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FINC 628: Valuation
Winter 2016

Monday: 6 PM to 9 PM, Corboy Law Center, Room 321

Catalog Description

This is an advanced course in valuation where students are given a thorough grounding in traditional valuation models (DCF and relative valuation) and also introduced to real option methods and ideas; a certain emphasis is placed on the valuation of start-ups and students are introduced to the venture capital markets.

Outcome: Students will be able to demonstrate an understanding of traditional valuation models as well as real options methods and ideas.

Prerequisite: FINC 450

Course Overview

This is a course about valuation of firms. The course consists of three parts. The first part of the course will review the commonly used methods of firm valuation. Business cases will be used to illustrate the practical difficulties faced in applying valuation concepts to real businesses. The second part of the course will provide an introduction to venture capitalists and then examine special issues in valuation of start-ups and other high-growth firms. The last part of the course introduces real options and examines how they are incorporated in valuation.

Students should be comfortable with discounted cash flow valuation and basic corporate finance. Students should be familiar with interpretation of corporate financial statements and with Capital Asset Pricing Model (CAPM). Students who are not comfortable with FINC 450 should review that course's material to prepare for this class.

Course Objectives and Learning Outcomes

1. Get Proficient in Valuation Methodologies
2. Understand Valuation Issues Specific to New Ventures
3. Get familiar with use of real options in valuation

Required Materials

1. *Valuation, Measuring and Managing the Value of Companies*, University Edition by Tim Koller, Marc Goedhart, and David Wessels, Wiley Finance, 6th Edition. If you already have a graduate level valuation or corporate finance textbook, please check with me if you can use that as a substitute.
2. *Venture Capital and the Finance of Innovation* by Andrew Metrick and Ayako Yasuda, Wiley Finance, 2nd edition. If cost is a consideration, students can instead buy a custom ebook containing selected chapters from the book. You will be allowed to access ebook in quizzes and in exam. You can buy and download the ebook online at this link:
<http://store.vitalsource.com/search?q=9781119924906&search.x=12&search.y=10>
Although there are many good books about venture capital industry, the Metrick and Yasuda book is particularly strong in explaining the finance behind valuation of ventures.
3. A coursepack from Harvard Business School publishing. The coursepack consists of the cases to be discussed in the course and can be purchased online at <http://cb.hbsp.harvard.edu/cbmp/access/56503357>.
4. While a financial calculator is not necessary for this course, you will need a calculator (financial or otherwise) for solving problems in classes, assignments, and exams.

Course Requirements and Grading Criteria

- You must attend all classes and be punctual. It is difficult to make up for a missed class discussion. The course is fast-paced and relies on case discussions.
- A significant fraction of learning in a case-based course occurs outside of the classroom when students work on cases. Be prepared to spend time outside of the classroom reviewing the cases and analyzing the issues involved.
- Please plan your schedule keeping in mind the time commitment required for classes and group meetings.
- You will analyze cases in groups and submit one written report for the group on the day a case is due. Please read the report thoroughly to ensure the highest quality of analysis and writing. Please keep a copy of your report to help you in the class discussion.
- There will be no midterm. There will be a final examination and two in-class quizzes. The final exam will be based on all the concepts learned and cases covered. Bring your

calculator to the exam. Do not share calculators. Learn how to use your calculator before arriving for the exam.

Please be prepared to devote at least 4-5 hours in addition to the class time each week. Keeping up with current business news is not necessary but may help enrich your understanding of the issues. Publications such as the *Wall Street Journal*, *Financial Times*, *Economist*, and *Business Week* are highly recommended. Students are encouraged to ask questions, present their own views, seek clarification etc. If something is not clear, ask question. Don't wait until it is too late. Please do not hesitate to seek help EARLY if you are having problems in the class. During the class, please refrain from using electronic appliances or engaging in any activity unrelated to the class.

The final grade will depend on the following performance measures:

Case Reports	40%
Class Participation	10%
Peer Feedback	10%
Quiz(zes)	10%
Final Exam	30%

The course website is <https://sakai.luc.edu> (Sakai). Please check the web site regularly for updates. The website will be your source for course documents as well as case-related resources such as readings and excel spreadsheets.

Quinlan School of Business Policies:

Attendance

Class attendance and participation are fundamental components of learning, so punctual attendance at all classes, for the full class meeting period, is expected of Quinlan students. Faculty may set participation policies unique to their courses and use class participation as a component of the final grade. The student is responsible for any assignments or requirements missed during an absence.

Make-Up Examinations

Loyola University academic policy provides that tests or examinations may be given during the semester or summer sessions as often as deemed advisable by the instructor. Because Quinlan faculty believe examinations represent a critical component of student learning, required examinations should be taken during the regularly scheduled class period. **Make-up examinations are discouraged.** Exceptions may be granted only by the faculty member or department chair, and only for unavoidable circumstances (illness verified by a signed physician's note, participation in intercollegiate athletic events, subpoenas, jury duty, military service, bereavement, or religious observance). A make-up final examination may be scheduled only with the permission of the appropriate Quinlan Assistant or Associate Dean.

If a make-up examination must be given, it is the responsibility of the faculty member to prepare, schedule, and proctor the exam. Limited assistance in proctoring make-up exams may be available through a designated Quinlan administrative assistant. For a student with a documented special testing need, please consult University policy concerning use of the testing center in Sullivan Center at Lake Shore Campus.

Academic Integrity

All members of the Quinlan School shall refrain from academic dishonesty and misconduct in all forms, including plagiarism, cheating, misrepresentation, fabrication, and falsehood. Plagiarism or cheating on the part of the student in individual or group academic work or in examination behavior will result minimally in the instructor assigning the grade of “F” for the assignment or examination. In addition, all instances of academic dishonesty must be reported to the chairperson of the department involved.

For further information about expectations for academic integrity and sanctions for violations, consult the complete Quinlan School of Business Honor Code and Statement of Academic Integrity on the Quinlan website:

<http://www.luc.edu/media/lucedu/quinlanschoolofbusiness/pdfs/Honor-Code-Quinlan-July2012.pdf>

Course Outline

Session	Date	Topic	Readings*
1	Nov 14	Valuation Methods Overview – Weighted Average Cost of Capital, Adjusted Present Value, Flows to Equity	KGW 8, 12, 14
2	Nov 21	Valuation Details - Multiples Method, Cost of Capital Case 1: Valuation of AirThread Connections	KGW 11, 13, 16
3	Nov 28	Special Issues in Valuation - Foreign Currency, Emerging Markets, Banks Venture Capital – Introduction	KGW 23, 31, 34 MY 1-3
4	Dec 5	Case 2: SKS Microfinance Venture Capital –Process, Capital Structure	MY 7, 9
5	Dec 12	Quiz 1 Case 3: Palomon Capital Partners	

		Valuation of Ventures	MY 10-12
		<i>Winter Break</i>	
		<i>Martin Luther King Birthday</i>	
6	Jan 23	Options	MY 13
7	Jan 30	Valuation of VC Preferred Stock Case 4: Arundel Partners: The Sequence Project	MY 14
8	Feb 6	Quiz 2 Valuation of Real Options, Simulations Case 5: MW Petroleum Corporation (A)	MY 20-22
9	Feb 13	Case 6: scor-estor.com	
10	Feb 20	Final Exam	

* KGW: Valuation book by Koller, Goedhart, and Wessels

MY: Venture Capital book by Metrick and Yasuda

Please note: This class may occasionally deviate from the course outline above. The instructor reserves the right to make changes as needed to the course syllabus.

Instructor Policies

1. Computers can be used only for the purpose of taking notes or studying material being discussed in the class. No other use, including occasional email, message, or work for other classes is allowed.
2. Cell phones must not be used in the class.
3. Please see me or email me if you require special accommodations due to learning disabilities, religious practices, physical requirements, medical needs, or any other reasons.

If you are particularly interested in venture capital industry, consider buying the Metrick and Yasuda book. The following list will help you compare the contents of the book and the ebook:

Chapter No.	Chapter Title	In Custom Book
1	The VC Industry.	✓
2	VC Players.	✓
3	VC Returns.	✓
4	The Cost of Capital for VC.	
5	The Best VCs.	
6	VC Around the World.	
7	The Analysis of VC Investments.	✓
8	Term Sheets.	✓
9	Preferred Stock.	✓
10	The VC Method.	✓
11	DCF Analysis of Growth Companies.	✓
12	Comparables Analysis.	✓
13	Option Pricing.	✓
14	The Valuation of Preferred Stock.	✓
15	Later-Round Investments.	
16	Participating Convertible Preferred Stock.	
17	Implied Valuation.	
18	Complex Structures.	
19	R&D Finance.	
20	Monte Carlo Simulation.	✓
21	Real Options.	✓
22	Binomial Trees.	✓
23	Game Theory.	
24	R&D Valuation.	

The following table lists the correspondence between relevant chapters from 4th, 5th, and 6th editions of KGW:

Koller, Goedhart, and Wessels 6th Edition		Koller, Goedhart, and Wessels 5th Edition		Koller, Goedhart, and Wessels 4th Edition	
Ch 8	Frameworks for Valuation	Ch 6	Frameworks for Valuation	Ch 5	Frameworks for Valuation
Ch 12	Estimating Continuing Value	Ch 10	Estimating Continuing Value	Ch 9	Estimating Continuing Value
Ch 14	Moving from Enterprise Value to Value per Share	Ch 12	Moving from Enterprise Value to Value per Share	Ch 11	Calculating and Interpreting Results (Part of chapter prior to the section "Verifying Valuation Results")
Ch 11	Forecasting Performance	Ch 9	Forecasting Performance	Ch 8	Forecasting Performance
Ch 13	Estimating the Cost of Capital	Ch 11	Estimating the Cost of Capital	Ch 10	Estimating the Cost of Capital
Ch 16	Using Multiples	Ch 14	Using Multiples to Triangulate Results	Ch 12	Using Multiples for Valuation
Ch 23	Cross-Border Valuation	Ch 30	Foreign Currency	Ch 21	Cross-Border Valuation (Part of Chapter starting with section "Translation of Foreign-Currency Financial Statements")
Ch 31	Emerging Markets	Ch 33	Valuation in Emerging Markets	Ch 22	Valuation in Emerging Markets
Ch 34	Banks	Ch 36	Valuing Banks	Ch 25	Valuing Financial Institutions