



Course Outline

Accounting and Finance
School of Business & Economics

FNCE 4120 - **3.00** - Academic

Business Valuation and Restructuring

Rationale

Update calendar description, educational outcomes, prerequisites, texts/materials, evaluation, and course topics

Calendar Description

Students learn how to value a business using commonly applied industry techniques and to restructure its operations in order to optimize performance or cope with financial distress. Topics include professional designations in business valuation; advanced cost of capital; business valuation techniques, such as income, market multiples, and asset-based approaches; valuing private companies; mergers and acquisitions; financial distress, bankruptcy, reorganization, and liquidations; divestitures, spin-offs and other forms of corporate restructuring.

Credits/Hours

Course Has Variable Hours: No

Credits: 3.00

Lecture Hours: 3.00

Seminar Hours: 0

Lab Hours: 0

Other Hours: 0

Clarify:

Total Hours: 3.00

Delivery Methods: (Face to Face)

Impact on Courses/Programs/Departments: No change

Repeat Types: A - Once for credit (default)

Grading Methods: (S - Academic, Career Tech, UPrep)

Educational Objectives/Outcomes

1. Describe the different professional designations in the field of business valuation and restructuring.
2. Calculate the appropriate cost of capital in different business valuation scenarios.
3. Determine the worth of a public or private business using different valuation techniques including income, market multiples, and asset-based approaches.
4. Recommend an appropriate tender offer in a business acquisition and all needed takeover defenses.

5. Develop a plan to successfully liquidate or reorganize a business experiencing financial difficulties.
6. Discuss the rationale for divestitures and other forms of corporate restructuring.

Prerequisites

FNCE 3150-Portfolio and Equity Analysis or equivalent with a minimum C-

Co-Requisites

Recommended Requisites

Exclusion Requisites

BBUS 4120-Bus Valuation & Restructuring
FNCE 4110-Advanced Financial Management for Accountants

Texts/Materials

Textbooks

1. **Required** Pinto, Henry, Robinson, Stow. *CFA Institute Investment Series, Equity Asset Valuation*, 3rd ed. Wiley

Student Evaluation

The Course grade is based on the following course evaluations.

Tests/quizzes 30-40%

Case studies/research projects/assignments 30-40%

Final exam 30-40%

Students must pass the exam to receive a passing grade for the course.

Course Topics

1. Introduction

Professional designations

- Chartered Business Valuator (CBV)
 - Chartered Insolvency and Restructuring Professional (CIRP)

Purpose of business valuations

- Measures of value Intrinsic
 - value
 - Fair market value
 - Investment value

- Research reports

2. Advanced Cost of Capital

- Weight average cost of capital (WACC)
 - Book, market value, and target capital structure weights
 - Incorporating issuance/flotation costs
 - Cost of capital models – equity
 - Capital Asset Pricing Model (CAPM)
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Dividend Discount Model (DDM)

Calculating the components of CAPM

Risk-free rate

Market-risk premium

Length of estimating period

Arithmetic and geometric mean

Forward looking market risk premium

Beta

Raw betas

Adjusted betas

Lag effect – Sum Beta

- Shrinkage effect – Blume Adjusted Beta, Vasicek Adjusted Beta
- Downside effect – Downside Beta
- Industry betas
- Peer group betas
- International betas
- Cost of capital models – debt and preferred shares
- Implied rate
- Similar bond ratings
- Marginal lending rates

Weighted marginal cost of capital

- Pure plays
 - Accounting beta
 - Estimating beta with regression based on fundamentals
 - Adjusting for varying levels of financial leverage
 - Divisional costs of capital
 - Adjusting for project risk
- Other models
 - CAPM plus size premium
 - Build-up method
 - Fama & French 3-factor model
- Information service providers – Duff & Phelps

3. Business Valuation Techniques

- Rationale
- Valuation methods
 - Income approaches – DDM, FCFE, FCFE
 - Estimating growth
 - Historical growth
 - Analyst forecasts
 - Sustainable growth
 - Cyclical and distress companies
- Market multiple approaches – P/E, P/BV, P/S, P/CFO, EV/EBITDA, EV/FCFF
 - Calculating forward and trailing EPS
 - Normalization of earnings and other measures
 - Industrial classification systems – sector, industry group, industry, sub-industry
- Methods of comparison
 - Mean historical multiple of the stock
 - Mean historical multiple of comparable companies
 - Justified multiple based on forecasted fundamentals
 - Predicted multiple based on cross-sectional regression

- Asset-based approach with excess earnings
- Valuation premiums and discounts
 - Marketability discount
 - Control premium or non-control discount
- Valuation of private companies

4. Mergers and Acquisitions (M&A)

- Rationale
- Types of M&A
 - Mergers – negotiation, proxy
 - Acquisition of stock – cash, swap
 - Acquisition of assets
- Takeover bid process
- Takeover defenses
 - Valuing takeover targets with synergies
 - Income approach
 - Comparable companies
 - Comparable transactions
 - Taxation issues
- Evaluating takeover offers
- M&A cycle and the success of M&As

5. Financial Distress, Bankruptcy, Reorganization, Liquidation

- Causes of financial distress
- Legal framework
- Conditions for bankruptcy
- Liquidation process
- Reorganization process
- Bankruptcy strategies
- Estimating bankruptcy with credit scoring models

6. Other Forms of Corporate Restructuring

- Types
 - Divestitures
 - Spin-offs, split-offs, and split-ups
 - Tracking shares
- Rationale

Methods for Prior Learning Assessment and Recognition

As per TRU Policy

Last Action Taken

Implement by Submission Preview Subcommittee Chair Joanne (Retired) Moores

Current Date: 28-Oct-20