



**FBE 421 – FINANCIAL ANALYSIS & VALUATION**  
**SYLLABUS – SPRING 2016**

**Professor:** Scott Abrams  
**Office:** ACC 308E  
**Office Hours:** W: 10:30-12:00pm and by appointment  
**Email:** [sabrams@marshall.usc.edu](mailto:sabrams@marshall.usc.edu)

**Class Location:** JKP 110  
**Class Meetings:** T/Th: 4:00-5:50pm

**COURSE DESCRIPTION AND TOPICS**

This course develops and uses tools of financial and valuation analysis to evaluate the performance and assess the value of companies.

**Financial Analysis and Performance Measurement**

- What do the numbers mean? We will discuss tools for analyzing company strategy and financial performance.

**Value Creation**

- Understand that the goal of the firm is value creation. Return on capital and growth drive value creation. Value creation is fundamentally more important than growing revenues, earnings per share, maximizing volume and/or market share. Companies and business units create value by investing capital in positive net present value (NPV) projects.

**Core Valuation Techniques and Financial Analysis**

- Explore the different approaches to determine fair market value (FMV) of a firm. We will discuss discounted cash flow and comparable companies' valuation approaches.
- Gain proficiency in performing discounted cash flow valuation analysis to value a company. This includes analyzing historical performance, benchmarking and strategic analysis and forecasting free cash flows, estimating the appropriate cost of capital, identifying sources of value, and the interpretation of results.
- Analyze market multiples and precedent merger and acquisition transactions to perform the market approach to valuation.

**Managing for Value and Using Valuation for Decision Making**

- Utilize and interpret financial data and apply valuation techniques to make decisions about courses of action for a firm.
- Discuss methods for creating value through mergers and acquisitions, divestitures and restructuring.
- Discuss valuation of distressed companies and the impact of financial leverage.

**Other Valuation Issues and Special Situations**

- Explore the challenges of valuing high-growth and private companies.
- Learn about the process of venture capital and early stage financing.
- Discuss leveraged buyouts and the approach to valuing highly leveraged companies.

## **LEARNING OBJECTIVES**

The objective of this course is to learn firm, debt and equity valuation methods from both a conceptual and practical framework. While there is some new finance theory introduced in this course, the emphasis is on the practical application and integration of finance and accounting concepts to valuing companies. We will discuss standalone valuation, valuation in an M&A setting, LBOs and multinational valuation.

The course utilizes extensive and detailed readings, exercises, case analyses, two midterms, and a final valuation project. Prior students indicate that the workload for this course is demanding. As such, it is only recommended for those students who are interested in learning valuation techniques in depth. Students interested in broader topical coverage and a less detailed examination of valuation techniques should consider FBE 432 Corporate Financial Strategy (the corporate finance case course).

This course covers the theory and practice of financial analysis and valuation. Our coverage of the material is designed to allow you to become comfortable with the fundamentals so that you may improve your proficiency in participating in future financial and strategic discussions within a company or organization and with external analysts and service providers. Learning goals include:

1. Understand the key aspects of financial analysis and valuation to effectively manage different types of enterprises. Students will gain knowledge of the following areas: accounting, finance, strategy, and industry analysis.
2. Demonstrate critical thinking skills in the application of techniques in financial analysis and valuation. Students will gather, categorize, analyze, interpret, and evaluate relevant qualitative and quantitative information and develop the ability to be creative and innovative through the completion of a final valuation project.
3. Develop communication strategies for discussing financial analysis and valuation. This includes effective oral and written presentations of quantitative valuation analysis. Conduct research using a broad range of sources, synthesize and judge the quality of collected information and support written or oral claims logically and persuasively.
4. Apply valuation in a global context, considering the interplay of international markets and economic, social and cultural issues. Students will consider issues involved in cross-border M&A and valuation analysis.

## **PREREQUISITE**

It is expected that students have completed either BUAD 306 or BUAD 215.

## **COURSE MATERIALS**

**Required Text:** *Valuation: The Art and Science of Corporate Investment Decisions*, 3rd Edition  
By Sheridan Titman and John D. Martin. © 2016 by Pearson Education, Inc.  
ISBN: 978-0-13-347952-2.

**Cases:** The course pack with our cases can be purchased online at the following link (each case is \$3.95): <https://cb.hbsp.harvard.edu/cbmp/access/44474233>

**Optional Reading:** *The Wall Street Journal, Economist*

**Blackboard:** Slides for each lecture, handouts, articles, supplemental readings and practice problems will be posted on Blackboard at <https://blackboard.usc.edu>. In addition, announcements, solutions to practice problems, questions and guidance for the cases and other resources will be posted. Please contact the Marshall Help Desk at (213) 740-3000, or [HelpDesk@marshall.usc.edu](mailto:HelpDesk@marshall.usc.edu) if you have any questions or need assistance. *Please ensure that your email address is registered so that you receive course material.*

## EXPECTATIONS

- Students are expected to attend all classes and to arrive on time.
- Students are expected to be prepared to discuss class material and actively participate in class.
- It is greatly encouraged to follow current issues and developments in finance and related topics.

## GRADING

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. The final course grade will be assigned based on a combined score from your class participation, case analyses, two midterm exams, and the final valuation project. Historically, the average grade for this class is about a 'B+' (3.3). Three items are considered when assigning final grades:

- Your average weighted score as a percentage of the available points for all assignments and exams (the points you receive divided by the number of points possible).
- The overall average percentage score within the class.
- Your ranking among all students in the class.

The following is a breakdown of how each component is weighted:

|  | %          |
|--|------------|
| Class Participation                        | 5          |
| Case Analyses (team grade)                 | 20         |
| Midterm Exam #1                            | 25         |
| Midterm Exam #2                            | 25         |
| Final Group Valuation Project (team grade) | 25         |
| <b>TOTAL</b>                               | <b>100</b> |

### ▪ **Class Participation**

Class participation helps to facilitate a better learning environment. The grade is a measure of a student's positive or negative impact on the class. An example of a positive contribution is asking relevant questions or providing examples during lecture. To earn a high score in class participation, students must demonstrate:

- High levels of preparation for class sessions and case discussion
- High levels of professionalism manifested in interactions with speakers and classmates
- Superior and sophisticated understanding, insights, and syntheses of the course material as reflected in case analyses, class discussions, and the final group project.

### ▪ **Case Analyses**

We will analyze real companies and work through problems by analyzing different scenarios and courses of action. In your analysis of our HBS case studies you should place yourself in the role of the decision maker as you read through the situation and identify the problems and issues. The next step is to perform the necessary analysis. To get the most out of cases, you should read and reflect on the case individually, and then meet in study group teams prior to class to "warm up" and discuss your findings with other classmates. In class we will probe underlying issues, compare different alternatives, and suggest courses of action in light of the objectives of the case.

The cases have been included in the curriculum as a means to provide this self-study and practice in analysis. For most of the HBS cases you will receive supplementary excel spreadsheets via Blackboard.

Your group case analysis will be turned in as a written deliverable. Please work on your cases in groups of 3-6 people. Do your best to work through the case utilizing readings and other

supporting materials. Seeking assistance or “hints” from the instructor or past students is not authorized. A written case analysis should consist of a 2-4 page executive summary using a standard font and font size (such as Calibri or Arial size 10-11), addressing the case questions with supporting computations and tables in a separate appendix (if relevant).

Assignment and case grading is based on the quality of your analysis, how well you support your assumptions and apply valuation techniques, the judgment you exercise and the professionalism of your presentations. The quality of the work product should be reflective of what you would be comfortable presenting to a current or prospective employer. Case grades will be determined relative to the analyses of other groups in the class.

Assignments must be turned in on the due date at the beginning of class. Any assignment turned in late will receive a grade deduction.

- **Exams**

There will be two midterm exams which will consist of various multiple choice and short answer theoretical concept and practical valuation questions and problems. The questions will be both quantitative and qualitative in nature and will be based on material presented in lecture, cases and readings.

***You are required to be present for both midterm exams. Make-up exams will not be administered.*** If an exam is missed due to a legitimate reason, documentation must be provided and we will discuss how to handle the situation.

- **Final Valuation Group Project & Peer Evaluation**

Work in a group of your choice (3-6 students) on the final valuation project. An overview of the final project deliverable will be posted in the “Assignments” section on Blackboard no later than mid-April. You will be asked to present your final case on our Final Exam date. Attendance is mandatory. You will also be asked to complete a peer evaluation of each team member, which will be considered in the final grading assessment.

### **ADD/DROP PROCESS**

The class will remain open enrollment (R-clearance) for the first three weeks of the semester. If there is an open seat in an FBE Undergraduate class, students will be freely able to add a class using Web Registration throughout the first three weeks of the term. If the class is full, students will need to continue checking Web Registration to see if a seat becomes available. There are no wait lists for these courses, and professors cannot add students.

### **STUDENT DISABILITY**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in 3601 Watt Way, Grace Ford Salvatori Hall, 120 and is open 8:30 a.m. – 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. For more information, visit [www.usc.edu/disability](http://www.usc.edu/disability).

### **RETENTION OF GRADED COURSEWORK**

Final projects and all other graded work which affect the course grade will be retained for one year after the end of the course if the graded work has not been returned to the student.

### **TECHNOLOGY POLICY**

Laptop and Internet usage is not permitted during academic sessions. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during

academic sessions. Videotaping faculty lectures is not permitted due to copyright infringement regulations.

### **ACADEMIC INTEGRITY**

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, ([www.usc.edu/scampus](http://www.usc.edu/scampus) or <http://scampus.usc.edu>) contains the University Student Conduct Code (see University Governance, Section 11.00), while the recommended sanctions are located in Appendix A.

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/>. Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

### **EMERGENCY PREPAREDNESS/COURSE CONTINUITY**

In case of a declared emergency if travel to campus is not feasible, USC executive leadership will announce an electronic way us to complete the course using a combination of Blackboard, teleconferencing, and other technologies.

### **NO RECORDING AND COPYRIGHT NOTICE**

It is a violation of USC's Academic Integrity Policies to share course materials with others without permission from the instructor. No student may record any lecture, class discussion or meeting with me without my prior express written permission. The word "record" or the act of recording includes, but is not limited to, any and all means by which sound or visual images can be stored, duplicated or retransmitted whether by an electro-mechanical, analog, digital, wire, electronic or other device or any other means of signal encoding. I reserve all rights, including copyright, to my lectures, course syllabi and related materials, including summaries, PowerPoints, prior exams, answer keys, and all supplementary course materials available to the students enrolled in my class whether posted on Blackboard or otherwise. They may not be reproduced, distributed, copied, or disseminated in any media or in any form, including but not limited to all course note-sharing websites. Exceptions are made for students who have made prior arrangements with DSP and me.

### **OTHER**

The material presented and the classroom discussions are not intended to be financial advice to students in connection with any issue(s) they or others may have. If students have a financial matter, they are advised to promptly consult an experienced professional who can fully review the facts and advise them accordingly.

### **INSTRUCTOR**

**Scott Abrams**, Lecturer of Finance and Business Economics

Some professional experiences:

- Executive Director, Motion Picture Finance, Sony Pictures Entertainment
- Manager, Finance, Warner Bros.
- Senior Accountant, Deloitte & Touche
- CPA, State of California

**COURSE OUTLINE AND ASSIGNMENTS\***

| <b>Week</b> | <b>Date</b> | <b>Class Topic</b>  | <b>Readings / Deliverables / Practice Problems</b> |
|-------------|-------------|---|--|
| 1           | 1/12        | <ul style="list-style-type: none"> <li>▪ <b>Course Overview &amp; Syllabus</b></li> <li>▪ <b>Foundations of Value: ROIC, Growth and Value Creation</b></li> </ul>   | Syllabus   |
| 1           | 1/14        | <ul style="list-style-type: none"> <li>▪ <b>Foundations of Value (cont'd)</b></li> </ul>  |  |
| 2           | 1/19        | <ul style="list-style-type: none"> <li>▪ <b>Introduction to Valuation: Valuing Projects and Businesses</b></li> </ul>   | Chapter 1  |
| 2           | 1/21        | <ul style="list-style-type: none"> <li>▪ <b>Financial Analysis and Performance Evaluation</b> <ul style="list-style-type: none"> <li>○ Understanding Financial Statements</li> <li>○ Ratio Analysis</li> </ul> </li> </ul>                                      | Chapter 6  |
| 3           | 1/26        | <ul style="list-style-type: none"> <li>▪ <b>Financial Analysis and Performance Evaluation</b> <ul style="list-style-type: none"> <li>○ Cash Flow Analysis and Measuring Free Cash Flows</li> <li>○ Assessing Off-Balance Sheet Financing</li> </ul> </li> </ul> | See Blackboard for readings                        |
| 3           | 1/28        | <ul style="list-style-type: none"> <li>▪ <b>Financial Analysis and Performance Evaluation</b> <ul style="list-style-type: none"> <li>○ Financial Statement Analysis</li> </ul> </li> </ul>  | <b>Case Assignment: Bed Bath and Beyond</b>        |
| 4           | 2/2         | <ul style="list-style-type: none"> <li>▪ <b>Financial Analysis and Performance Evaluation</b> <ul style="list-style-type: none"> <li>○ Performance Evaluation Metrics</li> </ul> </li> </ul>  | Chapter 7  |
| 4           | 2/4         | <ul style="list-style-type: none"> <li>▪ <b>Forecasting and Valuing Cash Flows</b></li> </ul>   | Chapter 2  |
| 5           | 2/9         | <ul style="list-style-type: none"> <li>▪ <b>Estimating Cost of Capital</b> <ul style="list-style-type: none"> <li>○ Project Valuation</li> <li>○ Enterprise and Equity Valuation</li> </ul> </li> </ul>   | Chapters 4-5                                       |
| 5           | 2/11        | <ul style="list-style-type: none"> <li>▪ <b>Capital Budgeting and Strategic Decision Making</b></li> </ul>  | <b>Case Assignment: Hansson Private Label</b>      |
| 6           | 2/16        | <ul style="list-style-type: none"> <li>▪ <b>Enterprise Valuation</b> <ul style="list-style-type: none"> <li>○ WACC Approach</li> </ul> </li> </ul>  | Chapter 9<br>Practice Problem 9-13 (page 356)      |
| 6           | 2/18        | <ul style="list-style-type: none"> <li>▪ <b>Enterprise Valuation</b> <ul style="list-style-type: none"> <li>○ WACC Approach</li> </ul> </li> </ul>  | Chapter 9  |
| 7           | 2/23        | <ul style="list-style-type: none"> <li>▪ <b>Flex Day / Midterm Review</b></li> </ul>  |  |
| 7           | 2/25        | <ul style="list-style-type: none"> <li>▪ <b>MIDTERM EXAM 1</b></li> </ul>   |  |
| 8           | 3/1         | <ul style="list-style-type: none"> <li>▪ <b>Guest Speaker – Jonathan Veiga, Lombardia Capital Partners</b></li> </ul>   |  |
| 8           | 3/3         | <ul style="list-style-type: none"> <li>▪ <b>DCF – WACC Method cont'd</b></li> </ul>   |  |
| 9           | 3/8         | <ul style="list-style-type: none"> <li>▪ <b>DCF – APV Method</b></li> <li>▪ <b>Relative Valuation Using Market Comparables</b></li> </ul>   | Practice Problem 9-12 (page 354)<br>Chapter 8      |
| 9           | 3/10        | <ul style="list-style-type: none"> <li>▪ <b>Relative Valuation Using Market Comparables</b></li> </ul>  | DKS IPO Mini-Case (page 311)                       |
| 10          | 3/15        | <ul style="list-style-type: none"> <li>▪ <b>SPRING BREAK – NO CLASS</b></li> </ul>  |  |

|    |      |   |  |
|----|------|---|--|
| 10 | 3/17 | ▪ <b>SPRING BREAK – NO CLASS</b>  |  |
| 11 | 3/22 | ▪ <b>Valuation in a Private Equity Setting</b>  | Chapter 10   |
| 11 | 3/24 | ▪ <b>Applying Valuation Frameworks for IPO Valuation</b>  | <b>Case Assignment: Lululemon IPO</b>                        |
| 12 | 3/29 | ▪ <b>Special Topic: Valuation and the Entertainment Industry</b>  |  |
| 12 | 3/31 | ▪ <b>Private Company Valuation and Analysis of Strategic Alternatives for a High Growth Company</b>                                       | <b>Case Assignment: Spyder Active Sports 2004</b>            |
| 13 | 4/5  | ▪ <b>Final Project Introduction</b>   | See Blackboard for readings                                  |
| 13 | 4/7  | ▪ <b>Mergers and Acquisitions</b>   | Disney Pixar mini-case                                       |
| 14 | 4/12 | ▪ <b>Leveraged Buyouts (LBOs)</b>   | Chapter 10   |
| 14 | 4/14 | ▪ <b>Real Options Analysis</b>  | Chapters 11-12<br><b>Case Assignment: H.J. Heinz M&amp;A</b> |
| 15 | 4/19 | ▪ <b>Leveraged Buyouts (LBOs)</b><br>○ Heinz LBO<br>▪ <b>Midterm Review</b>   |  |
| 15 | 4/21 | ▪ <b>MIDTERM EXAM 2</b>   |  |
| 16 | 4/26 | ▪ <b>Guest Speakers: Brian Little, Imperial Capital and Colin Campbell, Houlihan Lokey</b><br>▪ <b>Topic: Investment Banking, M&amp;A</b> |  |
| 16 | 4/28 | ▪ <b>Course Wrap-Up</b>   |  |
|    | 5/5  | ▪ <b>FINAL PROJECT PRESENTATIONS – Attendance is Mandatory (4:30 – 6:30pm)</b>  |  |

*\* Note: Assignments and dates are subject to change based on guest speaker availability (with the exception of exam dates)*

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