JG FINANCIAL TRAINING

JG Financial Training Ltd
329 The Whitehouse
9 Belvedere Road
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United Kingdom
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Advanced Valuation: 4 Days

Delegate Profile: This course is targeted at corporate finance practitioners, who may already have some basic knowledge and awareness of the most common valuation techniques, but are seeking to gain a comprehensive knowledge of the full range of valuation techniques and when they should be applied in practice.

Key Learning Outcomes

- Delegates will learn the four principal valuation methodologies (DCF, Multiples, EVA and Real Options and Multiples), their pros and cons and when they are most relevant in practice.
- They will consider the valuation implications for distressed companies, (Adjusted Present Value, valuing tax shields and going concern vs. break-up)
- Finally, they will learn how valuation methodologies may be applied to financial institutions (Banks and P&C insurance companies) and LBO valuations

Note that the course is modular, and can be shortened to three or two days if the client does not wish to cover certain areas.

Pre-requisite Knowledge: Delegates should already be familiar with financial statement analysis and be able to read and interpret financial accounts (profit & loss, balance sheet and cash flow).

Our Approach: In this course we facilitate the learning process through a combination of:

- Presentation of core knowledge and concepts using power point slides
- Press articles and real life case studies, demonstrating how the valuation concepts are applied in practice
- Short ‘single worksheet’ excel exercises
- MBA Case Studies, illustrating technical guidance on best practice
- Detailed financial models in excel for a major corporate, bank and insurance company, to enable delegates to work through comprehensive valuation assessments applying the different methodologies and sensitivity analysis
- End of Day quizzes, to confirm the achievement of the learning outcomes
- One page course summary, as a take away and reminder of the key learning points

Each delegate should be provided with a laptop, which is pre-loaded with some exercises in excel format. (Note: the course may be delivered in either Excel 2003 or 2007, however, all delegates should use the same version of excel in the training room.) Delegates will be provided with the MBA case studies in advance and should read them through at least once prior to commencing the course.

Training Fees: £10,000 plus VAT (£2,500 per training day). This covers all research, design and delivery of the training by James Gilpin, for up to 20 delegates.

Expenses: All incremental travel and accommodation expenses will be charged separately, however, we will work hard to ensure all costs are kept to a minimum. With regard to materials, JGFT can provide 2 options:

- JGFT can arrange for all materials to be professionally printed and couriered to the training centre for which we would recharge the cost (for 20 delegates approximately £200 - £300)
- All materials will be sent electronically to the client with instructions to print internally (at no additional cost)

With regard to excel exercises, JGFT can provide all these materials electronically, which must be loaded onto delegate laptops in advance of the course.

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Day One

Session 1
Valuation Overview

- Overview of valuation techniques: fundamental (DCF), returns-based (EVA), contingent claims (option value), multiples (comparable vs. transactions) and asset-based (going concern vs. liquidation)
- Equity Value vs. Enterprise Value
- Problems with determining enterprise value: (minimum cash for working capital, minority interest, pension deficits and operating leases)

Session 2
Fundamental 'Discounted Cash Flow' Valuation

- Time Value of Money formulae (discounting, perpetuity with/without growth)
- Deriving free cash flow to the firm (FCFF) and free cash flow to equity (FCFE)
- Determining the forecast period vs. the terminal period
- Deriving the discount rate for discounting (WACC, Cost of Equity and the Capital Asset Pricing Model)
- MBA Case Study: Marriott Hotels (deriving divisional WACCs)
- WACC in emerging markets
- 'Sum of Parts' DCF for diversified groups
- Discounting free cash flow to determine NPV
- Implicit assumptions in discounting at a constant WACC
- Different approaches to determine the terminal value (No growth, FCF growth and the Gordon growth model)
- Reconciling Enterprise Value with Equity Value and determining a fundamental price per share
- Using DCF in investment appraisal and valuing synergies

Session 3
Relative Valuation using Multiples

- Overview of Income statement multiples (Sales, EBITDA, EBIT, PBT, PAT)
- Historic, trailing, forecast and prospective multiples
- Company vs. Sector vs. Market multiples and how they vary across the cycle
- Comparing EV/EBITDA vs. PER: pros and cons
- PEG and PEGY multiples
- How accounting policies can distort multiples
- Operating leases vs. Finance leases: adjusting multiples on a proforma basis
- Trading Multiples vs. Transaction Multiples: why pay a premium?
- Industry specific multiples
- Comparing Multiples vs. DCF: pros and cons

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Day Two

Session 1
Returns-based (EVA) Valuation

- Return on Capital Employed vs. Return on Equity
- WACC vs. Cost of Equity
- EVA applied to corporate valuations: RoCE > WACC
- EVA applied to bank valuations: RoE > Cost of Equity
- MBA Case Study: Baidu IPO, comparing multiples vs. DCF and EVA

Session 2
Dividend Discount Model (DDM)

- Dividend policies: Target growth rate, payout ratio or capital structure
- Gordon growth model
- Discounting dividends at Cost of Equity

Session 3
Bank Valuations

- Overview of bank balance sheets and income statements
- Bank risks: solvency, liquidity, operational and market
- Contrasting Northern Rock vs. Lehman
- Price / Book valuation multiples
- Regulatory constraints (Tier 1 vs. Risk Weighted Assets)
- Application of valuation techniques: Discounting FCFE, EVA and DDM
- Sensitivity analysis

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Day Three

Session 1
Insurance Valuations

- Overview of insurance company balance sheets and income statements
- Insurance risks: investment, solvency, liquidity, operational and market
- Regulatory constraints
- Embedded Value Accounting
- Application of valuation techniques: Discounting FCFE, EVA and DDM
- Sensitivity analysis

Session 2
Real Options

- Application in practice: Uncertain outcomes combined with flexibility in decision making
- Option to expand, delay or abandon
- Binomial pricing and its limitations
- Black Scholes Input assumptions
- Volatility definition
- Intrinsic vs. Time Value
- MBA Case Study: Agnico-Eagle Mines Ltd
- Problems with applying real option valuations in practice

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Day Four

Session 1
Valuation of Distressed Companies

- Operating vs. Financial distress
- Valuation on liquidation
- Valuation on restructuring
- Adjusted Present Value
- Valuation of tax losses and tax shields
- Recapitalisation and debt/equity swaps
- Debt Restructuring Case Study

Session 2
LBO Valuation

- Deriving the Internal Rate of Return (IRR)
- IRR drivers: leverage, profit growth and multiple expansion
- Typical sources and uses of funds on an LBO
- Entry vs. Exit multiples
- Valuation drivers and constraints in achieving target IRR
- Application of valuation techniques: contrasting LBO bidder dynamics vs. trade buyer criteria