

**Business V704  
Advanced Business Valuation Concepts and Applications  
Fall 2019  
Course Outline**

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

**COURSE OBJECTIVE**

Building on the technical valuation techniques, approaches and methods in V700, this course is designed for rich discussion and engagement with a practical focus on the impact that different situations, goals and objectives have on the value conclusion.

**INSTRUCTOR AND CONTACT INFORMATION**

**Wednesday 19:00 - 22:00**

**Instructor – Bobby Hinduja, CPA, CA, CBV**

[hindujar@mcmaster.ca](mailto:hindujar@mcmaster.ca)

Office Hours: By Appointment Only

Class Location: Ron Joyce Centre, Rm (Unknown)

**COURSE ELEMENTS**

Avenue:	Yes	Leadership:	Yes	IT skills:	Yes	Global view:	Yes
Participation:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Evidence-based:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes
Experiential:	Yes	Guest speaker(s):	Yes	Final Exam:	No		

**COURSE DESCRIPTION**

The goal of this course is to get you thinking about complicated valuation issues in a practical mindset – much like a professional business valuator would do in practice.

This course is divided into 4 distinct sections:

1. Valuations in an advisory context;
2. Valuations for litigation purposes;
3. Valuations for other non-litigation purposes; and
4. Current professional practice issues.

Assessing the value of a business requires an analysis and weighting of all value drivers, both tangible and intangible, quantitative and qualitative, and those that are within the control of management (internal), and those that are not (external). The first section of this course focuses on measuring, enhancing, and managing the value of businesses, and the culmination of the management of value process in the merger and acquisition or divestiture process. Advanced topics such as deal structure, marketing a deal, tax implications, value allocation, and intangible assets.

In the second section of this course, we will learn about the legal environment for which many business value assessments are required. Concepts of Canadian business law will be explored including shareholder and partner disputes, matrimonial breakdown and the quantification of economic damages. The differentiation between a non-independent advisor and an independent expert will be discussed.

In the third section of this course, we will discuss the work which valuers perform for purposes outside of the M&A and litigation realm, and how such engagements differ from those with a litigious or M&A purpose.

The first three sections of the course deal with the identification of the drivers of value in different valuation scenarios, and the actions taken by a valuator once these drivers of value have been established.

In the last section of this course, current “hot topics” in business valuation practices will be explored, including professional liability, independence, and reporting issues.

In addition to the above, in-depth discussions about the sources of the inputs to various valuation models will be explored and discussed. The market for private companies and the contrast to the public market will be discussed along with differences in valuation metrics and processes.

The course culminates in a team case analysis and presentation incorporating:

- Value measurement and
- Value management, including value-enhancement strategy identification and implementation.

## **LEARNING OUTCOMES**

Upon completion of this course, students will be able to complete the following key tasks:

- Assess businesses, and their value, for various situation and purposes.
- Allocate value among various classes of securities.
- Assess justifiable values for new business opportunities by comparing the required invested capital, the expected return on invested capital, and the weighted average cost of capital.
- Assess valuation approaches for mergers, acquisitions and divestitures.
- Identify the sources of information to be input into valuation-assessment models and understand the ways to test the integrity/reliability of that information.

- Assess the drivers of value in numerous enterprise types, and develop appropriate valuation methodologies.
- Provide ideas to management which will result in an increase in shareholder (and other stakeholder) enterprise or equity value.
- Explain valuation issues and other issues related to various types of legal disputes.
- Explain valuation issues and other issues related to various types of non-litigious valuation assignments.
- Understand non-routine business and operating factors which affecting value, and assess the effect that such factors have on value.
- Identify situations in which a valuator may encounter a professional practice issue, and explain the steps which a professional should take in such situations.

### **REQUIRED COURSE MATERIALS AND READINGS**

- Course Notes - “Litigation Support in Business Valuation” (The Canadian Institute of Chartered Business Valuators) – To Be Discussed
- Howard E. Johnson, *Business Valuation*, Howard E. Johnson, Veracap Corporate Finance Limited, 2012

Various articles and other publications will be provided in advance of lectures.

### **EVALUATION**

Learning in this course results primarily from class preparation (readings), in-class discussion and exercises, and guest lecturers. The instructor will provide real-world examples to bring clarity to the readings and discussions. Students are required to do the same.

Students will be evaluated on:

- A) Their participation in, and contribution to, the class;
- B) Their performance on an in-class commentary of current events or issues in valuation;
- C) Their performance on two tests of core knowledge; and
- D) Group work for a major case analysis, in which case group members will share the same grade, with the option to adjust-by-peer evaluation.

Your final grade will be calculated as follows:

### ***Components and Weights***

In-class participation (individual)	10%
Current events commentary (individual)	15%
Technical core knowledge test #1	20%
Technical core knowledge test #2	20%
Group Project - Case Analysis, Report and Presentation	35%
Total	100%

NOTE: The use of a McMaster standard calculator is allowed during examinations in this course. See McMaster calculator policy at the following URL:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/examinationindex.html>

### ***Class Participation***

The lectures in this course are interactive and participatory. The academic pre-reading is an essential part of the learning process. Students are expected to come to class well-prepared and ready to share their thoughts on the readings, their personal experiences and their thoughts gleaned from other academic courses and work/life experiences. Most importantly, questions are encouraged so that lectures will be dynamic and geared towards students' needs and intellectual curiosity. Accordingly, participation is helpful and rewarded.

### ***Current Events Commentary***

The application of technical business valuation education to “real-world” scenarios is also an essential part of learning process, and is an important part of being a well-informed professional. Students, in groups of two, will be required to provide an 8-10 minute presentation of a current event (of their choosing) dealing with valuations, mergers and acquisition, economic loss quantification, or any other topic related to course content. The presentation may be entirely verbal, but students are able to use other aids if they choose to do so. Following the students' presentation, the class will have a chance to ask questions on the topic. Although the students will not be penalized if they are unable to answer certain questions, the students are expected to fully understand their topic of choice and have an opinion as to the relevance of their topic to the course content.

### ***Technical Core Knowledge Tests***

Students' grasp of the technical concepts in the course will be evaluated in two tests, through multiple-choice and short, narrative-answer questions. Test #1 will cover material from (approximately) the first half of the classes, and Test #2 will cover the remainder of the material. All course material may be tested (regardless of form). The tests will be discussed at the start of the following lecture.

## **Group Major Case Analysis**

The assignment will test the students' ability to apply the technical knowledge acquired during the course to a real-world case simulation. The assignment will be geared to the measurement of value and the creation of a detailed value-enhancement strategy. It involves preparing a report and giving a presentation to your theoretical client or the theoretical board of directors of a company that employs you. The assignment will be completed with the presentation and submission of the written report.

1. Select a subject (publicly-traded) company and perform an independent analysis of its “stand-alone value”.
2. Compare your analysis of stand-alone value to the market's assessment at that time.
3. Provide the company's board of directors with ideas and strategies that they can implement, along with the implementation instructions, to increase the value of the company.
4. For the last step, choose a potential purchaser for the above company (another publicly-traded company). Assume you work for (or advise) the potential purchaser.
  - a. Provide reasons as to why you think the subject company would be a good acquisition for the potential purchaser. These reasons could include (but are not limited to) synergies, operational compatibility, etc.
  - b. Also provide a “fair” offer price (en bloc value) for the subject company, with explanation.

A written report containing a mix of narrative explanations and numerical analysis is expected. A (approximately) 30 minute presentation to the recipient of the report with up to (approximately) 15 minutes of Q&A is expected.

The marking key for the assignment will be approximately 30% value measurement, 25% value management/enhancement, 25% identification of divestiture scenario calculation and discussion, and 20% professionalism and quality of the presentation, written report and advice given. There will be a component of the presentation mark that is related to your personal presentation as well as if the group presentation overall was balanced.

A **reasonable expectation** for the size of the report is (approximately) 30 pages of narrative and (approximately) 10-15 schedules of numerical analysis.

### **Resources Used**

All resources used (either in the presentation or the written report) must be sourced and either a link (for articles/information available online) or the appropriate excerpt relied upon must be provided. If you are relying on a specific piece of information from a web source (as opposed to the whole article), please print the excerpt, highlight the relevant section, indicate the source (e.g. full weblink) and provide a hard copy.

### **Grade 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	POINTS
A+	90 - 100	12
A	85 - 89	11
A-	80 - 84	10

B+	75 - 79	9
B	70 - 74	8
B-	60 – 69	7
F	00 - 59	0

### ***Communication and Feedback***

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

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

Students who wish to correspond with instructors or TAs 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. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors are encouraged to 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/policy/Students-AcademicStudies/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>

### **MISSED ACADEMIC WORK**

#### ***Missed Tests / Class Participation***

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the MBA Academic Services Office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the MBA Academic Services Office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found

on the DeGroot website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the MBA Academic Services Office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by the MBA Academic Services Office.

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

### ***Missed Final Examinations***

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the MBA Academic Services Office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student's transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MBA Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MBA Final Examination and the McMaster University Student Health Certificate can be found on the DeGroot website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. Students who write examinations while ill will not be given special consideration after the fact.

In such cases, the request for a deferred examination privilege must be made in writing to the MBA Academic Services Office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons (for example religious, or for part-time students only, work-related reasons):

- Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.
- Part-time students who have business commitments which make it impossible to write examinations at the times posted are required to produce a letter on company letterhead from the student's immediate supervisor stating that they are unable to be present owing to a specific job commitment.

In such cases, applications must be made in writing to the MBA Academic Services Office at least ten business days before the scheduled examination date and acceptable documentation must be supplied.

If a student is representing the University at an academic or athletic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the MBA Academic Services Office.

In such cases, the request for a deferred examination privilege must be made in writing to the MBA Academic Services Office within ten business days of the end of the examination period.

Note: A fee of \$50 will be charged for a deferred exam written on campus and a fee of \$100 for deferred exams written elsewhere. In cases where the student's standing is in doubt, the Graduate Admissions and Study Committee may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

## **STUDENT ACCESSIBILITY SERVICES**

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>



**POTENTIAL MODIFICATIONS TO THE COURSE**

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

**COURSE SCHEDULE**

**Business V704  
Advanced Business Valuation Concepts and Applications  
Fall 2019 Course Schedule**

<b>WEEK</b>	<b>DATE</b>	<b>ASSIGNMENT</b>
1	September 11 (Phase 1 - Intro and Recap)	<ul style="list-style-type: none"> <li>• Introduction to the class</li> <li>• CICBV Programme of Studies</li> <li>• Valuation profession</li> <li>• Core valuation concepts and basics of value (Johnson Ch. 1)</li> <li>• Brief re-cap of:                             <ul style="list-style-type: none"> <li>○ Earnings-based valuation methodologies (Johnson Ch. 5, 6) and cost of capital (Johnson Ch. 7)</li> </ul> </li> <li>• Asset-based Valuation Methodologies (Johnson Ch. 3, 9 – “Holding Companies”)</li> <li>• Current Events Valuation Commentary by Bobby</li> </ul>
2	September 18	<ul style="list-style-type: none"> <li>• Comparable Transactions and Companies</li> <li>• Rules of Thumb</li> <li>• Implied goodwill and intangible assets (Johnson Ch. 9 – “Intangible Assets”)</li> <li>• Current Events Valuation Commentary by Bobby</li> <li>• Review of Week 1 Exercises.</li> </ul>
3	September 25 (Introduction to Phase 2 – Valuator as Advisor)	<ul style="list-style-type: none"> <li>• Two Current Event Commentary Presentations</li> <li>• After the enterprise value conclusion:                             <ul style="list-style-type: none"> <li>○ Triangulation of value calculations</li> <li>○ Enterprise value vs. equity value</li> <li>○ Allocation of value amongst securities</li> <li>○ Discounts and premiums</li> </ul> </li> <li>• Value Creation:                             <ul style="list-style-type: none"> <li>○ Fundamental principles of value creation, ROIC, and growth</li> </ul> </li> </ul>

4	October 2 (Phase 2 – Valuator as Advisor)	<ul style="list-style-type: none"> <li>• Two Current Events Commentary Presentations</li> <li>• Value Creation:             <ul style="list-style-type: none"> <li>○ Reorganizing the F/S</li> <li>○ Analyzing performance and competitive position Corporate portfolio strategy and performance management</li> </ul> </li> </ul>
5	October 9	<ul style="list-style-type: none"> <li>• Two Current Events Presentations</li> <li>• Mergers, Acquisitions &amp; Divestitures (Johnson Ch. 11)             <ul style="list-style-type: none"> <li>○ Creating value through M&amp;A</li> <li>○ Selling a business to management vs. externally</li> <li>○ Creating value through divestitures</li> <li>○ Marketing and negotiating the deal</li> <li>○ Acquisition and divestiture strategies and processes                 <ul style="list-style-type: none"> <li>▪ Value maximization as a business strategy</li> </ul> </li> </ul> </li> </ul>
6	October 16	<ul style="list-style-type: none"> <li>• In-Class Test #1</li> <li>• M&amp;A Discussion Continued             <ul style="list-style-type: none"> <li>○ Deal structure                 <ul style="list-style-type: none"> <li>▪ Assets vs. shares (and tax implications)</li> <li>▪ Bridging the gap</li> </ul> </li> </ul> </li> </ul>
7	October 23	<ul style="list-style-type: none"> <li>• Take up of Test #1</li> <li>• Three Current Events Commentary Presentations</li> <li>• Investor Communications</li> <li>• Public Market Behaviour</li> <li>• Take-Over Bids; Insider/Issuer Bids; Going Private</li> <li>• External vs. Internal Financing</li> <li>• Finishing Investor Communications discussions</li> </ul>
8	October 30 (Phase 3 – Valuator as Independent Expert)	<ul style="list-style-type: none"> <li>• Two Current Events Commentary Presentations</li> <li>• Litigation-Related Valuations (Johnson Ch. 10 – see applicable sections in “Notional Market Valuations”)             <ul style="list-style-type: none"> <li>○ Partner and Shareholder Disputes (Johnson Ch. 8 – “Shareholder Rights and Remedies” and “Shareholder Agreements”)</li> <li>○ Matrimonial breakdown</li> </ul> </li> </ul>
9	November 6	<ul style="list-style-type: none"> <li>• Other Economic Disputes (valuing the claim)             <ul style="list-style-type: none"> <li>• Breaches of contract</li> <li>• Business interruption</li> <li>• Expropriation</li> <li>• Personal injury and wrongful death</li> </ul> </li> </ul>

10	November 13 (Phase 4 – Practice Management)	<ul style="list-style-type: none"> <li>• In-Class Test #2</li> <li>• Professional Practice Issues</li> <li>• Common issues with notional market valuations (Johnson Ch. 10 – “Common Issues with Notional Market Valuations”)             <ul style="list-style-type: none"> <li>▪ Common deficiencies in business valuation reports and critiques</li> <li>▪ Legal responsibility and risk mitigation</li> </ul> </li> </ul> <p>Group Project Discussion</p>
11	November 20	<ul style="list-style-type: none"> <li>• Take up Test #2</li> <li>• Non-litigious valuations: (Johnson Ch. 10 – see applicable sections in “Notional Market Valuations”)             <ul style="list-style-type: none"> <li>○ Valuation for tax purposes</li> <li>○ Valuation for financial reporting</li> <li>○ Transfer pricing assignments</li> </ul> </li> <li>• Fairness opinions</li> <li>• Emerging Markets</li> <li>• Group Project discussion</li> </ul>
12	November 27	<ul style="list-style-type: none"> <li>• 2 to 3 Group Presentations (depending on class size)</li> <li>• Course evaluation</li> </ul>
13	December 4	<ul style="list-style-type: none"> <li>• 3 Group Presentations</li> </ul>