

Prof. Dr. Korbinian Eichner

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## **Applied Corporate Valuation (GMT6215)**

### **Syllabus**

#### **Winter Term 2020/21**

<b>Time:</b>	Wednesdays, 03:30 pm – 06:45 pm (8 weeks)
<b>Room:</b>	please check LSF for details
<b>Begin:</b>	07.10.2010
<b>ECTS-Credits:</b>	3
<b>Level:</b>	Advanced
<b>Prerequisites:</b>	Basic knowledge in accounting and finance
<b>Accessibility:</b>	<ul style="list-style-type: none"> <li>- Elective for 3<sup>rd</sup> semester MBA-IM students</li> <li>- open to international guest students on MBA-level</li> <li>- open to other HS PF graduate students</li> </ul>

#### **Learning objectives:**

Determining the value of a firm or a firm's securities together with understanding relevant value drivers represent essential capabilities of key decision makers in firms. Therefore, the course "Applied Corporate Valuation" focusses on this essential functional capability to provide students with the know-how of mastering valuations in a business setting.

Generally, the objective of this course is to develop the intuition, tools and skill set to value companies and their outstanding securities. The principal focus will be on the valuation of equity in public and private corporations. A strong emphasis will be placed on the application of these concepts in real-world situations.

The class discussions will cover the analysis of past financial performance and the projections of future performance. We will examine the estimation of cash flows and discount rates in the treatment of discounted cash flow valuation models, followed by the analysis of the application of various enterprise and equity value multiples (such as EV/EBITDA, EV/EBIT, P/B, P/E). We will also examine a number of additional valuation issues within the context of mergers and acquisitions, leveraged buyouts, and other special situations.

As this course builds upon skills developed in previous finance and accounting courses, students should be familiar in the areas of financial statement analysis and capital budgeting. In addition, they should be familiar with introductory concepts in statistics. Important concepts, however, will be revisited in class. This course is designed for students with little or no previous work experience in valuation.

## Course contributions to the MBA program goals / learning outcomes

Goal	Learning Objectives	Course Contributions to Goal	Assessment
<b>1 Responsible leadership in organizational contexts</b>	1.1 Knowledge of leadership principles 1.2 Application of leadership principles 1.3 Critical reflection of leadership concepts	<ul style="list-style-type: none"> <li>Understand key value drivers of firms</li> <li>Understand the relevance of shareholder value orientation for firms</li> <li>Understand the relevance of communicating credible valuation relevant information to capital markets/investors</li> </ul>	<ul style="list-style-type: none"> <li>Discussion within classes</li> <li>Valuation project on a selected company</li> </ul>
<b>2 Creative problem solving skills in a complex business environment</b>	2.1 Ability to identify, differentiate and classify problems 2.2 Ability to analyze problems (instrumental competence) 2.3 Ability to find creative solutions (systemic competence) 2.4 Ability to present problems (communicative competence)	<ul style="list-style-type: none"> <li>Understand past and future financial performance of firms</li> <li>Understand how to derive relevant hurdle rates in valuation</li> <li>Understand how uncertainty is reflected in corporate valuations</li> <li>Understand the determinants of trading and transaction multiples</li> <li>Understand how to make reasonable assumptions in valuations</li> <li>Understand the content and structure of valuation reports</li> </ul>	<ul style="list-style-type: none"> <li>Discussion within classes</li> <li>Exercises within classes</li> <li>Valuation project on a selected company</li> </ul>
<b>3 Research skills</b>	3.1 Methodological knowledge (extending knowledge) 3.2 Competence in applying relevant state of the art research methods (instrumental competence) 3.3 Ability to collect innovative results by using relevant research methods (systemic competence)	<ul style="list-style-type: none"> <li>Know where to source from publicly available financial data, required for benchmarking performance and for valuation</li> <li>Review fundamental descriptive statistic of data sets</li> </ul>	<ul style="list-style-type: none"> <li>Discussion within classes</li> <li>Exercises within classes</li> <li>Valuation project on a selected company</li> </ul>
<b>4 Management of Innovation</b>	4.1 Fundamental knowledge of operational innovation processes 4.2 Ability to assess a company's innovation potential 4.3 Ability to develop complex technological strategies	<ul style="list-style-type: none"> <li>Understand the relationship between innovation and firm value</li> <li>Understand how to measure innovation capabilities of firms</li> </ul>	<ul style="list-style-type: none"> <li>Discussion within classes</li> <li>Exercises within classes</li> <li>Valuation project on a selected company</li> </ul>
<b>5 Management of the challenges of global sustainability and awareness for social and corporate responsibilities</b>	5.1 Fundamental knowledge of sustainability issues 5.2 Ability to identify and analyze sustainability issues and its causes 5.3 Development of sustainability strategies	<ul style="list-style-type: none"> <li>Understand the relevance of communicating credible valuation relevant information to capital markets/investors</li> <li>Understand how long-term oriented sustainable business strategies influence firm value</li> <li>Understand the relevance of stakeholder support for firm value maximization</li> </ul>	<ul style="list-style-type: none"> <li>Discussion within classes</li> <li>Exercises within classes</li> <li>Valuation project on a selected company</li> </ul>

## **Main course topics:**

1. Course introduction
2. Overview on relevant valuation approaches
3. Discounted cash flow approaches
  - Cost of capital
  - Relevant cash flows
  - Free cash flow to the firm
  - Free cash flow to equity
4. Relative valuation approaches
  - Trading multiples and their determinants
  - Transaction multiples and takeover premiums
5. Asset based valuation approaches
6. Special topics in valuation

## **Basic outline and organization:**

The course consists of two main elements:

(1) ***Interactive lectures with discussion:***

The first part of the course focusses on the principles of corporate valuation. This is accomplished primarily by a lecture-style approach including class discussions and exercises. Preparation based upon suggested basic readings and continuing active class participation throughout the term is expected. The slides and additional materials for each session will be uploaded to the e-learning platform. The lectures cover the main course topics as outlined above.

(2) ***Preparation of a valuation report on a company to be chosen by the students:***

Based upon the knowledge acquired in the first part of the course, students have to value a public firm of their choice to come up with an equity value of the same. This should be done by the application of an income-based and relative valuation model. Students are encouraged to give a buy-, hold- or sell-recommendation based on their results in a 5-page summary document.

**Grading:**

The grade for the course “Applied Corporate Valuation” is based upon:

a valuation project on a company to be chosen by the students  
[individual assignment] (100%).

The valuation project consists of (i) a valuation model in Microsoft Excel and (ii) a 5-page valuation report (handed in as pdf at the end of the semester). The valuation report should be structured in the following sections:

- 1) Executive summary
- 2) Business plan
- 3) Valuation: Income approach
- 4) Valuation: Market approach
- 5) Investment recommendation

**Course Material:***Basic Reading:*

*Damodaran, A., Investment Valuation: Tools and Techniques for Determining the Value of any Asset, 3rd edition, John Wiley & Sons, 2012.*

*Additional Readings:*

*Koller, T., Goedhart, M., Wessels, D., Valuation, Measuring and Managing the Value of Companies, 6<sup>th</sup> edition, John Wiley & Sons, 2015.*

*Rosenbaum, J., Pearl, J., Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions, 2<sup>nd</sup> edition, John Wiley & Sons, 2013.*

**Availability of the lecturer:**

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