

GLOBAL CAPITAL MARKETS CENTER

Lehman Brothers Associate Training Program: Winter 2000

Syllabus: Overview

Course Outline

Financial Statement Analysis

- Financial Reporting
- Valuation and Profitability
- Liabilities and Expenses

Asset Pricing

- Review of basic Financial Mathematics
- Stock Valuation
- The Capital Asset Pricing Model

Corporate Finance

- The Structure of the Corporation
- Valuation Models
- Strategic Planning and Restructuring Transactions
- Mergers & Acquisitions and Leveraged Transactions
- Capital Structure
- Leverage-related Costs

Syllabus: Detail

Monday, 11 December

30 – 12:30 **Asset Pricing**
Time Value of Money (refresher)
⇒ Present value and discounting cash flows
⇒ Annuities/perpetuities
⇒ Time periods and compounding
Pricing of Common Stock
⇒ Dividend Growth model
⇒ Earnings and P/E multiples

12:30 – 2:00 **Lunch**

2:00 – 5:30 **Financial Statement Analysis**
Overview of Financial Reporting
⇒ Review of purpose and content of the four main financial statements
Income Flows versus Cash Flows
⇒ Comprehensive analysis of the cash flow statement

30 - **Homework: Asset Pricing**

Tuesday, 12 December

30 – 12:30 **Asset Pricing**
Homework Review
Capital Asset Pricing Model (CAPM)
⇒ Return/risk tradeoff and risk aversion
⇒ Portfolio diversification
⇒ CAPM: formula and applications to portfolio choice
⇒ Cost of capital and project discount rates
Options Valuation
⇒ Terminal values (“hockey sticks”)
⇒ Pricing tools
⇒ Application examples

12:30 – 2:00 **Lunch**

2:00 – 5:30 **Financial Statement Analysis**
Valuation and Profitability under alternative Accounting Principles
⇒ Income recognition
⇒ Inventory cost flow
⇒ Accounting for depreciable and intangible assets
Liability Recognition and Related Expenses: Analysis and Risk Assessment
⇒ Off-balance sheet financing activities
⇒ Leases
⇒ Pensions
⇒ Deferred taxes

30 - 7:00 **Homework: Financial Statement Analysis**

Wednesday, 13 December

10:30 – 12:30 **Financial Statement Analysis**

Homework Review

Intercompany Investments

⇒ Investment accounting

⇒ Business combinations

⇒ Foreign currency

12:30 – 2:00 **Lunch**

2:00 – 5:30 **Corporate Finance**

Structure and Governance of the Public Corporation

⇒ The theory of the firm and the corporation

⇒ Advantages of the public corporation

⇒ Agency costs and the separation of ownership and control

⇒ Economic and legal forces that reduce agency costs in the corporation

Valuation Techniques

Valuation Models

Valuation Exercises

5:30 - **Homework: Using the Spreadsheet Tool for Valuation Exercises**

Thursday 14 December

10:30 – 12:30 **Corporate Finance**

Homework Review

Strategic Planning

⇒ Definition of restructuring transactions

⇒ Restructuring as part of the strategic planning process

⇒ Framework for assessing restructuring opportunities

⇒ Model of industry structure analysis

Mergers and Acquisitions

⇒ The rationale between M&A transactions

⇒ The winners and losers

⇒ Returns to target and acquiring firms in successful and unsuccessful offers

⇒ Determinants of takeover premiums

⇒ Effect of competition among rival bidders

⇒ Case examples of good and bad acquisitions

⇒ How to formulate an effective acquisition strategy

12:30 – 2:00 **Lunch**

2:00 – 5:30 **Corporate Finance**

Tender Offers

Defensive Tactics

Regulation of Control Transactions

Divestitures

⇒ The distinction between sell offs, spin offs, split offs and carve outs

⇒ The motivation behind divestitures

⇒ The effect of divestitures on shareholder wealth

⇒ Targeted stock—an alternative to divestitures

ursday 14 December (cont.)

30 - **Homework: Case Study—Philip Morris' acquisition of Kraft**

riday 15th December

30 – 12:30 **Corporate Finance**

Case Study Review

Capital Structure

⇒ Capital structure in a perfect market setting

⇒ Modigliani-Miller propositions

⇒ The components of equity risk

⇒ Capital structure with corporate taxes

Levered Equity as a Call Option

:30 – 2:00 **Lunch**

00 – 5:30 **Corporate Finance**

Leverage-Related Costs

⇒ Bankruptcy costs

⇒ Agency costs of debt

⇒ The over-investment problem

⇒ The under-investment problem

⇒ Monitoring and bonding activities

Optimal capital structure

Leveraged Transactions: Theory, Evidence and Practice

⇒ The benefits of debt financing

⇒ Leveraged cash outs

⇒ Leveraged buyouts