SAMUEL CURTIS JOHNSON GRADUATE SCHOOL OF MANAGEMENT  
CORNELL UNIVERSITY  

NBA 6560 Valuation Principles, Spring 2014  
Syllabus

Instructor: Professor Hyunseob Kim

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Email: hyunseob.kim@cornell.edu  
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Office hours: 4:10-5:10 p.m. on Tuesday and Wednesday, or by appointment (via email)

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Office: Sage 304

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Final Review Sessions: TBA  
TA Office Hours: Please email the TA to set up an appointment.

Class Location: Sage B01

Class Time:  
Section 3: 1:25-2:40 p.m. on Tuesday and Thursday  
Section 4: 2:55-4:10 p.m. on Tuesday and Thursday

Course Website: Blackboard

COURSE OVERVIEW

This course provides the fundamental concepts and tools to value firms and assets using an economic framework. It begins with an overview of three approaches to valuation: 1) discounted cash flow (DCF); 2) valuation by multiples using comparable firms; 3) and real-options. We will first build key concepts to determine free cash flows (FCF) using relatively simple models, and then move to more detailed models. We will also discuss the cost of capital, Economic Value Added (EVA), valuation by multiples in relation with the DCF approach, and the real-options approach to value assets. Both conceptual understanding and practical implementations will be emphasized.

COURSE MATERIALS

Lecture notes: This is the primary course material. I will distribute copies of lecture notes in class and post them on Blackboard after each class.

- This is an excellent reference for those who will pursue a career in corporate finance, management consulting, and investment banking among others. You can find relevant chapters of the book in the course outline. Copies of the book are also available on the course reserve at Johnson Management Library.

Additional readings: Please feel free to ask me if you would like to have additional readings on particular topics. I will point you toward the right direction.

**GRADING**

The Johnson School faculty has adopted a suggested grade average of 3.5 for elective courses. This course will follow that guideline. Requirements for credit in NBA 6560 include two mini case solutions, four in-class problem sets, a final exam, and a valuation project (by group). I will also take individual class participation into account in final grades:

- Mini case solutions: 10% each × 2 = 20%
- In-class problem sets: 1% × 4 = 4%
- Valuation project (group-based): 26%
- Final exam: 40%
- Class participation: 10%

**Mini Case Solutions**

I will assign two mini valuation cases which require comprehensive understanding of the valuation methods we learn at that point. This is an individual assignment, and you are required to submit your own case solution at the beginning of class and be prepared to solve the problems in class. Then, I will randomly call students to present their solutions, which will serve as a basis for subsequent class discussion. Each case solution constitutes 10% towards the final grade (i.e., 20% in total).

**Valuation Project**

I will assign a valuation project which you will complete in a group of up to five (5) students. I strongly encourage you to form teams as soon as possible and to begin working on the project well before the due date. The project will require comprehensive understanding of valuation approaches covered in the entire course. I will talk more about the project as we go along (e.g., target firm, deliverables). The focus of grading will be on solid application of the “mechanics” of valuation learned in the course, but I will also give credits for projects that demonstrate “creative” analysis and valuation pitch. The project is due by 5:00 p.m. on May 8 (Thursday) on Blackboard.

**Final Exam**

The final exam will be on May 13 (Tuesday), 9 to 11:30 a.m. and cover all materials of the entire course. You can bring a formula sheet (8.5 x 11; two sided) and a calculator to the exam.

I do not allow taking the exam outside of the scheduled exam time. The only exceptions are (1) a documented medical emergency, (2) an emergency related to an immediate family member, and (3) a conflict with another exam. In the event of (3), the student should inform me of the conflict immediately and no later than by 3/27.

**Class Participation**
Class participation is an important component of this course. It will significantly help your and your fellow students’ understanding of the material. Of course, quality of comments, as well as quantity, will be weighted. The best way to maximize your class participation grade is by volunteering insights or questions that are helpful to class discussion. I may also cold call on students, but class participation is ultimately your responsibility.

**In-class Problem Sets**

To help your understanding of concepts and techniques, we will solve short in-class “problem sets” individually. You will need to turn in the problem sets which will be graded on a pass/fail basis. A “pass” will be awarded if the response indicates a reasonable grasp of the relevant material, and a fail awarded otherwise, or if you are absent for the problem set. After working on the problems individually, we will solve/discuss them as a class. **Your lowest in-class problem set score will be dropped.** And each of the top four problem sets constitutes 1% towards the final grade (i.e., 4% in total).

**Optional) Practice Problem Sets**

I will post optional problem sets on the course website. You are not expected to submit these problem sets, and I will not grade them. This is for your own understanding of the materials and preparation for the final exam. Hence, while I will also post solutions to these problem sets, it is critical that you work on the problems independently (without looking at the solutions and asking TAs or colleagues).

**CLASS POLICIES**

- **Promptness.** To minimize disruptions, please do not come late or leave early, which disturbs the flow of the class and the concentration of your fellow students.
- **Sections:** Please make every effort to come to your assigned section. Only if you have a legitimate conflict or emergency (e.g., family or health-related emergency), you may attend the other section. But even in those cases, you should email me about your circumstances ahead of time to the extent possible.
- **Name cards:** Please use name cards at each class. If you forget to bring your name card to class, please create a temporary one to use that day.
- **Laptops and smartphones:** Johnson has a strict no-laptop policy. To encourage an active and engaging environment, please do not use cellphones, smartphones, laptops, etc. in class.
- **Grades:** As with all grades at Cornell, I am not allowed to release your grades other than in a secure manner. For example, I cannot give out grades to students via email.
- **Re-grading:** If you believe an error has been made in grading your exams or project, you may request a re-grade in the following way:
  i. Write a brief note to me (by email) explaining why you think there is an error. I may ask you to re-submit the assignment.
  ii. All re-grade requests must occur within seven (7) calendar days of the day graded material is returned to the class or the final course grade is posted.
  iii. I reserve the right to re-grade the entire contents of any submitted work. Your grade may go up or down.

**ACADEMIC INTEGRITY**

You may not use the notes or materials (including conversations) from other students who may have prepared the assigned materials in this or any other class. Use of such sources is considered a violation of the Cornell University Code of Academic Integrity.$^1$ You may also not distribute exams, problem sets, or

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1 [http://cuinfo.cornell.edu/Academic/AIC.html](http://cuinfo.cornell.edu/Academic/AIC.html)
final projects used in this class to any other student who might take the course in the future. If there is any
doubt regarding how the code of academic integrity applies to any aspect of this course, please contact me.
# COURSE OUTLINE, READINGS, AND ASSIGNMENTS
(The outline may change slightly as the course progresses. Please check course website for updates.)

<table>
<thead>
<tr>
<th>Class # (Date)</th>
<th>Topics</th>
<th>Assignments</th>
<th>Optional Readings</th>
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<tbody>
<tr>
<td>1 (3/18, Tue)</td>
<td>• Introduction to course and valuation</td>
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<td>Ch. 15 and 17 (skim)</td>
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| 2 (3/20, Thr) | • DCF valuation  
  o Complete valuation of a simple company | | Ch. 7, pp.131-156 |
| 3 (3/25, Tue) | • DCF valuation  
  o Firm vs. equity valuation  
  o Computing free cash flows using financial statements | In-class PS #1 | Ch. 7, pp.131-156 |
| 4 (3/27, Thr) | • DCF valuation  
  o Valuation of non-operating assets | In-class PS #2 | Ch. 7, pp.131-156 |
| (4/1 & 4/3) | | | SPRING BREAK |
| 5 (4/8, Tue) | • Cost of capital  
  o WACC  
  o Cost of equity | | Ch. 11 |
| 6 (4/10, Thr) | • Cost of capital  
  o Cost of equity (wrap up)  
  o Cost of debt | In-class PS #3 | Ch. 11 |
| 7 (4/15, Tue) | • Cost of capital  
  o Alternative asset pricing models  
  o Cost of capital in international contexts | Mini Case #1 | Ch. 11  
Ch. 33, pp. 703-712 |
| 8 (4/17, Thr) | • Projecting free cash flows using pro-forma financial statements | | Ch. 9 |
| 9 (4/22, Tue) | • Implementing DCF model using economic value drivers  
  • EVA®-based valuation | In-class PS #4 | Ch. 2, pp. 37-41  
Ch. 6, pp. 115-119  
Ch. 10, pp.211-221 |
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<tr>
<td>10 (4/24, Thr)</td>
<td>Relative valuation using multiples</td>
<td>Ch. 14</td>
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| 11 (4/29, Tue)| Additional topics in DCF valuation                                   | **Mini Case #2**                     | Ch. 25, pp.536-541
|              |                                                                     |                                      | Ch. 27, pp.559-569 |
| 12 (5/1, Thr)| Real options - basics                                               | **In-class PS #5**                   | Ch. 32                     |
| 13 (5/6, Tue)| Real options – applications/case                                     |                                      | Ch. 32                     |
| 5/8 (Thr, 5:00 p.m.) | Valuation project due                                      |                                      |                                |
| 5/13 (Tue, 9-11:30 a.m.) | FINAL EXAM (Room B01 & B10)                                |                                      |                                |