



The University of Texas at Austin  
McCombs School of Business

FIN 377-3: Security Analysis  
Financial Analyst Program  
Spring 2021

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### **Course Details**

**Office Hours:** Wednesdays, 1:30 - 2:30, 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, business model evaluation, capital structure, bankruptcy and financial distress, securities issuance, payout policy, risk management, mergers and acquisitions, and private capital (private equity and venture capital).

### **Course Materials**

There is no textbook for this course. The slides effectively represent the course textbook. They are designed to be 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 course pack is:

<https://hbsp.harvard.edu/import/796374>

Other items may be added to the coursepack after the start of the semester. If they are, I will let you know.

## **Class**

The class will meet Tuesdays and Thursdays from 2:00 to 3:15 CT on Zoom. See Canvas for the Zoom class meeting link. See “Attendance and Participation” below for more class details.

## **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 throughout the program, including on work for the MBA investment fund, stock pitches in the Fall, and possibly other assignments. 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. In the unlikely event that somebody on your team drops out of FAP, 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. You will perform this work as part of your FAP team. The commitment here should be an hour or two per week. We will provide you training in the use of FactSet and Bloomberg in order to prepare you to work for this work. 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:

Problem sets (in teams)	30%
Arundel Partners case (in teams)	5%
Excel modelling project	5%
Term paper	5%
Exams	45%
Attendance and participation	10%

### *Problem sets (30% of grade)*

Problem sets are useful for giving you an opportunity to apply 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 have six problem sets due during the course of the semester.

I will provide you with each 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. For each problem set, I will randomly assign you to a team of four. 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 count equally towards the final grade.

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.

#### *Arundel Partners case write-up (5%)*

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 the “Arundel Partners” case and will devote one class period to the discussion of the case.

Approximately one week before we are scheduled to discuss the case, I will provide you a set of questions. You will work in a team of four to prepare a write-up addressing these questions, with each team turning in one solution. I will randomly assign you to a team of four. The case write-up will be due by the beginning of the class period in which we discuss the case. The case write-up should be no longer than three pages, double-spaced, plus any exhibits. You should submit each case write-up to the course Canvas site in a single pdf file.

The case write-up will be graded on a 10-point scale. The case will be graded based on the quality and presentation of the analysis.

#### *Excel modelling project (5%)*

Almost every entry-level position in finance requires financial modelling using Microsoft Excel. Early in the semester, you will be provided training in Excel financial modelling. You may or may not have prior experience constructing Excel models. The training will start from the basics of constructing free cash flow statements but will also cover advanced techniques. A well-constructed model should be well-organized, transparent, robust to errors, easy to update if new information arrives, and simple for an uninformed end user to understand. After you receive your Excel training, you will be assigned a case to model yourself. This assignment will give you a chance to apply the techniques discussed during the training and will be due at the end of the semester. More details on the Excel modelling project to follow.

### *Term paper (5%)*

At 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. The exams will be open-notes. You can take each of these exams any time you would like on the date on which it is scheduled. To take an exam, you will download it from Canvas when you are ready to start. You will then write up your answers to the exam and submit them to Canvas. You may either type your answers or write them by hand and scan them into a pdf. You will have two hours from the time you download the exam to complete it and upload your solution to Canvas. Each exam will cover separate material (see the schedule below). I will not ask you questions on an exam that require you to recall any specific details from any of the cases we discuss 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 2:00 pm. 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.

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.

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.

You will also work as financial analysts for the MBA Investment Fund throughout the program. While you will not be graded on this work specifically, I will factor the quality of your analysis work into your participation grade.

### **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 grading of a question or assignment, then you must submit your specific concerns to me in writing, and I will consider them. I have three graders (PhD students) who will grade most of the assignments and exams. These graders have all graded for me before and have shown excellent judgement and understanding of the material. I will only overturn their judgement if a case is clear.

### **Activities outside of class**

In addition to our class sessions, we will also have a number of learning and networking opportunities outside of class. These will include:

- Four 2-hour Excel modelling sessions (dates and times TBA)
- Bloomberg and FactSet training sessions (dates and times TBA)

Attendance at these activities is mandatory unless you have an unavoidable conflict, such as another class at the same time. If you have such a conflict, please let me know as far in advance as possible.

### **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.mcombs.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>.

## **Harassment Reporting Requirements**

Texas State Law (Senate Bill 212) requires all employees (both faculty and staff) at a public or private post-secondary institution to promptly report any knowledge of incidents of sexual assault, sexual harassment, dating violence, or stalking “committed by or against a person who was a student enrolled at or an employee of the institution at the time of the incident.” Please note that both the instructor and the TAs for this class are mandatory reporters and MUST share with the Title IX office any information about sexual harassment/assault shared with us by a student. Note that a report to the Title IX office does not obligate a victim to take any action, but this type of information CANNOT be kept strictly confidential except when shared with designated confidential employees. A list of confidential employees is available on the Title IX website.

### **Cases (required)**

1. Spotify in 2016: Facing Increased Competition (IES631-PDF-ENG)
2. Arundel Partners: The Sequel Project (292140-PDF-ENG) and spreadsheet supplement (XLS078-XLS-ENG) [postponed]

### **Supplementary materials (optional)**

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. Valuation Techniques in Private Equity: LBO Model (218106-PDF-ENG)
9. Note on the Private Equity Industry (KEL130-PDF-ENG)

## Schedule

<u>Date</u>	<u>Activities</u>
Tu, Jan 19	Program and course introduction 01 - Valuation
Th, Jan 21	01 - Valuation
Tu, Jan 26	01 - Valuation
Th, Jan 28	01 - Valuation
Tu, Feb 2	01 - Valuation 02 - Investment & value creation
Th, Feb 4	02 - Investment & value creation
Tu, Feb 9	Spotify case discussion
Th, Feb 11	03 - Financing fundamentals <a href="#"><u>Problem Set 1 (covers units 01, 02) due</u></a>
Tu, Feb 16	03 - Financing fundamentals
Th, Feb 18	04 - Bankruptcy & financial distress
Tu, Feb 23	04 - Bankruptcy & financial distress
Th, Feb 25	04 - Bankruptcy & financial distress <a href="#"><u>Problem Set 2 (covers unit 03) due</u></a>
Tu, Mar 2	<a href="#"><u>Exam 1 (covers units 01, 02, 03)</u></a>
Th, Mar 4	05 - Securities issuance & distributions
Tu, Mar 9	05 - Securities issuance & distributions
Th, Mar 11	05 - Securities issuance & distributions <a href="#"><u>Problem Set 3 (covers unit 04) due</u></a>
Tu, Mar 23	05 - Securities issuance & distributions
Th, Mar 25	06 - Derivative securities
Tu, Mar 30	06 - Derivative securities

Th, Apr 1	06 - Derivative securities <u>Problem Set 4 (covers unit 05) due</u>
Tu, Apr 6	<u>Exam 2 (covers units 04, 05)</u>
Th, Apr 8	07 - Valuing flexibility
Tu, Apr 13	07 - Valuing flexibility
Th, Apr 15	08 - Risk management <u>Problem Set 5 (covers unit 06) due</u>
Tu, Apr 20	09 - Mergers & acquisitions
Th, Apr 22	Arundel Partners case ( <u>case write-up due</u> )
Tu, Apr 27	09 - Mergers & acquisitions
Th, Apr 29	10 - Private capital <u>Problem Set 6 (covers units 07, 08) due</u>
Tu, May 4	Overflow & course recap
Th, May 6	<u>Exam 3 (covers units 06, 07, 08 09, 10)</u>
<b>Fr, May 7</b>	<u>Term paper due by end of day</u> <u>Excel financial model due by end of day</u>