

Title & credits:	Valuation (3 CRED) Master
Program:	MUIMF
Professor/a:	D. José Ignacio Morales- Óscar Aguado Tébar
Course:	1
Quarter:	

1.- GENERAL DESCRIPTION OF THE COURSE AND GOALS OF THE SUBJECT: When finished this subject, the student must be able to value any given company, publicly traded or privately owned, regardless of its size, recent financial performance or the number of business divisions. In order to fulfil this goal, the student will understand in depth the discounting of cash flows, free cash flows, dividends, cash flows to debt and cash flows to shareholders. The student will be able as well to perform a valuation using peer company ratios. The student will be able to identify the sources of value creation in a company in a well-reasoned way and will be able to identify the key levers in the valuation of the corporation. In order to do that, the student will be able to create complex financial models as the basis for any given exercise of sensitivity or simulation in corporate finance.

2.- EVALUATION CRITERIA:

- Exams will last max. 2hrs.
- The exam will contain 15 questions (“multiple choice”) and 40% of the final grade will come from this. There will be two “open questions” that will account for 60% of the final grade. One open question will be about financial modelling and the second one will be on valuation techniques.
- Multiple choice questions will have 4 possible answers and only one will be correct. Wrong answers will be deducted from the grade.
- The “open questions” will be equally considered as per the final grade (30% each).
- It is mandatory for this subject to get a “pass” grade to obtain at least a 5 out of 10 grades in the final exam. Below that threshold, the student will not qualify for this subject. The first open question (financial modelling) needs to be balanced in order to pass this subject.

DETAILED PROGRAM OF THE SUBJECT  
VALUATION

# Session	Content of each Session
Session I & II	Introduction to the theory of Valuation. The student will get familiar with the techniques of financial modelling as the first step in a valuation. Learning how to make a financial model: Vidal e Hijos business case.

	<ul style="list-style-type: none"> <li>□ Projection of the Profit &amp; Loss Account</li> <li>□ Projection of the BalanceSheet</li> <li>□ Projection of the Cash Flow Statement</li> </ul> <p>The target of this case is to introduce the student into the sequential steps of building a financial model. This first case will be also used to start from a homogeneous basis of knowledge around accounting, financial modelling and valuation.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to make financial models.</li> <li>□ Power point presentation on how to build financial models.</li> <li>□ Business Case (Excel). Vidal e Hijos.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session III &amp; IV</p>	<p>Business Case II. This business case is designed to consolidate the financial knowledge displayed in the previous case. We will apply the financial modelling techniques to a real-life business case of a company well known by students so that they can start making hypothesis and assumptions following professional standards.</p> <p>The goal at the end of the session will be to finish a financial model fully balanced and using the cash coming from the cash flow statement to close the balance sheet. We will be highlighting the use of the financial models as a tool to diagnosis and simulate uncertain situations for companies.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to make financial models.</li> <li>□ Business Case (Excel). Business Case II.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session V &amp; VI</p>	<p>Business Case III. At this point in time, the student must be familiar enough to develop a business model autonomously and without consulting the previous cases. The output of this case will be a fully balanced business model and the profile of cash generated for all coming years.</p> <p>The solution provided must provide the financial information needed for the execution of the different methods of valuation: discounted cash flows and peer-</p>

	<p>based valuations.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to make financial models.</li> <li>□ Business Case (Excel). Business Case III.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session VII &amp; VIII</p>	<p>Business Case IV. Starting with the historical data of past financial statements, the student will be able to develop a model and generated future information around EBITDA, EBIT and free cash flow for the projected years.</p> <p>As soon as we keep on practicing with the modelling, we will start introducing the industry specifics. We will identify how the features of each industry will affect and modify the way we build the model and the type of hypotheses and assumptions we make in each case.</p> <p>The industry specifics will not only affect the financial modelling, but the assumptions of the valuation methods as well, in a way, that the only mean to arrive to a professional valuation is to become first an industry expert.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to make financial models.</li> <li>□ Business Case (Excel). Business Case IV.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session IX &amp; X</p>	<p>Business Case V. This will be the last Business Case in which we will practice and fine-tune the skill of financial modelling as per valuation. Again, we will choose a publicly traded company well known by the student, so that the quality of the assumptions is improved. The final output of this Business Case is a full business model with a detailed cash profile for each year of the projections.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to make financial models.</li> <li>□ Business Case (Excel). Business Case V.XLS</li> </ul> <p>Resources needed:</p>

	<ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session XI &amp; XII</p>	<p>In this Session, we will introduce the theory on company valuation.</p> <ul style="list-style-type: none"> <li>□ Discount of free cashflows</li> <li>□ Discount of dividends</li> <li>□ Peer based valuation</li> </ul> <p>We will analyse systematically the process of picking up the data we developed in the financial model and use it as the raw material for the valuation of the company.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to value a company.</li> <li>□ Presentation on Company Valuation</li> <li>□ Business Case (Excel). Business Case VI.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session XIII &amp; XIV</p>	<p>This Session will be devoted to developing fully a Business Case for valuation starting from scratch and with the only information available of historical financial data.</p> <p>In this case, the first step will be to make the projections on the three financial statements. Once this task is completed, the three methods of valuation will be deployed. We will analyse in depth the assumptions required for a discounting of free cash flows, the discounting of dividends and the peer-based valuation.</p> <p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Technical Note on how to value a company.</li> <li>□ Business Case (Excel). Business Case VII.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
<p>Session XV</p>	<p>In this session, we will make a mock exam to measure the knowledge acquired by the students and to confront it with a mock exam. The final exam will consist of another business case, very similar to the ones we developed in sessions XI to XVIII.</p>

	<p>Technical material to be used in the session:</p> <ul style="list-style-type: none"> <li>□ Business Case (Excel). MOCK EXAM.XLS</li> </ul> <p>Resources needed:</p> <ul style="list-style-type: none"> <li>□ It is mandatory to come to class with your own computer since the cases will be done through excel spreadsheets.</li> </ul>
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Basic Bibliography	<ul style="list-style-type: none"> <li>□ Principles of Corporate Finance by Richard A Brealey, Stewart C Myers. 9th edition 2008, Franklin Allen McGraw-Hill Higher Education.</li> <li>□ Análisis y Valoración Sectorial. Morales Plaza, José I. &amp; Martínez Olcoz, Javier. Editorial Ariel. 2006.</li> </ul>
Additional Bibliography	<ul style="list-style-type: none"> <li>□ Valuation: Measuring and managing the value of companies by Tim Koller, Jack Murrin and Tom Copeland. 3rd Edition 2000, John Wiley &amp; Sons.</li> <li>□ Corporate Finance by Stephen A. Ross, Randolph W Westerfield and Jeffrey Jaffee. 6th Edition 2002, Irwin/McGraw-Hill.</li> </ul>
Additional Readings	Provided upon request on several different matters of interest for the students
Professor Email	<a href="mailto:jimoralesplaza@cunef.edu">jimoralesplaza@cunef.edu</a> <a href="mailto:oscar.aguado@cunef.edu">oscar.aguado@cunef.edu</a>