

## **FIN 430 Business Valuation**

The College of New Jersey  
School of Business  
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Office Hours: Thursday 10-1

This course focuses on the valuation of a closely held corporation. Each student will be provided income statements and balance sheets for five years for a closely held company. Students will be required to compute the value of their firm as an on-going entity. This will be done by two methods: discounted-cash flow; and by comparing the financial data of the assigned firm with that of comparative publicly held companies. Students will learn how to adjust balance sheets using differing inventory valuation methods. Students will be required to apply several of the finance concepts covered in FIN 201-Financial Management. Coverage of the valuation of intangible assets and family limited partnerships will also be part of the course.

This course relies heavily on Excel spreadsheets and internet searches. We will use a number of free data bases in the course of the semester. Upon graduation you will be expected to have working knowledge of many of these data bases in many entry level finance positions, not just those in the valuation field.

I will be available to assist you in any problems that you may encounter in completing your project. I will not, however, write your report for you or do your math computations.

The purpose of this course is for you to learn how to value a company and write a valuation report. Many students had gone on from this class to careers in the valuation field. A minimum of three firms will have representatives come to class. One firm will conduct a case analysis with you. When you leave this course you should know how to do something that an employer will pay you for with only a minimal amount of additional training. This is a unique course and you should make the most of your opportunity in it.

Several short papers are due during the course of the semester. You will get these back within one week of your turning them. You are to make the changes indicated and resubmit these papers at the end of the course.

The papers will constitute your final report. Therefore, there should be no grammatical errors in your report.

***Catalog Description:*** Valuation of closely held corporations using both the discounted cash flow and comparative company approaches. Analysis of financial statements and adjustments to balance sheets and income statements. Coverage also includes the

valuation of family limited partnerships and intangible assets. This course is classified as a capstone course for the finance major.

***Prerequisite:*** FIN 201

### **Finance Program Learning Objectives**

This course meets the following finance program learning objectives:

- determine the present value of future cash flows and the future value of present cash flows
- analyze the use of leverage
- analyze financial statements
- compute the value of financial assets
- describe how the prices of assets are determined in capital markets
- calculate a firm's cost of capital
- use written communication skills
- access, gather and analyze appropriate data and apply financial techniques to reach a conclusion
- work effectively in a team setting
- use a financial calculator

### **Course Learning Goals**

As a result of completing this course, the student will be able to complete the following tasks.

- Determine a firm's SIC code and identify other publicly held firms which have the same SIC code.
- Adjust a balance sheet for intangible items.
- Adjust an income statement and balance sheet for varying inventory valuation methods.
- Adjust an income statement to eliminate extraordinary items.

- Perform a ratio analysis of a firm's financial statements.
- Determine a firm's adjusted net income and cash flow.
- Determine a firm's market value as well as book value.
- Determine the value of a privately held company using the comparative company approach.
- Determine the discount to be applied to a company's preliminary value to account for its financial strength.
- Determine a firm's weighted average cost of capital.
- Apply the capital asset pricing model to an actual company.
- Construct a five-year projected cash-flow table.
- Compute annual depreciation on a firm's projected capital expenditures.
- Complete an industry forecast
- Determine the residual value of a company.
- Determine the present value of a firm's future cash flow projections.
- Reconcile the different values obtained by using a number of valuation techniques.
- Determine the value of an intangible asset.
- Determine the value of a family limited partnership.
- Complete a professional quality valuation report.

### **Assessment**

Over the course of the semester you will be required to turn several documents. Many of these will later become part of your final written report. By requiring these intermediate deadlines, you will be not be allowed to fall behind in the completion of the final project. There will also be a number of assignments that must be turned in that demonstrate that

The following criteria will be used in the determination of your grade for the course.

- The quality of your final written report and supporting documentation.
- The timeliness of completion of all assignments.
- Quality of assignments turned in

- Attendance for guest speakers
- The thoroughness of all submissions.

In order to assist you in the completion of your final report and earlier submissions, copies of reports completed by students who took this course in previous semesters will be made available to you.

Your grade for the course will be determined by the following process.

Your written report (including supporting documentation) will be evaluated. A grade will then be assigned to this report. This grade will be reduced by 2 points for each day that it is turned in past the final report deadline date. This grade will be lowered by a third of letter grade for each intermediate deadline and guest speaker that was missed. For example if you get a B+ on the written report and you missed three deadlines, your grade for the course will be C+. If you miss only one deadline, it would be a B.

In general the following numerical grades correspond to the following letter grades.

94-100 = A  
 90-93 = A-  
 87-89 = B+  
 84-86 = B  
 80-83 = B-  
 77-79 = C+  
 74-76 = C  
 70-73 = C\_  
 67-69 = D+  
 60-66 = D  
 Below 60 = F

Writing assignments will be graded using the following criteria:

A = Excellent work. The written work clearly and logically identifies related issues, applies the most appropriate finance concepts, provides thorough analysis without computational and verbal errors and draws well-supported, compelling and insightful conclusions.

B = Good work. The written work clearly and logically identifies related issues, applies related finance concepts (but not the most appropriate or powerful ones), provides complete analysis without computational and verbal errors and draws appropriate conclusions.

C = Average work. The written work identifies some of the issues, applies related finance concepts (but not the most appropriate or powerful ones), provides suitable analysis and conclusions with rare computational and verbal errors.

D = Below average. The written works identify few related issues, apply related finance concepts (but not the most appropriate or powerful ones), provide illogical, unrelated or inappropriate analysis with computational and verbal errors.

F = Failing performance. Omit necessary discussion and analysis. Have obvious computational and verbal errors. Conclusions are illogical and inaccurate.

### **Readings**

You will be provided a copy of *Valuing a Closely Held Company* by Thomas Patrick. Copies of completed valuation reports will be placed on reserve in the college library. You will be expected to read all of these resources.

### **Written Assignments**

This course is designed to meet the requirements to be designated a writing intensive course. You will be required to submit several short papers through out the semester. You will receive each of these papers back from me within one week of their submission. The papers will be edited and suggestions will be made for improvement. These short papers are to be corrected and resubmitted at the end of the semester as your final report.

### **Tentative Course Schedule**

1/24 Introduction and explanation of the structure of the class.

1/30 The concept of valuation  
Read Chapter 1 of the text  
Comparative company approach  
Read Chapter 2 of the text  
Selection of comparatives  
Read Chapter 3 of the text  
Assignment of company to value

2/7 Balance sheet adjustments  
Read Chapter 4 of the text  
Inventory adjustments  
Read Chapter 5 of the text  
Income statement adjustments  
Read Chapter 6 of the text  
**Turn in your list of comparative companies along with 4 page paper describing the companies you found and how you found them.**

2/14 Computation of market value, book value.  
Determination of market multiples

- Read Chapter 8 of the text
- 2/21 Ratio analysis  
Read Chapter 9 of the text  
**Turn in your six BIS forms along with paper describing how you complied them and the adjustments that you made.**
- 2/28 Discounted cash flow technique  
Read Chapter 12 of the text  
Cash flow projections, capital expenditures and depreciation  
Read Chapter 12 (continued) of the text.  
Weighted average cost of capital  
Read Chapter 11 of the text  
**The ratio analysis will be accompanied by a 4 page paper in which you discuss how the ratios were compiled and the implication of your ratio analysis on the value of your client.**
- 3/21 Residual value, net present value and reconciliation of conflicting values  
Read Chapters 13 and 14 of the text.  
Turn in your completed ratio analysis  
**Turn in market multiples tables.**  
**Turn in a 5 page paper in which you discuss how the preliminary value of your client was determined.**
- 3/28 Guest speaker from Management Planning Inc.
- 4/4 Economic and industry forecasts  
Read Chapter 10 of the text  
Turn in discounted cash flow analysis  
**The DCF analysis will be accompanied by a 5 page paper in which you describe how you arrived at free cash flows.**
- 4/25 **Final written report due.**

**The following are sources that you might find helpful in completing this course.**

*Million Dollar Directory, Ward's Business Directory*

*Dunn and Bradstreet On-Line Directory.*

*Standard and Poor's Register of Corporate Directors & Executives Volume 3 (HG 4057.A4)*

[www.fisonline.com](http://www.fisonline.com).

*Moody's Company Reports*

[www.freedgar.gov](http://www.freedgar.gov)

*The Wall Street Journal*

[www.bea.gov/bea/glance.htm](http://www.bea.gov/bea/glance.htm).

*Ibbotsons Stocks, Bonds, Bills and Inflation Yearbook* (HG 4028 V 3886)

<http://quote.yahoo.com>.

*Standard and Poor's SIC Index*

*Value Line*

*Valuing Intangible Assets* by Robert Reilly and Robert Schweihs

*Valuing a Business* by Shannon Pratt, Robert Reilly and Robert Schweihs

*Cost of Capital: Estimation and Application* by Shannon Pratt

**Here are some formal notices for this course that the administration says I am to tell you. Please read them carefully.**

1. I welcome the opportunity to work with students who have documented disabilities and are in need of academic accommodations. If you have not already done so, please notify the Office of Differing Abilities Services (609-771-2571). The Office will work with us to determine reasonable individualized accommodations that are in accordance with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1992. You can find TCNJ's Americans with Disabilities Act policy at <http://www.tcnj.edu/~affirm/ada.html>.
2. Students who violate The College's Academic Integrity Policy (see the policy at <http://www.tcnj.edu/~academic/policy/integrity.html>) will be referred to the Academic Integrity Officer—no exceptions will be made.
3. As I note above, participation is a vital learning tool in this course. Of course, you must attend class to participate. In addition to the extensive discussion of participation above, you will find TCNJ's attendance policy at <http://www.tcnj.edu/~recreg/policies/attendance.html>.

4. Students who deface TCNJ library property by removing material from books, journal, or magazines to complete work for this course will earn a failing grade for this course. The library provides ample facilities for photocopying; removing material for your personal use is both unethical and selfish.
5. Turn off your cell phones during class. While everything that we do in this class will be so fascinating that you will want to tell your friends and family about it immediately, please do not make calls, take calls, nor text during class.
6. Do not use personal computers or any other electronic devices during class for anything that is not directly related to the work we are doing at that time. No writing papers for other classes, games, writing reviews of my outstanding teaching performance on online rating services, e-mailing, web-surfing, registering for classes for next semester . . .