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UNIVERSITY OF MICHIGAN
SCHOOL OF PUBLIC HEALTH
DEPARTMENT OF HEALTH MANAGEMENT AND POLICY

HMP 607: Corporate Finance for Health Care Administrators
Fall 2008

Professor: Jack Wheeler, PhD

Course Description:

HMP 607 is the third in a three-course sequence intended to impart to generalist administrators the knowledge of finance and accounting necessary to manage health care organizations. The first course, HMP 608, covers financial accounting. The second course, HMP 606, focuses on managerial accounting topics. This third course concentrates on corporate finance topics. It aims to impart an understanding of how finance theory and practice can inform the decision-making of the health care firm. As such, HMP 607 is most appropriately considered a corporate finance course, as opposed to a course in financial markets. In addition, it will integrate corporate finance and accounting theories, institutional knowledge of health care finance, and applications to specific problems.

Corporate finance in general and health care corporate finance in particular are usually taught in three major sections:

1. Investments (or capital expenditures). This material focuses on how the firm ought to deploy capital (spend money on new business lines, large programs, and assets) so as to maximize the achievement of its strategic objectives. The principal (if not the only) objective of the firm is the maximization of the wealth or welfare of its owners. In the investor-owned firm, the owners are clearly identified as its shareholders; their wealth and welfare is maximized by increases in stock price and dividend flow. The focus of the decision analysis is therefore on the timing and amount of cash flows associated with a proposed course of action. We will cover investment decision theory and concentrate on very practical applications of this theory to the decision-making of the firm. In addition, we will cover the investment decision analytic techniques used to support these decisions. This part of the course will have the following specific objectives:
 - a. Achieving a conceptual understanding of valuation and the effects of new business development, project selection, and asset acquisition on firm value;
 - b. Developing an ability to evaluate the desirability of a project, based on net present value of cash calculations;
 - c. Gaining a facility with the use of spreadsheet technology in conducting financial analyses.
2. Financing. This material focuses on how the firm ought to raise the money capital necessary to finance its business ventures, large expenditures, and other activities, so as to maximize the

achievement of its strategic objectives. There are three general sources of financing: equity, debt, and leasing. The main goal here is to identify and acquire the mix of financing methods that minimizes the cost of financing for the firm overall. This goal is accomplished first by determining the costs (including rates of return and other less obvious costs) of various individual financing sources available to the firm. Then, the effect of capital structure on financing costs must be considered. As with the investments section, we will cover financing theory and concentrate on very practical applications of this theory to the decision-making of the firm. This part of the course will have the following objectives:

- a. Achieving a conceptual understanding of the effect of financing method on firm value;
 - b. Achieving an ability to estimate the cost of various sources of financing, based on projected cash flow;
 - c. Gaining an understanding of the determinants of the optimal capital structure of the firm;
 - d. Gaining an ability to evaluate leasing versus buying of an asset.
3. Other topics. Included at the end of corporate finance courses are a variety of topics designed to integrate and complement the investment decision and the financing decision. We will cover three such topics, strategic financial planning, the Statement of Cash Flows, and working capital management. Strategic financial planning provides a convenient integrating function, because it encompasses both the investment decision and the financing decision. We show how the two interact in the development of the organization's financial plan to achieve its strategic objectives. The Statement of Cash Flows is a financial accounting document that describes sources and uses of cash over the year. We developed the statement in HMP 608. Here we shall review its structure and show how it describes the results of investment and financing decisions on cash balances. Working capital management focuses on the minimization of accounts receivable and the optimization of cash balances. We have the following objectives for this part of the course:
- a. Gaining an ability to develop a long range financial plan;
 - b. Achieving an enhanced understanding the structure of the Statement of Cash Flows;
 - c. Gaining an ability to develop a cash budget.

Class Meetings, Discussion Outlines, Videos, and Class Participation:

We shall meet in class for a total of about 40 hours. In that time we will need to cover the most important aspects of the topics described above.

The most important materials are the two discussion outlines (in the form of PowerPoint slides), one for each of the sections. These outlines are designed to assist you and me in organizing the class meetings and to guide your reading. For each outline there is a set of attachment files. The most important of these are the Excel files, "investments 607 08.xls" and "financing 607 08.xls." These files both contain many spreadsheets we will go through during the course. You will want to have electronic versions of these files on your computers so that you can review their structure during class or outside of class.

As corporate finance is a complex and difficult subject, we won't have time to cover all topics in the depth that some of you might wish. Therefore, I have developed a set of videos covering most of the topics in the course. These videos can be used to review material we work through in class; they also cover some

material we won't have time to develop in detail together. The videos are based on my PowerPoint slides and Excel examples.

In class discussion is essential to the effectiveness of this course. Virtual discussion can be helpful as well. For each major topic, I shall begin a discussion thread. The thread will enable us to clarify points raised in class, in the text, and in the cases and exercises. Please participate actively as your time permits and interest supports. I shall visit the course site at least once per day, at least six days per week.

Readings:

Most reading assignments are in the Brealey, Myers, and Allen (BMA) text. There are 22 (of 35) chapters of BMA assigned. You will note the chapters are quite pithy. Reading so many finance chapters over a 14-week period likely will seem burdensome. Hence, I have indicated the pages in each chapter I consider central to our learning objectives. However, I encourage you to read as much of the book as you can and to keep the book for reference during your careers. There are very good practice problems at the end of each chapter. I have suggested specific of these problems as additional work for those interested. Work on these problems is not to be submitted for review; however, I shall make the answers available. Other reading assignments are listed under the Readings section.

Exercises:

Exercises will be assigned often. These assignments are designed to enhance class discussion and to provide you and me with an indication of how well you are meeting the learning objectives. Some of these assignments are to be done individually, and some in collaboration with your colleagues in teams. Each member of the team must sign the submitted material and indicate the nature of his or her contribution to the end product. All exercises are to be submitted electronically in the form of excel files. Make recommendations based on your analyses at the bottom of the top worksheet in the file. Please entitle a submitted file using the following format: LASTNAMEex1.xls. For team assignments, submit only one file, and use one team member's name in the file title.

Cases:

To achieve the course learning objectives, you will be asked to analyze three cases. Each case requires that you think through the issues presented and select and apply appropriate financial analyses. You are to prepare a memo not to exceed four pages plus appropriate exhibits (Excel spreadsheets as appendices). The memo should present your recommended course of action to take advantage of the opportunities or deal with the challenges presented in the case. It should be an action plan addressed to senior management. Your submissions will be evaluated for numerical correctness (40%), thoroughness in analyzing the numbers as presented (40%), and quality of presentation (20%). At the class meeting prior to case presentation, you should come prepared to discuss the case assignment for the purpose of clarifying assumptions and expectations. At the class meeting for case presentation, you should come prepared to present the case to the class. As with the exercises, each member of the team must sign the submitted material and indicate the nature of his or her contribution to the end product. Cases are to be submitted in hard copy, consisting of a document file, with tables as attachments.

Examinations:

As additional measures of how well you meet the learning course objectives, there will be two examinations. The first examination will cover all aspects of the investment decision. The second examination will cover all aspects of the course. Both will be analytical and conceptual in nature.

Grading:

Each assignment will be scored on a scale from 1 to 8, where 8 indicates A, 5 indicates B, etc. My formal evaluation of your performance in this course, but not necessarily of your career potential and certainly not of your value as a human being, will be based on the following formula:

Cases	.30
Exercises	.20
Examination 1	.15
Examination 2	.25
Miscellaneous Information	<u>.10</u>
	1.00

Academic Conduct:

I assume my students are all honest, hard-working, generous, and possessed of a love of learning. This assumption is usually but not always supported empirically. When it is supported, I am delighted to consider the person in question to be a colleague, to award high marks, and to provide career support. When it is not supported, I advise the person and others of my disappointment. My disappointment arises from both formal academic misconduct (which will trigger a prescribed SPH process) and other actions indicating dishonesty, sloth, selfishness, or lack of intellectual curiosity.

Classroom Expectations/Etiquette:

We shall be building analytical files in class. Hence, you will probably want to bring your mobile computer. Try to limit your shopping and emailing during class. Those of you who participate actively in class discussion will learn more and otherwise be rewarded.

Course Topics and Schedule: See Schedule in the left-hand navigation.