

**ACC 411 - Business Valuation
Department of Accounting
NC State University**

Fall 2007

John Giles Department of Accounting

Office: 3142 Nelson Hall; Email:John_giles@ncsu.edu

Telephone: 515-4449

Office Hours: MWF 10:00-11:15 am; MW 12:15-1:15 pm or by appointment.

Course Prerequisites: ACC 210, ACC 220, BUS 320, and BUS 350.

Learning Outcomes

Upon completion of this course, you will be able to:

- Assess the quality of a firm's financial statements and make adjustments to financial statements correcting major distortions caused by one-time events, management manipulation, and the limitations of GAAP.
- Perform fundamental analysis of a firm's economic performance and forecast performance.
- Translate forecasts of firm performance into pro forma financial statements.
- Explain the logic of alternative valuation models and their sensitivity to critical input parameters.
- Conduct the entire process of valuing a public company and preparing a valuation report explaining your forecasts and valuation parameters.
- Apply improved oral and written communication skills.

Texts

Financial Reporting, Financial Statement Analysis, And Valuation: A Strategic Perspective,

6th ed.2007 Stickney, Brown, and Wahlen. Thomson/Southwestern ISBN#0324302959.

Approximately \$145.

Course Pack, Sir Speedy, approximately \$20.

Schedule of Reading and Other Assignments

DAY	DATE	READING	ASSIGNMENT
W	8/22	Introduction	
F	8/24	Chapter 1	
M	8/27	Chapter 1	
W	8/29	Chapter 1	Q1.1;Q1.2;Q1.11;Q1.12
F	8/31	Chapters 1&2	
M	9/3	Labor Day	
W	9/5	Chapter 2	
F	9/7	Chapter 2	
M	9/10	Chapter 2	Q2.5;Q2.6;Q2.15 Company selection due
W	9/12	Chapter 3	
F	9/14	Chapter 3	
M	9/17	Chapter 3	
W	9/19	Chapters 3&4	Q.3.6;Q3.9;Q3.10;Q3.17
F	9/21	Chapter 4	
M	9/24	Chapter 4	
W	9/26	Chapter 4	Q4.7;Q4.12;Q4.15
F	9/28	Chapter 5 (skip pp305-315)	
M	10/1	Chapter 5	
W	10/3	Chapter 5	
F	10/5	Chapters 5&6	Q5.4;Q5.11
M	10/8	Exam I (Chapters 1-5)	
W	10/10	Chapter 6	
F	10/12	Fall Break	
M	10/15	Chapter 6	Q6.1;Q6.4;Q6.10
W	10/17	Chapter 6	
F	10/19	Chapter 7	
M	10/22	Chapter 7	
W	10/24	Chapter 7	Q7.3;Q7.9;Q7.13
F	10/26	Chapters 7&8	
M	10/29	Chapter 8	
W	10/31	Chapter 8	

F	11/2	Chapter 8	Q8.3;Q8.4;Q8.10
M	11/5	Chapter 10	
W	11/7	Chapter 10	
F	11/9	Chapter 10	Q10.5;Q10.9;Q10.12
M	11/12	Chapters 10&11	
W	11/14	Chapter 11	
F	11/16	Chapter 11	
M	11/19	Chapter 11	Q11.4;Q11.11;Q11.12
W	11/21	Thanksgiving	
F	11/23	Thanksgiving	
M	11/26	Chapter 12	
W	11/28	Chapter 12	
F	11/30	Chapter 12	
M	12/3	Chapter 12	Project Due
W	12/5	Chapter 12	Q12.1;Q12.10;Q12.14
F	12/7	Review	

TEAM PROJECT REQUIREMENT

Objective

You will be assigned to teams with three or four members.

The project requires you to conduct a complete analysis and valuation of a business. A key feature of the project is that it requires you to identify and obtain the relevant information. Thus, in addition to being evaluated on your ability to apply the tools of analysis described in the course, you will also be evaluated on your ability to identify and obtain the relevant information. Your analysis should provide solid support for the assumptions and forecasts that drive your valuation. Your valuation should use only publicly available information. Do not use inside information obtained from personal company contacts, etc.

Choosing a Company

Selecting a company because you like its product or because you plan to work there is unlikely to identify an under- or over-priced stock. Your project will be more interesting and rewarding if you select a company that is likely to be under or overvalued in the market. On the other hand, you may want to avoid situations that have excessive complexity, e.g., GM and GE; and companies with special situations that make forecasting highly difficult, e.g., companies in the process of completing a major acquisition or restructuring. To increase the odds that your analysis will yield a viable investment opportunity, you may want to consider companies with extreme fundamental-to-price ratios, a lack of consensus in analysts' forecasts, high stock volatility, high trading volume, a large short position and other similar statistics. You can perform your own stock screen search for companies that look promising on these dimensions, and you can look at publicly available large-sample screens such as those posted on

www.valuedog.com. **You need to clear your final selection with me before proceeding. Your company selection is due no later than September 10.**

Valuation Project

Your valuation analysis should follow the steps described in the course.

1. **Business Strategy (half page):** Briefly describe the company's industry and specific lines of business, discuss its strategy for success and, most importantly, the sustainability of profits generated by the strategy. Why do you think the firms return on equity will or will not revert to its cost of capital? Please do not simply repeat the company overview from the 10-K. **(15 points)**
2. **Accounting (1 page):** Assess the degree to which the firm's accounting reflects the underlying business reality. Identifying accounting distortions and their impact on the sustainability of profits. Describe only the accounting problems that need to be taken into consideration in your forecast, and how you resolved these problems in your forecasts. Be sure that you have corrected any misclassifications made by the data service in transferring the data from the 10-K to the database **(20 points)**
3. **Financial Analysis (2 pages):** Use ratio analysis and/or cash flow analysis to evaluate the current and past performance of the business and assess its sustainability. You should definitely compare your company to some peers in the same industry. **(25 points)**
4. **Forecasting (2 pages):** Forecast the firm's future income statements and balance sheets. This is the heart of the project so provide specific justification for each major component of your forecasts. Is the forecast based on past trends, comparisons with other firms in the industry, an industry report, etc.? How does your forecast for the next few years compare with analyst forecasts? Finding relevant data from outside the firm's own financial statements to guide your forecasts is particularly valuable here. Be sure to justify your selection of a time horizon. Justify your forecast of the company's ROE in the terminal year. Compare your EPS forecast for the first year (or two if available) to the market consensus forecast and explain any significant differences. **(30 points)**
5. **Valuation (half page) on a recent date:** Note that if you have downloaded data from the Library, that the dates may be off by one year. In this case, you will need to set the valuation date as 2005 rather than 2006 to obtain a current valuation. Justify your estimate of the cost of equity capital. Compare your valuation of the company to the current market value of the company and describe what you believe are the differences between your forecasts and the market consensus. You should conduct a sensitivity analysis by varying your discount rate and other crucial assumptions. **(10 points)**
6. **In addition you must attach the company's most recent 10-K filing: Item 1 – Business and Item 8 – Financial Statements.**

Grading Policy

Grades will be based on the following point allocation:

Midterm Exam	100 points
Team Project	100 points
Final Exam	150 points
Assignments & individual cases (8 x 5)	40 points
Attendance & Participation.....	60 points
Peer Evaluation	50 points
Total	500 points

Course grades will be based on the following point totals:

A+	485	C+	385
A	465	C	365
A-	450	C-	350
B+	435	D+	335
B	415	D	315
B-	400	D-	300
		F	<300

Class Participation

During our meetings, you may have the opportunity to discuss a particular issue related to the topic of the day, present your analysis, and comment on your classmates' analyses. As we discuss the assignments and cases, I will call on members of the class to present their solutions. **Extra credit** will be awarded for participation throughout the semester that demonstrates exceptional preparation, subject matter knowledge and communication.

Peer evaluations

Peer evaluations of team members will be submitted before the Final Exam day. I will provide a questionnaire.

Attendance Policy

Attendance is expected. You will be assigned a seat in order to facilitate recording class attendance and participation. Absences that are excused according to University Policy will not reduce your grade. Assignments turned in late because of excused absences will not be penalized. **BV homework problems and written case solutions submitted after the assigned class period will receive a grade of zero unless you have an excused absence.** The university attendance regulation can be viewed at http://www.ncsu.edu/policies/academic_affairs/pols_regs/REG205.00.4.php

You may have one unexcused absence (after the first week) without a penalty. For each additional unexcused absence, your point total will be reduced 10 points to a maximum 50-point reduction.

Academic Integrity

It is the expectation of the instructor that every student abides by the NC State Honor Pledge and that your signature (manual or electronic) indicates that you have abided by

the Honor Pledge and have neither given nor received unauthorized aid on the assignment or examination: http://www.ncsu.edu/stud_affairs/osc/academic_integrity/

Students with Disabilities

Reasonable accommodations will be made for students with verifiable disabilities. In order to take advantage of available accommodations, students must register with Disability Services for Students at 1900 Student Health Center, Campus Box 7509, 515-7653. http://www.ncsu.edu/provost/offices/affirm_action/dss/

For more information on NC State's policy on working with students with disabilities, please see the [Academic Accommodations for Students with Disabilities Regulation](http://www.ncsu.edu/policies/academic_affairs/courses_undergrad/REG02.20.1.php) (http://www.ncsu.edu/policies/academic_affairs/courses_undergrad/REG02.20.1.php)