

# FNCE 3415 Spring 2020 Final Project

Milestone 1 due February 19, 2020 at 11:59pm

Milestone 2 due March 23, 2020 at 11:59pm

Final Project due May 4, 2020 at 10:00am

Final Presentation are April 28 and 30, 2020

## 1 Project Details

The purpose of the Group Project is to give students the opportunity to apply the tools they have learned to a “real world” valuation of a publicly traded company. You should think about this as being of a similar standard as the valuation reports produced by professional equity analysts at major research firms. Each group should consist of no more than three students, and you must email me a list of the students in your group by January 20, 2020.

To ensure the suitability of the chosen company, and ensure that each group is working on a different company, you are required to submit three (3) names (in order of preference) of publicly traded firms to me by email by January 20, 2020. Since your group will be studying the firm closely over the course of the semester, I strongly encourage you to choose firms that interest you (e.g., in an industry you work in, or are interested in working in; a company that you own stock in; etc...). I will tell you by January 21, 2020 which firm from the list of three that your group is assigned to: in most cases it will be your first preference, unless there are conflicts with other class members or the choice seems inappropriate to me. To make this process easier I have provided a list of companies at the end of this document. Please select only one company from each industry. If you are interested in a company not listed please check with me before submitting your final list.

The Group Project will be completed by each team submitting the text of your project document to me in hard copy and emailing me your Excel workbook containing the relevant analyses. The hard copy submitted to me should appear to be professionally done and suitable for submission to a senior corporate executive, a lender, or private equity investor. This project document must not exceed 20 pages in length (excluding appendices). Because this class places a strong emphasis on Excel modeling, the quality and clarity of the spreadsheets submitted will be an important component of the grade for this project.

### 1.1 Report

**The report must contain the following elements in the following order:**

1. An executive summary, which should conclude with an estimated valuation range for the stock price of the company.
2. A company overview with the following details:
  - (a) Nature and history of the company

- (b) The company's key products
  - (c) Key customers and suppliers
  - (d) Key competitors
  - (e) Important events that have happened to the company during the semester
3. Financials with the following details:
    - (a) Annual common-size income statement and balance sheet for each of the most recent 5 years (vertical analysis: comment on any trends or issues)
    - (b) Key ratios for each of the most recent 5 years (comment on any trends or issues). The ratios should include at least (you may include more if there are industry-specific ratios that are important for the firm):
      - i. Quick ratio
      - ii. Total debt ratio
      - iii. Times interest earned
      - iv. Days' sales in inventory
      - v. Total asset turnover
      - vi. Return on assets
      - vii. Return on equity
      - viii. DuPont decomposition of the return on equity
    - (c) Compare each of these key ratios to the industry (or peer group) average for each of the most recent 5 years: identify and comment on any trends or issues
  4. Company valuation using the discounted cash flow methodology: describe the assumptions used in the model
  5. Company valuation using the multiples methodology: discuss identification and justification of peer group firms (comparables, aka "comps") and the modeling choices made
  6. An analysis of one important current event that has impacted the firm during the semester, and describe how that has impacted your valuation estimates
  7. One quoted section from the "management discussion" section in one of the firm's required reports filed with the Securities and Exchange Commission (SEC) during the semester (form 10-K, 8-K, or 10-Q), and a discussion of how that factor impacted your valuation (must be distinct from section 7 above)
  8. Summary of the values provided by different methodologies, including a "football field" chart and an analysis and justification of the valuation range
  9. Conclusion, including an investment recommendation (at the current stock price)
  10. Any exhibits or appendices

## 1.2 Due Dates

**Milestone 1:** Complete Section 2 (a-d) and 3 from above outline. Due February 19, 2020 at 11:59pm

**Milestone 2:** Complete Section 4 from above outline Due March 23, 2020 at 11:59pm

**Final Project:** Due May 4, 2020 at 10:00am

Each deliverable requires a PDF or Word file as well as an accompanying Excel file. Submission are made via Brightspace. **The final project requires a hard copy as described above in Project Details.**

## 1.3 Grading

The final project accounts for 250 points of your final grade. The breakdown is as follows 25 points for each milestone, 150 points for the final project, 30 points for the presentation, and 20 points for peer evaluations. For all submissions, 50% is allocated to model accuracy, 30% is allocated to logical reasoning and clear writing, and the remaining 20% to professional presentation of the product (especially formatting of the spreadsheet(s)).

## 1.4 Current Events

An important part of this project is monitoring events that happen to your assigned company during the semester (see sections 2e and 6 above). Since every team will be following a publicly traded company, events that occur to the firm will be well publicized (e.g., there will be at least one earnings announcement during the semester). You are required to follow current events related to the company. Events that may have an impact on firm valuation (both positive and negative) are especially important. Some examples include earnings announcements, new product developments, litigation outcomes, etc A good tool to keep track of current events related to a particular company is Google Alerts. All members of your team should set up Google Alerts for the company you work on for this project.

## 1.5 Financial Contracting

Another important part of this project is monitoring the firm's required filings with the SEC (see section 7 above), which represent a critical (albeit implicit) aspect of the financial "contract" between the firm and its shareholders. See below for guidance on accessing such filings.

## 2 Resources for industry and company research

There are several resources to obtain information on publicly traded companies. Below is small sample of those resources.

## 2.1 Library Resources

All of these resources can be accessed through the LMU Library databases at <http://library.lmu.edu/> (click on Libguides then Business then Databases direct link <http://libguides.lmu.edu/c.php?g=323523&p=2167835>)

- Business Source Complete:
  - Click on Company Profiles in the right hand side “Browse” box.
  - Type in part of the company name (NOT ticker symbol), choose “Match Any Words” and click Search.
  - Download the MarketLine report, good resource for company’s background information.
  - Click on the Industry Profiles in the right hand side “Browse” box.
  - Type in part of the industry name, choose “Alphabetical” and click Search.
  - Repeat the previous step and choose option “By title, subject & description.”
  - From the results of the two searches, choose the most recent applicable industry report.
- Business Insights Global:
  - Search the company’s name in the box (make sure the search type is set to Company).
  - Click on the company.
  - In the left hand side box, click on Investment Reports or Market Share reports.
- Lexis Nexis Company Dossier:
  - Search for company under Get Company Info
  - Another good resource for news and company’s background information.
- Mergent Online (for industry ratios):
  - Find the company you’re researching
  - Click on tab Report Builder
  - Click on Comparison Reports
  - Compare company against industry
  - Comparison report with top 10 companies
  - Box 3: choose Ratios and any specific ratios that you want to compare
  - Also good for company financials:
    - \* Enter the company name in the search box and click Search
    - \* Click on the Company Financials tab

- \* . You may choose to customize the financial info
- \* Download in Excel (middle right of the page)

- Morningstar:
  - Enter company name or ticker
  - Click on the Financials tab
  - You may customize the financial info
  - Click on Export button

## 2.2 Required Filings

The SECs Edgar website is a critical repository for a firm's required filings with the SEC, which are a primary source of information about the firm that is made available to shareholders. You can search this database using your company's name (but be careful that you are accessing filings about the correct company: noting the firm's CIK# once you have identified the firm correctly in Edgar is a good idea). Steps to accessing company filings:

- <https://www.sec.gov/edgar/searchedgar/companysearch.html>
- Enter the company name (or use the ticker)
- Select the correct company from the search results (will go direct to company page if only one search result or if using ticker)
- Click on the company in the search results
- Important filings: 10-K, 10-Q, 8-K
- To download Excel files of 10-K or 10-Q, click on Interactive Data
- View Excel document
- Remember to make adjustments to the raw numbers if you want to convert them to millions

## 2.3 Possible Companies

Please come talk to me if you would like to cover a different company. Industries based on Fama-French 12-industry Classification and are as of 2014.

1. Consumer Non-Durables
  - Brown Forman Corp (BFB)
  - Columbia Sportswear Co (COLM)
  - Conagra Brands Inc (CAG)
  - Craft Brew Alliance Inc (BREW)
  - General Mills Inc (GIS)
  - Hershey Co (HSY)
  - Mondelez International Inc (MDLZ)
  - Monster Beverage Corp (MNST)
  - Sketchers USA Inc (SKX)
  - Smucker (JM) Co (SJM)
2. Consumer Durables
  - Astronics Group (ATRO)
  - Brady Corp (BRC)
  - Ethan Allen Interiors (ETH)
  - IRobot Corp (IRBT)
  - Newell Brands (NWL)
  - Tempur Sealy International Inc (TPY)
  - Turtle Beach Corp (HEAR)
  - Whirlpool Corp (WHR)
3. Manufacturing
  - 3M Co (MMM)
  - AAON Inc (AAON)
  - Briggs & Stratton (BGG)
  - Caterpillar Inc (CAT)
  - Clearwater Paper Corp (CLW)
  - Crocs Inc (CROX)
  - Goodyear Tire & Rubber Co (GT)
  - IMAX Corp (IMAX)
  - Winnebago Industries (WGO)
4. Energy, Oil, and Coal Extraction and Products
  - Exxon Mobil Corp (XOM)
  - Hess Corp (HES)
  - Valaris PLC (VAL)
5. Chemicals and Allied Products
  - Celanese Corp (CE)
  - Estee Lauder Cos Inc (EL)
  - Proctor & Gamble (PG)
  - Revlon Inc (REV)
6. Business Equipment (Computers and software)
  - Appfolio Inc (APPF)
  - Eastman Kodak Co (KODK)
  - GoDaddy Inc (GDDY)
  - Intuit Inc (INTU)
  - Pandora Media Inc (P)
  - PayPal Holdings Inc (PYPL)
  - Plantronics Inc (PLT)
  - Roper Technologies Inc (ROP)
  - Solarwinds Corp (SWI)
  - Workday Inc (WDAY)
  - Zynga Inc (ZNGA)
7. Telephone and Television Transmission
  - Disney (Walt) Company (DIS)
  - Sirius XM Holdings Inc (SIRI)
8. Utilities (Ignored- Heavy Regulations)
9. Wholesale and Retail
  - Aramark (ARMK)
  - Autozone Inc (AZO)
  - Blue Apron Holdings Inc (APRN)
  - Carvana (CVNA)
  - Cintas Corp (CTS)
  - Darden Restaurants (DRI)
  - El Pollo Loco Holdings Inc (LOCO)
  - Home Depot Inc (HD)
  - L Brands Inc (LB)
  - Overstock.com Inc (OSTK)
  - Panera Bread Co (PB)
  - Penney (JC) Co (JCP)
  - Ross Stores (ROST)
  - Foot Locker Inc (FL)
10. Healthcare, Medical equipment and pharmaceuticals
  - Abbott Laboratories (ABT)
  - Amgen Inc (AMGN)
  - Cardinal Health Inc (CAH)
  - Incyte Corp (INCY)
  - Intuitive Surgical Inc (ISRG)
  - Vertex Pharmaceuticals (VRTX)
11. Finance
  - American Express Co (AXP)
  - Equifax (EFX)
  - Visa Inc (V)
12. Other (Hotels, Construction, Business services, Entertainment)
  - Cinemark Holdings Inc (CNK)
  - Expedia Group Inc (EXPE)
  - Starwood Hotels & Resorts Worldwide (HOT)
  - United Parcel Services Inc (UPS)