

UNIVERSITY OF PENNSYLVANIA  
The Wharton School

Professor Adam Kolasinski  
Spring, 2013

Corporate Valuation  
Finance 207 & 728

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**I will only answer emails with simple questions about administrative issues, or to make an appointment if you cannot come to office hours. Neither I nor the TAs will answer any emails related to course content. In those cases, I will ask you to 1) come to office hours 2) Ask your question on the message board or 3) ask me in class.**

Office Hours: Professor Kolasinski: Tuesdays, 11:00 AM – 12:00 PM, 2320 SHDH  
Martin Mumford: Tuesdays and Wednesdays, 4:30-5:30 PM, TBA  
& by appointment

Class Times: MW 9:00-10:30 JMHH 340 (Fin 728)  
MW 10:30-12:00 JMHH 340 (Fin 728)  
MW 1:30-3:30 JMHH 270 (Fin 207)

Teaching assistants: Martin Mumford ([mmumford@wharton.upenn.edu](mailto:mmumford@wharton.upenn.edu))  
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1. Course Objectives.

The objective of this course is to learn how to value companies from both a conceptual and practical framework. While there is some new finance theory introduced in this course, the emphasis is on the practical application and integration of finance and accounting concepts to valuing companies.

**Students with weak accounting and finance backgrounds will be at a disadvantage in this course. Working knowledge of EXCEL (or other computer spreadsheet application) is also essential. Students who hope to never see a financial statement again should not take this course.**

The course utilizes extensive and detailed readings, chapter exercises, a case, a valuation project, and two exams. Students should expect the workload for this course to be demanding, as such, it is only recommended for those students who are interested in learning valuation techniques in depth. Students interested in broader topical coverage and a less detailed examination of valuation techniques should consider the Advanced Corporate Finance course.

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, but several former students with prior work experience disagree with me on this issue. We do explore current practices in the lectures and I will be critical of some of them when appropriate.

## 2. Minimal Prerequisites.

- A. Introductory Financial Accounting
- B. Introductory Corporate Finance.
- C. Introductory Statistics or Econometrics.
- D. Basic knowledge of EXCEL or some other spreadsheet package.

Note that knowledge of intermediate accounting (ACCTG 201 and/or ACCTG 202 OR ACCTG 742) might be preferable for this course, although it is not required. Stronger accounting skills will of course make some of the material easier to understand.

## 3. Course Texts.

## A. Course Textbook

The textbook contains most of the readings for the class and is currently available from Wharton Reprographics. **Students should read the relevant material before class.** Unless otherwise specified, students will be held responsible for all material in the textbook, whether covered in class or not. NOTE: The textbook is still a work in progress as Robert Holthausen from the accounting department at Wharton and Mark Zmijewski from the University of Chicago are in the process of publishing the textbook (the book is under contract and that is why this cannot be released through Study.Net). The textbook is updated constantly; hence students should not use textbooks/bulkpacks from earlier semesters.

## B. Required References.

Principles of Corporate Finance by Brealey, Myers, and Allen, Ninth Edition, McGraw Hill. This is a text virtually all of you should own having taken Corporate Finance. If you own another edition of that book or any other corporate finance textbook (such as Corporate Finance by Ross, Westerfield and Jaffe), that will suffice as well, though you will have to figure out the relevant chapters for reading. *This text is just background reading for concepts you should already know.*

Financial Accounting by Libby, Libby, and Short, Sixth Edition, McGraw Hill. This is a text virtually all of you should own having taken Introduction to Financial Accounting. If you own another edition of that book or any other financial accounting textbook (such as Intermediate Accounting by Kieso, Weygandt, and Warfield), that will suffice as well. *This text is just background reading for concepts you should already know.*

## C. Course website

Material for the projects and additional readings will be posted for student access via Canvas. There will be copies of the PowerPoint slides I will use during class available on the website as well. These will not be distributed in hard copy as they generally follow the notes in the textbook, but students wishing to have them prior to class, can print them out. The final version of these will be available by at least 8:00AM on the day of class. If you are registered for the class, you can gain access to the Canvas room at <https://wharton.instructure.com/>.

More importantly, I have put up a discussion board on the course website for you to ask questions about course content and to discuss topics with your fellow students. **PLEASE DO NOT EMAIL ME OR THE TAs** any questions about course content. Please post your question to the message board. The TAs and I will monitor the board and will make sure your question gets answered within 24 hours. Also, if you see a question another student asked to which you know the answer, feel free to jump in and answer it yourself. I will consider message board activity when computing your participation grade.

Mark Zmijewski and Robert Holthausen would also appreciate if you would report typos, errors and comments. Thus, there will be a place on the course website where you can report typos, errors and passages that confused you. Your feedback will help the authors rewrite their new material as it gets closer to publication.

D. Other Interesting but not Required Material.

Damodaran on Valuation, by Damodaran, Second Edition, John Wiley & Sons. This valuation textbook is quite popular and covers most of the concepts covered in this class, but with less depth than our textbook.

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

Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions, by Rosenbaum and Pearl., John Wiley & Sons, 2009. This book is a very practical guide of the mechanics of building many of the models and analyses we will do in this class.

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. Current financial news should be helpful for valuing your company.

For those who would like to learn useful Excel shortcuts and how to build standard investment banking models, you might want to purchase Knowledge Base Level I or Knowledge Base Level II from DealMaven, Inc. (which is now owned by FactSet). Knowledge Base Level I teaches Excel shortcuts and how to build a standard IBANK model. Knowledge Base Level II discusses LBO and M&A transactions and how to build an LBO model and an accretion/dilution analysis for an M&A deal. To purchase or learn more about either of these products, go to:

<http://store02.prostores.com/servlet/factsetdealravenorders/StoreFront>

There is student pricing available, but it is not cheap.

4. Grading.

Grading in the course will be based on the following criteria:

|   |     |
|---|-----|
| Valuation of a Company (Group project, divided in 3 stages) | 30% |
| Options Case (Group project)                                | 10% |
| Midterm Exam  | 20% |
| Final Exam  | 30% |
| Other homework  | 5%  |
| Class Participation   | 5%  |

|       |      |
|-------|------|
| Total | 100% |
|-------|------|

**UNDERGRADUATES PLEASE NOTE: If an undergraduate student wants to drop the course after the deadline for dropping from finance courses AND I allow it (which is unlikely as it risks putting other team members in academic trouble), a “W” will appear on his or her transcript.**

A. Class and Participation and Attendance

Class participation counts 5 percent of your total grade. Some classes require you to be prepared for class discussion, while other classes will strictly follow a lecture format. During lectures, I encourage you to ask questions. Voluntary class participation is expected, but I will also cold call on individuals in class from time to time. The education experience for everyone suffers if participation or attendance for the class becomes a problem.

B. Seating

I will bring a class roster with photos for every class. But in order for me to get to know your names, I would like students to sit in the same seats every class.

C. Examinations

The Midterm Exam will be administered **in class** on **February 20th**. Its scope includes all topics covered up to that point in time. You will be allowed to use your textbook, your class notes, and a calculator, but no other materials. **Please note the scheduling of this exam. You are responsible for ensuring that you are available and on campus to take it. I will not FAX exams to remote locations.** I will not permit students to take this exam at another time unless they 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. Please advise potential employers that you cannot schedule interviews that conflict with this exam.

The Final Exam will be a comprehensive take-home that you will be allowed to complete during a limited time interval, of your choosing, between the last day of class and the end of finals period. You will download and submit the exam on Canvas, and you will have a strict time limit (to be announced later) to complete it. Anyone who fails to upload the exam within the time allotted after downloading will have his or her grade severely penalized. The final will cover all the material in the course. I will provide more details on the exact format as the semester progresses.

Both exams are absolutely mandatory. ***Students who fail to take either exam (without a valid excuse) will receive an "F" in the course,*** even if they receive a perfect grade on everything else.

D. Group Projects and Individual Exercises

As with exams, both group projects (the options case and the valuation project) are absolutely mandatory. ***Students who fail to hand in either project will receive an "F" for the course,*** even if they receive a perfect grade on everything else.

Students will have to hand in reports for the three stages of the valuation project during the semester. Late submission will incur a penalty of 10% per day, counting the day of the class itself. Students must turn in these projects at the beginning of class. ***Students who rely on team members to do all their valuation projects will fail to learn the material necessary to pass the exams.***

Note that the in-class exercises to prepare and submission deadlines are marked on the outline as either D, D & S or S. If marked D, it means you must be prepared to discuss the exercise, which I will post on the course website, though it will not be submitted. If marked D & S, you must be prepared to discuss the exercise or project and you must submit it at the beginning of the class. If marked with just an S, you will just be submitting part of your valuation project in class, but it will not be discussed in class.

**Using solutions handed out in prior years for exercises or the work of prior or current students who are**

**not members of your group on submitted work is considered a violation of the codes of academic honesty. Moreover, it is likely your exam performance will suffer as these assignments and projects are intended to help you prepare for exams.**

As part of the course requirements, you will pick a company of your own choosing and value it. There will be a separate write-up of the valuation project available in a few weeks. In the interim, you should consider possible companies you want to value. There are several criteria that you should keep in mind in choosing a company to value:

1. This has to be a company that you and your teammates have not done any valuation work on in a prior course or in a job or internship or in any other capacity. In other words, you may not value a company where some of the valuation work has already been completed by you or any of your teammates.
2. The company you pick must be publicly traded in the U.S. and must have at least three years of historical data available for this company. **Check this before submitting company names.**
3. I strongly advise you to pick a company that is in a single line of business, as valuing diversified companies like General Electric is challenging from just publicly available data. Likewise, I strongly advise to pick a company with all (or nearly all) of its operations in the US, as cross-border issues, which we will not cover in any depth, also make valuation complicated. If you must choose a company with some foreign operations, it will be better if the host of its foreign operations is more like a Canada than a South Africa or a Greece.
4. There should be at least three U.S. publicly traded competitors in the same business with at least three years of historical data. It is best if these are "pure-plays" (e.g. only in the business of the firm being valued). **Check this before submitting company names.**
5. Pick a company where you believe you have some ability to create reasonable forecasts. Hence, you should pick a company whose business model is relatively simple and mature. Picking a technology company where the technology is unproven and the demand for the technology is highly uncertain is going to create special challenges in forecasting. Likewise, picking a company that has diverse and complex product line is also going to make the project hard. On the other hand, you should value a **company that interests you and will keep you motivated for the whole semester.**

For the **valuation project and the options case**, you are to work in teams of **three or four individuals**. No team can have more than four members (more on teams later). Generally, everyone in the same group receives the same grade for the project. However, I will have you fill out a peer evaluation at the end of the semester. If your fellow group members agree that you did not pull your weight, then I will adjust your grade accordingly.

The first page of a submitted assignment based on the valuation project should indicate the name of the valued company and the names of the individuals in the group.

The first page of the submitted options case should have the name of all your group members.

You and your team should begin to think about what company you want to value. Additional information about this project will be available in a few weeks. It would be wise, however, to target a few companies and select your team members as soon as possible. **Team composition and the names of companies you would like to value are due on January 28<sup>th</sup>.**

## 5. Attendance and Class Etiquette

Students should attend the section of the class for which they are registered. Students are expected to attend class throughout the semester. In the case of a **rare conflict**, students can attend another of my sections. I teach the same class at 9:00, 10:30, and 1:30 PM on Mondays and Wednesdays. You should notify me by 8:30AM by email if you are planning to attend a different section and you should come up to me prior to the start of the class you will attend.

**Students are expected to arrive on time for class. Once in class, students should remain until the class is completed. Arrivals and departures during class time interfere with the educational process and are not fair to the other students or myself. If you choose to schedule an interview on-campus during class, do not come to class for part of the period, instead come to another section and notify me in advance.**

## 6. Workload

**The subject matter of this course is quite technical and difficult. Students who took this course in the past have indicated that the workload is extremely heavy** compared to other courses. Because of the technical nature of this course, the course does not appeal to all students. I believe in communicating the complexity of the issues one faces in valuation. I will rarely gloss over something even if it is difficult.

## 7. Relation to Corporate Finance Case Course

This course concentrates on valuation issues only and looks at them in detail. The Advanced Corporate Finance course generally examines a variety of issues such as working capital management, optimal capital structure, dividend signaling, capital budgeting and valuation. Thus, while the advanced corporate finance course deals with valuation issues, it does not look at them in as much detail. However, the course has a much broader topical coverage.

## 8. Academic Integrity

Students are expected to follow the rules of academic honesty in this class. This means that examinations are to be the work of the individual student using only the material permitted during the examination. Regarding submitted assignments and projects, the work should be the work of *only the team members* reported on the front of the document. Students should not in any way rely on the work of prior students or current students that are not members of 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 or valuation model, the use of a forecasting or valuation model not created exclusively by the student team for this course is a violation of the codes of academic integrity. In other words, **for all submitted assignments, you must start with an Excel spreadsheet which is at most populated with some raw data.** Moreover, as indicated previously, the company you value must be one that none of the team members has valued previously. You may consult financial reports and articles that discuss the company's industry (so long as you cite them properly), **but you may not consult any analyst reports or publications that contain any financial forecasts or valuation models of the company.** If you have questions concerning this policy, please see me for a clarification before you use any questionable material.

**Please note that if you violate this policy, I will ensure that you are disciplined to the fullest extent provided for by Wharton and University policies on academic integrity.**

## 9. Teams

The valuation project and options case should be worked on by teams of three to four students. Teams of five or more are not allowed (no exceptions). All students from a team must be from the **same section**. **I will not become involved in any group problems.** In choosing teammates, consider the skills your team needs to possess: accounting, finance and excel modeling expertise. Also make sure that your teammates' expectations for their performance in this course are consistent with yours. I have created a forum on canvas to facilitate your forming of teams.

**The composition of your team needs to be decided by the time you submit the names of the potential companies you would like to value.**

As a measure to prevent shirking, I will have everyone fill out a peer evaluation of their group members at the end of the semester. While I generally give the same grade on a group project to all group members, I will adjust your grade downward on all the projects if your peers all agree that you shirked.

## 10. Lunches

In an effort to get to know more of you personally, I am happy to take as few as three students and as many as six students to lunch at a nearby restaurant. Because I teach on Mondays and Wednesdays and have other lunchtime commitments on Thursday and Friday, I am generally available for lunch only on Tuesday at noon. There will be a sign-up sheet on my door for lunches with the Tuesday dates when I am available during the semester. If a group of you cannot meet for lunch on Tuesday at noon and wish to arrange an alternative, please email me and we will see if we can schedule an alternative time.

## Course Calendar

| Date      | Topic   | Chapter     | Assignment                            |
|-----------|---|-------------|---------------------------------------|
| 1/9/2013  | Introduction to Course and Valuation                          | 1           |                                       |
| 1/14/2013 | Financial Statement Analysis & Picking Comps                  | 2           |                                       |
| 1/16/2013 | Continue FSA, start of Free Cash Flow and SCF                 | 2 & 3.1-3.4 |                                       |
| 1/21/2013 | MLK Day: No Class   |             |                                       |
| 1/23/2013 | Finish Free Cash Fows & SCF                                   | 3.1-3.4     | S--Names of 3 companies to value      |
| 1/28/2013 | Creating and Financial Model                                  | 4           | D&S--Changes in Financial Ratios      |
| 1/30/2013 | Creating and Financial Model                                  | 4           |                                       |
| 2/4/2013  | Issues with FCF   | 3.5-3.7,    | D & S--Free Cash Flow Computation     |
| 2/6/2013  | The APV and WACC Valuation Models                             | 5           | D--Tax Shield Computation             |
| 2/11/2013 | Measuring Continuing Value                                    | 6           | D--APV Computation                    |
| 2/13/2013 | Excess Earnings Models  | 7           | D&S-Valuation Project: Stage 1        |
| 2/18/2013 | Catch-Up and Review (If Time Permits)                         |             |                                       |
| 2/20/2013 | Midterm Exam (In Class)                                       |             |                                       |
| 2/25/2013 | Cost of Equity Capital 1                                      | 8           |                                       |
| 2/27/2013 | Cost of Equity Capital 2                                      | 8           |                                       |
| 3/4/2013  | Spring Break  |             |                                       |
| 3/6/2013  | Spring Break  |             |                                       |
| 3/11/2013 | Cost of Debt & Preferred Stock                                | 9           |                                       |
| 3/13/2013 | Levering and Unlevering                                       | 10          |                                       |
| 3/18/2013 | Levering and Unlevering                                       | 10          | D & S Valuation project: Stages 1 & 2 |
| 3/20/2013 | WACC and Special Issues                                       | 11          | D & S--Cost of Capital Computation    |
| 3/25/2013 | Advanced topic: options in valuation 1                        | 12          |                                       |
| 3/27/2013 | Advanced topic: options in valuation 2                        | Handout     |                                       |
| 4/1/2013  | Advanced topic: leveraged buyouts                             | 15          |                                       |
| 4/3/2013  | Advanced Topic: Valuation for M&A                             | 16          | D & S Real Option Case                |
| 4/8/2013  | Overview of Market Multiples                                  | 13          | D--Merger case                        |
| 4/10/2013 | Student Presentations   |             | D&S--Final valuation project: Stage 3 |
| 4/15/2013 | Student Presentations   |             |                                       |
| 4/17/2013 | Student Presentations   |             |                                       |
| 4/23/2013 | Catch-Up and Review   |             |                                       |
| 5/9/2013  | Deadline to submit take-home final (may be completed earlier) |             |                                       |