APPLIED VALUATION AND SECURITIES ANALYSIS (AC315)

**Course duration:** 54 hours lecture and class time (Over three weeks)

**LSE Teaching Department:** Department of Accounting

**Lead Faculty:** Dr Vasiliki Athanasakou (Department of Accounting OLD2.20) and Dr Pascal Frantz (Department of Accounting OLD3.07)

**Pre-requisites:** Introductory accounting (including basic financial analysis) and finance.

**Course Aims and Learning Outcomes:**
In the first part, this applied equity research course adopts a case-study approach to value stocks and companies using financial statements. Special attention will be dedicated to initial public offerings (IPO) and to valuing young, fast-growing companies with few clear comparables. In the second part, the course helps students to develop an in-depth understanding of specific fundamental analysis topics and their implications for valuation. It also builds on the basics of financial modelling using excel in order to help students create their own valuation templates.

The course includes a valuation-based IPO game in which students working in small groups are competing to advise on an IPO offering.

Contents covered in this course include the following ones:

- Applied valuation with special emphasis on key events such as initial public offerings and young and fast-growing companies:
  - Valuation methods;
  - Valuation application using Excel;
  - Performance analysis and implications for valuation;
  - Quality of financial statements and implications for valuation
  - Common errors in company valuations;
  - Analysis of growth and sustainable earnings
  - Relative valuation
  - Analysis of equity risk

This course should hence appeal to students interested in equity research, corporate finance, asset management, and strategy consulting.
Core Textbook:

“Valuation and Security Analysis”, by Beccalli and Frantz (2013). [online]

This course also relies on case-studies, financial data, and journal articles.

Teaching Arrangements:
Teaching arrangements consist of both lectures and classes.

Schedule of Lectures and Classes (Provisional for 2017):

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<th>Week 1</th>
<th>Morning</th>
<th>Afternoon</th>
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<tr>
<td>Monday 1st August</td>
<td>Class 2</td>
<td>Lecture 3</td>
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<td>Tuesday 2nd August</td>
<td>Class 3</td>
<td>Lecture 4</td>
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<td>Wednesday 3rd August</td>
<td>Class 4</td>
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<td>Thursday 4th August</td>
<td>Class 5</td>
<td>Lecture 6</td>
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<td>Friday 5th August</td>
<td>Class 6</td>
<td>No lecture</td>
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<tr>
<th>Week 2</th>
<th>Morning</th>
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<tr>
<td>Monday 8th August</td>
<td>Class 7</td>
<td>Lecture 8</td>
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<td>Tuesday 9th August</td>
<td>Class 8</td>
<td>Lecture 9</td>
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<td>Wednesday 10th August</td>
<td>Project presentations*</td>
<td>Lecture 7</td>
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<td>Thursday 11th August</td>
<td>Class 9</td>
<td>Lecture 10</td>
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<td>Friday 12th August</td>
<td>Class 10</td>
<td>Lecture 11</td>
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<th>Week 3</th>
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<td>Monday 15th August</td>
<td>Class 11</td>
<td>Lecture 12</td>
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<td>Tuesday 16th August</td>
<td>Class 12</td>
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<td>Wednesday 17th August</td>
<td>Exam*</td>
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<td>Thursday 18th August</td>
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*Exam\Presentations may be scheduled at any time between 9am – 5pm on these days.
Detailed Course Outline

Lecture 1: Introduction to Applied Valuation
Introduction to “Applied Valuation and Securities Analysis”. Introduction to the valuation in an IPO setting case: Facebook Inc. The role of industry analysis.
Core Readings:
Chapter 2 [Valuation and Securities Analysis (Beccalli and Frantz)].
Case Study
Facebook Inc. The initial public offering

Lecture 2: Basics of Securities Valuation
Reviewing and applying the basic steps of valuation models (including the residual income or abnormal earnings valuation model).
Core Readings:
Chapters 3 and 8 [Valuation and Securities Analysis (Beccalli and Frantz)].
Case Study:
Coca Cola Residual Income Valuation

Lecture 3: Prospective Analysis and Valuation Implementation
Full information forecasting, forecast horizon, terminal value assumptions, drivers of abnormal profitability.
Core Readings:
Chapters 4 and 7 [Valuation and Securities Analysis (Beccalli and Frantz)].
Case Study:
Coca Cola Residual Income Valuation
Lecture 4: Financial Analysis and Valuation

Financial analysis, ratios, sell-side analyst valuations.

Core Readings:
Chapters 4 and 5 [Valuation and Securities Analysis (Beccalli and Frantz)].

Case Study:
Ryanair Holdings PLC

Lecture 5: Accounting and Analysis Valuation

Detecting and adjusting for accounting bias in valuation.

Core Readings:
Chapter 6 [Valuation and Securities Analysis (Beccalli and Frantz)].

Case Study: Coca Cola

Lecture 6: Valuations in Special Settings

Valuing early stage and high growth companies. Valuation in an IPO setting.

Core Readings:
Chapter 10, pages 263-311 [The Dark Side of Valuation, Damodaran 2010 - chapter copy attached in coursepack].


Case Study:
LinkedIn Corporation
Lecture 7: Pricing Book Values and Earnings


Core Readings:

Lecture 8: Analysis of Sustainable Earnings and Growth. Taking Valuation Active


Core Readings:

Lecture 9: Analysis of Quality of Financial Statements

Detecting income shifting. Detecting transaction manipulation, timing and structuring. Quality scoring.

Core Readings:

Lecture 10: Common Errors in Equity Valuation


Core Readings:

Supplementary Readings:
Lecture 11: The Analysis of Equity Risk and Cost of Capital

Required return and expected return. The nature of risk. Fundamental Risk.

Core Readings:

Lecture 12: Trading Strategies


Core Readings:

Credit Transfer: If you are hoping to earn credit by taking this course, it is advisable that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three or four credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to summer.school@lse.ac.uk