

Intermediate Financial Management

14e

Brigham
Daves

Intermediate Financial Management

FOURTEENTH EDITION

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Australia • Brazil • Canada • Mexico • Singapore • United Kingdom • United States

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***Intermediate Financial Management,
Fourteenth Edition***

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MindTap for *Intermediate Financial Management*

MindTap, featuring all-new Excel Online integration powered by Microsoft, is a complete digital solution for the corporate finance course. It has enhancements that take students from learning basic financial concepts to actively engaging in critical-thinking applications, while learning valuable Excel skills for their future careers.



✓ EVERYTHING YOU NEED IN ONE PLACE.

Cut prep time with MindTap preloaded, organized course materials. Teach more efficiently with interactive multimedia, assignments, quizzes, and more.

✓ EMPOWER YOUR STUDENTS TO REACH THEIR POTENTIAL.

Built-in metrics provide insight into student engagement. Identify topics needing extra instruction. Instantly communicate with struggling students to speed progress.

✓ YOUR COURSE. YOUR CONTENT.

MindTap gives you complete control over your course. You can rearrange textbook chapters, add your own notes, and embed a variety of content—including Open Educational Resources (OER).

✓ A DEDICATED TEAM, WHENEVER YOU NEED IT.

MindTap is backed by a personalized team eager to help you every step of the way. We'll help set up your course, tailor it to your specific objectives, and stand by to provide support.

Elevate Critical Thinking through a variety of unique Assessment Tools

PRACTICE PROBLEMS

All of the end-of-chapter problems are available in algorithmic format for either student practice applying content presented in the chapter or alternative graded assignment. MindTap is a highly customizable assessment delivery platform, so you can pick and choose from a large bank of algorithmic problem sets to assign to your students.

3. Factors that affect the value of options

Understanding how different factors affect the value of options is the first step to understanding option pricing models.

The following table shows how increases in the given factors on the left affect the value of a put option. For each factor, indicate whether an increase in its value causes the value of the put option to increase or to decrease.

Increases in this factor:	Causes the Value of the Put Option to	
	Increase	Decrease
Underlying stock price	<input type="radio"/>	<input type="radio"/>
Exercise price	<input type="radio"/>	<input type="radio"/>
Time to expiration	<input type="radio"/>	<input type="radio"/>
Volatility	<input type="radio"/>	<input type="radio"/>

When is a call option considered to be in-the-money?

When the exercise price is below the current stock price

When the exercise price exceeds the current stock price

Suppose Victor bought an option to buy the stock of Company X at an exercise price of \$32.00 per share of the option was \$6.50 in April, and Company X's stock was trading at the price of \$45.00 per share.

Ashley bought a call option for the same company on the same day as Victor, but the exercise price of the option was \$30.00 per share. If all other things are the same, the price that Ashley paid for the option would have been:

More than \$6.50

Less than \$6.50

Exactly \$6.50

Ashley paid the price because, as the exercise price increases, option buyers have to pay _____ money to acquire Company X's stock. Thus, all other things being equal, the higher the exercise price, the _____ the call option's value.

Practice

Chapter 8 Blueprint Problems

Scaffolded problems that help you understand the purpose of finance concepts, formulae, the rationale and the building blocks of application by helping work through the modules in a step-by-step manner, helping you learn as you work through the problems.

No Submissions **Practice**

Chapter 8 Practice Problems

End-of-chapter questions for Brigham and Houston, Fundamentals of Financial Management, 14e.

No Submissions **Practice**

Chapter 08 - Test Prep

Create customized practice quizzes and receive immediate feedback as you prepare for exams.

No Submissions **Practice**

BLUEPRINT PRACTICE PROBLEMS

Blueprint Practice Problems combine conceptual and application-driven problems with a tutorial emphasis. Students will know with certainty their level of competency for every chapter, which will improve course outcomes.

Stand-Alone Risk

Stand-alone risk is the risk an investor would face if he or she held only _____ No investment should be undertaken unless its expected rate of return is high enough to compensate for its perceived _____. The expected rate of return is the return expected to be realized from an investment; it is calculated as the _____ of the probability distribution of possible results as shown below:

$$\text{Expected rate of return} = \bar{r} = P_1r_1 + P_2r_2 + \dots + P_Nr_N = \sum_{i=1}^N P_i r_i$$

The _____ an asset's probability distribution, the lower its risk. Two useful measures of stand-alone risk are standard deviation and coefficient of variation. Standard deviation is a statistical measure of the variability of a set of observations as shown below:

$$\text{Standard deviation} = \sigma = \sqrt{\sum_{i=1}^N (r_i - \bar{r})^2 P_i}$$

If you have a sample of actual historical data, then the standard deviation calculation would be changed as follows:

$$\text{Estimated } \sigma = \sqrt{\frac{\sum_{i=1}^N (r_i - \bar{r}_{\text{est}})^2}{N - 1}}$$

The coefficient of variation is a better measure of stand-alone risk than standard deviation because it is a standardized measure of risk per unit; it is calculated as the _____ divided by the expected return. The coefficient of variation shows the risk per unit of return, so it provides a more meaningful risk measure when the expected returns on two alternatives are not _____.

Quantitative Problem: You are given the following probability distribution for OHC Enterprises:

State of Economy	Probability	Rate of Return
Strong	0.2	22%
Normal	0.45	8%
Weak	0.35	-6%

What is the stock's expected return? Round your answer to 2 decimal places. Do not round intermediate calculations.

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GRADED HOMEWORK

MindTap offers an assignable, algorithmic homework tool that is based on our proven and popular Aplia product for Finance. These homework problems include rich explanations and instant grading, with

opportunities to try another algorithmic version of the problem to bolster confidence with problem solving.



Attempts: 0 Average: 0 / 2

1. Preferred stock

Preferred stock is a hybrid security because it shares characteristics of both debt and equity securities. However, it is often hard to know how to classify preferred stock when talking about a firm's leverage.

Read the following statement about a characteristic of preferred stocks and answer the corresponding question.

Failure to pay a preferred dividend does not cause the firm to go into default, unlike failure to pay interest on debt.

True or False: The preceding statement accurately describes a characteristic of preferred stocks.

True
 False

Explanation: Clear

This statement is true. Bondholders have the most seniority in the claim of a company's assets. Though preferred stockholders have more seniority in the claim of assets than common stockholders, missing payments on preferred dividends does not lead to bankruptcy. It is important to note that even though unpaid preferred dividends do not bankrupt a company, firms must be careful about missing dividend payments. If a firm has a history of missing dividend payments, it may have a hard time issuing new debt, and it will be virtually impossible for such a firm to issue new preferred stock.

Preferred stock offers the issuing corporation and investors advantages and disadvantages, which of the following statements describes a disadvantage for the issuer of preferred stock?

Nonconvertible preferred stock helps prevent the dilution of common equity.
 The after-tax cost of preferred stock is higher than the after-tax cost of debt.

Explanation: Open

Try Another Version Continue

Finance in Action - Ratio Analysis

Attempts: 0 Average: 0 / 2

2. A liquidity assessment of Target Corporation Inc.

**A Financial Ratio Analysis of Target Corporation
A Liquidity Assessment**

Assume that you are a prospective shareholder of Target Corporation (TGT), a retailer of "everyday essentials and fashionable, differentiated merchandise at discounted prices," and are interested in the company's historical and current financial activities and performance. Use the following financial data for Target to complete and conduct your financial ratio analysis. Then answer the questions that follow. Remember, the results of a ratio analysis often identify issues requiring additional investigation.

	2019	2018	2018
Income Statement			
Sales	\$61,796,000,000	\$63,436,000,000	\$63,894,000,000
Less: Cost of goods sold	45,725,000,000	44,062,000,000	44,337,000,000
Gross profit	16,071,000,000	19,374,000,000	19,557,000,000
Less: Selling, general, and administrative expenses	13,469,000,000	13,079,000,000	12,954,000,000
Less: Other expenses	896,000,000	1,521,000,000	1,608,000,000
Earnings before interest and taxes (EBIT)	1,706,000,000	4,774,000,000	4,995,000,000
Less: Interest expense			
Earnings before taxes			
Less: Taxes			
Net income			
Less: Common dividends			
Dividends per share			

Given Target's financial data, you are expected to become due to:

Target Corporation
Liquidity ratios

Current ratio:

2019:

2018:

Quick ratio:

Finance in Action - The Basics of Capital Budgeting

Attempts: 0 Average: 0 / 2

3. Financial appraisal of investment projects

The Horizon project is an example of how the financial appraisal of an investment project is conducted at Cengage Learning. The Horizon project passed through several stages of the capital investment process, which required the finance team to evaluate if and to what extent the project would drive incremental revenue or contribute toward revenue preservation.

Instructions: Review the following stages of the financial appraisal process for this project and complete missing information as needed.

Project Overview

The innovation team proposed a digital learning platform that will create a personalized learning experience for each student. The platform consists of a set of flexible tools that will allow students to customize the technology to suit their personal learning needs. The executive team believes that the sales projections offered by the innovation project will be one of a kind in the digital learning space and give the company a first-mover advantage. The finance team conducted the financial appraisal of the project to evaluate if and to what extent the project would drive incremental revenue or contribute toward revenue preservation.

Relevant Cash Flows

The finance team scheduled a series of meetings to discuss the different aspects of the project analysis. Sanford Tassell, senior vice president, finance and operations, Miran Yappakar, vice president, finance and other members of the finance-decision support team held a series of discussions. Some excerpts from their discussions follow:

FROM: YRANGIRI, DIVIN
TO: TASSELL, SANFORD
CC: BAZARD, CHLOE; HULLMANN, PETER
SUBJECT: Relevant cash flows
Attached: Data file

Hey Sanford,

I've been working with the team to evaluate the Horizon product in the capital approval pipeline. I've crafted the valuation model taking into consideration our standard underlying assumptions, the cumulative capital outlay, and the estimations of the cash flows for the long-term strategic initiative.

Chloe and Peter worked through the revenue estimates, accounting for the

Attachment: Data file
(All dollar values in millions)

	A	B
1		
2	Capitalized expenses	\$20.5 (spread over 3 years)
3	Non-cash/depreciable expenses	\$3.400
4	Operating costs as a percentage of revenues	Year 1: 141% Year 2: 23% Year 3: 23% Year 4: 23% Year 5: 24%
5	Taxes	-6%

The analysis on the team created the forms estimates of the following cash flow analysis based on the information provided. Express all values in millions of dollars and round all values to three decimal places.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
1						
2						
3						
4						
5						

FINANCE IN ACTION CASES

MindTap offers a series of Finance in Action analytical cases that assess students' ability to perform higher-level problem solving and critical thinking/decision making.

TESTING

Mindtap offers the ability to modify existing assignments and to create new assignments by adding questions from the Test Bank.

Building valuable Excel skills for future business careers while making data-driven decisions

Cengage Learning and Microsoft have partnered in MindTap to provide students with a uniform, authentic Excel assignment experience. It provides instant feedback, built-in video tips, and easily accessible spreadsheet work. These features allow you to spend more time teaching finance applications and less time teaching and troubleshooting Excel.

These new algorithmic activities offer pre-populated data directly in Microsoft Excel Online, which runs seamlessly on all major platforms and browsers. Students each receive their own version of the problem data in order to use Excel Online to perform the necessary financial analysis calculations. Their work is constantly saved in Cengage cloud storage as part of homework assignments in MindTap. It's easily retrievable so students can review their answers without cumbersome file management and numerous downloads/uploads.


Access to Excel Online as used in these activities is completely free for students as part of the MindTap course for *Intermediate Financial Management, 14e*. It is not in any way connected to personal Office 365 accounts/ local versions of Excel, nor are Microsoft accounts required to complete these activities in MindTap.

Microsoft Excel Online activities are aimed at meeting students where they are with unparalleled support and immediate feedback.

Excel Online Activity: Excess capacity


Question 1
0/10

Submit

 Video

Excel Online Structured Activity: Excess capacity

Earleton Manufacturing Company has \$2 billion in sales and \$700,000,000 in fixed assets. Currently, the company's fixed assets are operating at 85% of capacity. The data has been collected in the Microsoft Excel Online file below. Open the spreadsheet and perform the required analysis to answer the questions below.

 [Open spreadsheet](#)

a. What level of sales could Earleton have obtained if it had been operating at full capacity? Write out your answer completely. Round your answer to the nearest cent.

\$

b. What is Earleton's target fixed assets/sales ratio? Round your answer to two decimal places.

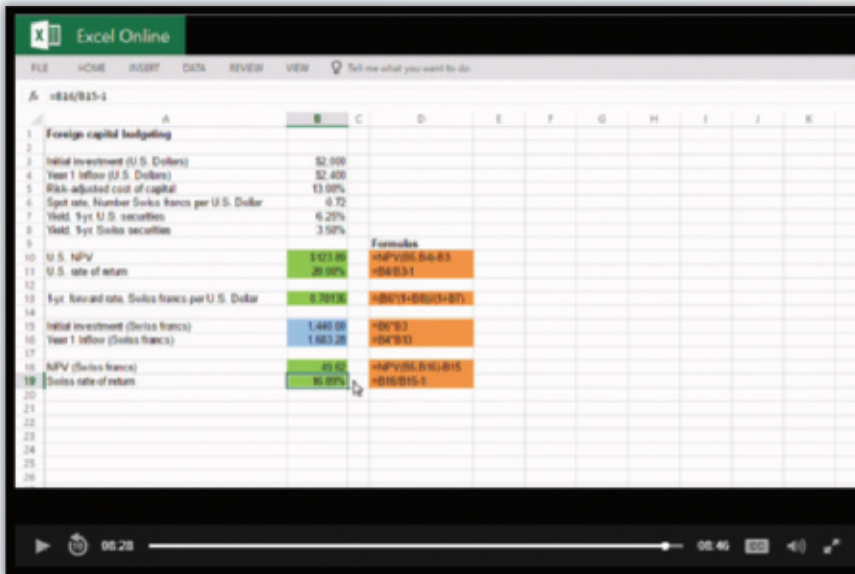
%

c. If Earleton's sales increase 40%, how large of an increase in fixed assets will the company need to meet its target fixed assets/sales ratio? Write out your answer completely. Do not round intermediate calculations. Round your answer to the nearest dollar.

\$

[Check My Work](#) [Reset Problem](#)

Microsoft Excel Online activities aimed at **meeting students** where they are with **unparalleled support** and **immediate feedback**

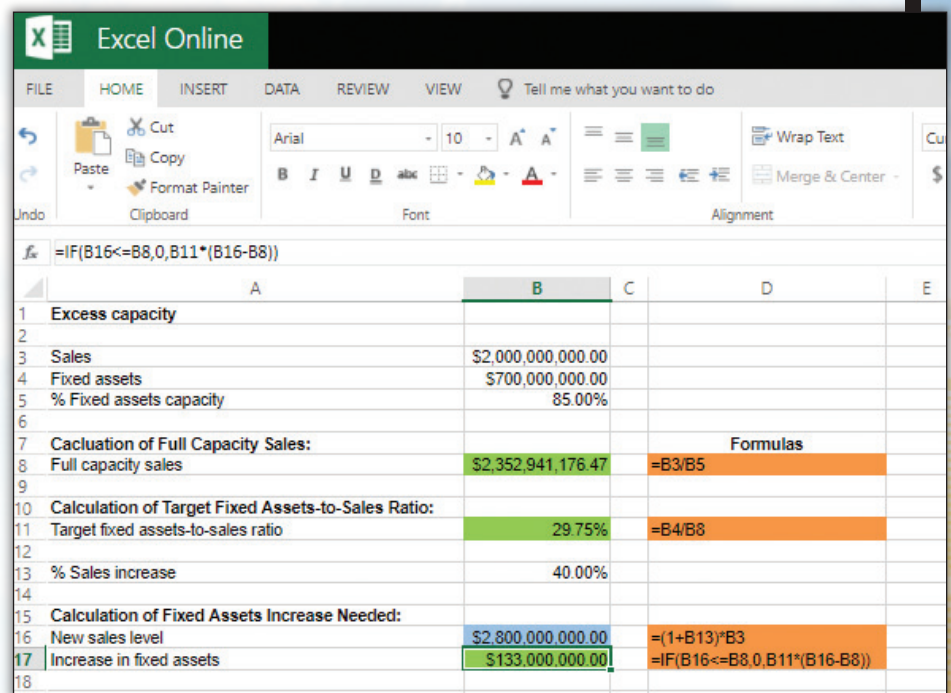


EXCEL VIDEO TIPS

Each activity includes a walk-through video of a similar problem being worked in Excel Online to offer suggested formulas to use for solving the problem. It also offers tips and strategies, which assist in understanding the underlying financial concepts while working within Excel.

CALCULATION STEPS AND EXCEL SOLUTIONS

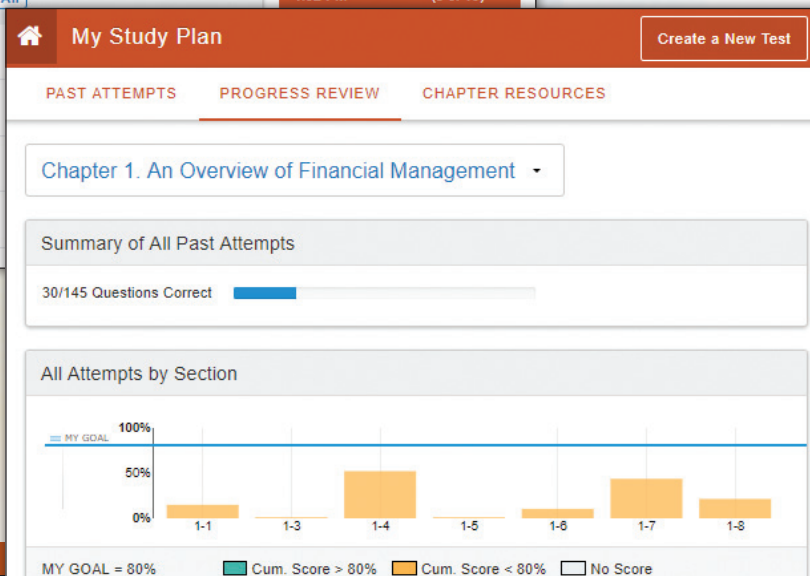
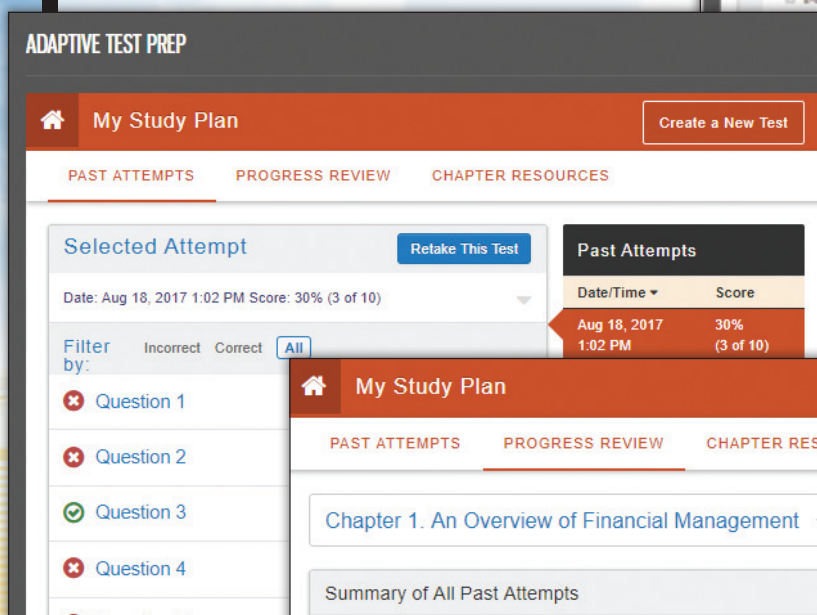
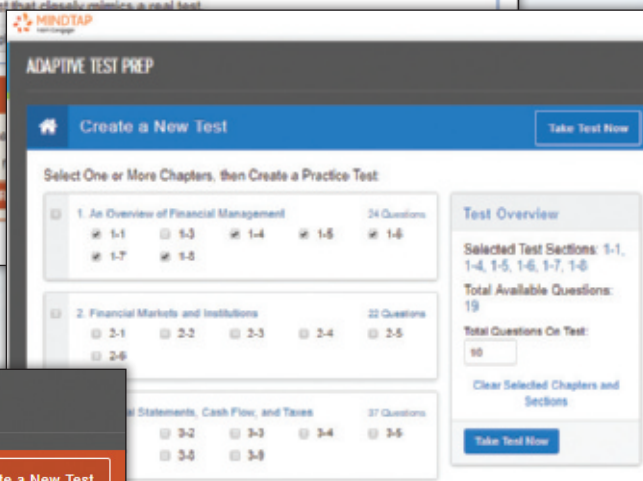
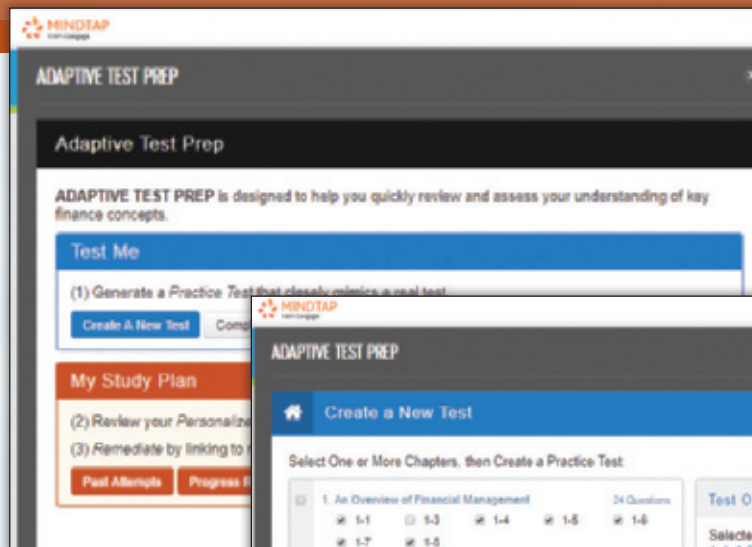
Each activity offers configurable displays that include the correct answers, the manual calculation steps, and an Excel solution (with suggested formulas) that matches the exact version of the problem the student received. Students can check their work against the correct solution to identify improvement areas. Instructors always have access to review the student's answers and Excel work from the MindTap progress app to better assist in error analysis and troubleshooting.



Help students prepare for **exam SUCCESS** with Adaptive Test Prep, only available in MindTap

ADAPTIVE WHERE IT COUNTS

The new Adaptive Test Prep App helps students prepare for test success by allowing them to generate multiple practice tests across chapters until they have confidence that they have mastered the material.



The adaptive test program grades practice tests and indicates the areas that have or have not been mastered. Students are presented with an Adaptive Study

Plan that takes them directly to the pertinent pages in the text where the practice question materials are referenced.

Question 9

Porter Inc.'s stock has an expected return of 12.25%, a beta of 1.25, and is in equilibrium. If the risk-free rate is 5.00%, what is the market risk premium?

- 5.80%
- 6.09%
- 6.40%
- 6.25%
- 5.95%

Feedback: **Incorrect.**

SML equation: $r_s = r_{RF} + b_{\text{Stock}} \times RP_M$

$$12.25\% = 5.00\% + 1.25 \times RP_M$$

$$7.25\% = RP_M \times 1.25$$

$$5.80\% = RP_M$$

See Section 8.3, Risk in a Portfolio Context: The CAPM.

Adaptive Test Prep
Questions



CENGAGE
Learning

Additional Resources

 eReader

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FEEDBACK IS KEY

Students also receive robust explanations of the problems to assist in further understanding. Many of the quantitative test questions feature video feedback that offers students step-by-step instruction to reinforce their understanding and bolster their confidence.

Getting Down the Basics Is Important

In order for you to take students further into the applications of finance, it's important that they have a firm handle on the basic concepts and methods used. In MindTap for *Intermediate Financial Management*, we provide students with just-in-time tools that—coupled with your guidance—ensure that they build a solid foundation.

PREPARING FOR FINANCE

Students are more confident and prepared when they have the opportunity to brush up on their knowledge of the prerequisite concepts required to be successful in finance. Tutorials/problems are available to review prerequisite concepts that students should know. Topics covered include Accounting, Economics, Mathematics, and Statistics, as well as coverage of various Financial Calculators and Excel.

1. What about financial institutions and markets?

How do you interact with financial institutions and financial markets?

You might wonder how financial markets (and the financial institutions that exist within these markets) affect your life. Think about all the different aspects of your life that involve money, banks, and securities, or borrowing, saving, and investing in some form.

Use the following scale to complete the survey that evaluates potential financial concerns you might encounter as a student. (Note: There are no wrong answers. You will receive 3 points after you have entered a number for each item on the survey.)

- I've never thought about it.
- I rarely think about it.
- I think about it, but I am not sure what to do next.
- I think about this stuff pretty often, and I am curious to learn the answers.
- I think about this stuff all the time, and I want to know more about how financial markets and institutions function.

Have I ever thought about...

a. I've just accepted a job that pays \$40,000 per year. I prefer to use public transportation for a year or two to save money for a new car, rather than purchase a new car now.

b. It doesn't matter where I open a checking account or credit card, because there aren't significant operational differences between my college's credit union, the savings association downtown, or the mutual fund I saw advertised online.

c. I need to purchase a plane ticket for an emergency trip. Should I borrow money from a friend or family member, or use my new credit card? Why?



3. Present value functions

Time Value of Money calculations using Excel

Time value of money concepts are a lifeline to most areas of the finance discipline. Although the calculations can be solved using mathematical equations or a financial calculator, they can also be solved using a spreadsheet. Spreadsheets and calculators provide tools and functions that can make the process of deriving results more efficient and accurate.

Mastering time value of money calculations through Excel will save you time in your course and help you work through related calculations efficiently.

Let's first review the terms in Excel that are comparable to the keys found on a financial calculator.

Description	Financial Calculator Key	Excel Terms
Number of periods	N	NPer
Periodic interest rate	I/YR	Rate
Present value	PV	PV
Annually payment	PMT	PMT
Future value	FV	FV

There is another term that you will often encounter when performing time value of calculations: type.

The type term used in Excel time value functions is used to represent the _____.

If the payment is made at the beginning of the year, the value of type will be _____; if the payment is made at the end of the year, the value of type will be _____.

Present value calculations

The present value or "PV function" in Excel is used to calculate the current value of future payments. Consider this example:

Suppose your uncle sends you a \$88,000 certificate of deposit in your name which will earn 4% interest for the investment period. Under the terms of his gift, you can withdraw the funds after 4 years on the day of your

WHY IS THIS IMPORTANT TO ME?

For many students, the idea of taking finance is intimidating. Beyond that, students report that they become more engaged with the course material when they see its relevance in business. The "Why is this important to me?" activity asks the student to complete a short self-assessment activity to demonstrate how they may already have personal knowledge about the important finance concepts they will learn in the chapter material. It is intended to help the student, especially the non-finance major, better understand the relevance in the financial concepts they will learn.

CONCEPT CLIPS

Embedded throughout the new interactive MindTap Reader, Concept Clips present key finance topics to students in an entertaining and memorable way via short animated video clips. These video animations provide students with auditory and visual representation of the important terminology for the course.

7-8 Bond Ratings

Since the early 1900s, bonds have been assigned quality ratings that reflect their probability of going into default. The three major rating agencies are Moody's Investors Service (Moody's), Standard & Poor's Corporation (S&P), and Fitch Investors Service. Moody's and S&P's rating designations are shown in Table 7.3. * The triple- and double-A bonds are extremely safe. Single-A and triple-B bonds are also strong enough to be called **investment-grade bonds**, and they are the lowest-rated bonds that many banks and other institutional investors are permitted by law to hold. Double-B and lower bonds are speculative, or **junk bonds**; and they have a significant probability of going into default.

ConceptClip - Investment Grade v. Junk



Reno Revolvers has an **EPS of \$1.50**, a cash flow per share of \$3.00, and a **price/cash flow ratio of 8.0**. What is its **P/E ratio**?

$$\begin{aligned} P/E &= \frac{\text{Price}}{\text{EPS}} \\ &= \frac{\$24.00}{\$1.50} \\ &= 16 \end{aligned}$$
$$\begin{aligned} P/CF &= \frac{\text{Price}}{\text{CFPS}} \\ 8 &= \frac{\text{Price}}{\$3.00} \\ \text{Price} &= 8 \times \$3.00 \\ &= \$24.00 \end{aligned}$$

PROBLEM WALK-THROUGH VIDEOS

Embedded in the interactive MindTap Reader and linked to select problems in MindTap, Problem Walk-Through Videos provide step-by-step instructions designed to walk students through solving a problem from start to finish. Students can play and replay the tutorials as they work through homework assignments or prepare for quizzes and tests—almost as though they had you by their side the whole time. Ideal for homework, study outside the classroom, or distance learning, Problem Walk-Through Videos extend your reach to give students extra instructional help whenever and wherever it's most useful.

Customizable Course and Mobile On-the-Go study tools based on YOUR Needs

MindTap for *Intermediate Financial Management, 14e* offers features that allow you to customize your course based on the topics you cover.

LEARNING PATH CUSTOMIZATION

The learning path is structured by chapter so you can easily hide activities you wish to not cover, or change the order to better align with your course syllabus. RSS feeds and YouTube links can easily be added to the learning path or embedded directly within the MindTap Reader.



MindTap Mobile

Empower
students to
learn on their
terms—anytime,
anywhere,
on- or off-line.

MINDTAP eREADER



Provides Convenience

Students can read their full course eBook on their smartphone. This means they can complete reading assignments anyplace, anytime. They can take notes, highlight important passages, and have their text read aloud, whether they are on- or off-line.

FLASHCARDS AND QUIZZING

Cultivate Confidence and Elevate Outcomes

Students have instant access to readymade flashcards specific to their course. They can also create flashcards tailored to their own learning needs. Study games present a fun and engaging way to encourage recall of key concepts. Students can use pre-built quizzes or generate a self-quiz from any flashcard deck.



THE GRADEBOOK

Keep Students Motivated

Students can instantly see their grades and how they are doing in the course. If they didn't do well on an assignment, they can implement the flashcards and practice quizzes for that chapter.

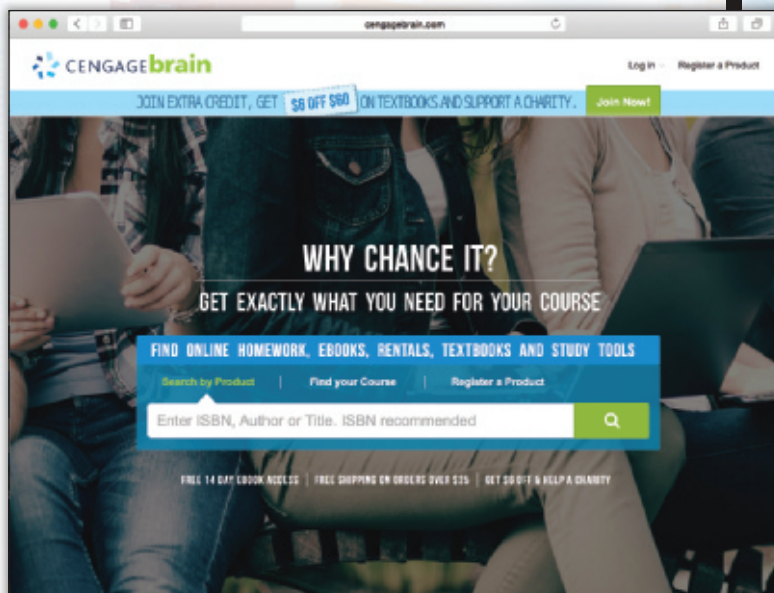


NOTIFICATIONS

Keep Students Connected

Students want their smartphones to help them remember important dates and milestones—for both the social and academic parts of their lives. The MindTap Mobile App pushes course notifications directly to them, making them more aware of what's ahead with:

- Due date reminders
- Changes to activity due dates, score updates, and instructor comments
- Messages from their instructor
- Technical announcements about the platform





LMS Integration

Cengage's Learning Management System (LMS) Integration is designed to help you seamlessly integrate our digital resources within your institution's LMS.

LMS integration is available with the Learning Management Systems instructors use most. Our integrations work with any LMS that supports IMS Basic LTI Open Standards. Enhanced features, including grade synchronization, are the result of active collaborations with our LMS partners.

✓ CREATE A SEAMLESS USER EXPERIENCE

With LMS Integration, your students are ready to learn on the first day of class. In just a few simple steps, both you and your students can access Cengage resources using a LMS login.

✓ CONTENT CUSTOMIZATION WITH DEEP LINKING

Focus student attention on what matters most. Use our Content Selector to create a unique learning path that blends your content with links to learning activities, assignments, and more.

✓ AUTOMATIC GRADE SYNCHRONIZATION*

Need to have your course grades recorded in your LMS gradebook? No problem. Simply select the activities you want synched, and grades will automatically be recorded in your LMS gradebook.

* Grade synchronization is currently available with Blackboard, BrightSpace (powered by D2L), Canvas, and Angel 8.



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Preface

Much has happened in finance recently. Years ago, when the body of knowledge was smaller, the fundamental principles could be covered in a one-term lecture course and then reinforced in a subsequent case course. This approach is no longer feasible. There is simply too much material to cover in one lecture course.

As the body of knowledge expanded, we and other instructors experienced increasing difficulties. Eventually, we reached these conclusions:

- The introductory course should be designed for all business students, not just for finance majors, and it should provide a broad overview of finance. Therefore, a text designed for the first course should cover key concepts but avoid confusing students by going beyond basic principles.
- Finance majors need a second course that provides not only greater depth on the core issues of valuation, capital budgeting, capital structure, cost of capital, and working capital management but also covers such special topics as mergers, multinational finance, leasing, risk management, and bankruptcy.
- This second course should also utilize cases that show how finance theory is used in practice to help make better financial decisions.

When we began teaching under the two-course structure, we tried two types of existing books, but neither worked well. First, there were books that emphasized theory, but they were unsatisfactory because students had difficulty seeing the usefulness of the theory and consequently were not motivated to learn it. Moreover, these books were of limited value in helping students deal with cases. Second, there were books designed primarily for the introductory MBA course that contained the required material, but they also contained too much introductory material. We eventually concluded that a new text was needed, one designed specifically for the second financial management course, and that led to the creation of *Intermediate Financial Management*, or *IFM* for short.

The Next Level: *Intermediate Financial Management*

In your introductory finance course you learned basic terms and concepts. However, an intro course cannot make you “operational” in the sense of actually “doing” financial management. For one thing, introductory courses necessarily focus on individual chapters and even sections of chapters, and first-course exams generally consist of relatively simple problems plus short-answer questions. As a result, it is hard to get a good sense of how the various parts of financial management interact with one another. Second, there is not enough time in the intro course to allow students to set up and work out realistic problems, nor is there time to delve into actual cases that illustrate how finance theory is applied in practice.

Now it is time to move on. In *Intermediate Financial Management*, we first review materials that were covered in the introductory course, then take up new

web

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material. The review is absolutely essential, because no one can remember everything that was covered in the first course, yet all of the introductory material is essential for a good understanding of the more advanced material. Accordingly, we revisit topics such as the net present value (NPV) and internal rate of return (IRR) methods, but now we delve into them more deeply, considering how to streamline and automate the calculations, how to obtain the necessary data, and how errors in the data might affect the outcome. We also relate the topics covered in different chapters to one another, showing, for example, how cost of capital, capital structure, dividend policy, and capital budgeting combine forces to affect the firm's value.

Also, because spreadsheets such as *Excel*, not financial calculators, are used for most real-world calculations, students need to be proficient with spreadsheets so that they will be more marketable after graduation. Therefore, we explain how to do various types of financial analysis with *Excel*. Working with *Excel* actually has two important benefits: (1) a knowledge of *Excel* is important in the workplace and the job market, and (2) setting up spreadsheet models and analyzing the results also provide useful insights into the implications of financial decisions.

Corporate Valuation as a Unifying Theme

Management's goal is to maximize firm value. Job candidates who understand the theoretical underpinning for value maximization and have the practical skills to analyze business decisions within this context make better, more valuable employees. Our goal is to provide you with both this theoretical underpinning and a practical skill set. To this end we have developed several integrating features that will help you to keep the big picture of value maximization in mind while you are honing your analytical skills:

- Every chapter starts off with a series of integrating *Beginning of Chapter Questions* that will help you to place the material in the broader context of financial management.
- Most chapters have a valuation graphic and description that show exactly how the material relates to corporate valuation.
- Each chapter has a *Mini Case* that provides a business context for the material.
- Each chapter has an *Excel* spreadsheet *Tool Kit* that steps through all of the calculations in the chapter.
- Each chapter has a spreadsheet *Build-a-Model* that steps you through constructing an *Excel* model to work problems. We've designed these features and tools so that you'll finish your course with the skills to analyze business decisions and the understanding of how these decisions impact corporate value.

Design of the Book

Based on more than 30 years working on *Intermediate Financial Management* and teaching the advanced undergraduate financial management course, we have concluded that the book should include the following features:

- *Completeness*. Because *IFM* is designed for finance majors, it should be self-contained and suitable for reference purposes. Therefore, we specifically and

purposely included: (a) some material that overlaps with introductory finance texts, and (b) more material than can realistically be covered in a single course. We included in Chapters 2 through 5 some fundamental materials borrowed directly from other Cengage Learning texts. If an instructor chooses to cover this material, or if an individual student feels a need to cover it on his or her own, it is available. In other chapters, we included relatively brief reviews of first-course topics. This was necessary both to put *IFM* on a stand-alone basis and to help students who have a delay between their introductory and second financial management courses get up to speed before tackling new material. This review is particularly important for working capital management and such “special topics” as mergers, lease analysis, and convertibles—all of which are often either touched on only lightly or skipped in the introductory course. Thus, the variety of topics covered in the text provides adopters with a choice of materials for the second course, and students can use materials that were not covered for reference purposes. We note, though, that instructors must be careful not to bite off more than their students can chew.

- *Theory and applications.* Financial theory is useful to financial decision makers, both for the insights it provides and for direct application in several important decision areas. However, theory can seem sterile and pointless unless its usefulness is made clear. Therefore, in *IFM*, we present theory in a decision-making context, which motivates students by showing them how theory can lead to better decisions. The combination of theory and applications also makes the text more usable as a reference for case courses as well as for real-world decision making.
- *Computer orientation.* Today, a business that does not use computers in its financial planning is about as competitive as a student who tries to take a finance exam without a financial calculator. Throughout the text we provide computer spreadsheet examples for the calculations and spreadsheet problems for the students to work. This emphasis on spreadsheets both orients students to the business environment they will face upon graduation and helps them understand key financial concepts better.
- *Global perspective.* Successful businesses know that the world’s economies are rapidly converging, that business is becoming globalized, and that it is difficult to remain competitive without being a global player. Even purely domestic firms cannot escape the influence of the global economy, because international events have a significant effect on domestic interest rates and economic activity. All of this means that today’s finance students—who are tomorrow’s financial executives—must develop a global perspective. To this end, *IFM* also contains an entire chapter on multinational financial management. In addition, to help students “think global,” we provide examples throughout the text that focus on the types of global problems companies face. Of course, we cannot make multinational finance experts out of students in a conventional corporate finance course, but we can help them recognize that insular decision making is insufficient in today’s world.

Beginning of Chapter Questions

We start each chapter with several Beginning of Chapter (BOC) questions. You will be able to answer some of the questions before you even read the chapter, and you will be able to give better answers after you have read it. Other questions are harder,

and you won't feel truly comfortable answering them until after they have been discussed in class. We considered putting the questions at the ends of the chapters, but we concluded that they would best serve our purposes if placed at the beginning. Here is a summary of our thinking as we wrote the questions:

- The questions indicate to you the key issues covered in the chapter and the things you should know when you complete the chapter.
- Some of the questions were designed to help you remember terms and concepts that were covered in the introductory course. Others indicate where we will be going beyond the intro course.
- You need to be able to relate different parts of financial management to one another, so some of the BOC questions were designed to get you to think about how the various chapters are related to one another. These questions tend to be harder, and they can be answered more completely after a classroom discussion.
- You also need to think about how financial concepts are applied in the real world, so some of the BOC questions focus on the application of theories to the decision process. Again, complete answers to these questions require a good bit of thought and discussion.
- Some of the BOC questions are designed to help you see how *Excel* can be used to make better financial decisions. These questions have accompanying models that provide tutorials on *Excel* functions and commands. The completed models are available on the textbook's Web site. Going through them will help you learn how to use *Excel* as well as give you valuable insights into the financial issues covered in the chapter. We have also provided an "*Excel* Tool Locater," which is an index of all of the *Excel* skills that the BOC models go over. This index is in the *Excel* file, *Excel Locations.xlsx*. Because recruiters like students who are good with *Excel*, this will also help you as you look for a good job. It will also help you succeed once you are in the workplace.

We personally have used the BOC questions in several different ways:

- In some classes we simply told students to use the BOC questions or not, as they wished. Some students did study them and retrieve the *Excel* models from the Web, but many just ignored them.
- We have also assigned selected BOC questions and then used them, along with the related *Excel* models, as the basis for some of our lectures.
- Most recently, we literally built our course around the BOC questions.¹ Here we informed students on day one that we would start each class by calling on them randomly and grading them on their answers.² We also informed them that our exams would be taken verbatim from the BOC questions. They complained a bit about the quizzes, but the students' course evaluations stated that the quizzes should be continued because without them they would have come to class less well prepared and hence would have learned much less than they did.

¹Actually, we broke our course into two segments, one where we covered selected text chapters and another where we covered cases that were related to and illustrated the text chapters. For the case portion of the course, students made presentations and discussed the cases. All of the cases required them to use Excel.

²Most of our students were graduating seniors who were interviewing for jobs. We excused them from class (and the quizzes) if they informed us by e-mail before class that they were interviewing.