

Tentative Syllabus
Finance 728 – Corporate Valuation
Fall 2013
Prof. Michael R. Roberts

Description and Format

This is a course on corporate valuation. The emphasis will be on valuation problems in the context of the firm (e.g., capital budgeting, acquisitions, firm valuation, equity valuation, buyouts, etc.). While there is some overlap with other classes, such as advanced corporate finance, this class differs significantly in terms of its sharper focus on valuation and the depth of our analysis. We will tackle valuation problems mostly with actual, unsanitized data in a variety of settings.

This is a finance course. Strategy and accounting are important components in any valuation. As such, we will touch on these issues throughout the course. However, the majority of time will be spent on finance-related issues.

My teaching philosophy is learning by doing. As such, the lectures and assessments will all be based on doing valuations in various settings and employing various techniques. We will introduce and illustrate the underlying theory through numerous examples.

This course is dynamic, hence, the tentative nature of this syllabus. Let me emphasize this point. I like to explore valuation issues that arise in practice over the course of the semester. Further, we will explore different topics more or less deeply as we see fit; and, I encourage the discussion of workplace related questions, subject to relevance and time constraints. Likewise, I encourage the discussion of current events, again subject to relevance and time constraints. Thus, it is best to view the syllabus and schedule as a rough guide of the topics we will be investigating. What is not subject to change is the assessment method and due dates of assignments.

The class format consists of lectures on each topic, typically followed by a case focusing on that topic. For each lecture, I encourage you to come to class prepared by bringing the lecture slides and having completed the pre-readings. Doing so will enable you to get more out of the lectures and allow us to cover more ground. The goal with lectures is to introduce and reinforce valuation techniques.

For the cases, students should work in groups of **no more** than four (no exceptions). Case solutions consist of answers to the case questions and an excel file containing any supporting material (e.g., forecasts, valuations, etc.). You may email your case solutions to the TA anytime on the due date of the case. The TA and I will not answer any questions concerning the case until after the due date. Likewise, the TA and I will not answer any questions concerning the individual project until after the due date. The motivation for this policy is to mimic real life situations, in which you will face difficult and ambiguous valuation tasks for which there is no TA or professor to answer questions.

The rules for the course are laid out clearly below. I make no exceptions so do not ask. I repeat: ***there are no exceptions to the rules.***

This is a challenging course, but one that is, hopefully, equally rewarding.

Pre-Requisite Knowledge

I will assume that you have a working knowledge of finance (i.e., Finance 601) and accounting (Accounting 620). This knowledge is essential because there is not enough time in the course to review this material.

Materials

I rely on a variety of materials to construct this course. I also offer a large number of suggested readings, as listed here and below in the discussion of course topics. You are not expected to read everything suggested on this syllabus. Doing so would be inefficient as many readings are redundant. I suggest that you peruse the readings to determine what works best for you.

- 1) Cases: Cases are listed below and are available on Study.net
- 2) Articles: Various articles for each topic are also listed below and will be made available via Study.net.
- 3) Slides and Supporting Material: Lecture Slides and other materials will be made available on Canvas.
- 4) Texts: There are a number of excellent texts that could be used for this course. I rely primarily on Holthausen and Zmijewski, *Corporate Valuation: Theory, Evidence, and Practice* and Berk and DeMarzo (BD), *Corporate Finance*, 2nd ed. Alternative texts include:
 - a. *Principles of Corporate Finance* 10th ed., Brealey, Myers, and Allen (BMA). Alternative text to BD with similar coverage.
 - b. *Valuation: Measuring and Managing the Value of Companies* 4th ed., Koller, Goedhart, and Wessels. A more strategic oriented introduction to valuation.
 - c. *Valuation: The Art and Science of Corporate Investment Decisions* 2nd ed., Titman and Martin. Introductory valuation text.

Assessment

Grades will be based on the following criteria

- 1) 20%, Class participation: To get the most out of the class you must not only attend but actively participate in the class discussion. This will require advance preparation including reviewing lecture slides, completing the background reading, and preparing case solutions.
- 2) 45%, Case Solutions: Case solutions consist of answers to the case questions and an excel file containing any supporting material. The TA and I will not answer any questions related to the case so do not ask. We will not respond. Late submissions will not be accepted and will result in a score of zero for the case. You have one week from the time that they case is returned to the class to request a re-grade of the case. The case will be regarded in its entirety. As such, your score may increase, decrease, or remain unchanged.
- 3) 35% Individual Project. The individual project will be an integrated case that brings together many, if not all, of the concepts covered in the course. It will be a take-home

project for which you will have one week to complete ***by yourself***. ***You may not engage anyone to help you with this individual project***. You are free to use any resources at your disposal (e.g., texts, slides, notes, etc.), however, you may not use solutions or “tips” that are specific to the case found on the web or from previous students in the course. Your solution should mimic that of the case assignments and may be emailed to the TA upon completion. The TA’s and I will not discuss any aspect of the individual project so please do not ask. Failure to turn in an individual project before the deadline will result in failure in the course.

Course Outline

- 1) Course Introduction
 - a. Lecture Topics
 - i. Course Overview and Administration
 - b. Readings
 - i. *What’s It Worth? A General Manager’s Guide to Valuation*, Luehrman, Harvard Business Review, 1997, Reprint 97305.
- 2) Free Cash Flow
 - a. Lecture Topics
 - i. Fundamentals of Capital Budgeting (Forecasting Earnings, Determining Free Cash Flow & NPV)
 - b. Readings
 - i. Chapters 3 and 4, Holthausen and Zmijewski
 - ii. Chapter 7, Berk and DeMarzo
 - iii. Chapters 2 and 5, Brealey, Myers, and Allen
 - iv. *Net Present Value and Internal Rate of Return: Accounting for Time*, Excerpted from “Manager’s Toolkit: The 13 Skills Managers Need to Succeed,” 5245BC
 - c. Case:
 - i. Ocean Carriers, Stafford, Luchs, and Chao, 9-202-027
- 3) Cost of Capital
 - a. Lecture Topics
 - i. CAPM
 - ii. Equity Cost of Capital
 - iii. Debt Cost of Capital
 - iv. Project Cost of Capital
 - v. Other Securities’ Costs of Capital
 - vi. Alternative Asset Pricing Approaches
 - b. Readings
 - i. Chapters 8 and 9, Holthausen and Zmijewski
 - ii. Chapter 12, Berk and DeMarzo
 - iii. Chapter 9, Brealey, Myers, and Allen
 - iv. *Business Valuation and the Cost of Capital*, Luehrman (9-201-037)
 - v. *Stock Prices, Beta, and Strategic Planning*, Harrington, Harvard Business Review, May-June 1983, Reprint 83306
 - c. Case
 - i. Cost of Capital at Ameritrade, Mitchell and Stafford, (9-201-046)

- 4) Multiples
 - a. Lecture Topics
 - i. Multiples and Comparables
 - b. Readings
 - i. Chapters 13 and 14, Holthausen and Zmijewski
 - ii. Chapter 9.4 (Multiples Valuation), Berk and DeMarzo
 - iii. Page 77 (Multiples Valuation), Brealey, Myers, and Allen
 - iv. *Corporate Valuation and Market Multiples*, Luehrman, (9-206-039)
- 5) WACC Method
 - a. Lecture Topics
 - i. Valuation with WACC
 - b. Readings
 - i. Chapter 5, Holthausen and Zmijewski
 - ii. Chapter 18.1 and 18.2, Berk and DeMarzo
 - iii. Chapter 19.1 – 19.3, Brealey, Myers, and Allen
 - c. Case
 - i. Radio One, Inc., Ruback and Fischer, (9-201-025)
- 6) Flow-to-Equity Method (FTE)
 - a. Lecture Topics
 - i. Free Cash Flow to Equity (FCFE)
 - ii. Valuing Equity Cash Flows
 - b. Readings
 - i. Chapter 18.4, Berk and DeMarzo
 - ii. Chapter 19.2, Brealey, Myers, and Allen
- 7) Adjusted Present Value (APV)
 - a. Lecture Topics
 - i. Unlevered value of a project
 - ii. Valuing the Interest Tax Shield
 - iii. APV with alternative capital structure strategies
 - iv. Alternative costs and benefits associated with financing
 - b. Readings
 - i. Chapter 18.3, 18.6 – 18.8, Berk and DeMarzo
 - ii. Chapter 19.4, Brealey, Myers, and Allen
 - iii. *Using APV: A Better Tool for Valuation Operations*, Luehrman, Harvard Business Review, May-June 1997, Reprint 97306
 - iv. *The Adjusted Present Value Method for Capital Assets*, Fenster and Gilson, (9-294-047).
 - c. Case
 - i. Sampa Video Inc., Andrade, (9-201-094)
- 8) Real Options
 - a. Lecture Topics
 - i. Real vs. Financial Options
 - ii. Decision Trees
 - iii. Option to Delay
 - iv. Growth and Abandonment Options
 - b. Pre-Readings

- i. Chapters 20-21 (Background material on options), adjusted Chapter 22 (Real Options), Berk and DeMarzo
 - ii. Chapters 20-21 (Background material on options), Chapter 22 (Real Options), Brealey, Myers, and Allen
 - iii. *Investment Opportunities as Real Options: Getting Started on the Numbers*, Luehrman, Harvard Business Review, July-August 1998, Reprint 98404.
 - iv. *Strategy as a Portfolio of Real Options*, Luehrman, Harvard Business Review, September-October 1998, Reprint 98506.
 - v. *Making Real Options Really Work*, van Putten and MacMillan, Harvard Business Review, December 2004, Reprint R0412K
 - vi. *The Options Approach to Capital Investment*, Dixit and Pindyck, Harvard Business Review, May-June 1995, Reprint 95303.
 - vii. *A Real-World Way to Manage Real Options*, Copeland, Harvard Business Review, Reprint R0403G
 - c. Cases
 - i. Arundel Partners
 - ii. (Optional) Real Options Exercises, Luehrman, (9-208-045)
- 9) Financial Modeling
 - a. Lecture Topics
 - i. LBO of Ideko Corp.
 - b. Pre-Readings
 - i. Chapter 4, Holthausen and Zmijewski
 - ii. Chapter 19 (A Case study on Financial Modeling), Berk and DeMarzo

Course Schedule

The class will meet every Tuesday and Thursday during the Fall semester. Section 004 will meet from 1:30 to 2:50 in JMHH G-65. A tentative outline of each class is provided in the table below. I emphasize that this is only a tentative outline.

Class	Day	Date	Topic
1	Th	Aug 29	Introduction
2	T	Sep 3	Lecture: <i>Free Cash Flow</i>
3	Th	Sep 5	Lecture: <i>Free Cash Flow</i>
4	T	Sep 10	Lecture: <i>Free Cash Flow</i>
5	Th	Sep 12	Lecture: <i>Cost of Capital</i>
6	T	Sep 17	Lecture: <i>Cost of Capital</i>
7	Th	Sep 19	Case: <i>Ocean Carriers</i>
8	T	Sep 24	Lecture: <i>Cost of Capital</i>
9	Th	Sep 26	Lecture: <i>Multiples</i>
--	T	Oct 1	Lecture: <i>Multiples</i>
10	Th	Oct 3	Case: <i>Cost of Capital at Ameritrade</i>
11	T	Oct 8	Lecture: <i>WACC Method</i>
12	Th	Oct 10	Fall Term Break
13	T	Oct 15	Lecture: <i>WACC Method</i>
14	Th	Oct 17	Lecture: <i>WACC Method</i>
15	T	Oct 22	Lecture: <i>Flow to Equity Method</i>
16	Th	Oct 24	Lecture: <i>APV Method</i>
17	T	Oct 29	Case: Radio One, Inc.
18	Th	Oct 31	Lecture: <i>APV Method</i>
19	T	Nov 5	Lecture: <i>APV Method</i>
20	Th	Nov 7	Lecture: Real Options
--	T	Nov 12	Lecture: <i>Financial Modeling</i>
--	Th	Nov 14	Case: <i>Sampra Video</i>
21	T	Nov 19	Lecture: <i>Financial Modeling</i>
22	Th	Nov 21	Lecture: <i>Financial Modeling</i>
23	T	Nov 26	Guest Lecture
24	Th	Nov 28	Thanksgiving
25	T	Dec 3	Review & Individual Project Assigned
26	Th	Dec 5	Open Forum
27	T	Dec 10	Individual Project Presentations