excel; but not individual financial calculators. But, the textbook includes instructions for most financial calculators.
3. Other course materials will be made available in the electronic course folder for this class.

RESERVE LIBRARY LIST: To review the basic accounting concepts and definitions, the following textbook is placed on reserve in the library (it will be in a white binder). You are strongly

advised to consult this text to refresh your memory or read about some of the accounting concepts that are frequently referred to throughout the course.

AUTHORS: Wiel, Schipper, and Francis. TITLE: Financial Accounting: An Introduction to Concepts, Methods, and Uses. PUBLISHER: Cengage Learning ISBN#: 13:978-1-285-89624-3
DATE: 2014

EVALUATION AND GRADING: Grades are based on the following weights:

| | |
|----------------------------|------------------|
| Homework and Participation | 10% |
| Field lab | 20% |
| Team Project | 25% |
| Quick quizzes | 20% (down to 0%) |
| Final Exam | 25% (up to 45%) |

Homework and Participation: Given the way the class time is structured on the voyage it is very important that students come to class prepared. Preparation means reading the chapter BEFORE we discuss the topic and completing (or at least giving a good attempt) all assignments BEFORE class on the due date (estimated due dates are on the schedule). Please note that the expectation is NOT for you to get the problem right. The expectation is for you to do the homework so that you know what is going on when we discuss it. In fact, it is expected for students to get homework problems wrong. We learn from making mistakes.

I will randomly call on students to assist with homework problems to encourage participation and better ensure students attempt the homework. This means that you are required to be prepared to discuss all assignments each class. Students will receive a '0' for day (see grid below) if they are not prepared. If you are called on and you are unprepared to participate, say 'Pass'. Each student can pass one time during the semester without it affecting their homework/participation grade.

We will go over all assignments in class; but solutions to all chapter assignments will be made available in the course electronic after we finish a topic. So, you are welcome to do as many problems as you want. If you want to do more practice problems before solutions are released, come see me to check your answers.

I usually will record a numerical participation score for each person at the end of each class session.

These scores are:

| | |
|----|---|
| 2 | Positive contribution to class discussions which includes asking questions and providing answers when not randomly called on. |
| 1 | Attended class but did not meaningfully participate. |
| 0 | Absent or clearly unprepared for class (i.e., unable to answer basic questions about the case or assignment for the day). |
| -1 | Disruptive to class (e.g., sleeping; leaving class repeatedly, arriving to class late). |

Field lab: In *Valencia* we will tour the Valencia Stock Exchange and then visit surrounding neighborhoods looking for companies listed on the stock exchange. The second part of the field lab will be 'scavenger hunt' style. The day will end with a short-discussion about how some of your observations during the scavenger hunt may impact stock prices. Field lab details are included with this syllabus.

Team Project: This project will require you to evaluate how future cash flows and thus returns might differ when the same business operates in a different country. To do this you will use economic data (some accounting data), your own observations, and creativity. The focus will be on the grocery retail business (depending on which part of the U.S. you live in, think Kroger, Albertsons, or Safeway). Details are included with this syllabus.

Quick quizzes: Quizzes that last 10 – 15 minutes will be given at the beginning of the first class day after we leave a port. The objective of giving these quizzes is to encourage you to review the material that we covered right before we disembarked at a port. This is especially important because this course builds on material and I suspect that because our meeting times are irregular that students may forget some of what was learned while in-country. You will be permitted to use your book and notes for the quizzes. But, because you will not have much time to finish the quizzes, it will be important to look through your notes and book before the quiz begins. If you do not take a quiz (quizzes) – either because you elect not to do so or you miss the quiz time – then the weight of your final exam will increase.

Final exam: There is one cumulative exam worth 25% of your total course grade (assuming the student takes all quizzes). The weight of the final exam might increase if the student does not take one or more quizzes.

HONOR CODE: Semester at Sea students enroll in an academic program administered by the University of Virginia, and thus bind themselves to the University's honor code. The code prohibits all acts of lying, cheating, and stealing. Please consult the Voyager's Handbook for further explanation of what constitutes an honor offense.

Each written assignment for this course must be pledged by the student as follows: "On my honor as a student, I pledge that I have neither given nor received aid on this assignment." The pledge must be signed, or, in the case of an electronic file, signed "[signed]."

The course schedule is on the next page

Topical Outline of Course

WARNING: I don't know how but this schedule WILL change!

| Day | Topic | Readings and Assignments |
|--|---|--|
| B1 | Course Introduction Understanding the market economy | |
| B2 | Understanding the market economy | Read Chapter 1 |
| <i>Civitavecchia and Naples: 9/19 – 9/24</i> | | |
| B3 | Discuss project Understanding Financial Statements and Cash Flow | Read Chapter 2 |
| B4 | Understanding Financial Statements and Cash Flow | Do Problems: 2-1, 2-2, 2-3 |
| <i>Istanbul: 9/29 – 10/3</i> | | |
| B5 | Quiz Understanding Financial Statements and Cash Flow Time Value of Money | Do Problems: 2-14, 2-21, 2-23 Read Chapter 4 |
| <i>Piraeus: 10/6 – 10/10</i> | | |
| B6 | Time Value of Money | Do Problems: 4-1, 4-2, 4-3, 4-6, 4-7, 4-8, 4-18, 4-21 |
| B7 | Time Value of Money | Do Problems: 4-23, 4-24, 4-25 |
| <i>Valencia and Barcelona: 10/15 – 10/19 – Field Lab</i> | | |
| B8 | Quiz Discounted Cash Flows | Read: Chapter 5 Do Problems: 5-1, 5-2, 5-3, 5-4, 5-5 |
| <i>Casablanca: 10/22 – 10/26</i> | | |
| B9 | Quiz Discounted Cash Flows | Do Problems: 5-14, 5-15, 5-35, 5-36, 5-38 |
| B10 | Discounted Cash Flows | Do Case: S&S Air's Mortgage |
| <i>Dakar: 10/31 – 11/3</i> | | |
| B11 | Quiz Foreign Exchange Rates and cash flows | |
| <i>No class (Neptune Ceremony): 11/6</i> | | |
| B12 | Net present value | Read Chapter 8 Do Problems: 8-1, 8-5, 8-6 |
| B13 | Net present value | Do Problems: 8-11, 8-15 Do Case: Bullock Gold Mining |
| <i>Salvador: 11/11 – 11/16</i> | | |
| B14 | Quiz Making capital investment decisions | Read Chapter 9 Do Problems: 9-1, 9-3, 9-4 Submit off-ship business reflection (by 8:00am on A14) |
| B15 | Making capital investment decisions | 9-9, 9-10, 9-11, 9-18, 9-20 |
| <i>No Class (Olympics): 11/21</i> | | |
| B16 | Making capital investment decisions | Do Case: Conch Republic Electronics |
| B17 | Risk and Return | Read Chapter 10 Do Problems: 10-1, 10-7, 10-8 |
| <i>Trinidad: 11/26-11/27</i> | | |
| B18 | Quiz | Read Chapter 11 |

| Day | Topic | Readings and Assignments |
|--------------------------------------|----------------------------|---|
| | Risk and Return | Do Problems: 11-1, 11-2, 11-9, 11-11 |
| B19 | Risk and Return | Do Problems: 11-13, 11-17, 11-19 |
| <i>No Class (Panama Canal): 12/2</i> | | |
| B20 | Cost of Capital | Read Chapter 12 Do Problems: 12-2, 12-7, 12-9 |
| <i>Puntarenas: 12/5-12/9</i> | | |
| B21 | Quiz Cost of Capital | Do Problems: 12-16 |
| B22 | Cost of Capital | Case: Cost of Capital for Hubbard Computer Team Projects Due |
| B23 | Review and Case debrief | |
| <i>No Class (Study Day): 12/16</i> | | |
| B24 | Final Exam (Comprehensive) | |

SEMS 2500-105: PRINCIPLES OF MANAGERIAL FINANCE
FIELD LAB and ASSIGNMENT

October 15 – Valencia, Spain

Bolsa de Valencia (Valencia Stock Exchange) and Business Scavenger Hunt

Overview and Objectives: This field lab will consist of three parts. First, we will tour the Valencia Stock Exchange, which is the newest stock exchange in Spain and the one that has grown the most in the last few years. Students will use this as an opportunity to connect what we have learned in class about the stock market with a real life example. Students are encouraged, to put on their “bucket list” a visit to one of the stock exchanges in the U.S. and compare experiences. At the end of the tour, students (in teams) will be required to note the prices of stocks from a list of companies provided by the instructor. Second, students will visit Valencia neighborhoods and participate in a competitive business scavenger hunt. Here, teams of students must locate the business or products/services that the companies from the stock exchange list are involved with. The objective is for students to become acquainted with businesses, products, and services that are part of the daily lives of the people who live in Spain. It will also be a good opportunity to get some practice interacting with the people of Valencia. Teams are required to eat lunch during the scavenger hunt. Members of the winning team will automatically receive 100% on a quiz of their choice – that is, the student can elect not to take a quiz and get 100% or replace a quiz grade with 100%. At some point, students will recognize what a great prize this is. Scavenger hunt details will be provided on the morning of the field lab. At the end of the day, we will meet (location to be decided later) to discuss how your observations may impact the stock prices on your list.

Attendance and Grading: The field lab is worth 20% of your overall course grade. Active participation in all parts of the field lab is required to earn full credit.

Students are required to attend the field lab. The only excused reason for missing a lab is for medical reasons. From the Voyager’s Handbook “A Participant who believes that he/she is too sick to attend a field lab must be assessed at the medical clinic by the same morning as the departure of the field lab and not after the field lab returns. If the Participant is assessed as too sick to attend the field lab, the medical staff will notify the Registrar by email and the Participant will not be able to leave the ship for the duration of the field lab and may be required to comply with other restrictions as assigned by the medical staff”. Students will receive a zero for the field lab portion if the absence is unexcused.

Dress Code: Business casual. What does this mean? For men: khaki pants, nice tee shirt, polo or button down. For women, pants, dress or skirt, nice tee shirt, polo or button down. Tank tops without spaghetti straps are ok. Comfortable closed toe shoes for walking distances. **Do not wear:** Flip flops, sneakers, shorts, short skirts, sweat pants, leggings, spaghetti tank tops, and/or revealing, stained, or dirty clothing. It is also best to avoid wearing loud American logos. If you are not comfortable in your business casual clothes, I recommend you bring a change of clothes for after the stock exchange visit.

Meals: Eat breakfast on the ship before we depart. Also, as part of the scavenger hunt teams will be required to eat at a selected restaurant. But, the class as a whole will not eat at this restaurant together.

Timing (which is subject to change): We will meet in the classroom at 0800. The field lab should be complete by 1600.

SEMS 2500-105: PRINCIPLES OF MANAGERIAL FINANCE TEAM PROJECT

Due Dates:

No later than October 14 – Meet with instructor to discuss project's progress.

December 13 (B22) – Team projects due by 9:00am; submit through Moodle.

Overview: Financial analysts are either those who work for a company and who are gathering information to help decide whether to invest in a project or those who are external to the company and who are gathering information to help investors decide whether to invest in the company. These analysts use lots of information to try to estimate future cash flows, which are used to project returns, of a potential project or a company. The information they use includes accounting information; micro and macro economic data; and the analysts' own observations. Good analysts find creative ways to get the information they need to make estimates.

For this project, your team will play the role of external financial analysts who have been hired to evaluate grocery retailers in several countries for a client that wants to invest in the grocery retail business (depending on which part of the U.S. you live in, think Kroger, Albertsons, or Safeway). Your team is charged with evaluating which grocery retailer within a specific country is likely to experience the greatest growth in revenue, cash flows, and thus, returns in the near future (within the next 5 years) and recommend to the client which to invest in and which not to invest in. Your team finds this to be particularly challenging because grocery retailers in the U.S. generally generate very low returns. For example, in 2013, Kroger's return to its investors was 1.5%. This means investors 'made' 1.5 cents for every \$1 of sales. To provide context, Microsoft's return to its investors was 39.2% and Google's was 29.0%. The countries and grocery retailers that your team will evaluate are:

Turkey: Migros or Tansas (both operated by Migros)

Spain: Mercadona

Morocco: Acima and Marjane (both operated by the Marjane Group)

Senegal: Casino

Brazil: Extra or Pão de Açúcar (both operated by Companhia Brasileira de Distribuição)

Costa Rica: MegaSuper

The Recommendation: Your team is charged with submitting a report that supports your recommendation. The report should be between 7-15 single-spaced pages and use Times New Roman or Calibri 12 point. The report should include theses sections in the following order:

1. Executive Summary – The executive summary should not exceed 2 pages and should include the following:
 - a. The recommendation of which grocery retailer/country to invest in and which not to invest in and a brief discussion about why you made these recommendations. Keep the discussion brief, as the rest of the report will provide the support for your reasons.
 - b. A table that includes the following information for each grocery retailer/country, including Kroger/U.S.: returns (net income divided by revenue); a ranking of food costs; a ranking of labor costs; a ranking of tax rates; a ranking of competitive environment; and a ranking of consumer purchasing power/ability. The rankings should be between 1 and 5 with 1 being the most favorable (lowest cost, least competitive environment, greatest consumer purchasing ability). Explain why if unable to provide some of the information.
 - c. A list of reasons why users should be cautious when using your report to make investment decisions. Think about the information you do not have; problems with the

- information you have; and conclusions you have made based on your observations.
2. Cost of Sales – Cost of sales include two major costs: food and labor. Retailers, unlike manufacturers who make products, buy products and then sell those products. For grocery retailers, this product is food. In this section discuss food and labor costs that each grocery retailer likely incurs. You are not expected to provide real numbers; but you are expected to gather information that will allow you to rank each cost category (see part 1) and discuss why you think food prices and labor costs differ for each country/retailer. Support must be provided for how you reached your conclusions.
More of food costs – One way to get a feel for how much it costs a grocery retailer to buy food is to study how much it charges its customers. And because grocery retailers sell many commodity products, the price it charges customers many times is close to its cost. To study prices, so that you may comment on food costs, visit one grocery retailer (choose from the lists above) in each country. Document prices for the following items: 1 dozen eggs, rice, chicken breasts, and tomatoes. Take a picture of each item with the price to include in your report. Convert all prices to U.S. dollars and use the same weights for each item (for example, use 1 kg each time you note the price of a tomato). Table this information. You are encouraged to use *Numbeo* to benchmark your prices (see resources below). Finally, include a picture of one of your teammates in front of the grocery store.
Note: Students are required to be with another teammate or someone affiliated with Semester at Sea when doing store visits.
 2. Competition – Competition impacts returns and competition among grocery retailers in the U.S. is fierce (this is another reason why returns are so low). Discuss if you think competition in the grocery retailer space is similar across countries. Where applicable, students should also explore how the interaction of retail grocery stores and public markets impact both profitability and culture (from online resources and personal observation/conversations with vendors).
 3. The economy and average wage rates – The economy and average wage rates both influence how much consumers can spend and what products they are willing to purchase; thus impacting returns. Discuss how you think the country's economy, average wage rates, and purchasing power might impact returns.
 4. Other observations – Discuss general or specific observations you made that might affect the returns of the grocery retailers you are studying while: visiting the grocery store; the country; or reviewing the financial statements. You are encouraged to consider culture, be creative, and to think broadly.

Resources: Some of the information you will need in is in the course folder. Information includes: annual financial reports for: Kroger, Migros, Mercadona, Casino, and Companhia Brasileira de Distribuição. There is no financial information for the Moroccan and Costa Rican grocery retailers because these are privately held companies. Also, included is data on corporate tax rates and minimum wages by country. In addition you are encouraged to access *Numbeo* <http://www.numbeo.com/cost-of-living/>. *Numbeo* provides current information on world living conditions including cost of living, housing indicators, health care, traffic, crime and pollution. Finally, your own observations (including what you learn from other courses) and interactions are excellent resources.

I also encourage, welcome, and hope teams use me (the instructor) as a resource. However, I require at least half of the team members to be present when meeting with me to discuss the project.

Grading: Grading is subjective and based on your team's performance relative to other teams. Grades are based on the following.

| | |
|--|-------------------|
| All requirements followed | 10 points |
| Quality of Executive Summary | 10 points |
| Quality of: | |
| food cost discussion | 10 points |
| labor discussion | 10 points |
| competition discussion | 10 points |
| economy and wage rate discussion | 10 points |
| All grocery store items included with pictures | 20 points |
| Creative use of personal observations | 10 points |
| Use of available resources | 10 points |
| Professionalism of report | <u>10 points</u> |
| Total available points | <u>110 points</u> |