FNCE 7070: Valuation, Fall 2024

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This course will focus on the financial analysis, strategic assessment, and valuation of companies. The course will link corporate strategy with valuation; a critical skill for those entering consulting, investment banking, private equity, and corporate development. When necessary, the course will take a deep dive into the accounting notes, identifying nuggets of information critical for robust valuation.

The course is segmented into four modules:

- During the **first module** of class, we take a C-Suite perspective of valuation. We discuss the drivers of corporate value, specifically return on capital and organic revenue growth. We examine how the world's most valuable companies have created value, and how they protect their competitive position. We use this framework to underpin the most common methods of corporate valuation.

- During the **second module**, we create our first DCF models, including the enterprise DCF model, the economic profit model, a cash-flow-to-equity model, and adjusted present value. When properly implemented, each model will lead to the same result, but highlight different aspects of value creation. This is quite useful when testing financial strategies and error checking.

- During the **third module**, we set the stage for financial forecasting by analyzing historical performance. Since financial statements are not well suited to valuation, we reorganize them into operating, nonoperating, and financing components. Our primary goal will be to build a clean view of operating performance across business units and for the entire company.

- During the **final module**, we walk through the essentials of model building. We discuss the fundamentals of forecasting, how to determine the appropriate forecast period, and issues related to continuing value. I plan to demonstrate a fool proof method for constructing free cash flow in practice, one that hopefully will save you many unnecessary late-night hours! We conclude the section with practitioner pitfalls related to estimating the cost of capital.

We close the course with a short discussion on multiples. Multiples are an excellent valuation tool to triangulate a company's value. Multiples may appear straightforward, but as you will see, their simplicity

is deceptive, and the skills developed throughout the course will be critical. By the end of this course, you should feel comfortable creating a sophisticated valuation of a complex company, integrating both strategic and financial assessments into your work!

Course Location and Timing

The course will meet in Vance Hall B11 at 1:45pm (section 1) and 3:30pm (section 2) on Tuesdays and Thursdays. Since the course is full, please attend your section. If you have unavoidable conflict, you may attend the other section. I would rather have you in class and engaged, than miss class altogether.

Please bring two items to EVERY class: your name tent and the lecture notes. As the semester progresses, please remain diligent. I tend to be relentless with those who come to class empty-handed. A few lectures will require a laptop, but these days will be announced in advance.

Reading Material

The course will rely on a textbook and a few supplemental readings (which can be found on canvas). The textbook can be purchased in the campus bookstore or on Amazon.com:

- Valuation: Measuring and Managing the Value of Companies (7th edition) by Koller, Goedhart, and Wessels, 2020, John Wiley & Sons, Inc, NY.

You can use older editions of the book, but please be aware that rules regarding deferred taxes, operating leases, pensions, have changed since the last edition was published in 2015. You are responsible to conduct analysis under the current guidelines!

For those looking for extra practice, I recommend the valuation workbook. While I did not write the workbook, my colleague from Georgetown knows the material well. The workbook is not required.

- Valuation Workbook: Step-by-Step Exercises and Tests to Help You Master Valuation (7th edition) by Michael Cichello.

Lecture notes will be available on canvas under files/syllabus and slides.

Assignments & Grading

There will be three individual assignments (15% total), three group projects (30% total) and two exams (55% total). For individual assignments, I expect you to work alone and hand in your own work. You can discuss class tools, but not the assignment. For group work, please self-select groups of between 3-5

people, no exceptions. If you have six people, please create two groups of three. For classes with multiple sections, you can form groups across sections.

Class participation will not formally be scored, but students at the grading cutoffs will be evaluated for their ability to generate an active and positive class environment. The assignment/exam due dates and grading breakdown will be as follows:

	Assignment/Exam	Due Date	Weight
1	Group Project: Value Drivers	9/17/2024	10%
2	Individual Assignment: Economic Profit	9/24/2024	5%
3	EXAM I	10/1/2024	25%
4	Individual Assignment: Integrated Models	10/8/2024	5%
5	Individual Assignment: Organic Growth	10/29/2024	5%
6	Group Project: Financial	11/12/2024	10%
7	EXAM II	11/21/2024	30%
8	Final Project: Enterprise Valuation	12/12/2024	10%

Assignment due dates will follow the schedule above unless we have not covered the relevant material. Please check the assignment due date on canvas, as the date on canvas will supersede the expected date above, but only when necessary. The exam dates are fixed and will not change. Please make the appropriate travel accommodations as we cannot accommodate alternative testing dates.

Teaching Assistants & Office Hours

Teaching assistant and office hours will be announced during the first week of class.

Unpopular Policies

I have two unpopular policies. First, attendance will not be graded, but please note that I <u>do not record</u> classes. Attending lectures in person is the most reliable predictor of success in the course. Research indicates that passively viewing a recorded lecture does not engage students as effectively as being present in class. Some argue that exceptions should be made, but it's challenging to compare the validity of one person's reason, such as a family event, to another's, like interview preparation. If you do miss a class, I encourage you to review the lecture notes and discuss them with a colleague to stay on track.

Second, I <u>do not keep the handwritten notes</u> I create during class. The software I use is too unreliable and cumbersome for managing notes across the various classes I teach. You are welcome to take a picture during class or ask me to pause and clarify as needed. If you have concerns about either of these policies, please consider whether this course is the right fit for you.

Academic Integrity

I expect you to follow Penn's code of academic integrity when completing problem sets, group work, and exams. Allegations of impropriety should be brought directly to me, which in turn will be referred to the University Honor Council. For more, see:

https://catalog.upenn.edu/pennbook/code-of-academic-integrity/

The most common violation is turning in another person's work, which results in a semester-long suspension by the University. This course is meant for you, make sure it reflects your contributions!

I look forward to meeting each and every one of you this semester! Best, Prof. Wessels.

Module	Date	Note	Topic	Reading
Module 1: Value Creation	8/27/2024	1	C-Suite Thinking: Value Drivers	Granularity of Growth
	8/29/2024	2	C-Suite Thinking: Tactical Growth Levers	Valuation:
	9/3/2024	3	Key Value Drivers	Chapters 2 & 3
	9/5/2024	4	Valuation using ROIC & Economic Profit	
	9/10/2024	5	Enterprise DCF in Practice	
Module 2: DCF Valuation Models	9/12/2024	6	DCF Models: FCF and CFE Models	Valuation:
	9/17/2024	7	Choosing the Right Model	Chapter 10
	9/19/2024	n/a	Case Presentations	
	9/24/2024	8	DCF Models: APV and CCF Models	
	9/26/2024	9	Summary of Valuation Models	
	10/1/2024	n/a	**EXAM I**	
Module 3: Advanced Financial Analysis	10/8/2024	10	Advanced Financial Analysis: Revenue growth	Valuation:
	10/22/2024	11	Reorganizing for Valuation: Invested Capital	Chapters 11-12, 20, 29
	10/24/2024	12	Reorganizing for Valuation: NOPAT	
	10/29/2024	13	Benchmarking: Margin and Capital	
Module 4: Excel-Based Model Building	10/31/2024	14	Proforma Forecasting	Valuation:
	11/5/2024	15	Advanced Reorganization: Prepping for FCF	Chapter 13-17
	11/7/2024	16	Estimating Free Cash Flow	
	11/12/2024	17	Continuing Value	
	11/14/2024	18	The Cost of Capital: Implementation Pitfalls	
	11/19/2024	19	From EntVal to Value Per Share	
	11/21/2024	n/a	**EXAM II**	
Triangulating Value	11/26/2024	20	Total Returns to Shareholders, Virtual	Valuation:
	12/3/2024	21	Building a Robust Multiple	Chapters 5 & 18

* I prefer to let the natural flow of our class discussion dictate our pace. If we fall behind the schedule above, the lecture on Total Returns to Shareholders will be shortened or eliminated.