

**UNIVERSITY OF PENNSYLVANIA—The Wharton School**  
**FNCE 207 & 728 – Corporate Valuation**  
**Spring 2009**

**Professor Michael Cichello**

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**Office Hours:** Tuesday 4:30 – 6:00

TAs and their office hours will be announced in the second week of class.

**1. Course Objectives:**

The objective of this course is to teach students about the analysis and valuation of equity securities. We will do so using the basic Economy/Industry/Company (EIC) framework employed in the financial industry, paying special attention to financial statement analysis. Students also will learn the primary valuation techniques used to estimate market values for equity securities. The course will highlight the importance of identifying and focusing on key value drivers. The analytical framework and valuation techniques, as well as the practical market information students learn in this class will be useful for careers in corporate finance, asset management, research, sales, trading, financial market regulation or financial journalism.

The workload is very demanding for this class. If you are looking for a class with little time commitment, then this class is not for you.

**2. Course Materials:**

Required Text: Valuation: Measuring and Managing the Value of Companies, 4th Edition: University Edition. Koller, Goedhart, Wessels. Wiley Press ISBN 978-0-471-70221-4

Bulk Packs (2): There will be two bulk packs supplied by Wharton Reprographics. The first includes 5 cases (Harvard and Darden). The second contains information on Starbucks, a firm that we will value in the latter half of the semester.

Web Café: The course site contains suggested questions for cases, Excel files for exhibits for most cases, lecture notes and other miscellaneous information. You will find the most updated information and announcements for the course. This site is the information center for the course, so please check it regularly and be sure to check it before asking questions of the TAs or of myself.

It is highly recommended that you purchase a binder for the class, as there will be a lot of additional materials (particularly the class notes). Additional handouts (e.g. current articles from the Wall Street Journal, Business Week, the Economist) will be distributed in class and charged to your student account.

### **3. Grades:**

Student grades will be calculated as follows:

10%	Class Participation
15%	Group Excel assignments
15%	Group case analyses
30%	Midterm Exam 1
30%	Midterm Exam 2

Grades will reflect knowledge of the course material, communication skills and teamwork. Class participation is crucial to the success of this class. Therefore, you should come prepared for all classes. To ensure this, I will cold call on students at various times. Your participation grade will be based on your advancement of class discussion. For the cases (even the ones that do not have specific deliverables), you should prepare with other group members and be prepared to answer questions, as if there were a deliverable.

Please display your name card in class. If I don't know your name by the end of the semester, your participation grade will suffer.

### **4. Exams:**

The first midterm exam will be on Tuesday March 3 during class time for Undergraduates and Tuesday March 3 from 6:00 to 7:30 for Masters students. The second midterm exam will be on Tuesday April 21 during class time for Undergraduates and Tuesday April 21 from 6:00 to 7:30 for Masters students.

### **5. Project Teams:**

You will need to form groups of 3 to 5 people to work on four group exercises. You also may want to use these groups as you prepare for classes. Group work will receive a grade for the entire group. You are strongly encouraged to study cases with members of your group. Submitted assignments for grading should be your group's joint work only. Each member of your group is expected to contribute equally to the group reports. You should see these assignments as your opportunity to develop new skills.

### **6. Team Assignments:**

Each team assignment will require a written report and must be turned in on paper at the start of class on the due date. Late assignments will have a deduction of 10% per business day. Reports should be limited to three pages not including a well referenced spreadsheet based appendix. These reports should address key issues in the case, some of which will be specifically addressed by questions given on the Web Café site.

## **7. Class & E-mail Etiquette:**

I will not provide lengthy answers to your course related questions or hold tutorial sessions by e-mail. You should use office hours or TA office hours for that purpose. Additionally, I can provide answers on theory, advanced analysis, or topics outside of the course by phone if you provide me with a call back phone number. Also, to avoid grading discrepancies, I will do my best to NOT answer questions concerning the assignments. Please refer any assignment questions to your section's teaching assistant.

## **8. Academic Integrity and Code of Ethics:**

*You cannot use work completed by other students, old notes or handouts, or solutions to the cases from previous years or other sections of this course at Wharton or similar courses at other business schools or elsewhere for your written reports and class discussions. Violation of this rule will result in an automatic failing grade for the course. Furthermore, the violators will be reported for further disciplinary action.*

*If you use materials from any publicly available or private source, including those sources on the internet, private company presentations, etc. in your submitted work for any reason, you should properly cite them. Otherwise this may be considered plagiarism.*

## Class Outline

Below is an outline of key topics and assignments. To provide flexibility, some of the topics may shift dates based on the length of discussions and class needs. All changes will be posted on Web Cafe. It is the responsibility of each student to complete all assignments before the beginning of class and to come prepared.

Date	Lecture	Assignments
1/15 & 1/20	Introduction and overview of class Fundamentals of Value Creation	Valuation Chapter 3
1/22	ROIC vs. DCF-based valuation methods	Valuation Chapter 6
1/27 & 1/29	Enterprise DCF vs. equity-based valuation methods	Valuation Chapter 5 Pages 103-121
2/3	<b>DuPont case discussion</b>	Prep DuPont case – no deliverable
2/5	Valuation by comparables (multiples)	Valuation Chapter 12
2/10	<b>Nicholson File case discussion</b>	<b>Prep Nicholson case – deliverable announced in class</b>
2/12	Measuring & driving organic revenue growth	Article: The Granularity of Growth
2/17	<b>Brown Forman case discussion</b>	<b>Written report with supporting exhibits due</b>
2/19 & 2/24	Reorganizing the financials: NOPLAT & Invested Capital	Valuation Chapter 7 Pages 159-182
2/26	Competitive benchmarking using financial ratio analysis	Supplemental binder: Higgins Chapters 1 & 2
3/3	<b>MIDTERM EXAM</b>	
3/5	<b>NO CLASS</b>	
3/10 & 3/12	<b>NO CLASS – SPRING BREAK</b>	
3/17	Analyzing operating performance using Free Cash Flow	Valuation Chapter 7 Pages 182-187
3/19	The forecasting process	Valuation Chapter 8

3/24	<b>Starbucks case discussion</b>	<b>Starbucks Assignment 1 due</b>
3/26	Determining the appropriate forecast window & continuing value	Valuation Chapter 9
3/31	<b>Hampton Machine Tool case discussion</b>	Prep Hampton Machine Tool – no deliverable
4/2	Weighted Average Cost of Capital (WACC), Adjusted Present Value (APV) and Capital Cash Flow (CCF)	Valuation Chapter 5 Pages 121 - 133
4/7 & 4/9	Cost of Capital: Advanced theory & practical measurement	Valuation Chapter 10
4/14	<b>Cost of Capital at Ameritrade case discussion</b>	<b>Written report with supporting exhibits due</b>
4/16	Course catch-up	
4/21	<b>MIDTERM EXAM</b>	
4/23	Analyzing & valuing off balance sheet financing	
4/28	<b>Starbucks case discussion</b>	<b>Starbucks Assignment 2 due</b>