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

- **Assignment 1**: January 31
- **Mini-exam 1**: February 7
- **Team valuation report ~ Part 1**: February 21
- **Assignment 2**: February 28
- **Mini-exam 2**: March 7
- **Team valuation report ~ Part 2**: March 13
- **Final team presentation**: March 14
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). Please bring a PAPER COPY of your assignments to class to submit.

In-class mini exams: There will be two in-class mini exams (15% each).

Group Projects: You will have to value two companies:
- Your team will write a valuation report for both companies (30%).
- You will present your valuation analysis to the class during the last session (15%).
- Your team will be assigned to an in-class presentation during the quarter (5%) to discuss a valuation topic and apply it to one of those companies.

Collaborative learning is an integral part of your learning experience at Foster. Your active contribution is expected in all team projects.

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

Please note that this course outline is subject to change.

### Class 1 (Thursday, Jan. 10)

**Syllabus**
- Introduction to Valuation
  - Biases, Uncertainty and Complexity
  - Valuing vs. Pricing
  - Discounted Cash Flow Valuation: an Overview
  - Relative Valuation: an Overview
  - Firm Valuation v. Equity Valuation
- The Discount Rate: an overview

- Slides on Canvas
- Optional readings: Chapters 1, 2 and 4

### Class 2 (Thursday, Jan. 17)

**The Risk Free Rate**
- Estimating default spreads

**The Equity Risk Premium**
- Historical Risk Premium
- Modified Historical Risk Premium
- Implied Equity Risk Premium

- Slides on Canvas
- Optional readings: Chapters 4, 7 and 8

### Class 3 (Thursday, Jan. 24)

**Guest speaker: Glenn Kelman, CEO of RedFin**

**Relative Risk: Estimating Beta**
- Regression beta
- Bottom-up beta

- Slides on Canvas
- Optional readings: Chapters 4, 7 and 8
Class 4 (Thursday, Jan. 31)

Cost of debt
  Constructing a synthetic rating
Estimating market values
Hybrid securities
  Preferred stock
  Convertible bonds
Cost of capital: the Embraer example
Cash Flows:
  Adjusting earnings: update and clean up
  Slides on Canvas
  Optional readings: Chapters 9-11 and 22

Class 5 (Thursday, Feb. 7)

Cash Flows:
  Normalizing
  Adjusting earnings: R&D
  Earnings management
  The Theranos scandal
  What to do with negative earnings
  The reinvestment rate
  Slides on Canvas
  Optional readings: Chapters 9-11 and 22

Class 6 (Thursday, Feb. 14)

Growth Rate Estimate
  Fundamental Growth
  Top-Down Growth
  Slides on Canvas
  Optional readings: Chapters 9-11 and 22
Class 7 (Thursday, Feb. 21)

- Terminal value
- Model choice
- Loose ends in DCF valuation
- Narrative in DCF valuation
- Valuation: examples
  - Slides on Canvas
  - Optional readings: Chapters 12-16

Class 8 (Thursday, Feb. 28)

- The challenges in valuing young high-growth companies
- Illustration
- VC valuation
- Valuing mature companies
- DCF Big Picture & Wrap Up
  - Slides on Canvas
  - Optional readings: Chapter 23

Class 9 (Thursday, Mar. 7)

- Relative Valuation
  - Price v. value
  - Multiples: constructing, deconstructing and analyzing; Finding comparables
  - Challenges
  - Relative vs. intrinsic valuation
  - Slides on Canvas
  - Optional readings: Chapters 17-20

Class 10 (Thursday, Mar. 14)

- Guest speaker: Bill McAleer, Managing Director at Voyager Capital

**Final Team Presentations**