COURSE DATA

Data Subject	
Code	35965
Name	Corporate valuation, mergers and acquisitions
Cycle	Grade
ECTS Credits	4.5
Academic year	2024 - 2025

Study (s)

Degree	Center	Acad. year	Period
1315 - Degree in Finance and Accounting	Faculty of Economics	4	First term

Subject-matter

Degree	Subject-matter	Character
1315 - Degree in Finance and Accounting	23 - Year 4 optional subjects	Optional

Coordination

Name	Department
FARINOS VIÑAS, JOSE EMILIO	172 - Business Finance

SUMMARY

Corporate valuation, mergers and acquisitions is a 4.5 ECTS credit optional subject, located in the fourth-year elective module of the Degree in Finance and Accounting, taught in the first term of the fourth year.

This subject is the continuation of the subject *Analysis and valuation of business investment*, which is taught in the second term of the second year, since the latter can be considered an introduction to the question of the valuation of both projects and companies. Thus, *Corporate valuation, mergers and acquisitions* deepens in key aspects in the method of valuation by discount of cash flows that were merely introduced in the *Analysis and valuation of business investment*, such as the analysis of uncertainty or the estimation of the opportunity cost of capital in risk environment. In addition, *Corporate valuation, mergers and acquisitions* expands the range of valuation methods by introducing the relative valuation method that uses multiples and benchmarks to determine firm value. On the other hand, and intimately related to the valuation of companies, the topic of firm acquisition is approached from different perspectives: creation of value for the owners of the objective company as of the buyer, defence strategies, relevance of the mergers / acquisitions in the economy, etc.

Without undermining the importance that professional experience has in the valuation of companies and projects, it is essential to be able to respond to the complexity of the valuation task and the changes that occur in the business environment to know the theories that concern finance. Therefore, it is necessary that students understand why companies and markets behave in a certain way, that is, they need to know the theoretical foundations and the analytical tools necessary for making investment decisions and how, through these decisions, to increase the market value of the company.

PREVIOUS KNOWLEDGE

Relationship to other subjects of the same degree

There are no specified enrollment restrictions with other subjects of the curriculum.

Other requirements

Given the intrinsic characteristics of the valuation of projects and companies, for the development of the concepts of the subject the student must have the knowledge and tools acquired in the subject Analysis and Valuation of Business Investment. In addition, knowledge of Financial Accounting I, Statistics I, Econometrics and Corporate Financing, among others, is required.

COMPETENCES (RD 1393/2007) // LEARNING OUTCOMES (RD 822/2021)

1315 - Degree in Finance and Accounting

- Capacidad para valorar empresas y partes de empresas, estimar los flujos libres de caja, el horizonte temporal y modelos valorativos a emplear, considerando las características de la empresa, el riesgo del negocio y las perspectivas del sector de actividad en el que desarrolle la empresa su actividad.
- Capacidad para evaluar las condiciones generales y particulares en las que se lleva a cabo un proceso de adquisición, fusión o escisión de empresas, así como sus consecuencias financieras y su registro en contabilidad.
- Conocimiento de las herramientas informáticas más comúnmente utilizadas para el tratamiento y gestión de información cuantitativa.
- Elaboración y aplicación de modelos informáticos personalizados para la resolución y análisis de supuestos financieros y contables.

LEARNING OUTCOMES (RD 1393/2007) // NO CONTENT (RD 822/2021)

As a result of the learning process, the student will know concepts such as:

1. Advanced knowledge for the identification and use of mathematical techniques proper to financial valuation.

2. Ability to correctly interpret the financial information extracted from specific applications and cases in the financial world.

3. Ability to analyse and evaluate projects and companies.

4. Ability to apply different analytical valuation techniques.

5. Ability to propose purchasing and / or defence strategies in business acquisition processes

DESCRIPTION OF CONTENTS

1. 1.VALUATION OVERVIEW

1.1. Introduction.
1.2. Why value a company?
1.3. Investment methods and value measures.

Titman and Martin (2009): Chap. 1

2. 2. TO PROJECT AND VALUATE CASH FLOWS

2.1. Introduction.
2.2. Cash flows estimation.
2.3. Cash flows valuation.

Benninga (2000): Cap. 3 y 4
Brealey et al. (2010): Chap. 2, 6 and 7
Titman and Martin (2009): Chap. 2

3. 3. UNCERTAINTY ANALYSIS TECHNIQUES

3.1. Introduction.
3.2. Sensitivity analysis
3.6. Simulation analysis.

Brealey et al. (2010): Chap. 11
Titman and Martin (2009): Chap. 3

4. 4. THE COST OF CAPITAL

4.1. Introduction.
4.2. Estimation of the cost of debt.
4.3. Estimation of the cost of equity.
4.4. Estimation of the weighted average cost of capital of the company.

Titman and Martin (2009): Chap. 4 and 5

5. 5. RELATIVE VALUATION THROUGH MARKET MULTIPLES

5.1. Introduction.
5.2. Valuation by means of multiples.
5.3. Valuation of companies using EBITDA multiples.
5.4. Valuation of the action through the price / earnings ratio.

Titman and Martin (2009): Chap. 6

6. 6. VALUATION OF COMPANIES

6.1. Introduction.
6.2. The two steps valuation method.
6.3. Estimate the value of a company using the Adjusted Present Value (APV) model.

Titman and Martin (2009): Chap. 7

7. 7. MERGERS AND ACQUISITIONS

7.1. Introduction.
7.2. The reaction of the market to the announcement of acquisition.
7.3. Reasonable and debatable motives for mergers.
7.4. The purchase process.
7.5. Defences.
7.6. Legislation on takeover bids in Spain.

Brealey et al. (2010): Chap. 32
Ross et al. (2005): Chap. 29

WORKLOAD

ACTIVITY	Hours	% To be attended
Theory classes	30,00	100
Computer classroom practice	15,00	100
Attendance at events and external activities	3,00	0
Development of group work	10,00	0
Development of individual work	5,00	0
Study and independent work	29,50	0
Preparation of practical classes and problem	10,00	0
Resolution of case studies	10,00	0
TOTAL	**112,50**	

TEACHING METHODOLOGY

Given the characteristics of the contents taught in the subject, in the theoretical classes the basic methodology to be used is the master class, although the debate and the participation of the student in it will be encouraged. The objective is to transmit to students the theoretical concepts necessary for the later practical reasoning in financial terms.

In the practical classes problems and cases will arise in the field of the subject so that students are able to synthesise its relevant information and, from this, understand and solve the posed problems related to the assessment.

In any case, and in order to give classes dynamism, and as far as possible, the theoretical and practical contents will alternate regardless of whether the session is theory or practice. In this way, depending on the teaching needs, the practical and theoretical cases will be interspersed.

EVALUATION

In order to evaluate the learning of the subject, a diversified evaluation system will be used, which allows to highlight the different knowledge and skills acquired by students.

Thus, 70% of the final grade will be obtained through a written exam that will consist of several brief questions and practical cases. With the questions and the practical cases, the aim is to evaluate the student's ability to synthesise the relevant information and provide an adequate solution to the problems posed. In the exam the specific punctuation of each section will be specified, and it will be possible to demand a minimum note in some parts to pass the exam.

On the other hand, the remaining 30% of the final grade will come from the continuous evaluation, which involves the attendance to class and participation in them, and the realisation of three individual activities during the training period. In order for the proposed activities to be evaluated, they must be submitted on the date and manner stipulated for each of them. Through the proposed activities students will proceed, step by step, to the valuation of an unquoted company of their choice, preferably Spanish or American. The activities to be developed are the following:

Activity 1: to propose a financial model for the chosen company and project its free cash flows (FCF).

Value of the activity: 1 point.

Activity 2: to perform an analysis of the uncertainty associated with the projection of the FCF carried out in Activity 1.

Value of the activity: 1 point.

Activity 3: To estimate the weighted average cost of capital (WACC) of the selected company.

Value of the activity: 1 point.

The purpose and nature of these tests of continuous evaluation is to encourage and evaluate the work and the progressive and continuous learning of the student throughout the course, as specified in article 6 point 3 of the Regulation of Evaluation and Qualification of the University of Valencia for degrees and master's degrees, which states: "Continuous evaluation is one of the basic criteria of teaching programming, and must be understood as a tool of the teaching-learning process that informs students about their progress and values it". Given the finalist nature of these continuous assessment tests, they will not be recoverable on second call.

In any case, it will be an essential requirement to have passed the written exam so that the grade obtained in the continuous assessment is computed. If in the first call the written exam is not passed, the continuous evaluation grade will be kept for the second call.

The grading system will be expressed by numerical grades in accordance with the provisions of art. 5 of R.D. 1125/2003, September 5, which establishes the European system of credits and the system of qualifications in official university degrees valid in the national territory.

REFERENCES

Basic

- Brealey, R.A., S.C. Myers y F. Allen (2010): Principios de Finanzas Corporativas. McGrawHill. Madrid.
- Ross, S., R.W. Westerfield y J.F. Jaffe (2005): Finanzas Corporativas. McGrawHill. México D.F.
- Titman, S. y J.D. Martin (2009): Valoración. PrenticeHall. Madrid.

- Benninga, S. (2014): Financial Modelling. The MIT Press. London.
- Titman, S. y J.D. Martin (2011): Valoración. PrenticeHall. Madrid. (Acceso online)

Additional

- Página web del profesor Aswath Damodaran (Stern School of Business, New York University): http://pages.stern.nyu.edu/~adamodar/
- Página web del profesor Kenneth French (Tuck School of Business, Universidad de Darmouth): http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/