



Marshall School of Business – FBE 529 Summer 2007

FBE 529: Financial Analysis & Valuation

Section:	Date/Time:	Location
15400R	Mondays 6:00pm-10:00pm	JKP112
Session Start: June 4 th Session End: August 13 th		

Julia Plotts

Assistant Professor of Clinical Finance & Business Economics

USC Office: Accounting 301J, Office Telephone: (213) 821-6798, Mobile: (310) 528-6291

USC Fax: (213) 740-6650 Email: plotts@marshall.usc.edu

Course website: on Blackboard <http://blackboard.usc.edu>

Summer 2007 Office Hours: Mondays 5-6pm or by appointment

Course Objectives & Description:

This course develops and uses tools of financial analysis to evaluate the performance and assess the value of individual companies in an industry context. The course covers various valuation approaches and financial analysis needed for enterprise valuation. You will learn to assess a firm's business and competitive strategy and whether it is creating value for shareholders. This will involve applying tools of financial analysis and several valuation methodologies to evaluate a company's strategic and competitive positioning, financial performance, and strategic alternatives. An important aspect of this course will be to bridge financial theory and practice with valuation, capital structure analysis, and corporate strategy in the context of real world implications.

This course will be most useful for those who plan to make (or continue) a career in corporate finance and/or corporate strategy and development - whether at corporations, consulting firms, or investment banks. The course will also be valuable for future portfolio managers and equity or fixed income research Analysts.

Prerequisite Knowledge:

This course assumes that the background knowledge of students include basic finance (Prerequisite: GSBA 521b or GSBA 548) and accounting. It will be assumed that students are comfortable with the topics of standard corporate finance texts such as Ross, Westerfield and Jaffe or Brealey & Myers. **Note: You are responsible for reviewing your basic finance and accounting concepts.** The pace and schedule of topics covered in this class does not allow for review of these concepts, so please be prepared.

If you have any questions regarding this please see me right away (first week of class) so we can discuss and remedy the situation if necessary.



Marshall School of Business – FBE 529 Summer 2007

Learning Objectives:

Following completion of the course students will be capable of:

- **Financial Statement Analysis:** Reviewing and assessing a firm's financial statements utilizing performance ratios, historical analysis, strategic analysis and overall market assessment of a firm. This includes evaluating the degree to which a firm's financial statements capture the underlying business reality. Recognizing accounting distortions and/or earnings manipulation and restating financials for purposes of analysis.
- Assessing Long Term Earnings and/or Cash Flow Potential: Forecasting a firm's financial projections using multiple scenario analysis. This includes evaluating current and past performance of the firm and assessing its future earning potential and financial health (assessing growth, value drivers and risks). The analysis also includes calculating sustainable operating income or "unlevered" pure value of the firm and adjusting financial statements for "off-balance sheet" assets and liabilities; and nonrecurring or unusual items within the income statement.
- **Using Valuation for Decision Making:**
- Utilizing and interpreting financial data and applying valuation techniques to make decisions about courses of action for a firm.
- Valuing companies using various valuation models and assessing a firm's business and competitive strategy and whether it is creating value for shareholders. Applications and transactions covered include:
 - Discounted Cash Flow (DCF) Analysis
 - Estimating a Firm's Cost of Capital
 - Relative Valuation using Market Comparables
 - Estimating a Firm's Enterprise Value
 - Valuing Firms With a Changing Capital Structure
 - Adjusted Present Value Method of Enterprise Valuation (APV)
 - Valuation in Practice & Corporate Control
 - Mergers and Acquisitions
 - Equity Capital Raising Transactions, Initial Public Offerings
 - Leveraged Buyouts (LBOs)/Management Buyouts
 - Valuation in Private Equity Setting
 - Venture Capital



Marshall School of Business – FBE 529 Summer 2007

Course Materials:

Required Textbook:

Equity Asset Valuation (Hardcover) *The CFA Institute Series* by John D., CFA Stowe, Thomas R., CFA Robinson, Jerald E., CFA Pinto, Dennis W., CFA McLeavey

Approx cost: used \$39.37, new: Amazon \$59.85, USC bookstore \$?

Publisher: Wiley (January 22, 2007) ISBN-10: 0470052821; ISBN-13: 978-0470052822

Required Harvard Business School Cases:

We will be utilizing the following HBS Publishing resources. These cases can be downloaded electronically for \$3.70 per case from the Financial Analysis & Valuation Reference ID: c05294 course website - link:

<http://harvardbusinessonline.hbsp.harvard.edu/relay.jhtml?name=cp&c=c05294>

- 1) Financial Statement Analysis (HBS) 9-195-177
- 2) Understanding Financial Statements (HBS) 5238BC
- 3) Solving the Puzzle of the Cash Flow Statement (HBS) BH013
- 4) HBS Case Bed, Bath & Beyond (9-196-123)
- 5) HBS Case Spyder Active Sports—2004 (9-206-027)
- 6) Using APV: A Better Tool for Valuing Operations (HBS) 97306

Other: Slides, handouts and supplemental readings/articles will be posted on Blackboard. Financial calculator capable of performing discounted cash flows, IRR and other financial calculations. Examples: HP 12-C or 10BII or TI-BA II Plus.

Recommended: *The Wall Street Journal*, *The Economist*, *Barron's*, *Forbes* (available through Factiva accessed through <http://mymarshall.usc.edu> or Crocker Business Library) and other financial news and/or market analysis websites.

Summer 2007 FBE 529 Grading:	
Bed Bath & Beyond Case Analysis	10%
Spyder Active Sports Case Analysis	10%
Group Valuation Assignment	35%
Peer Evaluation/Class Participation	10%
Final Exam	35%
Total	100%

Case Analysis (20%): Students will be asked to prepare case study analysis on (2) HBS cases this semester.

M	6/18	Financial Statement Analysis & Valuation Case Analysis for Bed Bath & Beyond	HBS Case (9-196-123) Bed, Bath & Beyond
M	7/16	Mergers, Corporate Control & Governance Case Analysis for Spyder Active Sports—2004	HBS Case 9-206-027 Spyder Active Sports—2004



Marshall School of Business – FBE 529 Summer 2007

Group Valuation Assignment (35%): This semester you will be working in groups of 4-6 students (please finalize group by 6/11/07) on a valuation project. During our class session on 6/11/07 we will be hosting Mark T. Mondello, Managing Director, Duff & Phelps, LLC. Mark will provide an introduction and a description of the case study. Your group will turn-in your report on 8/6/07 and will be asked to provide a presentation of your valuation.

Peer Evaluation & Class Participation (10%):

In order to provide an incentive for all students to make maximum contributions to the study group, on 8/6/07 (second to last day of class) students will be asked to grade each team member's contributions on a 0 to 5 point scale. If you do not attend this class, you will lose the opportunity to provide a grade for yourself and the other members of the study group. Additionally, you will complete an evaluation on yourself. The grade for the peer evaluation will be based on the cumulative sum of the submitted grades divided by number of peer evaluations. Thus, if only two members of a four member group attend the last class, your peer evaluation will be an average of the two grades submitted.

You are expected to participate in class discussions and with guest speakers. You will receive and additional instructor assessment of your participation, also on a scale of 0-5. This grade will reflect my assessment of the quantity and quality of an individual's contribution to the classroom learning environment, and other issues discussed in class, as well as attendance.

Final Exam (35%): Monday August 13th 6-8pm

The comprehensive final exam is worth 35% of your course grade. Questions will include both qualitative and quantitative questions from material covered in class, and presented in the readings. **There will be no make-up exams offered.** If you have pre-arranged trips on the day of exam, please do not take/drop the course.

Code of Ethics & Academic Integrity:

Most case materials in this course use real data from actual companies. You may use publicly available information about these firms in your analysis. You are prohibited from using old notes, handouts, or solutions to the cases from previous or other sections of this course for your written reports and/or for class discussions.

The use of unauthorized material, communication with fellow students during an examination, attempting to benefit from the work of another student, and similar behavior that defeats the intent of an examination, or other class work is unacceptable to the University. It is often difficult to distinguish between a culpable act and inadvertent behavior resulting from the nervous tensions accompanying examinations. Where a clear violation has occurred, however, the instructor may disqualify the student's work as unacceptable and assign a failing mark on the paper.

All students at the University of Southern California have an inherent responsibility to uphold the principles of academic integrity and to support each other and the faculty in maintaining a classroom atmosphere that is conducive to orderly and honest conduct. Students must understand and uphold the rules printed in the Student Conduct Code in the USC SCampus handbook, regarding examination behavior, fabrication, plagiarism, and other types of academic dishonesty. Violations will result in a failing course grade and referral to the University's judicial system.



Marshall School of Business – FBE 529 Summer 2007

Summer 2007 FBE 529 Tentative Course Outline, Readings, Assignments & Exams

Day	Date	Topic	Readings & Assignments
M	5/28	Holiday: Memorial Day	
M	6/4	Course Intro & Overview The Equity Valuation Process	Syllabus Stowe Chapter 1
M	6/11	Financial Statement Analysis & Valuation Calculating and Interpreting Financial Ratios The Most Important Financial Statement: Cash Flow	Financial Statement Analysis (HBS) 9-195-177 Understanding Financial Statements (HBS) 5238BC Solving the Puzzle of the Cash Flow Statement (HBS) BH013
M	6/18	Financial Statement Analysis & Valuation Case Analysis for Bed Bath & Beyond	HBS Case (9-196-123) Bed, Bath & Beyond
M	6/25	Discounted Cash Flow Valuation Forecasting Performance & Cash Flows Estimating Terminal Value & Cost of Capital	Stowe Chapters 2-3 Weighted Average Cost of Capital Handout (BB)
M	7/2	Discounted Cash Flow Valuation Enterprise DCF & WACC examples	Stowe Chapters 2-3
M	7/9	Market-Based Valuation: Price Multiples Implied Value via Comps Analysis	Stowe Chapter 4 Dicks Sporting Goods IPO Case (BB)
M	7/16	Mergers, Corporate Control & Governance Case Analysis for Spyder Active Sports—2004	Mergers & Acquisitions Handout (BB) HBS Case 9-206-027 Spyder Active Sports—2004
M	7/23	Valuation in Practice: Leveraged Buyouts (LBOs)	Using APV: A Better Tool for Valuing Operations (HBS) 97306
M	7/30	Venture Capital Valuation Build-A-Bear Case	Titman/Martin (blackboard) Chapter 8 Additional VC Method Examples (BB)
M	8/6	Valuation Project/Presentations	Peer Evaluation/Class Participation Analysis
M	8/13	FINAL EXAM	