

**Business V700
Strategic Business Analysis and Valuation
Winter 2008 Course Outline**

**AIC Institute for Strategic Business Studies
DeGroote School of Business
McMaster University**

COURSE OBJECTIVE

- To learn a logical framework to financially analyse and value a business

INSTRUCTOR AND CONTACT INFORMATION

Robert Boulton CA, CBV

Instructor
boultonvb@cicbv.ca

Office: DSB 226
Office Hours: By Appointment
Tel: (416) 204-3395
Class Location: TSH 424
Class Time: Tues. 2:30-5:20 PM

Patti Wiebe

Admin. Assistant
wiebe@mcmaster.ca

Office: DSB #203
Office Hours: 08:30 – 4:30
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COURSE ELEMENTS

Credit Value: 3	Team skills: Yes	IT skills: No	Global: Yes
WebCT: Yes	Verbal skills: Yes	Numeracy: Yes	Political: No
Participation: Yes	Written skills: Yes	Innovation: Yes	Social: Yes

COURSE DESCRIPTION

This course draws on concepts from financial economics, business strategy, accounting, and other business disciplines for evaluating business decisions in a variety of contexts. It will be useful to students planning careers in investment banking, securities analysis, credit analysis, consulting, public accounting, and corporate management.

The course emphasizes practical applications. Consequently, the majority of the course will be spent analyzing and discussing cases involving real financial statements in real decision

contexts. This is supplemented by lecture and discussion material from the text and readings from the financial press.

The first half of the course focuses on developing a systematic approach to analyzing and valuing businesses. This approach includes business strategy analysis, accounting analysis, financial analysis, analysis of intangible assets, and prospective analysis. These tools are then used to conduct comprehensive business analyses of companies from a variety of different perspectives. Examples of these perspectives include equity security valuation, and mergers and acquisitions analysis.

Business Valuation - Framework Components

1. Overview
2. Strategy analysis
3. Accounting analysis
4. Financial analysis
5. Forecasting
6. Valuation techniques

Business Valuation - Select Applications

1. Equity security analysis
2. Mergers and acquisitions

REQUIRED COURSE MATERIALS

Text: Palepu and Healy, *Business Analysis & Valuation Using Financial Statements*, 4th Edition - available in the Bookstore (The Tank).

EVALUATION

- | | |
|---------------------------------|-----------------------|
| ➤ Class Participation | Individual |
| ➤ Case Write-up Assignments (2) | 1 Individual, 1 Group |
| ➤ Mid-Term Exam | Individual |
| ➤ Term Project | Group |

Components and Weights

Class Participation	10%
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Case Write-up Assignments (2)	30%
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Mid-term Exam (1)	30%
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Valuation Project (1)	30%
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Total	100%
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NOTE: The use of a McMaster standard calculator is allowed during examinations in this course.

Class Participation: (Individual) 10%

Discussion of course material and cases in class is an important part of the course work. Marks will be awarded based on an assessment of a variety of factors related to participation in such discussions.

Case Write-Up Assignments: (Individual and Group) 30%

Case write-up assignments consist of a typewritten analysis of the key facts and issues of each case along with your conclusions/recommendations.

Case write-ups **should not exceed five pages** (excluding title page and Appendices). Appendices may include additional tables or calculations to support your conclusions. These pages must be clearly labelled, understandable, and referred to in the body of the write-up. You should use a 12-point font, double-spaced for your typewritten responses.

Assignments will be collected at the beginning of the class to which they relate. **Late assignments will not be accepted.**

Assignments are classified into two categories: individual and group. Write-ups for the individual assignment are to be prepared individually. One write-up per group is required to be

submitted for the group assignment (be sure to indicate the names of all group members on the title page).

You should use a 12-point font, double-spaced for your typewritten responses.

Mid-Term Exam: (Individual) 30%

The exam will test the valuation framework materials covered in Chapters 1 to 8. The exam will be a two hour, closed book, case-based exam.

Valuation Project: (Group) 30%

The valuation project provides you with the opportunity to integrate and apply concepts and techniques covered in the course. It is a group project which requires you to select two firms from an industry, summarize the economics, current conditions, key success factors and risks in the industry, evaluate the strategies each of the firms pursues, identify accounting issues relevant to the analysis of tangible and intangible assets of the firm and perform a financial analysis, prepare forecasts, and using these forecasts value the common stock using alternative valuation methods, and recommend whether to buy or sell each firm's stock.

You are required to submit an interim report (maximum **15**-pages,) covering strategy analysis and accounting analysis for the two firms by February 26th. Your final report should not exceed **30** pages, excluding title page, tables, graphs, appendices and references. In addition, it should include the most recent financial statements for the companies you analyzed. Two copies of your written reports are to be handed in at the start of the last class. Typewritten reports should be 12-point, double spaced. Each group will be scheduled to present its project to the class during the last session.

Conversion

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT	LETTER GRADE	PERCENT
A+	90 - 100	C+	60 - 64
A	85 - 89	C	55 - 59
A-	80 - 84	C-	50 - 54
B+	75 - 79	F	00 - 49
B	70 - 74		
B-	65 - 69		

COMMUNICATION AND FEEDBACK

Students that are uncomfortable in directly approaching an instructor regarding a course concern may choose to send a confidential and anonymous email to the respective Area Chair at:

<http://www.degroote.mcmaster.ca/curr/emailchairs.aspx>

Students who wish to correspond with instructors directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student.

Instructors should conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

ACADEMIC DISHONESTY

It is the student's responsibility to understand what constitutes academic dishonesty. Please refer to the University Senate Academic Integrity Policy at the following URL:

<http://www.mcmaster.ca/univsec/policy/AcademicIntegrity.pdf>

This policy describes the responsibilities, procedures, and guidelines for students and faculty should a case of academic dishonesty arise. Academic dishonesty is defined as to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. Please refer to the policy for a list of examples. The policy also provides faculty with procedures to follow in cases of academic dishonesty as well as general guidelines for penalties. For further information related to the policy, please refer to the Office of Academic Integrity at:

<http://www.mcmaster.ca/academicintegrity>

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<http://library.mcmaster.ca/about/copying.pdf>

MISSED TESTS AND ASSIGNMENTS

The Faculty of Business has approved the following policy:

When students miss a regularly scheduled mid-term exam for legitimate reasons, as adjudicated by the Academic Programs Office (APO), the weight for that exam will be redistributed across other evaluative components of the course as deemed most appropriate by the instructor.

There is one exception to this “no make-up” rule.

If a student has a documented stress-related or retention-related disability (assessed through the Centre for Student Development) that is in conflict with mark redistribution, then a make-up exam may be given. In such cases, the test/exam will be administered through the CSD.

When a student cannot write a final exam for documented, legitimate reasons, the student will be granted a deferred exam privilege.

Instructors cannot themselves allow students to unofficially write make-up exams/tests for finals. Adjudication of the request must be handled by the APO.

For any other issues pertaining to missed exams, tests or assignments, please contact the APO.

STUDENTS WITH DISABILITIES

Students with disabilities are required to inform the Centre for Student Development (CSD) of accommodation needs for examinations on or before the last date for withdrawal from a course without failure (please refer to official university sessional dates). Students must forward a copy of such CSD accommodation to the instructor immediately upon receipt. If a student with a disability chooses NOT to take advantage of a CSD accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The CSD website is:

<http://csd.mcmaster.ca>

RESEARCH USING HUMAN SUBJECTS

Research involving human participants is premised on a fundamental moral commitment to advancing human welfare, knowledge and understanding. As a research intensive institution, McMaster University shares this commitment in its promotion of responsible research. The fundamental imperative of research involving human participation is respect for human dignity

and well-being. To this end, the University endorses the ethical principles cited in the Tri-Council Policy Statement: Ethical Conduct for Research Involving Humans:

<http://www.pre.ethics.gc.ca/english/policystatement/policystatement.cfm>

McMaster University has mandated its Research Ethics Boards to ensure that all research investigations involving human participants are in compliance with the Tri-Council Policy Statement. The University is committed, through its Research Ethics Boards, to assisting the research community in identifying and addressing ethical issues inherent in research, recognizing that all members of the University share a commitment to maintaining the highest possible standards in research involving humans.

If you are conducting original research, it is vital that you behave in an ethical manner. For example, everyone you speak to must be made aware of your reasons for eliciting their responses and consent to providing information. Furthermore, you must ensure everyone understands that participation is entirely voluntary. Please refer to the following website for more information about McMaster University's research ethics guidelines:

<http://www.mcmaster.ca/ors/ethics>

Organizations that you are working with are likely to prefer that some information be treated as confidential. Ensure that you clarify the status of all information that you receive from your client. You **MUST** respect this request and cannot present this information in class or communicate it in any form, nor can you discuss it outside your group. Furthermore, you must continue to respect this confidentiality even after the course is over.

COURSE SCHEDULE

Business V700E
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WEEK	TOPIC
1 Jan 8	Introduction
2 Jan 15	<u>Framework for Business Analysis and Valuation using Financial Statements</u> Read: Chapter 1 prior to class <u>Strategy Analysis</u> Read: Chapter 2 prior to class Prepare for Discussion: Questions 3, 4, 6, 8, @ p. 2-7
3 Jan 22	<u>Accounting Analysis</u> Read: Chapter 3 prior to class Prepare for Discussion: Questions: 1, 2, and 5a) @ p.3-14 Harnischfeger Corporation, p.3-20
4 Jan 29	<u>Implementing Accounting Analysis</u> Read: Chapter 4 prior to class Prepare for Discussion: Questions: 1, 2, and 5, p.4-33 Revenue Recognition Problems in the Communication Equipment Industry p. 4-49
5 Feb 5	<u>Financial Analysis</u> Read: Chapter 5 prior to class Assignment (Group): The Home Depot, Inc., p.213 Prepare for Discussion: Questions: 1, 2, and 4, p.5-32
6 Feb 12	<u>Prospective Analysis: Forecasting</u> Read: Chapter 6 prior to class Prepare for Discussion: Questions: 1, 2, and 3, p.6-19 Krispy Kreme Doughnuts, p.6-24

WEEK	TOPIC
7 Feb 26	<p><u>Prospective Analysis: Valuation Theory and Concepts</u> Read: Chapter 7 prior to class Prepare for Discussion: Questions: 1 and 2, p.7-17 Valuation Ratios in the Restaurant Industry, p.7-23 Due: Group Term Project Interim Report, at the beginning of the class</p>
8 Mar 4	<p><u>Prospective Analysis: Valuation Implementation</u> Read: Chapter 8 prior to class Prepare for Discussion: Home Depot Inc. in the New Millennium p. 8-20</p>
9 Mar 11	<p><u>Mid-Term Exam</u></p>
10 Mar 18	<p>Group Term Project Preparation – No Class</p>
11 Mar 25	<p><u>Equity Security Analysis</u> Read: Chapter 9 prior to class Assignment (Individual): UPS's IPO, p 5-43 Prepare for Discussion: Questions: 1, 2, and 3 @ p.9-14</p>
12 Apr 1	<p><u>Mergers and Acquisitions</u> Read: Chapter 11 prior to class</p>
13 Apr 8	<p><u>Group Term Project Presentation</u> Due: (1) Turn in two copies of the final report of valuation project at the beginning of class. (2) Each group presents its valuation project to the class. If PowerPoint slides are used, provide the instructor with a copy of the slides at the beginning of the class.</p>