

**FIN 377-4: FINANCIAL ANALYSIS (Spring 2013)**

**Instructor:** Dr. Kamm, Department of Finance

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**Instructor Office Hours:** 2-3:30 Tuesday & Thursday

**T.A.s:** Zac Rollins, Ben Rowe, Yifan Zhang

**Section 03555:** 12:30 to 2 UTC 4.124; reserved days in trading center

**Course Packet:** GSB Copy Center, Cases and Overhead Notes (often 2 packets)

**Other Required Materials:** Payment by credit card, WSJ and 2 simulations

**Blackboard:** Class web site, Excel spreadsheets, extra material posted

**Financial Calculator Required:** *Financial Calculator HP 10b11 or 17b11*

**Financial Software:** Bloomberg, FactSet, Stock-Trak

**COURSE OVERVIEW:**

Financial Analysis is designed for finance majors in order to improve their skills at analyzing companies and to advance their knowledge of finance theory and application. The overall financial analysis includes: bond valuation, financial statement analysis, financial ratios, financial forecasting, beta and the CAPM, the weighted average cost of capital, the Gordon Growth model, discounted cash flow analysis and multiples. Students are expected to integrate skills of finance, economics, and accounting in the course. The course is quantitative and analytical in nature; we made use of the trading center throughout most of the term. Students calculate and interpret financial data, build spreadsheet models, and make general conclusions about the financial health of a company and its intrinsic value.

In this course a combination of methods is utilized with special emphasis on student involvement and teamwork. The professor reviews terms and theory, asks questions, demonstrates techniques, assigns problems and guides students in their case preparation. Students take a *very active* part in this class. Much of the learning in this course will take place outside of the classroom as students work on problem sets, invest \$500,000 across various assets in a simulated portfolio, and prepare the paper and presentation. The emphasis on student involvement encourages students to learn by doing and encourages the self-motivation so important to the workplace.

The course concludes with current case study applications on different types of companies in a variety of industry groups. By this time students will be formed in formal groups of 4-5 people. Students implement valuation models to determine “fair value” for a company’s stock. In debate fashion, students present their financial analysis and argue that the stock is currently priced correctly or alternatively overvalued (undervalued). The WSJ (interactive edition) and market data on the Internet will be important sources of information for student learning and research. Most groups get along well

with the usual “bumps in the road.” More serious problems shall be brought to the attention of the professor.

**COURSE OBJECTIVES:**

Some of the objectives of this course include:

- Improved ability to analyze and value companies in different industries using skills of finance, accounting and economics.
- Greater understanding of the business strategy and financial ratios of well-known companies in various industries.
- Review of major accounting and finance principles. Improved forecasting and valuation skills.
- Improved ability with Excel tools and better familiarity with financial data programs.
- Improved presentation, communication, and analytical skills. Improved ability to work in a team.
- Greater understanding of the financial issues and problems occurring at the current time.

**COURSE PACKET:**

UVA0400 (UVA)	Overview of Credit Ratings
9-211-083 (Harvard)	Tombstones
5788BC-PDF-ENG (HB Chapter)	Financial Statements: The Elements of Managerial Finance
5870BC-PDF-ENG (HB Chapter)	Valuation Concepts: Evaluating Opportunity
UVA-F-0899 (UVA)	Financial Forecasting
UV0402-PDF-ENG (UVA)	Applying the Capital Asset Pricing Model
UV2549-PDF-ENG (UVA)	Crocs, Inc.
193029-PDF-ENG (Harvard)	Introduction to Financial Ratios & Financial Statement Analysis
On-line Case link (Harvard)	Working Capital Simulation: Managing Growth
297082-PDF-ENG (Harvard)	Note on Value Drivers
9-211-049 (Harvard)	Fixed Income Arbitrage in a Financial Crisis (A); U.S. Treasuries in November 2008
101045-PDF-ENG(Harvard)	Amazon.com in the Year 2000

UV0010-PDF-ENG (UVA)	Nike, Inc.: Cost of Capital (v. 1.8)
4129-PDF-ENG (Harvard)	Midland Energy Resources, Inc.: Cost of Capital
W12073 (Ivey)	Selling Short: Green Mountain Coffee Roasters
On-line Case link (Harvard)	Merger & Acquisition in Wine Country
9-902-094 (Harvard)	Technical Note on LBO Valuation (A)
906N09-PDF-ENG (Ivey)	Valuing Wal-Mart Stock
UV3927-PDF-ENG(UVA)	Netflix, Inc., 2007
UV3981-PDF-ENG (UVA)	The Merger of Hewlett-Packard and Compaq (A): Strategy and Valuation
UV3930-PDF-ENG (UVA)	Rosetta Stone: Pricing the 2009 IPO
UV2534 (UVA)	Bidding for Hertz: Leveraged Buyout

### **CLASSROOM EXPECTATIONS:**

Professional behavior is expected in the classroom. Arriving on time, excellent attendance, being attentive and participating are all essential for the success of the class. Two tardy arrivals counts as an absence. Electronic devices are prohibited during class; computers shall be used only for the class material being worked on at the moment. *Please scan and attach documentation via email for university approved absences.* Adherence to the above expectations helps ensure a high participation / evaluation grade. Inability to meet these expectations will lead to a lowering of the final participation / evaluation grade.

Students are encouraged to work together within their teams and across teams to help ensure a successful and rewarding term. Please contact me if you are having any difficulties personally or with a *team member*. Once I become aware that a student is not able to meet the obligations of the group work in a significant way, I shall contact said student to discuss various alternatives to be determined. In the past the result has been that the individual earns zero credit or that the individual works independently on a project with some credit. *Remember that according to the rules of academic integrity, you may only list the names of members who have contributed to a paper or a piece of work in a meaningful way; if a name is left off you should contact the instructor of the course to help provide additional information.*

## **EVALUATION:**

Final grades will be determined as follows:

### **Written case Homework Assignments (Individual Grade) 10%**

There will be two written case homework papers to be turned in on the assigned due dates, each 3-pages stapled, double or one and one half spaced. Each student shall read any three of the five cases available for student presentation. Then for each case, write a one-page analysis, staple, and submit. Also, there is five page homework assignment completed in pairs after the working capital simulation which involves modeling and Excel. Written homework will be evaluated on how well written, financial analysis, and timeliness. The two written case homework papers together count 4% and the working capital simulation homework counts 6%.

### **Two Tests (Individual Grade) 35%**

There will be two tests; each test will have a multiple choice section counting for about 40% of the grade and a problem solving / analysis / short essay counting for about 60% of the grade. The first counts for 15% and the second for 20% of the final grade. The tests will evaluate students' understanding of the material covered to date. The tests primarily cover material only in that unit; to the degree that the material builds the tests include such material. The in-class tests include theory and case questions, problems requiring application and interpretation (including working with a spreadsheet, financial statement, or trading center handout) and current events questions. You may bring a financial calculator and an 8 by 11 piece of paper with notes or formulas written on one side only. In the case that a test is missed with an *excused* absence, the student will take a cumulative final at the end of the term.

### **Case Presentation with Supporting Work (Group Grade with Individual Component) 10%**

Each group will present a case to the class. The presentation should be about 25-30 minutes. Approach the case as though you were in a case competition and work through any analytical or modeling issues proposed in the case. Primarily in your presentation, walk the class through the primary points and issues in the case. Your goal is to educate your peers at a deeper level. The power-point presentation will be emailed to me and posted to Blackboard to share with your peers. Your presentation and the power-point slides will be evaluated on: organization, accuracy, degree of interest, professional appearance of power-point, and communication skill.

### **Debate Presentation (Group Grade with Individual Component) 10%**

The group presentation is given in the form of a debate. It counts for 10% of the final grade. Two teams are assigned a particular stock. One side presents financial models and information supporting the position that the stock is undervalued and a "good buy." The other side argues that the stock is overvalued and should be rated as a "sell." Students shall use power-point slides to outline their position and supporting evidence. Presentations will be graded on strength of analysis, level of interest, and presentation skills. The overall team effort supports each member's performance and generally leads to similar presentation grades. Still, due to individual differences, grades may vary among students in the same group.

## **Two Papers – M&A Paper and Portfolio Paper**

**25%**

After the Merger and Acquisition Simulation, students in groups will write a paper analyzing the results of the merger and acquisition. The paper is 12 pages written plus the same number of exhibits (or more exhibits allowed.) Primarily in the paper students will review the perspectives of the three stand alone companies, bidding activity and stock price reaction, and comparison of valuation methods—Discounted Cash Flow, Adjusted Present Value, and Multiples.

The second paper is an analysis of the performance of the various assets held in the stock-trak portfolio. The paper is 12 pages written plus approximately the same number of exhibits (or more exhibits allowed). In this paper students shall review various holdings and the performance of the various assets. Primarily in the paper students should focus on reviewing various holdings, reasons for asset selection, and the performance of the various assets. In the second paper, students shall focus as well on the stock that they have been assigned to debate. Students shall undertake a comprehensive financial analysis and valuation of a stock and conclude with a buy or sell recommendation. The two papers will be equally weighted.

## **Participation & Peer Review – Curve or Reduction (Individual Grade)**

**10%**

Class participation is based on the contribution of each student to the class as a whole and to the group efforts. Solid performance in this area depends on: consistent timely attendance; demonstration that you are prepared for class particularly the cases; effort level toward group papers and presentations; strong reviews by peers in their evaluations; and adherence to class policies (see below for class policies including prohibition of improper use of electronics during class). For most students, participation serves as a slight curve toward the final grade. After all components prior to this one have been scored, the grades are combined to provide an “objective average” or “starting point” grade for participation. Students with good participation will receive this grade or higher (up to a letter grade) for the participation grade. A student with poor or late attendance or poor effort in group work, or anyone who is disruptive earns a zero. Thus the grade in this final category may range from zero to 96. Most students—those with good class performance and solid participation, receive an A or B for the participation curve. This last component, if high, tends to help students on the borderline—for example a grade of 79 prior to participation will likely result in a final grade of an 80.

## **Review of Breakdown**

Quiz and two homework papers – 10%

1<sup>st</sup> test 15%,

2<sup>nd</sup> test 20%

Case Presentation – 10%

Debate presentation -10%,

2 Papers - 25%

Participation & peer review – 10%

## **Final Letter Grades**

Cutoffs for the plus, regular, and minus grades are as follows:

A	4.0	94 and above
A-	3.67	90-93.9
B+	3.33	87-89.9
B	3.0	83-86.9
B-	2.67	80-82.9
C+	2.33	77-79.9
C	2.0	73-76.9
Etc.		

Since the highest two grades allows for only two distinctions over 10 points, it is possible that the distribution will lead me to adjust the cutoff between the A- and A grade up or down by one point. If required, I will announce any adjustment in that range to the class. All other categories of grades allow three distinctions over 10 points and no adjustments will be considered.

Date	Material Covered During Class
T, Jan 15	Review of Syllabus / Note soon you will form groups of 4 or 5 students
Th, Jan 17	StockTrak Project: Stock Portfolio (General, Growth, or Value) Get and bring <i>financial calculator</i> for next class
T, Jan 22	Overview of Credit Ratings and “Tombstones” Bond Valuation
Th, Jan 24	Financial Statements and Valuation Concepts / EPS Forecast Due end of class – printed copy of your EPS forecast with name or names DUE: Group Requests (if not previously submitted)
T, Jan 29	Financial Forecasting exercise / Working Capital Simulation: set up, payment, Simulation Round 1
Th, Jan 31	Working Capital Simulation (continued) / Stock-Trak registration Due end of class – Group Sign-Ups for 1 <sup>st</sup> five presentation dates
<b>M, Feb 4</b>	<b>Due: Achieve full investment in Stock-Trak by end of day</b>
T, Feb 5	Capital Asset Pricing Model & Crocs DCF (Kamm) <b>Due CBA 6.222 by 4pm: 5 page Working Capital &amp; DCF homework</b>
Th, Feb 7	Introduction to Financial Ratios and Financial Statement Analysis
T, Feb 12	Note on Value Drivers Current Application: Estimating WACC and EVA today for 2 companies (Kamm)
Th, Feb 14	Problem Set 1 /How to Prepare for Test 1
T, Feb 19	<b>1st In-Class Test (combination multiple choice, problems, analysis)</b> Bring financial calculator, pencil, 8 by 11 page of notes (1 side only)

- Th, Feb 21 Prepare for Group Presentations by Students / Read First Paper Directions
- T, Feb 26 *Student Presentation: Fixed Income Arbitrage in a Financial Crisis*  
*Student Presentation: Amazon.com in the Year 2000*  
**Due: HW on 1st Cases, 3 pgs. stapled, turn into finance dept by 4 p.m.**
- Th, Feb 28 *Student Presentation: Nike Cost of Capital*  
*Student Presentation: Midland Energy Resources, Inc.: Cost of Capital*
- T, Mar 5 *Student Presentation: Selling Short: Green Mountain Coffee Roasters*  
**DUE: Group Sign-Ups for 2<sup>nd</sup> five presentation dates**
- Th, Mar 7 Problem Set 2: Convertible Bonds, LBO, Acquisitions
- Mar 11-15 No Class - Spring Break
- T, Mar 19 Finance Simulation: M&A in Wine Country; set up and start
- Th, Mar 21 Finance Simulation: M&A in Wine Country; complete
- T, Mar 26 Technical Note on LBO Valuation  
**Due CBA 6.222 by 4pm: 12 page Mergers & Acquisition Paper**
- W, Mar 27 M&A, IPO, LBO Examples / Problems
- Th, Mar 28 *Student Presentation: Valuing Wal-Mart Stock*  
*Student Presentation: Netflix, Inc. 2007*  
**Due: HW on 1st Cases, 3 pgs. stapled, turn into finance dept by 4 p.m.**
- T, April 2 *Student Presentation: The Merger of Hewlett-Packard and Compaq*  
*Student Presentation: Rosetta Stone: Pricing the 2009 IPO*
- Th, April 4 *Student Presentation: Bidding for Hertz: Leveraged Buyout*
- T, April 9 How to prepare for 2nd Test
- Th, April 11 **2nd In-Class Test (combination multiple choice, problems, analysis)**  
**Bring financial calculator, pencil, 8 by 11page of notes (1 side only)**
- T, April 16 Current Financial Events / Overview of Debate
- Th, April 18 *Valuation Debate 1 & Evaluation of Debate*
- T, April 23 *Valuation Debate 2 & Evaluation of Debate*
- Th, April 25 *Valuation Debate 3 & Evaluation of Debate*

T, April 30     *Valuation Debate 4 & Evaluation of Debate*

Th, May 2     *Valuation Debate 5 & Evaluation of Debate*

Th, May 9     **Due: Final Group Paper, 4p.m., Finance Dept. (Place in box)**  
**Due: Final Peer Evaluations directly to finance personnel, 4p.m.**

\* NOTE REGARDING SYLLABUS: Please note that current events and other in class activities will be added when the schedule allows. The above schedule is meant to be approximate. At times we may be slightly ahead of or slightly behind schedule. Trading center dates may need to be moved. Necessary changes regarding times, assignments, and other matters will be announced in class.

## **Various Class Policies**

### **I. Religious Holidays, Make-ups, and Special Accommodations**

Religious Holidays—The University is fortunate to have diversity in its student body including diversity of thought and practice that includes religious diversity. I do my best to avoid scheduling major projects around religious holidays but due to the great diversity of practices at the University, an unexpected scheduling issue may arise. In keeping with University policy I will excuse you from class on the day that is important for your religion, and if any unexpected conflict arises, we will make alternative plans. The best way to handle this situation from your end is to give me advance notice if you see a conflict.

Professional Conduct—Every student is expected to conduct himself or herself in a professional manner. Besides following the policy on electronics, this means that a student shall arrive on time, *work on material related to this class*, and *be respectful of the professor and peers*, etc. The participation grade evaluates in part your professional conduct.

Electronics—I follow the department of finance policy on the use of electronics in class. This policy states that use of any electronic devices or tools (laptops, cell phones, various MP3 players, I-pod touch devices, etc.) during class is prohibited unless specifically requested by the professor of the class. This means that laptops are closed and all other devices are put away prior to the start of class; students shall not initiate nor receive text messages during class nor use Touch devices. If we need use of computers, we will be in the trading center; in the less likely event that we are in the classroom and need use of an electronic device, the instructor will make an announcement. Adherence to this policy facilitates the students' abilities to process class material and helps lead to a solid participation grade; failure to follow the policy results in a reduction in that student's participation grade.

Quizzes—If you miss a quiz and have a university excused absence, you will be offered the *lowest grade earned on all assignments at the end of the term*.

Late Work—Late work is downgraded 5 points for every 12 hours late.

Test Times—Most often student attendance at exams is excellent. I adopt class policies that encourage students to keep up on material such that with attendance and solid time management, students should find themselves adequately prepared to be able to study and take exams. I strongly encourage that you take exams at the scheduled date. If you know that your schedule is such that you cannot make the exam time (the best reason is for a university excused reason), contact me ahead of time to see if something can be arranged. No make-up exam is offered after the test. If you miss an exam and have a university excused absence, you will be offered a *cumulative exam at the end of the term*.

Accommodations—I follow the university policy on special accommodations and am happy to work with you on this matter. *The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.* At the beginning of the term or prior to the first major project or test, please submit to me a letter prepared by the Service office listed above. Also, it is especially helpful if you email me one to two weeks ahead of the scheduled test (or project) reminding me of the nature of the accommodation so that we have plenty of time to make arrangements.

II. Academic Integrity – I follow university policy on academic integrity and include for your benefit a review of the Policy Statement on Scholastic Dishonesty for the McCombs School of Business. It says, *“By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this course, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties including the possibility of failure in the course and / or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.”*

III. Class Web Sites and Student Privacy: Please know that I use Blackboard to post your course packet and relevant course documents and I use either Blackboard or egradebook to post grades where each student in the class is able to check his or her grade privately. I also use the email list provided me in Blackboard to send out occasional class emails. From the Fall 2001 Course Schedule the following paragraph may help you determine any related privacy issues. It states, *“Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on FERPA related issues see <http://registrar.utexas.edu/students/records/ferpa/>.”*