I. Contact Details

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Office hours (Office location): By appointment

Teaching Assistants: TBD

II. Course Prerequisites

B8008, B8008, B8008, etc

III. Course Description

This half semester course will provide an overview of a deal from the strategy phase, through the execution and harvesting of value. Companies pursue transactions for a variety of reasons, but the fundamental reason is value creation. This course will address the financial reporting considerations for each phase of a transaction. There are many motivations for transaction. For purposes of creating value, execution and effective communication with stakeholders are almost as important as identifying the right target. While we will touch on the perspectives of all participants in the financial reporting ecosystem, the primary focus is on the users of this information. Specifically, this means gaining an understanding of the information content of financial reports. The objective is to obtain a level of literacy with respect to the accounting and reporting guidance relevant to transactions to allow the student to become an effective deal advisor.

Substantive areas covered include:

- Build vs. buy - What are the key motivations and structures and how do these manifest themselves in the information is reported to stakeholders
- Alliances and joint ventures - The risk reward relationship is different than going it alone, the impact on reported results can be significant
- Acquisitions - We will explore adding value through financial due diligence, understand purchase price allocations as tool to communicate value, and the reporting implications of various M&A structures
- Harvesting value - What are the common structures to exit a business and what are the reporting implications for the seller and the divested business

The focus will be from the perspective of a strategic player. We will touch on the interactions with financial investors at the various stages. While not the focus of the course, where relevant, we will discuss topical subjects such as how ESG fits in and SPACs.
IV. Course Objective

The primary objective of the course is to acquire an understanding of the accounting and financial reporting aspects of various transactions that companies pursue to create value. These insights would be relevant for CFOs, corporate development or professionals advising on transactions.

IV. Class Schedule

First class: Month Day  
Last class: Month Day  
Final exam: Month Day

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V. Required Reading

No textbook is required. Required readings are available on CANVAS and will consist of a compilation of articles, cases and papers. Select podcasts and links to PwC guides as reference material will also be provided. Slides will be posted on CANVAS prior to each class. Reviewing the material in advance is recommended.

VI. Case Studies

Case #1 - Build vs. buy  
Case #2 - R&D structures  
Case #3 - Purchase price allocation  
Case #4 - Impairment tests

VII. Grading

2 Quizzes - 10%  
Class participation 30%  
Group project - 30%  
Take home final exam - 30%

VIII. Course Outline
Class 1/2 Build vs Buy: After setting the strategy, management goes about either acquiring the assets it needs to execute on the strategy or develops these assets internally. We will explore how the investments companies make in these two scenarios can be very similar from an economic perspective but have a very different earnings and EBITDA profile. We will review a case that illustrates the differences in key metrics such as EPS, ROI and EBITDA. We will also discuss the intangible asset recognition problem and how the rise of ESG makes it worse.

Class 3/4/5 JVs and Alliances: Instead of going it alone, many companies chose to partner. We will discuss common business issues encountered in putting such arrangements in place, such as dispute resolution mechanisms, governance provision and compensation plans, and how they can meaningfully change key financial metrics. The type of partner, strategy vs financial, can impact the funding structure, with knock on effects on the metrics of the parties. We will translate theory into practice by analyzing some R&D funding structures used by companies.

Class 6 Making the buy decision (co-instruct with an FDD expert): We will discuss the key elements of financial due diligence, including i) validating the value proposition through analysis of historical and projected financial data, ii) reviewing an example of a quality of earning analysis, iii) discussing the impact of aggressive historical accounting positions or errors, and iv) discussing how purchase price mechanisms tied to financial reporting metrics impact cash out of pocket. This last section will include a review of some examples of purchase price mechanisms observed in the market and illustrate how the projected ROI of the transaction is impacted by successfully navigating these provisions. These mechanisms typically have a strong grounding in financial reporting related to accrued expenses and other areas that are often whose importance is understood by the savvy deal professional.

Class 7/8/9 Acquisitions: M&A is often the most significant investment a company will make. Given the wide array of transaction structures, the impact of the go forward financial metrics of a company can be quite complex. As a baseline we will walk through an example of a strategic acquisition. This will include reviewing a detailed example of a purchase price allocation (i.e., a disaggregation of the purchase price into the individual assets purchased. The focus here is on the information content of this exercise. We will discuss some of the common issues in M&A reporting including: i) common transaction complexities such as contingent consideration (types and why these mechanisms are used, ii) compensation structures, iii) restructuring charges

We will discuss an example of a private equity transaction in order to highlight how it differs from a strategic acquisition. In particular, we will review an example of so-called Black Line financial statements. We will touch on what is different about cross-border transactions and SPACs. While broadly outside the scope of this course, we will briefly touch on the tax treatment and financing structures.

We will discuss goodwill. The S&P 500 has several trillion dollars of goodwill. So what does it represent, is it more than just synergies and should it be amortized? The discussion around goodwill is a good entry point into the question of how much should people focus on the earnings impact of M&A is needed given the rise of non-gaap reporting in earnings releases.

Finally, we will discuss some of the implications post deal, for example the impact on segment reporting and impairments.
Class 11/12 Harvesting value: While the base case is to operate the acquired assets and realize synergies and other sources of value, companies need to continuously consider whether are the optimal owner of these assets. We will discuss some of the numerous mechanisms to unlock value that have a different impact of financial metrics of the company. These include:

- Spin-offs
- Split-offs
- Sale
- JV
- Minority investor

While the impact on the company’s financial metrics is important, the ultimate objective is to maximize the value of the assets or business that is being monetized. This requires the preparation of separate F/S for the business in question (i.e., carve-out financial statements). We will work through an example of such financial statements. We will discuss the key inputs and gain an understanding from both the perspective of the company as well as prospective investors.

Group project: The financial reporting related to significant investments often is not a good reflection of the underlying economics. In a small group, pick an area of transaction accounting that is not optimal from the perspective of deal professionals. Devise a proposal for how would you improve it? What are the pros and cons of this proposal?