
SECURITY ANALYSIS

FINANCE 40610

MENDOZA COLLEGE OF BUSINESS
UNIVERSITY OF NOTRE DAME
FALL SEMESTER 2011

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Office Hours:
Tue. & Thu. 10:00-11:00
or by appointment

CLASS MEETINGS:

<i>Section 1:</i>	<i>Section 2:</i>
M & W	M & W
1:30-2:45	3:00-4:15
DeBartolo 214	DeBartolo 214

TEXTBOOK: Investment Valuation: Tools and Techniques for Determining the Value of Any Asset, 2nd ed. (paperback, Wiley 2002), by Aswath Damodaran.
ISBN 0-471-41490-5.

SUPPLEMENTARY MATERIALS:

Course notes will be provided in class or made available for download. Daily reading of the *Wall Street Journal* or a similar source is strongly recommended and additional readings may be distributed in class. Assignments, problem/exam solutions, and other class-related items will be available on the class web page at: www.nd.edu/~scorwin/fin40610/

COURSE DESCRIPTION AND OBJECTIVES:

The objective of this course is to develop a detailed understanding of the tools used by market professionals and corporate managers to analyze the value of companies and stocks. The central theme of the course will be the pricing of equity securities using discounted cash flow and relative valuation techniques. Students will apply what they've learned to the valuation of a specific company, with the goal of becoming an expert on that firm. After completing this course, students should be able to:

- (i) Develop quantitative models for firm and equity valuation based on DCF and multiples.
- (ii) Identify and interpret accounting and non-accounting information necessary for valuation.
- (iii) Identify and interpret the key value drivers for a firm or industry.
- (iv) Critically analyze firm and equity valuation models and assumptions developed by others.
- (v) Present valuation analyses and assumptions in a professional manner.

ACADEMIC HONESTY:

“As a member of the Notre Dame community, I will not participate in or tolerate academic dishonesty.” All students must comply with University policies for conduct and academic honesty at all times during this course. These policies are outlined in the Notre Dame *Academic Code of Honor Handbook* at www.nd.edu/~hnr/code. Any violations of these policies will result in referral to the appropriate administrative body.

COURSE REQUIREMENTS:

Homework and Suggested Problems: Throughout the semester, I will assign occasional homework assignments related to the material we cover in class. These assignments will be graded and must be turned in on the assigned due date. Failure to turn them in on time may result in a score of zero. Please note that these assignments are *individual work* and you should be prepared to discuss your solutions in class. In addition to these graded homework assignments, I will provide additional suggested problems from the text. These suggested problems will not be graded, but will help prepare you for in-class discussions and exams.

Exams: There will be two midterm exams and a final exam during the semester. Exams will be given during regular class sessions or the final exam time, as listed on the attached schedule. Exam questions will be taken from class notes and assigned readings. The final exam is comprehensive. If it benefits you, I will automatically replace your lowest exam score with your percentage grade on the final exam.

Valuation Project: Each student will be assigned to a group of 3-5 students that will analyze and value the stock of a publicly-traded company. The valuation project and related assignments are *group work* and constitute a significant portion of your grade. The valuation project consists of the following three components, described in more detail in the valuation project instructions:

- (i) Project-related assignments, readings, and discussions
- (ii) Spreadsheet model of your valuation
- (iii) Group presentation of stock analysis and recommendation

Specific Policies:

- (1) Attendance will not be taken. However, students are responsible for all material and assignments presented in class.
- (2) Students are expected to actively participate in classroom discussions and to have required readings and assignments completed before each class. Late assignments will be severely penalized and may result in a score of zero.
- (3) Exams will be given on announced days during regular class periods (or other scheduled times). No make-up exams will be given without prior approval from the instructor or a University excused absence. Exams missed without prior approval will result in a score of zero without exception.
- (4) Homework and Exams are individual work. The valuation project and all related assignments are group work. When preparing the valuation project, you may NOT collaborate with students from outside your own group.
- (5) In preparing your valuation project and related assignments you will make significant use of outside sources. Be sure to cite these sources appropriately.

GRADE DETERMINATION:

Final grades will be determined based on the percentage of total points earned. Available points are as follows:

Homework Assignments	50 points	(10.0%)
Exam 1 – Monday, September 26 th	100 points	(20.0%)
Exam 2 – Wednesday, November 2 nd	100 points	(20.0%)
Valuation Project – due Thursday, December 8 th at 5:00 p.m.	100 points	(20.0%)
Final Exam – Thursday, December 15 th , 1:45–3:45 p.m.	150 points	(30.0%)
Total	500 points	(100.0%)

COURSE OUTLINE:

(This is a tentative outline and may be subject to change. Students are responsible for any changes announced in class.)

Wk	Lecture Topic	Assignment
1:	Course Overview	–
2:	Lecture 1 – Introduction to Valuation	Ch. 1-3
3:	Lecture 1 – Introduction to Valuation	Ch. 1-3
4:	Lecture 2 – DCF Valuation: Estimating the Cost of Capital	Ch. 7-8
5:	Lecture 2 – DCF Valuation: Estimating the Cost of Capital	Ch. 7-8
	Exam 1 – Monday, September 26th	
6:	Lecture 3 – DCF Valuation: Estimating and Forecasting Cash Flows	Ch. 9-10
7:	Lecture 3 – DCF Valuation: Estimating and Forecasting Cash Flows	Ch. 9-10
8:	Lecture 3 – DCF Valuation: Estimating and Forecasting Cash Flows	Ch. 9-10
9:	<i>FALL BREAK</i>	
10:	Lecture 4 – DCF Valuation: Forecasting Growth and Terminal Value	Ch. 11-12
11:	Lecture 4 – DCF Valuation: Forecasting Growth and Terminal Value	Ch. 11-12
	Exam 2 – Wednesday, November 2nd	
12:	Lecture 5 – DCF Valuation: Final Issues and Examples	Ch. 13-16
13:	Lecture 5 – DCF Valuation: Final Issues and Examples	Ch. 13-16
14:	Lecture 6 – Relative Valuation	Ch. 17-18
	<i>THANKSGIVING BREAK</i>	
15:	Lecture 6 – Relative Valuation	Ch. 17-18
16:	Group Presentations	
	Valuation Project – Due Thursday, December 8th at 5:00 p.m.	
	Final Exam – Thursday, December 15th, 1:45–3:45 p.m.	