

FINA 7A10: Intermediate Corporate Finance - Valuation

Spring 2018, 2nd half-semester (Mar to May)

Syllabus

Professor

Zack Liu

Email: zliu@bauer.uh.edu

Office: 230E

Office Hours: W 10:00-11:00AM, or by appointment

Section: Time, Location

Tu 6:00-9:00 PM, MH 140

The information contained in this class syllabus is subject to change without notice. Students are expected to be aware of any additional course policies presented by the instructor during the course.

1. Course description

The objective of this course is to provide you an in-depth understanding of valuation techniques. We will develop standard valuation tools based on the discounted cash flow (DCF) framework, which is widely used in practice to value firms, assets, and projects. As per the DCF framework, the value of any asset is the sum of present values of all future cash from the asset, discounted using an appropriate risk-adjusted discount rate. Although this is simple in theory, the devil is in the detail: what exactly do we mean by cash flows, and how do we obtain them from financial statements? How do we estimate an appropriate discount rate? How is firm value allocated among its various claimants, such as debtholders and shareholders? How do changes in capital structure affect the discount rate and firm value? This course will provide the answers to all these questions.

The course is intended to be a “hands on” applied course on valuation. Accordingly, I will emphasize rigorous and detailed applications of basic valuation principles to solve real-life problems. Needless to say, the course is quantitative in nature, and will involve complex spreadsheet modeling in Excel. However, valuation is not just about crunching numbers in a

spreadsheet; a successful financial analyst must also know how to communicate his/her findings. The case studies will help you develop all these crucial skills. In terms of pedagogic goals, by the end of this course, you should be able to:

- Evaluate corporate projects and make decisions based on financial data.
- Value firms using their financial statements and forecasts of future revenues and costs.
- Understand how changes in capital structure (i.e., debt-equity composition) affect the firm's cost of capital and value.

2. Who Should Take this Course?

A thorough understanding of valuation is absolutely essential for anyone planning a career in finance, whether at a corporation or at a financial institution. The topics in this course have applications in corporate finance, mergers and acquisitions, equity analysis, banking, and consulting work. Therefore, they are most likely to come up in job interviews. Moreover, FINA 7A10 is a prerequisite for other advanced electives in finance, such as FINA 7A33 ("Mergers & Acquisitions") and FINA 7A30 ("Advanced Corporate Finance").

In the case of students planning other specializations, the course topics will help you analyze the value implications of all corporate decisions; e.g., mergers, joint ventures, strategic alliances, market entry, new product launches, product price changes, advertising and R&D expenditures, etc. The Excel analysis tools learnt in this class will have applications beyond finance and valuation.

3. Prerequisites

FINA 6A35 (Managerial Finance) is a necessary prerequisite. More specifically, here is what I expect from you at the beginning of this class:

- A basic conceptual understanding of time value of money and of risk and return (e.g. CAPM and β). If these concepts don't ring a bell, then I suggest that you brush up on these by referring to your course material from FINA 6A35.
- Basic accounting, including: (a) organization of the balance sheet: assets vs. liabilities and equity, current vs. non-current assets/liabilities, (b) organization of the income statement: sales, cost of goods sold, EBITDA, EBIT, EBT, Net income, etc., (c) Accrual accounting
- Microsoft Excel

4. Resources

a. Textbook

There is no required textbook for the course. All lecture notes and materials will be posted on the blackboard page (<http://www.uh.edu/blackboard>) and should be self-contained and sufficient.

There is no required textbook for this class. However, I recommend that all finance students acquire a copy of *Valuation: Measuring and Managing the Value of Companies*, Fifth Edition (Wiley Finance), by McKinsey & Company's Tim Koller, Marc Goedhart and David Wessels (ISBN: 978-0470424650). This is not a standard textbook but it offers a detailed and practical guide to valuation, that should be useful beyond this course. It is definitely a worthwhile investment for students specializing in finance.

b. Blackboard

Be sure you can log in to Blackboard and access this class. Please let me know if you cannot as you must be able to access Blackboard. The syllabus and slides will be posted on Blackboard. In addition, part of your grade relies on quizzes administered through Blackboard.

5. Grades, Major Assignments and Exams

a. Case studies

There will be three case studies throughout the semester. For each case, I will assign questions concerning the case, which will be posted on Blackboard. Depending on the case, I will also upload additional data and exhibits. We will spend time in class discussing the case after its due date.

Students are required to work in groups of 3-4 students, and case studies should be done with the same group. If you have problems joining a group, you should contact me.

b. Quizzes

Quizzes will be administered through the Blackboard system. I use these quizzes to assess how well you understand class material. We should have a quiz about every two weeks.

c. Final Exam

The final exam will be held during the university scheduled time slot.

e. Course grade calculation

Case studies and peer evaluation:	40%
Quizzes:	20%
Final exam:	40%
Total	100%

6. Policies

a. Academic Honesty

The University of Houston Academic Honesty Policy is strictly enforced by the C. T. Bauer College of Business. No violations of this policy will be tolerated in this course. A discussion of the policy is included in the University of Houston Student Handbook here: <http://catalog.uh.edu/content.php?catoid=6&navoid=1025>.

Students are expected to be familiar with this policy.

Please note that I consider rotation of case responsibility to be a violation of the honor code in this class. There are two group projects in this class, and if a project is handed in with your name on it, then it must be the case that you performed a significant part of the work involved in the project. Group members cannot alternate responsibility for the work involved in the two projects.

b. Accommodations for students with disabilities

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to achieve academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.