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Course Description

This course covers the fundamental theory and practice of corporate financial analysis and valuation. This course will facilitate your learning how managers and analysts use financial theory and data to answer questions, solve problems and make decisions. You must become comfortable with the fundamentals to effectively participate in financial and strategic discussions within a company or with external analysts and service providers.

We will develop and use tools of financial analysis to evaluate the performance and assess the value of companies in an industry context. Our approach will rely on both quantitative and qualitative analysis. Our focus will be on developing a rigorous approach that exhibits clarity, accuracy, relevance, completeness and other appropriate intellectual standards. In our analyses we will aspire to be explicit in our purpose, assumptions, conceptual framework, inferences and implications.

Our goals include:

- To expose you to the language of financial analysis and valuation
- To help you see the big picture of valuation so you understand how things fit together
- To help you develop an understanding of the theory and facility with the techniques of performance assessment and valuation
- To develop your analytic and communication skills, specifically in the context of financial analysis and valuation

Learning Objectives

Following successful completion of the course students will:

Focus on Value Creation

- Understand value creation as a corporate goal. Value creation is fundamentally more important than that of growing revenues, earnings per share, maximizing volume and/or market share. Companies and business units create value by investing capital in positive net present value (NPV) projects.

Analyze Financial Statements

- Attain proficiency in financial statement analysis and evaluation of performance metrics. Effectively review and assess a firm's financial statements using performance ratios, historical analysis, strategic analysis and overall competitive 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.

- Assess long-term earnings and/or cash flow potential by forecasting a firm's financial performance. This includes assessing firms' future earning potential and financial health (assessing growth, value drivers and risks).

Use Valuation for Decision Making

- Use and interpret financial data and apply valuation techniques to make decisions about courses of action for a firm. Value companies using various valuation models and assess a firm's business and competitive strategy and whether it is creating value for shareholders. Topics covered:

Effectively Communicate a Valuation Perspective or Thesis

- Create and delivery appropriate presentations and written reports that integrate and summarize qualitative and quantitative data and analysis in a format appropriate to a defined audience.

Required Materials

- Required textbook: *Valuation – University Edition – Measuring and Managing the Value of Companies*, 5th edition by Koller, Goedhart and Wessels. ISBN 978-0-470-42470-4
- Optional textbook: [*Corporate Finance*, 2nd edition by Welch](#). This book is available free online and is an excellent resource to learn or review the foundations of corporate finance.
- Cases: The course pack can be purchased online at the following link (each case/note is \$3.95): <http://cb.hbsp.harvard.edu/cb/access/14814394>

The materials included are:

1. Solving the Puzzle of the Cash Flow Statement
2. Statements of Cash Flows: Three Examples (plus spreadsheet supplement)
3. Costco Wholesale Corporation Financial Statement Analysis (A) and (B)
4. Note on Alternative Methods of Estimating Terminal Value (plus spreadsheet supplement)
5. Pharmacyclics: Financing R&D (plus spreadsheet supplement)
6. Corporate Valuation and Market Multiples
7. Tiffany & Co. (plus spreadsheet supplement)

Prerequisites and/or Recommended Preparation:

Required background knowledge includes introductory finance (BUAD 306) and accounting (BUAD 280). You are responsible for reviewing your basic finance and accounting concepts. The pace and schedule of topics for this class does not allow for review of these concepts, so please be prepared.

Course Notes:

Slides, handouts, supplemental readings and other materials will be posted on Blackboard.

Grading Policies:

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about a B+ (i.e., 3.3 out of 4.0). Three items are considered when assigning final grades:

1. Your average weighted score as a percentage of the available points for all assignments (the points you receive divided by the number of points possible).
2. The overall average percentage score within the class.
3. Your ranking among all students in the class.

The graded components of the course are:

<u>Assignment</u>	<u>Percent of grade</u>
Class participation	10%
Class preparation exercises	10%
Peer evaluation	05%
Midterm 1 (September 25, 2012)	25%
Midterm 2 (November 13, 2012)	25%
<u>Group valuation project</u>	<u>25%</u>
Total	100%

Class participation (10%)

Please arrive to class on time and prepared. Be prepared to be called upon. Bring your name card to class. Please handle phone calls and other texting/messaging outside class. Web browsing is not allowed in class. Laptops may be used only for class purposes. Class sessions will be interactive and participative. Your participation score will be based on your active participation in class activities and the quality of your contributions. We will focus more on the quality of thought than the correctness of answers.

Class preparation exercises (10%)

As much as possible I will avoid lecturing on the required readings. We will spend our class time deepening our understanding of the material, clarifying points of confusion, and discussing the material in a contextual way via cases or other “live” examples. This places on you a great responsibility to read deeply the assigned material. Class Preparation Exercises are “low stakes” assignments designed to motivate and guide your study of the assigned material. You will be given class preparation exercises each week. A completed assignment is required to participate in class. Class preparation exercises will be scored on a 0-1-2 basis:

- 0 = missing, substantially incomplete, or of very poor quality
- 1 = partially incomplete or of marginal quality
- 2 = complete and of good or excellent quality

Many of the class preparation assignments are of an exploratory nature, designed to stimulate your study and thinking about the topic. In this context, quality should not be equated with correctness. You are encouraged to discuss and work on the class preparation assignments with your classmates, but you should turn in an individual assignment. You should discuss concepts, methods of analysis, and the like, but not collaborate on writing.

Peer evaluation (5%)

You will be asked to complete a peer evaluation of your team members and classmates. Half of the peer evaluation score is based on the quality of your evaluation of your peers. The other half of the peer evaluation score is based on your peers’ evaluation of you.

Midterm exams (25% each)

Questions will cover qualitative and quantitative material from the required readings and classroom discussions. There are no make-up exams. Exams are closed-book and closed-note.

Group valuation project (25%)

Work in a group of your choice (3-6 students) on the final valuation project. The cover sheet of each written assignment should contain the first and last names of the students submitting the assignment, arranged alphabetically by last name. All of the names of the members in the group must appear at the top of the memo to receive credit. An overview of the final project will be

provided by November 6, 2012 and will be posted on Blackboard. You will present your project on our Final Exam date. Attendance is mandatory.

Assignment Submission Policy:

Assignments must be turned in on the due date at the start of class. You should bring two copies: one to be turned in and one for you to refer to and use during class. The copy you turn in must have your name and number in the upper right hand corner. Any assignment turned in late, even if by only a few minutes, will receive a grade deduction. If you are unable to attend class on that day, make arrangements for it to be delivered to the classroom or to my office by the start of class. Late or not, however, you must complete all required assignments.

Evaluation of Your Work:

I will do my best to make my expectations for the various assignments clear and to evaluate them as fairly and objectively as I can. If you feel that an error has occurred in the grading of any assignment, you may, within one week of the date the assignment is returned to you, write me a memo in which you request that I re-evaluate the assignment. Attach the original assignment to the memo and explain fully and carefully why you think the assignment should be re-graded. Be aware that the re-evaluation process can result in three types of grade adjustments: positive, none, or negative.

MARSHALL GUIDELINES

Add/Drop Process

All FBE undergraduate classes will remain open enrollment (R-clearance) for the first three weeks of the semester. If there is an open seat in the class, you may enroll using Web Registration throughout the first three weeks of the term. If the class is full, you will need to continue checking Web Registration to see if a seat becomes available. There is not wait list for this course. I, the professor, cannot add you to the class.

Although there is no wait list, the Undergraduate Advising Office provides a system by which students can indicate their interest in enrolling in classes that are currently full in order to track demand and manage classroom space effectively.

I, the professor, may drop any student who, without prior consent, does not attend the first two class sessions. This is at my discretion and I am not required to notify the student that s/he is being dropped.

Retention of Graded Coursework

Final exams and all other graded work not returned to the student will be retained for one year after the end of the course. Returned work, unclaimed by a student, will be discarded after 4 weeks.

Technology Policy

Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted. ANY e-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, I-pods) must be completely turned off during class. You might also be asked to deposit your devices in a designated area in the classroom.

Videotaping faculty lectures is not permitted due to copyright infringement regulations. Audiotaping may be permitted if approved by the professor. Use of any recorded or distributed material is reserved exclusively for the USC students registered in this class.

Statement for Students with Disabilities

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 (or to your TA) as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. For more information visit www.usc.edu/disability.

Statement on Academic Integrity

USC seeks to maintain an optimal learning environment. General principles of academic honesty include respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. *SCampus*, the Student Guidebook, (www.usc.edu/scampus or <http://scampus.usc.edu>) contains the University Student Conduct Code (see University Governance, Section 11.00), while the recommended sanctions are located in Appendix A.

I do not tolerate scholastic dishonesty. Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/>. Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

Emergency Preparedness/Course Continuity

In case of a declared emergency if travel to campus is not feasible, USC executive leadership will announce an electronic way for instructors to teach students in their residence halls or homes using a combination of Blackboard, teleconferencing, and other technologies.

COURSE CALENDAR/READINGS/CLASS SESSIONS

<u>Week</u>	<u>Date</u>	<u>Readings and Topic</u>
1	Aug 28	Reading: none Topic: course introduction, syllabus review, learning objectives, expectations for the course
	Aug 30	Reading: KGW Ch 1, Ch 2 Topic: fundamental principles of value
2	Sep 04	Reading: KGW Ch 4, Ch 5 Topic: ROIC and growth as key value drivers – theory
	Sep 06	Reading: none Topic: ROIC and growth as key value drivers – applied

3	Sep 11	Reading: KGW Ch 6 Topic: valuation frameworks
	Sep 13	Reading: KGW Ch 7, Solving the Puzzle of the Cash Flow Statement, Statements of Cash Flow: Three Examples Topic: financial statement analysis
4	Sep 18	Reading: KGW Ch 8, Ch 9 Topic: performance evaluation and forecasting
	Sep 20	Reading: Costco Wholesale Corporation Financial Statement Analysis (A) Topic: performance evaluation – applied
5	Sep 25	Reading: none Topic: midterm 1
	Sep 27	Reading: none (TBD) Topic: no class or guest speaker (TBD)
6	Oct 02	Reading: none (TBD) Topic: midterm 1 recap and/or guest speaker
	Oct 04	Reading: Costco Wholesale Corporation Financial Statement Analysis (B) Topic: performance forecasting and valuation - applied
7	Oct 09	Reading: KGW Ch 10 Topic: estimating continuing value
	Oct 11	Reading: Note on Alternative Methods of Estimating Terminal Value Topic: estimating continuing value – applied
8	Oct 16	Reading: KGW Ch 11 Topic: estimating the cost of capital
	Oct 18	Reading: none (TBD) Topic: estimating the cost of capital – applied
9	Oct 23	Reading: KGW Ch 12, Ch 13 Topic: enterprise value and value per share. Interpreting results
	Oct 25	Reading: Pharmacyclics: Financing Research & Development Topic: enterprise value and value per share – applied

10	Oct 30	Reading: KGW Ch 14, Corporate Valuation and Market Multiples Topic: using multiples to triangulate results
	Nov 01	Reading: Tiffany & Co. Topic: using multiples to triangulate results – applied
11	Nov 06	Reading: Group Valuation Project assignment Topic: discussion of content and scope of group project
	Nov 08	Reading: none (TBD) Topic: finish up group project discussion, midterm 2 review
12	Nov 13	Reading: none Topic: midterm 2
	Nov 15	Reading: none Topic: midterm 2 recap
13	Nov 20	Reading: KGW Ch 15, Ch 16 Topic: markets I – what determines market values
	Nov 22	Reading: none Topic: no class – Happy Thanksgiving!
14	Nov 27	Reading: KGW Ch 17, Ch 18 Topic: markets II – efficient markets
	Nov 29	Reading: none (TBD) Topic: markets III – in-class exercises
15	Dec 04	Reading: none (TBD) Topic: help on final project / course review and wrap-up
	Dec 06	Reading: none (TBD) Topic: help on final project / course review and wrap-up
Finals	Dec 18	Final project presentations and debrief – <i>Attendance is Mandatory</i>

Please note: The date/time of the Final Exam is determined by the University. For the date and time of the final for this class, consult the USC *Schedule of Classes* at www.usc.edu/soc. Select the corresponding semester to view and click on the “Final Examinations Schedule” link on the left side of the screen.