

THE OHIO STATE UNIVERSITY
Fisher College of Business
Department of Finance

COURSE SYLLABUS

Finance 6220

FINANCIAL ANALYSIS & VALUATION

Autumn Semester 2022

SECTION 010: Monday - Friday, 8:30-11:45AM & 1:00-2:30PM, ROOM 305 Gerlach

Instructor Information

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Course Description

Corporate Finance is a core area of finance that examines financial decisions made within firms of any type, start-up or large-cap, private or public, domestic or multinational. Each firm is faced with three key financial decisions: the capital budgeting (investment) decision, the capital structure (financing) decision, and the payout (dividend) decision. The first decision deals with identifying the set of investment projects that a firm will pursue. The second decision deals with the problem of selecting an optimal financing mix to finance the projects that a firm will pursue. The third decision is about how much of the firm's free cash flow will be returned to its shareholders, as well as the form of this payout.

This course primarily covers a set of fundamental techniques for financial analysis. We will examine the investment decision in detail. We will also devote the last third of the course to valuation analysis. Another key theme in the course is financial statement analysis. The course provides in-depth coverage of a set of fundamental tools and methodologies for financial analysis and opportunities for practice through case discussions and financial modeling exercises. These techniques will be used in the SMF Core Capstone Project that will take place in the second half of the autumn semester.

Course topics include: risk and return, estimation of a firm's cost of capital, project analysis (investment decision), financial statement analysis, Discounted Cash Flow, Relative Valuation, Adjusted Present Value, Capital Cash Flow, Start-up and Private Company Valuation.

This course is followed by a sequence of electives in corporate finance. The capital structure and payout decisions are covered in Corporate Financing (FIN 7210). Advanced topics such as corporate governance, mergers & acquisitions, and corporate bankruptcy and restructuring are covered in electives such as Mergers & Acquisitions and Corporate Restructuring & Bankruptcy (FIN 7212 & 7213) electives. Those of you interested in pursuing a career in corporate finance, corporate consulting or investment banking should plan to take these courses. In addition, courses in Accountancy, such as AMIS 7200 (Corporate Financial Reporting I) and AMIS 7220 - 7201 (Financial Statement Analysis I & II), will enhance your understanding of the use of accounting information for financial analysis and equity and firm valuation. Other courses, such as Private Equity (FIN 7216) and International Finance (FIN 7250) provide more in-depth coverage of specialized topics within corporate finance.

Pedagogy

Course material will be delivered through a mixture of lectures, case discussions, in-class software applications, and additional practice through problem sets. Emphasis will be given on applications of techniques through the use of cases and real company examples. Practice with sources of financial data, such as Capital IQ, Bloomberg, as well as software tools such as Microsoft Excel will take place both in this course and in the Financial Software Applications course. Students are expected to work in groups on homework assignments. The purpose of using multiple learning approaches is to enhance students' understanding of how finance professionals use these analytical techniques in their daily work.

Course Prerequisites

I assume that you have working knowledge of the background material in finance posted on the course Carmen site (see the three PPT presentations titled SMF Preparatory Materials). For feedback on this material and suggestions for additional preparation, please feel free to contact me. It is my intention to teach a self-contained course, meaning that I will provide brief reviews of background concepts when needed.

Textbooks and Course Materials

I have assigned two required textbooks and a list of cases for class discussion. Furthermore, I list below a few other useful texts for your reference. Please NOTE that these other textbooks are NOT formally assigned as recommended for this course.

The required textbooks are:

- *Corporate Finance*, by Jonathan Berk and Peter DeMarzo, 5th edition, Prentice Hall, 2019
- *Corporate Valuation: Theory, Evidence & Practice*, by Robert W. Holthausen and Mark E. Zmijewski, 2nd edition, Cambridge Business Publishers, 2018

Lecture notes, case discussion questions, as well as supplemental readings and handouts will be posted on the course web page. The course web page is available through Carmen,

the university's course management system (<http://carmen.osu.edu>). Materials will be posted on Carmen no later than one day prior to class.

A course packet will be available from Harvard Business Publishing. You are expected to purchase a copy of each case. Note that cases are copyrighted material and thus no form of copying is allowed without the explicit permission of the publisher. This is a violation of academic integrity standards. Students who fail to comply with this expectation will be reported to the Committee on Academic Misconduct.

I strongly recommend that you check the course web page regularly. Under "Classlist" you can see the students in the course.

Other useful texts are:

- *Valuation: The Art and Science of Corporate Investment Decisions*, by Sheridan Titman and John Martin, 3rd edition, Pearson, 2015
- *Applied Corporate Finance*, by Aswath Damodaran, 3rd edition, John Wiley, 2010
- *Strategic Corporate Finance: Applications in Valuation & Capital Structure*, by Justin Pettit, John Wiley, 2007
- *The Revolution in Corporate Finance*, by Joel M. Stern and Donald H. Chew, Jr. (Eds), 4th edition, Blackwell Publishing, 2003
- *Behavioral Corporate Finance: Decisions that Create Value*, by Hersh Shefrin, McGraw-Hill, 2007
- *Equity Asset Valuation*, by Jerald Pinto, Elaine Henry, Thomas Robinson, John Stowe, and Abby Cohen, 2nd edition, John Wiley, 2010
- *Damodaran on Valuation: Security Analysis for Investment and Corporate Finance*, by Aswath Damodaran, 2nd edition, John Wiley, 2006
- *Investment Valuation*, by Aswath Damodaran, 3rd edition, John Wiley, 2012
- *Financial Modeling*, by Simon Benninga, 3rd edition, MIT Press, 2008

Case Discussions

To enhance your understanding of course material, we will discuss several cases in class. Cases present real-world, complex problems faced by financial managers that require analysis and use of judgment to reach important business decisions. Cases are used extensively in most graduate business courses.

The use of case studies is a very effective learning method because it emphasizes student self-learning rather than a passive absorption of knowledge. Students learn to develop their critical thinking and use their judgment to make decisions. Case studies do not always lead to the "right" or "one" course of action for the decision maker. Rather, decisions are justified based upon sound financial assumptions and a thorough analysis of the situation at hand. Therefore, the analysis and discussion of cases is very useful because it teaches students how to use the principles of finance to define and analyze problems, work as a member of a team, and make recommendations for the best course of action.

You are expected to purchase the following cases – all cases are from Darden Business School – as a course packet from *HARVARD BUSINESS SCHOOL PUBLISHING* (a web link will be provided by email):

- *The Boeing 7e7*
- *Diamond Chemicals (A): The Merseyside Project*
- *Diamond Chemicals (B): Merseyside and Rotterdam Project*
- *Deutsche Brauerei*
- *JetBlue Airways IPO Valuation*

PLEASE NOTE THAT ACCORDING TO STANDARD CASE DISCUSSION PRACTICE THE INSTRUCTOR IS NOT ALLOWED TO DISCUSS THE CASE WITH ANY STUDENT BEFORE THE SCHEDULED CLASS DISCUSSION.

Software Applications

Any financial analyst must be familiar with spreadsheet modeling. Excel is a very powerful tool for financial analysis. You will practice financial modeling of a project analysis and company valuation in this course.

Teamwork

A major aspect of any graduate business program is to provide students multiple opportunities to develop leadership, teamwork, and presentation skills. These so-called *soft skills* are crucial for an effective job search and a successful career in the financial world. You will be assigned to teams of 4-5 students with diverse ethnic, educational, and professional backgrounds. This working environment will challenge you as you learn to become an effective leader and a productive team member.

There will be three team problem sets. Each team member is responsible for his/her performance. I strongly advise you to read the suggestions for effective team performance provided further below.

Each student will be asked toward the end of the course to evaluate the performance of his/her teammates. A student's performance evaluation by his/her peers will be taken into consideration for the final grade. You should be fair and honest in your evaluation of your peers' performance. Each team member should exhibit enough effort throughout the course. This will be your **ONLY opportunity to evaluate your teammates. A team that fails to submit evaluations from all team members will receive **ZERO POINTS** on the team assignments of this course.**

TEAM EVALUATIONS WILL BE TAKEN INTO ACCOUNT IN ASSIGNING COURSE GRADES. A student who receives below average scores across multiple areas from the majority of his/her teammates will have a grade reduction on all team projects of this course.

Grading Procedures and Policies

- **Course Grade:** The course grade will be based on three team homework assignments, two in-class individual quizzes (August 15 and 19), and a final

examination. The final examination will be closed book, closed notes. However, a formula sheet will be provided and you will ONLY be allowed to use a business calculator. I will provide solutions to homework assignments.

The final grade composition is as follows:

Individual quizzes	15%
Group assignments	45%
Final examination	40%

As required by school policy, grading will be based on relative rather than absolute standards. The average grade in this course will be a 3.6 or lower.

- **Final Examination:** The in-class final examination is scheduled for **Friday, August 26, 9:30-11:00AM, in 230 Schoenbaum Hall**. There will be **no conflict examination**.
- **Assignments:** The final examination will be taken on an individual basis. Case preparatory questions will be posted on the course's Carmen site well in advance of the scheduled case discussion date.

I will also post the three problem sets on the course's Carmen site. Solutions will also be provided after the problem sets are submitted. It is vitally important that you work on these problems if you want to master the material covered in the course. **Your ability to work on these problems and the in-class examples is a key indicator of how prepared you are for the final exam. Most exam questions will be adapted from the problem sets and in-class practice examples.**

The schedule of the homework assignments is as follows:

Assignment	Distributed	Due Date
Problem Set 1	August 10	August 15
Problem Set 2	August 12	August 19
Problem Set 3	August 19	August 22

All assignments will be collected at the **beginning** of class on their due date. If you or any of your teammates cannot attend class on that day, please drop your assignment in my mailbox in 700 Fisher Hall **before** the beginning of class to receive any credit. **No late assignments will be accepted for any reason.**

- **Office Hours:** I will have office hours in my office (306A Fisher Hall) on Mondays, Tuesdays, and Thursdays, 3-4pm. These hours are specifically for the benefit of students in this course. I also encourage you to schedule an appointment to meet with me with any comments or suggestions you may have about the course. I prefer NOT to discuss material-related questions through the phone. The best way to address your questions is to discuss them with me in person either during my office hours or by appointment.

Academic Integrity

From the Fisher College statement on your obligation to maintain academic integrity:

“As a member of the Fisher College of Business community, I am personally committed to the highest standards of ethical behavior. Honesty and integrity are the foundation from which I will measure my actions. I will hold myself accountable to adhere to these standards. As a leader in the community and business environment, I will pledge to live by these principles and celebrate those who share these beliefs.”

Students are responsible for knowing and abiding by these standards.

Academic Misconduct

Cheating is grounds for failing this course and additional sanctions. In accordance with faculty rule 3335-5-487, all instances of alleged academic misconduct will be reported to the university Committee on Academic Misconduct. If the committee concludes that a violation has occurred, it recommends appropriate sanctions to the Office of Academic Affairs. As stated in the university's Code of Student Conduct (<http://studentaffairs.osu.edu/resources/>), students have an obligation to report academic misconduct. Such misconduct can be reported to the appropriate faculty member or program dean; confidentiality is protected.

Permitted collaboration for this course is as follows:

- **Final exam, Quizzes – No collaboration**
- **Group Assignments – Collaboration with teammates only. Sources outside the information included in the case, such as case solutions or briefs available for purchase or free on the web or case briefs submitted by other students at OSU or elsewhere in the past or during this semester are STRICTLY PROHIBITED. Students caught violating this guideline will be reported to the Committee on Academic Misconduct.**

Student COVID-related Accommodation Process

The university is committed to supporting students and program participants with COVID-19 based risk factors. Student Life Disability Services, in conjunction with the Office of Institutional Equity, will work with students who are vulnerable to complications from COVID-19 to ensure that they have the necessary resources to participate in university life as safely as possible. Ohio State students from any campus may submit a [COVID-related accommodation request](#). Students registered with Student Life Disability Services can work directly with their [assigned Access Specialist](#) to modify their accommodations or make additional COVID-based accommodation requests.

Disability Accommodation

To ensure that disability-related concerns are properly addressed from the beginning, students with disabilities who require reasonable accommodations to participate in this class are asked to contact the Office of Disability Services (150 Pomerene Hall, 292-3307). Please also inform me of any arrangements you are making with ODS.

Suggestions for Effective Team Performance

The following suggestions (taken from Robert Bruner's cases textbook) are necessary, but not sufficient, conditions for effective team performance. A major factor in a team's success is each member's effort and dedication to the success of the team. It is crucial that you develop a good working relationship with your teammates. Each member should hold every other member accountable for their contribution to the team's performance.

- ✓ Members commit to the success of the team.
- ✓ The team plans ahead, leaving time for contingencies.
- ✓ The team meets regularly.
- ✓ Members show up for meetings and are ***prepared*** to contribute.
- ✓ There may or may not be a formal leader, but the assignments are clear. Team members meet their assigned obligations.

COURSE SCHEDULE

(Assigned readings are from the required texts by Berk & DeMarzo (BD) and Holthausen & Zmijewski (HZ))

DATE	CLASS TOPIC	ASSIGNED READINGS
August 8 (8:30-11:45AM & 1:00-2:30PM)	AM: Course Introduction AM: Overview of Risk and Return PM: WACC and the Firm's Cost of Capital	Ch. 1, 10 (BD)
August 9 (8:30-11:45AM & 1:00-2:30PM)	AM: Estimating WACC Components AM: Hurdle Rates for Projects PM: Identifying Project Cash Flows	Ch. 12 (BD) & 8, 9 (HZ)
August 10 (8:30-11:45AM & 1:00-2:30PM)	AM: Investment Decision Rules AM: Project Interactions PM: Excel Application: Modeling Revenue Project	Ch. 7, 8 (BD) & 3 (HZ)
August 11 (8:30-11:45AM & 1:00-2:30PM)	AM: Excel Application: Modeling Cost Savings Project AM: Case Discussion: Boeing 7e7 PM: Excel Application: Modeling Revenue and Cost Savings Projects	Assigned Questions
August 12	NO CLASS; OIA ORIENTATION	
August 15 (8:30-11:45AM)	AM: Case Discussion: Diamond Chemicals, Part A AM: Financial Statement Analysis I: Financial Ratios QUIZ I; ASSIGNMENT 1 DUE	Ch. 2 (BD) & 2 (HZ) Assigned Questions
August 16 (8:30-11:45AM & 1:00-2:30PM)	AM: Case Discussion: Diamond Chemicals, Part B AM: Introduction to Valuation Analysis PM: Discounted Cash Flow Valuation	Ch. 1, 5 (HZ) Assigned Questions
August 17 (10:15-11:45AM & 1:00-2:30PM)	AM: Case Discussion: Deutsche Brauerei PM: Relative Valuation	Ch. 13, 14 (HZ) Assigned Questions
August 18 (10:15-11:45AM & 1:00-2:30PM)	AM: Modeling Discounted Cash Flow Valuation PM: Case Discussion: JetBlue Airways IPO Valuation	Assigned Questions
August 19 (10:15-11:45AM & 1:00-2:30PM)	AM: Adjusted Present Value & Capital Cash Flow PM: Valuing Start-up Firms QUIZ II; ASSIGNMENT 2 DUE	Ch. 18 (BD) & Ch. 5 (HZ)
August 22 (10:15-11:45AM & 1:00-2:30PM)	AM: Valuing Private Firms PM: Final Exam Review ASSIGNMENT 3 DUE	Lecture Notes

August 26

9:30-11:00AM Final Examination
230 SCHOENBAUM
HALL