



A POLYTECHNIC INSTITUTION

School of Business

Program: Financial Management

Option: Accounting Degree

FMGT 7520**Business Valuations****Start Date:** September 8, 2004**End Date:** December 15, 2004**Total Hours:** 45 **Total Weeks:** 15**Term/Level:** **Course Credits:** 3**Hours/Week:** 3 **Lecture:** **Lab:****Shop:** **Seminar:** 3 **Other:****Prerequisites****FMGT 7520 is a Prerequisite for:****Course No. Course Name****Course No. Course Name**

FMGT 4510 Finance 2

None

v Course Description

This course will give students an introduction to the field of business valuation as it is practiced today in Canada. Students will examine the many uses of business valuations, business valuation terminology, sources of information and valuation principles and approaches. Working with realistic case material, students will learn how to research general economic and specific industry conditions, analyze company financial and operational information and prepare and analyze valuation calculations.

v Evaluation

Exams

Midterm 40%

Final 40%

Assignments (4) 20%

100%

- The exams will be comprised of approximately 30% theory and 70% practical contact (problem solving and short cases). The final exam will be comprehensive from the beginning of the course. Students must have an average mark of 50% or better on the exams in order to pass the course.
- The assignments will be practical in nature and involve independent student research, calculations and evaluation. Students are expected to apply a professional approach to the preparation of the assignments as if they were preparing something for submission to a paying client. No assignments will be accepted after the due date.

v Course Learning Outcomes/Competencies

Upon successful completion, the student will be able to:

- Define and appropriately use business valuation terminology;
- Identify sources of data pertaining to general economic conditions and specific industry information required to conduct a business valuation;
- Plan the financial and operational analyses of a firm that is the subject of a business valuation;
- Select the correct business valuation approach to use for a given situation;
- Analyze the capital structure of a firm and determine the appropriate capitalization and discount rates to use in a business valuation;
- Prepare business valuation calculations using both cash flow and asset based approaches and to test these calculations for reasonableness;

- Research public information relating to comparable transactions;
- Demonstrate an understanding of the various taxation and legal issues relating to the field of business valuation; and
- Demonstrate an understanding of the issues relating to the practice of buying and selling business interest interests.

v **Verification**

I verify that the content of this course outline is current.

J. Terry Gordon, Dipl.T, BA, CBV, CA

Authoring Instructor

Date

I verify that this course outline has been reviewed.

Allan Cobbett, Dipl.T, LL.B., MBA, CMA

Program Head/Chief Instructor

Date

I verify that this course outline complies with BCIT policy.

Tim Edwards, Dipl.T., MBA, CMA

Dean/Associate Dean

Date

Note: Should changes be required to the content of this course outline, students will be given reasonable notice.

v Instructor(s)

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door
Instructor web page: www.faculty.org/fp/tgordon/
Course web page: www.finman.org

v Learning Resources

Required:

- *Valuation of Business Interests*, Ian R Campbell and Howard E. Johnson, Canadian Institute of Chartered Accountants, 2001. ISBN 0-88800-624-1 (paperback)
- Financial calculator (Sharp EL-733A is highly recommended).
- Internet access for research purposes and to obtain material from the instructor's web site.
- Access to Microsoft Word and Excel to complete assignments.

Recommended:

- *Purchase & Sale of Privately-Held Businesses*, Third Edition, Wayne Albo, Adam Bryk and Andrew Pigott, Canadian Institute of Chartered Accountants, 2000. ISBN 0-88800-608-X (paperback). Students will be provided with copies of excerpts from this book necessary to complete the course. The complete text can be ordered from the Canadian Institute of Chartered Accountants (www.cica.ca).

v Information for Students

Assignments: Late assignments will **not** be accepted for marking. Assignments must be done on an individual basis unless otherwise specified by the instructor.

Makeup Exams: There will be **no** makeup exams. If you miss an exam you will receive zero marks. Exceptions may be made for **documented** medical reasons or extenuating circumstances. In such a case, it is the responsibility of the student to inform the instructor **immediately**.

Ethics: BCIT assumes that all students attending the Institute will follow a high standard of ethics. Incidents of cheating or plagiarism may, therefore, result in a grade of zero for the assignment or exam for all parties involved and/or expulsion from the course.

Attendance: The attendance policy as outlined in the current BCIT Calendar will be enforced. Attendance will be taken at the beginning of each session. Students not present at that time will be recorded as absent.

Illness: A doctor's note is required for any illness causing you to miss assignments or exams. At the discretion of the instructor, you may complete the work missed or have the work prorated.

Attempts: Students must successfully complete a course within a maximum of three attempts at the course. Students with two attempts in a single course will be allowed to repeat the course only upon special written permission from the Associate Dean. Students who have not successfully completed a course within three attempts will not be eligible to graduate from the appropriate program.

Course Outline Changes: The instructor may change the material or schedule specified in this course outline. If changes are required, they will be announced in class.

Course Schedule

Week	Topics	Readings*	Assignment due
Sept. 8	<p>Introductions and course orientation. Introduction to business valuation</p> <ul style="list-style-type: none"> • The market for business interests <ul style="list-style-type: none"> ◦ Public vs. private companies • Value terms and concepts • Principles of business valuation • Overview of valuation approaches 	VBI: Glossary of defined terms; Chapter 1, Chapter 2	
Sept. 15	<p>Business analysis</p> <ul style="list-style-type: none"> • Information requirements checklist and sources of information • Internal analysis <ul style="list-style-type: none"> ◦ Business review and operational analysis ◦ Financial statement analysis • External analysis <ul style="list-style-type: none"> ◦ Industry ◦ Economic conditions • Redundant assets 	VBI: Chapter 3	
Sept. 22	<p>Cash flow approaches I: capitalized discretionary cash flow method</p> <ul style="list-style-type: none"> • Overview and uses of capitalized cash flow method • Maintainable EBIT-DA • Capital reinvestment • Working capital requirements • Capitalization rates • CCA tax shield • Redundant assets • Interest bearing debt 	VBI: Chapter 4 (omit pages 151 – 172)	Assignment 1
Sept. 29	<p>Cash flow approaches II: discounted cash flow (“DCF”) method</p> <ul style="list-style-type: none"> • Overview and uses of DCF method • Forecasting cash flows • Terminal value • Discount and capitalization rates • Startup and high growth businesses 	VBI: Chapter 5	
Oct. 6	<p>Asset based approaches I:</p> <ul style="list-style-type: none"> • Adjusted net book value (net tangible asset backing) • Real estate valuation • Equipment valuation • Holding companies 	VBI: Chapter 6	Assignment 2

Oct. 13	Asset based approaches II: <ul style="list-style-type: none"> Liquidation value 	VBI: Chapter 10 (pages 372 – 392 only)	
Oct. 20	Catch up and exam review		
Oct. 27	Midterm exam (40%): all material covered to date		
Nov. 3	Survey of other valuation methodologies <ul style="list-style-type: none"> Capitalized maintainable earnings Dual capitalization of earnings Operating multiples Rules of thumb 	VBI: Chapter 10 (up to page 372) Rules of thumb handout	
Nov.10	Capital structure <ul style="list-style-type: none"> Enterprise value vs. equity value Review of Modigliani and Miller WACC Determinants of capital structure 	VBI: Chapter 7	Assignment 3
Nov. 17	Discount and capitalization rates <ul style="list-style-type: none"> Principles of discount and capitalization rate determination Discount rates Capitalization rates Review of CAPM 	VBI: Chapter 8	
Nov. 24	Comparative Analysis <ul style="list-style-type: none"> Identifying comparable companies Public equity market multiples - application and limitations Comparable transactions Business pricing <ul style="list-style-type: none"> Value vs. price Post acquisition net economic value added Additional factors influencing price 	VBI: Chapter 9 and 11	Assignment 4
Dec. 1	Survey of buying and selling business interests <ul style="list-style-type: none"> Negotiations Due diligence Financing an acquisition Preparing a business for sale 	Handout from P&S PHB	
Dec. 8	Catch up and exam review		
Dec. 15	Final exam (40%): all material covered from the beginning of course		

*Notes: “VBI” = *Valuation of Business Interests* by Campbell and Johnson (see “Resources” section above)

“P&S PHB”= *Purchase & Sale of Privately-Held Businesses*, Third edition, by Albo, Bryk and Pigott (see “Resources” above)