FNCE 2070: VALUATION
Tentative Syllabus – subject to change

Professor Vincent Glode, CFA   **Wharton School**
Spring 2024   **University of Pennsylvania**

Office:	Steinberg Hall-Dietrich Hall 2255
Telephone Number:	215-898-9023
Email address:	vglode@wharton.upenn.edu

Emails should only be used for administrative issues. See section 6 below for information about the extensive pedagogical support offered for this course.

Class Times:	Section 2070-001: Tue./Thu., 12:00-1:30pm in JMHH 270
	Section 2070-002: Tue./Thu., 1:45-3:15pm in JMHH 270

1.   ***Course Objectives.***

The objective of this course is to learn firm, debt, and equity valuation methods in a framework that is **both conceptually rigorous and relevant for practice**. While new concepts are introduced, the emphasis is on properly applying finance and accounting concepts already covered in other courses to value real companies. **This course relies on a healthy dose of "learning by doing."**

The subject matter of this course is technical and challenging. Students who took this course in the past have indicated that the **workload is extremely heavy** compared to their other courses. Because of its technical nature, this course does not appeal to all students and is only recommended for students motivated to learn valuation techniques in depth. I believe in communicating the complexity of the tradeoffs experts face when valuing companies. **We will not gloss over important issues just because they are difficult to understand. Students who hope to never see financial statements again should not take this course**. **Working knowledge of Microsoft Excel is also essential.** Students interested in broader topical coverage and a less detailed examination of valuation techniques should consider the Advanced Corporate Finance course instead.

The course is designed for students with little or no practical work experience in valuing companies. However, several former students who had relevant work experience and/or a CFA training still found this course valuable to take. From time-to-time we will discuss common errors that practitioners make or issues that they tend to ignore. It is important to fully understand the meaning and consequences of each shortcut we might consider using when valuing a company. In some cases, a few shortcuts are justified because they will have little to no impact on the valuation outcome and more complex solutions would not be warranted. In other cases, the same shortcuts will lead to serious errors in the valuation outcome and must be avoided. We will discuss areas where there is uncertainty about how best to perform certain tasks and what is typically done or ignored. We will then discuss the relevant academic research on the topic, so that students have an appreciation of the issues and the alternative views on the matter.

2.   ***Non-Negotiable Pre-Requisites.***

    A.   Introductory Corporate Finance course.
    B.   Introductory Financial Accounting course.
    C.   Working knowledge of regression analysis.
    D.   Working knowledge of Microsoft Excel.

Students coming in with a weak understanding of accounting and finance concepts covered in the pre-requisite courses will feel at a disadvantage in this course. In fact, although not required, knowledge of intermediate accounting is preferable. **It goes without saying that stronger accounting, finance, and Excel modeling skills will make the material easier to understand and the assignments easier to complete.**

3.   ***Course Material.***

    A.   Course Textbook

The required text is <u>Corporate Valuation: Theory, Evidence and Practice</u> **(2nd Edition)** by Robert Holthausen and Mark Zmijewski, published by Cambridge Business Publishers. Make sure to purchase the **2nd edition**, as it contains more recent data and essential updates about the U.S. tax code. The book is available through the bookstore or at this link:
https://cambridgepub.com/book/corpval2e

    B.   Course Website

Material for the valuation projects and additional readings will be posted for student access on Canvas. I will also upload **abridged** versions of the PowerPoint slides prior to class to help students follow the lectures. You can gain access to the Canvas website at:
https://canvas.upenn.edu/

    C.   Other Useful References

<u>Corporate Finance</u> by Berk and DeMarzo. This is a text all students should own having taken Introductory Corporate Finance. If you own an alternative corporate finance textbook (such as <u>Principles of Corporate Finance</u> by Brealey, Myers, and Allen), that will suffice as well. This text is just background reading for finance concepts you should already know.

<u>Financial Accounting</u> by Libby, Libby, and Short. This is a text all students should own having taken Introductory Financial Accounting. If you own an alternative financial accounting textbook (such as <u>Intermediate Accounting</u> by Kieso, Weygandt, and Warfield), that will suffice as well. This text is just background reading for accounting concepts you should already know.

<u>Damodaran on Valuation</u> by Damodaran. This valuation textbook is quite popular and covers many of the concepts covered in this class, but with less depth than our main textbook.

The Dark Side of Valuation by Damodaran. This valuation textbook covers advanced concepts linked to the valuation of young, distressed, and complex businesses.

The Signal and the Noise by Silver and Superforecasting by Tetlock and Gardner. Accessible introductions to the process of forecasting under uncertainty: **we are not trying to forecast everything perfectly; we are simply trying to be as precise as possible given the information that we have!**

Reading the Financial Times (http://www.ft.com), the Wall Street Journal (http://www.wsj.com), or any close substitute (http://www.thestreet.com) is highly recommended. Keeping up with financial news will be essential for valuing your company.

4. **_Grading._**

Students will be graded using the following weights:

Class Participation	10%
Valuation of a Company (divided in 3 stages)	30%
Exam I	30%
Exam II	30%

This course cannot be taken as Pass/Fail.

A.   Class Participation and Classroom Etiquette

Students can improve their participation grade by (i) attending my lectures **fully prepared and participating to the discussion**, as well as by (ii) making **positive contributions to the discussion board**.

- Regarding (i), former students have told me that an important benefit of taking this course is to be able to **interact** with smart, hard-working students who are motivated to learn how to value companies and **willing to have their misconceptions challenged**. For this to happen, students must participate to the discussion, and ask questions. Voluntary class participation is expected, but I might cold call on individuals from time to time if needed. Students will be expected to **have read the assigned chapters prior to attending my lectures and have worked on the end-of-chapter exercises assigned for in-class discussion.** Everyone's educational experience suffers if participation or attendance becomes a problem.
- Regarding (ii), making positive contributions to the discussion board (e.g., by answering your classmates' questions and sharing interesting articles --- however, asking basic questions does not count) gives students a chance to **partially** make up for a lack of in-class participation. **(I expect all students, included those active on the discussion board, to** <u>attend all lectures</u> **as it optimizes everyone's learning experience.)**

Students can worsen their participation grade by **violating my course policies or any basic norm of classroom etiquette and professionalism.** For example, students are expected to **attend every**

single lecture and refrain from using electronic devices for non-educational purposes**. Phones and laptops are not allowed in class --- only tablets in a flat position are allowed for digital note-taking purposes. Students should arrive on time for class and remain there until the lecture is completed.** Arrivals and departures during class time interfere with the educational process and are disrespectful to other students and to the instructor. Since my sections tend to be at full capacity, **students must attend the section for which they are registered.** In case of a **rare conflict**, students may attend another section but they must notify me by 10:00 AM on the day of the lecture.

Note also that attendance to the first lecture is mandatory for all registered students. It is also strongly encouraged for the students on the waitlist. Any registered student who fails to attend the first lecture will be automatically de-registered from the course. The first lecture is used to set clear expectations about the course's objectives and its workload. Students should then acquire the necessary information to make a quick decision about whether they want to stay enrolled and form a team for the valuation project or leave their spots to students relegated to the waitlist.

B.   Valuation Project and In-Class Exercises

As part of the course, students will be asked to value a company of their own choosing in a team of up to four students (more on teams below). Each team will have to submit three separate reports, one for each stage of the valuation project. Late submission will incur a penalty of 10% per calendar day, counting the day of submission. Complete instructions for this project are available on the course website. It would be wise to form teams and start thinking about potential companies to value as soon as possible. **Team composition and company names are due on January 30th.**

Exercise and project deadlines are marked on the calendar below as either S or D. If marked as S, students must submit their assignment **before noon** on that day. If marked as D, students must be **prepared to discuss the exercise during class**, though it may not need to be submitted.

Using solutions handed out in prior years for discussed exercises or the work of prior or current students who are not members of your group on any submission is considered a **violation of the code of student conduct.** If caught, the penalty will be severe. Moreover, your exam performance (assuming you did not get caught) will suffer as these assignments and projects are intended to help you learn the material.

C.   Exams

The first exam will be administered **in class** on **February 27th** and will cover Chapters 1-7. The second exam will be administered **in class** on **April 11th** and will cover all material covered in the course (with a strong emphasis on material covered after the first exam). You are responsible for ensuring that you are on campus to take both exams on those days. **If your travel or interview plans conflict with the schedule of the course, you must change your plans or drop the course now.**

The best way to prepare for the two exams is by going through the examples from the lecture notes and the end-of-chapter exercises in the textbook <u>after each lecture</u> and working through past exams prior to taking the actual exams.

5.   *Teams.*

Assignments and valuation projects can be worked on individually or in teams of up to four students. For the valuation project, I encourage all students to work in teams to maximize the learning experience. In choosing teammates, students should keep in mind the broad skillset that each team needs to possess: accounting, finance, and Excel modeling. **They should also make sure that all team members target the same performance/grade for the course. I will not become involved in team problems**. Teams can include students from different sections. Team composition needs to be set by the time teams submit their suggestions of companies they would like to value.

6.   *Pedagogical Support.*

This course is extremely challenging, but students have access to a wide portfolio of supporting tools. First, my five excellent teaching assistants (TAs) will hold office hours every weekday throughout the semester. Second, the course website will feature a vibrant discussion board monitored daily by the TAs and me where students can ask questions and find answers to all their classmates' previous questions. **Questions pertaining to the content of the class should be asked on the discussion board rather than by email, thereby ensuring that all students have access to the same information and reducing the duplication of our answers.** Third, several of our class meetings will be reserved for student questions about the valuation project and/or in preparation for the exams. Finally, I will promptly schedule appointments with students who have challenging questions that couldn't be answered through the three channels described above or sensitive questions that shouldn't be shared with the rest of the class. (For everyone's convenience, my office hours are by appointment instead of at a predetermined time.)

7.   *Academic Integrity.*

Students are expected to follow the university codes of academic integrity. Examinations are to be the work of the individual student using only the material permitted during the examination. Submitted assignments should be the work of **only the team members** listed on the title page of the document. **Students should not in any way rely on the work of prior students or current students who are not on their team**. This prohibition extends to prior homework, cases, or projects that are directly relevant to the assignment being completed. **When a project requires you to produce a forecasting/valuation model, the use of a model not created exclusively by the students on the team for the purposes of this class is a violation of the code of academic integrity.** For all submitted assignments, students must start with an Excel spreadsheet which is at most populated with raw data. Moreover, as previously indicated, the company being valued must be one that none of the team members has valued before. If you have questions concerning this policy, please see me for clarification before using any questionable material. **If you violate this policy, failing the class will constitute the minimum penalty, regardless of the degree of your violation.**

COURSE CALENDAR   **SPRING 2024**
NOTE: TOPICS COVERED, ASSIGNMENTS, AND DATES ARE SUBJECT TO CHANGE

Date	Topic	H & Z Chapter	Assignment (D=Discussion & S=Submission)
18-Jan	Introduction to Course and Valuation Process	1	
23-Jan	Creation of Economic Value	1	
25-Jan	Measurement of Economic Value	2	
30-Jan	Free Cash Flow Computation	3	**S - Names of 3 Companies to Value**
1-Feb	Forecasting and Financial Modeling	4	D - Interpreting Financial Ratios: P2.1, P2.3
6-Feb	Forecasting and Financial Modeling	4	D - Computing Free Cash Flows: P3.1
8-Feb	Free Cash Flow Complications		
13-Feb	DCF Valuation Methods	5	D - Computing Interest Tax Shields: P3.12
15-Feb	Excess Earnings Valuation Methods	7	
20-Feb	Continuing Value Estimation	6	**D & S - Valuation Project: Stage 1**
22-Feb	Catch-Up and Review		D - Using DCF Method: P5.6
27-Feb	**EXAM 1 (IN CLASS)**		
29-Feb	Cost of Equity	8	
12-Mar	Cost of Equity	8	
14-Mar	Cost of Debt	9	
19-Mar	Levering and Unlevering	10	
21-Mar	Levering and Unlevering	10	
26-Mar	Cost of Capital Complications	11, 12	**D & S - Valuation Project: Stages 1 + 2**
28-Mar	Market Multiples	13	D - Computing Cost of Capital: P10.7
2-Apr	Market Multiples	14	
4-Apr	Insider Trading Regulations	See Canvas	
9-Apr	Catch-Up and Review		
11-Apr	**EXAM II (IN CLASS)**		
16-Apr	Q & A about Projects		
18-Apr	Student Presentations		**D & S - Valuation Project: Stages 1 + 2 + 3**
23-Apr	Student Presentations		
25-Apr	Student Presentations		
30-Apr	Project Feedback and Final Words		