

Companies' and Banks' Valuations and Mergers

M.Sc. in Finance and Banking

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Aims and objectives:

The aim of this course is to introduce students to companies' valuations and mergers/acquisitions. It covers topics on Financial Reporting and Analysis, Corporate Finance, Equity and Alternative Investments. In more details in the part of Financial Reporting and Analysis it covers Financial Reporting System analysis (with an emphasis on IFRS), Analysis of Inventories and Long-Lived Assets, Analysis of Pensions, Stock Compensation and Other Employee Benefits, Analysis of Inter-Corporate Investments, Analysis of Business Combinations, Analysis of Global Operations, Ratio and Financial Analysis. In the part of Corporate Finance it covers special topics on Capital Structure Decisions, Working Capital Management, Mergers/Acquisitions and Corporate Restructuring. Finally, in the part of Equity and Alternative Investments it covers special topics on Valuation of Shares Equity together with Private Equity/Venture Capital Valuation.

At the end of the course, students will have a full understanding of concepts and tools of the companies' valuation methods as well as mergers/acquisitions techniques. They will acquire knowledge and develop skills, firstly on financial analysis and management to value business operations, assets and equity shares; and secondly on business combinations and mergers/acquisitions. They will be also able to implement the above knowledge, tools and methods in practice to evaluate empirically their performance.

Course Outline and Reading List:

1. Valuation and Financial Analysis

[describe the relationships among the income statement, balance sheet, statement of cash flows and statement of owners' equity in evaluating a company's performance and financial position – classify, calculate and interpret activity, liquidity, solvency, profitability and valuation ratios – application of DuPont analysis of return on equity – relationships among ratios and evaluate a company using ratio analysis – describe how ratio analysis and other techniques can be used to model and forecast earnings]

2. Valuation and Corporate Finance

[working capital management, company's management of accounts receivable, inventory and accounts payable – define and explain leverage, business risk, sales risk, operating risk and financial risk and classify a risk – analyze the effect of financial leverage on a company's net income and return on equity – bankruptcy and Altman's Z-score, credit rating and financial ratios]

3. Capital Structure and Equity Valuation Methods

[the components of shareholders' equity, value of firm, value of debt, value of share, cost of capital, weighted average cost of capital (WACC), shareholders' value added book value, adjusted value, liquidation value, substantial value, book and market value, income statement-based methods, value based on PER, DPS, sales multiples, other multiples, goodwill-based methods, the 'classic' valuation method, simplified 'abbreviated goodwill income' method or simplified UEC10 method, Union of European Accounting Experts (UEC) method, indirect method, Anglo-Saxon or direct method, annual profit purchase method, risk-bearing and risk-free rate method, general method for cash-flow discounting, free cash-flow (FCF), equity cash-flow, capital cash-flow, calculating the value of the company using FCF, calculating the value of

the company as the unlevered value plus the discounted value of the tax shield, calculating the value of the company's equity by discounting the equity cash-flow, calculating the company's value by discounting the capital cash-flow, economic (net) profit]

4. Accounting Provisions and Adjustments on Financial Statements

[Main adjustments in IFRS, adjustments and analysis for Inventories and Long-Lived Assets, provisions and analysis of Pensions, Stock Compensation and Other Employee Benefits, other adjustments, calculation of net operating profits after tax (NOPAT) after adjustments, net cash flows and calculation of Economic Value Added (EVA)]

5. Business Combinations and Inter-Corporate Investments

[IFRS 3, acquisition method, acquirer, acquisition date, consideration transferred Purchase Price Allocation (PPA), minority, market value accounting, equity method accounting]

6. Consolidation Accounting

[majority, consolidation and purchase method, analysis of consolidated accounting statements IFRS 10, goodwill and impairment of goodwill]

7. Global Operations, Multinational Enterprises (MNE) and Banks (MNB)

[operations strategy in a global environment, operational and geographical segmental financial reporting, theories of multinational enterprises]

8. Decision making for Equity Investments

[pro-forma financial statements, business plan, budgeting, forecasted financial statements, additional fund needed models]

9. Mergers and Acquisitions and Corporate Restructuring

[business transformations, mergers, acquisitions, splits, absorptions, corporate restructuring, equity transformations and deleverage]

10. Private Equity/Venture Capital Valuation

[leveraged buy-out, growth capital, mezzanine capital, venture capital financing, valuation and pricing methods on private equity investments]

Textbooks:

Ambachtsheer, Keith. (1986). Pension Funds and the Bottom Line: Managing the Corporate Pension Fund as a Financial Business. Homewood, IL: Dow Jones-Irwin.

Benninga, Simon. (2000). Financial Modeling. Cambridge, MA: MIT Press

Brigham, E., & Ehrhardt, M. (2013). Financial management: theory & practice. Cengage Learning.

Copeland, Tom, Tim Koller, and Jack Murrin. (2000). Valuation: Measuring and Managing the Value of Companies, 3rd edition. John Wiley & Sons, Inc.

Fernández, P. (2013). Company valuation methods. Available at SSRN 274973.

Flaherty, M. T. (1996). Global operations management. McGraw-Hill Companies.

Gaughan, P. A. (2010). Mergers, acquisitions, and corporate restructurings. John Wiley & Sons.

Gordon, Myron J. (1962). *The Investment, Financing, and Valuation of the Corporation*. Homewood, IL: Richard D. Irwin

Higgins, Robert C. (2001). *Analysis for Financial Management*, 6th edition. Boston, MA: McGraw-Hill/Irwin.

International Accounting Standards Board. (2015). *A Guide through IFRS® (Green Book)*. Kluwer.

Weston, J. F., Chung, K. S., & Hoag, S. (1990). *Mergers, restructuring, and corporate control*. Prentice Hall.

White, G. I., Sondhi, A. C., & Fried, D. (2003). *The analysis and use of financial statements*, John Wiley & Sons.