

## APPLIED VALUATION

<b>Course code</b>	<i>GRAE027</i>
<b>Course title</b>	<i>Applied Valuation</i>
<b>Type of course</b>	<i>Compulsory</i>
<b>Level of course</b>	<i>Advanced</i>
<b>Department in charge</b>	<i>Graduate school</i>
<b>Year of study</b>	<i>1<sup>st</sup></i>
<b>Semester</b>	<i>2<sup>nd</sup></i>
<b>Number of credits</b>	<i>6 ECTS; 36 hours of class work, 124 hours of self-study, 2 hours of consultations (distant or direct form)</i>
<b>Lecturer</b>	<i>Prof. Dr. Joseph J. French (Joe)</i>
<b>Course prerequisites</b>	<i>Advanced corporate finance</i>
<b>Form of studies</b>	<i>Consecutive (evening)</i>
<b>Teaching language</b>	<i>English</i>

### THE AIM OF THE COURSE

Applied valuation course builds on advanced corporate finance and offers in-depth treatment of business valuation issues. It explores the main concepts, methodologies and tools of valuation through main theories, academic papers and case studies. The aim is to provide students with up-to-date knowledge of fundamental valuation techniques and their applications.

### Learning outcomes

On completion of this course successful students will be able to:

<b>Course learning outcomes (CLO)</b>	<b>Degree level learning objectives (Number of LO)</b>	<b>Study methods</b>	<b>Teaching methods</b>	<b>Assessment methods</b>
CLO1. Understand and be ready to use new tools and concepts needed for business valuation.	LO1.1 LO1.2	Lectures, seminars, self-study, group work	Lectures, seminars, case work, valuation project	Participation, case analysis, group work assessment.
CLO2. Acquire a more detailed knowledge of valuation applications.	LO1.2 LO3.1 LO3.2	Lectures, seminars, self-study	Case work, valuation project, lectures	Participation, case analysis, group work assessment.
CLO3. Understand managerial incentives, finance decisions and their impact on firm value.	LO1.2 LO2.1 LO3.1	Seminars, self-study, group work	Seminars, case work, projects	Participation, case analysis, group work assessment.

### Academic honesty and integrity

The ISM University of Management and Economics Code of Ethics, including cheating and plagiarism are fully applicable and will be strictly enforced in the course. Academic dishonesty and cheating can and will lead to a report to the ISM Committee of Ethics. With regard to remote learning, ISM reminds students that they are expected to adhere and maintain the same academic honesty and integrity that they would in a classroom setting.

### COURSE OUTLINE

		TOPIC	IN-CLASS HOURS
			Lectures
1	April 9th	Introduction and course set-up Fundamentals of value creation. Approaches to Valuation	4
<p><u>Required readings:</u></p> <p>a. AD: 1,2 b. KGW: 1,2,5,7 c. HZ: 1</p>			
2	April 17 <sup>th</sup>	Ratios and Financial Statements	4
<p><u>Required readings:</u></p> <p>a. AD: 3,4 b. KGW: 10-13 c. HZ: 2,3</p> <p><u>Case due:</u></p> <p>a. Saito Solar: In class case</p>			
3	May 12 <sup>th</sup>	Cost of equity Cost of capital	4
<p><u>Required readings:</u></p> <p>a. AD: 6-8 b. KGW: 4, 15 c. HZ: 8-12</p> <p><u>Case due:</u></p> <p>a. Whole Foods: (Lead team #1, Secondary team #6)</p>			
4	May 13 <sup>th</sup>	DCF part #1	4
<p><u>Required readings:</u></p> <p>a. AD 9-12 b. KGW 16,17 c. HZ: 9-12</p> <p><u>Cases due:</u></p> <p>a. Walmart: (Lead team #2, Secondary team #9) b. Nextel Peru: (Lead team #3, Secondary team #8)</p>			
5	May 19 <sup>th</sup>	DCF #2	4

<u>Required readings:</u>			
a. AD: 13,14 b. KGW: 16,17 c. HZ: 5-7			
Cases due:			
a. Lady M Confections: (Lead team #2, Secondary team #5) b. Coke: (Lead team #3, Secondary team #4)			
<b>6</b>	<b>May 20<sup>th</sup></b>	<b>Multiple approach</b>	<b>4</b>
<u>Required readings:</u>			
a. AD: 17-20 b. KGW: 18 c. HZ: 13,14			
Cases Due:			
a. Vakrangee: (Lead team #6, Secondary team #1) b. Spotless Group: (Lead team #5, Secondary team #2)			
<b>7</b>	<b>May 22<sup>nd</sup></b>	<b>Advanced Valuation: Special Situations Part 1</b>	<b>4</b>
<u>Required readings:</u>			
a. AD: 22-25 b. KGW: 6,9 c. HZ: 16			
Cases due:			
a. LinkedIn: (Lead team #4, Secondary team #3) b. Facebook: In class case			
<b>8</b>	<b>May 26<sup>th</sup></b>	<b>Advanced Valuation: Special Situations Part 2</b>	<b>4</b>
<u>Required readings:</u>			
a. AD: N/A b. KGW: 26,27,35 c. HZ: 17			
Case due:			
a. JetBlue: In class case			
<b>9</b>	<b>May 27<sup>th</sup></b>	<b>Wrap-up and Valuations</b>	<b>4</b>
<b>Total:</b>			<b>36</b>

Note: I retain the right to deviate from this schedule, but I will give you advance notice.

#### ASSESSMENT METHODS AND GRADING CRITERIA:

TASK TYPE	FINAL GRADE, %
Participation & case analysis	50
Company Project	50 (of which 1/2 of the grade determined from individual valuation)
<b>Total:</b>	<b>100</b>

#### Quality Assurance Measures

The lecturer will apply multiple teaching methods to keep the students engaged in the topic (examples, case studies, group assignments). Continuous student feedback will be encouraged and accommodated to continuously improve class experience.

## Teaching methods

Lectures, case studies, discussions, group-work, in-class student presentations.

### Participation & case analysis (50%)

In several classes, we will apply key concepts using cases ranging from simple to advanced. Students will be required to prepare the cases prior to class in their groups.

There will be 10 cases and 6 groups. Each group is assigned to 2 cases. You are responsible for preparing the cases assigned to your group, please come to class prepared to make a short presentation on the case questions and key concepts of the case. Your group must submit your **short-written** analysis and financial assessment to the case at the start of the class on the due date. Be prepared to discuss and defend your analysis during the class discussion on the due date! Each case will have a lead team and a secondary team. It will be the lead team's responsibility to present the case and the secondary team's responsibility to provide additional analysis the lead team may have overlooked. Attendance and participation in the lectures and seminars are strongly recommended.

### Final assignment (50%)

This project is designed to apply the valuation techniques we learn in class on companies in the real world. The project should be completed in your groups. Pick a group of companies (one for each person in the group).

### Retake

In case of a negative final grade, students are allowed a re-sit exam. It will cover all course material. The weight of a re-sit is 50% of the final cumulative grade. Coursework grade is not annulled.

### Develop your narrative for this company.

Tie your narrative to key numbers that you will be using in your valuation.

Value the stock in each company using a discounted cash flow model.

Evaluate how sensitive your value estimates are to changes in your narrative.

Prepare a list of "comparable" companies, using criteria that you think are appropriate.

Choose a multiple that you will use in comparing firms across the group. (You might have to try a number of multiples out before making this choice)

Evaluate your company against the comparable firms using the multiple that you have chosen for your valuation. Evaluate whether your firm is under or over-valued.

Make your recommendation, check whether anything that has happened during the period of your analysis has changed your narrative and your valuation.

Consider the values you have obtained from the discounted cash flow, relative and other valuation models. How would you reconcile the different estimates of value?

Make a final recommendation on your stock. Your choices are buy, sell and hold (but only if you absolutely get forced into that choice).

Each person is responsible for the valuation of one company, but the final document should combine everyone's contributions. Please note that 50% of the grade from this assignment will be from your individual valuation. **If a member of the group does not participate this should be noted in the final paper.**

## READING LIST:

### Required readings:

1. Koller T., Goedhart M., Wessels D. (2020). *Valuation: Measuring and Managing the Value of Companies*. 7-th ed. McKinsey & Company, Inc., John Wiley and Sons (**KGW**).
2. Holhausen & Zmijewski. (2020). *Corporate Valuation: Theory, Evidence & Practice*. ISBN: 978-1-61853-324-1 (**HZ**)
3. Damodaran, A. (2012), *Investment Valuation*, Wiley & Sons (3rd University edition) (**AD**)
4. *Case studies*: <https://hbsp.harvard.edu/import/796009>
5. *Selection of research papers* – will be provided to students during the course. The instructor will ensure that students have access to them.

### Sources for financial analysis and valuation:

6. *Data for analysis and valuation*: [http://people.stern.nyu.edu/adamodar/New\\_Home\\_Page/datacurrent.html](http://people.stern.nyu.edu/adamodar/New_Home_Page/datacurrent.html)



**Note.** Seminar material for the course will be uploaded to ISM intranet or the Internet either immediately before or immediately following the class period. This is to assure that course contents are up to date. Class notes (slide handouts) and certain assignments may be prepared for each class and available for downloading after the respective class session.