



**FIN 377-3: SECURITY ANALYSIS (Spring 2017)
FINANCIAL ANALYST PROGRAM**

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 numbers 03665: 11 to 12:30, GSB 3.120

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

FINANCIAL ANALYST PROGRAM OVERVIEW:

The Financial Analyst Program is a program designed for outstanding finance juniors who will be participants in this academic / applied investment program for the next year and a half. The program is an opportunity for students to develop their skills and experiences as financial analysts. It is an intensive, “hands-on” experience in financial analysis and valuation in corporate, investment, and financial service settings. The program requires that students integrate and apply previously acquired skills in finance, accounting and economics.

Students selected for the program learn to assess the operating, financing and investing performance of a company as well as make financial projections relative to both the company’s recent operating performance and its peer group of competitors. Participants learn to compare and interpret financial data by way of financial software in the EDS trading and technological center, a center that is equipped with real-time data feed of financial information. Students use Bloomberg and Fact Set as well as spreadsheets to demonstrate the comprehensive company financial analysis they have undertaken for the midterm and final projects. In groups the undergraduates also set up a portfolio in Stock-trak that is diversified across industry groups and asset groups.

Moreover, undergraduate analysts work as researchers for the MBA Investment Fund managers or for Investment Professionals. The MBA Investment Fund is the first legally constituted, private investment fund to be managed by students. There are two styles of stock funds—the

growth fund and the value fund. Undergraduates learn about the MBA Investment Fund from MBA Managers and form a portfolio project that is similar to the Investment Funds. Also, undergraduates undertake one stock pitch per term to MBA Fund Managers or to Investment Professionals. As part of the stock pitch, undergraduate research assistants will include: company profile, industry and competitive positions, financials (key ratios as well as historical financials and projected), investment merits compared to investment risks, and finally a valuation analysis.

In this course a combination of methods is utilized with special emphasis on student involvement and teamwork. The professor reviews financial terms and theory, asks questions, demonstrates techniques, assigns problems and guides students in their case preparation. Students take a *very active* part in the Financial Analyst Program; individuals must be able to make a clear commitment of time and energy. *Attendance and prompt arrival is absolutely essential.* Much of the learning in this course will take place outside of the classroom particularly in your groups. The emphasis on student involvement encourages learning by doing and further develops the attributes of self-motivation and leadership.

COURSE OBJECTIVES:

Some of the objectives of this course include:

- Hands-on research for MBA Fund Managers / Investment Professionals
- Better understanding of Portfolio objectives and management as well as stock selection.
- 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) Analysis	Introduction to Financial Ratios & Financial Statement
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

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 evaluation grade or withdrawal from the class and program.

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 which for this program is defined as “high”; 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.*

Due to the applied investment aspect of the financial analyst program, there is a much higher level of responsibility on the part of each student. *Any one of the following results in a zero grade for participation and a student’s withdrawal from the program: Two or more tardy arrivals, two undocumented absences, three or more documented absences, average or poor peer reviews.* Students are encouraged to work together within their teams and across teams to help ensure a successful and rewarding year. There is significant outside work in terms of team preparation of cases, the portfolio project, and interaction with MBA Managers / Investment Professionals. 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 FAP at a high level, I shall contact said student to discuss various alternatives to be determined such as *earning zero credit, working independently on a project with some credit, or withdrawal from the program.* 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:

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 that 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)

25%

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 two tests will be equally weighted. 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. It is important to have completed the problem set to assist you with some of the problems and analysis. You may bring a financial calculator and a 3 by 5 note card with any notes written on both sides. It is highly advisable to take the two tests on the date offered. In the case that a test is missed with a university *approved* absence, a student may ask if the test can be taken one day early. If the exam is missed and a university approved absence is provided, then the only recourse is to take a three hour cumulative final at the end of the term.

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.

Two Stock Pitches with Supporting Investment Thesis / Quantitative Work

15%

There are two presentations given in the spring term as a member of the FAP. One stock valuation and analysis shall have been assigned by the MBA Managers and presented to them at a time outside this class. Submit a copy of the valuation and / or power points slides used for credit in this class as part of your role in the FAP. MBA Fund Managers will evaluate this component.

The second group presentation is given near the end of the term in the form of a debate and is focused on a stock currently held in the MBA Growth or Value Fund. The two groups present opposing sides. 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 and send the professor the PPT no later than 15 minutes prior to the start of

class. The main presenting group submits to the professor prior to class a several page summary of excel models (hard copy) showing the WACC, DCF, and multiples valuation.

Presentations will be graded on strength of analysis, level of interest, professional appearance of power-point, and presentation skills. The two presentations are equally weighted in determining the grade.

Case Presentations to the Class with Supporting Work **15%**

Each group will present two cases 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 presentation skill.

Attendance, Professor Evaluation, MBA & Peer Review (Individual Grade) **15%**

The professor's evaluation is based on timely arrival, attendance, class preparation, and professional conduct as well as on the quality of your participation in all aspects of the financial analyst program. You will be working closely in one group throughout the term producing analyses under the direction of Fund managers or Investment Professionals. The success of the Financial Analyst Program depends, in part, on your efforts and your approach to dealing with others. In this portion of the grade, the Professor counts attendance, evaluates feedback from your peers, and evaluates reviews from the MBA Investment Fund managers or Investment Professionals. For most students, participation works as a slight curve. An "*objective grade*" is run based on all other graded items. Then, students with good participation may receive a several point curve. Tardy arrival, inconsistent attendance or limited effort in working with your group will result in a lowering of the participation grade to a range of *zero to the objective grade*.

(Any one of the following results in a zero grade on this component and a student's withdrawal from the program: Two or more tardy arrivals, two undocumented absences, three or more documented absences, average or poor peer reviews.)

Final Letter Grades

The work level of this program is higher than for an average course and students should allot perhaps 1.5 to 2 times the effort. Admitted students have a higher than average GPA in the school and department. Due to the high work load and higher entry GPA, the average GPA for students may be higher than the 3.4 recommended for upper level electives. Students are expected to work inside and outside the class at a high level and earn a B+, A- or A. Sometimes students earn lower than a B+ on a test, but with additional assignments (stock pitches and

presentations) beyond a regular class and additional weight on these items, the overall average should generally rise to about a B+. *Students who cannot attend class on time regularly or perform at an overall B+ level will be instructed to withdraw.*

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

A	4.0	94 and above
A-	3.67	90-92.9
B+	3.33	87-89.9
B	3.0	83-86.9
Etc.		

Date Extra Required Training Sessions for FAP Students (currently scheduled)

T, Jan 31	5-7:45 PM Financial Center: 2 hour modeling session (followed by meal)
Th, Feb 2	5-7:45 PM Financial Center: 2 hour modeling session (followed by meal)
F, Feb 17	FAP Case Study: A Company in Need of a Transformation (PE) 2-3:30 PM
T, Feb 28	FAP Lecture: Hedge Fund Industry 5-6 (tentative)
F, Mar 3	Brunch with MBAs and Investment Professionals, GSB Events Room
F, Mar 31	FAP Students Attend FAP Advisory Council Meeting 10AM-2PM

Bloomberg sessions too may be added.

Please note that more times may be scheduled.

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	Fixed Income Valuation: Overview of Credit Ratings and Tombstones Cases
T, Jan 24	Introduction to Financial Ratios and Financial Statement Analysis
Th, Jan 26	Note on Value Drivers Case (ROE, Economic Value added) DUE: Group Requests (if not previously submitted)
T, Jan 31	Stock-Trak registration / Financial Forecasting Case

- 5-7:45 PM Financial Center: 2 hour modeling session (followed by meal)**
- Th, Feb 2 Working Capital Simulation: Managing Growth (on-line, one person purchase)
Due end of class – Sign Ups for 1st set of presentation dates
- 5-7:45 PM Financial Center: 2 hour modeling session (followed by meal)**
- F, Feb 3 Due: Achieve full investment in Stock-Trak by end of day**
- T, Feb 7 Working Capital Simulation Completed and Simulation Debrief
- Th, Feb 9 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, Mar 3 Due CBA 6.304D by 4 pm: Working Capital & DCF paper (pairs)**
- T, Feb 14 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
- F, Feb 17 FAP Case Study: A Company in Need of a Transformation 2-3:30 PM**
- 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 Assigned Background Reading: Methods of Valuation for Mergers & Acquisitions
Finance Simulation: M&A in Wine Country and Negotiation, Introduction
- F, Mar 3 Brunch with MBAs and Investment Professionals, GSB Events Room**
- T, Mar 7 Finance Simulation: M&A in Wine Country
Start Problem Set 2: Convertible Bonds, LBO, Acquisitions
- Th, Mar 9 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 **Speaker may be scheduled**

- 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)
- F, Mar 31** **FAP Students Attend FAP Advisory Council Meeting 10AM-2PM**
- 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 / Debate groups assigned
randomly
- 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, Special Accommodations, etc.

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, 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.

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

Tests—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 Canvas 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/>.”*