Course Syllabus

1 Basic Information

Instructor: Amiyatosh Purnanandam
E-mail: amiyatos@umich.edu
Telephone: 734-764-6886.
Office: R 5436.
Office Hours: Wednesday 1.30 pm-3.30 pm; or by appointment.
Coffee Hours: I will be in the winter garden on Mondays from 1.30-2.30 pm.

TIMINGS
Mondays and Wednesdays from 8.00 am to 10.20 am (R0320)

READINGS

Required: Class notes plus readings packet that contains the cases we will cover. Check Kresge Library site or course Canvas site for details.

Recommended Books:
(The 3rd edition of this book, by Copeland, Koller, Murrin, is a reasonable substitute).

This is largely a case-oriented class. The only required reading is the material in the course packet (which includes the cases) and any articles I may post to Canvas while the course is on. The books are useful as supplementary reading, and hence are strictly optional. I will not be referring explicitly to either book in class. Many of you will have the Ross, Westerfield, Jaffé book from the core finance class. The Koller, Goedhart, Wessels book is a good reference book on valuation.
Online information for this course is being maintained at Canvas (canvas.umich.edu).

2 Course Objectives

Valuation, broadly defined, consists of determining the effect of business decisions on the overall value of the firm, and is a process routinely performed in examining corporate finance decisions at a firm. The course will be directly relevant for a career at investment banks, commercial banks, brokerage firms, and corporate treasury. There are two primary goals of this course:

(i) to enhance your ability to apply valuation theory and techniques to real-world situations.

(ii) to enable you to communicate technical concepts in everyday language.

The theory is important because it allows us to extend standard techniques to non-standard situations. The cases represent the real-world situations we will examine. A secondary goal is to lay the groundwork for future corporate finance courses you may take. The lectures, and cases should be viewed as complements in contributing toward what you learn in this course. The lectures will strive to strike a balance between the tools, the insights and the applications. The cases, of course, involve applications of the methodology.

3 Group Work and Student Preparation

This class has a heavy case orientation. As you may know from other case-based classes, this puts more of an onus on you to be prepared before you come to class. What you take away from the course depends in large part on what you put into it.

What does being prepared mean? You should have read the case, and thought through the questions that will be assigned for the case, before you come to class. You should be ready and eager to share your views with the rest of the class, and to analyze and comment on the views put forward by the rest of your classmates (and me!). In a classroom situation, the process is as important as the outcome—I am interested in how you think about the issues in a case, as much as what conclusion you come to.

3.1 Group Work

Since preparing cases is intensive work, cases will be prepared in groups. We will cover 7 cases over the term. Four of the cases require written write-ups (please see the day-by-day outline for details). In class, you are, of course, responsible for all cases, whether a write-up is due or not.

Every day a case is due for discussion in the class, I’ll randomly pick a group and call them the lead group for the day. I’ll take the solution offered by the
lead group (along with my own solution) to set the agenda for the day in the class. All of you, whether in the lead group for the day or not, are expected to participate actively in the case discussions.

**Group Formation**

Groups should be of size 3. All group members are supposed to sit together in the class and the group must have its solutions/write-ups readily available for discussions. You should have your groups formed by the end of the day on Wednesday, September 7. Please give a name to your group (e.g., WACCy Valuation), and send me an email with the group name and members.

**Group Participation Grades: Peer Assessment**

At the end of the course every member of a group will be asked to submit a participation grade for every other member of the group. These grades should reflect the contribution—both in terms of quality and quantity—of team members to the productivity of the group. These grades will in turn be used by me to allocate group credit across the various group members.

### 3.2 Preparing Cases

The idea of using cases in class is to encourage you to think critically through various issues that may come up in the business world. As such, case analyses are by nature somewhat open-ended. To focus the class discussion, I will provide a list of questions for each case. This represents not a comprehensive list of interesting issues in a case, but rather a platform from which the interesting issues can be reached, and therefore reflects a minimal level of preparation.

The following steps are generally useful in analyzing finance cases.

1. Identify the business decision(s) at hand. What are the major problems and/or opportunities in the situation? Critically evaluate the information presented to you. Snoop around the accounting statements—you are like a financial detective. The evidence may not quite speak for itself, but that gives you a more important role.

2. The case will typically mention a yes/no decision being faced by a manager. Are there other alternative actions and/or analysis methods? Examining other alternatives (or sometimes even the ones mentioned in the case) may require you to find outside data sources, which you are encouraged to consult.

3. Analyze all alternatives. For each alternative, what are its strengths and weaknesses? How does it affect the condition of the firm and its competitive status?
4. Make a *specific* recommendation about what the firm should do, and provide the supporting arguments for your recommendation. **Do not hedge your bets.**

4 **Grading**

Course grades will use the following weighting scheme. Final grades will be consistent with the Ross School guidelines for elective MBA courses.

1. Final Exam 30%
2. Case write-ups (4) 30%
3. I-Banking Pitch 20%
4. Class participation 20%.

**Exam:** The final exam will be comprehensive. The exam is closed book. However, you may bring in one sheet of 11”×8.5” paper (you may write on both sides of this) to the exam. In addition, I will provide a list of useful formulae. Please bring a calculator as well. Computers are not allowed on the exam.

**Regrade Policy:** If you wish to have an assignment regraded, return it to me with a note explaining why you want a regrade. This must be done no later than a week after the assignment has been returned. We will regrade the entire assignment.

5 **Course Rules**

- You must display your name card throughout the term.
- No cell phone usage in class (please). Please turn your ringers off.
- You are expected to be familiar with the school’s Honor Code, and to conform to all its requirements.
- You are not permitted to use any material from any previous term of this class, whether taught by me or any other instructor. If you have any such material, please discard it.
- Be prepared when you come to class. Much of the class revolves around case discussions, and there will be some cold-calling.
- Please be punctual. Classes start on (Michigan) time.
- To ensure a prompt response to e-mail, please put “Fin 615” in the subject line, e.g. “Subject Fin 615: Was Yogi Berra right?”
# 6  Day-by-day Outline

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading</th>
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<tbody>
<tr>
<td>Wed Sep 7</td>
<td>Lecture 1: Introduction</td>
<td>RWJ Ch. 6, 11</td>
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<td>Valuation basics, Cash Flow</td>
<td>KGW Ch. 7, 10</td>
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<td>Mon Sep 12</td>
<td>Lecture 2: Leverage, Beta, APV</td>
<td>RWJ Ch. 13, 15</td>
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<td>KGW Ch. 17</td>
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<td>Wed Sep 14</td>
<td>Case 1: Playtime Toy Company (submit)</td>
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<tr>
<td>Mon Sep 19</td>
<td>Case 2: Cost of Capital at Ameritrade (submit)</td>
<td>KGW Ch. 15</td>
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<td>Wed Sep 21</td>
<td>Lecture 3: Acquisitions</td>
<td>RWJ Ch. 16</td>
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<td>Lecture 4: Multiples Based Valuation</td>
<td>KGW Ch. 5</td>
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<td>Mon Sep 26</td>
<td>Case 3: Conrail (submit)</td>
<td>My notes</td>
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<td>Wed Sep 28</td>
<td>Conrail: remaining issues</td>
<td>My notes</td>
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<td>Lecture 5: Decision Tree/Real Options</td>
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<td>Mon Oct 3</td>
<td>Case 4: Merck (no submission)</td>
<td>My notes</td>
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<td>Lecture 6: LBOs</td>
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<td>Wed Oct 5</td>
<td>Case 5: Seagate (submit)</td>
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<td>Mon Oct 10</td>
<td>Lecture 7: Private Company Valuation &amp; IPOs</td>
<td>My notes</td>
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<td>Lecture 8: Valuation with Frictions/crisis</td>
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<td>Wed Oct 12</td>
<td>Case 6: Kohler &amp; Co. (submit)</td>
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<td>Mon Oct 17</td>
<td>Case 7: Rosetta Stone IPO (no submission)</td>
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<td>Wed Oct 19</td>
<td>Final Exam: During Class Time</td>
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<td>Rooms: TBD</td>
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