



Advanced Financial Analysis and Valuation for Global Firms

Spring 2024 – BUSN 30131/20180

30131 Section 01: Thursday, 8:30am–11:30pm (Harper Center C07)
 20180 Section 01: Thursday, 5:00pm–7:50pm (Harper Center **TBD**)

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- Office Hours: By appointment
- Teaching Assistants:
 - Gaurav Bansal (gbansal@uchicago.edu)
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- Faculty Assistant: John Jones (John.Jones2@chicagobooth.edu)
- Course Website: Canvas

Course Objectives and Content

The course covers advanced financial analysis and valuation for global firms. It is designed for students that already have a basic familiarity with corporate valuation and DCF analysis (e.g., from corporate finance class or a prior job) as well as solid accounting knowledge. We cover financial analysis of different business models, specific situations (e.g., cyclicals, young growth companies, closely-held firms) as well as the analysis and valuation of foreign companies (e.g., emerging markets, reporting under IFRS). Capital markets have become increasingly global, providing more opportunities for corporate investments and M&A abroad. Evaluating these global investments, however, poses unique challenges for financial analysis as well as valuation problems.

This course is likely useful for students who aim for careers in consulting, investment banking, investment management, equity or credit analysis, transaction services, private equity and venture capital, as well as corporate finance, including M&A functions. It is a capstone class, drawing on other classes at Booth.

Further Content Highlights

- Advanced financial analysis and valuation topics, more in-depth or technical than Business 30130
- Fundamental analysis of different businesses using financial statements
 - Key value drivers and metrics for these business models
 - Value-driver modelling
 - Key valuation challenges for various industries or specific situations
- Heavy emphasis on forecasting financials for various business models
- Analyzing and valuing banks
- Typical accounting shenanigans for various industries or business models
- Evaluating global investments (e.g., M&A): What changes in the valuation process?
 - Assessing international risks and international cost of capital
- Global reporting issues and their connection to valuation
 - Assessing reporting and disclosure quality internationally
 - Information problems when investing abroad (e.g., M&A), especially in emerging markets
- Reporting and valuation issues for closely-held, family and private firms, which play an important role in most countries (including the U.S.)

Prerequisites

There are no strict prerequisites for this class, so each student decides. However, I highly recommend that you have a basic familiarity with corporate valuation and DCF analysis (e.g., from a prior job or a corporate finance class). I would recommend that you have taken investments and corporate finance before taking my class. Additionally, you should have solid accounting knowledge, such as Business 30000 or equivalent. You are not required to take Business 30116 but deeper accounting knowledge clearly helps in analyzing financial statements and building valuation models.

You do not need to take Business 30130 first. In fact, there is (conceptual) overlap between Business 30130 and this class, though this class is more advanced and covers different topics and cases.

To help you decide whether you are prepared for my class, we have created a valuation tutorial with a test exercise. I highly recommend that you work through the tutorial and complete the exercise, especially if you are unsure whether you have enough prior knowledge. The tutorial might also be a good refresher prior to the first class. It covers ratio analysis and the DCF model. You can access the pre-enrollment tutorial:

<https://canvas.uchicago.edu/enroll/34EGE3>

This class is demanding and potentially overwhelming if you are not prepared to dedicate significant amounts of time and energy. Students should expect 8-10 hours of work per week outside of class for reading, preparation, and cases.

Textbook and Required Materials

- *Valuation: Measuring and Managing the Value of Companies*, by Tim Koller, Marc Goedhart and David Wessels, **Seventh Ed.**, University Edition, McKinsey and Co., 2020.
- Readings and case materials posted on Canvas (see Modules and Library Reserves)

Grading

This class cannot be taken pass/fail, and it cannot be officially audited. The course grade will be based on the following components:

1. Class Participation (15%):

Class participation is three-fold: Attending classes, being an active participant, and watching the pre-recorded videos. I will take attendance. If you miss a class, it will negatively affect your participation grade. There will be other opportunities to earn participation points, such as attending the guest lecture.

2. Homework Assignments (50%):

There is a case each week, except for the first week. Four cases are graded in detail (10% each). All assignments have to be submitted (via Canvas). Those four cases not graded in detail count for 2.5% each. I will announce which ones are graded in detail and earn 10% on Canvas. Assignments are due at the beginning of the respective class section each week. More details, including whether an assignment can be completed as a team, are provided on Canvas. If you anticipate missing a class, you still have to turn in the assignment before your class section via Canvas. Please do not email your assignment.

3. Final Project (35%):

The final project requires analyzing and valuing an actual company (in lieu of an exam). This project should be performed in teams of up to five students. More information on the final project will be posted on Canvas during the quarter.

Class Policies, Standards and Expectations – Please read carefully

Canvas and communication: I use Canvas to post materials and update you on the class. You should expect at least one or two emails via Canvas per week. Set your notifications on Canvas such that you see when new material is posted. For communicating with me, please use email rather than Canvas.

Preparation: Students are expected to read the assigned materials, work on the weekly case, and watch the pre-class video to prepare for class. Generally, my lectures will not cover all the assigned issues or go over the assignments in full detail. Instead, I want to use class time to discuss core issues and to highlight important takeaways. Thus, preparation is key to your success in this class.

Pre-class videos: Although the class is held in person, in most weeks I expect you to watch a pre-recording in preparation for class. Please watch these videos in their entirety.

Week 1 attendance and classes: You are expected to attend Week 1 classes, even if your registration for the course is still pending or you are on the waitlist.

Classroom conduct and electronics policy: Arrive on time, be ready to begin, and minimize disruptions throughout the session. To facilitate a sense of a personalized classroom community, display a name tent, turn your phone silent and put it away. Do not use your laptop, tablet or iPad unless explicitly permitted or instructed to do so. Surfing the web, being on social media or checking email during class is distracting to you, me and your fellow students. It may result in a reduction of your participation grade. Respect the classroom as an inclusive learning environment where diverse points of view and experiences can be shared to facilitate everyone's learning.

Class participation: It is my intention to make the class as interactive and engaging as possible. Therefore, class participation is an important part of the grade. Participation can take several forms, including extra credit opportunities that I will announce. Asking a pertinent question can add meaningfully to the class. Attending class is part of your class participation score, but it will get you only so far.

Missing a class: I take attendance for each class. If you miss a class, it hurts your participation grade unless the absence is due to illness or a family emergency. Recruiting events or personal conflicts do not count as an excuse. You can attend another section. To be excused from class, email my assistant John Jones with BUSN30131 or BUSN20180 in the subject line and provide some form of documentation (e.g., a doctor's note); if sensitive, please email AcademicServices@lists.chicagobooth.edu.

Attending other sections: As a general rule, you should attend the section for which you are registered. However, to give you some flexibility with respect to recruiting, family- or work-related conflicts, you are allowed to attend other sections in the same week on a limited basis.

Forming teams: You should self-form teams on Canvas (under People) as soon as possible. Your team should have 4 or 5 members. If you have only 3 members, we reserve the right to assign additional students to your team. If Canvas does not show you as assigned to a team by March 24, we will assign you randomly to a team. If a team consists of only 2 members (by March 24), we will merge you with another team.

Grading of team participation: To encourage full participation by all team members and to prevent free-riding, each of you will be asked to submit a performance evaluation for each member of your team. These evaluations will influence your grade for the homework assignments and the final valuation project, i.e., all group assignments.

Extra classes and guest speaker: We will have one guest speaker for the quarter. This extra class is outside the regular class time (see outline below). Attendance is voluntary but you earn extra participation credit by attending. The sessions will be recorded if the guest speaker agrees to it (but for credit you have to be in the live session).

Re-grade policy: You may disagree with my grading of an assignment or the final project. Grading disputes must be appealed within one calendar week following the return of the assignment or the project (unless otherwise noted). To have the assignment or project re-graded, you must submit the original assignment

or project (without modifications) and a written description of your contention. I reserve the right to review the entire assignment or project; thus your grade could go up or down. For team assignments, every member of the team must agree to the re-grade request.

Provisional grades: I do not provide provisional grades because much of the grade is determined late in the quarter.

Honor code: In my class, students are required to adhere to the standards of conduct in the Chicago Booth Honor Code and the Standards of Scholarship (see the Student Handbook for more information). It is a violation of the honor code if a student obtains solutions or reviews class notes on case discussions and assignments from prior years, other sections of this course, the internet, or any other source (e.g., by talking to students who have been exposed to the solution). I also require students to sign the following pledge on all graded assignments and projects: "I pledge my honor that I have not violated the Chicago Booth Honor Code during this examination."

AI policy: It is important that you discover and practice the skills and knowledge developed in this course on your own. As AI tools inhibit the development of these skills and knowledge, students are not allowed to use AI tools such as ChatGPT in this course. If you are unclear if something is an AI tool, please check with me. Using AI tools for any purposes in this course violates the Honor Code.

Appreciation for diversity: The University of Chicago believes that a culture of rigorous inquiry demands an environment where diverse perspectives, experiences, individuals, and ideas inform intellectual exchange and engagement. I concur with that commitment and expect to maintain a productive learning environment based upon open communication, mutual respect, and non-discrimination. Any suggestions as to how to further such a positive and open environment in this class will be appreciated and given serious consideration.

Student accommodations: The University of Chicago is committed to ensuring the full participation of all students in its programs. If you have a documented disability (or think you may have a disability) and, as a result, need a reasonable accommodation to participate in class, complete course requirements, or benefit from the University's programs or services, please contact Student Disability Services as soon as possible. To receive a reasonable accommodation, you must be appropriately registered with Student Disability Services (contact at 773-702-6000/TTY 773-795-1186 or disabilities@uchicago.edu, or visit the website at disabilities.uchicago.edu). If you have an approved accommodation from Student Disability Services that you plan to use, please contact Academic Services as soon as possible via Accommodations@chicagobooth.edu. Academic Services will provide support and coordinate the details of your accommodations on your behalf.

Distribution of class materials and recording: The information contained in this and all other class documents (e.g., slides) is confidential, privileged and only for the information of the intended recipient and may not be used, published or redistributed without my prior written consent. In particular, you are prohibited from recording this class on any of your devices. I consider a recording of my class a violation of Booth's Honor Code. See the Syllabus tab on Canvas for details on the recording policy.

Changes to class policies: I reserve the right to change the class policies on short notice. I will do so to improve the quality of the class and the experience for all students. I am open to feedback and suggestions from you. My primary yardstick will be fairness to all.

Business 30131/20180 – Course Outline (Spring 2025)

Below is a tentative schedule of the topics and assignments to be covered for each week. Required readings (other than those from the Koller et al. book) are accessible through Canvas by week (click Modules or Library Reserves in Canvas). There will be additional readings in a separate folder; they are suggested only.

Week 1 (Mar 27): Review of Basics and the Core of Valuation

Topics: Core issues in valuation; Role of business model; Moats and mean reversion;
Why perform fundamental analysis?

Readings:

Sloan, “Fundamental Analysis Redux”, *Accounting Review*, 2019 (Canvas)
Koller et al., Chapter 3: Fundamental Principles of Value Creation (Book)
Koller et al., Chapter 7: The Stock Market is Smarter Than You Think (Book)
Koller et al., Chapter 18: Using Multiples (Book)
Leuz, “We need smarter regulation, not more”, *Forbes*, 2/9/2009 (Canvas)

Week 2 (Apr 3): Fundamentals of Forecasting (using Retail)

Topics: Industry analysis, moats and key value drivers; Forecasting process; Detailed forecasting;
Forecasting mistakes; Retail and revenue shenanigans

Case: Dollar General Going Private

Readings:

Brilliant and Collins, Chapter 10: Consumer (Canvas)
Brilliant and Collins, Chapter 2: What Makes a Moat (Canvas)
Brilliant and Collins, Chapter 3: Why Moat Trends Matter (Canvas – Skim only)

Week 3 (Apr 10): Cyclical Companies (and Advanced Forecasting)

Topics: Forecasting for cyclical companies; Estimating terminal values; Trend-oriented shenanigans

Case: Westlake Chemical

Readings:

Koller et al., Chapter 37: Cyclical Companies (Book)
Koller et al., Chapter 14: Estimating Continuing Value (Book)

Week 4 (Apr 17): Valuing Young and High-Growth Companies

Topics: Advanced forecasting: how do deal with rapid growth; How to treat stock compensation;
Revenue shenanigans

Case: Netflix

Readings:

Koller et al., Chapter 36: Valuing High-Growth Companies (Book)
Koller et al., Chapter 16: Only section “Employee Stock Options” (Book)
Damodaran, Chapter 10: pp. 323-343 (Canvas)

Week 5 (Apr 24): Pharmaceuticals and Intangibles in Valuation

Topics: Moats in pharma; Intangibles and goodwill in financial analysis; Capitalizing intangible investments; Intangibles and terminal value; How to treat future M&A

Case: Medfield Pharmaceuticals

Readings:

Brilliant and Collins, Chapter 13: Healthcare (Canvas)

Koller et al., Chapter 24: Measuring Performance in Capital-Light Businesses (Book)

Week 6 (May 1): Bank Analysis and Valuation

Topics: Bank business model; Moats in banking; Key value drivers; Flow-to-equity models; Accounting-based models; Shenanigans in bank accounting

Case: Citigroup, Blackstone, and the Sale of a Loan Portfolio

Readings:

Damodaran, Chapter 14 (Canvas – see my notes on Canvas)

Koller et al., Chapter 38 (Book – see my notes on Canvas)

Guest Speaker: Florian Amann (Goldman Sachs, Investment Banking Division-Financial Institutions Group), May TBD, 11:45am to 1:15pm (Harper Center XX)
 (Lecture is outside normal class time and voluntary; counts for extra credit)

Week 7 (May 8): Closely-held, Family & Private Firms: Analysis and Valuation

Topics: Cash flow and cost of capital adjustments for private companies; Insider control, corporate governance and reporting quality

Case: Kohler Co.

Readings:

Damodaran, Valuing Private Firms (Canvas)

Economist, Family capitalism: Our company right or wrong (Canvas)

McKinsey, The family-business factor in emerging markets (Canvas)

Week 8 (May 15): Bringing International Risks into the Valuation Process

Topics: Importance and risks of international investments and how to capture them; Valuation process for international investments; International cost of capital differences; Adjusting cash flows vs. discount factors

Case: Dow Chemical's Bid for the Privatization of PBB in Argentina

Readings:

Koller et al., Chapter 27: Cross-Border Valuation (Book)

Koller et al., Chapter 35: Emerging Markets (Book)

Jacobs and Shivdasani, Do you know your cost of capital? HBR (Canvas)

Morgan Stanley, Three approaches to calculating the cost of equity (Canvas)

Week 9 (May 22): Information Risks & Accounting Differences; New Business Models

Topics: Major IFRS and U.S. GAAP differences; What drives reporting differences; Information risks; Accounting differences and valuation; New business models and approaches to valuation

Case: Capitalization of Cost at Salesforce

Readings:

Sherman and Young, Where Financial Reporting Still Falls Short, HBR (Canvas)
Damodaran, The Value of Transparency (Canvas)

This syllabus is preliminary. The timing of topics, readings and assignments are subject to change. Changes are made at my discretion but intended to optimize the quality and flow of the content.