



**FIN 615: Valuation  
Sections 1 & 2  
Fall A, 2009**

**Course Syllabus**

## **1 Basic Information**

**Instructor:** Kenneth Ahern

**E-mail:** kenahern@umich.edu (best way of reaching me).

**Telephone:** 734-764-3196

**Office:** R4312

**Office Hours:** Regular hours: Monday 12:50–2:00 pm, Tuesday 8:30–9:30 am

Other times announced on a week-to-week basis.

Yet other times by appointment.

### **TIMINGS**

All classes meet in R2210, on Mondays and Wednesdays.

Section 1: 8:00–10:20 am.

Section 2: 10:20 am–12:40 pm.

### **READINGS**

**Required:** Readings packet that contains the cases we will cover. Check Kresge Library site or course CTools site for details.

#### **Recommended Books:**

(1) Ross, Westerfield, Jaffe, *Corporate Finance*, 8th edition.

(2) Koller, Goedhart, Wessels, *Valuation: Measuring and Managing the Value of Companies*, 4th edition (a.k.a. the “McKinsey book”).

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 CTools 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. On the daily outline, I mention related readings from

the books for each class.

Many of you will have the Ross, Westerfield, Jaffe book from the core finance class. This book has a very good discussion of the basic concepts of valuation, but is a little short on detail. In contrast, the Koller, Goedhart, Wessels book has a wealth of detail, and so is a nice complement to the Ross, Westerfield, Jaffe book. If you want to make a career in corporate finance or investment banking, this book is a must for your reference shelf.

## **ONLINE INFORMATION**

Online information for this course is being maintained at CTools ([ctools.umich.edu](http://ctools.umich.edu)). Please check the announcements section of this site regularly.

I will post my lecture slides to the CTools site at least two days before each class that involves a lecture. Please read through the slides before coming to class. I will bring hard copies to class.

Case write-ups are required to be turned in at the CTools site the evening before the case will be discussed in class, as well as in hard copy in class.

## **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. There are three primary goals of this course:

- (i) to teach you the basic concepts behind valuing projects and firms.
- (ii) to enhance your ability to apply valuation theory and techniques to real-world situations.
- (iii) to enable you to communicate technical concepts in everyday language.

A secondary goal is to lay the groundwork for future corporate finance courses you may take.

Through the term, I will try to keep the focus of the class on the concepts involved. The theory is important because it allows us to extend standard techniques to non-standard situations. Of course, valuation by nature requires dealing with lots of numbers, and we will necessarily have to master the details of the calculations as well. The cases represent the real-world situations we will examine.

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 concepts, the insights and the applications, and are intended to expose you to the key concepts. Many of the subtleties will only be uncovered during the case discussions. The cases, of course, involve applications of the methodology. The nature of the class is that the cases typically follow the in-class discussion of the material, so are necessarily a little “out-of-sync” with lectures.

## 3 Group Work and Student Preparation

### 3.1 Be Prepared

Approximately 40% of class time will be spent in lectures, and the remaining 60% on case discussions. For classes that involve lectures, I will post my slides to CTools at least two days before a class. Please print out the slides from CTools and read through them before class.

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.

When a case discussion is scheduled, 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.

### 3.2 Group Work

Since preparing cases is intensive work, cases will be prepared in groups. We will cover 8 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.

#### ***Group Formation***

Please form your own groups. Groups should be of size 4 or 5. Any unattached individuals are given the option of joining any group with less than 5 members. Groups may include members from different sections of the class.

Since the first case write-up is due on Sunday, September 20, you should have your groups formed by the end of the day on Tuesday, September 15. Once your group is formed, post a list of your group members to CTools (look under “Discussion” and then “Groups”).

#### ***Group Participation Grades***

To help deal with free-rider issues, at the end of the class 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 overall 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.

## 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 45%
2. Case write-ups (4) 35%
3. 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. 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 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.
- If you have to miss class for any reason, you must let me know ahead of time via e-mail. A failure to do so may adversely affect your class participation grade.
- 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

Date	Topic	Reading
Wed Sep 9	Lecture: Introduction Valuation basics: Free cash flows	RWJ Ch. 7,12
Mon Sep 14	Lecture: Valuation basics contd. Valuation basics: Cost of capital Capital structure	KGW Ch. 7,10 RWJ Ch. 15,16,17
Wed Sep 16	Case 1: Playtime Toy Company (no submission) (Cash flow management)	
Mon Sep 21	Case 2: Superproject ( <b>submit 9 pm Sep 20</b> ) (Cash flow concepts)	
Wed Sep 23	Lecture: WACC, APV, CFE Case 3: Cost of Capital at Ameritrade (no submission) (Determining a discount rate)	KGW Ch. 17,5
Mon Sep 28	Case 3 (Ameritrade) contd. Lecture: Decision Trees	RWJ Ch. 8
Wed Sep 30	Case 4: Seagate Technology ( <b>submit 9 pm Sep 29</b> ) (Firm valuation: Enterprise value and APV)	
Mon Oct 5	Case 5: Merck (no submission) (Decision trees)  Lecture: Multiples analysis Valuing Acquisitions	KGW Ch. 12 RWJ Ch. 29 KGW Ch. 15
Wed Oct 7	Case 6: The Acquisition of Conrail (A),(B) ( <b>submit 9 pm Oct 6</b> ) (Valuing acquisitions: Synergies, multiples)	
Mon Oct 12	Lecture: Private company valuation Valuing financial firms: CFE	KGW Ch. 25
Wed Oct 14	Case 7: Kohler & Co. (no submission) (Private company valuation: Control rights)	
Mon Oct 19	Case 8: Interco ( <b>submit 9 pm Oct 18</b> ) (Comparing valuation methods)	
Thur Oct 22	Final Exam: 8:00 am–10:00 am	

## 7 Case Preparation

### 7.1 Preparing Cases: General Guidelines

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 and the case write-ups, 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. That is, you must have reached a point in your own analysis at which you can answer the questions that have been posed.

The following steps are generally useful in analyzing cases in this class.

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. Identify what calculations you need to perform to provide you with the information necessary to take the decision at hand.

How will you go about the calculations? Do you have all the information you need? Be familiar with the exhibits; often you will find yourself using numbers from different exhibits.

3. Analyze the alternatives, at every step.

At several places along the way, you will need to make judgment calls. What factors need to be considered in choosing one method over another? You need to be sure you understand the reasons behind the judgments you make.

4. Make reasonable assumptions.

As you start working through the cases, you will realize that often the details provided in the case are incomplete or insufficient in some way. While working through a case, feel free to make any reasonable assumptions about omitted details. The key word is “reasonable.” You have to be able to defend your work.

5. Come to a *specific* decision or recommendation.

Do not hedge your bets.

## 7.2 Case Write-ups

The following guidelines pertain to case write-ups in this class.

1. Report to the CFO.

A case write-up should be in the form of a report that concisely summarizes the issues in the case, your analysis, and your recommendation. The report will be read by the CFO of the company. The CFO is well-informed, so you can skip trivial details. In addition, the CFO's time is valuable, so you need to lay out your analysis clearly and concisely.

2. Integrated, well-written report.

The report should address all important issues in the case, including but not limited to the case preparation questions. The report should not be in a “question-answer” format, but rather should be an integrated report that addresses the questions along the way. Reports that are sloppily prepared will be penalized accordingly.

3. Clear exhibits.

The cases involve a fair amount of numeric analysis. Your report should contain the key calculations (for example, a table showing cash flow projections, or a table showing the computation of the discount rate). The tables or exhibits should be clearly explained. A printout of a spreadsheet with no accompanying discussion is not acceptable.

4. Maximal length 5 pages.

The entire write-up, *including* any tables or attachments, should be no more than 5 pages in a standard format (double-spaced, reasonable font size).

5. On the final recommendation in any case: be bold, forthright, and resolute. This is not the time to hedge—make a specific recommendation. Don't be afraid of making a “mistake.”