Advanced Valuation and Corporate Financial Analysis

(FINC 418-03)

College of Charleston

Course Syllabus

Instructor: Xiaohu Guo
Office: JC Long 308
Phone: (843) 953-1563 (email is preferred)
E-mail: guox@cofc.edu
Class Time/Classroom: MW 3:25pm – 4:40 pm / Education Center 115
Office Hours: MW 10:00 am – 12:00 pm, or by appointment, or via Zoom

Course Description

This course serves as a synthesis of material taught in previous courses for finance majors. The material that was 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 intrinsic value of firm assets and equity, which necessitates an understanding of the three major areas of finance.

SB Learning Goals Addressed

- Goal 1: COMMUNICATION SKILLS: help students further advance knowledge on corporate valuation, prepare students to communicate with financial professionals on more advanced subjects, to communicate with clients in simple, easy to understand language.
- Goal 2: QUANTITATIVE FLUENCY: help students learn to do difficult math in the world of Finance, be able to conduct quantitative analysis for large investment projects for a firm using spreadsheet or other commercial software.
- Goal 3: SYNTHESIS: Help students comprehensively review and strengthen knowledge on multiple sub-areas of finance, be able to apply financial knowledge to real life situations.

The SB learning goals are:

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

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

GLOBAL AND CIVIC RESPONSIBILITY: Students will be able to identify and define social, ethical, environmental and economic challenges at local, national and
international levels. Students will also be able to integrate knowledge and skills in addressing these issues.

**INTELLECTUAL INNOVATION AND CREATIVITY:** Students will be able to demonstrate their resourcefulness and originality in addressing extemporaneous problems.

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

**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
- The changing roles of CFOs in formation of corporate strategy
- Financial accounting and accounting reporting
- Estimate the cost of capital. Ways to raising capital for business
- Advanced capital budgeting
- Valuation of enterprises, valuation in private equity setting
- Manage foreign exchange risk for multinational firms

**Professor’s Expectations for Students**

- Spend 3 hours per week outside the classroom, reading assigned materials, completing the group case or homework, and/or preparing for the exams. *It never can be an excuse that you have to spend more hours on other classes and as a result, you do not have time for this one.*
- Ask the professor to clarify when there is anything you think the professor does not make clear.
- Visit the professor’s office or request a ZOOM meeting for help. Feel free to stop by whenever you have questions during office hours.
- Get the textbook, read the chapters, and do the homework.
- Bring up the issues as soon as you see them. Give the professor timely feedbacks. Tell the professor if there is any way we can make teaching more effective and fun!

**Prerequisites**

Senior standing; FINC 303, FINC 315
Required Textbook & Materials

1. Online access to S&P Capital IQ at
   https://www.capitaliq.com/CIQDotNet/my/dashboard.aspx (Give me email address and I will assist you on this.)


Each group, if not each student, must have at least one copy of the textbook. The department has purchased the Oracle Crystal Ball software. It used to be installed on the computers located in the lobby next to Tate 315. If these computers are moved, I will demonstrate using my laptop. Students need to watch the videos posted on OAKS.

Recommended Material for Students Interested in Securities Licenses from FINRA


Reference Books or Helpful Tools

The CEO, Strategy, and Shareholder Value: Making the Choices that Maximize Company Performance, Peter Kontes, Wiley. (Our library has unlimited access to the E-book.)

Strategic management and business policy (12th edition), Thomas L. Wheelen and J. David Hunger, Pearson.

Financial Statement Analysis, CFA program curriculum, Volume 3, Level 1, 2008 or 2019

Microsoft Excel reference books: A lot of analysis work in this course requires the use of spreadsheets. Therefore, students should familiarize themselves with Excel applications. It is always a good idea to have some reference books during the semester. It is helpful to know how to use the ‘help’ function in the Excel.

Financial calculator: Although any financial calculator that can do time value of money (TVM) is good, I highly recommend using the Excel spreadsheet on a laptop. Students are allowed to use Excel for the exams.

Student Responsibility

There are a lot of materials to cover in the class. I expect every student to go over the chapters or other assigned readings before our class meets. As the instructor, I will spend the majority of the
class time explaining the difficult part of the material. I will appreciate if students can let me know which part of material is difficult to understand.

**Attendance Policy**

Students are required to attend the class are required to show up in person. Students’ attendance record is part of their class performance.

Students are expected to arrive at the class on time. Students who have five or more absences will be withdrawn from the course for excessive absences. Students arriving late more than six times may also be withdrawn from the course. If a student is withdrawn for excessive absences or being late for class more than six times, a final grade of WF will be assigned.

An absence from class for any reasons (job conflict, illness, appearance in court, transportation problems, travel, athletic event, etc.), even if permitted and/or excused by the instructor, will still count as one of the class absences.

**Grading Policy**

Grades will be based on the student’s performance on several components including group work, individual exams, and class performance. Each component has points and weights listed as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>Total Points</th>
<th>Actual Points Received</th>
<th>Weights</th>
<th>Contribution to overall grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)=(3)/(2)<em>100</em>(4)</td>
</tr>
<tr>
<td>Group Case/Home Work</td>
<td>100</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Individual Exam 1</td>
<td>100</td>
<td>30%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Individual Exam 2</td>
<td>100</td>
<td>30%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Final WSJ Case Write-Up and Presentation</td>
<td>100</td>
<td>15%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>ETS Major Field Test</td>
<td>100</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Class Performance (include attendance)</td>
<td>100</td>
<td>5%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Total Points</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Sum of Above</td>
</tr>
</tbody>
</table>

Students’ total points earned for the class are determined by the weights above and the points that students actually received on each item. The final course grade will be in a letter based on the following conversion table:

<table>
<thead>
<tr>
<th>Total points</th>
<th>Letter grade</th>
<th>Total points</th>
<th>Letter grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>90-100</td>
<td>A</td>
<td>70-74</td>
<td>C</td>
</tr>
<tr>
<td>88-89</td>
<td>A-</td>
<td>68-69</td>
<td>C-</td>
</tr>
<tr>
<td>85-87</td>
<td>B+</td>
<td>65-67</td>
<td>D+</td>
</tr>
<tr>
<td>80-84</td>
<td>B</td>
<td>60-64</td>
<td>D</td>
</tr>
</tbody>
</table>
Group Cases: There are several group cases including a semester-long Wall Street Journal valuation case. These cases will assess students’ qualitative & quantitative understanding of the materials. The students are expected to complete these assignments in group. Everyone in the group needs to contribute to the work, and each group needs to fill out the Group Member Contribution Sheet, which will be provided separately. No make-up will be granted for group case. If a student misses a group case, they need to talk to their group members to get a solution. Some of the cases require the students to present the results in the class. If any students have difficulties on this aspect, please let me know as soon as possible.

Homework: Students are required to complete and turn-in the assigned homework on time. In normal circumstance, a late turn-in will not be accepted.

The students are encouraged to complete both the group case and homework in group. However, it is critical that each student should understand the work, be able to do it independently and correctly, or the chance is very high that the student will perform poorly on the individual exams. This can lead to a F grade for the whole course!

The professor has the discretion to ask students to explain the group case or homework in the class.

Individual exams: There are in-class, individual exams. These exams usually take the whole class time. Make-up exams will be given only to those individuals who have both a legitimate excuse and a good attendance record. I, as the instructor, in order to achieve high quality teaching, have the sole right to make judgment whether an excuse is legitimate and whether a make-up should be granted. In case that a make-up opportunity is granted, the student should take the make-up within one week of the regular exam date. Otherwise, the opportunity will expire and the student will receive zero point on that specific exam missed.

Final WSJ Case Write-Up and Presentation: Students can choose a valuation project from the real life. It can be a potential M&A, IPO, or Private Equity deal to conduct the valuation for the target or IPO firm. A guideline for this is appended at the end of the syllabus.

ETS Major Field Test: it 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 on the test, you will be receiving 8 points for this part.
**Class performance:** Students are expected to go over chapters and finish assigned material like homework before each class, pin down the places difficult to understand, ask questions, and actively take part in the class discussions. Attending the class is part of class performance.

**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 XXF 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 XX to be expunged. The F is permanent. 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/index.php](http://deanofstudents.cofc.edu/honor-system/studenthandbook/index.php)
Disability Statements

1. Any student eligible for and needing accommodations because of a disability is requested to speak with the professor during the first two weeks of class or as soon as the student has been approved for services so that reasonable accommodations can be arranged.

2. The College will make reasonable accommodations for persons with documented disabilities. Students should apply for services 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.

3. This College abides by Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act. If you have a documented disability that may have some impact on your work in this class and for which you may require accommodations, please see an administrator at the Center of Disability Services/SNAP, (843) 953-1431) or me so that such accommodation may be arranged.

For more information, you may visit the disability services website:
http://disabilityservices.cofc.edu/

OAKS

OAKS, including Gradebook, will be used for this course throughout the semester to provide the syllabus and class materials and grades for each assignment, which will be regularly posted.

Inclement Weather, Pandemic or Substantial Interruption of Instruction

If in-person classes are suspended, faculty will announce to their students a detailed plan for a change in modality to ensure the continuity of learning. All students must have access to a computer equipped with a web camera, microphone, and Internet access. Resources are available to provide students with these essential tools.

Center for Student Learning:

The Center for Student Learning’s (CSL) academic support services provide assistance in study strategies, speaking & writing skills, and course content. Services include tutoring, Supplemental Instruction, study skills appointments, and workshops. Students of all abilities have become more successful using these programs throughout their academic career and the services are available to you at no additional cost. For more information regarding these services please visit the CSL website at http://csl.cofc.edu or call (843) 953-5635.

Mental & Physical Wellbeing:

At the college, we take every students’ mental and physical wellbeing seriously. If you find yourself experiencing physical illnesses, please reach out to student health services (843.953.5520). And if you find yourself experiencing any mental health challenges (for example, anxiety, depression, stressful life events, sleep deprivation, and/or loneliness/homesickness) please consider contacting either the Counseling Center (professional counselors at http://counseling.cofc.edu or 843.953.5640 3rd Robert Scott Small Building) or the Students 4 Support (certified volunteers through texting "4support" to
839863, or meet with them in person 3rd Floor Stern Center). These services are there for you to help you cope with difficulties you may be experiencing and to maintain optimal physical and mental health.

**Food & Housing Resources:**

Many CofC students report experiencing food and housing insecurity. If you are facing challenges in securing food (such as not being able to afford groceries or get sufficient food to eat every day) and housing (such as lacking a safe and stable place to live), please contact the Dean of Students for support ([http://studentaffairs.cofc.edu/about/salt.php](http://studentaffairs.cofc.edu/about/salt.php)). Also, you can go to [http://studentaffairs.cofc.edu/student-food-housing-insecurity/index.php](http://studentaffairs.cofc.edu/student-food-housing-insecurity/index.php) to learn about food and housing assistance that is available to you. In addition, there are several resources on and off campus to help. You can visit the Cougar Pantry in the Stern Center (2nd floor), a student-run food pantry that provides dry-goods and hygiene products at no charge to any student in need. Please also consider reaching out to Professor ABC if you are comfortable in doing so.

**Inclusion:**

The College of Charleston offers many resources for LGBTQ+ students, faculty and staff along with their allies.

- [Preferred Name and Pronoun Information](#)
- [On Campus Gender Inclusive facilities](#)
- [Campus Resources](#)

**Other items**

1. For other matters not specified in this syllabus, we comply with the common policy of the College.
Schedule of Class (subject to adjustments as we proceed. Most of handouts are available electronically on OAKS.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Topics</th>
<th>Chapters (Brunner et al.); Supplemental reading &amp; Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Jan</td>
<td>Module 1</td>
<td>Syllabus</td>
</tr>
<tr>
<td></td>
<td>Corporate strategy, its formulation, the roles of CFOs</td>
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<tr>
<td>12-Jan</td>
<td>Module 2</td>
<td></td>
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<td></td>
<td>The DNA of the CFO: a study of what makes a chief financial officer (Handout)</td>
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</tr>
<tr>
<td>19-Jan</td>
<td>CFA curriculum: Readings 29 (Handout)</td>
<td></td>
</tr>
<tr>
<td>24-Jan</td>
<td>CFA curriculum: Readings 30 (Handout)</td>
<td></td>
</tr>
<tr>
<td>26-Jan</td>
<td>CFA curriculum: Readings 31 (Handout)</td>
<td></td>
</tr>
<tr>
<td>31-Jan</td>
<td>Catch up time</td>
<td></td>
</tr>
<tr>
<td>02-Feb</td>
<td>Financial Reporting, Financial Statements, Pro Forma Statements, valuation</td>
<td>Corporate financial Planning, Pro Forma Financial Statement</td>
</tr>
<tr>
<td>07-Feb</td>
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<td></td>
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<tr>
<td>09-Feb</td>
<td></td>
<td>Pro Forma FS practice; Valuation project selection, industry/sector analysis</td>
</tr>
<tr>
<td>14-Feb</td>
<td>Chapter 7, discussion on exam 1</td>
<td>Individual Exam 1 (30%); Group selects a WSJ valuation case, either M&amp;A or IPO or private equity investment deal. Group starts working on the WSJ case - projecting cash flows.</td>
</tr>
<tr>
<td>16-Feb</td>
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<tr>
<td>21-Feb</td>
<td>Module 3</td>
<td>Chapter 3</td>
</tr>
<tr>
<td></td>
<td>Introduction to Simulation analysis and Crystal Ball</td>
<td></td>
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<tr>
<td>23-Feb</td>
<td></td>
<td>Problem solving for chapter 3</td>
</tr>
<tr>
<td>28-Feb</td>
<td></td>
<td>Chapter 4</td>
</tr>
<tr>
<td>02-Mar</td>
<td>Capital budgeting &amp; Corporate financing</td>
<td></td>
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<tr>
<td>07-Mar</td>
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<td>Problem solving for chapter 4</td>
</tr>
<tr>
<td>09-Mar</td>
<td></td>
<td>Spring Break, No classes.</td>
</tr>
<tr>
<td>14-Mar</td>
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</tr>
<tr>
<td>16-Mar</td>
<td>Catch up time, discussion on exam 2, part 1</td>
<td></td>
</tr>
<tr>
<td>21-Mar</td>
<td></td>
<td>Individual Exam 2 (part 1) (15%)</td>
</tr>
<tr>
<td>23-Mar</td>
<td></td>
<td>Project time: group works on the WSJ case - forecast cash flows and estimate WACC</td>
</tr>
<tr>
<td>24-Mar</td>
<td>Module 4</td>
<td>Chapter 8: Relative valuation using market comparable</td>
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<tr>
<td></td>
<td>Enterprise valuation, valuation in a private equity setting</td>
<td></td>
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<tr>
<td>28-Mar</td>
<td></td>
<td>Case analysis for chapter 8</td>
</tr>
<tr>
<td>30-Mar</td>
<td></td>
<td>Chapter 9: Enterprise valuation</td>
</tr>
<tr>
<td>04-Apr</td>
<td></td>
<td>Case analysis for chapter 9</td>
</tr>
</tbody>
</table>
Appendix: The WSJ Valuation Case Guideline

Find a potential valuation deal from the Wall Street Journal or other sources, which could be a M&A or IPO deal, to valuate the target firm or IPO shares.

**Expectations:**

1. Study the sector and industry trend.
   What is the GICS, Standard Industrial Classification (SIC), and NAICS for the sector and industry that the firm is in?

   Resource:
   S&P Capital IQ, IBISWorld Industry Report

2. 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.

   Resource:
   ProcCo: accessible from our library

3. Conduct financial analyses on Excel. When doing so, identify key value drivers for the firm or deal you choose, and project their trend.

   WACC estimation
   Pro-formal financial statement
   Future Free Cash Flow project
   Terminal value estimate
   Sensitivity analyses on key value drivers to the firm or share

   Resources:

Crystal Ball simulation.

Private firm financials: ProcCo: accessible from our library

4. Write-up report including the purpose of your project (valuate either a target firm, or IPO share), your sector analysis, your valuation methods (both discount cash flow and relative valuation, if possible), and the major results. The report should be in a word file!

5. Prepare the Power point slides for the presentation. The Excel file can serve as the supporting documents.

Some free resources you may be using for your projects:

Business Insights: Essentials
Extensive reference content from Gale's core business collection; easy-to-use company fundamentals and investment research reports; industry rankings, profiles, market share data, company histories, and more.

Recent M&A deals
http://www.reuters.com/finance/deals/mergers
or Google: ‘merger’

IPO pricing:
https://biz.yahoo.com/ipo/indg_a.html