

Corporate Finance

Introduction

Companies strive to invest in profitable projects (such as new product lines or expanding factories) and finance them efficiently (through either debt or equity markets). The uncertainty and the timing of the payoffs from these investments make these problems essential for a company's long-term success. In this course, we will analyze these and other financial decisions that can have a long-term impact on the strategy of the firm: How can we value and choose projects? What is the value of a company? Should the company finance its assets with debt or equity? How much value does a specific strategy add to the firm? Should the company's shares be traded in the public stock markets, or should the company remain private? How much should a company pay to acquire a competitor? To consider these questions requires us to deal with two of the concepts at the heart of finance: valuation and risk.

The aim of this course is to give you a framework to understand these issues in theory and in practice. We will see how to apply discounted cash flow analysis and valuation with multiples to value firms, stocks, and corporate bonds. We will use the CAPM model to estimate a firm's cost of equity and we will learn how to estimate the weighted average cost of capital (WACC). We will analyze the impact of the firm's capital structure on its value. We will discuss whether firms should reinvest their profits or payout dividends to their shareholders. Lastly, we will apply these methods to consider the value created (or destroyed) by several types of financial transactions (LBOs, IPOs, M&As, etc.).

Objectives

The main objective of this course is to allow students to critically analyze corporate decisions from a financial perspective. After the course, you should be able to:

- Compute the expected rate of return for investment projects.
- Apply several valuation methods to value companies.
- Understand how cost of capital is affected by risk.
- Evaluate the capital structure of a firm.
- Identify ways to return money to shareholders.
- Measure the value created or destroyed by acquisitions (M&As and LBOs).
- Learning outcomes include:
 - Perform stock valuation by means of discounted cash flow analysis and relative valuation.
 - Distinguish different ways of financing a company and determine the effects of leverage.
 - Calculate and interpret the cost of equity and debt financing.
 - Determine the Weighted Average Cost of Capital and its consequences on the value

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- of the company.
 - Assess an acquisition opportunity to determine whether it creates or destroys value for shareholders.
 - Identify different payout policies and specify the outcome of each alternative.
 - Perform IPO analysis to assess the pros and cons for the firm of going public and determine the offer price.
 - Evaluate the different alternatives that companies must divest an asset.

Learning Outcomes

RA12. Equip students with learning skills that enable them to continue studying independently and self-directedly.

RA1. Possess and comprehend knowledge that provides a basis or opportunity to generate original ideas in the development and application of concepts, often within a research context.

RA19. Enable students to apply acquired knowledge and solve problems in new or unfamiliar environments within broader (or multidisciplinary) contexts related to their area of study.

RA11. Enable students to integrate knowledge and address the complexity of making judgments based on incomplete or limited information, including reflections on social and ethical responsibilities linked to the application of their knowledge and judgments.

RA20. Enable students to communicate their conclusions, along with the knowledge and rationale supporting them, to both specialized and non-specialized audiences clearly and unambiguously.

RA21. Listen, understand, and compare differing viewpoints to develop an objective understanding of a business situation. Communicate in a structured and persuasive manner (Interpersonal communication).

RA13. Work effectively in multicultural teams, assuming project leadership when necessary. Integrate the value of diversity into the team's decision-making and work process (Multicultural teamwork skills).

RA14. Critically evaluate information and the context of a business situation to reach prudent decision-making conclusions (Critical thinking).

RA2. Apply well-established ethical criteria in business decision-making, respecting the inherent dignity of each individual and the pursuit of the common good. (Integrity)

RA15. Develop a proactive mindset open to organizational change to design and promote process improvement initiatives and facilitate adaptability to new organizational cultures (Innovative spirit).

RA3. Identify relevant data to diagnose a business problem and generate sensible decision alternatives.

RA8. Apply financial diagnostic tools with a general management approach to determine the intrinsic value of a business.

Content

The course is divided in four modules:

1. Project evaluation (4 sessions): This module provides the basic tools to make decisions on projects. What is the value of a project? Should the firm undertake it?
2. Valuation methods (4 sessions): This module develops the different methodologies used to value a firm and discusses different ways to create corporate value. We will look at the difference between our opinion of fair value and market value and will apply our valuation toolkit to look at an mergers and acquisitions (M&A) deal.
3. Financing and cost of capital (6 sessions): In this module, we will analyze the cost of equity and the cost of debt of the firm and determine its average cost of capital. We will also

study the capital structure choice of the firm (debt vs. equity) and discuss payout policies (dividends and share repurchases).

4. Advanced topics in corporate finance (4 sessions): The last module of the course applies the corporate finance concepts covered in the first three modules to the analysis of four topics: private equity acquisitions, payout policies (dividends and share repurchases), green finance and leveraged buyouts (LBOs).

Instructional Activities

AF1: Training sessions and meetings with the teacher (classes, seminars, lectures, tutorials, company visits, simulations): 27hrs

AF2: Individual student work (personal study, preparation of assignments): 27hrs

AF3: Teamwork (preparation of group assignments and execution of simulations): 4hrs

AF4: Evaluation tests: 2hrs

Evaluation

Your final course grade will depend on three components:

- Professionalism (30%), i.e., constructive, well-bred, and timely class interaction
- Mid-term (30%)
- Final exam (40%)

The IESE Business School's Honor Code and Learning Partnership apply to all activities in this course. For individual assignments, unless explicitly stated, you should not interact with anyone else. For deliverables to be done in teams you should interact only with the members of your team.