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MBA 655.01: Strategic Financial Analysis

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STRATEGIC FINANCIAL ANALYSIS
MBA 655
(Winter Trimester 2003/04)

COURSE INFORMATION

Instructor: Dr. Clyde W. Neu
Class Schedule: Offered via the Internet
November 17, 2003 – February 9, 2004

COURSE MATERIALS:

Text: **Strategic Financial Analysis** ©1995, 2002, 2003, by Clyde W. Neu, Available through bookstore at UM with Excel template files included on a floppy disc.

COURSE SUMMARY:

Improving ***return on investment*** through tighter financial controls is an elusive goal for many firms. Yet most variables are under management's control. ***Strategic Financial Analysis*** can be employed to benchmark performance against industry norms, diagnose weaknesses in operations and identify opportunities for improvement. In addition, such analysis can assist one in formulating a financial management strategy that sets the course for a more profitable future.

In this course, students will learn how to:

- * Manage one's business in a strategic context by formulating ***goals*** and sound financial management strategies.
- * Apply a powerful computer software modeling system (Excel based) in developing a ***diagnostic analysis*** of financial statements.
- * Employ various ***strategic models*** of financial performance to uncover opportunities for improvement and focus management's attention on strategic modifications.
- * Evaluate and assess the financial merits of a ***merger/acquisition*** opportunity.
- * Develop a plan for one company to acquire another after assessing the ***synergies*** of the acquisition opportunity and ***valuing*** the target firm.
- * Develop a ***three-year forecast of operations*** for the two companies consolidated as one entity including a ***monthly profit & loss*** and ***monthly cash flow projection*** for the first year following consolidation.

Students first will be exposed to the development of a ***framework*** for ***strategic financial analysis*** that focuses on identifying subtle issues limiting a company's return on investment. Following introduction to use of the software, a comprehensive ***business case*** will be analyzed with several strategic models of financial performance. As the case develops, ***strategic financial analysis*** isolates in comparison with industry norms the critical elements of financial performance on which the firm needs to concentrate. The case illustrates a financial ***turnaround*** achieved by ***setting goals*** to manage the business through a severe economic downturn.

The case continues with development of an **acquisition opportunity** to strengthen overall competitiveness. Students will work in groups of two (2) to analyze the potential synergies between the company and its acquisition target in preparation for completing the final project. A **cash market valuation** of the acquisition target first is determined; then, students develop a plan to **finance** the acquisition. A **“consolidated” financial summary** for the combined businesses is prepared and the instructor approves each team’s “acquisition and financing plan” before the **final project** is assigned.

The **final project** requires the development of **financial projections** for the consolidated company for the first **three years** following the acquisition. Each student team will develop its own set of revenue and expense assumptions for these three years. These projections will be run through the diagnostic analysis to reveal financial strengths and/or weaknesses in the three-year plan. In addition, a **monthly profit & loss forecast** and a **monthly cash flow forecast** will be prepared for the **first year** of the three-year financial projection based on some assumptions supplied by the instructor. Students will come to appreciate the “seasonal needs” for operating capital separate and apart from the needs for long-term financing.

Completion of this course will enable students to better develop business plans for proposed ventures. The “venture” in this instance is the “acquisition” of a business and its consolidation with an existing company. This acquisition requires some “financing,” and students essentially prepare the same type of three-year financial plan that would be required by any financial institution considering a loan request. In fact, the software used in this course is modeled after the same software used by the Small Business Administration to evaluate business loan applications.

COURSE TIPS:

Students are advised to set up a folder on their computer hard drive for this course, MBA 655 Strategic Financial Analysis. There will be approximately 20 Excel files and 20 Word documents that students will either download from the course management system (Blackboard) or will find attached with e-mail correspondence sent by the instructor.

In addition, it is recommended that students purchase a three-ring binder (1 ½ inch minimum) to use in organizing their work as the course develops. There will be at least 150 printed pages of material downloaded from the server, printed from students’ analysis of financial data, or attached with e-mail correspondence. This material probably can best be organized by using 15 to 20 sheet dividers with tabs in the three-ring binder.

COURSE SCHEDULE:

Dates

Topic or Assignments Due

Nov. 25

Part I Review Questions / Problems Due over 30 Page Text plus CSP Computer Systems Financial Data. Instructor will post answer key on November 26.

Dec. 4

Part II Assignment Due using Software Template to Analyze CSP Computer Systems (not to be graded, but reviewed by the instructor so that students become familiar with use of the software). Instructor will post answer key on December 5.

- Dec. 11** **Part III** Assignment Due covering a Strategic Financial Analysis of Monarch Lumber Company in comparison with Industry Average Financial Performance Including Test Questions & Problems. Instructor will post answer key on December 12.
- Jan. 8** **Part IV** Assignment Due covering a Strategic Financial Analysis of 1993 Pro Forma Financial **Projections** for Monarch Lumber Company in comparison with Company **Goals** for Financial Performance. Instructor will post answer key on January 9.
- Jan. 15** **Part V** Assignment Due covering a **Cash Market Value Analysis** of Monarch Lumber Company in 1992 and 1993. Instructor will post answer key on January 16.
- Jan. 16** **Student Teams Formed** (2 per team)
- Jan. 26** **Acquisition & Financing Plan Due:** Analysis and Evaluation of the Acquisition of Triad Lumber and Truss Company by Monarch in early 1994 including plan for financing the acquisition and resulting consolidated financial statements. Instructor will provide feedback to student teams by Jan. 30.
- Feb. 9** **Final Assignment Due:** Three-Year Forecast and Analysis of Operations for Consolidated Companies (1994 – 1996).

EVALUATION:

Students' final grades will be based on the scores earned on the best **three** out of four assignments plus their Acquisition & Financing Plan and their Final Project. All assignments must be turned in, but the lowest score received on Parts I, III, IV, and V will be **discarded** resulting in the assignments representing 60% of the Final Score. The Acquisition & Financing Plan and the Final Project will each represent 20%. Weights and letter grades will be assigned as follows:

Part I	20%	A 90% and above
Part III	20%	B 80% to 89.9%
Part IV	20%	C Below 80%
Part V	20%	
One of four above discarded		
Acquisition Plan	20%	
Final Project	20%	