

381185: Business Valuation

MGMT-X 430.132

Summer 2021 Section 1 4 Credits 06/21/2021 to 09/05/2021 Modified 07/04/2021

Description

This course explores the basics of business valuation, including how businesses, equity, and enterprise are valued. Students learn the main methods of valuation (intrinsic and relative), their strengths and weaknesses, and when to apply each. Topics include discounted cash flow, comparable market multiples, comparable transaction multiples, and liquidation/terminal value. Additional topics include free cash flow, financial statement analysis, industry competitive analysis, growth projection, financial forecasting, discount rate, and capital asset pricing.

Outcomes

By the end of this course, a successful learner should be able to:

1. Quickly assess which valuation methodologies which are applicable based on the type of company being valued and the relevant circumstances,
2. Upon review of a company's financial statements be able to prepare a basic valuation using various appropriate valuation methodologies
3. Specific learning objectives:
 - a. Methods of business valuation. Different standards for business appraisers.
 - b. The different types of discounts and premiums that can be applied to value a business, and when they are appropriate.
 - c. The effect of subsequent events on a valuation. Different standards of value and sources of law for business valuation.
 - d. Burden of proof in valuation controversies. Penalties and sanctions for inadequate business valuation reports.
 - e. Choice of entity and its effect on valuation. Comparative financial statement analysis. Weighting of approaches.

Materials

Valuation: Measuring and Managing the Value of Companies

Author: Koller, Goedhart, Wessels. McKinsey & Company, Inc

Publisher: Wiley

Edition: 7th Edition

ISBN: ISBN 978-1-119-61186-8

Required

Please note that the Instructor Set (PPT and Chapter Solutions) offered by the publisher is based on the 5th edition. So both editions should work ok for our course.

Harvard Business School Case Studies

Please order the cases from Harvard website listed below. Please note that you can choose to order all the cases (for learning purpose and for discussion forum); or just order the one for your in-depth research and a few cases for the online forum discussions.

<https://hbsp.harvard.edu/cases/> (<https://hbsp.harvard.edu/cases/>)

Business Valuation Course Reader

This will be uploaded to the course website on a weekly basis.

- Case 1 Prod. #: 705449-PDF "Note on Corporate Strategy"
- Case 2: Prod. #: 794024-PDF "Wal-Mart Stores, Inc."
- Case 3 Prod. #: 707517-PDF "Wal-Mart, 2007"
- Case 4: Prod. #: 177012-PDF "Cash Flow and the Time Value of Money"
- Case 5: Prod. #: 206039-PDF "Corporate Valuation and Market Multiples".
- Case 6: Prod. #: 196130-PDF "America Online, Inc".
- Case 7: Prod. #: 190090-PDF: "Manufactured Homes, Inc."
- Case 8: Prod. #: 608093-PDF "The Home Depot, Inc."
- Case 9: Prod. #: 101117-PDF "Home Depot, Inc. in the New Millennium"
- Case 10: Prod. #: UV2556-PDF "Monsanto Company"

Please see UCLA Canvas site for additional case list.

Other Reference Books

Recommended but not required

- Richard A. Brealey, Stewart C. Myers, and Franklin Allen: *Principles of Corp Finance*, Publisher: Irwin/McGraw-Hill, 8th Edition, Publication Year: 2005. ISBN: 0072957239.
- White, Sohndi and Fried: *The Analysis of and Use of Financial Statements*, Wiley. You need to have a financial calculator by the second week. You can use any financial calculator as long as it has all the functions we use in class, including PV, FV, cash flow calculations (models: HP10B, HP 12C, HP 17B, TI BA II, etc.). Alternatively, you need to have access to a PC with MS-Excel spreadsheet applications. **Class Expectations**
- Class participation is important and can favorably affect your grade. Minimum acceptable participation is regular participations in online discussions and completion of the specific assignments, including the final exit exam. Selected problems will be assigned.
- **Calculator or MS-Excel Requirements**

Deliverables

Course Procedure

You will have assigned reading to be done prior to each class. Between classes you will practice on the selected assignments and questions. You will also be expected to complete the final exam as well as the Harvard case study and the individual research project.

Teaching Style

Lectures, discussion, problem solving, homework assignments, individual project. The Exam will be combinations of multiple choice and essay questions and problems.

About the Harvard Business Cases

Each student is required to choose one Harvard cases for in-depth analysis. You can choose any case that meets your personal & professional interests.

Harvard case study is more like "*position paper*". You would review the literature (the case), list out the different options / approaches / alternatives, discuss & assess the strengths and weaknesses of each alternative, and then select your own approach / make a recommendation. The course website contains a sample case write-up on "Pine Street Capital" for your reference.

Sample Guidance ("Citibank Credit Arbitrage" for demo purpose):

Provide a business report (10 pages or less, including cover page, Table of Contents, Reference; graduate school-level quality) that includes:

- ○ Overview: the issues / business case; the parties involved.

- Proposed solutions: Strength analysis.
- Proposed solutions: Potential risks involved in this credit derivative deal.
- Critique / evaluate on the proposed “talk points” to clients.
- Develop a set of recommendations supported by your analysis.
- Evaluate alternative proposals (pros and cons). Address the implementation issues in an applied corporate setting.
- Provide some analysis of the bond features in Exhibit 1, e.g. coupon frequency, discount vs. premium bond, etc.

- **Concluding remarks; Reference**

Business Valuation Project

(Research Project)

1). Each student should select a single company with easily accessible public information concerning its financial statements as well as information on its business overviews, financial statements, common stock, bonds, and financial options.

2). **Project goal:** To value a public corporation from a particular position or view – investment analyst (buy or sell-side), M&A, investment banker, SEC, and so on. The analysis should lead to the specific investment recommendation (e.g. purchase, sell, spin-offs, etc). Below is the proposed template for your reference purpose. Please modify it to fit your needs. Please note that you are not required to cover EVERY aspect of the recommended template. Use selectively at your own discretions.

3). **Strategy Analysis**

Provide a brief description and history of the company, and analyze its **competitive position and growth opportunities.**

Business Description:

- ◦ Provide a brief description of the firm’s business.
- **Identify the business segment within the industry.**
- Identify the core / primary revenue sources for the firm.
- ◦ **Industry Analysis:**
 - Provide an overview of the industry drivers, including key risk factors.
 - Industry risk factors are generally those outside direct control of management. For example: Fed Reserve monetary policy, government tax, rapidly changing technology.
- **Analyze your firm’s competitive position and growth opportunities. Use Michael Porter’s competitive strategy framework if you like. Historic Financial Analysis**
- **4). Accounting & Financial Analysis**
 - Analyze quarter-to-quarter (Q/Q) performance reflecting the firm’s operating trends.
 - Does the firm’s historic financial performance support management’s future goals and strategies for the business?
 - Is the firm’s historic financial performance in line with the industry norms?

Template for Fiscal Year Ended	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012	Industry / Peers
Net Revenue						
Gross Margin %						
Operating Profit						
Net Earning						

Leverage Ratio						
Net Working Capital						
Liquidity Ratio						
Inventory turnover ratio						
ROA, ROE						

Income Statement Analysis

- Discuss revenue recognition policies.
- Discuss changes in trends; unusual or extraordinary items
- Quality of earning: potential red flags

Balance Sheet Analysis

- Major changes in assets/liabilities
- Significant trends in liquidity, working capital and balance sheet ratios.
- Identify off-balance sheet exposure and identify potential impacts.

Cash Flow Statement Analysis

- Amount of cash generated;
- Source and uses of cash.
- Availability of funds to finance capital expenditures, expansion of business activity, etc.

5). Pro Forma Financial Analysis (Cash Flow Statements)

i). Three sets of financial projections are required (base or most likely case, worst case, best case). Results from all three cases are to be included in the forecast comparison spreadsheet. In each section the student should briefly summarize assumptions, the rationale behind the assumptions.

ii). Valuation using price multiples (comparable companies); Provide reasons why you select certain ratios

9). Conclusion: proposed action (buy, sell, hold, spin-off) and its justification

9). Prepare a typed group report (< = 16 pages) including all of the items listed above. Summarize and organize your data so that it is easy to follow. The final deliverables (Harvard case and the individual research project) are due at the end of the 10th session, the same time you turn in the final take-home exam. Please see the course website for sample deliverable for format.

References: Viktoria Dalko & Daniel Deneffe. "Business Analysis & Valuation", Course syllabus. Harvard University.

✓ Evaluation

Criteria

Type	Weight	Topic	Notes
Class Participation / Online Forum	10%		
Harvard Case Studies (one case)	25%		

Type	Weight	Topic	Notes
Business Valuation Research Project	30%		
Final Exam (Comprehensive)	35%		

Breakdown

Grade	Range	Notes
A	90 or above	
A -	88–89	
B +	85--87	
B	82--84	
B-	80--81	
C+	76--79	
C	70--75	
C-	66--69	
F	0–65	

* Course Policies

Course Prerequisites

Introductory Corporate Finance or equivalent

Student Behavior

Student Behavior involving cheating, copying other's work, and plagiarism is not tolerated and will result in disciplinary action. Students are responsible for being familiar with the information on Student Conduct in the General Information Section of the UCLA Extension Catalog or on the website at www.uclaextension.edu.

Institutional Policies

Student Conduct

Students are subject to disciplinary action for several types of misconduct or attempted misconduct, including but not limited to dishonesty, such as cheating, multiple submission, plagiarism, or knowingly furnishing false information to the University; or theft or misuse of the intellectual property of others or violation of others' copyrights. Students are encouraged to familiarize themselves with policy provisions which proscribe these and other forms of misconduct at:

<https://www.uclaextension.edu/pages/str/studentConduct.jsp> (<https://www.uclaextension.edu/pages/str/studentConduct.jsp>)

Services for Students with Disabilities

In accordance with the Americans with Disabilities Act of 1990, UCLA Extension provides appropriate accommodations and support services to qualified applicants and students with disabilities. These include, but are not limited to, auxiliary aids/services such as sign language interpreters, assistive listening devices for hearing-impaired individuals, extended time for and proctoring of exams, and registration assistance. Accommodations and types of support services vary and are specifically designed to meet the disability-related needs of each student based on current, verifiable medical documentation. Arrangements for auxiliary

aids/services are available only through UCLA Extension's Office for Students with Disabilities at (310) 825-0183 or by email at access@uclaextension.edu. For complete information see: <https://www.uclaextension.edu/pages/str/studentswithDisabilities.jsp> (<https://www.uclaextension.edu/pages/str/studentswithDisabilities.jsp>)

Incompletes

Your instructor may post the interim grade *Incomplete/I* if at the end of the class your overall work is of passing quality but a portion could not be submitted for understandable reasons (e.g. illness). It is your responsibility to petition your instructor for permission to submit work late and to provide an explanation, and it is his or her sole decision whether to accept the explanation. If permitted, the *Incomplete/I* grade will be posted and a time frame defined for you to submit the missing work, ranging from one to twelve weeks. *Incomplete/I* grades that remain unchanged after twelve weeks will lapse to *F*, *NP* or *U*. Receiving an *I* grade entitles you to submit only the missing work your instructor has agreed to accept late, and does not allow other work to be retaken or oblige UCLA Extension to provide continuing access to course materials via Canvas. The *Incomplete/I* grade is not an option for courses that do not bear credit, such as 700, 800, or 900-level courses. For complete information, see:

<https://www.uclaextension.edu/pages/str/grading.jsp> (<https://www.uclaextension.edu/pages/str/grading.jsp>)

All Grades are Final

No change of grade may be made by anyone other than the instructor, and then, only to correct clerical errors. No term grade except *Incomplete* may be revised by re-examination. The correction of a clerical error may be authorized only by the instructor of record communicating directly with personnel of Student and Alumni Services.

Sexual Harassment

The University of California is committed to creating and maintaining a community where all individuals who participate in University programs and activities can work and learn together in an atmosphere free of harassment, exploitation, or intimidation. Every member of the community should be aware that the University prohibits sexual harassment and sexual violence, and that such behavior violates both law and University policy. The University will respond promptly and effectively to reports of sexual harassment and sexual violence, and will take appropriate action to prevent, to correct, and when necessary, to discipline behavior that violates our policy.

All Extension students and instructors who believe they have been sexually harassed are encouraged to contact the Department of Student and Alumni Services for complaint resolution: UCLA Extension, Suite 113, 10995 Le Conte Ave., Westwood; Voice/TTY: (310) 825-7031. View the University's full Policy on Sexual Harassment and Sexual Violence at <http://policy.ucop.edu/doc/4000385/SHSV> (<http://policy.ucop.edu/doc/4000385/SHSV>).

Additional Items

Protecting Privacy and Data During Live Instruction

Live meeting sessions for this class, when applicable, are being conducted over Zoom. As the host, the instructor may be recording live sessions. Only the host has the ability to record meetings, no recording by other means is permitted. Recorded sessions will be posted in the Videos area of this class unless otherwise notified. Due to privacy, recordings are not available for download and are only accessible via Canvas for the duration of the class. If you have privacy concerns and do not wish to appear in the recording, do not turn on your video and/or audio. If you also prefer to use a pseudonym instead of your name, please let the instructor know what name you will be using so that the instructor knows who you are during the session. To rename yourself during a Zoom meeting, click on Participants, click on your name, click on More, click on Rename. If you would like to ask a question, you may do so privately through the Zoom chat by addressing your chat question to the instructor only (and not to "everyone"). Additionally, chat may be used and moderated for live questions, and saving of chats is enabled. If you have questions or concerns about this, please contact the instructor via Canvas Inbox.

Pursuant to the terms of the agreement between Zoom and UCLA Extension, the data is used solely for this purpose and Zoom is prohibited from re-disclosing this information. UCLA Extension also does not use the data for any other purpose. Recordings will be deleted when no longer necessary. However, recordings may become part of an administrative disciplinary record if misconduct occurs during a video conference.

Course and Instructor Evaluation

UCLA Extension values your feedback on course and instructor evaluations. We ask all students to take a few minutes to complete an end-of-course evaluation survey. Updates to the course and instruction are influenced by your feedback. Understanding your student experience is essential to ensure continuing excellence in the online classroom and is appreciated by your instructor and the UCLA Extension academic leadership.

Your participation in a survey is voluntary, and your responses are confidential. After instructors submit grades, they will be given an evaluation report, but this report will not contain your name.

About Your Online Course Materials

Please note the following about online course components at UCLA Extension:

- Students must have basic computer skills, including the use of word processing software, email, and the ability to use internet browsers, such as Safari, Firefox, or Chrome.
- Students are responsible for meeting the technical requirements of Canvas and familiarizing themselves with the Canvas Learning Management System.
 - What are the basic computer specifications for Canvas? <https://guides.instructure.com/m/4214/l/82542-what-are-the-basic-computer-specifications-for-canvas> (<https://guides.instructure.com/m/4214/l/82542-what-are-the-basic-computer-specifications-for-canvas>)
 - Which browsers does Canvas support? <https://guides.instructure.com/m/67952/l/720329-which-browsers-does-canvas-support> (<https://guides.instructure.com/m/67952/l/720329-which-browsers-does-canvas-support>)
- Students are responsible for keeping a copy of all assignments and work submitted, and to be aware of all assignments, due dates, and course guidelines.
- Students are encouraged to keep and/or download a local copy of their assignment files, as access to the online environment of a specific course is limited to 30 days after the final course date, as listed in the course catalog.

If you need assistance downloading student materials from your course, please contact Canvas Support or the UCLA Extension Learning Support Team.

UCLA Extension Canvas and Learning Support

For immediate 24/7 Canvas technical support, including holidays, click on **Help** (located on the menu to the left) where you can call or chat live with a Canvas Support representative.

UCLA Extension Instructional Design and Learning Support

The UCLA Extension Learning Support staff assists both students and instructors with Canvas-related technical support, as well as general and administrative questions.

Learning Support staff is available Monday through Friday, from 8 AM to 5 PM (Pacific Time), except holidays:

- Email: support@unexonline.zendesk.com
- Website: <http://support.uclaextension.edu> (<http://support.uclaextension.edu/>)

Schedule

Course Outline & Reading Assignments

	Topic	Readings
Week 1	Corporate Strategy Analysis I: Introduction An Overview	Chapters 1 / 2. Additional reading materials on the website

Week 2	<p>Corporate Strategy Analysis II:</p> <p>Valuation Framework</p> <p>The Expectations Treadmill</p>	<p>Chapter 3. HBS 705-449 "Note on Corporate Strategy". Additional reading materials on the website.</p>
Week 3	<p>Corporate Valuations I</p> <p>Reorganizing the Financial Statements</p> <p>Time Value of Money & Cash Flow</p>	<p>Chapter 7; HBS 177-012 "Cash Flow and the Time Value of Money". HBS 608-093: "The Home Depot, Inc". Additional reading materials on the website</p>
Week 4	<p>Corporate Valuations II</p> <p>Analyzing Performance</p> <p>Analyzing Competitive Positions</p>	<p>Chapter 8; HBS 794-024 "Wal-Mart Stores Inc."; HBS 707-517 "Wal-Mart, 2007". Additional reading materials on the website</p>
Week 5	<p>Corporate Valuations III:</p> <p>Forecasting Performance</p> <p>Estimating Continuing Value</p>	<p>Chapters 9 / 10; HBS UV2556 "Monsanto Company". Additional reading materials on the website.</p>
Week 6	<p>Corporate Valuations IV</p> <p>Estimating the Cost of Capital</p> <p>Moving from Enterprise Value to Value per Share</p> <p>Discounted Cash Flow Analysis</p>	<p>Chapters 11 / 12; Peter Jennergren: "A Tutorial on the DCF Model for Valuation of Companies";</p>

Week 7		HBS 196-130: "America Online" HBS 190-090: "Manufactured Homes, Inc."
Week 8	<p>Week 7 Midterm Exam</p> <p>Corporate Valuations V</p> <p>Corporate Earnings and Asset Analysis</p> <p>Corporate Liability and Equity Analysis</p>	
Week 9	<p>Corporate Valuations VI</p> <p>Market Multiple Methods Calculating and Interpreting Results</p>	HBS 206-039 "Corporate Valuation and Market Multiples". Chapters 13 / 14;
Week 10	<p>Corporate Valuations VII</p> <p>Implementation</p>	HBS 101-117: "Home Depot inc. in the New Millennium". Additional reading materials
Week 11	Final Take-home Exam	All above