

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ACCG838
BUSINESS VALUATION

2nd Semester, 2010

Department of Accounting and Finance

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Year and Semester: 2010, 2nd Semester

Unit convenor: Richard Marriott

Prerequisites : Financial Accounting, Corporate Finance

Credit points: 4

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult the teaching staff in the unit.

ABOUT THIS UNIT

The valuation of businesses is a core issue for management and affects many management decisions. For example: when deciding to sell part of the current operation, or when acquiring a new entity, or when forming a view of the current share price during a restructure of the capital base of the business.

This course examines some of the many techniques commonly employed in assessing the value of whole businesses and individual parts of businesses, and how to select an appropriate technique for a particular valuation task. The focus is on establishing **the principles that underlie each of the valuation methods** and these are demonstrated by application to simple examples. Students will have a firm basis for further study into the valuation of real world complex businesses and will understand the questions that need to be asked and answered. This course does **NOT** attempt to raise student ability to that of a competent valuer, nor does it seek to analyse and value a real public listed company.

Prerequisites: At least one undergraduate unit in each of corporate finance and financial accounting. You will struggle to succeed without this prior knowledge.

Required Text

Lonergan W., *The Valuation of Businesses, Shares and Other Equity*, (Business and Professional Publishing 4th Edition). ISBN 1 86508 970 2

TEACHING STAFF

- Richard Marriott External Contact ramarriott@gmail.com

Consultation during tutorial (see next section) or by appointment.

CLASSES

- There are 13 weekly sessions of 3 hours each consisting of 1 x 2 hour lecture and 1 x 1 hour tutorial
- Classes are in E5A 116 from 2pm-5pm on Fridays. See timetable for classes on the University web site at: <http://www.timetables.mq.edu.au/>
- Although it is **NOT** part of the assessment requirement, all students are to attend all classes (including tutorials) except in cases of illness or unexpected events of a serious nature (eg family bereavement).

TECHNOLOGY USED AND REQUIRED

- Students will require a calculator (scientific or financial) capable of handling exponents. Simple financial functions (as found on financial calculators) will not be required. The calculator should **NOT** be capable of storing text or formulae **OR** it must easily be demonstrated that all memory has been cleared.
- Students must be familiar with spreadsheet technology (eg MS Excel or equivalent)

UNIT WEB PAGE

- The web page for this unit can be found at the University Web Site <http://learn.mq.edu.au> using your Student ID and Password. All lecture slides and examples, homework questions and answers, administration issues, and supplementary readings will be available on this site as the course progresses.

LEARNING OUTCOMES

The learning outcomes of this unit are:

- 1 Understand the different goals of business valuation, and why they occur.
- 2 Select an appropriate valuation technique for the specific goal.
- 3 Understand the principles and theory behind each valuation technique
- 4 Apply various valuation techniques to simple valuation problems

GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University's graduates will need to develop to address the challenges, and to be effective, engaged participants in their world. This unit contributes to this by developing the following graduate capabilities:

- 1 Discipline Specific Knowledge and Skills
 - a) Add to overall knowledge and understanding of the finance discipline
 - b) Improve ability to partition and solve complex problems
 - c) Improve speed and accuracy of manual and computer assisted calculations
 - d) Improve skills in written presentation
- 2 Critical, Analytical and Integrative Thinking
- 3 Problem Solving and Research Capability
- 4 Capable of Professional and Personal Judgement and Initiative

5 Commitment to Continuous Learning

TEACHING AND LEARNING STRATEGY

Contact sessions are three hours. The first two hours will introduce new material in a lecture format. The final hour will be a tutorial to review completed material, assignments and to answer more detailed student questions. There will be a short break before the tutorial session.

Students are required to prepare for each lecture by reading the material set out in the Course Timetable attached, and to complete the homework assignment to be discussed in tutorial.

Students are encouraged to ask questions, initiate discussions, and provide input from relevant personal experience.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

	Assessment Task 1	Assessment Task 2	Assessment Task 3
Title/Name	Quick Test	Interim Exam	Final Exam
Description (<i>including length or similar if applicable</i>)	Multi-choice diagnostic test to assess progress to date. (1 hour)	Questions require short written or calculated answers. (1.5 hrs)	Questions require longer, more complex written and calculated answers (3hrs) <u>Must pass (50%+) this exam to pass the course.</u>
Due date			
% Weighting	15%	25%	60%
Grading method - marking criteria/ standards - expectations in relation to presentation	Correct or not correct	Marking schedule High standard of presentation All calculation answers to show units and to be clearly identified	Marking schedule High standard of presentation All calculation answers to show units and to be clearly identified
Submission method	Collected on completion	Collected on completion	Collected on completion
Feedback (<i>type, method, date</i>)	Tutorial and answer sheet	Tutorial and outline answers	None
Estimated student workload (hours)	12 hrs per week (including lectures)	12 hrs per week (including lectures)	12 hrs per week (including lectures)
Learning outcomes assessed			
1	Yes	Yes	Yes

	Assessment Task 1	Assessment Task 2	Assessment Task 3
2			Yes
3		Yes	Yes
4	Yes	Yes	Yes
Graduate capabilities assessed			
1a		Yes	Yes
1b		Yes	Yes
1c	Yes	Yes	Yes
1d		Yes	Yes

- Attendance is not part of the assessment process but you are expected to attend **ALL** lectures and tutorials unless illness or significant personal factors prevent attendance.
- The **final examination** is included as an assessment task for this unit to provide assurance that:
 - i) the product belongs to the student and
 - ii) the student has attained the appropriate knowledge and skills for the course.

The 3 hour final examination for this unit will be held during the University Examination period -15 November to 29 November.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations at <http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration (see below). The University's policy on the Special Consideration process is available at http://www.mq.edu.au/policy/docs/special_consideration/policy.html

The Macquarie University examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.htm>

GRADES

The student numerical grade (SNG) is not a summation of the assessment components.

To be awarded a specific grade, students are required to perform at an equivalent standard in the final examination, as well as other assessments within the unit.

ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

SPECIAL CONSIDERATION AND SUPPLEMENTARY EXAMS

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A Special Consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at: http://www.mq.edu.au/policy/docs/special_consideration/procedure.html

Additionally, an application for Special Consideration for the final exam **may be rejected** where a student, despite having a severe medical condition on the examination day, ignores their Doctor's diagnosis, sits the final exam, and the subsequent result is unsatisfactory.

Everyone in this unit is subject to the same assessment requirements. If you meet the criteria for Special Consideration then you'll be required to complete an appropriately adjusted version of the assessment that you missed (ie a Supplementary Exam). This includes both the Interim and Final exams but not Assessment 1 which is a diagnostic test to identify students struggling with the basic material.

Supplementary final exams will NOT be granted under any circumstances if your Assessment 2 results are less than 45%.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

COURSE SCHEDULE

In addition to text reading (Loneragan) there may be handouts and weekly examples to complete for homework. Copies of lecture slides, examples, and homework questions will be on the course website.

Readings are designed to run well ahead of related lectures wherever possible. Don't get behind on readings.

The weekly workload is expected to be 12 hours including time in lectures.

WEEK/ LECTURE	DATE	TOPIC	TEXT READING
1 - 1	6 Aug	Course overview. Theory of markets, law of one price, perfect competition, market efficiency, probability distributions. Basic PV formula.	Chapter 1
2 - 2	13 Aug	Deriving multi-period general PV formula. Extensions and simplifications.	Chapter 3, 6
3 - 3	20 Aug	Valuation of basic securities. Dividend imputation. CAPM and beta. Assessment 1 - QUICK TEST	Chapter 8
4 - 4	27 Aug	General WACC and Free Cash Flow models.	Chapter 12
5 - 5	3 Sep	MM model, inflation. "Cook book" method of PV valuation of businesses.	Articles posted on Web Site
6 - 6	10 Sep	Discounting equity cash flows. Variable leverage and TCS. Acquisitions and divestments.	Chapter 7
7	17 Sep	Assessment 2 -INTERIM EXAM MID TERM BREAK	
8 - 7	8 Oct	American option pricing with intermediate cash flows. BS model. Binomial model. Valuation of hybrids.	Chapter 9, 11
9 - 8	15 Oct	Use of PV and OPT together in order to value real business options	Chapter 2, 5
10 - 9	22 Oct	Valuation by using multiples. How to develop a multiple. Future Maintainable Earnings. Estimating PE multiples.	Chapter 4, 14
11 - 10	29 Oct	Future Maintainable Dividends. Liquidity issues. Private companies. Sale of the Business	Chapter 15, 17
12 - 11	5 Nov	Asset based valuations. Book and market values. Going concern and Liquidation Values. Intangibles.	Chapter 13
13	12 Nov	Group issues. Inter-group assets/liabilities.. Course Review.	

FINAL EXAM IN UNIVERSITY EXAM PERIOD STARTING 15 NOVEMBER 2010