FINC 861: FINANCIAL MODELING AND VALUATION*

Alfred Lerner College of Business & Economics
University of Delaware

Spring 2013

Instructor: Richard J. Fagan
Email: rjfagan@udel.edu

Class Meetings: 6:00-8:45 Mondays PRN116. Occasionally in the Exelon Trading Center (announced in advance)

Office Hours: 4:30-5:45 Mondays before class and by appointment PRN322

The best way to reach me is by e-mail. I can usually respond to email questions within 24 hours.

COURSE DESCRIPTION & OBJECTIVES

What is it worth? No major corporate investment decision or financial transaction should be made without answering this question. The goal of this course is to build your skills and confidence in (i) answering the question “what is it worth”, and (ii) thinking in terms of actions that help drive shareholder value. The course is designed for students with career interests in corporate finance, security analysis and investment banking.

By the end of this course, you should be able to

- Value any publicly traded firm
- Value a private firm for sale or for purposes of going public
- Value strategic investment opportunities
- Define, describe, analyze and apply any valuation multiple
- Critically analyze valuations such as those contained in “road shows”, equity research reports, and expert analysis in litigation and fairness opinions
- Understand and articulate the critical drivers of value creation.

* This document, as are all the documents in this course, should be considered as a work in progress. Modifications may be made throughout the semester as needed. Please report any errors.
WARNINGS AND DISCLAIMERS

The workload for this course is demanding and requires critical thinking. As such, it is only recommended for those students who are interested in both learning and applying valuation techniques in depth. In this course, if you do not do the assignments, read and analyze the cases and struggle through the application of the valuation concepts – you probably won’t learn much!

Students interested in broader topical coverage and a less detailed examination should not take this course.

- This course is designed for students with little or no practical work experience in investment banking.
- The course does presume you have a solid grasp of corporate finance theory and accounting statements.
- Students with weak accounting and finance backgrounds will be at a disadvantage in this course.
- Working knowledge of EXCEL is also very important.

PRE-REQUISITE KNOWLEDGE

- An understanding of the fundamental financial concepts of capital budgeting, time value of money, equity valuation models (constant growth model and CAPM), and discounted cash flow analysis.
- A general knowledge of accounting rules is important in valuation. However, it is more important to understand how those rules affect the ingredients of equity valuation process.
- Mathematics
  - Multi-period expressions with factors raised to powers (present value calculations)
  - Arithmetic, but in large doses (projections and forecasts)
  - Statistical concepts like standard deviation, regression coefficients, correlation (analysis of risk)
  - Algebra using equations and unknowns (capital structure)

REQUIRED COURSE MATERIALS

TEXT

Periodicals

Readings on current topics from on-line and/or hard copy editions of business related newspapers (e.g., Wall Street Journal) or magazines (e.g., Barron's) will be assigned. These readings will be accessible either through the University of Delaware library or public websites.

Cases

A case may be assigned that can be purchased directly from the Harvard Business Publishing website: http://ch.hbsp.harvard.edu/cb/access/13277233. I recommend that you purchase the case if and when it is assigned.

Announcements, all class handouts, assignments, other course materials and due dates for the assignments, quizzes and exams are posted on Sakai (http://www.udel.edu/sakia).

Please pay close attention to e-mail messages sent regarding the course.

Class notes

You are expected to have the class outlines or other assigned materials with you in class. It will be very difficult for you to keep up with note taking during class if you do not have the outline with you. Outlines for each chapter or lecture will be posted on Sakai under “Lectures”. If the outline for a class is not posted 24 hours before the class, I will bring copies to class. The outlines are not a substitute for attending class. These are only outlines and do not contain or explain all of the content from the lectures.

Financial Calculator

You will only be permitted to use a financial calculator such as TI BA II Plus; Sharp EL-733; HP 10B; or HP 12C for exams. Graphing calculators are not allowed. Make sure that your calculator has bond valuation, net present value (NPV), internal rate of return (IRR), and cash flow functions.

Course Work

Class participation and quizzes

The course consists of lectures and class discussion of problems, examples and case studies. You are expected complete assigned problems and case assignments before class and be ready to discuss their results. Please see the Guidelines for Class Discussion and Case Analysis for more information.
Voluntary class participation is expected, however, I will cold call on individuals to insure equal opportunity for participation. The educational experience for everyone suffers if you are not prepared for class participation. If it appears to me that the level of class participation is not adequate, I may decide to immediately distribute a quiz on the assigned material.

The educational experience for everyone also suffers from poor class attendance. Therefore, if, in my opinion, attendance becomes a problem, I will randomly give end-of-class unannounced quizzes.

**Excessive absences (2 or more classes) could have a negative effect on your class participation grade or your grade in the course.** If you expect to miss class, please send me an e-mail prior to class.

**EXAMS**

Two midterm exams will be given during class on March 4 and April 15, 2013, respectively.

The final exam will be given DURING FINAL EXAM WEEK at a date, time and location TBA by the University.

**Do not commit to travel plans before learning the scheduled final exam date and time, as there will be NO make-up final exam.**

If your travel plans conflict with the date of an exam, you should change your travel plans now, or drop the course.

You must ensure that you are available for all examinations shown below.

Please advise current or potential employers of your class requirement.

You are responsible for letting me know by February 18th of any exam conflict you have with any exams in this course.

**ASSIGNMENTS**

It is your responsibility to make sure that you turn in assignments on time. Ten points will be deducted for each 24-hour period that an assignment is late. No assignment will be accepted that is over 48 hours late.

**GRADING**

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<th>Item</th>
<th>%</th>
<th>Dates (2013)</th>
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<tbody>
<tr>
<td>Exam 1</td>
<td>15%</td>
<td>March 4</td>
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<td>Exam 2</td>
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<td>April 15</td>
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<tr>
<td>Final exam</td>
<td>25%</td>
<td>DURING FINAL EXAM WEEK at a date, time</td>
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and location TBA by the University.

<table>
<thead>
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<th>Component</th>
<th>Weight</th>
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<tr>
<td>Group Project Analysis &amp; Presentation</td>
<td>20%</td>
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<tr>
<td>Class Participation</td>
<td>10%</td>
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<tr>
<td>Quizzes &amp; Assignments</td>
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For some graded components you will receive either a score (A+, A, A-, etc) or a numerical grade (95, 82, etc.). Your final grade will be computed by weighting the scores according to the scheme below.

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<thead>
<tr>
<th>Score</th>
<th>Grade</th>
<th>Numerical</th>
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<td>87</td>
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Marginal grades will be determined by your class participation and attendance.

**STUDENT RESPONSIBILITIES & COURSE POLICIES**

*If you do not ask a question, you do not get an answer,* so please ask questions which will help make things clear for you. It is usually easier to ask during lectures, but, if you remember something at home, please do not hesitate to e-mail me or come to my office hours. In some cases, I might also send you an e-mail with a more complete answer to a question asked in class. *Remember that I am here to help you learn.*

The material in the course is cumulative, so avoid falling behind early in the semester. You are responsible for all the material presented in class. A thorough understanding of the material covered is necessary to getting a good grade in this course.

If you do end up missing class, it is your responsibility to gather lecture notes and to learn the presented material on your own. Please do not expect me to provide you with personal lectures of the missed material.†

Lectures will begin and end promptly. Coming to class late or leaving early, using cell phones or other electronic equipment (texting, games, music, or anything unrelated to what is going on in the class at that time), reading newspapers or other materials, or using your laptop or the computers in the ETC during class for non-class activities is *unprofessional, discourteous and disruptive to the class.* If you commit any of these transgressions, I reserve the right to ask you to leave.

† The University attendance policy can be found at [http://academiccatalog.udel.edu/Pub_ShowCatalogPage.aspx?CATKEY=CATKEY_471&ACYEAR=2012-2013&DSPL=Published](http://academiccatalog.udel.edu/Pub_ShowCatalogPage.aspx?CATKEY=CATKEY_471&ACYEAR=2012-2013&DSPL=Published)
Honesty: The Department of Finance is strongly committed to upholding the University policy on academic honesty. **You are responsible for knowing and abiding by this policy.** Details of the policy are stated in the University policy on academic honesty in the UD Student Guide to University Policies. The University policy will apply to every examination, quiz and assignment. Violations will not be tolerated.

Exams: It is your responsibility to make sure that you can take the exams on their scheduled dates. If you are unable to take any of the quizzes or in-class exams at the scheduled time, and your absence qualifies as **excused** as defined by the attendance policy in 2012-2013 UD Catalog, the weight of the missed exam or quiz will be added to the final exam.

If the absence does not qualify as excused, you will receive a grade of zero for that quiz or exam. In consideration to your fellow classmates no make-up quizzes or exams will be given. **There are no exceptions.**

‡ [http://www.udel.edu/stuguide/12-13/code.html](http://www.udel.edu/stuguide/12-13/code.html)