

Finance 3321-Syllabus

Spring - 2017

Module Topics - Business Analysis and Valuation

- Financial Statement Analysis

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Course Meeting Times:

Section 1 (CRN 49318) Tues/Thurs 12:30 – 1:50 pm in BA 003

Section 2 (CRN 51936) Tues/Thurs 2:00 – 3:20 pm in BA 003

Section 3 (CRN 55898) Tues/Thurs 8:00 – 9:20 am in BA NW-202

Office Hours: Wednesday 10:00-12:00; 2:00 – 3:00 and by Appointment
Appointment Days will be announced in class that relate to projects.

Introduction

This unit involves the analysis of financial information - in particular, the financial reports of firms - for making business investment decisions. The primary focus is on equity valuation, with some attention given to credit analysis and the valuation of debt. Fundamental analysis will be examined in detail and applied in cases involving public corporations. However, these tools are applicable to privately held firms and strategic business units. Topics include models of shareholder value, a comparison of accrual accounting and discounted cash flow approaches to valuation, the analysis of profitability, growth and valuation generation in a firm, testing the quality of financial reports, forecasting earnings and cash flows, pro-forma analysis for strategy and planning, analysis of risk, and the determination of price/earnings and market-to-book ratios.

Unit objectives

The unit will be taught from a valuation analyst's perspective - particularly the equity analyst - but much of the material covered in the course will also be relevant to the corporate financial analyst or bank loan officer for evaluating acquisitions, restructurings and other investments, and for calculating the value generated by strategy scenarios. By the end of the course, you should feel competent in writing a thorough, convincing equity research report.

The course is of interest to those contemplating careers in commercial or investment banking (particularly in equity research), security analysis, consulting, and corporate finance. It will also help with personal investing.

Broad learning outcomes

On completion of this course, you should be able to answer the following questions:

- How are fundamental values (or “intrinsic values”) estimated?
- How are business strategies analyzed in order to understand the value they create?
- What business activities determine value?
- How is “value created for shareholders” identified?
- What is the role of financial statements in calculating equity values?
- How does one pull apart the financial statements to get at the relevant information for valuing equities?
- What is the relevance of cash flows? Of dividends? Of earnings? Of book values?
- How does ratio analysis help in valuation?
- How does profitability tie into valuation?
- What is growth? How does one analyze growth? How does one value a growth firm?
- How does one analyze the quality of financial reports?
- What determines a firm's P/E ratio?
- What determines a firm's market-to-book (P/B) ratio?
- How does one evaluate risk? For equity? For debt?

Required Textbook:

Palepu and Healy, *Business Analysis and Valuation* (Ohio: Cengage, 2014 Custom Edition).

ISBN13: 978-1-305-37468-3

You may order the text directly from the publisher at the following web address:

www.cengagebrain.com/micro/customTexasTechUFIN3321

This is an e-text and the publisher is charging a price of \$88.50. The bookstores on campus are being charged \$65 and normally mark it up 200% & charge tax. Plan ahead. Save money.

Other Texts (Not Required but Excellent Resources):

Shannon P. Pratt, *Valuing a Business: The Analysis and Appraisal of Closely Held Companies* (McGraw-Hill, 5th Edition).

Grade Determination and Components:

Regular Exams: There will be two examinations during the semester. Students will be allowed 2 hours (120 minutes) per exam. These are common evening exams that will begin at 6:30 pm and concluded at 8:30 pm. These exams will be scheduled on Wednesday evenings per the course syllabus. The planned coverage for these exams is indicated in the course timetable. Late exams or make-up exams will neither be offered nor accepted. Please note, these are combined evening exams for all sections of this course.

"Final" Exam: This is just the 3rd exam of this course. It will cover all material subsequent to exam 2.

Group Equity Valuation Project: The group equity valuation project is a practical application that integrates all aspects of material that will be presented in this course. The purpose of the project is to prepare a comprehensive equity analyst's valuation report and analysis of a selected firm. Examples of such reports will be presented in the class throughout the semester. Completion of the project will provide you the opportunity to partake in a "real-world" analyst activity. Also, the finished report has proven to be a beneficial job search and interview tool.

Group Equity Valuation Project Interim Reports (Drafts): The group equity valuation project consists of five logical building blocks (sections) that follow a structured sequence: 1) Analyze and classify the firm's industry in order to identify key success factors (value drivers) and assess the consistency of the firm's strategy with those core competencies. 2) Perform an accounting analysis in order to appraise the quality of disclosure, reliability of disclosure, and transparency of disclosure. 3) Perform a financial analysis of the firm to assess profitability, liquidity, operating efficiency, capital structure and credit risk. 4) Forecast future financial statement performance/outcomes and estimate the cost of capital for the firm. 5) Value the firm using a broad set of valuation metrics/model and perform sensitivity analysis on the results. These five building blocks will allow you (the analyst) to form an opinion as to the value of the firm and its attractiveness as an investment opportunity. Each group will turn a series of three interim reports (rough drafts of project sections). Having interim reports deadlines helps to keep groups on a timely path for project completion and also provides me the opportunity to give you timely feedback as to the progress and quality of your work. There are three such drafts; each counts for 3.33% percent of the course grade. **Groups must have taken their draft to the Writing Center in the BA Building and meet with a writing specialist. Groups must have signed documentation of the meeting or the draft will receive a grade of zero and I will not review this work. The Writing Center requires you schedule an appointment in advance. These meetings with the writing will require attendance by all group members.**

Individual Executive Summaries of Each Project Interim Reports (Drafts):

The group equity valuation project requires each group to submit a series of three interim reports (rough drafts of project sections). These drafts reflect a compilation of the work each individual student contributed to the assignment. To satisfy the Writing Intensive designation of this course, each student will prepare a 1-2 page executive summary of their work/contribution for the interim draft. Individuals will receive timely feedback on this assignment in order to facilitate the appropriate revision work for the final project submission. There are three Executive Summaries required of each student. Each counts for 2% percent of the course grade.

Course Grade Breakdown:

		<u>Percent Course Total</u>
Exams:	3 @ 18%	54%
Individual Executive Summaries of Interim Drafts		6%
Group Valuation Project Interim Reports (3 Drafts):		10%
Group Valuation Project (Comprehensive):		30%

Course Total		100%

Final Course Grade Policy:

100 – 98	A+	89 – 82	B	71 – 70	C-
97 – 93	A	81 – 80	B-	69 – 60	D
92 – 90	A-	79 – 72	C	< 60	F

Projected Timetable – Subject to Modifications

Date	Material	Topic and Assignments
Thu-Jan 19	1 Chapter 1	Valuation Framework and Course Overview
Tue – Jan 24	2 Chapter 1 Chapter 2	Valuation Framework Business Strategy Analysis (5 Forces Model)
Thu-Jan 26	3 Chapter 2	Business Strategy Analysis
Tue – Jan 31	4 Chapter 2	Business Strategy Analysis (Value Drivers)
Thu – Feb 2	5 Chapter 2	Business Strategy Analysis (Value Creation)
Tue – Feb 7	6 Chapter 3	Structured Accounting Analysis <ul style="list-style-type: none"> • Key Accounting Policies and Links to Key Success Factors (Value Drivers)
Thu – Feb 9	7 Chapter 3	Structured Accounting Analysis <ul style="list-style-type: none"> • Key Accounting Policies and Links to Key Success Factors (Value Drivers)
Tue – Feb 14	8 Chapter 4	Accounting Analysis Applications
Thu – Feb 16	9 Chapter 4	Accounting Analysis Applications
Tue – Feb 21	10 Chapter 5	Financial Analysis – Ratios and Cash Flow Bring your Laptops to Class
Wed– Feb 22	Exam 1(C 1–4)	Exam from 6:30 – 8:30pm
Thu – Feb 23	11 Chapter 5	Financial Analysis – Ratios and Cash Flow
Tue – Feb 28	12 Chapter 5 Ch-6 & Workshop	Financial Analysis – Ratios and Cash Flow Financial Statement Forecasting and Excel
Thu – Mar 2	13 Ch-6 & Workshop	Financial Statement Forecasting and Excel
Tue – Mar 7	14 Ch-6 & Workshop	Financial Statement Forecasting and Excel
Thu – Mar 9	15 Ch-6 & Workshop	Financial Statement Forecasting and Excel
Tue – Mar 14	Spring Break	
Thu – Mar 16	Spring Break	
Tue – Mar 21	16 Ch-8 & Workshop	Cost of Capital Estimation <ul style="list-style-type: none"> • Regression, CAPM, Excel and WACC
Thu – Mar 23	17 Ch-8 & Workshop	Cost of Capital Estimation <ul style="list-style-type: none"> • Regression, CAPM, Excel and WACC
Tue – Mar 28	18 Ch-8 & Workshop	Cost of Capital Estimation <ul style="list-style-type: none"> • Regression, CAPM, Excel and WACC
Thu – Mar 30	19 Chapter 7	Method of Comparables Valuation Market Approach – Guideline Public Comp.

Projected Timetable (Continued)

Date	Material Covered	Topic and Assignments
Tue – Apr 4	20 Chapter 7	Method of Comparables Valuation Market Approach – Guideline Public Comp.
Wed – Apr 5	21 Exam 2 (C 5,6,8)	Exam from 6:30 – 8:30pm
Thu – Apr 6	21 Chapter 7/8	Discounted Dividends Valuation
Tue – Apr 11	22 Chapter 7/8	Discounted Dividends Valuation
Thu – Apr 13	23 Chapter 7/8	Discounted Free Cash Flow Valuation
Tue – Apr 18	24 Chapter 7, 8	Discounted Free Cash Flow Valuation • Capitalized Income Approach
Thu – Apr 20	25 Chapter 7, 8	Residual Income Valuation • Asset-Based Valuation Approach
Tue – Apr 25	26 Chapter 7, 8	Residual Income Valuation • Asset-Based Valuation Approach
Thu – Apr 27	27 Chapter 7, 8	L/R Residual Income Perpetuity Valuation • Capitalized Income Approach
Tue – May 2	28 Chapter 7, 8	Abnormal Earnings Growth Valuation • Capitalized Excess Earnings Method
Thu – May 4	29 Chapter 7, 8	Abnormal Earnings Growth Valuation • Capitalized Excess Earnings Method
Tue – May 9	30 Course Capstone	Valuation Projects due in Class
Tue - May 16	Exam 3	Section 1 (12:30 Class) from 1:30–3:30pm
Thu - May 11	Exam 3	Section2 (2:00pmClass) from 4:30–6:30pm
Mon -May 15	Exam 3	Section3 (8:00amClass) from 7:30–9:30am

Important Dates:

Wednesday	January 25	- Formation of Valuation Project Groups
Friday	January 27	- Selection of Firm to Value by Groups Due
Tuesday	February 14	- Draft 1: Business & Industry Analysis Due
Wednesday	February 22	- Exam 1
Tuesday	February 28	- Draft 2: Accounting Analysis Due
Tuesday	April 11	- Draft 3: Ratio Analysis; Forecasts; Cost of Capital
Wednesday	April 5	- Exam 2
Tuesday	May 9	- Projects Due in Class

Students with Disabilities and Those Requiring Special Assistance

First and foremost, under Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, "No otherwise qualified person with a disability in the United States . . . shall, solely by reason of . . . disability, be denied the benefits of, be excluded from participation in, or be subjected to discrimination under any program or activity receiving federal financial assistance." I/We certainly have a legal and moral responsibility to accommodate our disabled students. But I/we do not, and should not, have to treat disabled students in a manner that places them at a competitive advantage or disadvantage with their classmates. Any student claiming a disability needs to be referred to AccessTech, which is the University's Disability Support Program. The Faculty Guide to AccessTech, which includes faculty responsibilities in dealing with disabled students, is available at

http://www.studentaffairs.ttu.edu/accesstech/publications/faculty_check_list.pdf.

Student Disabilities Policy:

Any student who, because of a disabling condition, may require special arrangements in order to meet course requirements should contact the instructor as soon as possible. Students should present the appropriate documentation from AccessTech verifying their disability, and outlining the special arrangements required. No accommodations will be provided disabled students prior to completion of this approved University process.

Student Academic Integrity Policy:

Ethical conduct is an important component of any profession. The Texas Tech University Code of Student Conduct is in force during all elements of this course. Students violating any portion of the Academic Code will be sanctioned and prosecuted to the fullest extent provided by the University. Ours' should be a self-monitoring profession. Your reputational capital is the greatest asset you will bring to the market. It is hard to gain, too easy to tarnish, and nearly impossible to recover. It is the obligation of all students to report violations of the honor code in this course. The following is taken from the Texas Tech Student Handbook. Please follow the link below to examine relevant regulations and ruling regarding codes of Academic Integrity.

"Academic dishonesty" includes, but is not limited to, cheating, plagiarism, collusion, falsifying academic records, misrepresenting facts, and any act designed to give unfair academic advantage to the student (such as, but not limited to, submission of essentially the same written assignment for two courses without the prior permission of the instructor) or the attempt to commit such an act.

Texas Tech Student Handbook, 2005-2006, *Code of Student Conduct*, Part IX, Section B, item number 3.

<http://www.depts.ttu.edu/studentjudicialprograms/AcademicIntegrity.htm>