Advanced Valuation and Corporate Financial Analysis  
FINC 418-03  
College of Charleston  
Course Syllabus  
Spring - 2020

Instructor:       Ellen Watson, CPA/ABV  
Office:        JC Long 333  
Phone:       843-953-1563  
E-mail (preferred contact method):    watsoner@cofc.edu  
Class Time/Classroom:     MW 3:25pm - 4:40pm, ECTR 120  
Office Hours:       TTh 10:00am – 12:00pm; 1:30-3:30pm,  
or by appt

Textbook

Prerequisites
Senior standing: FINC 303, FINC 315

Reference Books and Helpful Tools
- Laptop computer with Microsoft Excel
- Google
- The Wall Street Journal (free subscription with CofC email)
- Barron’s (free subscription with CofC email)

Description
This course serves as a synthesis of material taught in previous courses for finance majors. The material drawn from and built upon includes topics covered in the areas of investments, institutions, and corporate finance. The tool used to integrate these areas of study is advanced valuation methodology for estimating value of firm assets and equity, which necessitates an understanding of the three major areas of finance.

School of Business Mission Statement
The School of Business provides a quality education for its students by ensuring that they have the knowledge, skills and experiences to effectively and responsibly address business challenges.
Learning Goals (SCHOOL OF BUSINESS & CLASS SPECIFIC)

COMMUNICATION SKILLS: Students demonstrate the ability, via both written and spoken word, to effectively present, critique, and defend ideas in a cogent, persuasive manner.

As part of further developing advanced knowledge on corporate valuation, this course will help students to both efficiently and effectively communicate interpersonally, and will sharpen written and verbal presentation skills.

QUANTITATIVE FLUENCY: Students demonstrate competency in logical reasoning and data analysis skills.

This course will assist students in developing the skills necessary to identify and solve difficult financial problems through quantitative analysis, critical thinking, and the use of spreadsheets or other commercial software.

INTELLECTUAL INNOVATION AND CREATIVITY: Students demonstrate their resourcefulness and originality in addressing extemporaneous problems.

Students will demonstrate their resourcefulness through critical thinking and problem-solving skills.

SYNTHESIS: Students integrate knowledge from multiple disciplines incorporating learning from both classroom and non-classroom settings in the completion of complex and comprehensive tasks.

This course will allow students to comprehensively review and strengthen knowledge on multiple sub-areas of finance, and will help students to apply financial knowledge to real life situations.

Student Learning Objectives

Through the semester, students are expected to further advance their communication skills, problem solving and decision making capacity regarding financial issues. Students are also expected to build the managerial knowledge basing on financial metrics. Additionally, the study will also help students build skills for lifelong learning on their own.

For specific learning objectives, after successfully finishing the course, students should be able to understand or undertake the followings:

- Corporate strategy
- Financial accounting and accounting reporting
- Estimate the cost of capital
- Advanced financial forecasting / capital budgeting
- Valuation of enterprises in various settings (private equity, closely-held)
Electronic Communication

It is preferable that all electronic communication between instructor and students be conducted through the Official University supplied systems. Therefore, please use your C of C email account for all correspondence with your instructor. And please be professional in your email correspondence.

Before you reach out to me, ensure you’ve taken the following steps to answer your question on your own (aka the Ask Three Then Me principle):

1. Consult the class schedule and syllabus.
2. Check OAKS for announcements and instructions.
3. Confer with three classmates.

Expectations for Students

- **Take ownership** of your assignments. What you learn depends on your commitment.
- **Spend sufficient time outside of the classroom each week** to ensure you understand the materials, class work, homework, and discussions. This will vary for each student, but likely between 4 – 6 hours per week on average.
- **Speak up**: Ask for help when you’re stuck and/or lost. Let the instructor know in a timely manner if the class is unsatisfactory in any way. Visit during office hours or make an appointment. I am here for YOU! Let me help you.

Grading Policy

Grades will be based on the student’s performance on several components including group work, individual exams, and class performance.

3 Exams (45%, 15% each)
1 Group Case Study & Presentation (20%)
ETS Major Field Test (10%)
Quizzes/Homework (15%)
Attendance / Participation (10%)

The final course grade will be in a letter based on the following:

<table>
<thead>
<tr>
<th>Total points</th>
<th>Letter grade</th>
<th>Total points</th>
<th>Letter grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>93-100</td>
<td>A</td>
<td>73-76</td>
<td>C</td>
</tr>
<tr>
<td>90-92</td>
<td>A-</td>
<td>70-72</td>
<td>C-</td>
</tr>
<tr>
<td>87-89</td>
<td>B+</td>
<td>67-69</td>
<td>D+</td>
</tr>
<tr>
<td>83-86</td>
<td>B</td>
<td>63-66</td>
<td>D</td>
</tr>
<tr>
<td>80-82</td>
<td>B-</td>
<td>60-62</td>
<td>D-</td>
</tr>
<tr>
<td>77-79</td>
<td>C+</td>
<td>59 and below</td>
<td>F</td>
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</table>
**Group Case Study & Presentation:** The Group Case Study & Presentation is a semester-long assignment that is designed to promote working effectively as a team towards a shared goal/target. Students will be assigned to a group and will be expected to complete the Case Study work throughout the semester, and culminating in a final deliverable with a presentation. Everyone in the group must contribute to the work, and each group member will fill out the *Group Member Contribution Sheet.*

If there are issues (differences of opinion, conflict, etc.) during the semester with group members that are unable to be solved by the group, it is requested that the group bring the issue to the professor. If it gets to this point, the professor will schedule a meeting either as a team or with individual group members and will provide guidance on resolution.

**Quizzes & Homework:** Students are required to complete and turn in assigned homework on time. *No late homework will be accepted; however, the professor will drop one homework grade at the end of the semester.*

Most homework assignments can be completed in a group or individually. However, it is critically important that each student understand the homework, be able to do it independently and correctly, or the chance is high that the student will not perform well on the individual exams.

**Individual exams:** There are three in-class, individual exams. Each exam will have one entire class dedicated to its completion and will be given in Microsoft Excel. There will be no make-up exams but for a natural disaster or unforeseen closing of the College that impacts scheduling. The weight of the missed exam (15%) will be allocated to the other two semester exams. Students must complete at least two semester exams.

**Exams in Microsoft Excel: 3 Brightline Rules**
1. Your final answer must go in the designated highlighted cell(s) or you will be given no credit for the question.
2. Do not under any circumstance insert rows or columns, or delete any rows or columns. This interferes with my grading process and will result in no credit awarded to the questions for which the grading does not pick up.
3. You must show your supporting work. If you do not show your work to support your answer, you will receive no credit. If you show your work and your answer is incorrect, I will make every effort to award partial credit where earned.

**Attendance/Participation:** Your attendance is expected. This portion of the overall grade is purely subjective and is based on the instructor’s knowledge of your attendance and participation in the course. If you attend on a regular basis and contribute positively to the vibe of the class, you will receive full credit for this portion. If your attendance is sporadic, if you have a negative attitude, or if you are disruptive to the class, you will receive a deduction. The amount of said deduction is at the instructor’s discretion.
Attendance Policy

It is expected that each student attend and participate in all class periods, with the exception of College-supported excused absences. Please arrive on time. As outlined above, class participation is not an insignificant component of the final grade in the course (10%).

Group Valuation Case Write-Up and Presentation

Once groups are assigned, students will choose a valuation project based on actual events/companies. A list of companies will be provided by the instructor and groups may either select “buy-side” or “sell-side” analysis for a company. All selections must be approved by instructor prior to work commencing as each company will need one buy-side team and one sell-side team. See handout for detailed instructions and deadlines.

ETS Major Field Test

This will be organized and administered by the School of Business. As finance majors, students are required to take the test and score well. I will receive student's percentile score. Your percentile score on this test will be proportionally converted into the points for this part. For instance, if you receive 80th percentile, you will receive an 80% of the points allocated to this component of your grade.
College of Charleston Honor Code and Academic Integrity

Lying, cheating, attempted cheating, and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The intervention, submitted by form and signed both by the instructor and the student, will be forwarded to the Dean of Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Students. A student found responsible by the Honor Board for academic dishonesty will receive a XF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the X to be expunged. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.

Students should be aware that unauthorized collaboration--working together without permission-- is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information via a cell phone or computer), copying from others’ exams, fabricating data, and giving unauthorized assistance.

Research conducted and/or papers written for other classes cannot be used in whole or in part for any assignment in this class without obtaining prior permission from the instructor.

Students can find the complete Honor Code and all related processes in the Student Handbook at [http://deanofstudents.cofc.edu/honor-system/studenthandbook/](http://deanofstudents.cofc.edu/honor-system/studenthandbook/)

Students with Disabilities

The College will provide reasonable accommodations for persons with documented disabilities. Students should apply at the Center for Disability Services/SNAP, located on the first floor of the Lightsey Center, Suite 104. Students approved for accommodations are responsible for notifying me as soon as possible and for contacting me one week before accommodation is needed.
# Tentative Class Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>In-Class</th>
<th>Homework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>January</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Introduction: Syllabus Review and General Class Information; Intro to Valuation</td>
<td>Read Chapter 1: Introduction to Valuation</td>
</tr>
<tr>
<td>13</td>
<td>Valuation: The Role and Common Methodologies</td>
<td>Read Chapter 3: Understanding Financial Statements</td>
</tr>
<tr>
<td>15</td>
<td>Financial Statement Analysis &amp; Examples</td>
<td>Complete Financial Statement Analysis Homework</td>
</tr>
<tr>
<td>20</td>
<td>HOLIDAY – No Class</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Financial Statement Analysis Homework Review; Intro to Basics of Risk</td>
<td>Read Chapter 4: The Basics of Risk</td>
</tr>
<tr>
<td>27</td>
<td>A Review of Expected Return and Risk</td>
<td>Read Chapter 8: Estimating Risk Parameters and Costs of Financing</td>
</tr>
<tr>
<td>29</td>
<td>Review of Risk Analysis &amp; Calculation</td>
<td>Complete Risk Analysis &amp; Calculation Homework</td>
</tr>
<tr>
<td><strong>February</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Risk Analysis &amp; Calculation Homework Review; Exam Prep</td>
<td>Study</td>
</tr>
<tr>
<td>5</td>
<td>Exam 1: High Level Valuation Concepts, Financial Statements, and Risk Analysis</td>
<td>Read Chapter 9: Measuring Earnings</td>
</tr>
<tr>
<td>10</td>
<td>Exam Review; Intro to Measuring Earnings</td>
<td>Read Chapter 10: From Earnings to Cash Flow</td>
</tr>
<tr>
<td>12</td>
<td>Measuring Earnings Examples; From Earnings to Cash Flow</td>
<td>Complete Earnings and Cash Flow Homework</td>
</tr>
<tr>
<td>17</td>
<td>Review of Earnings and Cash Flow Homework; Intro to Estimating Growth</td>
<td>Read Chapter 11: Estimating Growth</td>
</tr>
<tr>
<td>19</td>
<td>Estimating Growth and Examples</td>
<td>Complete Estimating Growth Homework</td>
</tr>
<tr>
<td>24</td>
<td>Review of Estimating Growth Homework; Intro to Chapter 12</td>
<td>Read Chapter 12: Closure in Valuation: Estimating Terminal Value</td>
</tr>
<tr>
<td>26</td>
<td>Estimating Terminal Value Examples</td>
<td>Complete Estimating Terminal Value Homework</td>
</tr>
<tr>
<td><strong>March</strong></td>
<td></td>
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<tr>
<td>2</td>
<td>Terminal Value Homework Review; Exam Prep</td>
<td>Study</td>
</tr>
<tr>
<td>4</td>
<td>Exam 2: Earnings, Cash Flows, and Terminal Values</td>
<td>Read Chapter 13: Dividend Discount Models</td>
</tr>
<tr>
<td>9</td>
<td>Dividend Discount Model Review</td>
<td>Complete Dividend Discount Models Homework</td>
</tr>
<tr>
<td>11</td>
<td>Dividend Discount Homework Review; Intro to Free Cash Flow to Equity</td>
<td>Read Chapter 14: Free Cash Flow to Equity Discount Models</td>
</tr>
<tr>
<td>13</td>
<td>Earnings Multiples Review</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Review of Multiples Homework; Exam Prep</td>
<td>Study</td>
</tr>
<tr>
<td><strong>April</strong></td>
<td></td>
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<tr>
<td>1</td>
<td>Review of Firm Valuation Case Study</td>
<td>Read Chapter 17: Fundamental Principles of Relative Valuation</td>
</tr>
<tr>
<td>6</td>
<td>Relative Valuation Examples</td>
<td>Complete Relative Valuation Homework</td>
</tr>
<tr>
<td>8</td>
<td>Relative Valuation Homework Review; Intro to Chapter 18</td>
<td>Read Chapter 18: Earnings Multiples</td>
</tr>
<tr>
<td>13</td>
<td>Earnings Multiples Review</td>
<td>Complete Earnings Multiples Homework</td>
</tr>
<tr>
<td>20</td>
<td>Exam 3: Free Cash Flow Models and Relative Valuation</td>
<td>Read Chapter 23: Valuing Young or Start-Up Firms</td>
</tr>
<tr>
<td>22</td>
<td>Valuing Young or Start-Up Firms; Course Instructor Evaluations</td>
<td>Prepare for presentations</td>
</tr>
<tr>
<td>27</td>
<td>Case Study Presentations 12pm - 3pm</td>
<td></td>
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</tbody>
</table>

**SPRING BREAK!!!!!!**
Appendix: The Valuation Case Guidelines

Buy-Side/Sell-Side Valuation and Presentation

Subject Companies: To be determined

Expectations:
1. **Study the sector and industry trend.**
   What is the SIC code and/or NAICS code for the relevant sector and industry?
   
   *Suggested Resource:*
   - IBISWorld Industry Report
   - Google

2. **Market transaction analysis:** Is there any comparable deal available? Get the comparable from the recent M&A deals, or get the recent IPOs, and their valuations and comparable.

   *Suggested Resource:*
   - PrivCo: accessible from our library
   - Bloomberg
   - Google
   - Yahoo! Finance

3. **Conduct financial analyses in Excel.** When doing so, identify key value drivers for the firm and forecast future performance.
   - WACC estimation
   - Pro-formal financial statements
   - Discounted cash flow analysis
   - Terminal value estimate
   - Sensitivity analyses on key value drivers to the firm or share

Resources:
Company website (see Investor Relations)
Bloomberg
Yahoo! Finance
Wall Street Journal
Barron’s
Google
4. **Create your presentation complete with industry/sector analysis, financial analysis, discounted cash flow valuation, and risk analysis.**

   Note: THIS IS NOT A RESEARCH PAPER. Think of your deliverable as a pitch deck/diligence report accompanying a presentation. An example of a diligence presentation can be found in OAKS in the Final Case Analysis module.

   Here is another example/resource:  

5. **Prepare the presentation.** Groups will present during final class. Professional dress is required for the presentation, and there is the expectation that the presentations will be well-rehearsed. Members of the faculty and, potentially, of the business community may be invited to the presentations, so these should be taken very seriously.

   Presentations should be no less than 10 minutes, with a maximum of 20 minutes. (You will receive a hard stop at 20 minutes). There will be 5 minutes allowed for questioning from the audience, so be prepared for challenges (remember, there is a team opposing you).

**Interim Deadlines:**

**January 22, 2019:** Groups will be assigned by instructor  
**February 10, 2019:** Company / Case Study final selection  
**March 11, 2019:** Groups to share financial analysis and guideline company selection research with instructor via Google Drive. Groups will also turn in mid-term evaluations of team members.  
**April 1, 2019:** Preliminary draft Excel valuation schedules to be turned in via OAKS drop box.  
**April 13, 2019:** Preliminary draft presentation deliverable to be turned in via OAKS or Google Drive.  
**April 22, 2019:** Final Excel valuation schedules and presentation deliverables due via OAKS drop box and / or Google drive.  
**April 27, 2019:** Final Presentations: 12pm – 3pm

***Failure to meet any single interim deadline will result in a 5-point grade reduction for the entire team.***