

Syllabus

| | |
|---------------|--|
| Course Title | COMPANY VALUATION |
| Instructor | Christian Schopper |
| Email | christian.schopper@aon.at |
| Office Hours | For consultations, approach me either before or after class. |
| Credits | 2 US credits (4 ECTS credits) |
| Module | Financial Management |
| Term | Spring 2023 |
| Course Level | MSc Finance elective. All students are required to take the course for grades. This course is delivered with a class cap of 25 students (please note that no exceptions will be made on this). As this course is intertwined with Corporate Restructuring, students are required to take both Corporate Restructuring & Company Valuation together. |
| Prerequisites | All enrolled students should have successfully completed core finance (Financial Management) and accounting (Financial Reporting & Control) courses at graduate level. |
| Course Drop | As described by the Regulations of the MS in Finance program: Overview of the MS in Finance Department of Economics and Business (ceu.edu) |

Course description

This course in Company Valuation (the “Course”) will not just address various valuation approaches of stand-alone assets or entities, such as based on the three main methodologies: Comps, Pre-pays and Discounted Cash Flow Analysis. Instead, focus will also be on transaction-related value creation, such as on the basis of M&A or in the capital markets.

At the core of the Course are case studies which will require participants to make analytically sound and thoughtful executive management decisions in complex constellations whereby various investor views and interests, limitations imposed by stakeholders, possibly legal and corporate governance constraints and aspects of value creation alternatives will have to be considered. Stretching over 3 days, the Course will be highly intensive and emphasize group work as well as interaction and discussion in the class room. Thereby, Corporate Finance-related concepts already introduced and discussed in previous CEU courses will be applied.

Course requirements, grading, and attendance policies

Participation

- Mandatory and conditional to be graded is a full and timely participation in all classes.
- To be able to actively participate, preparation of mentioned literature and handing in of all 5 Case Study Assignments is mandatory.
- Case Study Assignments will be on a group basis. However, you are incentivized to work on an individual basis which will be rewarded with additional bonus points in regards to grading.

Grading

- Grading will be dependent upon the quality of preparation and hand-ins of the Case Study Assignments as well as the active participation and qualitative contribution in class room discussions.

- A participant can receive a maximum of 100 points (plus additional bonus points), whereby the eventual grades will be as follows:

| Points | Grade |
|----------|-------|
| 0 – 30 | 1 |
| 31 – 49 | 2 |
| 50 – 55 | 3- |
| 56 – 60 | 3 |
| 61 – 66 | 3+ |
| 67 – 72 | 4- |
| 73 – 77 | 4 |
| 78 – 83 | 4+ |
| 84 – 89 | 5- |
| 90 – 94 | 5 |
| 95 – 100 | 5+ |

- Course participants can achieve a certain maximum of points along the following criteria:
 - Quality of class room participation a maximum of 30 points.
 - 10 points over each of 3 days
 - Case Study Assignments a maximum of 70 points.
 - 14 points for each of 5 mandatory group hand-ins
 - up to +3 bonus points for each hand-in delivered on an individual basis
 - up to +3 bonus points for each presentation in class

Attitude

The Course is intense and requires substantial time commitment, effort, energy and concentration, but basically we want to learn and also have fun ... - Precondition for this is a professional attitude:

- You are expected to professionally prepare, hand in the Case Study Assignments per deadline, be in class on time and actively participate in sessions.
- In class, you will always have with you:
 - A financial calculator;
 - The Case Study Assignment; and
 - Your hand-in / presentation material on a USB stick
- Mobile phones and other mobile devices will – without exception - be switched off during the entire length of the sessions.

Case Study Assignments

- You are required to hand in Power Point format presentations for a total of 5 case studies.
- Grading will be on group basis. Groups are not to exceed 3 (three) individuals.
- Each group / individual can assume to present (at least) twice during the Course.
- Individuals delivering hand-ins (voluntarily) on an individual basis will be awarded additional bonus points.
- Volume / page numbers / structure of the presentations are up to you (ideally, though, not more than 10 slides, excl. appendices) whereby quality and creativity rules over quantity.
 - Especially in regards to restructuring assignments, creativity can be key, provided a compelling conclusion is backed up with material, analytics or else to support your arguments. Whereby, your conclusions will be substantiated with a (more or less extensive) financial model, attached in an appendix
 - A good presentation structure may look like following:
 - Analytical status quo / as-is conclusions
 - Which are the major issues to resolve?

- Which basic alternatives are available and feasible?
- What would you recommend to do and why?
- Next steps
- You will send the presentation hand-ins via email (christian.schopper@aon.at) by latest 24.00 the night prior to the respective session in which the Case Study Assignment will be discussed and bring a copy **on a USB stick** to class.
 - Downloading presentations during class time has frequently proven sub-optimal and consumes unnecessary valuable time we want to spent together to discuss
- 2-3 groups / individuals will either volunteer or be chosen arbitrarily to present their conclusions in front of class (time limit: max 15mins), followed by class Q&A, whereby you will have to support your conclusion(s).
 - Please note: If you intend to voluntarily present, it may be useful to run a rehearsal prior to the session, as there will be an absolute presentation time limit of 15mins
- A maximum of 14 points will be awarded for quality of written materials handed in for each Case Study Assignment. Individuals choosing to deliver hand-ins on an individual basis will be awarded with up to 3 additional bonus points. Those who present could expect to be awarded an additional maximum of 3 bonus points for the quality of the verbal presentation.

Case Study 1: The Veuve Clicquot Case from the 1960's is as a classic as the product it deals with: Family shareholders consider an IPO and valuation will be a key decision feature.

Case Study 2: Pacific Grove Spice Company is a profitable, rapidly growing manufacturer, marketer, and distributor of quality spices and seasonings. The company's business model requires significant investment in accounts receivable, inventory, and fixed assets to support sales. Although the company is profitable and all of its net income is reinvested in the firm, the firm must utilize significant amounts of debt to fund the necessary growth in assets to support sales. The bank is concerned about the total amount of interest-bearing debt on Pacific's balance sheet and has asked the company to provide a plan to reduce it. Debra Peterson, president and CEO, believes the current four-year financial projections are reasonable and attainable. She is also considering three opportunities: sponsoring a cable cooking show, raising new capital by selling shares of common stock, and acquiring a privately owned spice company...

Your task is among others to analyze the company's financial projections to determine if the reduction in debt meets the bank's requirements, to analyze the opportunities and consider their individual and combined impacts on the company's financial position.

Case Study 3: Blaine Kitchenware is a diversified mid-sized manufacturer of kitchen tools and contemplates a stock repurchase in response to an unsolicited takeover. The company must determine the optimal debt capacity and capital structure, and subsequently estimate the resulting change in firm value and stock price

Case Study 4: This case examines the October 2015 initial public offering pricing decision for legendary Italian sports car company **Ferrari** by Fiat Chrysler management. Assuming the position of an analyst, you are invited to model the value of Ferrari in light of Ferrari CEO Sergio Marchionne's interest in expanding production despite the company's long-standing tradition of severely limiting production strategy to maintain an exclusive brand image.

Case Study 5: In December 2015, **Canadian Pacific Railroad (CPR)** has just made its third bid to acquire Norfolk Southern Corporation (NSC), one of the largest railroads in the United States.

Having rejected the prior offers, NSC's CEO James Squires and the NSC board must now value the current offer including the projected merger synergies as well as a recently-added contingent value right (CVR) designed to "sweeten" the offer, and decide how to respond.

Course contents

Content

This course explores principles of business valuation, with a focus on how businesses, equity, and enterprise are valued. Participants learn the main approaches and techniques of valuation (intrinsic and relative), assess their strengths and weaknesses, and when to apply the appropriate approach. Topics include, among others:

- Discounted cash flow,
- Comparable market multiples,
- Comparable transaction multiples, and
- Liquidation/terminal value.

Additional topics include:

- Free cash flow,
- Financial statement analysis,
- Industry competitive analysis,
- Growth projection,
- Financial forecasting,
- Discount rate, and
- Capital asset pricing.

Learning Approach

Learning is foremost by building on already acquired know-how of Corporate Finance principles and applying these in case study constellations, with lecture elements provided as needed. Hence, learning will take place in individual preparations and then subsequently in class room.

Learning Outcomes

The Course prepares participants to deal with challenges related to various valuation approaches of assets and enterprises. By applying tools and concepts introduced in the Course, participants will understand:

- The difference between various valuation approaches and techniques
- The strength and limitations of various valuation approaches
- The major parameters driving valuations, not least provided with an in-depth insight into the calculation of cost of equity, cost of debt and the weighted average cost of capital
- Address common leverage and financing issues
- Which technique / approach is most appropriate in which constellations
- Assessing the value creation of transaction-related propositions

The topic of valuation will be put in context of specific situations and constellations, such as start-ups, private equity-related transactions, IPOs and M&A transactions.

Schedule

| | 11.April 2023 | 14.April 2023 | 18.April 2023 |
|-------|------------------------------|---------------------------------------|--|
| 10:50 | Company Analysis | Pacific Grove Spice | Ferrari |
| 12:30 | LUNCH BREAK | LUNCH BREAK | LUNCH BREAK |
| 13:30 | Valuation Approaches | Valuation Approaches (Start-Ups) | Valuation Approaches (IPOs) |
| 15:10 | COFFEE BREAK | COFFEE BREAK | COFFEE BREAK |
| 15:40 | Veuve Clicquot | Blaine Kitchenware | Canadian Pacific / Norfolk Southern |
| 17:20 | COFFEE BREAK | COFFEE BREAK | COFFEE BREAK |
| 17:40 | Valuation Approaches (Tesla) | Valuation Approaches (Private Equity) | Valuation Approaches (M&A / Synergies) |
| 19:20 | | | |
| | Case Study | | |
| | Interactive Session | | |

Course materials

Preparation

- Familiarize yourself with literature / readings about the principles of Corporate Finance. Basically, you are free to select any literature which suits you. Good references in this context are books by Damodaran / Corporate Finance or by Brealey, Myers / Principles of Corporate Finance.
- Relevant topics addressed in the Course can also be found in my book: Schopper / Corporate Finance Concepts. Besides, selected concepts are summarized on my website under: <http://christianschopper.com/on-finance/>
- Please note and be mindful of the intensity of the course: One may assume that the preparation of each Case Study Assignment realistically requires 4-5 hours.

Bio

Information regarding my background can be found on www.christianschopper.com

Academic integrity policy

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