BUSINESS VALUATION
MBA 613.41
Summer 2004

Day/Class time:
Monday: 6:00PM – 10:00PM
Location: Orange County Center (OCC)

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Introduction

Welcome to MBFE 613! This course is designed to acquaint students with the fundamental issues surrounding valuation. We will study various techniques, both theoretical and non-theoretical, used to value business entities, investments, and assets in general. We will be applying these techniques in class to case studies as well as current events. Thus, it is important for you to stay current with business news and corporate control transactions. These events occur daily and can be quite complex.

Course Description

The purpose of this course is to study the process of valuing economic resources and measuring value created by (potential) investment decisions. To do this effectively you will need many tools. Analytical skills developed in the core courses are prerequisite. If you are rusty in some areas (such as accounting or finance) you will need to brush up so that you are ready to resume the learning process. In addition, mastery of financial calculators and spreadsheet analysis is essential to applying valuation tools as a means to accurately measuring economic value created and critically examining investment decisions. To that end, you may need to spend some extra time acquiring these skills if you do not already possess them.

Course Objectives

In addition to the previously listed objectives, students may also benefit in the following ways by improving their:

1. Understanding the fundamentals of measuring of economic value,
2. Understanding the building blocks of valuation, including measuring and interpreting a firm’s weighted average cost of capital, understanding risk and its various forms, and estimation of cash flows,
3. Understanding the many ways valuations are performed and the strengths and weaknesses of each method,
4. Understanding of which valuation methodologies are appropriate for a given situation,
5. Oral communication skills through class participation and presentations,
6. Written communication skills through case studies,
7. Ability to work efficiently and effectively within groups.

**Texts and Course Materials**

Required Texts:
1) Copeland, Thomas, Tim Koller, and Jack Murrin
2) Packet of case studies

**Grading**

The grade description and weighting method are given as follows:

<table>
<thead>
<tr>
<th>Grade Distribution</th>
<th>Assignment weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>A = 90% - 100%</td>
<td>Quizzes</td>
</tr>
<tr>
<td></td>
<td>33% (100 pts.)</td>
</tr>
<tr>
<td>B = 80% - 89%</td>
<td>Case write-ups</td>
</tr>
<tr>
<td></td>
<td>33% (100 pts.)</td>
</tr>
<tr>
<td>C = 70% - 79%</td>
<td>Case presentation</td>
</tr>
<tr>
<td></td>
<td>33% (100 pts.)</td>
</tr>
<tr>
<td>D = 60% - 69%</td>
<td></td>
</tr>
<tr>
<td>F = Below 60%</td>
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</tbody>
</table>

A brief description of each of the assignments is given below:

1) **Quizzes:** There will be six short quizzes given during the course. Due to the nature of the material we are studying, concepts introduced early in the course will be an integral part of topics covered later in the course. Therefore, the quizzes will be comprehensive to a large degree. However, the quizzes will be more heavily weighted with material covered during the previous week. You will be expected to be able to integrate all the material covered during the course. All quizzes are closed book/closed note tests. I will supply you with many of the formulas that are necessary for solving quiz problems. Your top 4 scores will count toward your course grade, the two lowest scores will not be considered in the course grade calculation.

2) **Cases:** Each case (except for the first – Consolidated Rail) will be presented to the class by groups of students, each group being comprised of three to five students. The group assigned to the presentation of a case is required to hand in their written analysis (maximum of 5 written pages) no later than 4:30 p.m. the day of the presentation.
If you are not part of the group presenting the case you are required to turn in a 1-page analysis of the case. The 3 (of 5) highest scores will count toward your course grade. The analysis should include assumptions going into the valuation model and a recommended price range. Points will be deducted for late papers.

**Attendance Policy**

Attendance will be taken the first two weeks of class to determine who will be attending the entire trimester and to make seats available for those who wish to add the class. Attendance is not explicitly computed in the course grade, but it is expected that students will only miss class under extenuating circumstances (e.g. working out of town, attending weddings/funerals, etc.)

**Conduct**

“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.
- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.
Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

**Dismissal** – separation of the student from the University on a permanent basis.

**Suspension** – separation of the student from the University for a specified length of time.

**Probation** – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.” GSBM Catalog, pgs. 201-215.

**Policy on Disabilities**

**Assistance for Students with Disabilities**

“Students with disabilities, whether mental or physical, are encouraged to contact the Equal Opportunity Office before the academic year begins or soon after classes are in session. This office will assist each student by providing general information about campus facilities and available resources. The office will assist in providing reasonable accommodation to students with disabilities pursuant to applicable laws. Inquiries should be directed to equal opportunity officer, Ms. Lauren Breeding, (310) 506-6500. (Students who wish to file a formal grievance should refer to the “Nondiscrimination Policy,” which is listed in the “Legal Notices” section of this catalog.)” GSBM Catalog, pg. 201.
# Schedule of Classes: MBA 613.41
## Summer 2004

<table>
<thead>
<tr>
<th>Session</th>
<th>Topics</th>
</tr>
</thead>
</table>
| 1       | **Discounted Cash Flow Valuation**  
Chapters 8 (pages 131-143), 10, 12  
We review the fundamental building blocks of valuation, including: identifying and measuring risk, estimating and interpreting the cost of equity capital and debt capital, estimating the WACC, and estimating free cash flow. We also develop spreadsheet models to assist in the valuation process. |
| 2       | **Adjusted Present Value Valuation**  
**Multiples Valuation**  
**Measuring Economic Profit**  
**Case: Consolidated Rail**  
**Quiz #1**  
Chapter 8 (pages 143-55)  
Applying the Economic Profit Concept in Pricing a Target, Srinivasan, 1997  
Alternative valuation methods are presented and reviewed for strengths and weaknesses. The DCF and other methodologies are applied to the Conrail case. |
| 3       | **Option Valuation**  
**Case: RJR Nabisco**  
**Quiz #2**  
Chapter 20  
Readings: Chapters 22,23,24 in Corporate Finance, Ross, Westerfield, Jaffe  
Chapters 20,21,22 in Principles of Corporate Finance, Brealey and Myers  
We review the basics of option valuation and option valuation models. These methodologies are then applied to the valuation of financial claims and investment opportunities in real assets and business enterprises. |
| 4       | **Option Valuation (continued)**  
**Case: Dixon**  
**Quiz #3**  
We continue the examining option valuation and apply option pricing to numerous and varied valuation problems. |
| 5       | **The Venture Capital Approach to Valuation**  
**Convertible Securities**  
**Case: Dressen**  
**Quiz #4**  
Chapter 15  
We examine common approaches to valuation used by venture capitalists and angel investors to determine the price per share they are willing to pay for venture investments. This process also determines the proportion of ownership the venture capitalist will acquire with the investment. We also apply option pricing models to value start-up enterprises and convertible securities. |
| 6       | **Valuing Financial Institutions**  
**Real Estate Valuation**  
**Case: Kmart**  
**Quiz #5** |
Chapters 21, 22
We review the valuation process as it applies to financial institutions in general, and to commercial banks and insurance companies specifically. We also discuss the specifics of valuing commercial real estate.

Cross-border Business Valuation
Intangible Assets/Intellectual Capital Valuation

7

Quiz #6
Chapters 17, 18, 19
We examine the adjustments to the basic valuation models that need to be made when considering valuation of foreign entities. We also study the issues related to valuing intangible assets and intellectual capital.