

2019 Syllabus
for
Corporate Valuation Cases in Mergers and Acquisitions

Lecturer: Vyacheslav Ivanov

Class teacher: Vyacheslav Ivanov

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Course Description

Corporate Valuation Cases is a one-semester course which primary objective is to give students some useful insight into the practicalities of investment banking profession.

The course will further strengthen financial evaluation skills obtained by student in the previous courses and will focus on practical aspects of valuation models applied to various industries and transaction types. The course will start with some overview of modern accounting practice under IFRS (and GAAP), as applied to an investment banker's work.

It will also provide students a brief overview of the European and US securities regulation in terms of the major areas of awareness in the IB environment. This will involve discussing typical disclosure requirements and common bankers' duties in a banker-client relationship and corporate governance. An overview of the major areas of awareness when concluding corporate transactions under the English law will be provided.

The course material will be based on selected sections of the required reading list and optional supplementary readings to be provided to the students by the ICEF. Most of the sessions will be concluded by practical interactive cases involving multiple aspects of the course material, to be submitted by the next class session. Throughout the course, the cases will increase in complexity from qualitative analysis to practical valuation models and actual deal making by students.

The course will be taught and evaluated in English.

Prerequisites:

A Corporate Finance course or equivalent. Investment Analysis course or equivalent. Basic accounting course.

Teaching Methods

Weekly lecture sessions, 2*2*45 mins

Self-study reading and written assignments or cases during the week

Seminar sessions on selected cases

Assessment

Individual and team cases will produce the largest part in each student's grade in the course. Assessment of the cases will be made on a qualitative and quantitative basis. Feedback will be provided in returned assignments and during seminar discussions.

Grade Determination

Cumulative sum of scores for individual and teamwork Cases will be used in lieu of interim assessment with the total weigh of 65%

Final Exam (120 min, short essay questions and problems) 30%

Discretionary bonus (to be assigned by the lecturer to selected students based on their participation in class discussions, creativity in teamwork, etc.) 5%

No separate mid-term examination will be administered, thus students are advised to work diligently with their casework from day one. Normal distribution ("bell curve") adjustment bias will be applied to the entire class after the final exam, prior to assigning final course grades.

Teaching Objectives

The purposes of the course is to give the students basic knowledge and practical skills required at the entry level to the investment banking and consultancy professions. Considerable amount of practical exercises will allow students to practice their skills across various industries and different advisory engagement types that they will likely to see in their initial years in the profession.

During the course, practical cases will increase in the level of complexity from understanding information flow through financial statements to conducting corporate valuations in the light of specific transactions. In the early cases students will be expected to produce simple IFRS financial statements themselves by posting journal entries reflecting economic events of the case into accounting ledgers.

In the following coursework students will analyze IFRS financial statements of a public company with a view to prepare evaluation models on the basis of publicly available information, thus simulating work of an equity research analyst. Students will learn how to exercise their professional judgment in analyzing the company performance at large, and how

it is presented in the financial statements. Students will calculate some of the most common financial ratios and use them building discounted cash flow models.

Students will understand basic elements of typical due diligence process in specific industries, such as oil & gas and real estate. They will learn specific terminology, valuation techniques and value drivers used in these industries. Common spreadsheet building techniques, sensitivity analysis, will also be taught, as well as the use of third party competent persons reports.

In the concluding part of the course students will learn how to apply these techniques to specific transaction types and use them in initial public offerings, share purchase negotiations, etc. Context of securities regulation and basic elements of contract law will be introduced. Main focus of the case work will be on negotiations between students' teams, where students will have a plenty of practical deal making.

Throughout the course students will have need to conduct their own independent Internet research on various aspects of the case work and learn how to work with large amounts of non-adapted professional literature.

Main reading

Bob Vause, Guide to Analyzing Companies. The Economist in Association with Profile Books LTD, 2005, ("Economist")

Bradford Cornell, CORPORATE VALUATION Tools for Effective Appraisal and Decision Making, [1993+] ("Cornell")

K. Thomas Liaw, The Business of Investment Banking, John Wiley and Sons, Inc. [1999+] ("Liaw")

J. Fred Weston, Mark L. Mitchell, and J. Harold Mulherin, Takeovers, Restructuring, and Corporate Governance (International Edition). Prentice-Hall Inc. [1998-2003] ("Weston")

European Public Real Estate Association, Best Practices Policy Recommendations, May 2008 ("ERPA")

Buy and sell side investment banking manuals ("IB Manuals")

Additional readings

Barry J. Epstien, Eva K. Jermakowicz, IFRS 2007: Interpretation and Application of International Financial Reporting Standards, ("Wiley")

Ibbotson Associates, Stocks, Bonds, Bills and Inflation Yearbook, 2000+ ("Ibbotson")

McKinsey & Company, Inc., Tom Copeland, Tim Koller, Jack Murrin, Valuation. Measuring and Managing Value of Companies. John Wiley and Sons, Inc. 2000+, ("Copeland")

Leo Troy, Almanac of Business and Industrial Financial Ratios, Prentice Hall, 2000+ ("Troy")

Dennis R. Jennings, Joseph B. Feiten, Horace. R. Brock, Petroleum Accounting, Principles, Procedures, Issues. ("Petroleum Accounting");

Delivering International Financial Reporting Standards in the Oil and Gas and Utilities Industries (“PWC Oil & Gas”);

Robert F. Reilly, Robert P. Schweihs, Handbook of Advanced Business Valuation. McGraw-Hill, 1999+

Academic readings

Isaac Fox and Alfred Marcus. The Causes and Consequences of Leveraged Management Buyouts. *The Academy of Management Review*, Vol. 17, No. 1 (Jan., 1992), pp. 62-85, (“Fox & Marcus”).

Liow Kim Hiang. Real Estate and Corporate Valuation: An Asset Pricing Perspective. *Managerial and Decision Economics*, Vol. 22, No. 7, Real Estate Economics and Finance (Oct. - Nov., 2001), pp. 355-368, (“Hiang”).

Alexander Ljungqvist and William J. Wilhelm, Jr. IPO Pricing in the Dot-Com Bubble. *The Journal of Finance*, Vol. 58, No. 2 (Apr., 2003), pp. 723-752 (“Ljungqvist & Wilhelm”).

Aydoğan Altı. IPO Market Timing, *The Review of Financial Studies*, Vol. 18, No. 3 (Autumn, 2005), pp. 1105-1138, (“Altı”).

Mergers and Acquisitions. Edited by ALAN J. AUERBACH. National Bureau of Economic Research Project Report series. Chicago and London: University of Chicago Press, 1988, (“Mergers”).

Lazard’s Levelized Cost of Electricity Analysis, v. 10-11, 2016, 2017. (“Lazard LCOE”)

Renewable Power and Generation Costs in 2017, International Renewable Energy Agency, Copyright IRENA 2018, (“IRENA”)

Course outline

Introduction to Investment Banking profession

Organizational structure of an investment bank. Typical activities performed by investment banks: sales & trading, research, M&A, lending and deposits. Banking capital and risk.

Review of accounting and financial statements analysis

The Framework, IFRS Summaries, Information flow. Principles, accruals, matching. Posting of transactions. Ledgers. Building financial statements.

Reading and interpreting financial statements. Assets. Liabilities. Impairment. Notes to the financial statements.

Fair value concept in accounting. Special issues of fair value accounting for investment properties, real estate, depleted asset industries, mergers and acquisitions. Investments. Business Combinations. M&A accounting. Goodwill. Leveraged Buyouts.

Financial statements analysis. Financial and industry ratios.

Valuation methods

Multiples analysis. Review of DCF. CAPM and various modifications. Ibbotson yearbook. Emerging markets. Information efficiency theory. Equity research vs. Corporate finance perspective.

Valuation of a major retail business in Russia. Evaluation of competitive growth strategy, capital expenditure, business expansion. Seasonal trends and crisis effect. Modeling working capital.

Valuing oil and gas assets. Oil price projections. Netbacks. IFRS vs. GAAP reporting. Accounting of subsoil properties. Reserves categories. Competent Person's Reports. Production projections. Drilling schedules. Well performance. Taxation in Russia, MET, Export Duties, VAT.

Real estate valuations. Accounting guidelines. Percentage of completion method. Interpreting financial statements. Fair value accounting and Net Asset Value appraisal. International Valuation Standards guidelines. Recent crisis issues.

Investment Banking Process

Mergers and Acquisitions. Due diligence. IPO processes. Contracts. SPA components. Representations and warranties. Securities regulation. Ethics. Role of banks. Fairness opinions. Special committees. UK and US Securities Regulations. Deal making and disclosure. Leveraged Buy-Out models, financing of M&A transactions.

Distribution of hours. For class time please check with ICEF Administration.

		Session outline and homework assignments	Hours
Session 1	12-Jan-19	Introduction to Investment Banking profession. Organizational structure of an investment bank. Typical activities performed by investment banks: sales & trading, research, M&A, lending and deposits. Banking capital and risk. Review of accounting. The Framework, IFRS Summaries, Information flow. Principles, accruals, matching. Posting of transactions. Ledgers. Building financial statements.	4
	Homework:	Reading - Economist Part 1, Wiley, Chapters 1-4, IFRS Framework, IAS-1.	8
		Case 1. Preparation of financial statements. Produce general ledger, accounts' ledgers, trial balance, balance sheet, income statement, cash flow statement.	8
Session 2	19-Jan-19	Reading & interpreting financial statements. Assets. Liabilities. Impairment. Notes to the financial statements. Fair value concept in accounting. Special issues of fair value accounting for investment properties, real estate, depleted asset industries, mergers and acquisitions. Investments. Business Combinations. M&A accounting. Goodwill. Leveraged Buyouts. Financial statements analysis. Financial and industry ratios.	4
	Due:	Case 1. Preparation of financial statements.	
	Homework:	Reading: Wiley Chapter 8. IAS-16, IAS-36, IAS-37. H/W reading: Economist Part 2, page 266, Troy, Wiley Chapters 10, 11. IAS-28, IAS-31, IAS-32, IAS-39, IAS-40, IAS-27, IAS-36, IAS-37, IAS-38, IFRS-3	8
		Case 2. Financial Statements Analysis of a public company, ratio analysis, credit capacity assessment.	6
Session 3	26-Jan-19	Valuation methods. Multiples analysis. Review DCF. CAPM and various modifications. Ibbotson. Emerging markets. Information efficiency theory. Equity research v. Corporate finance perspective.	4
	Due:	Case 2. Financial Statements Analysis of a public company, ratio analysis, credit capacity assessment.	
	Homework:	H/W reading: Cornell, Chapters 5, 6, 7. Ibbotson, Chapters 2,3,4	4

		Case 3. Valuation of a public company (based on Case 2). DCF model. Multiples valuation. Research note with investment recommendation and qualitative description of company performance on the basis of its financial statements.	8
Session 4	2-Feb-19	Guest speaker - Real estate valuations. Fair value accounting and Net Asset Value (NAV) appraisal. International Valuation Standards (IVS) guidelines. Recent crisis issues.	4
	Due:	Case 3. Valuation of a public company.	
	Homework:	Reading: Hiang, lecture slides	4
		Case 4. Real Estate Company Valuation. Buy or Sell side perspective. Supplementary note.	4
Session 5	9-Feb-19	Real estate valuations. Accounting guidelines. Percentage of completion method. Interpreting financial statements of a real estate development company.	4
	Due:	Case 4. Real Estate Company Valuation. Buy or Sell side perspective. Supplementary note.	
	Homework:	Reading: Hiang, lecture slides. IAS 11, 40.	6
		Case 5. Real Estate Negotiations.	8
Session 6	16-Feb-19	Energy. Modeling various types of electrical power generation. Capacity and energy generation auctions. Subsidies.	4
	Due:	Case 5. Real Estate Negotiations - Closed deals.	
	Homework:	Reading: PWC Oil & Gas, Petroleum Accounting Chapters 1,2,3, lecture slides	8
		Case 6. LCOE, Energy capacity auction	6
Session 7	25-Feb-19	Valuing oil and gas assets. Oil price projections. Netbacks. IFRS vs. GAAP reporting. Accounting of subsoil properties. Reserves categories. Competent Person's Reports. Production projections. Drilling schedules. Well performance. Royalties, taxation in the Rest of the World and application in Russia: Mineral Extraction Taxes, Export Duties, VAT.	4
	Due:	Case 6. LCOE, Energy generation bids	

	Homework:	Reading: PWC Oil & Gas, Petroleum Accounting	4
		Case 7. Valuation model of an oil company. Concluding valuation and a supplementary note.	8
Session 8	2-Mar-19	IB processes. Mergers and Acquisitions. Due diligence. IPO processes: preparation of documents, involving various advisors.	4
	Due:	Case 7. Valuation report of an oil company and a model	
	Homework:	Reading: Liaw Chapters 3, 4, 16. SE Act of 1934. AIM Rules. LSE Rules. SEC Regulations. Mergers, Ljungqvist & Wilhelm, Alt.	8
		Case 8. Negotiations Case, TBD	6
Session 9	11-Mar-19	Contracts. SPA components. Reps and warranties. Securities regulation. Ethics. Role of banks. Fairness opinions. Special committees.	4
	Due:	Case 8. Negotiations Case, TBD	
	Homework:	Reading: IB manuals, HBS Case “Six Habits of Merely Effective Negotiations”, handouts	6
		Case 9. Negotiations Case, TBD	8
Session 10	16-Mar-19	Case 8 class discussion and feedback. UK and US Securities Regulations. Securities Regulation, legal role of investment banks in M&A deals and special assignments: fairness opinions, economic disputes.	4
	Due:	Case 9. Negotiations Case, TBD. Teams' presentations	4
	Homework:	Reading: IB manuals, lecture slides	4
		Case 10. Negotiations Case, TBD	6
Session 11	23-Mar-19	Guest Speaker to be confirmed. Course feedback, evaluations, Q&A	2
	Due:	Case 10. Negotiations Case, TBD	
Reserved 12	23-Mar-19	Contingency reservation	2
	23-Mar-19	Consultation	2
	30-Mar-19	Final Exam	2

Total lecture hours	42
Total homework reading preparation hours:	60
Total homework cases hours:	68
Total seminar sessions	8
Consultation and Final exam	4

2-4 seminar sessions of 2 hours each will be carried out to go through homework solutions and address students' questions. These seminars will be scheduled between the lecture sessions.