

**FBE 529 Financial Analysis and Valuation – 3 units
Spring 2023**

Instructor: Arya S. Rahimian
Section: 15403
Class Location: JKP-110
Class Meetings: Thursdays 6:30-9:30 pm
Office: HOH-231
Office Hours: Thursdays 5:30-6:30 pm (by appointment)
Zoom office hours are recommended and flexible
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COURSE DESCRIPTION

This course develops and uses tools of financial analysis to evaluate the performance and assess the value of companies. Using various cases and examples, the course covers methods for utilizing financial data and applying valuation techniques to make strategic and financial decisions. The course covers valuation methods such as the discounted cash flow method, the market comparable method, precedent transaction method from both a conceptual and practical framework. It is an applications-oriented course designed to provide a comprehensive set of tools and a conceptual framework for tackling the practical challenges of performance evaluation and business valuation. In addition, the course examines valuation methodologies in the context of applications such as mergers and acquisitions, private equity and venture capital investing, the valuation of private companies, and leveraged buyout analysis.

The course covers the theory and practice of financial analysis and valuation. We will consider the key aspects of financial analysis for both performance evaluation and valuation. Our coverage of the material is designed to allow you to become comfortable with the fundamentals so that you may improve your proficiency in participating in future financial and strategic discussions within a company or organization and with external analysts and service providers.

COURSE OBJECTIVES

By the end of the course, students should be able to:

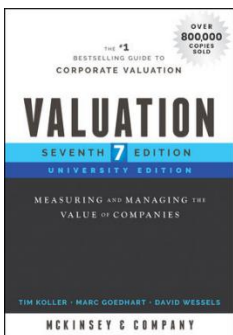
1. Describe the key aspects of financial analysis for both performance evaluation and valuation. Increase proficiency in the following areas: accounting, finance, strategy, company/industry analysis.
2. Utilize and interpret financial data to make decisions about courses of action for a firm.
3. Perform valuations for public and private firms for purposes of fundamental research, strategic analysis, transactions such as an IPO or a merger, or a restructuring.
4. Apply valuation frameworks such as discounted cash flows (DCF) technique, market comparable method, and transaction-based approaches such as an LBO model.
5. Develop a better understanding of the capital structure and various securities found in companies' capital structure.
6. Assess a firm's business and competitive strategy and whether it is creating value for shareholders.

7. Understand other valuation issues and special situations such as the challenges of valuing high-growth and private companies, the process of venture capital and early-stage financing, and the approach to valuing highly leveraged companies and LBO transactions.
8. Conduct research using a broad range of sources, synthesizing and judging the quality of collected information and support written or oral claims logically and persuasively.
9. Apply valuation in a global context, considering the interplay of international markets, and economic, social and cultural issues.

PREREQUISITE

This course assumes knowledge of intro corporate finance and accounting. It will be assumed that students are comfortable with corporate finance concepts. If you are in a hurry to take FBE 529 and have not completed the recommended prep (GSBA 521b or GSBA 548), you should expect that some portions of the course will require more effort on your part and/or be more challenging to master.

COURSE MATERIALS



Required Textbook: Valuation: Measuring and Managing the Value of Companies, University Edition (Wiley Finance) 7th Edition by McKinsey & Company Inc., Tim Koller, Marc Goedhart, David Wessels Copyright © 2020 Wiley: ISBN: 978-1-119-61186-8. If purchasing the book, the 7th edition (University edition) is recommended.

The free eBook (non-University edition) can be viewed and downloaded through this link on the USC Libraries ProQuest site:

<https://ebookcentral.proquest.com/lib/socal/detail.action?docID=6207783>

Index of HBS Cases and Notes:

Reading Materials:

- Solving the Puzzle of the Cash Flow Statement
- Corporate Valuation and Market Multiples
- Primer on Multiples Valuation and Its Use in Private Equity Industry
- Valuation of Late-Stage Companies and Buyouts

Discussion Cases without Deliverables:

- The Walt Disney Company's Stock: Buy, Hold, or Sell?
- Whole Foods Market: The Deutsche Bank Report
- Ferrari: The 2015 Initial Public Offering

Cases with Deliverables

- Valuing Peloton
- Spyder Active Sports—2004
- H.J. Heinz M&A

Course Notes

Slides, handouts and supplemental readings/articles will be posted on Blackboard. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall HelpDesk at 213-740-3000 or HelpDesk@marshall.usc.edu. Notes or recordings may only be made for purposes of individual or group study, or for other non-commercial purposes that reasonably arise from the student's membership in the class or attendance at the university. This restriction also applies to any information distributed, disseminated or in any way displayed for use in relationship to the class, whether obtained in class, via email or otherwise on the Internet,

or via any other medium. Actions in violation of this policy constitute a violation of the Student Conduct Code and may subject an individual or entity to university discipline and/or legal proceedings.

Other Resources

The Wall Street Journal, registration link for free digital subscription:
<https://libraries.usc.edu/databases/wallstreet-journal>

GRADING

Final grades represent how you perform in the class relative to other students. Historically, the average grade target for this class is a 3.4-3.5/4. 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.

<u>Assignments and Assessments</u>	<u>Points</u>	<u>% of Overall Grade</u>
<i>Class Participation, Individual Homework, Inc-Class Activities</i>	10	10%
<i>Group Case Analyses</i>	15	15%
<i>Group Valuation Project</i>	20	20%
<i>Mid-Term Exam</i>	25	25%
<i>Final Exam</i>	30	30%
<i>TOTAL</i>	100	100%

Exams

There will be a midterm and a final exam, which will consist of various multiple choice and short answer theoretical concept and practical valuation questions and problems. The questions will be both quantitative and qualitative in nature and will be based on material presented in lecture, cases and readings.

Students with exam accommodations must present verification letters to me ***within the first two weeks of class*** - see section below on Students with Disabilities (Disability Services and Programs DSP).

You are required to be present for all exams. Make-up exams will not be administered. If an exam is missed due to a legitimate reason (such as illness), documentation must be provided, and we will discuss how to handle the situation.

Group Case Analysis

We will analyze real companies and work through problems by analyzing different scenarios and courses of action. In your analysis of the case studies, you should place yourself in the role of the decision maker as you read through the situation and identify the problems and issues. In class we will probe underlying issues, compare different alternatives, and finally, suggest courses of action in light of the objectives of the case. The cases have been included in the curriculum as a means to provide this self-study and practice in analysis.

The case questions are posted in the assignment folder on Blackboard. For most of the HBS cases you will receive supplementary excel spreadsheets and additional information. You do not need to do outside research for any of the cases.

Your case analysis will be turned in as a group written deliverable. Please work on your cases in groups of 4-5 students. Do your best to work through the case utilizing readings and other supporting materials. Seeking assistance or “hints” from the instructor or past students is not authorized. A written case analysis should consist of a 2-page written executive summary plus appendices (spreadsheets, tables, supporting calculations) addressing

the case questions. The quality of work product should be reflective of what you would be comfortable presenting to a current or prospective employer.

Each student will be asked to complete a peer evaluation of each team member.

Individual Homework and In-Class Activities

During the course you will be asked to complete individual homework assignments and participate in in-class activities. These are due on the day they are assigned (no make-ups) and you may miss one -or- “drop” one from your final grade.

Group Valuation Project

The Group Valuation Project is a report due on April 27th. The goal of this report is to perform a valuation and make a recommendation on a specific company, based on valuation, financial statement analysis, and other quantitative and qualitative metrics. The final deliverable will be a PowerPoint deck. Groups will be selected at random to present in class. *Attendance is mandatory during this session.*

Assignment Submission Policy

Your case analysis will be turned in as a team written deliverable. Only one team member should submit on the due date/time electronically via the Blackboard assignment link. Please prepare a PDF file with your entire submission including relevant calculations in the exhibits. Upload the excel spreadsheet as an additional supporting attachment.

The cover sheet of each written assignment should contain the first and last names of the students submitting the assignment arranged alphabetically. All of the names of the members in the team must appear at the top of the memo to receive credit.

CLASS PARTICIPATION

Class participation is an extremely important part of the learning experience in this course as the richness of the learning experience will be largely dependent upon the degree of preparation by all students prior to each class session.

A course that incorporates the frequent use of case analyses to illustrate the practical application of concepts and practices requires the student to prepare cases diligently and thoroughly and actively offer the results of the analyses and conclusions derived as well as recommendations during each class session. My expectation and that of your classmates are that you are prepared for all classes and will actively participate in and meaningfully contribute to class discussions.

In-class participation is also a critical part of this course’s learning experience. Cold calling may take place to encourage active participation and to gain multiple perspectives and points of view, thus lending itself to the richness of the learning experience. In-class participation grading will be based on students’ demonstrated willingness to participate, and the quality of the comments expressed, rather than quantity. While some students are far more comfortable than others with class participation, all students should try to contribute meaningfully.

Students will offer their opinions in group settings many times in their careers; thus, class participation serves to prepare students for this business experience.

The evaluating of in-class participation is based on the following:

- *Relevance* – Does the comment or question meaningfully bear on the subject at hand? Irrelevant or inappropriate comments can detract from the learning experience.
- *Responsiveness* – Does the comment or question connect to what someone else has said?
- *Analysis* – Is the reasoning employed consistent and logical? Has data from course materials, personal experience, or general knowledge been employed to support the assertions/findings?
- *Value* – Does the contribution further the understanding of the issues at hand?
- *Clarity* – Is the comment concise and understandable?

During class sessions, I frequently assume the role of a facilitator to encourage a discussion that includes perspectives from a variety of viewpoints and, secondly, to help pull together prevailing analyses and recommendations. The direction and quality of a discussion is the collective responsibility of the class.

Class Participation—Rating Scale:

Excellent Performance

- Initiates information relative to topics discussed
- Accurately exhibits knowledge of assignment content
- Clarifies points that others may not understand
- Shares personal experiences or opinions related to topic
- Offers relevant / succinct input to class
- Actively participates in class exercises
- Demonstrates ability to apply, analyze, evaluate & synthesize course material
- Demonstrates willingness to attempt to answer unpopular questions
- Builds on other students' contributions

Average Performance

- Participates in group discussions when asked
- Demonstrates knowledge of course material
- Offers clear, concise, “good” information on class assignments
- Offers input, but tends to reiterate the intuitive
- Attends class regularly

Unacceptable Performance

- Fails to participate even when directly asked
- Gives no input to discussions
- Does not demonstrate knowledge of the readings
- Shows up to class: does nothing
- Distracts group / class
- Irrelevant discussion

Zoom Classroom Expectations (if needed):

Students are expected to have cameras on during zoom sessions and to participate in break-out rooms. Please advise me if you have circumstances under which you will not be able to meet these expectations.

OTHER

The material presented and the classroom discussions is not intended to be financial advice to students in connection with any issue(s) they or others may have. If students have a financial matter, they are advised to promptly consult an experienced professional who can fully review the facts and advise them accordingly.

TIPS FOR PERFORMING WELL IN THIS COURSE

The material for this course can only be absorbed gradually and consistently. On the quizzes and exams, I will ask to apply your problem-solving and critical-thinking skills. Memorizing the materials will not adequately prepare you for the exams. Here are a few suggestions for effective learning of this subject:

- Complete all assigned readings prior to each class.
- Focus your attention on the lectures and participate as much as you can in our class discussions. (All electronic devices, including cell phones, must be turned off during class meetings.) Ask relevant questions in class; this will help your classmates too.
- Understand the materials, including the assigned readings, lectures, slides, and the recommended questions and problems along with their solutions.
- Stay abreast of the current events in the economy and financial markets through daily reading of (at least the cover page of) The Wall Street Journal.
- Whenever possible, apply what you have learned to your daily financial life.
- Work effectively with your team.

COURSE OUTLINE AND SCHEDULE OF ASSIGNMENTS			
Week	Date	Class Topic	Readings/ **Deliverables
<i>Drivers of Value</i>			
1	1/12	Course Introduction History of Valuation Foundations of Value Key Questions: <ul style="list-style-type: none"> • Why do we perform valuations? • How do firms create value? • Is growth always good? • What is the relationship between growth, ROIC, and cash flow? 	Chapter 1 Why Value Value? Chapter 2 Finance in a Nutshell Chapter 3 Fundamental Principles of Value Creation
<i>Financial Analysis and Performance Evaluation</i>			
2	1/19	Markets and Fundamentals Financial Statement Analysis and Performance Evaluation Key Questions: <ul style="list-style-type: none"> • Is Stock Market Rational? Does it affect fundamentals? • Why is ROIC so important? • Is growth always good? • How do we assess a firm's performance? • What are the five sources of competitive advantage companies have? 	Chapter 7 (skim) The Stock Market is Smarter Than You Think Chapter 8 (skim) ROIC Chapter 9 (skim) Growth
3	1/26	Financial Statement Analysis <ul style="list-style-type: none"> • What is the overview of the valuation process? • How are the balance sheet, income statement, and statement of cash flows intertwined? • Reading financial statements: where to start? • How to analyze 10Ks, 10Qs, 8Ks and other SEC filings? • What is benchmarking? How do we identify comparable companies? 	Discussion Case - The Walt Disney Company's Stock: Buy, Hold, or Sell? (HBS CP)
4	2/2	Financial Statement Analysis Cash Flow Analysis (Reorganizing the Financial Statements) <ul style="list-style-type: none"> • Measuring Free Cash Flows • Analyzing Statement of Cash Flows Key Questions: <ul style="list-style-type: none"> • How does Free Cash Flow (FCF) differ from Account Cash Flow? • What are some of the nuances in calculating FCF? How do these relate to invested capital in ROIC? • What are examples of major "sources" and "uses" of cash? • How are Leases treated in financial statements? 	Chapter 11 Reorganizing FS - disregard "Advanced Issues" at the end of the Chapter Chapter 22 Leases (skim) Solving the Puzzle of the Cash Flow Statement (HBS CP)
5	2/9	Forecasting Future Cash Flows <ul style="list-style-type: none"> • What are cash flow projections used for? • How do we forecast free cash flows? • What are the drivers? • What is the impact of regulation on valuation? <ul style="list-style-type: none"> – FCC Licenses – 2017 Tax Law – Intellectual Property Financial Analysis <ul style="list-style-type: none"> • Case Discussion 	Discussion Case – Whole Foods Market: The Deutsche Bank Report (HBS CP)

Core Valuation Techniques			
6	2/16	Core Valuation Techniques Enterprise Valuation – DCF-WACC Approach <ul style="list-style-type: none"> • What is a discounted cash flow (DCF) analysis? • What are the steps in a DCF model? What are the different methods to estimate terminal value? • How do we forecast cash flows? • What is the difference between Levered vs Unlevered cash flows? • 	Chapter 10 Valuation Frameworks Chapter 16 Moving from EV to Value per Share (skim)
7	2/23	Enterprise Valuation – DCF-WACC Approach <ul style="list-style-type: none"> • How do we move from enterprise value to equity value per share? • How do we assess the reasonableness of our valuation? • How do we perform a DCF on a High-Growth Company (two stage DCF). • Case Discussion on Peloton 	Chapter 36 High-Growth Companies (skim) **Deliverable: Case Assignment - Valuing Peloton (HBS CP)
8	3/2	Relative Valuation Using Market Comparables <ul style="list-style-type: none"> • How do we perform a relative valuation using market multiples? What are the most common multiples used? • How are relative valuations used to price an IPO? • How do we perform a relative valuation using precedent transactions? • What are the advantages/disadvantages of Comps vs. DCF? • What is sum-of-parts valuation? Valuation of Sports Franchises: How is valuation of sports franchises different?	Discussion Case - Ferrari IPO (HBS CP) Chapter 18 Using Multiples (skim) Corporate Valuation and Market Multiples (HBS CP)
9	3/9	Final Project Introduction Midterm Exam	
10	3/12 3/19	Spring Recess – No Class Scheduled	
11	3/23	Estimating Cost of Capital <ul style="list-style-type: none"> • How do we estimate a firm's cost of equity? What are the nuances in doing so? • How do we estimate a firm's cost of debt? What are the nuances in doing so? • How do we estimate a firm's WACC? 	Chapter 15 Estimating Cost of Capital
Valuation Applications and Strategic Considerations			
12	3/30	Mergers and Acquisitions <ul style="list-style-type: none"> • What are the motivations behind M&A activity? • What is the difference between a strategic buyer and a financial buyer? • What are the specific factors that differentiate deals that are successful vs. unsuccessful? Provide examples of the strategic rationale for a value-creating acquisition? • Provide examples of revenue and cost savings synergies. Private Company Valuation <ul style="list-style-type: none"> • What is Private Equity? Venture Capital? • What are the motivations behind staying private? • How do we value a company in a Venture Capital setting? 	Chapter 31 Mergers and Acquisitions Primer on Multiples Valuation and Its Use in PE Industry (HBS CP) **Deliverable: Case Assignment - Spyder Active Sports (HBS CP)

13	4/6	<p>Leveraged Buyouts (LBOs)</p> <ul style="list-style-type: none"> • What are the characteristics of a strong LBO candidate? • What are some examples of LBO exit/monetization strategies for financial sponsors? • LBO Models: What are the two primary indicators in an LBO analysis that determine feasibility of a deal to a buyer? <p>Guest Speaker (TBD)</p>	Valuation of Late-Stage Companies & Buyouts (JIBS CP)
14	4/13	<p>Project Workshop and Check-In</p> <p>Private Equity and Leveraged Buyouts (LBOs) Case Discussion</p>	**Deliverable: Case Assignment - Heinz M&A (HBS CP)
15	4/20	<p>Other Valuation Topics: Understanding Capital Structure, Intangible Assets, Complex Securities, Contingent Claim Analysis (Option Pricing Models)</p> <ul style="list-style-type: none"> • How does capital structure impact value (if any)? • What is valuation of intangible assets used for? • What are techniques used to value intangible assets? • What are various features that need to be considered when valuing a security? • Why do practitioners use Contingent Claim Analysis (Option Pricing Models)? 	<p>Chapter 10 Valuation Frameworks</p> <p>Chapter 33 Capital Structure, Dividends, and Share Repurchases</p>
16	4/27	<p>Project Presentations (mandatory attendance) Wrap Up</p>	**Deliverable: Final Project
FINAL EXAM	5/4	Final Exam Thursday May 4, 7-9 pm	

**Note: Schedule is subject to change based on guest speaker availability (with the exception of exam dates). ** All chapter references are for the Koller text 7/e (University Edition); HBS CP = HBS Course Pack*

OPEN EXPRESSION AND RESPECT FOR ALL

An important goal of the educational experience at USC Marshall is to be exposed to and discuss diverse, thought-provoking, and sometimes controversial ideas that challenge one's beliefs. In this course we will support the values articulated in the USC Marshall "[Open Expression Statement](#)."

STATEMENT ON ACADEMIC CONDUCT AND SUPPORT SYSTEMS

Academic Conduct:

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, “Behavior Violating University Standards” policy.usc.edu/scampus-part-b. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, policy.usc.edu/scientific-misconduct.

Support Systems:

Counseling and Mental Health - (213) 740-9355 – 24/7 on call
studenthealth.usc.edu/counseling

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call
suicidepreventionlifeline.org

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-9355(WELL), press “0” after hours – 24/7 on call

studenthealth.usc.edu/sexual-assault

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office of Equity and Diversity (OED) - (213) 740-5086 | Title IX – (213) 821-8298
equity.usc.edu, titleix.usc.edu

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298
usc-advocate.symplicity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity |Title IX for appropriate investigation, supportive measures, and response.

The Office of Disability Services and Programs - (213) 740-0776 dsp.usc.edu Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

USC Campus Support and Intervention - (213) 821-4710 campussupport.usc.edu

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity at USC - (213) 740-2101 diversity.usc.edu

Information on events, programs and training, the Provost's Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call [dps.usc.edu, emergency.usc.edu](https://dps.usc.edu/emergency.usc.edu) Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call dps.usc.edu Non-emergency assistance or information.

Office of the Ombuds - (213) 821-9556 (UPC) / (323-442-0382 (HSC) ombuds.usc.edu

A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.

Occupational Therapy Faculty Practice - (323) 442-3340 or otfp@med.usc.edu chan.usc.edu/otfp

Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.