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

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

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

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

30 – 12:30  Financial Statement Analysis
            Homework Review
            Intercorporate Investments
            ⇒ Investment accounting
            ⇒ Business combinations
            ⇒ Foreign currency

12:30 – 2:00  Lunch

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

3:30 -  5:30
            Homework: Using the Spreadsheet Tool for Valuation Exercises

Thursday 14 December

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

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
Thursday 14 December (cont.)

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

Friday 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

12:30 – 2:00 Lunch

2:00 – 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