

FIN 377-4: FINANCIAL ANALYSIS (Spring 2012)

Instructor: Dr. Kamm, Department of Finance

Email: kelly.kamm@mcombs.utexas.edu

Instructor Office Hours: 12:30-1:45 Tuesday & Thursday

T.A.s: Shannon Hunter, Jenner Smith, Rishi Munjal

Section 03230: 2-3:30 UTC 4.122; reserved days in trading center (or mod lab)

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

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

Financial Events Readings: WSJ (subscribe); strongly suggested

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

Financial Software: Bloomberg, Stock-Trak stock, bond, and other asset simulation

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
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
UV0010-PDF-ENG (UVA)	Nike, Inc.: Cost of Capital (v. 1.8)
4129-PDF-ENG (Harvard)	Midland Energy Resources, Inc.: Cost of Capital

A186A-PDF-ENG (Stanford)	Costco Wholesale Corp. Financial Statement Analysis (A)
101045-PDF-ENG(Harvard)	Amazon.com in the Year 2000
906N09-PDF-ENG (Ivey)	Valuing Wal-Mart Stock
UV3927-PDF-ENG(UVA)	Netflix, Inc., 2007
99402-PDF-ENG (HBR Article)	Are You Paying Too Much for That Acquisition?
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. 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:

Quiz and Two written case HW (Individual Grade) 10%

To help keep students on target with learning the material, there will be a quiz at the beginning of the term. The 15 minute quiz will have 4 problems for you to solve and each problem in terms of space will require $\frac{1}{4}$ of a page or less. In the event that the quiz is missed due to a university *approved* absence, the student will receive a grade at the end of the term equal to the lowest grade made during the semester. Also, 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 presentations. Then for each case, write a one-page executive summary or evaluation. Written homework will be evaluated on how well written, financial analysis, and timeliness. The quiz counts 4% and the two written homework papers together count 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 – Portfolio Overview and Stock Valuation

25%

The two papers are an analysis of the performance of the various assets held in the stock-trak portfolio. The first paper is about 10-12 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. The second paper is an update and expansion relative to the first paper. The second paper is 10-12 pages written plus the same number of exhibits (or more exhibits allowed). In the second paper, students shall focus on the stock that they have been assigned to debate. The assigned stock will be an asset currently held in Investment Fund. 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 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 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%

1st test 15%,

2nd 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 17	Review of Syllabus & Stock Project / Form groups of up to 5 students / Get and bring <i>financial calculator</i> starting next class
Th, Jan 19	Market Overview – past year & outlook / Overview of Credit Ratings (Kamm)
T, Jan 24	“Tombstones” Bond Valuation (Kamm)
Th, Jan 26	Financial Statements and Valuation Concepts (Kamm) / EPS Forecast Begin Forming Groups
T, Jan 31	<u>Trading Center</u> : Financial Forecasting Case DUE: Group Requests (if not previously submitted)
Th, Feb 2	Capital Asset Pricing Model & Crocs, Inc. – DCF (Kamm) DUE: Group Sign-Ups for presentation dates
T, Feb 7	<u>Mod Lab CBA 5.304</u> : DCF Continued and Stock-Trak registration Quiz (four short problems, 5 points each for a total of 20 points total) Bring financial calculator, pencil, ½ page of 8x11 page of notes
Th, Feb 9	<u>Trading Center</u> : Introduction to Financial Ratios and Financial Statement Analysis Due: Achieve full investment in Stock-Trak by end of day
T, Feb 14	<u>Trading Center</u> : Note on Value Drivers (Kamm) Current Application: Estimating WACC and EVA today for 2 companies (Kamm)
Th, Feb 16	Due: HW on 1st 5 Cases, 3 pgs. stapled, turn into finance dept by 4 p.m. <i>Student Presentation</i> : Fixed Income Arbitrage in a Financial Crisis
T, Feb 21	<i>Student Presentation</i> : Nike Cost of Capital <i>Student Presentation</i> : Midland Energy Resources, Inc.: Cost of Capital
Th, Feb 23	<i>Student Presentation</i> : Costco Wholesale Corp. Financial Statement Analysis <i>Student Presentation</i> : Amazon.com in the Year 2000

- T, Feb 28 Problem Set 1 /How to Prepare for Test 1
- Th, Mar 1 **1st In-Class Test (combination multiple choice, problems, analysis)**
Bring financial calculator, pencil, 8 by 11 page of notes (1 side only)
- T, Mar 6 Midterm Peer Evaluations / Current Financial Events / Overview of First Paper
DUE: Group Sign-Ups for presentation dates
- Th, Mar 8 **Due: HW on 2nd 5 Cases, 3 pgs. stapled, turn into finance dept by 4 p.m.**
Student Presentation: Valuing Wal-Mart Stock
Student Presentation: Netflix, Inc. 2007
- Mar 12-16 No Class - Spring Break
- T, Mar 20 Trading Center: Application: Discounted Cash Flow Models for 2 companies
- Th, Mar 22 Trading Center: Application: Pricing an Acquisition / IPOs / LBOs
Due tomorrow: Submit 1st paper by Friday, March 23, 4 p.m. Finance Department
- T, Mar 27 *Student Presentation: The Merger of Hewlett-Packard and Compaq*
- Th, Mar 29 *Student Presentation: Rosetta Stone: Pricing the 2009 IPO*
- T, April 3 *Student Presentation: Bidding for Hertz: Leveraged Buyout*
- Th, April 5 Problem Set 2 / How to prepare for 2nd Test
- T, April 10 **2nd In-Class Test (combination multiple choice, problems, analysis)**
Bring financial calculator, pencil, 8 by 11page of notes (1 side only)
- Th, April 12 Current Financial Events / Overview of Debate and Sign Ups
- T, April 17 *Valuation Debate 1 & Evaluation of Debate*
- Th, April 19 *Valuation Debate 2 & Evaluation of Debate*
- T, April 24 Current Financial Events & Catch-Up
Instructor and Peer Evaluations to be worked into schedule
- Th, April 26 *Valuation Debate 3 & Evaluation of Debate*
- T, May 1 *Group Preparation Day: Stock Pitch for MBAs/IPs*
- Th, May 3 *Group Preparation Day: Stock Pitch for MBAs/IPs*
- Th, May 10 **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/>.”*