FIN 366: FINAL PROJECT

GOAL

You and your team will represent an asset management firm and write a report about its holdings and portfolio.

DELIVERABLES

One written report from your team, and an Excel file from *each* member of the team with a stock's DCF and a company's financials.

- Report: one member uploads as a PDF, *Teamname.pdf*, for example *Citadel.pdf*
- DCF: each member uploads their own as an Excel file, *LastnameFirstnameDCF.xlsx*, for example *BuffettWarrenDCF.xlsx.*

Due date: 48 hours after your final exam ends, at 12 noon.
9:00 section: 4/29, 10:30 section: 5/1, 12:00 section:4/30.

DIRECTIONS

Create a fictional financial advisory firm. Produce a report consisting of the following sections:

1. Overview of Markets
2. Overview of Your Group's Sector
3. Portfolio Construction and Valuation

Your team selects a sector when signing up. Stocks in your team's sector should be represented in your team's portfolio. Your report should be thoroughly cited and referenced, using end notes (in Word, on the References tab, "Insert Endnote." Examples are here[i] and here.[ii]). Your report should be written for an educated, non-finance professional audience (i.e., lawyers, doctors, engineers). That is, your audience is very smart and capable, but you are the finance professional. Explain your work in ways that a smart non-finance professional could understand. You must use required sources as indicated throughout these instructions.

SECTIONS

I. OVERVIEW OF FINANCIAL MARKETS

EQUITY MARKETS

Provide a discussion on the state of financial markets. Overlay (on a single graph) the five-year returns of the indices below so the reader can see their relative performance:

- S&P 500
- S&P 500 Equal Weight

- DJIA
- Russell 3000

Discuss index compositions and their weighting/construction. What explains the difference in their performance? Assess overall equity valuations (i.e., P/E ratios and other relevant valuation metrics). Discuss relevant news articles pertaining to the performance of these indices and expectations about their future.

FIXED INCOME MARKETS

Additionally, provide a figure that shows corporate bond yields for speculative and investment grade debt. Discuss the relationship between prices and yields, as well as corporate yields relative to government debt yields.

Required sources:

- S&P Net Advantage (Chart Builder): https://libguides.richmond.edu/netadvantage
- Reputable news sources: *WSJ*, *Bloomberg*, *NYTimes*, *FT*, *The Economist*, etc.
- St. Louis Fed FRED website (bond yields): https://fred.stlouisfed.org/

Optional sources:

- Research and white papers from reputable banks and financial institutions
- Insights or perspective pieces from reputable banks and investors
- Reputable podcasts
- Bloomberg terminals

II. SECTOR OVERVIEW

Describe your group's sector. How does the current state of the economy and financial markets affect companies in your sector? What's the sector's outlook? Competitive landscape? Major players? How has it performed recently?

Required sources:

- Reputable news sources: *WSJ*, *Bloomberg*, *NYTimes*, *FT*, *The Economist*, etc.
- IBISWorld: https://libguides.richmond.edu/ibisworld

III. PORTFOLIOS & VALUATION

Construct a portfolio of *x* stocks within your group's sector, where *x* = the total number of people in your group. Allocate a total of $10,000,000 across these stocks. Construct an optimized portfolio using portfoliovisualizer.com and discuss your weights in each stock within the context of an optimized portfolio. Explain what the optimized weights are. Provide summary statistics (returns, standard deviation, Sharpe, etc.) for your portfolio. Provide a graphic of the portfolio (IOS, efficient frontier, etc.) Discuss assumptions and weaknesses of MPT and optimized portfolio. Explain why as few as *x* stocks is good for diversification (i.e., systematic/unsystematic risk).

- *Each* member of your team will value one of the stocks in the portfolio.
- *Each* member of your team will write a one- or two-page section in the report about the stock. The author of each of these sections should be clearly labeled at the beginning of that section.
  - Summarize the firm. Discuss the business (how it generates money and free cash flow), its industry, and your thesis (2-3 main points for your buy recommendation).
  - Provide and discuss important ratios (i.e., PE, ROA, ROE, D/E, etc.) and how these ratios compare to peers or its industry.
  - Value the stock using a DCF. Include a sensitivity analysis and multiple valuation methods. In the report provide a table that highlights your DCF assumptions for each stock, for example:

Assumption	*Value*
Revenue growth	
Exit multiple/terminal value/terminal growth	
Cost of Equity	
Cost of Debt	
Beta	
Margins	
Capital Structure	
etc…	

    Explain the valuation and provide a rationale for the stock's inclusion in your portfolio.
- Each student should submit their own DCF Excel file titled *LastnameFirstnameDCF*, for example: *BuffettWarrenDCF.xlsx.*
  - You are welcome to use the DCF template from class or some other DCF template that you build yourself (*do not use* Bloomberg's DCF template).
  - The Excel file should include the company's financials from S&P NetAdvantage (see Appendix below or the DCF template from class).

Required sources:

- S&P Net Advantage: https://libguides.richmond.edu/netadvantage
- Portfolio Optimization: https://www.portfoliovisualizer.com/optimize-portfolio#analysisResults

Report Formatting:

- Cover page (financial advisory firm name, team member names).
- Table of Contents.
- Page numbers.
- Clearly labeled sections and headers.
- Clearly labeled figures (i.e., Figure 1, Figure 2, etc.)
- Body of the document.
  - One- or two-page sections for each of the stocks in your group.
  - These pages should have consistent formatting.
- Endnotes: references, marked throughout the text.
- Strong organization throughout.
- Creative and attractive graphics and design (see J.P. Morgan report below as a sample). Microsoft Word has useful built-in templates.

Grading

Points are most commonly lost for failing to follow directions or failing to provide the requested items. Rationale for your assumptions in your DCF is important. Outside of providing the things I specifically ask for, you have significant freedom to do whatever you would like. Thoughtful and creative design is appreciated. Check carefully for spelling and grammatical errors.

Team members on the same team may have different scores. Your stock section and DCF are graded for you individually. 60% of the score is shared. 40% of the score is individual to you.

Appendix

DCF Model Excel File

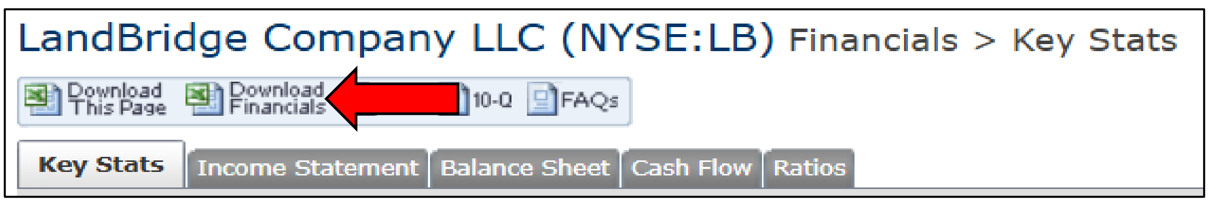
The DCF model can use any template you'd like *except* Bloomberg's template. It must include:

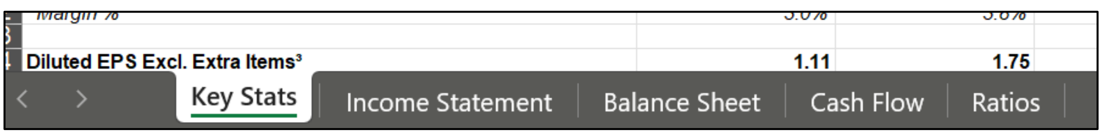
- Historical financials (3-5 years minimum)
- Forecasted financials (5 years minimum)
- Free cash flow computations
- Discount rate computations
- Terminal value (perpetual growth and/or exit multiple)
- Intrinsic value per share
- Sensitivity analysis

You must include your firm's financials from S&P NetAdvantage as additional tabs in your Excel file.

Your DCF template should be clean and well organized. Simple is better!

Firm Financials (S&P NetAdvantage)





Sample Formatting (J.P. Morgan Equity Research Report)

J.P.Morgan

North America Equity Research
30 September 2015

21st Century Fox

Hulu Steadily Building a Streaming 'Empire' as New Tier Debuts and More Hits Roll On

Overweight

FOXA, FOXA US
Price: $25.80

Price Target: $33.00

In our recent note on 21st Century Fox, "Good Entry Point for High Quality Media Play," we highlight the opportunity for patient investors considering the value of FOXA's strong asset base, noting that Hulu in particular could present notable upside down the road. Hulu has since made further strategic decisions which increase our conviction in the value of this asset, including more aggressive investment spending in content and the launch of a higher priced ad free tier. In this note we take a closer look at the streaming video industry, Hulu's competitive positioning and strategic outlook as well as its potential value. While equally owned by FOX, DIS and CMCSA, we highlight this asset in the context of FOXA as the smallest of these companies, therefore having the biggest relative contribution.

- **Next day availability of hit shows sets Hulu apart.** With or without an ad model, airing broadcast shows from its three owners on a next-day basis provides a sustainable competitive advantage, in our view.
- ***Fear The Walking Dead, Seinfeld & Empire* exclusives beginning to set higher bar for the service.** Recent step up in investments signals an increased commitment to adding quality content and growing the subscriber base. This expanding list of exclusive content combined with next day streaming and ongoing investment in original programming will likely continue to drive subscriber growth, making Hulu much more competitive with Netflix.
- **Dual revenue stream of advertising and fees provides a more lucrative model for digital distribution.** Hulu's ad supported business model yields a higher ARPU compared to SVOD peers Netflix and Amazon, and potentially leads to a higher valuation, as we estimate the service generates >$7 per sub/month in ad revenue (albeit split with content owners), nearly the entire retail price of Netflix's lowest tier. Equally important, Hulu's dual revenue stream replicates the traditional bundle and also provides an outlet for advertisers willing to pay high CPMs for premium online video with high viewability.

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J.P. Morgan Securities LLC

Price Performance

	YTD	1m	3m	12m
Abs	-32.8%	-5.8%	-20.1%	-24.5%
Rel	-24.3%	-1.3%	-11.7%	-19.8%

Twenty-First Century Fox, Inc. (FOXA;FOXA US)

FYE Jun	2013A	2014A	2015A	2016E
EPS - Recurring ($)				
Q1 (Sep)	0.38	0.33	0.39	0.39
Q2 (Dec)	0.35	0.33	0.41	0.42
Q3 (Mar)	0.32	0.47	0.42	0.46
Q4 (Jun)	0.31	0.43	0.39	0.45
FY	1.36	1.57	1.60	1.72
CY	1.46	1.59	1.66	1.95
Bloomberg EPS FY ($)	1.44	1.53	1.70	1.82

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	25.80
Date Of Price	29 Sep 15
52-week Range ($)	39.27-22.81
Market Cap ($ mn)	53,148.00
Fiscal Year End	Jun
Shares O/S (mn)	2,060
Price Target ($)	33.00
Price Target End Date	31-Dec-16

See page 28 for analyst certification and important disclosures.

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[i] Source: www.sample-website.com
[ii] Source: "This is an article." Retrieved from www.wsj.com.