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Office Hours:  
With the varied work schedules of many students, fixed office hours are generally inconvenient for students. As a result, I have set office hours and I have provided my home telephone number. If you would like to meet with me, let me know and we will arrange a mutually satisfactory time. For some students, telephone “meetings” are easier. To this end, you may call me at home at reasonable hours (i.e., before 10:00 p.m.).

Course Prerequisite: Mastery of Basic Financial Accounting and Financial Management

The following Textbooks must be purchased:  

Corporate Valuation: A Guide for Managers and Investors, Phillip R. Daves, Michael C. Ehrhardt and Ronald E. Shriives, Thomson South-Western


Required Materials:


Use of Technology:
1. All assignments must be typed neatly in a Word or Word Perfect (Current Version). You must also be proficient in Powerpoint for oral presentations.
2. For financial and statistical analysis, students must be proficient with an appropriate software spreadsheet programming including excel.
3. Internet sources should be used to increase student awareness of current events about current events related evaluation.
COURSE DESCRIPTION:
Case analysis in financial problems of the firm emphasizing: analysis of the demand for funds, external and internal sources of funds and their cost to the firm, problems of the multinational firm and other techniques of financial management such as capital budgeting, cash budgeting and optimal capital structure.

This is a course that offers an overview of valuation financial issues affecting smaller companies. It is appropriate for students interested in entrepreneurship, in small company management, or lending to or investing in small venture and post-venture firms. The course discusses valuation and the successive stages of private equity financing, private debt financing, and “harvesting” through a merger or sale, a restructuring or LBO, or an IPO.

COURSE RATIONALE:
The intent of this course is to analyze the financial issues that affect entrepreneurial investment. Entrepreneurial investments, high-risk/high-reward opportunities, are often associated with small and growing ventures. The class also goes beyond start-ups and early stage investment situations. Entrepreneurial opportunities also occur in various forms of corporate restructuring such as leveraged buyouts and workouts. Several guests from the real world of entrepreneurial finance will attend classes to offer students the benefit of their experience and observations. The course should be useful to those seeking careers in venture capital, private equity investing, distress investing, investment management or in senior management positions of entrepreneurial corporations.

OUTLINE OF COURSE CONTENT:

Warning:
This course outline provides a general plan for the course; deviation may be necessary. Any schedule change will be announced in class, and you are responsible for the announced change regardless of whether you are in class at the time of the announcement. This includes announcements made the first night of class.

<table>
<thead>
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<th>Course Outline</th>
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| 5/20 | Complete Penman Chapter 2 problems  
Discounted Cash Flow Valuation (Penman 4)  
Continued (Davies 1 and 2)  
*Turn in case M 3.2 Nifty Stocks and Kimberly Clark Case (Group 3)* |
| 5/25 |  
*IFRS Paper Due* |
| 5/27 | Historical Financial Analysis (Penman 11)  
Analysis of Profitability, Leverage, Liquidity  
*Complete Penman Chapter 4 problems*  
*Turn in case M 4.1 Coca Cola and Kimberly Clark Case (Group 4)* |
| 6/1 |  
Proforma Analysis (Davies 5 and 6)  
*Turn in case M 11.1 Proctor & Gamble (Group 5)*  
*Complete Penman Chapter 11 problems* |
| 6/3 |  
*STRATEGY AND HISTORICAL ANALYSIS Paper Due*  
*Turn in case M 10.1 Proctor & Gamble (Group 6)* |
| 6/8 |  
*Complete Penman Chapter 10 problems*  
Valuation and Book Values (Penman 5)  
Continued (Penman 7) |
| 6/10 |  
Abnormal Earnings Valuation (Penman 6)  
Continued (Penman 7) |
| 6/10 |  
*Turn in case M 5.1 Tyco & Citigroup and M5.3 Kimberly Clark (Group 7)*  
Comprehensive Income and Equity (Penman 8) |
| 6/20 |  
Technical Issues (Davies 8)  
*Complete Penman Chapter 5 problems* |
Turn in case M 6.1 PepsiCo & Coca Cola and Kimberly Clark Case (Group 8)

6/15  21  Free Cash Flow and Reformulated Statements (Penman 7)
      Complete Penman Chapter 6 problems
      Turn in case M7.1 Cisco and M7.2 Google (Group 9)

6/17  22  FINAL BUSINESS PLAN and VALUATION paper includes
      Proforma Statements due

Note: If you would like to receive a grade before the official University mailing, you may give me a self-addressed, stamped envelope or card and I will mail your grade as soon as it is ready. Grades will not be released over the telephone.

COMPUTER COMPONENT:
Knowledge of spreadsheet, database, and word processing programs is essential.

LIBRARY ASSIGNMENTS:
See course outline.

SPECIAL COURSE REQUIREMENTS:
The students in this class will work closely with the small business development center at South Carolina State University.

ATTENDANCE POLICY:
Class participation is not synonymous with attendance. It means that you are well prepared to discuss the assigned case and readings, and do so effectively. Quality is important. Asking questions in class can be a valuable learning vehicle and such questions are encouraged for that reason, but questions do not earn class participation points. Points are earned by presenting quantitative and qualitative analyses of the case situation that have the effect of moving the class towards valuable insights about the case. For example, it is not enough to simply present the values of particular ratios. You must also furnish the understanding gained from analysis of the ratios. The only way to earn points is through your verbal contributions in class. A student who attempts to avoid a poor class participation grade by not participating will simply ensure a failing grade. If you are uncomfortable with such a large portion of your grade being determined by class participation, drop the course!

METHOD OF EVALUATION AND GRADING SCALE:
Your grade will be determined by the following.

<table>
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<th>Component</th>
<th>Maximum Points</th>
<th>Percentage</th>
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<tr>
<td>Zoom Presentation</td>
<td>1000</td>
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<tr>
<td>Homework</td>
<td>1000</td>
<td>12.5%</td>
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<tr>
<td>Case Assignments</td>
<td>500</td>
<td>6.25%</td>
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</table>
Final Business Plan and Valuation  2000  25.0%
Strategy Paper 1000  12.5%
Historical Analysis Paper 1000  12.5%
Class Participation 1000  12.5%
IFRS Paper 500  6.25%
Total  8000  100.0%

Make up assignments are never given. Class starts promptly at the scheduled time. If you will be unable to arrive on time, you should withdraw from the course.
Withdrawal:
Note that “W” is not automatic. You must be doing passing work. Withdrawal before the first examination does not guarantee a “W” because of the importance of class participation and the quizzes to the course grade.

Academic honesty:
It is your responsibility to read the University Policy on Academic Honesty. This document establishes clear standards for academic honesty and it will be enforced in this course. My policy is completely consistent with that document. Here is my position. A university can successfully function only when its integrity is maintained. One important element of integrity is personal honesty. Cheating, a form of personal dishonesty, is unfair to students who do not cheat because their performance may appear relatively inferior, and it is unfair to students who do cheat because it short circuits the learning process. In short, cheating is a cancer that invades and subverts the legitimate academic process. It cannot be tolerated at any level. Consequently, my position is simple. All work must be your own. Any student found using case notes prepared by others (including students from prior classes), copying during quizzes or exams, signing someone else’s name to the attendance list, or attempting in any way to promote the work of others as his or her own will receive an F for the course. Note that a person providing assistance is equally as guilty of cheating as the recipient of the assistance. In addition, I will make every effort to see that the guilty party receives the most severe University disciplinary action appropriate. There will be no exceptions or second chances. Period.

Cross Disciplinary Application
Components of the capstone course that the authors of this article used in their work together are discussed in the appendix. The components of the course plan can be adjusted so that other disciplines can be used or modified to fit other needs.

Course Description
This course provides a comprehensive synthesis of the financial theories and concepts learned in previous finance courses. The application of discounted cash flow (DCF) and marketable comparable valuation models will be used as a platform for integrating various theoretical aspects of business plan development, financial forecasting, working capital management, sources of financing, capital budgeting, security valuation, value based management, strategic marketing, and business ethics. This course should have wide application from small to large company environments. Special attention will also be given to valuation issues affecting smaller companies and publicly traded corporations that are affected by global competition.
Specific Course Objectives, Competencies and Measurable Outcomes:

1. To be able to effectively use the following tools of financial analysis to perform valuations for a start-up business plan that each student will create: cash flow statements, financial ratios, common-size statements, cost-volume-profit analysis, sustainable growth analysis, case budgets, and proforma financial statements.
2. To describe the accounting and recordkeeping options available to your business.
3. To explain how to forecast sales and capital expenditures using triangulation.
4. To create proforma financial statements for five years and analyze the projected performance.
5. To describe how to use cost-volume-profit analysis to answer questions about your business.
6. To complete an application for an SBA loan or grant.
7. To develop critical thinking skills.
8. To develop oral communication and writing skills.
9. To understand the ethical implications of transparently presenting your assumptions and valuation models.
10. To analyze a firm’s financial statement using both GAAP and the International Financial Standards.

An overall objective of this course is to enable the student to integrate marketing, management, and ethical paradigms into their valuation methodologies. This approach will enable the student to understand the opportunities, challenges, and problems confronting individuals who pursue careers in financial management. Thus, the class will magnify student’s understanding of basic and advance financial concepts within a comprehensive theoretical setting. Specifically, the focus will be on the following objectives:

1. Create a formal business plan for a publicly traded corporation and relate the firm’s value based management and marketing strategies to the assumptions underlying the valuation analysis. The strategic analysis component requires the student to know the business and its related industry.
2. Evaluate the historical and projected financial condition, i.e., performance of the company, through the use of student-created cash flow statements, financial ratio analysis, common-size and trend financial statements, cost-volume-profit analysis, and sustainable growth analysis.
3. Create proforma financial statements for five years and analyze the projected financial performance for each year.
4. Explain and demonstrate how to forecast sales and capital expenditures using triangulation and other methods.
5. Describe how to use cost-volume-profit analysis to answer help assess operating risk.
6. Draw on discussions of valuation concepts and models from academic research papers to establish different structured frameworks.
7. Create several valuation models for a publicly traded company that is either financially distressed or growing rapidly. Discuss how strategic management innovations and the firm’s operating strategy affect cash flows and risk.
8. Perform a risk assessment for a small closely held firm, firms in different industries, and regulated firms.
9. Develop critical thinking skills.
10. Develop oral communication and writing skills.
11. Understand that a firm must provide good customer service in order to create long term economic financial success.

12. A firm must recruit, develop and sustain a diverse workforce in order to maintain a high level of customer service which will lead to higher revenue and cash flow.

Task Objectives
1. Business Plan-Marketing and Management
2. Historical Analysis-ratio, operating cycle and sustainable growth analysis
3. Proforma Analysis-percentage of sales approach, estimating future free cash flow
4. Sensitivity Analysis-Business Ethics
5. Discounted Cash Flow Valuation-beta, weighted average cost of capital, cost of equity, estimated growth rate
6. Market Comparable Valuation
7. Summary and Conclusion
8. Executive Summary

Examples of question that should be addressed in the business plan are presented in Table 4.

Table 4. Interdisciplinary Approach to Valuation-Sample Questions
1. How will the firm’s strengths, weaknesses, opportunities, and threats (SWOT) affect your estimates of future cash flows over the next five years? (strategic management)
2. Does the firm have a talented pool of professionals with diverse backgrounds, regions and skills? Given the recent emphasis on outsourcing and improved global competitiveness, is diversity management an important part of your firm’s goals? (organization behavior and international business)
3. How does the firm product pricing strategy affect gross profit margin? (marketing)
4. How does the product elasticity affect the firm’s revenue and unit sales? (marketing and economics) Can a firm produce higher financial results by increasing marketing efforts and relying on a strong sales culture? (marketing and organizational behavior)
5. How does the firm’s reputation regarding customer service affect customer loyalty and thus revenue and earnings stability? Does customer service matter? Is customer service correlated with lower inventory turnover? (marketing)
6. How did monetary and fiscal policy affect your estimates of required rate of return for both bonds and stocks? (economics)
7. How does the firm’s merger, globalization, or franchise strategy affect your estimate of growth estimates for cash flow and revenue with respect to new product markets? (strategic management and marketing)
8. How have technological innovations reduced the firm’s costs? (decision science)
9. Does the firm’s mission statement reflect its business units and organizational structure? (strategic management) Has the firm been involved in law suits, community complaints, or class action suits that may have ethical considerations? (ethics)

AACSB Assessment Criteria
Porter and McKibben (1988) argue that a disconnect exists between business school education and the practices that are used in corporate America. This same concern is given in a report by the AACSB according to Olian, Caldwell, Griffen, Liverpool, and Thomas (2002). They state that
“business education is inadequate for preparing future business leaders … (p 20). AACSB argues that “The most effective learning takes place when students are involved in their educational experiences. Passive learning is ineffective and of short duration. Faculty members should develop techniques and styles that engage students and make students responsible for meeting learning goals. Many pedagogical approaches are suitable for challenging students in this way—problem based learning (Scherpereel and Bowers, 2006), projects, simulations, etc. (p 57).” This criteria is a response to the AACSB’s call for innovation. The goals of College of Charleston’s multidisciplinary valuation course are provided below.

Goal 1: Ethical and Diversity Awareness
Objective: Students will recognize and be able to appraise ethical dilemmas involved in business decisions and competently engage in discourse aimed at resolution of these dilemmas utilizing relevant discipline specific knowledge. Students will have to apply the business ethics concepts from strategic management (co-requisite) to the assumptions underlying their valuation models.

Implementation: Students will have to analyze the ethical decisions of corporate executives at industry, company, and analyst (student) level. For example, students would have to determine whether Arthur Anderson’s corporate governance decisions with respect to Enron Co. were appropriate.

Demonstration of Achievement: Each student will display an understanding of the ethical considerations of valuation analysis in a written report in the initial section of the critique of the company’s business plan.

Goal 2: Leadership and Global Awareness
Objective: Students will recognize and examine the global implications of business decisions while evaluating and integrating innovative applications of these implications utilizing relevant discipline specific knowledge. In order to adequately complete this component of the business plan, a student has to consider a firm’s existing and potential foreign production, product markets, factors that allow firms to lead the industry, and other pertinent issues.

Implementation: Each student will be able to identify a company’s existing and potential international and domestic competition in the comparables approach to valuation analysis. Each student will understand the cultural and international diversity issues for the geographic areas that the company operates within or for their work force. This part of the business plan will enable the student to develop an understanding of the relevant global economic, social, and political issues.

Demonstration of Achievement: The course syllabus will have an international component. Students must compute the value of a multinational firm’s stock and bonds as one of their assignments. An exam will test students’ knowledge of the theoretical issues.

Goal 3: Problem Solving Ability
Objective: Students will demonstrate critical thinking skills in identifying and evaluating problems and opportunities in the business environment and apply analytical techniques to formulate creative solutions utilizing relevant discipline specific knowledge.
Implementation: The valuation project requires the design of multiple spreadsheets to estimate firm value. The inputs for the spreadsheets depend upon the assumptions derived from the business plan (marketing and management strategic analysis) and the proforma financial statement.

Demonstration of Achievement: The student is expected to attain 70% or higher on the written and oral portions of the completed business plan and valuation analysis. Essay and advanced level quantitative problems will test the students’ knowledge of ratio analysis, cash flow projection, stock/bond valuation, cost of capital calculation, and other financial areas. Each student is required to pass the introductory accounting and economic courses as prerequisites for this course.

Goal 4: Effective Writing and Oral Communication: Practical Application
Objective: Students will be able to convey ideas through effective oral and written communication. The objective is to force the student to write a technical analysis that goes beyond the simplified valuation methodology presented in introduction to financial management text books (see Skinner, 1994).

Implementation: The student will complete a research valuation paper based upon a publicly traded corporation that is either rapidly growing or in financial distress. Individual and team assignments are a part of the class.

Demonstration of Achievement: They will write and present professional documents that are technically correct and concise as well as utilizing relevant discipline specific knowledge. Students will evaluate the performance of other students within the class. Each student will also receive a grade for the written and oral component.

Goal 5: Technological Sophistication
Objective: Students should be technologically proficient within the finance discipline.

Implementation: Students will be required to estimate the weighted average cost of capital using regression analysis over different time periods. They will use excel and other applications to design the spread sheets for the different valuation methodologies.

Demonstration of Achievement: The course outline will require the proficiency of certain technological skills in order to complete the assignment. Each student must complete the introductory decision science course as a prerequisite to the capstone valuation course. The data for the valuation assignment is collected from the internet. Beta must be calculated in Excel, SPSS, SAS, or some other statistics package.

Goal 6: High Level of Cognitive Learning: Improved Knowledge and Retention
Objective: Students should be able to understand and analyze complex business issues with quantitative and qualitative models. They will also be able to recommend solutions within a practical corporate setting in both oral and written formats.

Implementation: The student will be tested with embedded question on exams and valuation assignments.
Demonstration of Achievement: Students are expected to attain a 70% or higher on the comprehensive senior exit exam. ETS provides major field test for capstone courses. Students will also be required to complete the capstone course with a minimum grade of C.

Goal 7: Cross Disciplinary Knowledge and Application: Marketing, Management, and Finance
Objective: Students will develop an understanding of the theories, concepts, and skills relevant to finance, marketing, and management and how these subjects interrelate within a valuation project. Active learning should replace passive learning.

Implementation: Students will be able to apply financial theoretical knowledge such as sustainable growth’s link to marketing/management sales objectives within an interdisciplinary framework.

Demonstration of Achievement: Students will also be required to complete the capstone course with a minimum grade of C.

Goal 8: Interpersonal Skills
Objective: Each student will develop the ability to work in teams and have leadership, time management, conflict management and multitasking skills. The intent is to make sure that students can work within an organizational culture that values high expectations and requires respect for diverse talents and learning styles.

Implementation: The student will be required to collaborate with a teacher selected group for at least one assignment.

Demonstration of Achievement: Each student and the teacher will grade an individual person on leadership, team work, time management, creativity, conflict management and multitasking. The evaluations will be based on written assignments, oral presentations, business plans, and out-of-class teacher contact and meetings. Students take on a significant self-management role in this class.

Final Valuation Project Assignment

I. Is the company maximizing shareholder wealth (market value of equity) and firm value (market value of total assets)? Analysis is over a five year historical time period (2009-2013)

Descriptive Strategy Paper
A. Mission Statement-Stated Versus Actual Activities
B. Customer Base and Market Share
C. Legal Structure
D. Size and Business Segments
E. Industry-Strength and Weaknesses of Major Competitors (SIC Code)
F. Takeover/Bankrupt Activities
G. Company and CEO History
H. Firm’s Sensitivity to the Economy (Trade Magazines)
I. Economic Outlook
J. Current Events

Analytical Evaluation
A. Profitability for each year (Trend and Industry Analysis)
1. \( \text{Roe} = \frac{\text{NI}}{\text{TE}} \)
2. \( \text{Roa} = \frac{\text{NI}}{\text{TA}} \)
3. \( \text{PM} = \frac{\text{NI}}{\text{Sales}} \)
4. \( \text{TAT} = \frac{\text{Sales}}{\text{TA}} \)
5. \( \text{EM} = \frac{\text{TA}}{\text{TE}} \)
6. \( \text{CGS/Sales; Operating Expenses/Sales; Interest Expense/Sales} \)
   \( \text{Taxes/Sales; Other/Sales} \)
B. Liquidity for each year
1. \( \text{Current Ratio} = \frac{\text{CA}}{\text{CL}} \)
2. \( \text{Quick Ratio} = \frac{\text{CA-Inv}}{\text{CL}} \)
3. \( \text{Cash/TA} \)
4. \( \text{AR Days} \)
5. \( \text{AP Days} \)
6. \( \text{Inv Days} \)
C. Default Risk for each year
1. \( \text{TL/TA} \)
2. \( \text{STD/TL} \)
3. \( \text{TIE} = \frac{\text{EBIT}}{\text{Interest Expense}} \)
4. Cash flow Ratios in a finance book
D. Market Ratios
1. \( \text{Market to Book Value of Equity} \)
2. \( \text{Market to Book Value of Assets} \)
3. \( \text{P/E Ratios: Trailing and Forward} \)
4. \( \text{EBIT/Debt + Market Value of Equity} \)
5. \( \text{Stock Price} \)
6. \( \text{EPS} \)
7. E. Reformulated Statements
8. Ratios from Chapter 11
9. All ratios in Chapter 3

E. Financing
1. \( \text{Required Rate of Return based on CAPM-Beta, 10 year treasury return, Market} \)
   \( \text{Portfolio Return} \)
2. \( \text{Average Cost of Debt (coupon rates are the required rate of return on debt)} \)
3. \( \text{Tax Rate} \)
4. \( \text{WACC} \)
5. \( \text{Leveraged and unleveraged Beta} \)
III. Building Blocks for Fundamental Valuation Analysis
A. Proforma Analysis: Projections of Future Cash Flows
   1. NI + Depreciation
   2. NOPAT=EBIT (1-Tax Rate)
   3. Operating Capital
   4. Free Cash Flow from Assets; Free Cash Flow to Equity
   5. Compute the Market Value of Assets using the Discounted Cash Flow, Dividend Growth Model and Comparables Approaches
   6. Compute the Market Value of Equity Assets using the Discounted Cash Flow, Dividend Growth Model and Comparables Approaches, Residual Earnings Model,
   7. Use Section to analyze the ratios and market/book values for the proforma period
   8. Calculate Indirect Cash Flow Statements for the Proforma and Historical Periods-Why is this approach used?
   9. Calculate the unlevered Betas from the levered Betas for your firm and its peers
12. Recalculate levered Betas based upon your proforma balance sheets
13. Use OLS regression to model and estimate the Beta for your firm over different time periods
14. Recalculate the market value of equity with your new Betas
15. Compare your estimated market value equity under each approach to the latest stock price. Is your stock under or over valued?