
GUIDELINES FOR COURSE REQUIREMENTS

Take-Home Exams

There will be two exams, one for Module Two and another for Module Three. They will consist of problems and questions related to the material covered in each Module. The Course Outline indicates the dates the exams will be handed out and when they are due. **Late submissions**, without a legitimate reason, are not allowed, and **submissions after exams** have been graded are ineligible for grade.

Class Discussion and Summaries

There will be four class discussions. Students are expected to review and study all pertinent materials and prepare comments and analysis that utilizes theory and analytical techniques. In each case, a set of questions that address specific issues will be distributed in advance.

All students must be prepared to participate actively in these discussions. Active class participation is an essential part of your obligations in this class.

Each student must also submit a Summary of discussion points and analysis at the end of the respective class. Late submissions will not be accepted.

Team Term Project

Students will form groups to work on a team project on IPOs. Each group must consist of three to five students. Exceptions require permission.

The IPO Analysis Project

This is a two-part project. The first part analyzes the pricing of **ONE** new issue; the second part analyzes the spread and the after-market price performance of **TWO** new issues.

Preliminary steps

Each group must choose two fairly recent IPOs, and obtain their **final** prospectuses from the underwriting firms. Please read the prospectus very carefully; it is a source of very valuable information. Issues from the same industry are highly recommended. Your analysis will have two parts:

Part 1: Pricing of the Issue

You will choose **only one** of the IPOs to conduct an independent valuation in order to estimate its fair market price and recommend an appropriate offer price. Price the new issue as if you were the underwriters. You need to ignore the offer price on the prospectus.

You must use two approaches to price your IPO: the discounted cash flow approach, and the comparable firms multiples approach.

Part 2: Analysis of Spreads and Price Performance

The first goal in Part 2 is to estimate the gross and implicit spreads of the **two** new issues, compare them, and discuss the factors that explain any differences or similarities. The second goal of Part 2 is to ascertain whether there is evidence of underpricing or overpricing for each issue on the basis of the post-offering price performance.

Paper organization

Your paper will be comprised of Parts 1 and 2. The paper should be organized as follows:

Table of Contents of the IPO Analysis Report

A. General Information

1. Brief profile of both issuers.
2. Description of issues: kind of securities; any special features of the offering, use of proceeds, OAO, obligation for price stabilization.
3. Description of underwriting characteristics: type of underwriting method; type of contract; any special provisions.
4. Description of monetary terms: total proceeds, proceeds to the selling parties, offering price, other direct expenses, warrants and other compensation..
5. Brief but informative description of the state of capital markets prior and around the issuance time that may have a bearing on the pricing of the issue.

B. Price analysis

1. Valuation methodology (DCF and multiples approach): data used and sources; assumptions in projecting cash flows and estimating cost of capital or appropriate multiples; price computations (both approaches). In estimating the value of the IPO, account for quality of management and competitive position of firm.
2. Discussion of other factors/considerations leading to your final offer price recommendation (possible need to underprice, stock market conditions and receptivity).
4. Recommendation of final offer price.
3. Comparison of your offer price to the offer price in the prospectus and comments.

C. Spread analysis

1. Calculation of the explicit, implicit and combined spreads of the **two** issues. (See the **Lecture Notes**.)
2. Comparison of the spreads of the two issues and discussion of factors that may explain the differences or similarities in spreads. (Refer to the **Lecture Notes** and sources in the Reading List for supportive arguments.)

D. Price performance:

1. Analysis of the price behavior of each new issue after issuance. (See the **Lecture Notes**.)
2. Recommendation on whether there is evidence of underpricing or overpricing in the case of each issue.

It is recommended that you divide your paper in sub-sections with titles as given above. Quantitative data and other statistical information is best displayed in exhibits or tables.

Grade Determination Factors

Your report must be professionally prepared in style and format, written with clarity, and be carefully edited. Inclusion of substantive information, rigorous analysis, and utilization of readings with proper citation are important determinants of the grade.

All group members must contribute to the project equivalently. Free-riding is not my problem; it's yours. Simply do not allow it. Although each member will write only a portion of the paper, it is the group's responsibility to produce a stylistically homogeneous and well-edited document just like it would be required in a real business situation.

Class presentation of the Report

Each group must prepare to present its analysis to the class. Again, coordination is important so that the presentation runs smoothly and within the time limit. Allow 10' to 15' of presentation time. Concentrate only on the important parts of your analysis and recommendations. Prepare your presentation as if you were on a road show. It is recommended that you utilize transparencies, Power Point, or other media for an effective and time-efficient presentation.