

MBA V700
Strategic Business Analysis and Valuation
FALL 2023 Course Outline

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

COURSE OBJECTIVE

- To learn the basic, high-level concepts and principles of business valuation and pricing, and
 - To learn several approaches and methods to assess (estimate) business values.
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INSTRUCTOR AND CONTACT INFORMATION

Michael R. Carnegie, BComm, CPA, CA, CBV

Instructor

michael.r.carnegie@gmail.com

Tel: 289-260-9192

Class Location: Live – In Person

Ron Joyce Center, Burlington

Class Time: Tuesdays, 10:30AM to 2:30 PM

Office hours available upon request

T.B.A.

Teaching Assistant

Tel: (XXX) XXX-XXXX

Office hours:

By appointment on request

COURSE ELEMENTS

Credit Value:	3	Leadership:	No	IT skills:	Yes	Global view:	Yes
Avenue:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Participation:	Yes	Innovation:	No	Group Work:	Yes	Oral Skills:	Yes
Evidence-based:	Yes	Experiential:	No	Final Exam:	No	Guest speaker(s):	TBD

COURSE DESCRIPTION

In this course, concepts from finance, accounting, economics, business strategy, and other business disciplines are combined and implemented to assess (estimate) the values of businesses and business interests. The focus is on the high-level concepts, principles, approaches and methods employed in this discipline. The course will be useful to students planning careers in business valuation, investment banking, securities analysis, credit analysis, consulting, public accounting, and corporate management. Lectures will be supplemented by case analysis (examples) and other discussion material.

I am excited for this upcoming semester. This is the fifth semester in which I incorporate improvements to enhance the educational benefits and enjoyment for the participants. These improvements include the adoption of the textbook “Understanding Business Valuation, A Practical Guide to Valuing Small to Medium Sized Businesses” which is now in its 6th edition with updates to 2021. While the textbook is approximately 1,200 pages long, by determining those chapters and pages which are important to the curriculum and class schedule (identified in the course schedule on the last two pages of this outline), the required reading is about 465 pages. That is an average of less than 40 per week.

As compared to other recent semesters, in which I thought this course, I changed the order of some of the lecture material and the spacing of the assignments to accomplish better learning outcomes.

Please reach out to me in advance of the first lecture (or any time thereafter) if you have any questions, comments, requests, or suggestions.

Mike

LEARNING OUTCOMES

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

- Explain valuation concepts and principles and the difference between the open market and the notional market.
- Analyze a business for the purpose of:
 - Determining the appropriate valuation approach(es) and method(s)
 - Adjusting the financial position and historical results of operations to reflect current, economic conditions
 - Estimate (project) prospective cash flow
 - Estimate appropriate required rates of return
- Consider and adjust for control (or lack thereof), marketability and liquidity
- Prepare an appropriate and well-reasoned valuation report along with an executive summary of key valuation factors, assessments, calculations, conclusions, and recommendations

REQUIRED COURSE MATERIALS AND READINGS

Avenue registration for course content, readings and case materials
<http://avenue.mcmaster.ca>

Understanding Business Valuation, Sixth Edition, Gary R. Trugman, BVR Resources.

EVALUATION

Learning in this course results from lectures and related readings, in-class discussion, and assignments (which involve the preparation and presentation of business-valuation calculations and/or reports). All work is to be completed and will be evaluated on an individual basis except where group work is expected. Your final grade will be calculated as follows:

Components and Weights

Assignment 1	ABV Valuation Case (individual)	5%
Assignment 2	CCF Valuation Case (individual)	5%
Assignment 3	DCF Valuation Case (individual)	10%
Core Knowledge Test	Non-Case (individual)	15%
Assignment 4	Case Analysis (individual)	20%
Final Group Assignment	Business Valuation Report (30%) and in-class presentation (10%)	40%
Participation	In-Class Contribution (individual)	5%
Total		100%

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

www.mcmaster.ca/policy/Students-AcademicStudies/UndergraduateExaminationsPolicy.pdf

Assignments #1, #2, and #3 – Applying Valuation Methods

These assignments are **each worth 5% or 10%** of your final grade, are to be completed on an individual basis, and will be marked individually. They will be assigned during the course and will test your ability to apply a single business-valuation method.

Core Knowledge Test

There is one test in the course that accounts for **15%** of your final grade. The test will cover material from the textbook, lectures, and class discussion. The format of the test is a combination of multiple choice and short-answer questions. Just like in the “real” world, the test is open book.

Assignment #4 - Case Analysis

This assignment accounts for **20%** of your final grade, is to be completed on an individual basis, and will be marked individually. This assignment will test your ability to select and apply appropriate valuation methods based on the case facts. You will be responsible for analyzing and preparing a solution to the case.

Major Group Assignment – Valuation Report Analysis and In-Class Presentation

This assignment accounts for **40%** of your final grade and will be marked on a group basis. The assignment requires the integration and application of concepts and techniques covered in the course. It is a group project which requires the preparation of value analyses and a valuation report. Each group will select one publicly traded company and compare its value to its per-share price (market capitalization), at the time. Doing so requires gathering and reflecting matters as:

- current and future-expected economic conditions, market conditions, and the key success factors and risks in the industry, and the subject company
- required rates of return,
- the company’s strategy, and
- analysis of historic results and forecasting probable future results to assess the value of the share equity using appropriate valuation methods. An investment recommendation should flow from the results of the valuation exercise.

You are required to consult with the instructor concerning your selected company at least two weeks before the due date. The written report should not exceed **25** pages (excluding title page, tables, graphs, appendices and references). A copy of your written report and presentation slides are to be handed in before the start of the last class. Reports should be 12-point, double spaced. Each group will present its project to the class (approximately 15 minutes) during the last session of the semester.

Participation

This aspect will account for 5% of your final grade. Discussion of course material, textbook and other readings, and cases in class, and sharing your previous academic and vocational experiences, are an important part of the learning process for all participants. Marks will be awarded based on an assessment of participation in such discussions.

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://mbastudent.degrootemcmaster.ca/contact/anonymous/>

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 INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: "Grade of F assigned for academic dishonesty"), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

COURSES WITH AN ON-LINE ELEMENT

Some courses may use on-line elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

The available information is dependent on the technology used. Continuation in a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

ON-LINE PROCTORING

Some courses may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

MISSED ACADEMIC WORK

Missed Mid-Term Examinations / Tests / Class Participation

Please do not use the online [McMaster Student Absence Form \(MSAF\)](#) as this is for Undergraduate students only. The MBA program will not accept an MSAF. When students miss regularly scheduled term work which contributes 10% or more to the final grade, for legitimate reasons as determined by the Student Experience – Academic Office (SEAO), the activity necessary to compensate for the missed work will be determined by the course instructor. The compensatory activities assigned will vary with the nature of the course and the missed requirement. They include, but are not restricted to, an alternative assignment, a rescheduled midterm exam, or re-weighting the marks for the missed component to other mark components. Documentation explaining such missed work must be provided to the SEAO within five (5) working days of the scheduled date for completion of the work.

Acceptable reasons for missed work, along with the [Petition for Missed Term Work](#) and the [MBA Student McMaster University Student Health Certificate](#), can be found on the DeGroot MBA Student website (mbastudent.degroote.mcmaster.ca). Please direct any questions about acceptable documentation to the MBA Academic Advisors (askmba@mcmaster.ca).

University policy states that a student may submit a maximum of three (3) [Petition for Missed Term Work](#) per academic year, after which the student must meet with the Director of the program.

If term work is missed without an approved reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

Students must be available for the duration of the posted exam period regardless of their personal exam schedule. This is to ensure student availability throughout the entire exam period in the event that an exam must be rescheduled due to unforeseen circumstances (university closure, power outage, storm policy, etc.). A student who misses a final examination without valid reason will receive a mark of 0 on the examination.

Students who have missed a final exam for a valid reason can apply to the SEAO to write a deferred examination by submitting an [Application for Deferring a Final Exam](#) with supporting documentation. The application must be made within five days of the scheduled exam.

The [Application for Deferring a Final Exam](#) and the [MBA Student McMaster University Student Health Certificate](#) can be found on the DeGroot MBA Current Student website (mbastudent.degroote.mcmaster.ca)

Deferred examination privileges, if granted, are normally satisfied during the examination period at the end of the following semester. In select cases, the deferred examination may be written at a time facilitated by the SEAO and agreed to by the course instructor.

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

ACADEMIC ACCOMMODATION FOR STUDENTS WITH DISABILITIES

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>

Students who are leveraging accommodation for tests and exams are supported by the SEAO. These exams are written at the Ron Joyce Centre and do not take place in the Tim Nolan Testing Centre. Correspondence for accommodations is managed via the DSBSAS@mcmaster.ca email address. Students must communicate their intent to leverage accommodations on a test or exam a minimum of 10 business days prior to the assessment.

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the [RISO](#) policy. Students should submit their request to the SEAO **normally within 10 working days** of the beginning of term in which they anticipate a need for accommodation. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

POTENTIAL MODIFICATION 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.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of MBA XXXX will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

COURSE SCHEDULE

MBA V700
Strategic Business Analysis and Valuation
WINTER 2023 Course Schedule

WEEK	DATE	Assignment
1	Sept 12	<p>Read: Text – Preface, Introduction, Chapter 1 (pages 1-10), Chapter 2 (pages 28-30), Chapter 3 (pages 73-74) and Chapter 4 (in its entirety)</p> <p>Discuss: - Class Outline, Schedule, Participation, Assignments</p> <p>Lecture: -</p> <ul style="list-style-type: none"> • What makes something valuable? • What is an investment? • Value and value in a business context (Why? What? for Whom? How?) • Overview of Business Valuation (concepts, methods, and approaches) • Business-Valuation Principles, Theory, and Terms/Definitions
2	Sept 19	<p>Read: Chapter 6 (bottom of page 192 - 214)</p> <p>Lecture: Introduction to financial analysis for business valuation</p> <ul style="list-style-type: none"> • Dissecting and segregating the balance sheet (financial position) into component parts relevant to business valuation • Introduction to Normalizing Adjustments with respect to balance sheets (financial position) and income statements (results of operations) • Assessing Tangible Asset Backing and Invested Capital • Compare and contrast accounting profits with cash flow • Introduction to Approach Selection
3	Sept 26	<p>Read: Text - Chapter 11 and Chapter 14 (Pages 542-545)</p> <p>Lecture:</p> <ul style="list-style-type: none"> • Introduction to Asset-based valuation approach and methods • Finish Normalizing Adjustments – Financial position – including tax considerations • Applying Asset-Based Valuation Approaches in business valuation <p>Discuss: Assignment 1</p>
4	Oct 3	<p>Due: Assignment #1 - Adjusted Book-Value Approach</p> <p>Read: Text – Chapter 12</p> <p>Lecture:</p> <ul style="list-style-type: none"> • Income Approaches • Finish - Normalizing Adjustments – Income statement to cash flow • Enterprise Value to Equity Value • Finish Normalizing Adjustments (income statement, cash flow) • Capitalized Earnings and Capitalized Cash Flow Methods <p>Discuss: Assignment 2</p>

WEEK	DATE	Assignment
5	Oct 10	<p>Due: Assignment #2 - Capitalized Cash-Flow Approach Read: Text - Chapter 13 Lecture Income Approaches – Simple to Complex – The Discounted Cash Flow Method: Discount and Capitalization Rates. Introduction to the Weighted-Average Cost of Capital Discuss: Assignment 3 – Discounted Cash-Flow Approach</p>
6	Oct 17	<p>Read: Text – Chapter 3 (pages 99-103), Chapter 5 and Chapter 6 (pages 153-171) Lecture:</p> <ul style="list-style-type: none"> • The steps in the Business-Valuation process • Information Gathering and Analysis – Part I
7	Oct 24	<p>Due: Assignment #3 - Discounted Cash Flow Approach Read: No additional reading needed for this class Lecture: -</p> <ul style="list-style-type: none"> • Continue Economic, Industry, and Company information – gathering and analysis • Forecasting Economic Benefits to Ownership
8	Oct 31	<p>Read: Text - Chapter 8 Lecture: Forecasting Economic Benefits to Ownership Discuss: Core-Knowledge Test</p>
9	Nov 7	<p>In-Class Core-Knowledge Test Read: Text - Chapters 9 (pages 297-300, 305-319, 330-338, 347-351, 362), All of Chapter 10 Lecture: The Market Approaches</p>
10	Nov 14	<p>Due: Assignment #4 - Case Analysis Read: Text - Chapter 2 (pages 35-42), and Chapter 17 Lecture: Valuation Reports (including reporting best practices for internal and external reports) Discuss: the plan for the next three weeks including, if time permits, reading Chapter 20 and having a lecture on valuation of intangible assets (intellectual property)</p>
11	Nov 21	<p>Read: Text - Chapter 14 (pages 523-541) and Chapter 15 (pages 549-554, Figure 15.3 on page 584, Figure 15.4 on page 588, page 607 [re: yield spreads], pages 612-623 Lecture: - Premiums and Discounts</p>
12	Nov 28	<p>Lecture: - Valuation Potpourri & Special Topics - Send requests by November 27th</p>
13	Dec5	<p>Due: Assignment #4 - Comparative Business Valuation Analysis Report and In-Class Presentation Closing remarks</p>