# WELCOME TO FNCE 3415

Created by David Moore, PhD

# TOPICS

1. About me
2. Personal Intros
3. Syllabus
4. Goals and Success
5. Grades
6. What is Valuation and Financial Modeling?
7. Excel

# ABOUT ME

## David R Moore

- Born and raised in Canada
- Ran cross-country and track at UT-Chattanooga
- PhD in Finance from University of Kentucky
- Dog parent to crazy mutt named Tempo
- Enjoy cycling, volleyball, hiking, and almost any new activity
- Terrible fantasy football player
- Professional Toronto Maple Leafs fan
- Married way out of my league in June of 2017

# PERSONAL INTROS

- Name
- Hometown
- Year and Major
- Current show you are binge watching?
- Favorite place to eat in LA?
- Favorite sports team or musician or hobby?

# SYLLABUS

This is the most important document in any class. It is the agreed upon *rules and regulations* (contract) that will govern the course. Please read carefully.

# HOW TO SUCCEED

# MY GOALS

1. *Motivate* and *excite* you about modeling and valuation.
2. Make sure you leave with the tools and skills to complete complex valuations.
3. Make you efficient users of Excel
4. Help you achieve *personal* and *professional* goals (extending beyond this class).
5. Make sure you *learn* (not memorize) the material.
6. Long-term, help play a role in getting you a job.

# YOUR GOALS...

1. To *learn (understand)* valuation
2. Be able to extract information from financial statements and use it to create valuation models
3. Be prepared for interviews
4. Become efficient in Excel
5. Get a good grade (pass)

# WHAT IS SUCCESS?

- How much you learn? Your grade? Job?
- Success is…

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- How much you learn? Your grade? Job?
- Success is... *meeting our goals.*

# KEYS TO SUCCESS

- See Syllabus "Tips to Perform Well"
- In general…
  - Come to class *on time* and *prepared.*
  - Participate. If you do not understand *stop me and ask.*
  - Do not wait until the last minute!
  - Make your own notes and practice, practice, practice.
  - Use *resources* available to you
  - Most importantly…

# GRADES

# REALITY
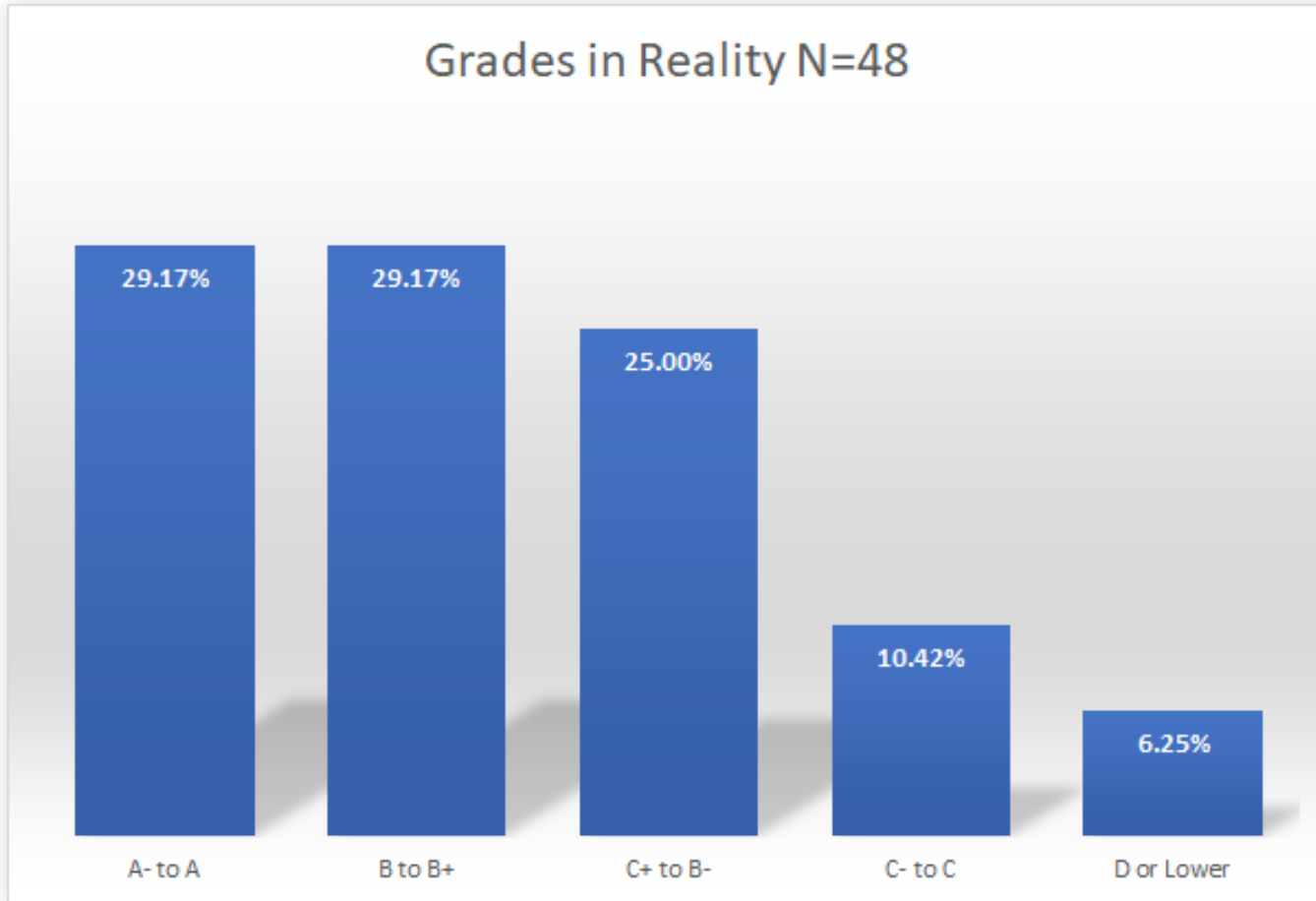
# WHAT IS VALUATION AND FINANCIAL MODELING?

# VALUATION AND FINANCIAL MODELING

- In a science, if you get the inputs right, you should get the output right. The laws of physics and mathematics are universal and there are no exceptions. *Valuation is not a science.*

- In an art, there are elements that can be taught but there is also a magic that you either have or you do not. The essence of an art is that you are either a great artist or you are not. *Valuation is not an art.*

- A craft is a skill that you learn by doing. The more you do it, the better you get at it. *Valuation is a craft.*

Taken from: http://people.stern.nyu.edu/adamodar/pdfiles/eqnotes/eqsyllspr19.pdf

# VALUATION MYTHS

1. A valuation is a search for the "true" value
2. A good valuation provides a precise estimate of value
3. The more quantitative a model, the better the valuation

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*These are NOT true*

# VALUATION TRUTHS

1. All valuations are biased. The only questions are "how much" and in which direction.
2. There are no precise valuations. The payoff to valuation is greatest when valuation is least precise.
3. One's understanding of a valuation model is inversely proportional to the number of inputs required for the model. Simpler valuation models do much better than complex ones.

# MODELING SKILLS

EXCEL

# WHY EXCEL?

*"Asking finance professionals if they've given up Excel is like asking whether we've given up drinking"*

- The biggest technical skill in business. Everyone uses it.
- Unlikely to change anytime soon: "You'll have to pry Excel out of my cold, dead hands"
- Office 365 has 120 million corporate monthly users globally.
- Microsoft Excel is one of the greatest, most powerful, most important software applications of all time.

Source for quotes WSJ Article

# IS EXCEL GOING ANYWHERE?

"When it comes to understanding a business and a piece of financial analysis, no type of software can ever replace Excel. This is because going through the painstaking steps of calculating everything about a business yourself really helps you understand it. Imagine a type of software that automatically takes a company's financial statements, forecast, and capital structure, then automatically spits out an NPV. This would save you a lot of time, but would not teach you anything about the business. It's the unfortunate truth that building a financial model from the bottom up in Excel is the best way to really understand a business and an investment opportunity."

# ACCESSING EXCEL

LMU students can access Excel for free at Microsoft Office 365 with their LMU email address and login.

# NEXT TIME ON VALUATION AND FINANCIAL MODELING

## Financial Statements Review