

Course Outline

Department of Accounting and Finance
School of Business and Economics

FNCE 4120-3
Business Valuation and Restructuring (3,0,0)

Calendar Description

Students learn to value a business using commonly applied industry techniques and examine how to best restructure a company to cope with financial distress or to optimize operational or stock market performance. Topics include advanced cost of capital; business valuation techniques, such as income approaches, market multiples, and asset-based approaches; mergers and acquisitions; financial distress, bankruptcy, reorganization, and liquidations; divestitures, spin-offs, split-offs, split-ups, and tracking shares; and private equity, including angel, venture, and mezzanine financing, and investing in troubled firms.

Educational Objectives/Outcomes

Upon completing this course, students will be able to:

1. Describe the different professional designations in the field of business valuation and restructuring.
2. Calculate the appropriate complex cost of capital in varying scenarios.
3. Appraise the worth of a business using different valuation techniques.
4. Recommend an appropriate takeover bid for a business and suitable takeover defenses.
5. Develop of plan to successfully liquidate or reorganize a business that is experiencing financial difficulties.
6. Discuss the rationale for divestitures and other forms of corporate restructuring.
7. Explain the different types of private equity financing.

Prerequisites

FNCE 2120 (grade of C+ or better) or FNCE 3120 (grade of C+ or better); ECON 2330 or equivalent

Note: Students cannot receive credit for FNCE 4110 and FNCE 4120.

Co-requisites

None

Texts/Materials

Pinto, Henry, Robinson, Stow, CFA Institute Investment Series, Equity Asset Valuation, 2nd Edition, Wiley.

Student Evaluation

Tests/quizzes	30-40%
Case studies/research projects/assignments	30%
Final exam	30-40%

Students must pass the exam to pass the course.

Course Topics

1. Introduction

- Purpose of business valuation
- Professional designations
 - Chartered Business Valuator
 - Chartered Insolvency and Restructuring Professional

2. Advanced Cost of Capital

- Book, market value, and target capital structure weights
- Cost of capital models – equity
 - CAPM
 - Dividend growth model
 - Bond yield plus risk premiums
- Difficulties in calculating the components
 - Risk-free rate
 - Market-risk premium
 - Beta
 - Dividend growth rate – historical and future-orientated growth rates
- Cost of capital models – debt
 - Implied rate
 - Similar bond ratings
 - Marginal lending rates
- Weighted marginal cost of capital
 - Pure plays
 - Accounting Beta
 - Adjusting for varying levels of financial leverage
 - Size premium
 - Country risk
 - Divisional costs of capital
 - Adjusting for project risk
- Incorporating issuance/flotation costs

3. Business Valuation Techniques

- Valuation methods
 - Income approaches – DDM, FCFE, FCFF, Residual Income
 - Market multiples – P/E, P/BV, P/S, P/CF, EV/EBITDA

- Asset based
- Valuation discounts and premiums
- Valuing private companies

4. Mergers and Acquisitions (M&A)

- Rationale for M&A
- Types of M&A
 - Mergers – negotiation, proxy
 - Acquisition of stock – cash, swap
 - Acquisition of assets
- Takeover bid process
- Takeover defenses
- Valuing takeover targets - income approach, comparable companies, comparable transactions
- Evaluating takeover offers
- M&A cycle and the success of M&As

5. Financial Distress, Bankruptcy, Reorganization, Liquidation

- Causes of financial distress
- Legal framework
- Conditions for bankruptcy
- Reorganization process
- Liquidation process
- Bankruptcy strategies
- Estimating bankruptcy with credit scoring models

6. Divestitures, Spin-offs, Split-offs, and Split-Ups, Tracking Shares

7. Private Equity

- Angel/venture capital
- Mezzanine financing
- Troubled firms

Methods for Prior Learning Assessment and Recognition

As per TRU policy

Attendance Requirements – Include if different from TRU Policy

As per TRU policy

Special Course Activities – Optional

Use of Technology – Optional

