Securities Analysis Competition: Introduction & Checkpoints

Congratulations on taking your first step in the FLA Securities Analysis Competition!

Below is the official SAC schedule. The competition is intensive - given the complexities of the pandemic coupled with school work and other priorities, it is very important to pace yourself. This document explains what is required of your team for each checkpoint.

Please read the entire document to understand the rules and sequence for the Spring 2021 Securities Analysis Competition. Reading the entire document will help avoid any surprises in the later stages of the competitions.

Email each completed checkpoint to flacompetitions@gmail.com. Our goal is to provide feedback on the submitted work.

Checkpoints must be submitted by **11:59 pm CST** of the due date. We will issue a warning after the first late submission and an automatic disqualification on the second late submission. Please read the *"Calendar: Spring 2021 - Securities Analysis Competition"* document to understand how deadlines and free pass work.

As always, email us back with any questions or concerns.

Good luck everyone!

--FLA Competitions

FINANCIAL LEADERSHIP
ASSOCIATION

Checkpoints and Due Dates

Sign-Ups, Background, and Selecting Companies

Introduction & Selecting Companies:

In a nutshell, the SAC is all about understanding and presenting public companies using both qualitative and quantitative analysis. These first two weeks are where the relationships on your team will be established, so spend time finding and building a good relationship with fellow team members. Teams should be limited to 1-4 competitors, but really, who wants to be the only one on a team.

Additionally, this is the time to choose the company for your research and analysis. It is easy to pick a public company that you like, based on a product or market sentiment, but make sure to conduct additional research. Some companies might look good on the surface, but might have complex financial statements, which make it harder to conduct financial analysis. Additionally, picking companies in a saturated market might make it easier to conduct comparable company analysis, used in the later stages of the competition. Another element to consider is the age of the company. Companies that are young (say 0-3 years old) can be challenging to deal with considering two factors: a) One of the valuation models used in the competition is a Discounted Cash Flow (DCF) analysis. b) A DCF model trying to successfully predict a company's value assumes that companies have relatively stable cash flows (which is rarely true for younger companies). Ideally, I suggest that you choose companies that are at least 3 years old.

Lastly, we will be exploring the SaaS (Software as a service) industry this semester. Our team believes that the SaaS industry provides a lot of opportunity for students to examine the financial aspects of companies, while giving them the freedom to explore different products and services offered by these companies. To make things more interesting, we will be adding a product and executive summary section, which will be required as part of your final submission.

Considering the information given above, there are a few additional guidelines that must be followed in selecting companies.

- Do not select market leaders: For example, selecting companies like Apple *(NASDAQ: AAPL);* Microsoft *(NASDAQ: MSFT)*; Google (*NASDAQ: GOOGL)*; and other similar companies will not be permitted. We have taken this step to reduce plagiarism as multiple analyses on these companies are already available online.
- Do not use any companies already used in Breaking Into Wall Street. *(Note: BIWS is a wonderful resource to master financial modeling and valuation. Please capitalize on this opportunity!)*

Once your team arrives at a company, please send the company name along with your team information to flacompetitions@gmail.com by **Feb 17, 2021**. Provided that you followed all the guidelines stated in this document, we will approve the company and you may proceed to the next steps. **Approval is required to proceed to the next steps in the competition.**

Coming back to the team dynamic, be sure to divide responsibilities and choose a team leader. The team leader will be the one who reports all the checkpoints with the Competitions Director. While few checkpoints might be easier to complete, we highly recommend your team to take advantage of the excess time and start working on the next checkpoint. This will enable you to stand out and produce an outstanding report.

As a reminder, only BUY and SELL recommendations are allowed.

Resources:

- SaaS companies:
    - Top 75 SaaS companies 2021
    - List of SaaS companies
    - The top 76 SaaS companies of the decade
- CapitalIQ Sign-In:
    - UT Dallas Finance Trading Lab
    - Browse to S&P Capital IQ and follow the instructions
- Previous SAC winners:
    1. Report; Presentation (Placed 1st)
    2. Report; Presentation (Placed 1st)
    3. Report; Presentation (Placed 2nd)

Checkpoint 1: Your Research (02/14 - 02/27)

Here is where you begin your initial research on the company. Your initial research should be divided into three sections:
- Economic Analysis
- Industry Analysis
- Company Analysis

Begin by conducting economic research. What is the state of the market? What are interest rates at? Inflation? How does this affect the company's operations?

Next, begin your industry research. What's the state of the industry? Who are the major players outside of the target company? What market share does the company have? Asking these questions and more will give you the framework to understand the underlying company and will allow you to look out for important factors and statements when you read through the company-specific information.

After completing industry research, conduct company research by reading the most recent 10-K's, 10-Q's, and the most recent earnings calls.

Product research is something that is newly introduced in this semester. Conduct research to understand the market for the product, its demand, and the current stage in the product life-cycle. This will support your understanding of the company's capabilities, future projections, and market outlook.

Be sure to divide up these tasks among your teammates. No one person should be carrying the whole team.

Deliverables due:
- Business and Industry description and how they relate
- Investment risks of company
- Company strategies, industry trends
- Product insight and analysis
- Porter's 5 Forces, SWOT, Competitor Analysis

Resources
- CapIQ / Bloomberg - provides in-depth company research. Great for determining competitors, comparable companies, earnings calls, quarterly/annual reports, and other financial data.
- WallStreetMojo: Equity Research | A Beginner's Guide
- Porter's 5 Forces

- [HBR: How Competition Forces Shape Strategy](#)

Checkpoint 2: Three Statement Modeling (02/28 - 03/13)

Using your research, you will now build a 3-statement financial model forecasted out 3-5 years, including three historical years for each of the statements. Draw on the industry and company research you just completed for your assumptions when beginning your projections.

This should be delivered in a single **Excel file**.

Deliverables due:
- Single Excel file containing:
    - Forecasted Income Statement
    - Forecasted Balance Sheet
    - Forecasted Statement of Cash Flows
    - Forecast Assumptions

Resources
- Street of Walls: Three Statement Modeling
- Macabus: Intro to Operating Models
- ASimpleModel: Integrating Financial Statements
- ASimpleModel: 3-Statement Model Links
- Wall Street Mojo: Financial Modeling Training
- CFI: 3 Statement Model
- BIWS

Checkpoint 3: Valuation (03/14 - 04/03)

Using your 3-statement projection model, evaluate the company with a DCF model. In addition, use one other valuation method of your choice to evaluate the company.

After completing your valuation, analyze the company with various commonly-used financial ratios. Below are the bare minimum of ratios we expect to see:
- Profitability Ratios: ROA, ROE, ROIC
- Efficiency Ratios: Total Asset Turnover, Accounts Receivable Turnover, Inventory Turnover (use relevant ratios if the company's business model does not support inventory)
- Margin Analysis: Gross Margin, EBIT Margin
- Leverage Ratios: Total Debt/Capital

These can be delivered in the same file as your previous 3-statement projection.

If you are new to this, the main thing is to practice. Never built a DCF model before? Build one in one tutorial, then build another. And another. Until you feel confident enough not only in your modeling skills, but also the meaning behind the modeling steps and ratios. It takes time to learn, but it's worth while.

Finally, you will need to choose your main points for the investment summary to be presented in the beginning of your report. In short, describe: why did you decide to buy or sell the company? These can either be delivered either in the body of your email or with your report, if you have begun working on it. This will help when constructing the executive summary. (*more details provided under Checkpoint 4*).

Deliverables due:
- Single Excel file containing:
  - DCF valuation
  - Comparable Company Analysis (or one other valuation method of your choice)
  - Ratio & Sensitivity Analysis
- Investment summary

Resources
DCF:
- BIWS
- Investopedia: DCF Introduction
- ASimpleModel: DCF Model
- Macabacus: DCF Overview
- Street of Walls: DCF Analysis

- [Wall Street Mojo: Ratio Analysis](#)
- [Common ratios cheatsheet](#)
- [Valuation class notes from Damodaran, legendary NYU professor](#)
  - If you have time, definitely check out his [blog](#) too.

Checkpoint 4: Your Presentation and Report (04/04 - 04/15)

Almost there! Now is the time to begin the heavy writing. With your financial analysis complete, you should begin crafting your report to explain and support your analysis. Create and add in graphs, charts, etc.

At the same time, begin working on your Powerpoint and practicing for your presentation. Keep in mind as you build out your presentation that you will have between 10 to 15 minutes to present your presentation, but be ready for additional time to answer questions from the judges.

Your report should combine all aspects of your previous deliverables, including:
- Business and Industry Description
- Investment Risks
- 3-statement projection
- DCF Analysis
- Ratio Analysis
- Etc

Executive summary is another addition this semester. The executive summary is a 2-3 page document highlighting the important information about the company and its financials. The summary includes company overview, investment highlights, growth strategies, financial overview, and valuation overview. More information about the executive summary will be covered in Workshop 3 and Workshop 4. Please note that the Executive Summary is a separate document and is not part of your Investment Report.

Once your written content is finalized begin the formatting process. Here is where you should reach out to someone experienced, or someone with a good eye to take a look at your work and critique it well. Review, EDIT, and format the written report. Make sure to proofread: the smallest mistakes are usually the most embarrassing ones.

Please note that the FLA competitions team will not provide feedback for this checkpoint.

Deliverables due:
- Final Written Investment Report
- Executive Summary
- Powerpoint Final Draft

First Round Presentations (04/17)

After your reports and Powerpoints reports are reviewed, we will select the cream of the crop to present to a panel of FLA judges.

Deliverables due:
- Final Powerpoint Presentation

Resources
- Presentations on various investor relations pages
  - Goldman Sachs
  - Jefferies
  - Etc
- CFA Institute Champions
- SAC Champions Spring 2017
- SAC Champions Fall 2016
- Sample Equity Research Questions

Final Round Presentations (04/24)

Beginning in the morning, selected teams will be presenting to a panel of professional judges. The specific location and time will be specified closer to the presentation date.

For the day of the presentation, dress professionally and bring your powerpoint presentation. Smile! You made it.

The best way to prepare is to know your presentation inside-out. Practice, practice, practice. Don't just know your numbers: know what your numbers mean. If working capital has gone up, what does that say about the company? Why does it matter how much the company is leveraged? Etc, etc, etc.

Deliverables due:
- Yourself
- Your team
- Your confidence