Valuation 1
BFIN 2030 – 1015
Day Section
Spring Term 2013-2014
Professor Lehn

Syllabus

Course description. This course examines the topic of value – what it is, how to measure it, and how to use the concept to guide managerial decisions. Our objective is two-fold.

First, we will develop a way of thinking about value. Competition in product, labor, and capital markets encourages managers to maximize shareholder value. Markets reward managers who create value and penalize those who do not. Furthermore, under corporate law managers have a fiduciary responsibility to maximize shareholder value. Both the law and the market make it important to understand the effects of managerial decisions on firm value.

The second objective is to develop tools for measuring value and value creation (or destruction). We will learn how to value an enterprise, how to identify the variables that drive a firm's value, and how to measure whether a firm is creating or destroying value.

Readings. The text for the course is the fifth edition of *Valuation: measuring and managing the value of companies*, University Edition, by Tim Koller, Marc Goedhart, and David Wessels, John Wiley & Sons, 2010. Assigned chapters are listed on the attached schedule of topics and readings. In addition, I will distribute a Harvard Business School ("HBS") manuscript titled "Understanding economic value added" and a manuscript that shows how to use the discounted cash flow model to value PPG Industries, a Pittsburgh-based manufacturer of coatings, glass, and chemicals. I also encourage you to routinely read business publications such as *The Wall Street Journal*, *Financial Times*, and *Bloomberg Business Week* with an eye on topics related to the course material. You also will find interesting articles related to valuation on various internet publications, including *The Motley Fool*, *Seeking Alpha*, and *The Street.com*.

Course requirements. Your course grade will consist of your performance on a project that is due on Friday, February 28, 2014.

Office hours. Office hours are Thursday mornings from 11 a.m. to 12 noon. Of course, you also can set up an appointment or you may stop by my office any time. My office is 278B Mervis, my phone number is 412-779-2127, and my e-mail address is lehn@katz.pitt.edu. My assistant, Melanie Wedge, can be reached at 412-648-1582 or mmw81@pitt.edu.

Academic integrity. Cheating on the project is forbidden. The penalty for cheating is an automatic "F" in the course. Incidents of cheating also will be reported to the dean of the CBA program.

The project. The project requires you to conduct a valuation analysis of a publicly traded U.S. company. You will be provided with a list of students registered for this course and the company that has been randomly assigned to each student. If you want to switch companies with another student, you may do so, but please notify me if you do. If you want to select a company that is not on the list, you may do so if (i) the company is a publicly traded U.S. company, (ii) it is not a financial institution, and (iii) the company has not been assigned to another student.

The project should consist of six sections.

Section 1 should describe the company's business, including its product lines, customer base, key suppliers, management team, and strategy. Please also identify a group of peer companies for your company.

In Section 2, please provide an analysis of the company's performance during the period of 2008-2012. The analysis should include an analysis of various performance metrics, including (i) accounting profit rates (e.g., return on invested capital ("ROIC"), return on assets ("ROA"), return on equity ("ROE")), (ii) economic profits, and (iii) stock price performance. Please compare these performance metrics for your company with the corresponding metrics for the peer companies.

Section 3 should describe the company's capital structure during 2008-2012. Specifically, you should track its debt-to-value ratio as of the end of each fiscal year and compare its debt-to-value ratio with that of its peer companies. Please discuss whether there is a sound basis to believe that the company is not at its target capital structure.

In Section 4, please conduct a discounted cash flow valuation of the company. The analysis should include a discussion of the basis for your projections, your estimate of the company's weighted average cost of capital, and your estimate of the company's terminal value. In addition, you should provide a sensitivity analysis and a discussion of your final valuation matrix.

In Section 5 please conduct a market multiples valuation of your company. You should use the peer companies identified in Section 1 for this analysis.

Finally, Section 6 should provide recommendations as to how the company can create value for shareholders. The recommendations should be based on the sensitivity analysis you conduct and any benchmarking analysis you perform of your company's performance versus its peer companies.

Assignment of companies. The following companies have been assigned to students enrolled in the course.

Student	**Company (Ticker Symbol)**
Barry, Jordan	Treehouse Foods (THS)
Behr, Michael	Williams-Sonoma (WSM)
Brennan, Matthew	U.S. Steel (X)
Cheema, Shahid	Wabtec (WAB)
Clavet, Marnie	Starbucks Corp. (SBUX)
Corcuera, Daniella	Target Corp. (TGT)
Destefano, Matthew	Wesco Intl. (WCC)
Evans, Terry	Ralph Lauren (RL)
Gase, Alexander	Staples (SPLS)
Hoerburger, Keith	Deckers Outdoor (DECK)
Kilinc, Guzide	Yum! Brands (YUM)
Martin, Danielle	Globus Medical (GMED)
Michael, Kelly	Pier 1 Imports (PIR)
Mullens, Marcus	Pep Boys (PBY)
Pham, Thi Kim	The Finish Line (FINL)
Rascoe, Alexander	Penske Auto (PAG)
Renfro, Steven	Intel (INTC)
Schaukowitch, Naomi	Wynn Resorts (WYNN)
Sossono, Renold	Krispy Kreme (KKD)
Venkataramani, Saiprasad	Harris Teeter Super. (HTSI)
Vergara Herrera, Matias	Corning (GLW)

Course schedule. The topics and assigned readings for each class session are listed below:

Jan. 9, 2014 – What is value? How do firms create value?

Koller, Goedhart, and Wessels ("KGW"), Chs. 1, 3, 6 (esp. pp. 117-121).

Understanding economic value added, Harvard Business School, 9-206-016.

Jan. 14, 2014 – What is value? How do firms create value?

Koller, Goedhart, and Wessels ("KGW"), Chs. 1, 3, 6 (esp. 117-121).

Understanding economic value added, Harvard Business School, 9-206-016.

Jan. 16, 2014 – Free cash flow

KGW, Ch. 2 (esp. 39-43).

Jan. 21, 2014 – Measuring historical performance

KGW, Chs. 6, 7, 8.

PPG manuscript.

Jan. 23, 2014 – Measuring historical performance

KGW, Chs. 6, 7, 8.

PPG manuscript.

Jan. 28, 2014 – Forecasting performance

KGW, Ch. 9.

PPG manuscript.

Feb. 4, 2014– Cost of capital

KGW, Ch. 11.

PPG manuscript.

Feb. 6, 2014 – Cost of capital

KGW, Ch. 11.

PPG manuscript.

Feb. 11, 2014 – Continuing value

KGW, Ch. 10.

PPG manuscript.

Feb. 13, 2014 – Continuing value

KGW, Ch. 10.

PPG manuscript.

Feb. 18, 2014 -- Moving from enterprise value to stock price

KGW, Ch. 12.

PPG manuscript.

Feb. 20, 2014 – Interpreting the results & sensitivity analysis

KGW, Ch. 13.

PPG manuscript.

Feb. 25, 2014 – Market multiples

KGW, Ch. 14.

Feb. 27, 2014 – Review