

FNCE 207 & 728: CORPORATE VALUATION

Professor Vincent Glode, CFA
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Wharton School
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I will only answer emails containing simple questions about administrative issues. I will not answer emails that require long explanations about course material. In those cases, I ask you to attend office hours, talk to me in class, or schedule an appointment.

Office Hours: For convenience, my office hours are by appointment. Simply send me an email to schedule a meeting. See course website for details about the TAs' office hours.

Class Times: Section 207-001: Monday/Wednesday, 12:00 - 1:20 PM in JMHH G55
Section 728-001: Monday/Wednesday, 1:30 - 2:50 PM in JMHH G55
Section 728-002: Monday/Wednesday, 3:00 - 4:20 PM in JMHH G55

1. *Course Objectives.*

The objective of this course is to learn firm, debt, and equity valuation methods from 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 real companies.

The subject matter of this course is relatively 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 its technical nature, this course does not appeal to all students and is only recommended for students interested in learning valuation techniques in great depth. I believe in communicating the complexity of the issues one faces when valuing companies. I will rarely gloss over something, even if it is difficult. **Students who hope to never see a financial statement again should not take this course.** In fact, students with weak accounting and finance backgrounds will feel at a disadvantage in 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.

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

2. *Minimal Prerequisites.*

- A. Introductory Financial Accounting.
- B. Introductory Corporate Finance.
- C. Introductory Statistics or Econometrics.
- D. Working knowledge of Microsoft Excel.

Note that knowledge of intermediate accounting is 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 Material.*

- A. Course Textbook

The required text is Corporate Valuation: Theory, Evidence and Practice by Robert Holthausen and Mark Zmijewski, published by Cambridge Business Publishers. The book is available through the bookstore or at this link: <https://cambridgepub.com/book/corporate-valuation>

- B. Course Website

Material for the projects and additional readings will be posted for student access on Canvas. I will also upload abridged versions of the PowerPoint slides I use in my lectures. Slides will not be distributed in hard copy as they generally follow the notes in the textbook, but students wishing to access the abridged slides prior to class will be able to print them out or upload them on their tablets in the morning of each lecture. You can gain access to the Canvas website at: <https://canvas.upenn.edu/>

- C. Other Useful References

Corporate Finance by Berk and Demarzo. This is a text virtually all of you should own having taken Introductory Corporate Finance. If you own any other corporate finance textbook (such as Principles of Corporate Finance by Brealey, Myers, and Allen), that will suffice as well. This text is just background reading for finance concepts you should already know.

Financial Accounting by Libby, Libby, and Short. This is a text virtually all of you should own having taken Introductory Financial Accounting. If you own 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 accounting concepts you should already know.

Damodaran on Valuation 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. An entertaining introduction to the process of forecasting under uncertainty: we are not trying to forecast everything perfectly, we are simply trying to do the best we can with the information 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. Following financial news will be essential for valuing your company.

4. *Grading.*

Grading will be based on the following weights:

Class Participation (e.g., attendance, preparation, discussion)	10%
Valuation of a Company (divided in 3 stages)	30%
Midterm Exam	30%
Final Exam	30%

A. Class Participation and Classroom Etiquette

Class participation counts for 10% of your grade. I will base my grading **on attendance, preparation, and participation**. Some classes require you to be prepared to discuss in-class exercises, 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 from time to time.

The educational experience for everyone suffers if participation or attendance becomes a problem. Students are thus expected to **attend every single lecture and refrain from using electronic devices for non-educational purposes**. **Phones and laptops are not allowed --- 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 each of my sections is at full capacity, **students must attend the section for which they are registered**. In the case of a **rare conflict**, students may attend another one of my sections. I teach the same class at 12:00, 1:30, and 3:00 PM in the same room on Mondays and Wednesdays. However, you need to notify me by 10:00 AM on the day of the lecture if you plan to attend a different section.

Violating these basic norms of classroom etiquette will significantly lower your participation grade.

B. Projects and In-Class Exercises

As part of the course, you will value a company of your own choosing in a team of up to four students (more on teams later). Each team will have to submit three separate reports, one for each stage of the valuation project, during the semester. 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 for teams and target a few companies as soon as possible. **Team composition and the names of 3 potential companies you would like to value are due on January 24.**

Note that exercise and project deadlines are marked on the calendar below as either D or S. If marked S, you must submit the assignment before noon on that day. If marked D, it means you must be prepared to discuss the exercise in class, though it does 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 are not caught) will suffer as these assignments and projects are intended to help you prepare for the exams.

C. Exams

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

The first exam will be administered **in class** on **February 21** and will cover Chapters 1-7. The final exam will be administered **during the final exam period as scheduled by the Registrar** and will cover all material mentioned in the course (i.e., it is cumulative). As of now, the Registrar has set a **tentative date for May 1, but it is subject to change. You are responsible for ensuring that you are available and on campus to take both exams.** I will not email exams to remote locations. I will not permit anyone to take the exams at another time unless that person is gravely ill or faces a significant emergency (which needs to be documented). **If your travel or interview plans conflict with the course, you must change your plans now or drop the course.**

5. *Academic Integrity.*

Students are expected to follow the code of academic integrity. Examinations are to be the work of the individual student using only the material permitted during the examination. Regarding submitted assignment, the work 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 or 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. 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 your team members has valued previously. If you have questions concerning this policy, please see me for a clarification before you use any questionable material. **If you violate this policy, failing the class will constitute the minimum penalty, regardless of the degree of your violation.**

6. *Teams.*

Assignments and valuation projects can be worked on individually or in teams of up to four students (no exception). MBAs and undergraduates may not be on a same team but teams can include students from different sections. I encourage you to work in teams to maximize the learning experience. **I will not become involved in group problems.** In choosing teammates, consider the main skills each team needs to possess: accounting, finance, and Excel modeling. **Also make sure that your teammates' expectations for their performance in this course are consistent with yours.** The composition of your team needs to be set by the time you submit the names of the potential companies you would like to value.

7. *Lunches.*

In an effort to get to know more of you personally, I plan to take between 3 and 6 students to lunch at a nearby restaurant at a regular frequency throughout the semester. Because I teach on Mondays and Wednesdays and have other lunchtime commitments on Tuesday and Friday, I generally schedule these lunches on Thursdays. There will be a sign-up function on the course website where I will post, throughout the semester, the dates for which I am available. If a group of students cannot meet for lunch on Thursday at noon and wish to schedule an alternative time, please email me and I will do my best to accommodate you.

COURSE CALENDAR**SPRING 2018**

NOTE: TOPICS COVERED, ASSIGNMENTS, AND DATES ARE SUBJECT TO CHANGE

Date	Topic	H & Z Chapter	Assignment (D=Discussion & S=Submission)
10-Jan	Introduction to Course and Valuation	1	
17-Jan	Creating Economic Value	1	
22-Jan	Measuring Economic Value	2	
24-Jan	Computing Free Cash Flows	3	S - Names of 3 Companies to Value
29-Jan	Creating a Financial Model	4	D - Interpreting Financial Ratios: P2.1, P2.3
31-Jan	Creating a Financial Model	4	D - Computing Free Cash Flows: P3.1
5-Feb	Various Forecasting and Measurement Issues		
7-Feb	DCF Valuation Methods	5	D - Computing Interest Tax Shields: P3.9
12-Feb	Excess Earnings Valuation	7	
14-Feb	Measuring Continuing Value	6	D & S - Valuation Project: Stage 1
19-Feb	Catch-Up and Review		D - Using DCF Method: P5.6
21-Feb	MIDTERM EXAM (IN CLASS)		
26-Feb	Cost of Equity Capital	8	
28-Feb	Cost of Equity Capital	8	
5-Mar	NO CLASS - Spring Break		
7-Mar	NO CLASS - Spring Break		
12-Mar	Cost of Debt	9	
14-Mar	Levering and Unlevering	10	
19-Mar	Levering and Unlevering	10	
21-Mar	WACC and Special Issues	11, 12	D & S - Valuation Project: Stages 1+ 2
26-Mar	Market Multiples	13	D - Computing Cost of Capital: P10.7
28-Mar	Market Multiples	14	
2-Apr	Advanced Topic: Financial Institutions	See Canvas	
4-Apr	Advanced Topic: Insider Trading	See Canvas	
9-Apr	Catch-Up		
11-Apr	Student Presentations		D & S - Valuation Project: Stages 1+ 2+ 3
16-Apr	Student Presentations		
18-Apr	Student Presentations		
23-Apr	Student Presentations		
25-Apr	Review and Project Feedback		

FINAL EXAM (DURING FINAL EXAM PERIOD)