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# Corporate Finance

## Lecture 1: The Role of the Financial Manager

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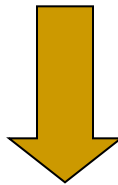
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# Syllabus

- The role of the financial manager
- Valuing risk-free and risky real projects
- Valuing financial assets
- Optimal capital structure
- Payout policy
- Agency and information
- Mergers and acquisitions
- Capital restructuring: going public and private

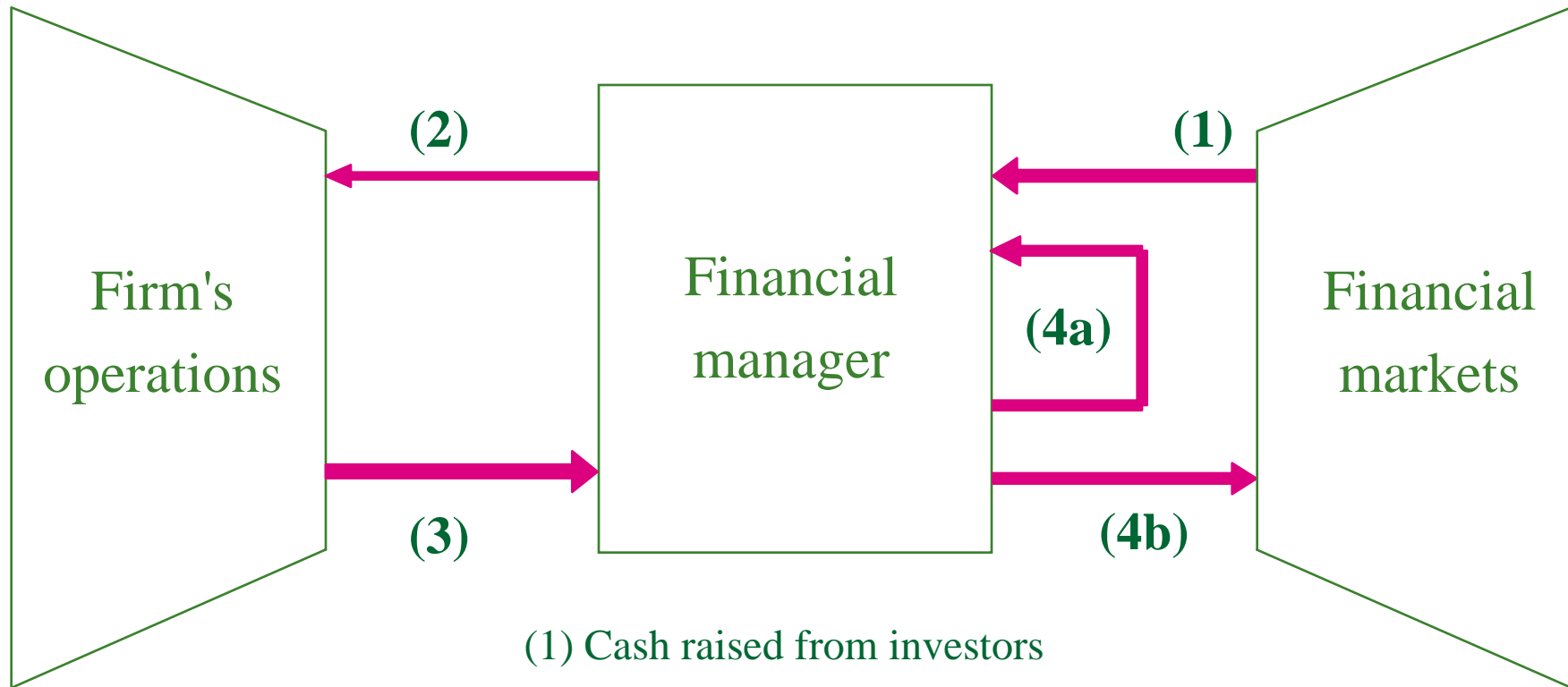
# Corporate Finance

- Corporation:
  - Limited Liability
  - Corporate tax on profits and
  - Personal tax on dividends
- Financial decisions of a corporation:
  - What investments should the firm make?
  - How should it pay for them?



- The Role of The Financial Manager

# Role of the Financial Manager



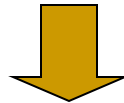
- (1) Cash raised from investors
- (2) Cash invested in firm
- (3) Cash generated by operations
- (4a) Cash reinvested
- (4b) Cash returned to investors

# Investment Decisions

- Valuing financial assets:
  - Stocks, bonds and derivatives
  - Tracking financial assets, portfolios and arbitrage
  - Market portfolio and the Capital Asset Pricing Model
  - Factor models and the Arbitrage Pricing Theory
- Valuing (risk-free and risky) real assets:
  - Factories, machines,...but also intangibles: patents,...
  - What to value? cash flows! Can we track them?
  - Risk-free assets: discounted cash flows (DCF) and internal rate of return (IRR) techniques
  - Extension to risky assets

# Capital Structure

- How to mix the different sources of capital (debt, preferred stock, warrants...)?



firm's capital structure

- But, does it matter?
  - Modigliani-Miller irrelevance theorem in frictionless markets
  - Of course, it does!!! Frictions: taxes, transaction and bankruptcy costs

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# Agency and Information

- But, are we sure that managers maximise shareholder value?

No! Agency problems!!

- Can we write full contracts, then?

No! Asymmetric information!!

- Lessening the problem using capital structure or executive compensation
- But then, distortion with respect to investor's information transmission

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# Mergers and Takeovers

- Outside takeover threat to incompetent managers
- But merging has other advantages:
  - Taxes, operating and financial synergies,...
- and disadvantages!
- Empirical evidence



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# Capital Restructuring

- Leveraged buyouts
- Spin-offs
- Privatizations
- Going private
- Going public