FIRM VALUATION

Academic Year: 2016/2017

Instructor: José Carlos Tudela Martins

Course Description:
This course is about the value of a company, how we can measure it, and what variables have a strong impact on it.

The course is based on cases that have to be solved by students, as if they are working for an investment bank, so a practical approach is used. Students should use the case data to solve it, or if needed current financial data, so there is no need to do "financial archeology".

The course will be very time demanding, but at the same time students have the feeling of what they might expect if they decide to pursue a career in investment banking.

Course Content (see detailed schedule at the end of the syllabus):
Firm’s Valuation using multiples, the DCF and APV methods;
Special cases like emerging markets, natural resources companies, banks, etc;
M&A, LBO & LBU;
Venture Capital.

Course Objectives:
Capacity to select and use appropriate quantitative methods for solving management problems.
Achieve an integrated perspective of the firm and of the value-creation chain.
Capacity to use computers to describe and analyze data, present them graphically and in spread-sheets and explore relationships between variables.
Develop capacity to adequately structure a management decision problem, and develop, evaluate and select decision alternatives for its solution.
Capacity to prepare written reports about the analysis and solution of management decision problems in a clear and synthetic way.

Capacity to communicate in English, both orally and in writing.

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**Grading:**

Solving and presentation of one of the cases in groups of up to 3 persons + class attendance + participation in class discussions + participation in the “Mergers & Acquisitions in wine county simulation” (40%);

Final Exam (60%). You must have a minimum final grade at the exam of 7.5 to pass the course.

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**Extra Costs:**

You need to buy some cases and some suggested articles. Usually the University sells them at cost.

The simulation in “M&A in Wine County” is also paid, and the cost is charged by Harvard University (only one student per group needs to enroll).

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**Requirements:**

Before doing this course you should have knowledge of: financial modeling, options theory, CAPM and discounted cash-flow analysis.

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**Bibliography:**

Articles posted in the web page of the course + class slides. You should read them before the class they are assigned.

Suggested books:

- Valuation: measuring and managing the value of companies 6th edition, from Tim Koller, Marc Goedhart and David Wessles; McKinsey & Co.
- Investment Valuation –3rd edition; Damodaran
Biography:

Graduate and MBA with a major in Finance from Católica Lisbon School of Business and Economics (CLSBE).

Coordinator of the Finance major at the PGG executive education program of CLSBE. Teacher at several executive education programs of CLSBE, in subjects such as Firm Valuation, Derivatives and Financing Decisions.

Supervisor of the Equity Valuation thesis program at CLSBE.

Director of Invesfin, a small consulting company.

Director of Norfin, a REIT management company.

Contact(s) and Office hours:

By email: tudela.martins@invesfin.com

Feel free to send all the emails you wish. All of them will be answered promptly.

Office hours every Thursday at the end of class (at 11.00) and by previous appointment only.
<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Readings</th>
<th>Suggested Exercises</th>
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| First  | 1st session: Welcome Valuation using multiples Example of Multiples Example of Valuation: Atlantic Corporation | Book chapters:                                                           | Problems number 13, 15, 16, 25 and 27 from reading 51 – CFA level I book  
Problems number 3, 6, 10 and 13 from reading 35 – CFA level II book  
Problems number 4, 10, 13 and 15 from reading 37 – CFA level II book |
|        | 2nd session: Company valuation using DCF-I Example of Valuation: Atlantic Corporation (cont.) | Lectures:                                                               |                                                                                                                                                      |
|        |                                                                      |                                                                          |                                                                                                                                                      |
| Second | 1st session: Company valuation using DCF-II Methods based on profitability Venture Capital | Book chapters:                                                           | Problems number 4 to 6 from reading 34 – CFA level II book  
Problems number 8, 10, 16 and 17 from reading 36– CFA level II book |
|        | 2nd session: Example of DCF Valuation: RJR Nabisco                  | Lectures:                                                               |                                                                                                                                                      |
### Third

**1st session:**
Special cases in valuation
Financial companies valuation

**2nd session:**
Class presentation of TBD

**Book chapters:**
- Reading 38 from CFA level II book
- Chapter 21, 23, 24, 28 to 30 from Investment Valuation
- Chapter 32 to 35 from Valuation

**Lectures:**
- Case: M&A in Wine County
- Making real options real
- The real power of real options
- Valuing financial services firms

**Problems number 2, 4, and 9 from reading 38– CFA level II book**

### Fourth

**1st session:**
Strategic Finance
M&A
LBO’s - LBU’s

**2nd session:**
Class presentation of TBD.
Final date to submit your reserve price for the M&A wine county simulation

**Book chapters:**
- Reading 39 from CFA level II book
- Chapter 27 and 28 from Valuation
- Chapter 25 from Investment Valuation

**Lectures:**
- Five types of successful M&A;
- Are you paying too much for that acquisition;
- Valuation of late stage companies and buyouts;
- Taking a longer term look at M&A value creation;
- Stock or cash?
- How M&A practitioners enable their sucess

**Problems number 4, 11 and 16 from reading 39– CFA level II book**
| Fifth        | 1st session: Foreign company valuation  
Emerging markets valuation  
Final date to end the negotiations in M&A in wine County  
2nd session: Class presentation of Hospital Corporation of America |
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| Book chapters:  
• Chapter 23 and 31 from Valuation |
| Lectures:  
• Valuation in emerging markets;  
• Emerging markets aren’t risky as you think;  
• Cross border valuation |
| Sixth       | 1st session: Conclusions about company valuation  
2nd session: Class presentation of TBD |
| Book chapters:  
• Chapter 34 from Investment Valuation |