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## CORPORATE MODELING

WITH M&A

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# CORPORATE MODELING WITH M&A

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## INTRODUCTION:

The Corporate Modeling in Excel training course will provide participants with the ability to create corporate models with sophisticated analytical techniques that measure value and that evaluate the costs and benefits of mergers and acquisitions. Key objectives of the course include understanding the process of building a well structured model that incorporates updated historic information; using models to compute valuation with adjustments are made for stable capital expenditures, working capital and depreciation; evaluating different terminal valuation techniques using sophisticated implied multiples; computing equity value from enterprise value; converting corporate models into acquisition models; and effectively presenting model results to evaluate credit risk and ranges in equity value.

## UNIQUE RESOURCES FOR FURTHER LEARNING:

An essential part of the course is the provision of vast materials that can be used to re-enforce the concepts discussed during the workshops and to allow participants to engage in further studies. Materials include:

- ✓ Many featured models in electric power that fully resolve circular reference, rigorous structuring, customized scenario analysis and other features.
- ✓ Hundreds of focused exercises that highlight a variety of advanced financial issues.
- ✓ Framework of unique presentation of data and risk analysis including Monte Carlo simulations.
- ✓ Methods for extracting crucial data for financial and energy analysis with transparent macros that automatically update information.
- ✓ Unique tools to convert PDF files, format spreadsheet and enhance efficiency,
- ✓ Collection of comprehensive case studies, financial articles, contracts and models.

## KEY BENEFITS:

- ✓ Understand the theoretical issues with structuring of corporate models, development of assumptions, computation of rate of return on invested capital. risk analysis, valuation formulas, capital structure and other issues. Create a structured corporate model that uses and updates historic information in a flexible manner and allows efficient statistical analysis of assumptions.
- ✓ Use corporate models to evaluate credit issues through measuring re-financing potential and through evaluating cash flow relative to debt service obligations in the context of an acquisition.
- ✓ Add valuation sections to corporate models that include provisions for changing terminal growth, WACC, multiples and valuation dates; normalize working capital, capital expenditures, depreciation and deferred taxes; and evaluate items that comprise the difference between equity value and enterprise value;
- ✓ Resolve tricky issues in terminal value from derived EV/EBITDA ratios that correct for flaws in the value driver  $(1-g/ROIC)/(WACC-g)$  formula and consider alternative growth rates; changes in cost of capital and variations in the spread between cost of capital and return on invested capital.
- ✓ Compute equity value from enterprise value through creating proofs of how different items such as deferred taxes, warranty provisions, derivatives, long-term receivables, unfunded pensions and stock options affect the difference between equity value and enterprise value.
- ✓ Derive acquisition models from the corporate model to evaluate the effect of different purchase prices, financing structures and accounting assumptions on alternative measures of financial performance from the perspective of lenders and equity investors.
- ✓ Use corporate models to quantify risks to debt and equity investors using structured scenario analysis, break-even analysis, sensitivity analysis and Monte Carlo simulation. Learn Excel techniques including selected user-defined VBA functions to make better presentations from models, to resolve circular references and to make models more transparent and efficient.

## MODULE 1

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### CREATING AN EFFICIENT AND WELL STRUCTURED CORPORATE MODEL

- ✓ Theoretical background on corporate models and economic reasons for changes in operating cash flow and returns.
- ✓ A review of model objectives, model structure and flexible using examples of completed models that will be used as references throughout the training.
- ✓ Development of historic/projected timing switches that allow you to add new historic financial statements to a model without re-programming equations each time a new set of historic data becomes available.
- ✓ Setting up assumptions for variables that vary over time and scalar variables that remain constant and that compare historic levels with projected values and facilitate statistical analysis of the assumptions.
- ✓ Computation of revenues, operating expense, capital expenditures, pre-tax cash flow, free cash flow and from operating assumptions and computation of return on invested capital using the financing and direct approaches.
- ✓ Development of enterprise valuation analysis that allows for flexible start dates; flexible terminal dates and holding periods; and different terminal valuation approaches.
- ✓ Calculation of financial statements through adding financial routines with a cash flow waterfall to the model in debt and cash balance schedules and using the model to establish a target capital structure.
- ✓ Illustration of complexities in corporate models related to asset retirements, income taxes, minority interest and capital expenditures.

## MODULE 2

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### COMPUTATION OF VALUATION AND EVALUATION OF CREDIT RISKS USING CORPORATE MODEL

- ✓ Demonstrate financial theory associated with multiples, terminal value and credit analysis using financial models.
- ✓ Incorporation of a master scenario analysis and sensitivity diagram to evaluate credit ratios and to demonstrate variability in enterprise value and use of the return on invested capital to evaluate the reasonableness of the EBITDA assumptions.
- ✓ Development of normalized working capital changes, normalized depreciation expense, normalized capital expenditures and normalized deferred taxes that vary as a function of different terminal growth rates and incorporate derived historic growth rates.
- ✓ Computation of P/E and EV/EBITDA multiples from growth rates, cost of capital, returns, tax rates and asset lives as well as transition periods of each value driver and demonstration of problems with the  $(1-g/ROIC)/(WACC-g)$  formula.
- ✓ Evaluation of which balance sheet items should be included in the bridge between equity value and enterprise value through creating long-term models that prove whether items should be included in free cash flow or as an adjustment to enterprise value.
- ✓ Calculation of value from equity cash flow rather than free cash flow and derivation of equity multiples (P/E or market to book) to evaluation how multiples are affected by return and growth forecasts in the model.

CONVERSION OF CORPORATE MODELS TO ACQUISITION MODELS

- ✓ Review of merger and acquisition theory including leveraged buyout models, integrated merger models and break-even synergy models.
- ✓ Transfer of corporate model into merger or acquisition model where acquisition can occur at different time periods.
- ✓ Setting up transaction structure assumptions with alternative purchase price premiums, debt funding levels and accounting adjustments.
- ✓ Use of projected balance sheet from corporate model, acquisition assumptions and synergy projections to develop sources and uses analysis, goodwill calculation and pro-forma balance sheet in acquisition analysis.
- ✓ Model alternative debt provisions of acquisition financing including subordinated debt, cash flow sweeps, covenants and working capital facilities with amortizing, bullet and capitalizing debt.
- ✓ Analyze risks to alternative providers of capital (senior, subordinated, equity and management) in terms of IRR to equity and alternative debt providers using break-even analysis and Monte Carlo simulation.
- ✓ Compute the value of management earn-outs and flip structures to provide alternative incentives.

Locations can vary depending on requests.



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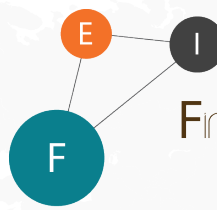
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*A Unique approach to financial modeling to improve analysis and reduce project risks.*



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