

Course Outline

JOHN MOLSON MBA PROGRAM

ACCO 691
Business Valuation

Fall 2015
Monday, 5:45PM – 8:15PM

Instructor: **Michel Magnan, Ph.D., FRSC, FCPA Auditor, FCA, ASC, C.Dir.**
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Hours: **By appointment only**

COURSE OBJECTIVES

Context

Many business decisions rely on the valuation of specific assets, of a business unit or of an overall entity. For instance, a CEO who is considering a strategic investment will worry about how investors will assess his/her decision, thus ultimately affecting firm value. A financial analyst considering the latest earnings release of a corporation will attempt to map these earnings into a valuation model to assess if the firm's shares are over- or under-priced. A board of directors that is considering the restructuring of a firm's operations or a new financing will consider how it is likely to affect its value. A venture capitalist or a private equity investor considering an investment in a firm will assess its value so that the attractiveness of the deal can be inferred. Before making a takeover offer on a competitor, a management team will value the competitor to assess if it is cheaper to buy it outright or, alternatively, to build new facilities to enter new markets. Finally, an entrepreneur considering a partial cession of his/her business in the context of estate or succession planning will need to obtain value estimates to assess the share of the business he/she is selling and the amount to be funded by the acquirer.

All these decisions will require directors, managers, bankers, investors and/or analysts to engage in a business valuation exercise. First, a firm's current strategic and financial situation will be inferred by analyzing its financial statements and other related information and putting it into context. Second, the firm's financial statements will be projected into the future to derive a value estimate. With such an estimate, an assessment can then be made if the decision will create value or not.

Learning Objectives

At the end of the course, students should be able to translate a firm's financial situation as well as its strategic objectives into financial projections that will serve as an input to a business valuation model. More specifically, students should be able to:

- Understand the basic principles of financial reporting under International Financial Reporting Standards;
- Assess a firm's underlying financial situation through an analysis of its financial statements;
- Determine a firm's strategic position and identify key success factors that need to be tracked;
- Prepare financial projections on the basis of financial and strategic diagnostics;
- Identify alternative valuation models and determine which one(s) is(are) most appropriate according to specific contexts;
- Integrate financial projections into a valuation model;
- Determine business value on the basis of the output from various valuation models and from different sets of business and operating conditions.

Since International Financial Reporting Standards are now mandatory in several countries around the world and by most publicly-traded Canadian firms starting in 2011, the analysis and cases emphasize this financial reporting model. However, other financial reporting models such as U.S. Generally Accepted Accounting Principles may be covered or discussed. Consistent with the advent of IFRS and the global nature of investment, the course adopts an international perspective in terms of its selection of cases.

Teaching Method

The learning process relies on two complementary approaches: formal teaching by the instructor and class discussion of cases or problems. Short lectures will be relied upon to introduce key concepts, principles and/or methods, relying on current business and financial news and textbook-derived material. However, the core of class time will be used to illustrate key concepts, principles and methods through the analysis of cases. Students are thus expected to come to class prepared to engage in an active discussion about the assigned cases. Some special guest lecturers may be invited to talk about specific topics.

Students are responsible for all material contained in the syllabus, irrespective of the extent to which it is covered in class, unless advised to the contrary.

A case or a problem will be discussed every week and students are expected to be prepared to answer questions about the case. Participation in class discussion is to be evaluated both

quantitatively and qualitatively. Only four case reports will need to be handed in and will be graded. These case reports can be done either individually or in teams of two (2) persons.

A term project is required. For the term project, students will be assumed to work for teams advising the various parties to the merger talks between FIAT and Chrysler LLC as of late 2013, early 2014. These parties, who are deemed to be the teams' clients, are respectively (1) FIAT's CEO, Mr. Sergio Marchionne, (2) Chrysler's board of directors and (3) Chrysler's minority shareholder, the union-led VEBA trust. The purpose of the term project is to perform a valuation of the 41.5% equity interest in Chrysler LLC held by the VEBA trust and to provide advice to the client.

COURSE MATERIALS

Textbook

K. Palepu; P. Healy; E. Peek
Business Analysis and Valuation: IFRS Edition – Text and Cases, 3rd Edition
Cengage Learning

Additional Resource Materials

Case reprints will be made available by the publisher for a fee.
Article reprints will be provided on an ad hoc basis.

EVALUATION

The final grade for the course will be allocated as follows:

Graded Assignments (12.5 % each X 4 assignments)	40%
Long Term Project	30%
Long Term Project Presentation	10%
Class Participation	20%
	100%

Letter and Number Grades

The following list provides the equivalent letter and number grades for assignments in this course:

Letter	Number		
A+	90	-	100
A	85	-	89
A-	80	-	84
B+	77	-	79
B	73	-	76
B-	70	-	72
C	60	-	69
F	0	-	59

Note: These grades are simply guidelines. The professor reserves the right to assign respective grades in their class.

LEARNING PLAN

Readings and Assignment Schedule

Week	Topics Covered	Readings	Due	Value
Concepts, Methods and Tools				
1 Sept. 14	Business Analysis & Valuation: An Overview	Chapter 1 Chapter 2		
2 Sept. 21	Financial Statement Analysis: Accounting Foundations	Chapter 3 Chapter 4	Assignment 1	10%
3 Sept. 28	Financial Statement Analysis: Synthesis and Comparisons	Chapter 5		
4 Oct. 5	Prospective Analysis: Forecasting	Chapter 6	Assignment 2	10%
5 Oct. 19	Prospective Analysis: Valuation Theory & Concepts	Chapter 7		
6 Oct. 26	Prospective Analysis: Valuation Implementation	Chapter 8		
Applications				
7 Nov. 2	Privatizations (buyout of minority shareholders)	Chapter 9	Assignment 3	10%
8 Nov. 9	Exit Strategies			
9 Nov. 16	Equity Security Analysis			
10 Nov. 23	Distress Situations	Chapters 10	Assignment 4	10%
11 Nov. 30	Mergers & Acquisitions	Chapter 11		
12 Dec. 7	Restructurings			
13 Dec. 8	Simulation presentations	Chapter 12	Term project	40%

Details of Assignments

- Week 1* The National Bank of Canada and the Greek Crisis (circa 2011)
- Week 2* ESSAR Energy: Indian GAAP, U.S. GAAP or IFRS? (Ivey Publishing)
- Week 3* Abu Dhabi National Hotels: What Went Wrong? (Ivey Publishing)
- Week 4* Krispy Kreme Doughnuts (Textbook)
- Week 5* Temasek's Offer to Buy Olam International (Ivey Publishing)
- Week 6* Ryanair (In textbook)
- Week 7* Magnotta Winery Corporation: Going Private
- Week 8* Facebook's IPO (Ivey Publishing)
- Week 9* Valuation at Novartis (In textbook)
- Week 10* IBI Group Inc.
- Week 11* BCE Inc.: In Play (Ivey Publishing)
- Week 12* MI Developments

Michel Magnan, BAA, MBA, Ph.D., ASC (Laval), FCPA Auditor, FCA, C.Dir., FRSC

Professor

Stephen A. Jarislowsky Chair in Corporate Governance

Director, Desjardins Center for Business Finance Innovation

John Molson School of Business

Michel Magnan holds a BAA from HEC Montréal, an MBA from McGill University and a Ph.D. in Business Administration from the University of Washington. He is a Fellow Chartered Professional Accountant and a Fellow of the Royal Society of Canada.

He joined JMSB in 2000 following a career at other business schools. He is currently a member of the Canadian Accounting Standards Board, Canada's accounting standard-setter as well as Associate Editor of the Canadian Journal of Administrative Sciences. Over the years, he has been involved in the academic and professional communities, most recently as Editor-in-Chief of *Contemporary Accounting Research*, one of the world's leading accounting journals, of which he is currently a Consulting Editor. He has had research or teaching visiting appointments in several universities around the world including Chinese Hong Kong University, University of Padova, Aarhus Business School, ESSEC, HEC Paris, Université de Toulouse-Capitole, Université de Rennes I and Université de Genève. He also presented his research work in several workshops, seminars and national-international conferences around the world.

His research interests encompass financial statement analysis, governance, incentive compensation, performance reporting as well as environmental and ethical issues in accounting and auditing. He has published over 100 articles in academic and professional journals and is often quoted by the media on financial reporting and governance issues.

He is a member of the jury for the Mouvement Desjardins Entrepreneurship and Sustainability Awards. He is a member of the editorial board of several journals, including *CPA Magazine*, *Management & Avenir*, *Contemporary Accounting Research*, *Finance-controle-strategie*, *Comptabilite-controle-audit*, *Journal of International Accounting Research*, *Canadian Journal of Administrative Sciences*.

He is currently a member of the board of directors of *Valeurs mobilières Desjardins Inc.* as well as a member of its audit, risk management and ethics committee. He is also a director of *Institut sur la gouvernance des organisations publiques et privées* and of *Institut de finance mathématique de Montréal*.

He has extensive executive or professional education experience at organizations such as Bombardier, Desjardins, Ordre des CA, RONA, Bell, etc. He is currently the Academic Adviser to the Corporate Finance Education program that is offered by CPA Canada.

ACADEMIC INTEGRITY AND THE ACADEMIC CODE OF CONDUCT

The Code of Conduct (Academic) at Concordia University states that “the integrity of University academic life and of the degrees, diplomas and certificates the University confers is dependent upon the honesty and soundness of the instructor-student learning relationship and, in particular, that of the evaluation process. As such, all students are expected to be honest in all of their academic endeavours and relationships with the University,” (Academic Code of Conduct, art. 1) Graduate Calendar, 2009-2010, page 589).]

All students enrolled at Concordia are expected to familiarize themselves with the contents of this Code. You are strongly encouraged to read the pertinent section in the 2009-2010 Concordia Graduate Calendar Graduate Calendar, (pages 589 -600) and visit the following web address: <http://provost.concordia.ca/academicintegrity/> , both of which provide useful information about proper academic conduct.

DISCLAIMER

The instructor reserves the right to change or update this outline, and any other course related materials, as required. The student will be informed in a timely manner through FirstClass and/or announcements during class.