UNIVERSITY OF PENNSYLVANIA
The Wharton School

Professor Michelle Lowry   **Corporate Valuation**
Fall 2013   **Finance 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. Finally, please do not use the email feature through Canvas.
This does not get forwarded to my regular email account and I rarely
remember to check these messages in Canvas.**

Office Hours: Professor Lowry: Mondays, 4:30 – 5:30 PM, 2454 SHDH

Class Times: T Th 9:00-10:20, 10:30-11:50, 12:00-1:20 JMHH G65

Teaching assistants: Mourad Kattan mkattan@wharton.upenn.edu
                                       Office hours Tuesdays [Time TBD]

                                       Matthew Greenberg grmatt@wharton.upenn.edu
                                       Office hours Wednesday 5-6:00pm

                                       David Gallagher daga@wharton.upenn.edu
                                       Office hours Thursdays [Time TBD]

                                       Tetiana Davydiuk Davydiuk@wharton.upenn.edu
                                       Office hours Fridays 2-3:00pm

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 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. 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 the readings for the class is available at the bookstore. **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 first version of the textbook, written by Robert Holthausen from the accounting department at Wharton and Mark Zmijewski from the University of Chicago, has just been published. The textbook has been updated from the bulkpacks used in earlier semesters, and students should not use these earlier versions.

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. *This text is just background reading for concepts you should already know.*
Financial Accounting by Stickney, Weil, Schipper, and Francis, 13th edition. Virtually all of you should own either this book or another financial accounting textbook. 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 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.

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/factsetdealmavenorders/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%
Midterm Exam	30%
Final Exam	35%
Class Participation	5%
Total	100%

A.   Class and Participation and Attendance

Class participation counts 5 percent of your total grade. 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 seating chart for every class. Thus, I ask that you please sit in the same seats every class.

C.   Examinations

The Midterm Exam will be administered on **October 7th, from 6-8pm (location TBD)**. 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 exam. It is scheduled for Tuesday Dec 17th, 6:00-8:00pm. 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

As with exams, the group valuation project is absolutely mandatory. *Students who fail to hand in the 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 result in serious penalties to grades. 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.**

Using any portion of a project done by students in prior years or any work of 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. Companies must be in the RETAIL INDUSTRY. There will be a separate write-up of the valuation project available shortly. 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 should be a company in the **<u>RETAIL</u>** industry.

2. 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.

3. 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.**

4. 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.

5. 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.**

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6. 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,** 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.

Projects must be submitted both electronically (on Canvas) and in hard copy. Please be sure that only one group member uploads the assignment to Canvas.

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 September 12th.**

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 12:00 on Tuesdays and Thursdays. You should notify

me by 8:00AM 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.

Course Calendar

Date	Topic	Chapter	Assignment
8/29/2013	Introduction	1	
9/3/2013	Financial Statement Analysis	2	
9/5/2013	Free Cash Flows	3	
9/10/2013	FCFs (cont.), Building a Financial Model	3 & 4	
9/12/2013	Building a Financial Model (cont.)	4	Names of 3 co's to value
9/17/2013	APV and WACC	5	
9/19/2013	APV and WACC	5	
9/24/2013	Continuing Value	6	
9/26/2013	Continuing Value (cont.) & Excess Earnings	6 and 7	
10/1/2013	Excess Earnings	7	Stage 1 of Valuation project
10/3/2013	Catch-Up and Review		
10/7/2013 MONDAY	Mid-term Exam 6-8pm		
10/8/2013	Class cancelled		
10/10/2013	FALL BREAK - NO CLASS		
10/15/2013	Cost of Equity Capital	8	
10/17/2013	Cost of Equity Capital (cont.)	8	
10/22/2013	Cost of Debt & Preferred Stock Capital	9	
10/24/2013	Effects of Financial leverage on cost of capital	10	
10/29/2013	Effects of Financial leverage on cost of capital	10	
10/31/2013	Measuring WACC	11	
11/5/2013	Options in Valuation	12	Stage 2 of Valuation Project
11/7/2013	Market multiples	13	
11/12/2013	Market multiples (cont.)	14	
11/14/2013	LBO Transactions	15	
11/19/2013	M&A	16	
11/21/2013	Valuing Businesses across Borders	17	
11/26/2013	Student Presentations		Final Valuation Project
11/28/2013	Happy Thanksgiving		
12/3/2013	Student Presentations		
12/5/2013	Student Presentations		
12/10/2013	Catch-Up and Review		
Final Exam to be administered during finals period: Dec 17th 6-8pm.			