



The University of Texas at Austin McCombs School of Business

FIN 377-3: Security Analysis
Financial Analyst Program
Spring 2019

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Course Details

Office Hours: Wednesdays, 1:30 - 3:00, or by appointment

Course Objectives

The primary objective of the Security Analysis class in the Financial Analyst Program is to build an understanding of the concepts and tools needed to conduct high-quality financial analysis. The issues we consider will be directly applicable for those interested in investment banking, private equity, venture capital, asset management, corporate finance, and consulting. We will cover topics in valuation (including business model evaluation and advanced valuation techniques), financing, risk management, mergers and acquisitions, and the private-capital business (private equity and venture capital).

Course Materials

There is no textbook for this course. These slides effectively represent the textbook for the course. They should be fairly self-contained and complete, though you may want to supplement them with notes during class. An incomplete version of the slides will be available on Canvas before class. The complete version will be available after class. There is also a course pack containing published cases that we will analyze during the semester as well as reading material that supplements and expands upon the material we will cover in the class. You can pay for and access the course pack on the Harvard Business School publishing website. The link for the coursepack is:

<https://hbsp.harvard.edu/import/604518>

Teams

At some point near the beginning of the semester, you should form self-selected teams of exactly four people. Each team will work together on the cases we cover in class (see below) as well as on a stock pitch that you will present in the Fall. If you would like assistance in forming or finding a team, please let me know. Once you have formed a team, please email me to let me know who

is on it. Once chosen, these teams are permanent except under extraordinary circumstances. If somebody on your team drops out of FAP for whatever reason, you can continue with a team of three.

Work for MBA Investment Fund

As part of the FAP program, you will work as analysts for the McCombs MBA Investment Fund. The commitment here should be no more than an hour or two per week. More details on the nature of these analyst arrangements to follow.

Evaluation

There is no grade distribution requirement for this course. I will calculate final grades for the course as a weighted average of the following components, with weights to the right of each component and further details below:

Cases (in groups)	20%
Problem sets (in groups)	20%
Term paper	5%
Exams	45%
Attendance and participation	10%

Cases (20% of grade)

Harvard Business School-style cases are useful for evaluating financial decision-making in anecdotal settings where, through the efforts of a case-writer, we have access to more information than we normally would. We will read and carefully analyze multiple cases during the course of the semester. We will devote one class period to the discussion of each case, with the exception of the Teuer case, which we will not discuss in class.

Approximately one week before we discuss a case, I will provide you a set of questions relating to that case. Each self-chosen team of four (see above) will then submit a case write-up addressing these questions. The case write-up will be due by the beginning of the class period in which we discuss the given case (the first of the two class periods in the case of the fifth case). With the exception of the Spotify case, a case write-up should be no longer than five pages, double-spaced, plus any exhibits. The write-up for the Spotify case should be no more than two pages, double-spaced, and should not include any exhibits. You should submit each case write-up to the course Canvas site in a single pdf file.

Each case write-up will be graded on a 10-point scale. With the exception of the Spotify case, cases will be graded based on the quality and presentation of the analysis. The Spotify case write-up is for a completion grade, though evidence of a lack of effort on that write-up will result in less than full credit.

A few tips on analyzing cases and preparing case write-ups in general:

- Be careful not to be too “drawn in” by the narrative of the case. You are generally hearing the details of the case from the perspective of the “protagonists,” i.e., the subjects of the case. They are not unbiased. Your job is to conduct a cold, careful analysis of the case. Be skeptical. Think carefully about any argument you are weighing. Look at the evidence.
- Avoid summarizing too many of the background details from the case. You just need to provide enough background for the reader to understand the nature of your analysis and the bases for your conclusions.
- State all of the assumptions behind your analysis clearly and completely. Nothing is more disconcerting when reading a piece of analysis than having a key number or calculation appear out of thin air without justification or explanation.
- Writing quality matters. Being able to express ideas clearly is a valuable skill. Work on honing it. Also, whether fair or not, people will judge you by your writing. People naturally interpret word misspellings, jumbled grammar, non-sequitors, and text that feels unedited as evidence of sloppiness, and those associations can bleed over into their perception of the quality of your analytical work.

Problem sets (20% of grade)

Problem sets are useful for giving you an opportunity to apply some of the concepts from the class in a stylized setting, stripped of real-world complexity and for evaluating your understanding of these concepts. They are also useful for giving you an opportunity to extend your learning beyond the material we cover in class. We will tentatively have five problem sets due during the course of the semester.

I will provide you with a problem set approximately one week before it is due. You will work in teams of four on the problem sets, with each team turning in one solution. Unlike for the cases, I will randomly assign you to teams of four to work on a problem set, reconstituting new teams for each problem set. Working on the problem sets in these teams will give you a chance to expand your network within your FAP cohort. You should submit your problem set answers to the course Canvas site in a single pdf file. You are free to handwrite these answers and scan them into a pdf file, as long as the handwriting is legible. Problem sets are due by the beginning of class on their due dates. Shortly after the class period in which a problem set is due, I will post a solution to the problem set to Canvas.

Each problem set will be graded on a 100-point scale. Many problems will involve at least some quantitative analysis, though a few will be purely qualitative. I will grant partial credit. The emphasis will be more on evaluating whether you appear to understand the concepts relevant to a problem than on whether you reach the correct answer. The specific problems that I will ask you to solve in the problem sets will be closely connected to material we have discussed in class. If you are unsure how to proceed on a problem, find the relevant material in the slides. If you are still unsure, contact me.

Term paper (5%)

Near the end of the semester, you will submit a brief “term paper.” This paper should reflect your inquiry into some subject in finance that you find interesting and that you think others might find interesting as well. You have a lot of latitude in your choice of topic. Be creative. Think about something you saw in the financial news recently that you thought looked interesting. An example of a topic suggested by a past student is the effect of Brexit on the VC industry in the UK (you may not use this topic). Feel free to bounce ideas for topics off of me.

The term paper should be no longer than five pages, double-spaced, plus any exhibits. The term paper should be based on your research into your topic. It should provide background on the topic as well as any conclusions that you have reached. I will grade the term paper on how clear and detailed a picture you paint of the setting behind your topic and how well you found any arguments you make in drawing a particular conclusion. I will also give you credit for how ambitious a topic you decide to tackle. The term paper must be new. You may not submit a term paper that borrows heavily from any essay you have written in another class.

Exams (45%)

We will have three exams during the semester. Exams will be closed book. Exams I and II will each be limited to material in a subset that I will specify once we get close to the time of the exam. Exam III will be comprehensive, i.e., any material we covered during the semester is fair game. However, I will not ask you questions on any exam that require you to recall any specific details from one of the four cases we discussed during the semester. Each of the three exams will receive equal weight towards the final grade.

Attendance and participation (10%)

You should be in class if at all possible. Your presence and involvement make the class more fulfilling for everybody else in the class. You should also be there by the start of class at 3:30 pm. Having people continuing to trickle into the room after class starts is disruptive and avoidable. Unexcused absences are unacceptable. If you are unable to attend class on a given day or if you will need to arrive late or leave early, please email me in advance and let me know.

We will manage attendance using an app called Arkaive. You can download this app for iOS or Android (it might be available for mac and/or pc as well). You need to enroll in the class on the app. The enrollment code is ZX41. When you arrive in class each day, please check in through the app so that your presence is recorded.

The discussion in class will be interactive. We will use slides as a basis for much of the discussion, but I will ask you a lot of questions as we go. Some of these questions are designed to be sure that we are all on the same page. Others will be challenging questions that are designed to generate discussion and to lead us to insights. I also expect you to have questions. If you do not fully understand something that we cover, it is a near-certainty that other people in the class do not fully understand it either. So, you generally help everybody by asking questions. Disagreements will arise sometimes during the course of discussion. These disagreements are healthy. I simply ask that we all maintain a level of respect for each other in the dialogue.

No laptops, cell phones, or tablets may be out and open during class, except for following slides and note-taking. The use of electronics for other purposes during class tends to distract everybody sitting around you (more than you might realize).

Please participate fully. You will get more out of the class, and you will make the class more fulfilling for everybody else. I will keep track of who participates and the quality of that participation over the course of the semester, and these will factor into the attendance and participation portion of the grade.

I will also communicate with the MBA Fund managers to verify that you have been diligent in your work as an analyst for the fund. This assessment will factor into the participation grade as well.

Grade disputes

If you feel that there is an objective error in the way a problem is graded or a miscalculation of the grade for an assignment, please let me know so that I can look at it. If you wish to raise concerns about the subjective grading of a question or assignment, then you must submit your specific concerns to me in writing, and I will consider them. I have two graders (PhD students) who will grade most of the assignments and exams. These graders have both been grading for me for some time and have shown excellent judgement and understanding of the material. I will only overturn their judgement if the case is clear.

Activities outside of class

In addition to our class sessions, we will also learning and networking opportunities outside of class. These will include a modelling session, a joint FAP junior/senior lunch, and the annual meeting of the FAP Advisory Council, among other events. Attendance at these activities is mandatory, unless you have another class that conflicts with them. If you have such a conflict, please let me know as far in advance as possible. You will get a lot out of these activities.

Caveat

The set of topics we will cover in this class is more or less fixed, but there is still uncertainty about the amount of time we will devote to each topic, optimal pacing, the timing and nature of assignments, and the timing and nature of learning opportunities and other activities outside of the classroom. As a result, many of the details of the course described in this syllabus – especially in the schedule at the end of the syllabus – are fluid will change during the course of the semester. The version of the syllabus on Canvas will always be current and will display the date on which it was most recently updated in the upper right-hand corner. I would welcome any feedback you have along the way on how the course is going, what you find difficult, what you would like to see more of, etc.

Important Notifications

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://diversity.utexas.edu/disability/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://my.mccombs.utexas.edu/BBA/Code-of-Ethics>. By teaching this course, I have agreed to observe all faculty responsibilities described there. By enrolling in this class, you have agreed to observe all student responsibilities described there. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. 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, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/conduct/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050 (or <https://operations.utexas.edu/units/csas/bcal.php>).
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

Cases

1. Spotify in 2016: Facing Increased Competition (IES631-PDF-ENG)
2. Teuer Furniture (A): Discounted Cash Flow Valuation (KEL778-PDF-ENG)
3. Massey-Ferguson Ltd.—1980 (282043-PDF-ENG) and spreadsheet supplement (XLS058-XLS-ENG)
4. Arundel Partners: The Sequel Project (292140-PDF-ENG) and spreadsheet supplement (XLS078-XLS-ENG)
5. H.J. Heinz M&A (KEL848-PDF-ENG) and spreadsheet supplement (KEL850-XLS-ENG)

Supplementary materials

1. Note on Forecasting Financial Statements (TCG326-PDF-ENG)
2. Introduction to Financial ratios and Financial Statement Analysis (193029-PDF-ENG)
3. Tombstones (211063-PDF-ENG)
4. The Six Mistakes Executives Make in Risk Management (R0910G-PDF-ENG)
5. Real-World Way to Manage Real Options (R0403G-PDF-ENG)
6. Real Options Valuation when Multiple Sources of Uncertainty Exist (201106-PDF-ENG)
7. Methods of Valuation for Mergers and Acquisitions (UV0112-PDF-ENG)
8. Note on the Private Equity Industry (KEL130-PDF-ENG)

Very Tentative Schedule

<u>DATE</u>	<u>ACTIVITIES</u>
Tu, Jan 22	Program and course introduction
Th, Jan 24	01 - Valuation
Tu, Jan 29	01 - Valuation
Th, Jan 31	01 - Valuation
Tu, Feb 5	01 - Valuation
Th, Feb 7	02 - Investment & value creation
Tu, Feb 12	Spotify case (short case write-up due) Modelling session & dinner, 5:00-9:00 PM (tentative)
Th, Feb 14	03 - Financing fundamentals Problem Set 1 (covers 01, 02) due
Tu, Feb 19	03 - Financing fundamentals Teuer Furniture case write-up due (no class discussion of this case)
Th, Feb 21	04 - Bankruptcy & financial distress
Fr, Feb 22	Annual FAP advisory council meeting, block off <u>11:00-2:30</u>
Tu, Feb 26	04 - Bankruptcy & financial distress Problem Set 2 (covers 03) due
Th, Feb 28	04 - Bankruptcy & financial distress
Fr, Mar 1	FAP lunch, <u>12:00-1:00</u> (tentative)
Tu, Mar 5	Exam 1 (covers 01, 02, 03)
Th, Mar 7	05 - Securities issuance & distributions
Tu, Mar 12	05 - Securities issuance & distributions Problem Set 3 (covers 04) due
Th, Mar 14	05 - Securities issuance & distributions
Tu, Mar 26	Massey-Ferguson case (case write-up due)

Th, Mar 28	05 - Securities issuance & distributions
Tu, Apr 2	06 - Derivative securities & risk management
Th, Apr 4	06 - Derivative securities & risk management <u>Problem Set 4 (covers 05) due</u>
Tu, Apr 9	Exam 2 (covers 04, 05)
Th, Apr 11	06 - Derivative securities & risk management
Tu, Apr 16	07 - Valuing flexibility
Th, Apr 18	07 - Valuing flexibility
Tu, Apr 23	Arundel Partners case (<u>case write-up due</u>)
Th, Apr 25	08 - Mergers & acquisitions
Tu, Apr 30	08 - Mergers & acquisitions <u>Problem Set 5 (covers 06, 07) due</u>
Th, May 2	09 - Private capital
Tu, May 7	H.J. Heinz case (<u>case write-up due</u>)
Th, May 9	Exam 3 (covers 06, 07, 08 09)
Fr, May 10	<u>Term paper due by end of day</u>