

**FNCE 3477: Valuation and Financial Modeling (4 credits)**  
**Loyola Marymount University**  
**Spring 2017**

**Time and Location:** Tues & Thurs, 9:40AM-11:10AM, Hilton 107

**Instructor Name:** Hai Tran

**Office:** Hilton 250

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**Office Hours:** Tues: 1pm-3pm, Wed: 1:30pm-3:30pm, Thurs: 3pm-5pm or by appointment.

**Required Materials:**

- 1) “Fundamentals of Corporate Valuation,” 2nd edition by Training the Street (TTS) (one copy on reserve at the library)
- 2) Harvard Business Publishing cases and notes, specifically for this class at <http://cb.hbsp.harvard.edu/cbmp/access/57691805>

**Course Prerequisites:**

ACCT 2120; ECON 105 or 110 AND 120; ECON 230; Math 112 or 131; FNCE 3410 all with a minimum grade of C (2.0)

**Course Description:**

This course will cover the theory and practice of financial statements analysis and valuation. Students will learn how to use theory and data to solve challenging business problems with incomplete information. Students will become comfortable with using financial modeling as a tool to help them perform financial analysis and make decisions.

**Learning Outcomes:**

This course contributes to student achievement of the following CBA core learning outcomes:

- Students will demonstrate understanding of the core concepts in finance.
- Students will accurately utilize quantitative techniques to model and evaluate business decisions.
- Students will demonstrate critical thinking skills by defining, modeling, analyzing and evaluating complex business problems.

Upon completion of this course, students should successfully demonstrate the following course learning outcomes:

- Know how to read and extract information from the 10-K.
- Perform vertical and horizontal analysis of financial statements.
- Calculate financial ratios - understand what they mean and how to use them.
- Analyze company’s performance by examining trends and comparing with competitors.
- Perform company valuation using the multiples approach.
- Perform company valuation using the discounted cash flow approach.
- Understand the strengths and weaknesses of each methodology – know which method to use in different situations.
- Perform sensitivity analysis.

**Homework and Excel assignments:**

Your homework and Excel assignments will be collected and graded for completeness. Homework will need to be printed and submitted in class. *No late homework will be accepted.*

Excel, as well as other Microsoft Office products, is free to LMU students via [www.office.com/getoffice365](http://www.office.com/getoffice365). Click on “Find out if you’re eligible” and enter your LMU email address. You will receive an email with a link to create your account and access Office 365. It is important that you use the PC Excel version, not the Mac Excel version. This can be done by using Dual Boot on a Mac computer or using a PC in a computer lab.

**Participation:**

Active participation is crucial to success in this class. Participation will be graded based on the quality and frequency of your participation in class discussions.

**Quizzes:**

There will be five in-class quizzes to test your mastery of the material, given in the first 10 minutes of class time on the dates scheduled. No make-up quizzes will be allowed. You can drop the lowest score of the five quizzes.

**Exams:**

There will be three exams in this course. The third exam is given during finals week and is comprehensive. Since exam dates are set in advance, if you anticipate a conflict with a religious holiday or a university officially-sanctioned activity, you should notify me at least one week in advance for a rescheduling. No other make up exams will be given. Missing an exam without prior approval from me will result in a grade of zero for that exam.

Technical issues during in-class quizzes and exams will be resolved on a case-by-case basis.

**Final project:**

You will work in teams of three or four for the final project. Even though it is called a final project, you will be completing project milestones throughout the course. Each team will choose a company (subject to my approval) to conduct a financial analysis and valuation exercise. At the end of the term, you will present your findings to me and the class.

**Current events:**

You will be required to follow current events related to the company you choose for your final project. Events that may have an impact on firm valuation (both positive and negative) are especially important. Some examples include earnings announcements, new product developments, firm litigation outcomes, etc. A good tool to keep track of current events related to a particular company is Google Alerts. All members of the team will need to set up Google Alerts for the company you choose for your final project. During selected classes (outlined in the schedule), two or three teams will present current events related to the companies they have chosen for the final projects.

**Individual meetings:**

I would like to meet with each of you individually during the first three weeks of the course. Each meeting will last 10 minutes, and its purpose is for me to get to know you a little better and answer any questions you may have about the class. Before the meeting, I would like to see a copy of your resume. We will meet in my office, Hilton 250.

**Workload expectations:**

This is a 4 credit course. As such, you are expected to complete *at least* 9 hours of work outside of class per week. Even though these hours will vary from week to week, on average you will spend 6 hours on readings/ case preparations/ Excel assignments, 1.5 hours on reviewing the previous class materials, and 1.5 hours on progressing through the final project.

**Grading scheme:**

Your final grade will be based on the following component weights:

Mid-term exam 1	15.0%
Mid-term exam 2	15.0%
Final comprehensive exam	20.0%
Homework and Excel assignments	8.0%
Participation	15.0%
Quizzes (top 4 of 5)	10.0%
Final project	15.0%
Current events presentation	2.0%

**Use of technology:**

We will be in a classroom with laptops provided to all students for in-class use. Since this is a financial modeling course, significant class time will be devoted to learning class materials on Excel. However, when we do not use Excel in class, I expect you to keep the laptops closed.

**Electronic devices in the classroom:**

Please silence all phones before class. Do not use your phone during class for texting, email...This is distracting to you and other students in the class.

**Academic honesty:**

Academic dishonesty will be treated as an extremely serious matter with severe consequences that can range from receiving no credit for assignments/tests, failing the class, to expulsion. It is never permissible to turn in any work that has not been authored by the student, such as work that has been copied from another student or copied from a source (including Internet) without properly acknowledging the source. It is your responsibility to make sure that your work meets the standard set forth in the "Academic Honesty Policy" (see <http://academics.lmu.edu/honesty>.)

**Special accommodations:**

Students with special needs who require reasonable modifications, special assistance, or accommodations in this course should promptly direct their request to the Disability Support Services (DSS) Office. Any student who currently has a documented disability (ADHD, Autism Spectrum Disorder, Learning, Physical, or Psychiatric) needing academic accommodations should contact the DSS Office (Daum Hall 2nd floor, 310-338-4216) as early in the semester as possible. All discussions will remain confidential. Please visit <http://www.lmu.edu/dss> for additional information.

**Tentative nature of the syllabus:**

If necessary, this syllabus and its contents are subject to revision; students are responsible for any changes or modifications announced or distributed in class or posted on LMU's course management system Brightspace.

## TENTATIVE Course Schedule

Date	Topic	Homework assignments
Jan 10 (Tue)	Review of Fundamentals of Finance - Syllabus overview	
Jan 12 (Thu)	10K report overview Reading and interpreting financial statements. Walk through an income statement. Adjustments of non-recurring items. EBIT and EBITDA	
Jan 17 (Tue)	Walk through a balance sheet. Final project instructions – team selection.	HW set 1, Excel assignment 1
Jan 19 (Thu)	Walk through a cash flow statement. Extracting “good news” and “bad news” from a cash flow statement. The link between the big three.	“Solving the puzzle of the cash flow statement” by Hertenstein and McKinnon (HBSP note) – HW set 2
Jan 24 (Tue)	Basic Excel modeling and formatting principles. Excel key board shortcuts. <b>Quiz 1</b>	Excel assignment 2
Jan 26 (Thu)	Vertical and horizontal analysis. Advanced Excel setup for modeling.	HW set 3
Jan 31 (Tue)	Financial ratios analysis.	“Financial statement and ratio analysis” by HBSP – HW set 4
Feb 2 (Thu)	Case: California Choppers.	“California Choppers” by Ivey – HW set 5
Feb 7 (Tue)	In class time for final projects – Q&A – Midterm review	
<b>Feb 9 (Thu)</b>	<b>Mid-term exam 1</b>	
Feb 14 (Tue)	Valuation with multiples.	“Corporate valuation and market multiples” by Luehrman (HBSP note)
Feb 16 (Thu)	Valuation with multiples	“Public comparables analysis” TTS Chapter 3 – HW set 6
Feb 21 (Tue)	Valuation with multiples. <b>Quiz 2</b>	
Feb 23 (Thu)	Case: Teuer Furniture (B): Multiples Valuation.	Teuer Furniture (B) case – HW set 7
Feb 28 (Tue)	In class time for final projects – Q&A – Midterm review	
Mar 2 (Thu)	<b>Midterm exam 2</b>	
Mar 7, 9	<i>No classes – Spring Break</i>	
Mar 14 (Tue)	Business strategy analysis. Industry analysis through Porter’s five forces Competitive strategy analysis. SWOT analysis.	“Industry Analysis” by Palepu and Healy
Mar 16 (Thu)	DCF overview - Forecasting cash flows.	TTS Chapter 5 Topic 1-2 (p. 93-99) – HW set 8
Mar 21 (Tue)	Forecasting free cash flows	TTS Chapter 5 Topic 4 (p. 105-109)

Mar 23 (Thu)	Estimating terminal value. <b>Quiz 3</b>	TTS Chapter 5 Topic 5 (p. 110-113) – HW set 9
Mar 28 (Tue)	Estimating the discount rate.	TTS Chapter 5 Topic 3 (p. 99-105)
Mar 30 (Thu)	Industry betas – levered and unlevered betas	
Apr 4 (Tue)	DCF final touches – calculate equity value per share. Valuation drivers - Sensitivity analysis. <b>Quiz 4</b>	TTS Chapter 5 Topic 6 (p. 113-115) HW set 10
Apr 6 (Thu)	Closing thoughts – Choosing the right model. How to build a “football field” valuation chart.	TTS Chapter 5 Topic 7 (p. 115-117)
Apr 11 (Tue)	No classes	
Apr 13 (Thu)	<i>No classes – Easter Holiday</i>	
Apr 18 (Tue)	Case: Teuer Furniture (A): Discounted Cash Flow Valuation.	HW set 11
Apr 20 (Thu)	In-class time for final projects – Final exam review. <b>Quiz 5</b>	
Apr 25 (Tue)	Final project presentations	
Apr 27 (Thu)	Final project presentations	
<b>May 3 (Wed)</b>	<b>Final project due (by 5pm)</b>	
<b>May 4 (Thu)</b>	<b>Final Exam (8am-10am)</b>	

Last day to add or drop a class without a grade of W is January 13.

Last day to withdraw from classes or apply for Credit/No Credit grading is March 17.