

Preface

Thirty-seven years have passed since we began writing the first edition of this text, and many things have changed during that time.

First of all, the field of finance has become much more analytical, with the emphasis on decision-oriented approaches to problems rather than the old, descriptive approach. We have increased the use of analytical approaches to financial problems in virtually every chapter of the book. But we also have stayed with our basic mission of making sure students are able to follow us in our discussions throughout the text. While the 15th edition is considerably more sophisticated than the initial edition, it is still extremely “reader friendly.” As the analytical skills demanded of students have increased, so has the authors’ care in presenting the material.

Using computers and calculators has become considerably more important over the last quarter century, and this is also reflected in the 15th edition where we have added Excel tables and calculator keystroke solutions within key chapters. We offer Web Exercises at the end of every chapter, URL citations throughout the text, an Online Learning Center for students and faculty, computerized testing software and PowerPoint® for the faculty, and Connect Finance, an online assignment and assessment solution.

Throughout the past 37 years, this text has been a leader in bringing the real world into the classroom, and this has never been more apparent than in the 15th edition. Each chapter opens with a real-world vignette and the Finance in Action boxes (found in virtually every chapter) describe real-world activities and decisions made by actual businesses. Not only are hundreds of corporations discussed, but actual corporate logos are shown for the most important corporations covered in the book. The authors are also up-to-date on the latest tax and financial reporting legislation.

The international world of finance has become much more important over the last 37 years, and the text has expanded its international coverage tenfold since the first edition. Where there is an international application for a financial issue, you are very likely to find it in this text.

Furthermore, the 15th edition gives substantial coverage to the recession and liquidity crisis that has engulfed the U.S. and world economies in the latter part of the 2000–2009 decade (and going into the current decade). Special attention is given to the banking sector and the critical need for funding that almost all businesses face. The issue of increased regulation is also covered.

However, there is one thing that has not changed over the last 37 years—the authors still write the entire book and all of the problems themselves! We believe our devotion of time, energy, and commitment over these years is the reason for our reputation for having produced a high-quality and successful text—edition after edition.

Employers of business graduates report that the most successful analysts, planners, and executives are both effective and confident in their financial skills. We concur. One of the best ways to increase your facility in finance is to integrate your knowledge from prerequisite courses. Therefore, the text is designed to build on your basic knowledge from courses in accounting and economics. By applying tools learned in these courses, you can develop a conceptual and analytical understanding of financial management.

Reinforcing Prerequisite Knowledge

We realize, however, that for some students time has passed since you have completed your accounting courses. Therefore, we have included Chapter 2, a thorough review of accounting principles, finance terminology, and financial statements. With a working knowledge of Chapter 2, you will have a more complete understanding of the impact of business decisions on financial statements. Furthermore, as you are about to begin your career you will be much better prepared when called upon to apply financial concepts.

In general, tables and figures with real-world numbers have been updated or replaced, and the discussions concerning those tables and figures have been rewritten accordingly. Additionally, the authors have integrated Excel examples and spreadsheet tables throughout the capital budgeting chapters (Chapters 9 through 12). Chapter 9 on Time Value of Money has been completely reworked to include equations and Excel spreadsheets while at the same time maintaining the use of tables for those faculty and students who find that method of instruction useful. The Taxpayer Relief Act of 2013 and the Dodd–Frank Act have been included in the chapters where appropriate.

Content Improvements

Chapter-by-Chapter Changes

Chapter 1 The chapter title has been changed, the discussion of the financial crisis has been updated, and a section on the new Dodd–Frank Act has been added.

Chapter 2 All tables have been updated, and a new Finance in Action box has been added comparing U.S. and international accounting standards. The Finance in Action box on Bernie Madoff has been updated.

Chapter 3 A new Finance in Action box on sustainability, ethics, and return on assets has been added.

Chapter 4 Financial forecasting materials have been reworked using Excel spreadsheets.

Chapter 5 A new chapter introduction on leverage and bankruptcy at American Airlines has replaced the previous introduction.

Chapter 6 All real-world figures and tables have been updated, and the Finance in Action box has been revised. The discussion on the term structure of interest rates has been updated to reflect the low interest rate environment of the past several years.

Chapter 7 The Finance in Action box on Working Capital Management has been revised, and Figure 7-4 and Table 7-1 have been updated.

- Chapter 8** The chapter introduction has been revised and a new Finance in Action box on the LIBOR scandal has been added. Figures 8-1 and 8-2 and Table 8-1 have been reworked.
- Chapter 9** The time value of money presentation has been reworked to include more timelines, integrated calculator keystrokes, and Excel spreadsheet examples.
- Chapter 10** The valuation and rates of return discussion has been fully integrated with Excel and calculator keystrokes. Yield to maturity calculations are computed with calculator keystrokes, Excel “rate” functions, and using Excel’s Goal Seek tool.
- Chapter 11** The cost of capital material now integrates debt costs with calculator keystrokes, the Excel “rate” function, and Excel’s Goal Seek tool. A new Finance in Action box on bond liquidity and issue size has been added.
- Chapter 12** NPV, IRR, and Modified IRR calculations are integrated with Excel.
- Chapter 13** Table 13-2 is new. The authors added a discussion of the risk caused by the U.S. Congress’s inability to reach an agreement on spending and taxing policies. A new Finance in Action box has been added to discuss the risky nature of the energy industry.
- Chapter 14** The capital markets figures and tables have been updated with new data.
- Chapter 15** The investment banking tables and figures have been revised. The market stabilization material has been illustrated with trading data from Facebook. A new Finance in Action box discusses Warren Buffet entering the LBO game.
- Chapter 16** The authors added a new chapter introduction and revised all real-world examples, including the Eli Lilly example. Figures 16-1 and 16-3 and Tables 16-4, 16-5, and 16-6 are all new. The Finance in Action box on fallen angels has been revised.
- Chapter 17** The Ceradyne example in the introduction has been revised. Tables 17-1 and 17-2 are new. A new Finance in Action box on Hewlett-Packard and its corporate governance replaces the Apple box. The information on American Depository Receipts (shares) has been updated.
- Chapter 18** The Altria example in the introduction has been updated to include the spinoff of Mendelez International from Kraft Food Group. Figure 18-2 and Tables 18-1 and 18-7 are new. A new section on tax implications for investors reflects the impact of the American Taxpayer Relief Act of 2013. The Finance in Action boxes on Bill Gates and Microsoft and IBM’s stock repurchase have been updated.
- Chapter 19** The explanation of downside risk for convertible bonds has been clarified. Tables 19-1, 19-2, 19-3, and 19-5 are new. Definitions of out-of-the money warrants and in-the-money warrants have been added.
- Chapter 20** There is a new introduction describing Warren Buffett’s Berkshire Hathaway and its acquisitions. Material on Eastman Chemical has been added to the discussion of Eastman Kodak’s bankruptcy. Table 20-4 has been replaced with new examples. 3M’s acquisition of Ceradyne is presented.

Chapter 21 International Financial Management tables and charts have been updated with current data, and hedging examples using forward and futures contracts have been updated. A new Finance in Action box on how Coca-Cola manages currency risk has been added. A second Finance in Action box has been added discussing political risk in Argentina.

Successful improvements from the previous editions that we have built on in the 15th edition include:

Functional Integration We have taken care to include examples that are not just applicable to finance students, but also to marketing, management, and accounting majors.

Small Business Since over two-thirds of the jobs created in the U.S. economy are from small businesses, we have continued to note when specific financial techniques are performed differently by large and small businesses.

Comprehensive International Coverage We have updated and expanded coverage on international companies and events throughout the text.

Contemporary Coverage The 15th edition continues to provide updated real-world examples, using companies easily recognizable by students to illustrate financial concepts presented in the text.

Chapter Features

The screenshot shows a chapter opening page for 'Financial Analysis' (Chapter 3). It features a blue header with the chapter number '3' and the title 'Financial Analysis'. Below the header, there are two sections: 'LEARNING OBJECTIVES' and 'DISCUSSION QUESTIONS'. The Learning Objectives section lists five objectives (LO3-1 to LO3-5) related to ratio analysis, the Du Pont system, and trend analysis. The Discussion Questions section lists three questions related to the use of ratios, the Du Pont system, and the receivable turnover ratio. The page also includes a vertical URL 'www.mhhe.com' on the right side.

Integration of Learning Objectives to Discussion Questions and Problems

The Learning Objectives (LO) presented at the beginning of each chapter serve as a quick introduction to the material students will learn and should understand fully before moving to the next chapter. Every discussion question and problem at the end of each chapter now refers back to the learning objective to which it applies. This allows instructors to easily emphasize the Learning Objective(s) as they choose.

Revised! Chapter Opening Vignettes

We bring in current events (such as business-to-business online ventures and competition among air carriers) as chapter openers to illustrate the material to be learned in the upcoming chapter.

Forecasting for the future has never been easy, but in recent years it has become increasingly difficult for those in the retail industry. Specifically, let's look at Dollar General Corp. How does it intend to meet its goals in the future?

While many retail stores have suffered in recent years, dollar stores such as Dollar General have been one of the few bright spots. In fact, between 2008 and 2012, Dollar General's store count grew by 5 percent per year. Now, Dollar General operates more than 10,000 stores in 40 states and estimates that it will continue opening or renovating over 500 stores per year. Dollar General differentiates itself from its largest competitor, Walmart, by locating in shopping plazas or strip malls of smaller communities.

The company's motto, "Save Time. Save Money. Every Day!", emphasizes their goal of offering consumers the lowest prices. For example, a 2011 study by Deutsche Bank

Expanded! Finance in Action Boxes

These boxed readings highlight specific topics of interest that relate to four main areas: managerial decisions, global situations, technology issues, and ethics. The inclusion of ethics is relevant given the many recent corporate scandals and the resulting governance issues. Web site addresses are included in applicable boxes for easy access to more information on that topic or company.



managerial | Energy: A High Risk Industry

One industry that affects world economies is energy. This industry includes coal, natural gas, oil, wind, solar, and even the Canadian tar sands. The prices of all these types of energy are important to every person and company that uses electricity, buses, cars, airplanes, trains, plastics, fertilizer, and more. The search for energy sources can be high risk and can either result in large deposits that generate high returns or no returns if nothing is found. Additionally,

last five years, the U.S. has found enough natural gas for 50 years and we are still finding more. Natural gas is priced per one thousand cubic feet of natural gas or by its equivalent, 1 million BTUs (British Thermal Units). The price of natural gas has gone from \$12 per thousand cubic feet in 2008, to \$6 in 2011, to \$2 in 2012, and \$3.15 in 2013. Now if anyone could have predicted this price movement, capital budgeting decisions would have been greatly influenced. Go back and read the quote. Five



New! Excel, Calculator Solutions, and Formulas

In Chapters 9, 10, and 12, the authors have included new discussions on how the examples are solved using Excel, financial calculators, and formulas. Newly formatted spreadsheet tables and screen captures detail the step-by-step method to solve the examples. The financial calculator keystrokes in the margins give instructors and students additional flexibility. The material can be presented using traditional methods without loss of clarity because the margin content supplements the prior content, which has been retained. The book and solutions manual provide Excel, calculator, and formula explanations for these very important calculations.

Because this problem involves an annuity rather than a single payment, when solving with a financial calculator, the value that we enter for the **[PMT]** key is \$1,000. Now we enter a zero for the **[PV]** key. As we computed earlier using the future value of an annuity equation, we find that when the interest rate is 10%, the future value of a 4-year, \$1,000 annuity is \$4,641.

Excel's **FV** function can also produce the future value of an annuity stream. The **FV** function assumes that each payment is at the end of a period as shown in the previous timeline. The annuity amount is entered as the **pmt** argument. The function in cell D1 references the arguments in cells B1–B4. The function in cell D5 uses hard-coded arguments instead. In both cases, the values produced by the **FV** function are identical to the calculator solution.

FINANCIAL CALCULATOR	
Enter	Function
4	N
10	I/Y
-1000	PV
0	PMT
Function	Solution
CPT	FV
	4,641.00

	A	B	C	D	E	F
1	rate	10.00%		=FV(B1,B2,B3,B4)		
2	nper	4		[FV(rate, nper, pmt, [pv], [type])]		
3	pmt	0		\$1,464.10		
4	pv	-1000				
5				=+FV(0.1,4,0,-1000)		
6				FV(rate, nper, pmt, [pv], [type])		
7				\$1,464.10		

Pulling It Together with Color

Throughout the 15th edition, the authors make color an integral part of the presentation of finance concepts. Color is applied consistently across illustrations, text, and examples in order to enhance the learning experience. We hope that the color in this edition assists your understanding and retention of the concepts discussed.

Table 5-3 Volume-cost-profit analysis: Conservative firm

Units Sold	Total Variable Costs	Fixed Costs	Total Costs	Total Revenue	Operating Income (loss)
0	0	\$12,000	\$ 12,000	0	\$(12,000)
20,000	\$32,000	12,000	44,000	\$ 40,000	(4,000)
30,000	48,000	12,000	60,000	60,000	0
40,000	64,000	12,000	76,000	80,000	4,000
60,000	96,000	12,000	108,000	120,000	12,000
80,000	128,000	12,000	140,000	160,000	20,000
100,000	160,000	12,000	172,000	200,000	28,000

In-Book Acetates on Time Value of Money (Chapter 9)

The concept of the “time value of money” is one of the most difficult topics in any financial management course for professors to communicate to students. We think we have created a visual method for teaching future value and present value of money that will help you understand the concept simply and quickly. The 15th edition includes four-color acetates in the text that visually relate future values and present values. We hope you agree that this innovation is an advancement in financial pedagogy.

End-of-Chapter Features

REVIEW OF FORMULAS

- $K_D \text{ (cost of debt)} = Y(1 - T)$ (11-1)
Y is yield
T is corporate tax rate
- $K_P \text{ (cost of preferred stock)} = \frac{D_P}{P_P - F}$ (11-2)
D_P is the annual dividend on preferred stock
P_P is the price of preferred stock
F is flotation, or selling, cost

Review of Formulas


At the end of every chapter that includes formulas, we provide a list for easy reviewing purposes.

PRACTICE PROBLEMS AND SOLUTIONS

- You invest \$12,000 today at 9 percent per year. How much will you have after 15 years? Future value
Present value
(LO2&3)
 - What is the current value of \$100,000 after 10 years if the discount rate is 12 percent?
 - You invest \$2,000 a year for 20 years at 11 percent. How much will you have after 20 years?
- How much must Katie Wilson set aside each year to accumulate \$80,000 after 15 years? The interest rate is 10 percent. Solving for an annuity
(LO9-4)
 - How much must Josh Thompson repay each year for five years to pay off a

Practice Problems and Solutions

Two practice problems are featured at the end of each chapter. They review concepts illustrated within the chapter and enable the student to determine whether the material has been understood prior to completion of the problem sets. Detailed solutions to the practice problems are found immediately following each problem.

PROBLEMS
 Selected problems are available with Connect. Please see the preface for more information.

Basic Problems

- Shock Electronics sells portable heaters for \$35 per unit, and the variable cost to produce them is \$22. Mr. Amps estimates that the fixed costs are \$97,500.
 - Compute the break-even point in units. Break-even analysis
(LO5-2)
 - Fill in the table (in dollars) to illustrate the break-even point has been achieved.

Sales	_____
– Fixed costs	_____
– Total variable costs	_____
Net profit (loss)	_____

Labeled Discussion Questions and Problems

The material in the text is supported by over 250 questions and 475 problems in this edition, to reinforce and test your understanding of each chapter. Care has been taken to make the questions and problems consistent with the chapter material, and each problem is labeled with its topic, learning objective, and level of difficulty to facilitate that link. Every problem has been revised in this edition, but the level and variety of the complete set is similar to those from previous editions.

Updated! Comprehensive Problems

Several chapters have comprehensive problems, indicated with red sidebars that integrate and require the application of several financial concepts into one problem. Additional comprehensive problems are included in the Instructor's Manual for Chapters 2, 3, and 8.

COMPREHENSIVE PROBLEM

Medical Research Corporation is expanding its research and production capacity to introduce a new line of products. Current plans call for the expenditure of \$100 million on four projects of equal size (\$25 million each), but different returns. Project A is in blood clotting proteins and has an expected return of 18 percent. Project B relates to a hepatitis vaccine and carries a potential return of 14 percent. Project C, dealing with a cardiovascular compound, is expected to earn 11.8 percent, and Project D, an investment in orthopedic implants, is expected to show a 10.9 percent return.

The firm has \$15 million in retained earnings. After a capital structure with \$15 million in retained earnings is reached (in which retained earnings represent 60 percent of the financing), all additional equity financing must come in the form of new common stock.

Medical Research Corporation
(Marginal cost of capital and investment returns)
(LO11-5)

Web Exercises

Each chapter includes at least one Web exercise to help pull more relevant real-world material into the classroom. The exercises ask students to go to a specific Web site of a company and make a complete analysis similar to that demonstrated in the chapter. These exercises provide a strong link between learning chapter concepts and applying them to the actual decision-making process.

WEB EXERCISE

1. At the start of the chapter, we talked about how risky and volatile airlines' operations were. Let's examine this further. Go to finance.yahoo.com. Enter UAL for United Continental Holdings in the "Get Quotes" box. Go to "Company" along the left-hand margin.
2. Click on "Profile" in the left-hand column and write a one-paragraph description of the company.
3. Scroll down and click on the "Income Statement." Describe the pattern of change for "Total Revenue" and "Income from Continuing Operations" in one

Teaching and Learning Support

Online Learning Center

Visit this full Web resource available with the 15th edition at www.mhhe.com/bhd15e. The Information Center includes information on this new edition and links to additional material.

Instructor Resources:

- *Instructor's Manual* Revised by author Geoff Hirt, the manual helps instructors integrate the graphs, tables, perspectives, transparencies, and problems into a lecture format. Each chapter opens with a brief overview and a review of key chapter concepts. The chapter is then outlined in an annotated format to be used as an in-class reference guide by the instructor.
- *Solutions Manual* Updated by author Bart Danielsen, the manual includes detailed solutions to all of the questions and problems, set in a larger type font to facilitate their reproduction in the classroom. Additional calculator, Excel, and formula solutions have been added for the 15th edition.
- *PowerPoint Presentation* These slides, updated by Catherine Teutsch, University of Denver, contain lecture outlines and selected exhibits from the book in a four-color, electronic format that you can customize for your own lectures.
- *Test Bank* This question bank includes 1,500 multiple-choice and true/false questions, with revisions made by Alan Adams, Dean College. Updates to the

questions correspond to the revisions in the 15th edition. Also included are quiz sets and matching quizzes. The test bank is available in Word files and in McGraw-Hill's flexible electronic testing program, *EZ Test Online* (www.eztestonline.com). EZ Test Online allows you to create tests or quizzes in this easy-to-use program!

- *Instructor's Manual to Accompany Cases* Written by author Stan Block, this manual includes a brief synopsis of the purpose of each case from the case-book, its relation to the text, and its level of complexity. Detailed solutions to the end-of-case questions are also provided. Two new cases are featured in this edition.

Student Resources:

The student edition of the Web site includes additional study materials:

- Online quizzes with 10 multiple-choice questions per chapter, immediate grading, and feedback.
- Excel templates for every problem with an Excel icon in the margin.
- Premium content for an additional fee; see Web site for details.

Case Book These 35 cases, written by the authors, are ideal for in-depth analysis and facilitate an integrated understanding of the topics presented in the book.

Less Managing. More Teaching. Greater Learning.



McGraw-Hill *Connect Finance* is an online assignment and assessment solution aid that connects students with the tools and resources they'll need to achieve success.

McGraw-Hill *Connect Finance* helps prepare students for their future by enabling faster learning, more efficient studying, and higher retention of knowledge.

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Connect Finance**

McGraw-Hill *Connect Finance* Features

Connect Finance offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect Finance*, students can engage with their coursework anytime and anywhere, making the learning process more accessible and efficient. *Connect Finance* offers you the features described next.

Simple Assignment Management

With *Connect Finance*, creating assignments is easier than ever, so you can spend more time teaching and less time managing. The assignment management function enables you to:

- Create and deliver assignments easily with selectable end-of-chapter questions and test bank items.

- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
- Go paperless with the eBook and online submission and grading of student assignments.

Smart Grading

When it comes to studying, time is precious. *Connect Finance* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time also is precious. The grading function enables you to:

- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Student Study Center

The *Connect Finance* Student Study Center is the place for students to access additional resources. The Student Study Center:

- Offers students quick access to lectures, practice materials, eBooks, and more.
- Provides instant practice material and study questions, easily accessible on the go.
- Gives students access to the Self-Quiz and Study described next.

Self-Quiz and Study

The Self-Quiz and Study (SQS) connects each student to the learning resources needed for success in the course. For each chapter, students:

- Take a practice test to initiate the Self-Quiz and Study feature.
- Immediately upon completing the practice test, see how their performance compares to chapter learning objectives.
- The SQS then recommends specific readings from the text, supplemental study material, and practice work that will improve their understanding and mastery of each learning objective.

Student Progress Tracking

Connect Finance keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB.

McGraw-Hill Connect Plus Finance

McGraw-Hill reinvents the textbook learning experience for the modern student with *Connect Plus Finance*. A seamless integration of an eBook and *Connect Finance*, *Connect Plus Finance* provides all of the *Connect Finance* features plus the following:

- An integrated eBook, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the eBook where that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.

For more information about Connect, go to www.mcgrawhillconnect.com, or contact your local McGraw-Hill sales representative.

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