

VILLANOVA  
School of Business  
Executive MBA  
Program

***Valuation, Acquisitions & Restructuring***  
**Professor Robert N. West**

***EMB 1017***  
**Fall 2007**

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(not yet updated, July 2007; I will email certain cases to you.)

**Course Materials**

Financial Management: Theory and Practice, 11th Edition, Brigham and Ehrhardt, Thompson Publishing Co., 2003.

Analysis for Financial Management, 8<sup>th</sup> edition Higgins, (fabulous book)

*Accounting: Text and Cases*, Anthony et.al., Irwin Publishing Co., 11<sup>th</sup> edition

**Cases to be assigned during the module.** (this is a case course)

**Course Content**

The course is built on four necessary and dependent elements of value-based management; valuation principles, measuring value, assessing performance and creating incentives. These elements should be part of every business decision and therefore affect the value chain at every point.

The principles of valuation are based on concepts introduced during the first four modules of this program. Primarily, valuation is the confluence of economic concepts and financial analysis. The clear understanding of accounting principles and the effective use of accounting data are requisite for good decision-making.

However, it is important to note that economic valuation is simply the method we have chosen to “keep score.” If economic rationality prevails (i.e., more wealth is better than less wealth), then performance metrics must proxy wealth effects and employee and management incentives must be tied to these wealth effects.

This course reinforces the principles of economic valuation and provides opportunities to apply the theory. The exploration begins with examining the sources of value creation, that is, the value drivers throughout each system. The next step is applying these concepts to projects and processes within the organization. We will make capital budgeting decisions, examine restructuring and financial distress, explore metrics such as Economic Value Added, apply activity based costing/strategic cost management and perhaps the Balanced Scorecard. Finally, we utilize value based management concepts across the life cycle of an organization and then examine incentive systems that are consistent with these concepts.

## Course Objectives

- ◆ To enhance **critical thinking skills**
- ◆ To develop a **framework for value-based decision making**
- ◆ To provide opportunities **to apply this framework in corporate settings**
- ◆ To **practice the communication skills** required for success in a corporate setting

## Assessment

Students have the following opportunities to be *rewarded* for achieving the above objectives:

**Quality of class discussion: (25%):** A primary objective of this course is to enhance your ability to think critically and to offer creative solutions to business problems. Therefore, the course is designed as an interactive course.

You are asked to analyze cases qualitatively and quantitatively (fluency with Excel is expected), define problems and issues and **express** possible solutions.

The quality of class discussion is evaluated in **every class session (consider each case discussion as worth roughly 3% of your course grade)**. Discussion performance is based on preparation of out-of-class assignments as well as analysis and discussion of in-class assignments. You are not judged based on the *correctness* of your answer or your comment. Instead, **thought process, the approaches to the problem, the ability to identify important issues, the initiative taken in exploring the issues, creativity, and the willingness to self-challenge are the bases for performance evaluation.**

Students should prepare the case analysis as a group, but each individual is responsible for class discussion of the case.

**Written case analyses (75%):** Four case analyses must be submitted and are due:

**Sep 22 (15%) Group**

**Oct 19 (20%) Group**

**Nov 3 (15%) Group**

**Dec 14 (25%) Individual plus short quiz**

## Course Guidelines

By enrolling in this course each student contracts to be committed to the "4 Ps" of student responsibility. These "4 Ps" are adapted from the Harvard Business School and are as follows:

**Preparation.** The student must read and analyze the assigned material and be prepared to formulate a plan of action. Without preparation by the student, the discussion has little meaning and nothing is learned. Preparation should be performed as a team, but each student is individually responsible in class discussion. In a case-method course much of the **learning takes place in preparation** for discussion.

**Presence.** Obviously, if the student does not attend class, she or he cannot learn or add insight to the discussion. However, presence also means **being invested in the process and in the discussion.**

**Promptness.** Students who enter the classroom late disrupt the discussion and deprecate the decorum of the process. Typically, this indicates a lack of respect for colleagues. Furthermore, **the tone and tenor for the class is often set in the first few minutes.** Students should make every effort to be prompt for case discussions.

**Participation.** Each student must regularly participate to learn. Further, the student has the **responsibility to share** his or her understanding and **insight with the class.** Each student should be prepared well enough to participate regardless of his or her approach to the case.

The following course outline is tentative and subject to change.

**Course Outline**

<i>Date</i>	<i>Topic and Assignment</i>
Friday, Sept. 7 (2 hrs)	Introduction to value creation and value sources <b>Case: The Battle for Value: Federal Express Corp. vs. UPS, Inc. (EVA)</b> (can read marketreality.pdf if you like) Accounting review, Finance Review (see the finance terms and ratios at the end of the syllabus. Come to class with a decent understanding of them. We will review them briefly.)
<b>Saturday, Sep 22 (3 hrs)</b>	Capital budgeting (review Finance text as needed or Anthony Chapter 27) <b>Case: Flex Connex* (group)</b> Koch Industries (8 questions), Q-Dots (just read it)
Friday, Oct 5 (3 hrs)	<del>Q-Dots</del> <del>Case: MGM Mgmt (from financials, 2004)</del> <del>General Host (Change of Equipment) Purchase</del>
<b>Friday, October 19 (1) (3 hrs.)</b>	<b>Case: Brown-Forman* (group)</b> (acquisition) <b>Finish GMC Imaging, MGM?</b>
Friday, October 19 (2) (2 hrs.) [or panel]	<b>Case: General Host Bond Refinancing (ATH, Inc. – in class exercise)</b> BuyGas (Court case) [or panel]
<b>Friday, Nov 2</b>	<b>Panel or ATH, BuyGas, General Host (bond refinancing)</b>
<b>Saturday, Nov 3 (3 hrs.)</b>	<b>Case: Revco* (Restructuring)</b> <b>EVA lecture</b>
<b>Friday, Nov 30 (2 hrs.)</b>	Economic Value Added <b>Case: Outsource, Inc., article Marketreality.pdf</b> Recommended readings: <i>The Quest for Value</i> by Stewart (esp. chap. 3), <i>EVA: Fact and Fantasy</i> by Stewart, G. Bennett, <i>Valuation</i> by Copeland et. al.
<b>Friday, December 14 (4 hours)</b>	<b>Final exam case: Federated vs. Questr</b> (individual) Executive compensation discussion <b>Crystal Supply case (Mgmt buyout)</b> <b>Guest speakers (Slots Casino val., Restructuring)</b>

**Score Sheet** (Bring with you to each class session)

Case	6-7 (high quality)	4-5	1-3	0 (said nothing)
FedEx (EVA)				
Koch Industries				
General Host Bonds				
Q-Dots (Mgmt LBO)				
ATH (in class)				
Flex-Connex (CapX)				
GMC Imaging (Cap)				
Brown-Forman (Acquisition)				
MGM Mirage (you're an analyst)				
Revco (Restructure)				
BuyGas (ABC)				
Outsource, Inc (EVA)				
Final Case-Questrom (valuation dispute) Crystal Supply-LBO				

You keep track each week. I will drop your lowest one. (I keep a sheet too)

FedEx, MGM Mirage, and Koch Industries are cases that will help us review Accounting and Finance. Terms you should know coming into the class (we will quickly review them after the FedEx case)

Free Cash Flow, After-tax cash flow, CFFO

WACC

CAPM

Annuity

Net Present Value (NPV), Present Value (excel commands...)

Internal Rate of Return (IRR) (excel commands...)

Working Capital

EBIT, EBITDA, Operating Income

EPS

Price Earnings (P/E), Market to Book

Preferred Stock

Treasury Stock

Dividend Payout ratio, Dividend Yield

ROE, DuPont ratios

Profitability: ROA, ROS, Revenue per employee

Liquidity: Current ratio, Quick ratio, Cash burn rate

Off Balance Sheet financing, Debt:Equity ratio, Interest Coverage, calculate interest

Contribution Margin, Fixed Cost, Variable Cost, Break-even

Depreciation

Cost Driver, Overhead (Mfg and Corporate) Allocation, product cost, period cost

Accrual basis of accounting (revenue and expense recognition)