

UNIVERSITY OF PENNSYLVANIA—The Wharton School
FNCE 728 – Corporate Valuation
Spring 2010

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Office Hours: Tuesday 3:00 – 4:30

TAs and their office hours will be announced in the second week of class.

1. Course Objectives:

The objective of this course is to teach students about the analysis and valuation of equity securities. In learning the primary valuation techniques used to estimate market values for equity securities, we will pay special attention to financial statement analysis. Additionally, the course will highlight the importance of identifying and focusing on key value drivers. The analytical framework and valuation techniques, as well as the practical market information students learn in this class will be useful for careers in corporate finance, asset management, research, sales, trading, financial market regulation or financial journalism.

I anticipate a very lively and interesting class, as occurred last year. However, in speaking with prior students, I discovered that those who were not satisfied with the class had a divergence in expectations from mine. Thus, I ask that you think about the following:

Is this course for you?

Although we address the standard Wall Street equity analyst approach to valuing stock, I take a broader view of corporate valuation in this class. In particular, I focus on digging deeper into sources of value for a firm and examining how to enhance firm value. **Please make note of this when deciding whether or not to take this class.** This course is designed for students with little or no practical work experience in valuing companies. I do not believe that the "value added" from this course for students who have previous job related valuation experience is as high as for those with no relevant prior experience. Additionally, the workload is very demanding for this class. **If you are looking for a class with little time commitment, then this class is not for you.**

In this class, we will use Harvard cases and current valuation exercises for Starbucks Corporation. The major objective of these exercises is to use the logic of financial theory to arrive at sensible conclusions when faced with real world problems. However, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions.** While there are no "right" answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and senseless arguments. Considering my analyses as the correct solution defeats the purpose of this course and contributes to an impractical notion that in the "real world" there is a single correct recipe to

be followed. **If you have difficulty with ambiguity of the subject matter, this course may not be for you.**

Finally, it is inevitable that there will be some overlap with Advance Corporate Finance (FNCE 726). In particular, it is necessary to discuss the framework for valuation and cost of capital in this class, two topics which are addressed in FNCE 726. I have shortened the amount of time spent on these areas from last year without sacrificing the necessary preparation for the final outcome of valuing a firm.

2. Course Materials:

Required Text: Valuation: Measuring and Managing the Value of Companies, 4th Edition: University Edition. Koller, Goedhart, Wessels. Wiley Press ISBN 978-0-471-70221-4

Bulk Packs (2): There will be two bulk packs supplied by Wharton Reprographics. The first includes 3 cases (Harvard and Darden). The second contains information on Starbucks, a firm that we will value in the latter half of the semester.

Web Café: The course site contains suggested questions for cases, Excel files for exhibits for most cases, lecture notes and other miscellaneous information. You will find the most updated information and announcements for the course. This site is the information center for the course, so please check it regularly and be sure to check it before asking questions of the TAs or of myself.

It is highly recommended that you purchase a binder for the class, as there will be a lot of additional materials (particularly the class notes). Additional handouts (e.g. current articles from the Wall Street Journal, Business Week, the Economist) will be distributed in class and charged to your student account.

3. Grades:

Student grades will be calculated as follows:

- 20% Group Excel assignments on Starbucks
- 20% Group case analyses & valuation assignment
- 30% Midterm Exam 1
- 30% Midterm Exam 2

Grades will reflect knowledge of the course material, communication skills and teamwork. Class participation is crucial to the success of this class. Therefore, you should come prepared for all classes. To ensure this, I will cold call on students at various times. Although class participation is not a direct component of grades, if your weighted final score falls on a borderline, it may be adjusted upward if you have participated actively and effectively in class discussions. For the cases (even the ones that do not have specific deliverables), you should prepare with other group members and be prepared to answer questions, as if there were a deliverable.

Regrading exams and graded assignments:

Any request for regrading must be submitted in writing within one week from the date the exam or assignment has been returned. The exam or assignment should be placed in my mailbox in the Finance Department. The request for regrading must be very specific. When you request a regrade, the entire exam or assignment may be regraded. Unambiguous errors in grading (e.g., mistakes on tallying allocated points) will be promptly corrected.

4. Exams:

The first midterm exam will be on **Tuesday March 2** from **6:00 to 8:00 p.m.** The second midterm exam will be on **Tuesday April 20** from **6:00 to 8:00**. There will be no class on these days. Location of exams will be announced in class and/or on Web Café.

Please note the scheduling of the two exams. You are responsible for ensuring that you are available and on campus to take the exams. Please advise potential employers that you cannot schedule interviews that conflict with your exam schedule. I will not permit anyone to take the exams at another time unless you are gravely ill, face a significant emergency or have an exam conflict. If your travel plans conflict with the date of an exam, you should change your travel plans now, or drop the course.

You are responsible for letting me know by **January 28** of any *exam conflict* you have with either exam in the course. Please note, I will not be using the common Final Exam date of that appears on the University Calendar.

5. Project Teams:

You will need to form groups of 3 to 5 people (no exceptions) to work on four group exercises. If you have six people, please create two groups of three. You may form teams across sections, but please be aware that any class discussion or presentation of group assignments will be the responsibility of those students present in the particular section having the discussion. You also may want to use these groups as you prepare for classes. You are strongly encouraged to study cases with members of your group. Team sign up is via the course eRoom on Wharton's Web Café.

6. Team Assignments:

Each team assignment will require a written report and must be turned in on paper at the start of class on the due date. Late assignments will have a deduction of 10% per business day. Reports should be limited to three pages (12 point font, single-spaced with 1" margins) not including a well referenced spreadsheet based appendix. These reports should address key issues in the case, some of which will be specifically addressed by questions given on the Web Café site. Submitted assignments for grading should be your group's joint work only. Each member of your group is expected to contribute equally to the group reports and each member will receive

the same grade for a given assignment. You should see these assignments as your opportunity to develop new skills.

You should bring an extra copy of the reports for February 2, February 16, March 23, and April 27 with you since we will be discussing those cases in class on the day they are due.

For the team assignments, I will let you know what assumptions to use and what assumptions you need to provide (and defend). In some instances, you may use firm specific or market data that are publicly available for your analysis. However, under no circumstances may you use old notes, handouts, or solutions to the cases from previous years or similar courses elsewhere for your written reports and class discussions.

7. Class & E-mail Etiquette:

To make it easier for me to get to know you, please sit in the same seat at each class session (this will take some time to work out, with drops and adds). Please bring a name plate to class and attend your assigned section. In the rare event that you have a conflict, you may attend another section of the class, but you should let me know by e-mail before 8:00 a.m. on the day of class. Please direct any interpretation questions to the TAs. I will not provide lengthy answers to your course related questions or hold tutorial sessions by e-mail. You should use my office hours or those of the TAs for that purpose. Additionally, I can provide answers on theory, advanced analysis, or topics outside of the course by phone if you provide me with a call back phone number. Also, to avoid grading discrepancies, I will do my best to NOT answer questions concerning the assignments. **Please refer any assignment questions to the teaching assistants.**

8. Academic Integrity and Code of Ethics:

You cannot use work completed by other students, old notes or handouts, or solutions to the cases from previous years or other sections of this course at Wharton or similar courses at other business schools or elsewhere for your written reports and class discussions. Violation of this rule will result in an automatic failing grade for the course. Furthermore, the violators will be reported for further disciplinary action.

If you use materials from any publicly available or private source, including those sources on the internet, private company presentations, etc. in your submitted work for any reason, you should properly cite them. Otherwise this may be considered plagiarism.

Class Outline

Below is an outline of key topics and assignments. To provide flexibility, some of the topics may shift dates based on the length of discussions and class needs. All changes will be posted on Web Cafe. It is the responsibility of each student to complete all assignments before the beginning of class and to come prepared.

Date	Lecture	Assignments
1/14 & 1/19	Introduction and overview of class Fundamentals of Value Creation	Valuation Chapter 3
1/21	ROIC vs. DCF-based valuation methods	Valuation Chapter 6
1/26 & 1/28	Enterprise DCF vs. equity-based valuation methods	Valuation Chapter 5 Pages 103-121
2/2	Valuation discussion	Prep valuation assignment – deliverable announced in class
2/4	Valuation by comparables (multiples)	Valuation Chapter 12
2/9 & 2/11	Reorganizing the financials: NOPLAT & Invested Capital	Valuation Chapter 7 Pages 159-182
2/16	Brown Forman case discussion	Written report with supporting exhibits due
2/18	Measuring & driving organic revenue growth	Article: The Granularity of Growth Valuation Chapter 7 Pages 191-196
2/23	Competitive benchmarking using financial ratio analysis	Supplemental binder: Higgins Chapters 1 & 2
2/25	Course catch-up	
3/2	MIDTERM EXAM	
3/4	NO CLASS	
3/9 & 3/11	NO CLASS – SPRING BREAK	
3/16	Analyzing operating performance using Free Cash Flow	Valuation Chapter 7 Pages 184-191
3/18	The forecasting process	Valuation Chapter 8

3/23	Starbucks case discussion	Starbucks Assignment 1 due
3/25	Determining the appropriate forecast window & continuing value	Valuation Chapter 9
3/30	Hampton Machine Tool case discussion	Prep Hampton Machine Tool – no deliverable
4/1	Cost of Capital: Advanced theory & practical measurement	Valuation Chapter 10
4/6	Cost of Capital at Ameritrade case discussion	Prep Ameritrade – no deliverable
4/8	Analyzing & valuing off balance sheet financing	Valuation Chapter 11
4/13	Performance Measurement & Management	Valuation Chapters 13 & 14
4/15	Course catch-up	
4/20	MIDTERM EXAM	
4/22	Valuing Flexibility	Valuation Chapter 20
4/27	Starbucks case discussion	Starbucks Assignment 2 due

SPECIAL NOTICE

This syllabus describes how I intend to run the course and the material I plan to cover. While I will do my best to not deviate from it, you should be aware that anything herein is subject to change, including evaluation methods, texts, materials, and scheduling. While a low probability event, there is a chance that scheduling changes will need to be made. I will communicate all changes to the class in a prompt and clear manner.