Modelling in Corporate Finance, Valuation and Markets

Module B of the CinFM

Course Description

This 3-day course covers the key concepts and modelling approaches that are used in corporate finance, including valuation and financial statement modelling.

We initially provide an overview of general valuation approaches, before discussing each in more detail, and linking them to ratio analysis. We cover relative valuation (comparatives and multiples). We discuss equity and enterprise valuation, and the main steps to convert one to the other.

The discussion of annuity-based cash flow valuation covers single-stage terminal value approaches and multi-stage or phased approaches, and the associated formulae.

We cover a variety of ways to measure risk and return and the role of these in various applications. We cover the cost-of-capital, weighted cost of capital, as well as various approaches to account for leverage within these calculations. We also look at methods to analyse price-volume variance and the application to general business and to financial portfolio performance measurement.

The coverage of financial statement modelling begins with an introduction to financial statements and understanding the effect of individual transactions on them. We use a structured step-by-step process to create an integrated financial statement model from scratch. We discuss the options available to create a consistent, integrated set of statements, reconciliations and error-checking and correction techniques.

We close the course with a brief coverage of some generalisation and key aspects of further and related areas of practical applications. These include an introductory discussion of the adjusted present value method, the modelling of M&A transactions and project finance.

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Topics Covered

- Valuation approaches · Multiples and relative valuation · Ratio analysis · Dupont analysis · Comparative company analysis · Enterprise and equity valuation

- Cash flow annuity formulas · Terminal values · Multiple terminal value periods

- Risk and return · Portfolio risk and return · Portfolio optimisation · Correlation · Rank correlation

- Weighted cost of capital · Leveraged cost of capital · Capital Asset Pricing Model · Multi-factor models

- Bond yield · Yield curve · Risk premium

- Value-at-risk · Semi-deviation

- Sharpe and Treynor ratios · Piotroski F-score

- Variance analysis · Portfolio performance analysis

- Financial statement transactions

- Modelling integrated financial statements · Key Steps

- Balancing the balance sheet · Circular references · Consistency checking

- Generalisations

- Adjusted Present Value

- Introduction to M&A modelling

- Introduction to project finance

Learning Objectives

- Learn core aspects of main approaches to modelling in corporate finance and valuation

- Develop a set of competences and knowledge that is widely applicable

- Understand the different approaches to valuation, and their application

- Learn standard methods of valuation, as well as their assumptions, limitations and some more advanced approaches

- Learn how to derive and use annuity formulae for single and multiple time periods

- Enhance knowledge of financial concepts in return, risk, portfolio analysis and the cost of capital

- Develop practical skills in valuing cash flows for equity and enterprise valuations

- Learn different measures of risk, performance and portfolio valuation

- Develop understanding of financial statements and the impact of typical business and financial transactions on the statements

- Learn the key process steps to create an integrated financial statement forecasting model

- Understand the key issues and choices available at each step, and approaches to deal with them

- Conduct practical exercises to build an integrated financial statement model

- Learn key approaches to test, check and correct the model e.g. to balance the balance sheet, integrate with cash flow statement or produce meaningful ratios

- Learn some key aspects of related areas of application, such as merger modelling and project finance