



# AFIN838

## Business Valuation

City S2 Day 2019

*Department of Applied Finance*

### Contents

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<a href="#"><u>General Information</u></a>	2
<a href="#"><u>Learning Outcomes</u></a>	2
<a href="#"><u>General Assessment Information</u></a>	3
<a href="#"><u>Assessment Tasks</u></a>	3
<a href="#"><u>Delivery and Resources</u></a>	5
<a href="#"><u>Unit Schedule</u></a>	6
<a href="#"><u>Learning and Teaching Activities</u></a>	7
<a href="#"><u>Policies and Procedures</u></a>	8
<a href="#"><u>Graduate Capabilities</u></a>	9
<a href="#"><u>Changes from Previous Offering</u></a>	11

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## General Information

### Unit convenor and teaching staff

Convener

Keith Woodward

[keith.woodward@mq.edu.au](mailto:keith.woodward@mq.edu.au)

Refer to iLearn

### Credit points

4

### Prerequisites

ACCG611 or AFIN613 or ACST603 or AFIN858

### Corequisites

### Co-badged status

### Unit description

This unit develops students' abilities to conduct equity valuation for investment purposes. This advanced module introduces the techniques used by equity financial analysts to measure the worth of a company and its investments. Students assume the role of a financial analyst and learn the mechanics of financial valuation by: performing industry and financial analysis, measuring accounting quality, estimating discount rates, forecasting cash flows, and ultimately issuing a buy/hold/sell recommendation on the firm based on the estimated target price.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

1. Working collectively in a group, write a report valuing the equity of a company listed on the Australian Securities Exchange and make corresponding investment recommendations.
2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
3. Apply valuation techniques to real world valuation problems.
4. Explain the principles and theory behind each valuation technique

## General Assessment Information

Assessment criteria for all assessment tasks will either be provided on the unit iLearn site. It is the responsibility of students to view their marks for each within session assessment on iLearn within 20 working days of posting. If there are any discrepancies, students must contact the unit convenor immediately. Failure to do so will mean that queries received after the release of final results regarding assessment tasks (not including the final exam mark) will not be addressed.

## Assessment Tasks

Name	Weighting	Hurdle	Due
<a href="#"><u>First Quiz</u></a>	10%	No	Week 4
<a href="#"><u>Second Quiz</u></a>	10%	No	Week 8
<a href="#"><u>Valuation Report</u></a>	20%	No	Week 12 (refer to iLearn)
<a href="#"><u>Final Exam</u></a>	60%	No	University Examination Week

### First Quiz

Due: **Week 4**

Weighting: **10%**

#### Task Description:

The first quiz aims to assess student progress in the course.

**Type of Collaboration:** Individual **Submission:** In class **Format:** 15 multiple choice questions

**Length:** 45 minutes **Inherent Task Requirements:** Answer questions based on prior lectures

#### Late Submission:

Extensions.

No extensions will be granted. Students who have not submitted the task prior to the deadline will be awarded a mark of 0 for the task, except for cases in which an application for special consideration is made and approved.

On successful completion you will be able to:

- 2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
- 3. Apply valuation techniques to real world valuation problems.
- 4. Explain the principles and theory behind each valuation technique

### Second Quiz

Due: **Week 8**

Weighting: **10%**

**Task Description:**

The second quiz aims to assess student progress in the course.

**Type of Collaboration:** Individual **Submission:** In class **Format:** 15 multiple choice questions

**Length:** 45 minutes **Inherent Task Requirements:** Answer questions based on prior classes

**Late Submission:**

Extensions

No extensions will be granted. Students who have not submitted the task prior to the deadline will be awarded a mark of 0 for the task, except for cases in which an application for special consideration is made and approved.

On successful completion you will be able to:

- 2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
- 3. Apply valuation techniques to real world valuation problems.
- 4. Explain the principles and theory behind each valuation technique

## Valuation Report

Due: **Week 12 (refer to iLearn)**

Weighting: **20%**

**Task Description:**

Students groups will write a report valuing a company listed on the Australian Securities Exchange (ASX). The valuation report will be written for the board of directors of a potential acquirer. The final exam will also contain questions based on the assignment to test individuals' contributions. The assessment weight of the assignment-related questions in the final exam will be 20 percentage points of the 60 percentage points total.

**Type of Collaboration:** Group **Submission:** Must be submitted electronically via iLearn.

Submission of the group assignment will be in semester academic week 12. Students will be advised in class of the format of the group assignment and the exact date and time of the group assignment submission deadline. **Format:** Refer to iLearn **Length:** Refer to iLearn **Inherent**

**Task Requirements:** Refer to iLearn **Late Submission:**

Late Report Submission

No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission – 20% penalty). This penalty does not apply for cases in which an application for special consideration is made and approved. No submission will be accepted after solutions have been posted.

On successful completion you will be able to:

- 1. Working collectively in a group, write a report valuing the equity of a company listed on the Australian Securities Exchange and make corresponding investment

recommendations.

- 2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
- 3. Apply valuation techniques to real world valuation problems.
- 4. Explain the principles and theory behind each valuation technique

## Final Exam

Due: **University Examination Week**

Weighting: **60%**

### Task Description:

The examination will be a **closed-book** examination. Students will be permitted to take ONE A4 page of paper containing reference material printed on both sides. The material may be handwritten or typed. The page will not be returned at the end of the final examination.

**Type of Collaboration:** Individual **Submission:** Refer to iLearn **Format:** The examination may consist of multiple choice questions and written questions requiring longer, more complex and calculated answers. **Length:** 2 hours with 10 mins reading time **Inherent Task Requirements:** Refer to iLearn **Late Submission:** No extensions will be granted. Students who have not submitted the task prior to the deadline will be awarded a mark of 0 for the task, except for cases in which an application under Special Consideration Policy is made and approved

On successful completion you will be able to:

- 1. Working collectively in a group, write a report valuing the equity of a company listed on the Australian Securities Exchange and make corresponding investment recommendations.
- 2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
- 3. Apply valuation techniques to real world valuation problems.
- 4. Explain the principles and theory behind each valuation technique

## Delivery and Resources

<b>Required Text:</b>	"Damodaran on Valuation" Second Edition by Aswath Damodaran. ISBN: 978-0471751212 The text is available from the Macquarie University Co-op Bookshop ( <a href="https://www.coop.com.au/s/macquarie-university">https://www.coop.com.au/s/macquarie-university</a> ). You can also check the 2nd hand bookshop or search online. Macquarie University library has a few copied as well. Other relevant reading materials besides the textbook will be provided and accessible via iLearn.
<b>Unit Web Page:</b>	Course material is available on the learning management system at <a href="http://iLearn.mq.edu.au">http://iLearn.mq.edu.au</a> You are strongly encouraged to regularly visit the website and use it as a resource centre to assist with your learning. All lecture material and examples, homework questions and answers, administration issues, and supplementary readings will be available on this site as the course progresses. If you are unable to access the website because you are not aware of or have forgotten your username and password, please contact the IT helpdesk. All information can be found at <a href="http://informatics.mq.edu.au/help/">http://informatics.mq.edu.au/help/</a>  With regards to assistance in using iLearn please visit the following link. <a href="http://www.mq.edu.au/iLearn/student_info/index.htm">http://www.mq.edu.au/iLearn/student_info/index.htm</a> You can follow the tabs on the left, i.e., "Getting Started" and "Access iLearn" Please remember to log out when you have finished using iLearn. Failure to do so could result in unauthorised access to your iLearn account.

<b>Technology Used and Required:</b>	Students will require a calculator (scientific or financial) capable of handling exponents. Simple financial functions (as found on financial calculators) will not be required. If the calculator is to be used in exams then it must NOT be capable of storing text or formulae OR it must easily be demonstrated that all memory has been cleared. Students must be familiar with spreadsheet technology (eg MS Excel or equivalent)
<b>Delivery Format and Other Details:</b>	<p><b><u>Classes</u></b></p> <ul style="list-style-type: none"> <li>• There are 13 weekly sessions of 3 hours.</li> <li>• See timetable for classes on the University web site at: <a href="http://www.timetables.mq.edu.au/">http://www.timetables.mq.edu.au/</a></li> <li>• All students are to attend all classes except in cases of illness or unexpected events of a serious nature (eg family bereavement).</li> </ul> <p><b><u>Teaching and Learning Activities</u></b></p> <p>Contact sessions are three hours. There will be one short break during the session. Students are required to prepare for each lecture by reading the material set from the required textbook. Students are encouraged to ask questions, initiate discussions, and provide input from relevant personal experience.</p>
<b>Recommended Readings:</b>	
<b>Other Course Materials:</b>	

## Unit Schedule

Week	Date (Monday)	Seminar
1	29.7.19	Module 1- Introduction, Sources of Information, and Industry Analysis
2	5.8.19	Module 2- Financial Reporting and Analysis
3	12.8.19	Module 3- Market Valuation: Relative Valuation Techniques (PART 1)
4	19.8.19	Module 3- Market Valuation: Relative Valuation Techniques (PART 2) <b>First quiz (10%)</b>
5	26.8.19	Module 4- Advanced Estimation of Discount Rates
6	2.9.19	Module 4- Advanced Estimation of Discount Rates
7	9.9.19	Module 5- Quality of Financial Statement and Reliance on Accounting Numbers
Break		Mid-semester break from Monday 16.09.19 to Friday 27.09.19
8	30.9.19	Module 6- Discounted Cash Flow (DCF) Valuation - Calculating Free Cash Flows (PART 1) <b>Second quiz (10%)</b>
9	7.10.19	Module 6- Discounted Cash Flow (DCF) Valuation - Calculating Free Cash Flows (PART 2)
10	14.10.19	Module 7 - Forecasting Free Cash Flows
11	21.10.19	Module 8- Issues in Estimating Terminal Value
12	28.10.19	Module 9- A Practitioner's Approach to Valuing Firms: The Case of ValueCo Inc.
13	4.11.19	Revision Class

## Learning and Teaching Activities

### Module 1: Introduction, Sources of Information, and Industry Analysis

Overview of the subject; Analyses of Financial Statements; Understanding the Industry Corporate Strategy

### Module 2- Financial Reporting and Analysis

Identify users of financial statements; Explain effects of different accounting policies; Calculate profitability, efficiency, leverage and capital market ratios; Analyse profitability using growth rates; Analyse asset utilisation and capitalisation; Calculate sustainable growth rates; Identify appropriate comparisons for ratio analysis

### Module 3- Market Valuation: Relative Valuation Techniques

Introduce the principles and methods of conducting relative valuation

### Advanced Estimation of Discount Rates

Introduce state-of-art approach to estimating discount rates of an individual business project/equity.

### Module 5- Quality of Financial Statement and Reliance on Accounting Numbers

Understand the concept of “quality” accounting information; Develop the skills to know when and how to adjust current earnings for income not expected to persist; Use different methods to quantify the degree of earnings management; Evaluate market response to earnings management; Separate operating from non-operating expenses; Remove special items from EBIT/EBITDA

### Module 6- Discounted Cash Flow (DCF) Valuation - Calculating Free Cash Flows

Introduce the idea of free cash and how to calculate it and then extend to free cash flow to equity

### Module 7 - Forecasting Free Cash Flows

Estimation of growth rate of future cash flows

### Module 8 - Issues in Estimating Terminal Value

Estimation of the terminal value: principles and approaches

### Module 9- A Practitioner's Approach to Valuing Firms: The Case of ValueCo Inc.

A case study on valuing a particular firm: ValueCo Inc.

## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central \(https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central\)](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)
- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Undergraduate students seeking more policy resources can visit the [Student Policy Gateway \(https://students.mq.edu.au/support/study/student-policy-gateway\)](https://students.mq.edu.au/support/study/student-policy-gateway). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central \(https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central\)](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central).

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/study/getting-started/student-conduct>

## Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au) or if you are a Global MBA student contact [globalmba.support@mq.edu.au](mailto:globalmba.support@mq.edu.au)

## Supplementary exams

Information regarding supplementary exams, including dates, is available at:

[http://www.businessandconomics.mq.edu.au/current\\_students/undergraduate/how\\_do\\_i/special\\_consideration](http://www.businessandconomics.mq.edu.au/current_students/undergraduate/how_do_i/special_consideration)

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support>



[dents.mq.edu.au/support/](https://dents.mq.edu.au/support/)

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](https://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](https://ask.mq.edu.au)

If you are a Global MBA student contact [globalmba.support@mq.edu.au](mailto:globalmba.support@mq.edu.au)

## IT Help

For help with University computer systems and technology, visit [http://www.mq.edu.au/about\\_us/offices\\_and\\_units/information\\_technology/help/](http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/).

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

### Learning outcomes

1. Working collectively in a group, write a report valuing the equity of a company listed on the Australian Securities Exchange and make corresponding investment recommendations.
2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
3. Apply valuation techniques to real world valuation problems.

- 4. Explain the principles and theory behind each valuation technique

## Assessment tasks

- First Quiz
- Second Quiz
- Valuation Report
- Final Exam

## PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

## Learning outcomes

- 2. Evaluate business valuation techniques to determine the most appropriate technique for the specific valuation task.
- 3. Apply valuation techniques to real world valuation problems.
- 4. Explain the principles and theory behind each valuation technique

## Assessment tasks

- First Quiz
- Second Quiz
- Final Exam

## PG - Effective Communication

Our postgraduates will be able to communicate effectively and convey their views to different social, cultural, and professional audiences. They will be able to use a variety of technologically supported media to communicate with empathy using a range of written, spoken or visual formats.

This graduate capability is supported by:

## Learning outcome

- 1. Working collectively in a group, write a report valuing the equity of a company listed on the Australian Securities Exchange and make corresponding investment recommendations.

## Assessment task

- Valuation Report

## Changes from Previous Offering

None