Company Valuation
Module 1, 2017/2018

Course Instructor
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Course description

The aim of this course is to provide understanding of the general principles that underlie company valuation. We put special emphasis on highlighting the inter-relations between the valuation concepts and the similarities and differences between the alternative valuation models. By the end of the course students should be able to understand the possibilities and limitations of company valuation, to preform equity valuation of a firm or its component from a portfolio investment perspective, to read critically equity reports and draw conclusions relevant for their business decisions.

Course requirements, grading, and attendance policies

The course consists of seven lectures that provide a broad exposition of the key areas. The aim of the lectures is to give an overview of the topics covered in the course and to offer a deeper discussion of more complicated issues. Students are expected to complement the material covered during the lectures by active independent studies of the recommended literature. The attendance of the lectures is optional but strongly recommended. Lecture notes that are available on the course web site at least 24 hours prior to each lecture.

During the course students are asked to complete two home assignments in teams of **three**. All team members receive the same grade for the submitted assignments. Students **are** allowed to use any resources that may help them (e.g. lecture notes, textbooks, internet), but they **are not** allowed to consult their work with anyone else outside of their team. In addition, all students in the team should understand the solutions they submit and be ready to explain it to the examiner upon request.

Instructions and submission deadlines are specified in the assignments. Penalty of –2 point per day will be applied for late submissions. The whole solution must be contained in only two documents (PowerPoint presentation and Excel file). Solution to home assignments should be posted on myNES and also e-mailed to the assigned teaching assistant. Both the subject field of the e-mail message and the submitted file names should contain surnames of all team members, e.g. "CVO – Krutov, Larionov, Makarov – HA1".

Final Examination
Written final examination consists of two parts. Part 1 comprises multiple choice questions with one correct answer each. Part 2 contains open-ended questions that test deeper understanding of the topics covered in the course. Students are asked to perform calculations and provide verbal answers that explain their way of reasoning. Points are given for well-structured and focused

answers. Students are not allowed to use any printed material, notes or electronic devices with the exception of simple pocket calculators.

Grading
The final grade is determined by to total points collected for the home assignments and at the final examination. The maximum amount of points available for each of these components is as follows:

industry identification	15 pts
company valuation	35 pts
final examination	50 pts
total	**100 pts**
bonus points	10 pts

To pass the course students shall receive at least 25 points out 50 from the final written examination. Students who do not meet this condition automatically fail the course. After that the all the points including the bonus points for active participation in the course are added up and the resulting grade is determined based on this overall score using evenly distributed cutoffs for individual grades between 100 and 55 points.

Course contents
The content of the lecture is specified below. Some changes are possible based on the agreement with students.

1. **Valuation Approaches**
   introduction, valuation models, value creation

2. **Accounting Reclassification**
   operating vs. financing, debt vs. equity, off-balance sheet assets

3. **Financial Analysis**
   ROE, EVA, leverage formula, DuPont analysis, solvency, liquidity

4. **Dividends, Free Cash Flow**
   definition, computation process, comparison to dividends

5. **Value Drivers**
   context, abnormal profitability, growth

6. **Cost of Capital**
   origin, cost of debt, cost of equity, capital structure

7. **Comparable Multiples**
   construction, criteria for use, B/M, P/E, EV/EBITA, PEG

Course materials
All the material required for the exam is covered at the lectures. Nevertheless, students are welcome (but not required) to complement it using one of the suggested textbooks. In addition, any knowledge needed to complete the home assignments is required for the exam. There are several valuation textbooks that approach the topic from slightly different perspectives. We use Koller, Goedhart, Wessels (McKinsey) textbook as the primary reference because of its extensive use in financial industry. Nevertheless, alternative textbooks are equally suitable as background and supplementary reading.

Main

Koller, Goedhart, Wessels (2005, ...) *Valuation: Measuring and Managing the Value of Companies* (John Wiley & Sons Inc., Hoboken, N.J.)
http://books.google.cz/books/about/Valuation.html?id=cMQHwEyjSPQC&redir_esc=y

Alternative

Penman, S. H. (2007) *Financial Statement Analysis and Security Valuation* (McGraw-Hill, London)

Palepu, K. G. (2007). *Business Analysis and Valuation: Text and Cases* (Thomson, London)

Extension

Damodaran, A. (2001) *The Dark Side of Valuation*, Prentice Hall

Lundholm, R., T. O'Keefe and G. A. Feltham (2001), "Reconciling Value Estimates from the Discounted Cash Flow Model and the Residual Income Model", *Contemporary Accounting Research*, Vol. 18, No. 2, pp. 311.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.