FIN 556 A-B
Business Valuation and Investment Analysis

Overview

Business Valuation and Investment Analysis is designed to provide you with the tools and techniques to value various types of assets.

Objectives

Recognize the biases associated with any valuation exercise and apply your knowledge to assess the valuations of others.

Understand the importance of being consistent in your assumption choices when valuing an asset.

Demonstrate the ability to gather the inputs necessary to value projects and companies and choose the right valuation model to use.

Make relevant assumptions when applying a valuation technique. For example: which cash flows to discount, what discount rate and growth pattern to use?

Know how to tie narrative and numbers to reach a valuation decision.

Be comfortable using intrinsic and relative valuation techniques to value investment projects and companies.

Understand how to value companies at different stages in their life-cycle.

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Office hours:
Tuesdays 9:30 – 10:30 a.m. and
Fridays 1 – 2 p.m.
Room TBD

Prof. Léa Stern
Office: PCAR 429
EMAIL: leastern@uw.edu
OFFICE HOURS:
Mondays & Wednesdays 3:30- 4:15 p.m.
COURSE WEBSITE: Canvas

Important Dates

- Assignment 1: January 25
- Mini-exam 1: February 1
- Assignment 2: February 22
- Team valuation report: March 4
- Mini-exam 2: March 6
- Final team presentation: March 8
COURSE MATERIALS:

- I recommend the following textbook as an optional resource for this class:


  You may also purchase the second edition of Damodaran’s textbook.

- Another option you may consider is referring to the relevant chapters in Berk and deMarzo’s Corporate Finance book, 4th edition, published by Pearson / Addison-Wesley (2016).

  - Slides on Canvas (required)
  - Miscellaneous readings on Canvas

COURSE RESPONSIBILITIES:

Individual assignments: There will be two individual assignments (10% each).
You are encouraged to discuss the assignments with your peers, but you must complete them on your own (i.e., write your own answers, no cutting and pasting of answers).

In-class mini exams: There will be two in-class mini exams (20% each).

Group Projects: You will have to value two companies: Redfin and Chipotle.
  - Your team will write a valuation report for both companies (20%).
  - You will present your valuation analysis to the class during the last session (10%).
  - Your team will be assigned to two in-class presentations during the quarter (5% each) to discuss a valuation topic and apply it to Redfin and Chipotle.

TECHNOLOGY POLICY:

You may use your laptop in class for class-related purposes such as note taking. However, I support the School’s policy against accessing email, surfing the Internet, etc. during class. Please constrain the use of your laptop and other electronic devices during class to class-related purposes.

MBA HONOR CODE:

I employ the policies and procedures espoused by the Foster School of Business Honor Code to maintain academic integrity in the course.

ACCOMMODATIONS:

To request academic accommodations due to disability, please contact Disabled Student Services, 448 Schmitz, 206-543-8924.
COURSE OUTLINE AND READING LIST:

- **Introduction**
  Valuation: the big picture

**Optional readings:** Chapters 1 and 2

  Dividend Discount Model, Free Cash Flow to Equity (FCFE), Free Cash Flow to the Firm (FCFF)
  Steps to DCF valuation
  Discount rates (risk free rate, equity risk premium, implied equity premium, relative risk measures, CAPM, betas, cost of debt, debt ratios, cost of capital)

**Optional readings:** Chapters 4, 7 and 8

- **Cash flows and Growth**
  Cash flows: steps and measurement
  Negative earnings
  Taxes and reinvestment
  Dividends and cash flows to equity
  FCFE and leverage
  Historical growth
  Fundamental growth rates

**Optional readings:** Chapters 9-11, 22

- **DCF Recap and Other Relevant DCF Topics**
  Terminal value
  Choosing the right DCF model
  Choice of cash flows, discount rate, growth
  Value of cash
  Debt and distress

**Optional readings:** Chapters 12-16
- **Introduction to Relative Valuation**
  
  Price v. value  
  Multiples: constructing, deconstructing and analyzing  
  
  *Optional readings*: Chapters 17-18

- **Relative Valuation: Continued**
  
  Finding comparables  
  Challenges  
  Relative vs. intrinsic valuation  
  
  *Optional readings*: Chapters 19-20

- **Valuation and the Firm’s Life-Cycle**
  
  Small, young, start-up companies  
  Mature companies  
  
  *Optional readings*: Chapter 23

- **Valuing Private Companies**
  
  Private to private  
  Private to public  
  Private to IPO  
  Private to VC to public  
  
  *Optional readings*: Chapter 24
If time permits:

- **Acquisitions**
  
The truth about acquisitions
  Risk, debt, control premium, synergies
  Buyouts
  Good and bad reasons to acquire

  **Optional readings:** Chapter 25

- **Value Enhancement**
  
  Ways of increasing value
  Economic Value Added (EVA)

  **Optional readings:** Chapters 31-32

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**LAST SESSION: Team Presentations**