

FIN 377-4: FINANCIAL ANALYSIS (Spring 2017)

Instructor: Dr. Kamm, Department of Finance, CBA 6.304D

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Instructor Office Hours: 5-6:15 Tuesdays and Thursdays, extra hours before due dates

T.A.s: Tae Hoon Ahn, Anerudh Athrey

Section 03665: 11 to 12:30 TTh in GSB 3.120 (financial center)

Section Attendance Requirements: Attendance required in section in which enrolled

Course Packet: 2 GSB course packets (series of cases, 1st simulation, 2nd simulation)

Other Highly Recommended Materials: WSJ also on-line sign up; to support research

Canvas: Class web site, Excel spreadsheets, extra material posted

Financial Calculator Required: Financial Calculator HP 10b11 recommended (need YTM)

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 \$1,000,000 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
193029-PDF-ENG (Harvard)	Introduction to Financial Ratios & Financial Statement Analysis
297082-PDF-ENG (Harvard)	Note on Value Drivers
UVA-F-0899 (UVA)	Financial Forecasting
On-line Case link (Harvard)	Working Capital Simulation: Managing Growth
UV0402-PDF-ENG (UVA)	Applying the Capital Asset Pricing Model
UV0010-PDF-ENG (UVA)	Nike, Inc.: Cost of Capital (v. 1.8)
UV2549-PDF-ENG (UVA)	Crocs, Inc.
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
4129-PDF-ENG (Harvard)	Midland Energy Resources, Inc.: Cost of Capital
W12073-PDF-ENG (Ivey)	Selling Short Green Mountain Coffee Roasters

UV0112-PDF-ENG (UVA)	Methods of Valuation for Mergers and Acquisitions
On-line Case link (Harvard)	Merger & Acquisition in Wine Country (Simulation)
UV3927-PDF-ENG (UVA)	Netflix, Inc., 2007
9-213-142 (Harvard)	Buffett's Bid for Media General's Newspapers
9-208-129 (Harvard)	Mellon Bank and The Bank of NY (Merger)
UV3930-PDF-ENG (UVA)	Rosetta Stone: Pricing the 2009 IPO
UV2534 (UVA)	Bidding for Hertz: Leveraged Buyout

EXPECTATIONS: PROFESSIONAL CLASSROOM & GROUP CONDUCT:

Professional behavior is expected in the classroom and will help us have a rewarding and enjoyable learning experience. Arriving on time, excellent attendance, being attentive and participating are all essential for the success of the class. When class starts, all of us will cease side conversations and focus time allotted on classroom material. Electronic devices are prohibited during class; this includes checking text messages under backpacks or your desk. Computers are used only in the trading center or for presentation days. Two combinations of the following will count as an absence: using electronic devices, late arrival to class (so check where we are at—the classroom or trading center), leaving or walking around during class, and leaving prior to the end of class. In order for an absence to be marked as excused, you will need to scan and send me an attachment via email. If the absence meets the university requirements for an excused absence, then it will be recorded as excused. It is up to you to manage your schedule and arrive on time so as to keep excused absences to three or fewer over the term. If you wish to have one unexcused absence for reasons not covered under university policy, then keep excused absences down to two.

Also, you are expected to attend and arrive on time to group meetings and contribute in a meaningful and productive way to all group work. If a student is not able to meet his or her commitments, the other group members shall notify the professor as soon as possible. *In accordance with academic integrity, students may not earn credit for work to which they have not contributed at a reasonable level; if someone in your group has not contributed at a meaningful level, leave his or her name off the project or presentation and then email me to call my attention to the issue.* Once I am aware of the issue, the student may be redirected, receive partial or zero credit, and / or removed from the group. Adherence to the above expectations regarding professional behavior helps ensure a high participation / evaluation grade. Inability to meet these expectations will lead to a lowering of the final participation / evaluation grade.

EVALUATION: Final grades will be determined as follows:

Two Papers – Working Capital DCF Paper and M&A Paper (Pairs) 20%

In pairs, students will complete two on-line Harvard based simulations. The first is called Working Capital: Managing Growth” and the second is titled Merger and Acquisition in Wine Country. In Working Capital: Managing Growth, student pairs take on the role of entrepreneurs managing growth of a health company and making decisions about where and when to expand operations. All the while students must manage working capital and make decisions they believe will add value the firm. After the simulation is completed, students write a 3 to 4 page paper with as many or more exhibit pages attached. The paper is graded on strength of analysis, exhibits, and how well it is written. For additional information, see the document on the working capital paper.

In Merger and Acquisition in Wine Country, student pairs are assigned one of three roles; there are two mid-sized wine companies, which could merge, and a larger company that may acquire one of the other two companies. Each party receives information regarding value creation of a merger or acquisition and is able to run DCF and APV for the other firm. After the simulation, students will write a paper analyzing the results of the merger and acquisition. The paper is 5 to 6 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 paper is graded on strength of analysis, exhibits, and how well it is written. For additional information, see the document on the M&A Paper. Each paper counts 10%.

Two Tests (Individual Grade) 40%

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 20% 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 a 3 by 5 card with notes written on both sides. 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 & Valuation Assignment (Group Grade with Individual Component) 10%

The group presentation is given in the form of a debate. We need an even number of teams. The professor will assign group members for this debate. 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.” Each group submits to the professor prior to class a several page summary of excel models (hard copy) showing the WACC, DCF, and multiples valuation. The group also sends the professor the PPT presentation no later than 15 minutes prior to the start of class.

Students shall use power-point slides to outline their position and supporting evidence. Presentations will be graded on execution of valuation models, 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, on occasion grades may vary among students in the same group.

Final Portfolio Paper (Group Grade): 10%

Students will set up a portfolio, in groups, that is similar in nature to the MBA Investment fund, and analyze holdings at the end of the term. Determine whether you prefer a fund that is growth focused, value focused or balanced. You will hold sector ETFs and individual stocks to have exposure to all or most of the U.S. sectors. The Portfolio overview paper is 8 -10 pages written plus the same number of exhibits (or more exhibits allowed.) Primarily in the paper students should focus on reviewing various holdings, reasons for asset selection, and the performance of the portfolio relative to the benchmark. Groups will show overweight and underweight positions relative to the benchmark and assess portfolio performance. Exhibits will show comparative returns, the use of Bloomberg, and excel work.

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.

Final Letter Grades

Final letter grades will be determined so that a class G.P.A. of approximately 3.4 is obtained. This G.P.A. is within the recommendations provided by the UPO office and the department of finance curriculum committee. Let me give you a general idea of what such a G.P.A. could imply. If about 40%

of the class were assigned grades distributed equally over A- and A and about 60% of the class were assigned grades of B+, B, and B-, then the class average G.P.A. would be almost a 3.4. The instructor for the course does not necessarily adhere to a specific percentage breakdown of A, A-, B+, B, B-, C+ and the like. Since this is an elective course, most terms very few students earn grades in the C range but it does happen. Usually these are cases of poor peer evaluations, poor attendance, and missed work. Thus the example given was for illustrative purposes to help you understand one way a 3.4 average G.P.A. might be achieved. Since class grades will be assigned based on this method and no number cutoffs are given, the professor for the course will attempt to share distribution information, to the extent it is possible, on various items with the class. Soon after grades for the first short paper and first test have been posted, the professor will share with the class what the grade assignments would be if given on that day. This information is for illustrative purposes and so that students may get a general sense of where they stand in terms of evaluation. Note again, the guidelines posted are general and apply only to those who have strong participation and peer review. *If an upward curve is needed on tests or final grades, only those with strong attendance and peer evaluation are eligible to receive the curve.* Grade assignments and cutoffs may change by the end of the term depending on new items submitted.

Schedule

Date	Material Covered During Class
T, Jan 17	Review of Syllabus / start forming groups or professor assigned in canvas Stock Trak Project: Stock Portfolio (General, Growth, or Value)
Th, Jan 19	<u>FC</u> : Fixed Income Valuation: Overview of Credit Ratings and Tombstones Cases
T, Jan 24	<u>FC</u> : Introduction to Financial Ratios and Financial Statement Analysis
Th, Jan 26	<u>FC</u> : Note on Value Drivers Case (ROE, Economic Value added) DUE: Group Requests (if not previously submitted)
T, Jan 31	<u>FC</u> : Stock-Trak registration / Financial Forecasting Case
Th, Feb 2	<u>FC</u> : Working Capital Simulation: Managing Growth (on-line, one person purchase) Due end of class – Sign Ups for 1 st set of presentation dates
F, Feb 3	Due: Achieve full investment in Stock-Trak by end of day
T, Feb 7	<u>FC</u> : Working Capital Simulation Completed and Simulation Debrief
Th, Feb 9	<u>FC</u> : Apply the CAPM, Nike, Inc. Cost of Capital, Crocs, Inc. (DCF model, multiples) Start Problem Set 1 (work on your own; questions and answer key on canvas)
F, Feb 10	Due CBA 6.304D by 4 pm: Working Capital & DCF paper (pairs)
T, Feb 14	<u>FC</u> : Crocs, completed Catch up / Problem Set 1 /How to Prepare for Test 1
Th, Feb 16	1st In-Class Test (16 multiple choice 40%; 5 problems& analysis 60%) Bring financial calculator, pencil, 8 by 11 page notes, one, 1 side only with notes, turn in with test

- T, Feb 21 Test Commentary; Current Events / Review of Presentation Guidelines
Due end of class – Sign Ups for 2nd set of presentation dates
- Th, Feb 23 *Student Presentation: Fixed Income Arbitrage in a Financial Crisis*
Student Presentation: Amazon.com in the Year 2000
- T, Feb 28 *Student Presentation: Midland Energy Resources*
Student Presentation: Selling Short: Green Mountain Coffee Roasters
- Th, Mar 2 FC: Assigned Background Reading: Methods of Valuation for Mergers and Acquisitions
Finance Simulation: M&A in Wine Country and Negotiation, Introduction
- T, Mar 7 FC: Finance Simulation: M&A in Wine Country
Start Problem Set 2: Convertible Bonds, LBO, Acquisitions
- Th, Mar 9 FC: Finance Simulation: M&A in Wine Country; complete
Make certain to meet minimum requirements for negotiations among parties
- Mar 13 – 17 Spring Break, no class
- T, Mar 21 **No Class ... work on paper**
- W, Mar 22 Due CBA 6.304D by 5 pm: Merger & Acquisition paper (pairs)**
Midterm Peer Evaluations
- Th, Mar 23 Current Events; Review for Case Presentations
- T, Mar 28 *Student Presentation: Netflix, Inc. 2007*
Finance Simulation: M&A in Wine Country Debrief
- Th, Mar 30 *Student Presentation: Buffett's Bid for Media General's Newspapers*
Student Presentation: Mellon Bank and The Bank of NY (Merger)
- T, April 4 *Student Presentation: Rosetta Stone: Pricing the 2009 IPO*
Student Presentation: Bidding for Hertz: Leveraged Buyout
- Th, April 6 Catch Up / Problem Set 2/ Stock Trak Standings
- Th, April 11 **2nd In-Class Test (16 multiple choice 40%; 5 problems& analysis 60%)**
Bring financial calculator, pencil, 8 by 11 page notes, one, 1 side only with notes, turn in with test
- Th, April 13 Current Financial Events / Overview of Debate /
- T, April 18 *Valuation Debate 1 & Evaluation of Debate*
- Th, April 20 *Valuation Debate 2 & Evaluation of Debate*

- T, April 25 *Valuation Debate 3 & Evaluation of Debate*
Instructor Evaluations
- Th, April 27 *Valuation Debate 4 & Evaluation of Debate*
Instructor Evaluations
- T, May 2 *Valuation Debate 5 & Evaluation of Debate*
- Th, May 4 Instructor Evaluations / Review for Final Paper
- Final Peer Evaluations Assigned (Do not complete until paper done)
Final Group Paper – professor will announce data cutoff day
- Th, May 11 **Due: Final Group Paper, 4p.m., CBA 6.304D Kamm office**

* 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, 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.

Late Work – The policy on work submitted late (projects, papers, peer evaluations, etc.): 1 second to 10 minutes late = -8 points; 10 minutes to 20 minutes = -15; professor closes collection box in her office at 20 minute mark; after 20 minutes email professor regarding issue and intended turn in, 20 minute mark to 1 day = -25; each day later than 24 hours = original -25 plus -15 for each day. On presentation days, if the presentation is not open prior to the start of class or if any member arrives late, deduction = -10 to -25.

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 Canvas 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 Canvas 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/>.”*