



FBE 421: Financial Analysis and Valuation

Spring 2011

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Office Hours: Wednesday, 11:00 a.m. – 12:30 p.m.; or, by appointment

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

COURSE OVERVIEW

“Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life. The calculation of intrinsic value, though, is not so simple.”

– Warren Buffett

This course develops and applies tools of financial analysis to assess the value of projects and enterprises. Valuation of projects and enterprises is of central importance for both companies and investors. When a firm considers an internally-generated investment project, an external acquisition, an equity issue, or a share repurchase program, there is a need for valuation. Companies need to evaluate if projects or acquisitions are creating value for shareholders. Investors selling or buying shares need to evaluate the price of these shares. This course is designed to give you the tools to implement this analysis, bridging financial theory and practice in the context of several cases and real world examples. The course focuses on approaches to compute the intrinsic value of projects and business, but also addresses other important considerations that matter while applying valuation tools to real world decisions.

Prerequisite Knowledge

This course assumes that the background knowledge of students includes basic finance (BUAD 306) and accounting. Students should be comfortable with topics covered in standard corporate finance texts, such as Ross, Westerfield & Jaffe and Brealey & Myers. Note: You are responsible for reviewing your basic finance and accounting concepts as soon as possible. The pace of topics covered in the class does not allow for review of this material.

COURSE MATERIALS

Required Textbook

Titman, Sheridan and John D. Martin, *Valuation: The Art and Science of Corporate Investment Decisions*, 2/e, Pearson/Addison-Wesley, 2010.

Course Reader

<u>Index of HBS Notes</u>	<u>Source</u>
1) Solving the Puzzle of the Cash Flow Statement	BH103
2) Statements of Cash Flows: Three examples	#9-193-103
<u>Index of HBS Cases</u>	
1) Bed Bath and Beyond	#9-196-123
2) Hansson Private Label	#4021
3) Marriott Corporation	#9-289-101
4) United Parcel Service IPO	#9-103-015
5) AOL-Time Warner	#802098
6) RJR-Nabisco	#289056
7) Interco	#9-291-033
8) Spyder Active Sports	#9-206-027

Other

Lecture slides, handouts, and supplemental material will be posted on Blackboard. You are required to bring a financial calculator with you to every class. (Examples: HP 12-C, HP 10BII, TI-BA II Plus)

Recommended

Students are encouraged to follow current events through sources such as *The Wall Street Journal*, *Financial Times* and *The Economist*.

COURSE REQUIREMENTS

Participation

You are expected to participate in class discussions. You will receive an instructor assessment on the basis of your performance in case discussions (for both written and verbal cases), as well as the quantity and quality of your contribution to the classroom learning environment. In addition, you will receive a peer assessment of your contribution to written case assignments. Be prepared for cold-calling. Bring your name tag to every class.

Case Assignments

To learn financial analysis and valuation, students will analyze real companies and work through different scenarios and courses of action. The cases have been included in the curriculum as a means to provide this analytical practice.

There will be 8 case assignments for this course – 3 cases require written reports that will be graded, and 5 cases will be used for the purpose of class discussion. You are encouraged to work on the case assignments with other students in either section (3-5 students per group). However, every member of the group must be prepared to discuss the case in class.

For graded cases, each group will submit a write-up (up to 3 pages) that summarizes the analysis and addresses the questions provided. Relevant tables, figures, and computations may be included in an appendix. In addition, you will be asked to submit a peer evaluation of the contributions of your group members. Each group must work through the case using only the material at your disposal and any supplemental information found through your own efforts. Note: Seeking assistance or “hints” from the instructor or former students is not authorized.

The complete case write-up and peer evaluations will be due at the beginning of class on the due date. No late work will be accepted under any circumstances. For each case, only one report per group should be submitted. You must turn in both a hard copy in class and a soft copy via email by the same deadline. Note that I will only accept Word and PDF files. Do NOT include Excel spreadsheets in your submitted file. In addition, the cover sheet of each report should contain the first and last names of each group member. A name that is not included on the submitted report will not receive any credit for the assignment.

Case grades will be determined based on the quality of your analysis, how well you justify your assumptions, the accuracy of your valuation methodology, and the professionalism of your presentation format. The aesthetic style and quality of your submitted report should meet the professional standards required in industry. As a guidepost, think of what would be appropriate to present to a current or prospective employer.

For discussion cases, you are expected to be prepared for class discussions. You are encouraged to work in groups of 3-5 people to prepare for class discussions.

Midterm Examinations

There will be two midterm examinations (no make-ups): Midterm #1 – March 1st, Midterm #2 – April 19th. Each midterm will count towards 25% of your overall course grade. The exams will include both qualitative and quantitative questions from material covered in lectures, cases, textbook readings, and class discussion. They will be closed-book and closed-note (i.e., no formula sheets).

Final Valuation Project

In lieu of a final exam, you will work on a substantive valuation project in a group of your choice (3-5 students). An overview of the final project will be provided in class on April 12th, and the assignment will be posted on Blackboard. Each group will turn in a report and give a presentation of the final project on the day of the final exam (Tuesday, May 12th, 11:00a.m.-1:00 p.m.). Attendance is mandatory. In addition to the report and presentation, you will be asked to complete a peer evaluation of each team member, which will be taken into consideration when assessing grades for the final project.

GRADING

I will determine your course grade according to the following weights:

Case assignments and class participation	20%
Midterm #1	25%
Midterm #2	25%
Final Valuation Project	30%

OTHER INFORMATION

Laptop Computers and Cell Phone Policy

Please arrive to class on time and prepared for lecture. Cell phone use during class is strictly prohibited. Please handle your calls and text messages before lecture. Laptops are permitted, but may be used only for class purposes.

Student Disability

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible and at least 2 weeks prior to any scheduled examinations. DSP is located in STU 301 and is open 8:30 a.m. to 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

Code of Ethics & Academic Integrity

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.

No Recording Allowed

No student may record any lecture, class discussion or meeting with me without my prior express written permission. The word "record" or the act of recording includes, but is not limited to, any and all means by which sound or visual images can be stored, duplicated or retransmitted whether by an electro-mechanical, analog, digital, wire, electronic or other device, or any other means of signal encoding.

COURSE SCHEDULE

Date	Topic	Readings and Assignments
1/11	Course Introduction	Syllabus; Ch. 1 Titman-Martin
1/13	Fundamental Analysis - Intrinsic Value	
1/18	Forecasting Financial Performance	Ch. 6 Titman-Martin
1/20	No Class	
1/25	Financial Statement Analysis/Forecasting	Solving the Puzzle of the CF Statement (HBS) Statements of CF: 3 Examples (HBS)
1/27	Financial Statement Analysis/Forecasting	Bed Bath and Beyond (Discussion Case)
2/1, 2/3	Forecasting and Valuing Cash Flows	Ch. 2-3 Titman-Martin
2/8	Valuing Projects; Review of Project FCF, Forecasting Working Capital, NPV, IRR	Hansson Private Label (Graded Group Case)
2/10	Estimating a Firm's Cost of Capital (WACC)	Ch. 4 Titman-Martin
2/15	Choosing a Project Discount Rate	Ch. 5 Titman-Martin
2/17	Divisional Cost of Capital	Marriott Corporation (Graded Group Case)
2/22	Special Topic	
2/24	No Class	
3/1	MIDTERM EXAM #1	
3/3	Relative Valuation Using Market Comparables	Ch. 8 Titman Martin
3/8	IPO Valuation	United Parcel Service IPO (Discussion Case)
3/10, 3/22	Enterprise Valuation	Ch. 9 Titman-Martin
3/24	Mergers & Acquisitions	See Blackboard for readings on M&A
3/29	Mergers & Acquisitions	AOL-Time Warner (Discussion Case)
3/31	Valuation in a Private Equity Setting	Ch. 10 Titman-Martin
4/5	Leveraged Buyouts (LBOs)	Ch. 10 Titman-Martin
4/7	Leveraged Buyouts (LBOs)	RJR Nabisco (Discussion Case)
4/12	Final Project Introduction	See Blackboard for Final Project assignment
4/14	Agency Problems	Interco (Discussion Case)
4/19	MIDTERM EXAM #2	
4/21	Special Topic	
4/26	Private Company Valuation	Spyder Active Sports (Graded Group Case)
4/28	Course Summary and Wrap-Up	