

Standard Course Outline

FIN 670 Seminar in Equity Securities and Valuation

I. General Information

Course Title: Seminar in Equity Securities and Valuation

Course Number: FIN 670

Prerequisites: Graduate business standing

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II. Catalog Description

Topics include: (1) The Corporate Form of Business and the Rights of Equity Stockholders: Common and Preferred stocks; (2) Equity Valuation: Application and Processes; (3) Risk and Return Concepts and Cost of Capital; (4) Discounted Dividend Valuation; (5) Free Cash Flow Valuation; (6) Residual Income Valuation; (7) Market-Based Valuation; (8) Private Company Valuation. Letter grade only (A-F).

III. Recommended Textbooks

Equity Asset Valuation by Jerald E. Pinto, Elaine Henry, Thomas R Robinson, John D Stowe, 2th Edition, John Wiley & Sons, Inc., 2010 (CFA Institute Investment Series).

Equity Valuation for Analysts and Investors by James Kelleher, 1st Edition, McGraw Hill, 2010

Selection of Harvard Business School Articles and Cases.

IV. Curriculum Justifications

The curriculum is intended to give graduate students the necessary finance skill level to be able to:

- (1) Understand the role of equity valuation in investment and corporate decision making,
- (2) Understand the importance of financial markets and working of capital markets, and
- (3) Evaluate modern equity investments.

This course will use four mechanisms to allow each individual's analytical talents to emerge and for instructors to assess students' progress: (1) tests and problem-solving exercises; (2) case analyses; (3) homework assignments; (5) a research project in which students will select a topic, gather real-world data, and conduct a complete analysis.

V. Course Objectives

Skill- and Content-specific Goals of this course are:

Critical Thinking:

1. Students will understand the role of financial/investment managers and learn to incorporate valuation in financial, investment, and financing decisions of a corporation.
2. Students will analyze equity valuation for mergers/acquisitions, buyouts, and restructuring in order to make realistic and feasible decisions.

Business Functions:

1. Students will demonstrate understanding of the role of equity valuation in the corporate environment as well as in the categories of corporate finance issues that include the full range of corporate investment and financing decisions.
2. Students will demonstrate understanding of the concepts and components of finance theory and application and be able to apply them appropriately in making business decisions.

Quantitative and Technical Skills:

Students will possess quantitative and technological skills that enable them to improve investment & financial management decisions. Students will demonstrate that they can make decisions based on quantitative analysis using the principles, concepts, and techniques through their performance on exams, assignments, and cases.

Interpersonal, Leadership Skill and Team Skills:

1. Students will generate team/group decision-making through managing interpersonal conflict, negotiation, and integration of their skills with that of others in order to make good financial decisions and deliver oral presentations.
2. Students will demonstrate that they understand the common errors in team/group decision-making and be able to correct them as a team.

VI. Outline of Subject Matter

This is a listing of the subject matter that must be covered in this course. It does not preclude other topics that are part of the Finance area or the depth of some topics. As this class is a seminar class, the material used includes case studies, discussion, and examples/problems from the selected textbooks.

The topical outline for the course is the following:

Week	Concept	<u>Possible</u> Active Learning Tools
1	Introduction to Equity Valuation:	Textbook questions



	Characteristics of types of equity securities; differences in voting rights and other ownership characteristics among different equity classes; distinguish between public and private equity securities	WSJ/FT readings
2	Common and Preferred stocks: Charter; bylaws; voting rights; preemptive rights; cash dividends; stock dividends; stock split; stock repurchases and liquidations; preferred stock	Textbook questions WSJ/FT readings
3	Overview of Global Corporate Governance: Investor protection and development of financial markets; ownership, control, and governance in Asia, Europe, and North America; Conglomerates; Risk and short-termism; Growth industries and declining industries; Transparency and governance	Textbook questions and WSJ/FT readings
4	Risk and Return Concept: Types of cash flow streams; holding period return; IRR; required return; expected return; the equity risk premium; Gordon Growth model; CAPM; multifactor model; WACC; discount rate.	Textbook problems
5	Equity Valuation – Application: Valuation and intrinsic value and possible sources of perceived mispricing; going concern assumption and contrast a going concern value to a liquidation value; definitions of value and relevance to public company valuation; communicating valuation results	Textbook problems
6	Equity Valuation – Processes: The valuation process & selecting appropriate models; questions that should be addressed in conducting an industry and competitive analysis; contrast absolute and relative valuation models and describe examples of each type of model; sum-of-the-parts valuation and conglomerate discounts; explain broad criteria for choosing an appropriate approach for valuing a given company.	Textbook problems
7	Discounted Dividend Valuation Models - The dividend discount model; The Gordon Growth model; Multistage Dividend	Textbook problems HBR (or equivalent) Case



	Discount models; the financial determinants of growth rates.	
8	Free Cash Flow Valuation Models: FCFF and FCFE valuation approaches; forecasting free cash flow; free cash flow model variations; non-operating assets and firm value.	Textbook problems HBR (or equivalent) Case
10	Determining Growth Rates: the Cobb-Douglas production function and demonstrate how the function can be used to model growth in real output under the assumption of constant returns to scale; evaluate the relative importance of growth in total factor productivity, capital stock, labor input given relevant historical data; demonstrate the use of the Cobb-Douglas production function in obtaining a discounted dividend model estimate of the intrinsic value of an equity market.	Textbook problems HBR (or equivalent) Case
11	Critique and Contrast of Valuation Models: Use of discounted dividend models and macroeconomic forecasts to estimate the intrinsic value of an equity market; contrast top-down and bottom-up approaches to forecasting the earnings per share of an equity market index; strengths and limitations of relative valuation models; determine whether an equity market is under-, fairly, or over-valued using a relative equity valuation model.	Textbook problems HBR (or equivalent) Case
12	Industry and Company Analysis in a Global Context: Compare top-down, bottom-up, and hybrid approaches for developing inputs to equity valuation models; approaches to forecasting revenue; evaluate economies of scale for an industry; forecasting revenues and costs subject to price inflation; balance sheet modeling; develop a sales-based pro forma company model	Textbook problems HBR (or equivalent) Case
13	Residual Income Valuation: Residual income model, Residual income valuation in relation to other approaches, accounting and international considerations.	Textbook problems
14	Market-Based Valuation – Price and	Textbook problems



	Enterprise Valuation Models: price multiples methods, enterprise valuation multiples methods. International considerations when using multiples, momentum valuation indicators.	
15	Private Company Valuation: Scope of private company valuation; private company valuation approaches	HBR (or equivalent) Case
16	Final examination/presentation/etc	

VII. Methods of Instruction

Lecturing on theories & concepts of equity securities and valuation. Case analysis, presentation & discussion (group project), Individual research study (data collection, method of analysis and interpretation of results).

Instructors in planning the exams, and other grading procedures, should adhere to the relevant [University Policy on “Grades, Grading Procedures, and Final Assessments, Final Course.”](#)

The textbooks for this course should be chosen in accordance with the [University Policy on textbooks](#). There are many appropriate textbooks for this course; it is generally agreed that none of them is perfect. The following suggestion is based on the special nature of this core Master of Science in Finance (MSF) course:

- Students will arrive at this course with extraordinary range of backgrounds; and therefore prior knowledge will be highly variable, however,
- Students will have a level of maturity that will enable them to look at a broader picture via more advanced cases, simulations, group projects and
- Examinations must be essay-type and/or problem solving questions and avoid the use of multiple-choice questions.

VIII. Instructional Policy Requirements

The students are expected to comply with the universally accepted norms of considerate and courteous behavior, and with all University rules and policies found in the current [University Catalog](#), including the [Withdrawal Policy](#) and [Policy on Cheating and Plagiarism](#). It will be assumed that the students will adhere to the tenets of *academic integrity* as articulated in [Dean’s Letter on Academic Integrity](#) throughout this course. Instructors may specify their own policies with regard to plagiarism, withdrawal, absences, etc. as long as these policies are consistent with the above mentioned University polices.



It is expected that all students to attend classes regularly and to be responsible from all materials covered in class, regardless of their attendance. Make-up exams are strongly discouraged and will only be given with documented proof of an excused absence. Acceptability of the excuse will be determined based on the appropriateness of the documents. It is important that the student provides all documentation without special prompting from the instructor. The student should give earliest possible notification of an anticipated excused absence. The students refer to [the specific university policy](#) on these issues.

Occasionally adjustments in the course assignments become necessary. The students should be notified about changes, if any, and, whenever possible, they should be consulted in advance about any changes.

Students with Disabilities: Students with disabilities are responsible for notifying their instructor as early as possible of their needs for an accommodation of a verified disability. A student with a disability is urged to consult with Disabled Student Services as soon as possible in order to identify possible accommodations to enhance academic success.

Academic Senate Policy: COURSE SYLLABI AND STANDARD COURSE OUTLINES (Supersedes, PS 04-05 and in part, PS 80-08)

It is essential that all students have access to the basic information about the courses in which they are enrolled. Therefore, in every course, the instructor(s) must provide the students with a syllabus in at least 10-point type font and that meets the requirements for the Accessible Technologies Initiative and all other pertinent requirements for the Americans with Disabilities Act (ADA). This syllabus must include, but is not limited to, the information shown in (a) through (i) below.

The syllabus must either be provided in paper copy or be made available in electronic form. If the syllabus is only distributed electronically, the instructor must provide detailed instructions on how to access the syllabus. Unless circumstances dictate otherwise, the syllabus must be provided on or before the time of the second class meeting.

Information that must be included in the course syllabus:

- (a) instructor's name, office number, office telephone number and/or e-mail address, and office hours;
- (b) class term, meeting times, and location;
- (c) course goals and/or objectives and/or expected student learning outcomes;
- (d) required text(s) and/or materials and information on any course fee;
- (e) types and sequence of assignments and basis for assigning course grade;
- (f) how the instructor will interpret the University withdrawal policy in this class;
- (g) a statement of, or reference to where students may find attendance policies and



provision for makeup of assignments when there is an excused absence;

(h) a reminder that it is the student's responsibility to notify the instructor in advance of the need for accommodation of a university verified disability;

(i) other information essential to the course, for example safety information, information about accessing online resources, information about assignments that must be accomplished at off-campus locations (e. g. field trips, service learning).