

CORPORATE VALUATION

INTRODUCTION: The objective of this course is to develop the intuition and tools to value companies and their securities. Our primary focus will be on the valuation of equity in a public corporation, but the methods also apply to the valuation of private companies and small businesses.

Our class discussions will cover in depth the analysis of past corporate financial performance and the projections of future performance. We will examine the estimation of cash flows and discount rates in our treatment of discounted cash flow valuation models, and we will also analyze the application of value multiples (such as price-earnings ratios). We will also examine a number of additional valuation issues within the context of mergers and acquisitions, emerging markets, and intellectual property.

PREREQUISITES: We will build upon skills developed in previous finance and accounting courses, especially in the areas of financial statement analysis and discounted cash flow valuation. In addition, you should be familiar with introductory concepts in statistics.

COURSE "VALUE PROPOSITION": This course is designed for students with no previous work experience in valuation. If you have worked in equity research or a similar setting, you may find that other courses offer more added value to your education. In addition, the topics in this course are related to a number of other finance courses – most notably, "Advanced Corporate Finance." There is also some coverage of valuation in the course on "Financing of Buyouts and Acquisitions." Our focus is specifically on valuation issues, and the other courses cover additional topics besides valuation. However, some degree of overlap in coverage is unavoidable. Obviously, you are in the best position to decide which set of courses fit your interests.

We will spend quite a bit of time on discounted cash flow methods and financial statement analysis. I expect you to share my enthusiasm for these topics. A good analyst is part financial economist, part accountant, and part statistician! Also, note that the workload in this course is heavy, and at times, somewhat unstructured due to the nature of assumptions required in the valuation process.

TEXT AND OTHER COURSE MATERIALS: The textbook for the course is

Title: Valuation: Measuring and Managing the Value of Companies, 5th Edition, University Edition The 5th edition of the text is a significant revision of the 4th edition, so you should not use the 4th edition.

Author: Koller, Goedhart, and Wessels
Publisher: John Wiley
ISBN: 978-0-470-42470-4

In addition to the textbook, articles will occasionally be required reading. These articles will be posted in webCafé and students will be given advance notice.

There will be a set of notes for each class meeting. They are bullet-point outlines designed to facilitate note-taking during our class discussions, and occasionally include practice problems. The notes will be posted on webCafé at least 24 hours in advance. You should print the notes and bring a copy to class with you. Powerpoint slides used in class will be posted after each class meeting. Occasionally, other handouts or course materials may be distributed in class, and the cost of these will be billed to your student account (I plan to use webCafé to the greatest extent possible).

COURSE GRADE: The grade for this course will be determined from:

- Two exams, each counting for 35%. The exams will be given in class on Thursday, October 21st, and Thursday, December 2nd. The exams will be “closed book” and “closed notes.” I will provide you with a formula sheet during the exam (it will also be distributed one week prior to the exam so you will know its content). The second exam will not be cumulative, but it will naturally incorporate some basic principles from the earlier material. There will be no final exam. Practice exams and solutions will be posted in webCafé. A financial calculator will be useful, but is not required; a “regular” calculator will be sufficient. You cannot use a computer, i-phone, droid, or a similar communications device as a calculator during the exams.

On the exam dates, you must be present to take the exam. Do not schedule job interviews for these dates. I will not permit anyone to take the exams at another time unless you experience significant illness or emergency. You will be required to provide written documentation in this event. If your travel plans conflict with the date of an exam, you should change your travel plans now, or drop the course. You must notify me by September 21st of any schedule conflict you have with either exam in the course.

For the following group assignments, you need to form groups of three to five students (in my opinion, the ideal size is four). MBA students can form groups across sections, but undergraduates and MBA students cannot work together in the same group. All group members will receive a common grade. Information on signing up for a group will be posted in webCafé. Collectively, the group should be skilled at financial analysis, building models in Excel, and writing.

- Five case reports, each counting for 4%. The cases are available through Study.Net. These reports will be 4-6 pages in length.
- A valuation report, counting for 10%. Each group will value a publicly-traded company, and write a report to communicate their buy/sell/hold recommendation. The report will be due in two parts. Companies will be chosen from a set provided by me. Additional instructions will be posted in webCafé.

Important note regarding grades: I expect an overall GPA of approximately 3.26 for all MBA students in this course; under no circumstance will the combined GPA be greater than 3.33 (the maximum allowable in the grading system). Undergraduate grades will then be determined relative to the cutoffs established for the grades for MBA students. Using this procedure, it is possible for the GPA for the MBAs and undergraduates to differ. My anticipated grade distribution is given below.

Grade	Value	Allocation
A+/A	4.00	15%
A-	3.67	20%
B+	3.33	20%
B	3.00	25%
B-	2.67	10%
C+	2.33	6%
C	2.00	4%

LEARNING SUPPORT & COMMUNICATIONS: My office hours will be from 3:00 – 4:30 pm on Tuesdays, and by appointment. The best way to reach me is by e-mail (nelling@wharton.upenn.edu). You can also call me at 215.898.3666. I will check e-mail regularly and do my best to respond as quickly as possible. You can expect a response to brief questions within 24 hours in most cases (it may take longer over the weekend). If you have a question that requires a more detailed response, I may ask you to see me during office hours or call me to discuss it. Hours and contact information for the teaching assistants will be posted in webCafé.

STUDENT CONDUCT: Ethics and integrity are hallmarks of a good financial analyst. All students are expected to conduct themselves in an ethical and professional manner. Any student exhibiting unprofessional conduct will have their course grade reduced. Noteworthy issues for this course include:

- Students should attend the section of the class for which they are registered, arrive on time, and remain in the room for the duration of the class meeting. In the event of a schedule conflict due to a job interview or other legitimate reason, students can attend another section if they notify me by e-mail in advance. My sections meet at 9:00, 10:30, and 1:30 on Tuesdays and Thursdays in 1206 SH-DH.
- The use of cell phones and other electronic devices is prohibited during class. The use of computers is permitted only for taking notes. If you want to use a computer to take notes in class, you must send me an e-mail requesting permission; in addition, you must be prepared to show me your notes upon request. If you want to be great, you must be able to concentrate. (The text message you just received will still be there after class – read it then.) I will give you my complete attention during our class time, and I expect that you will do likewise. If you treat each class like a business meeting, you will do fine.
- Students are expected to do their own work on exams. Giving or receiving any unauthorized aid will result in a grade of zero on the exam.
- For the valuation project and cases, teams are expected to do their own work. Seeking outside assistance is prohibited. You are here to learn, and you will maximize your learning by doing your own work. If you need help, ask me – I want you to succeed and I will do whatever I can to help you. However, my assistance will be limited to providing general guidance; the teaching assistants and I will not provide specific hints as to how to solve the cases or value your company. The cases will be discussed in class, but formal solutions will not be provided.

LUNCHES:

To get to know you outside of class, I invite you to be my guest for lunch at a nearby restaurant, under the “Student-Faculty Meals Program” run by the school. I am usually available on most Tuesdays and some Thursdays, but other possibilities might arise over the term. There will be a sign-up sheet in webCafé for groups of three to seven students for each available date.

Course Outline (Tentative)

Session	Date	Topic	Reading
1	9/9 (R)	Course overview and introduction to valuation methods	1
2	9/14 (T)	Fundamental principles of value creation	2
3	9/16 (R)	Return on invested capital and economic moats	4
4	9/21 (T)	Growth and the product life cycle	5
5	9/23 (R)	Frameworks for valuation: Enterprise DCF & APV	6
6	9/28 (T)	Reorganizing financial statements	7
7	9/30 (R)	Analyzing performance and competitive position	8
8	10/5 (T)	Forecasting performance	9
9	10/7 (R)	Estimating continuing value	10
	10/12 (T)	*** TERM BREAK (no class meeting) ***	
10	10/14 (R)	Estimating the cost of capital	11
11	10/19 (T)	*** Case: Mercury Athletic Footwear ***	
12	10/21 (R)	*** EXAM I covering Sessions 1-11 (in class) ***	
13	10/26 (T)	Price multiple valuation I	14
14	10/28 (R)	Price multiple valuation II *** Valuation project Part I due ***	14
15	11/2 (T)	Market efficiency and valuation *** Case: Cypress Semiconductor and Sunpower ***	17, 18
16	11/4 (R)	*** guest speaker (optional class meeting at 6 pm) ***	
17	11/9 (T)	Creating value through M&A and divestitures	21, 22
18	11/11 (R)	*** Case: Monmouth, Inc. ***	
19	11/16 (T)	*** Case: LAB International ***	
20	11/18 (R)	Capital structure and valuation	23
21	11/23 (T)	Leases, pensions, and R&D capitalization *** Valuation project Part II due ***	27, 28
	11/25 (R)	*** THANKSGIVING (no class meeting) ***	
22	11/30 (T)	Foreign currency and emerging markets issues	30, 33
23	12/2 (R)	*** EXAM II covering Sessions 13-22 (in class) ***	
24	12/7 (T)	Technical analysis and sell strategies	
25	12/9 (R)	Valuing intellectual property *** Case: GE / Amersham ***	

Note that there will be no final exam. The course will conclude with the final class meeting on December 9th.