University of Delaware
Course Syllabus

FINANCE 861
Financial Valuation & Modeling

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Course Description

Financial modeling techniques to value IPOs, mergers, private equity transactions, and leveraged buyouts. Explore the economic principles supporting these techniques and apply them to various transaction types using real financial data. *Focus is on bridging the gap between theory and practice.*

Course Objectives

By the end of this course, you should be able to:

- Value any publicly traded firm
- Value a private firm for sale or for purposes of going public
- Value strategic investment opportunities
- Define, describe, analyze and apply any valuation multiple
- Critically analyze valuations such as those contained in “road shows”, equity research reports, and expert analysis in litigation and fairness opinions.

Required Materials

Investment Valuation 3rd ed, Aswath Damodaran Selected Chapters
Instructor Provided Case: Dream Dinners
Ivey Cases: Teuer Furniture Part A and Teuer Furniture Part B
@risk trial version - [http://www.palisade.com/trials.asp](http://www.palisade.com/trials.asp)
**Course Materials, Notes, Handouts**

I will upload course materials including the syllabus, powerpoint presentations, recorded lectures, other notes, and additional materials to Canvas.

**Grades**

Grades will be based on the following:

- **Practice Valuations**: 25%
- **Case Analysis**: 45%
- **Problem Sets**: 20%
- **Participation**: 10%

**Total**: 100%

**Practice Valuations**

We will develop two valuations this term. The first valuation of Microsoft and takes place the first week of the course. This exercise provides a high level overview of the steps involved in the valuation process – from the development of the pro forma financial statements, calculating free cash flow to equity, and determining the appropriate rate of return. This exercise will help us understand the current analyst’s recommendation and provide a deeper understanding of Microsoft has to do to live up to this expectation.

The second valuation takes place at the end of course and involves an analysis of Dell’s reverse IPO with a goal of understanding the financial goals Michael Dell and his partners expected to achieve by putting up $13B to take Dell private. The second part of the assignment looks at the Dell acquisition of EMC in what was the largest acquisition in tech history. What motivated this acquisition? What are reasonable estimates of growth rates, improvements in efficiency, and cash flow necessary to make this acquisition a success? Has the performance lived up to the expectation?

The first valuation will be worth 10% of your final grade, the second 15%.

**Case Analysis**

We will complete three cases this term. Dream Dinners is an analysis of a franchise opportunity that didn’t work out as expected. Almost a year into the buy-in cash flow is still negative and the owners are reflecting on what do to next. Should they continue to support the venture by continuing to work for free and fund the shortfall out of pocket or is it time to shut the doors? Equally important, at the time the decision was made to invest what could they have done differently, if anything? Were there clues in the existing information that could/should have
directed them to a different decision? How should they have dealt with risk? This case calls for
the identification of the breakeven point, the development of a set of pro forma statements, and
the use of Monte Carlo simulation to access risk.

Teuer Furniture Part A is the assessment of a growing and viable furniture retailer that has
reached a transition point. After a number of years some of the founding shareholders are
interested in exiting the venture while others wish to remain with the firm. As the consultant you
are tasked with using a DCF approach to estimate current firm value. In addition, you need to
present a compelling case as to why this is a fair number to each group – so that both those
leaving and those staying feel good about the price.

Teuer Furniture Part B takes the same data in Teuer Part A and adds a relative valuation to the
analysis. In practice, a DCF approach is a theoretically sound approach for understanding the
business model, drivers of performance, risks, and value. In reality, a DCF approach involves a
significant number of assumptions and the volume of numbers can drive those without a strong
appreciation for excel and financial models to roll their eyes… As one of my former business
partners often commented, “you don’t run a business from a spreadsheet…” The workaround is
often to present a DCF valuation as a relative valuation – making it an easier “sell.”

Your task for each case is to prepare a detailed spreadsheet with your analysis, a ten minute
recorded presentation with your results, and brief write-up of your findings presented in memo
form (approximately 3 pages. Your objective is to provide a detailed analysis that fully supports
your conclusions while presenting your findings in a way that allows a decision maker to quickly
grasp the essence of your work. In addition, you should be able to answer any questions about
your model, assumptions, analysis, and conclusions. Eventually you need to fully “own” your
models and have a deeper understanding of how they work than anyone reviewing your work.

The cases are worth 15% each of your final grade.

Problem Sets

The text is a challenging read. Damadoran covers a significant amount of material in each chapter
with great detail & working through related problems will help you in developing your
understanding of the key concepts. I’ll assign two problem sets that cover the finer points of DCF
valuation and relative valuation.

The problem sets are worth 10% each of your final grade.

Participation

Asking relevant questions & contributing to the class discussion will go a long way to making the
class a success for everyone. I will evaluate you on your willingness to ask/answer questions and
engage with your classmates though an online discussion board. In addition, we may have an
occasional live online discussion in the evenings or on Saturday. These discussions will focus on questions you have on the material or assignments or on current events that relate to our class.

Participation is worth 10% of your final grade

**Grading Scale**

93% and above: A; 90% - 92% A-; 87% - 89% B+; 83% - 86% B; 80% - 82% B-; 77%-79% C+; 72%; C- 67% - 69%; D+; 63% - 66% D; 60% - 62% D-; Less than 60%  F

Please note - is it not expected you will produce a “perfect” analysis – it is for your modeling and presentation skills to improve over this course. A significant error in developing a model in this course, in your logic, or your analysis carries no long term negative ramifications. A significant error when your job or money is on the line may have a lasting impact. A deep and thoughtful analysis in the future may help you identify a real opportunity – an opportunity that alters your professional trajectory. My sincere desire is to help you move forward in developing these skills in this course.

**Topics Covered by Module**

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