Gies Business

Financial Management HE Capstone

Introduction to the Course

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AGENDA

1. Welcome and Introduction

2. Course and Assignment Overview

3. Q&A

Course objectives

Formal - Content

Demonstrate knowledge of concepts learned in the Financial Management specialization courses

Apply what has been learned to realistic business problem solving and decision making

Informal - Community

Share perspectives, ideas and questions – Contribute

Network, engage with peers/experiences – Connect

www.linkedin.com/in/richexcellcfa

Course objectives

The project is intentionally left very open-ended

The goal is for you to apply your skills as you would in a work setting

Your boss won't give you a rubric

Course case design

Representative of specialization courses

Fictitious case based on real companies and data

The analysis of a potential M&A activity with Target(TGT) acquiring one, of two different companies:

GAP Stores, https://www.gapinc.com/en-us/investors, GPS

Best Buy, https://investors.bestbuy.com/investor-relations/overview/default.aspx, BBY

Is / Is not

Is

Puzzle or game – based on your assumptions. Put the mosaic together

A credible analysis based on course learnings and group assumptions

Roles that can be transparent during the process and across groups/teams

Is not

Search for a specific predetermined answer

A requirement to do extensive new learning but will need to do some digging

Pre-canned data project

Secret plan until a reveal or internal competition

What skills did you learn in

Investments (FIN 511)

Accounting Measurement, Reporting & Controls (ACCY 500)

Corporate Finance (FIN 580)

What should we see?

Investments: Firm valuation, CAPM/cost of capital, trade-off between risk & return

Accounting: Understanding of financial statements, key ratios for financial performance

Corporate Finance: M&A financing, Decisions that create value, time value of money

Real world considerations?

"The Big Short"

Behavioral biases in investing

Cognitive errors – biases based on faulty cognitive reasoning

Emotional biases – reasoning influenced by feeling or emotion

Cognitive errors are more easily corrected than emotional biases.

Individuals are better able to adapt their behaviors or modify their processes if the source of the bias is logically identifiable, even if not completely understood

https://www.cfainstitute.org/-/media/documents/protected/refresher-reading/2021/pdf/behavioral-biases-individuals.ashx

Cognitive errors

Conservatism – maintain prior views because inadequately incorporate new info

Confirmation – look for data that confirms beliefs and ignore that which does not

Representativeness – classify new info based on past experiences

Illusion of control – belief one can control or influence outcomes

Cognitive errors

Hindsight – selective retention of past events

Anchoring – fixate on an anchor when estimating probabilities

Mental accounting – treat one sum of money differently than another

Framing – questions answered differently depending on how it is framed

Availability – take a short cut based on what is easily available to input

Emotional biases

Loss-aversion – people strongly prefer avoiding losses more than making gains

Overconfidence – unwarranted faith in one's one reasoning

Self-control – fail to pursue long-term goals because of lack of discipline

Emotional biases

Status quo – easier to do nothing than to make a change

Endowment – value an asset more when you hold rights to it

Regret-aversion – avoid making decisions for fear of failure

Breakout Session #1

Discuss which biases you should be careful of in this project.

Tell the group how you will compensate

What this course includes

Live sessions - where we discuss concepts and cases

Group cases - an assignment with electronic presentation (video or narrated slides) and written paper

Peer reviews - feedback reviews based on other groups with the same case

Critical feedback – teammate evaluation for Peer effort within groups

What this course includes

Individual reflection - your personal accomplishments and opportunity for continued learning, application and practice

Discussion boards - general course-related questions, and **related specialization questions/dialog**

Office hours - for individual-specific questions or issues as needed

(For further details please review your course syllabus.)

Live Sessions

Session 1: Course introduction – July 12, 8:30-10:00 AM

Session 2: Discussion & Questions- July 17, 8:30-10:00 AM & 6:00 – 7:30 PM US Central Time

Session 3: Group presentations– July 24, 7:30 – 9:30 PM US Central Time

Office Hours

Thursday, July 20 – 10:00 – 11:00 AM US Central time

 or By appointment, email Professor Richard Excell

(I will leave time in Live Session 2 for questions as well)

Course Activities

Category	Assignment	Percent	Deadline
Team Assignment	Valuation analysis	30%	Saturday, July 22 by midnight US Central
Team Assignment	Video or narrated slides	30%	Saturday, July 22 by midnight US Central Videos will be reviewed in Live Session 3
Individual Assignment	Review of similar groups	15%	Due July 25 by midnight US Central
Individual Assignment	Individual Reflection	15%	Due July 25 by midnight US Central
Individual Assignment	Teammate Evaluation Survey	10%	Due July 25 by midnight US Central
	Total	100%	

Valuation analysis

Valuation approach (10 points):
What model/approach did you use?
What was the criteria used to select
What class taught you this?
What is the valuation of the asset?

Sources of value (10 points):
What are 5 sources of value in this deal?
What are sources of risks in this deal?

Financial options (10 points):
How would you finance this deal?
Identify an alternative idea based on strategic goals of company

Roles to play

Based on the Role assigned, calculate/present an analysis of realized or predicted gain. For these calculations you do not need to assume a period between valuation and close. Financial data should be based on the most recent publicly available information (a single point in time). Provide statements to support all assumptions.

Role A – Target Corporate Finance Analyst: what are the strategic goals of Target? Does making an acquisition (GAP or Best Buy) fit those goals? What is the effect on Target's stock in 5 years if a deal is done or is not done? What is the price you would be willing to pay?

Roles to play

Role B – Corporate Finance Analyst of Potentially Acquired Company (GAP Stores or Best Buy): should the company sell to Target? At what price should it sell? Does being acquired fit with managements' goals?

Role C – Third Party Analyst, recommending to investors. Predict the impact over the next 5 years on the stock price for an investor in Target based on your view of whether a deal should be done (GAP Stores or Best Buy)

There are six possible roles, and your team will play only ONE of those

Target analyst of GPS acquisition

GPS analyst of TGT offer

Target analyst of BBY acquisition

BBY analyst of TGT offer

3rd party analyst of TGT/GPS deal

3rd party analyst of TGT/BBY deal

A few examples* of assumptions

The date and relevant timeframes

Managerial intention – synergies

Business and growth lifecycle

Data gaps needed to complete analysis based on publicly available information

Intangibles

Terminal growth rate assumption in DCF

Examples only, this is not a comprehensive or required list

A few examples* of guidance

Annual reports

Financial filings

Websites and investor relations

Market data, news and opinions

Previous M&A activities

Specialization courses/resources

Team experience and insight (consults from participants)

* Examples only, this is not a comprehensive or particularly required list

Basis for grading the groups that take a similar role:

This will be done via Qualtrics software

You will only get the full points if you submit a review for all of the peer groups

Each member of your group will get the average of how others rate you

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Criteria for Grading Group Presentations

Presenter/Group Name _____

Points assigned as follows:

3 = Excellent - meets all expectations, no significant errors

2 = Good - meets most expectations, minor flaws

1 = Satisfactory - meets some expectations, major flaws

0 = Unsatisfactory – not done or does not meet any expectations

1. Introduction and relevance:
   a. Introduction of the role
   b. Context and background
   c. Elements to be included
2. Body of the presentation
   a. Presentation of required components
   b. Reflects specialization content
3. Conclusion and summary
   a. Describes/summarizes completed content
   b. Describes connections to specialization courses
4. Response to questions
   a. Soliciting feedback
   b. Ability to answer questions
5. Structure and organization
   a. Timing (10 minute presentation & 10 minute Q&A)
   b. Media presentation
   c. Flow and clarity

Total points (15 possible) _____

Teammate evaluation

This is your opportunity to give 360 feedback to your teammates

Your points will be the average of the score you get from all of your other teammates

If you do not submit a review for others, you will not get the points

This is equivalent to end of year reviews

Looking ahead

Check the Boards, make comments

Ask questions, engage me, peers and TA's

Submit as you finish

Presentations final session, at least one member must be present, more is better

Speculate, imagine and think about what you would do in the situation

Questions?