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Direcció Financera II

# The Role of the Financial Manager

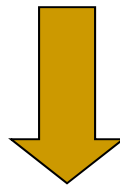
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Albert Banal-Estanol

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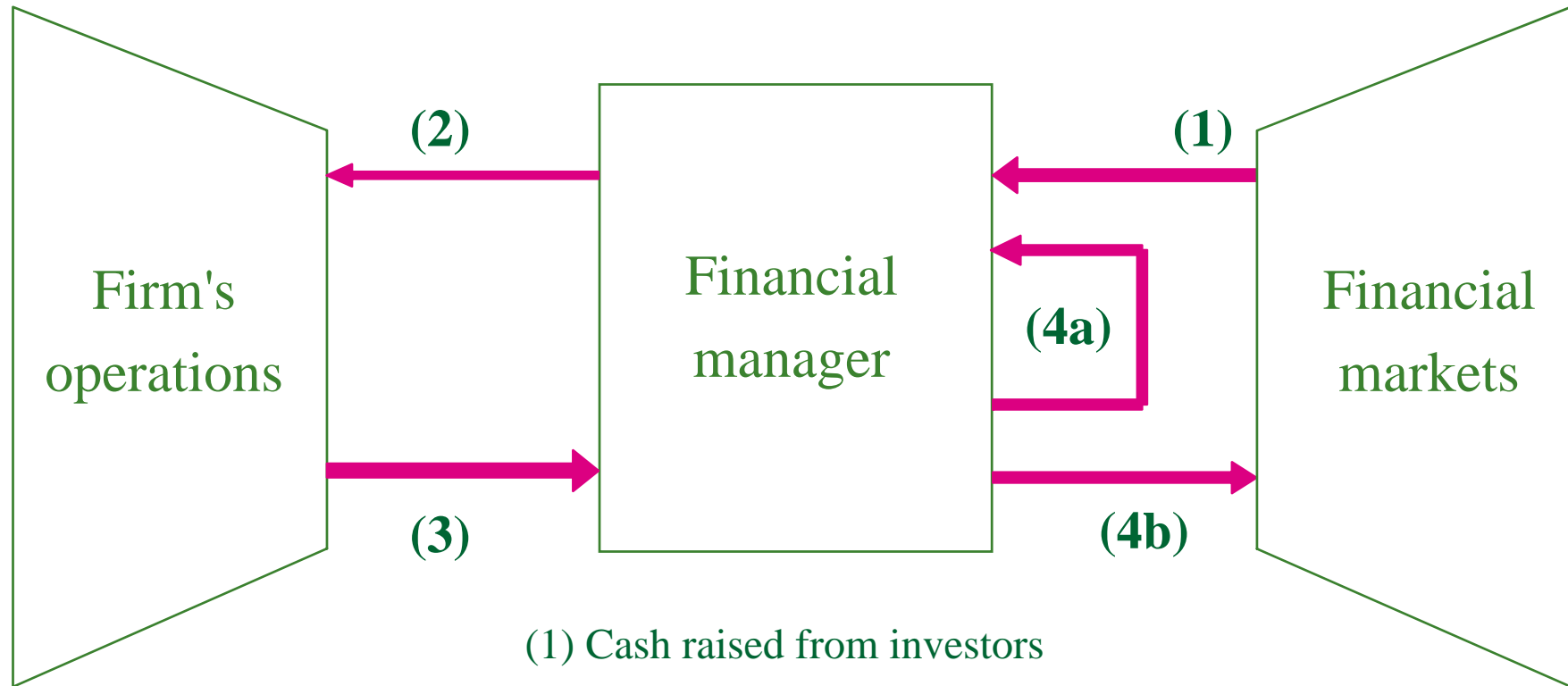
# Corporate Finance

- Corporation:
  - Limited Liability
  - Corporate tax on profits and
  - Personal tax on dividends
- Financial decisions of a corporation:
  - What investments (“projects”) 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

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# Investment (review, chapter 1)

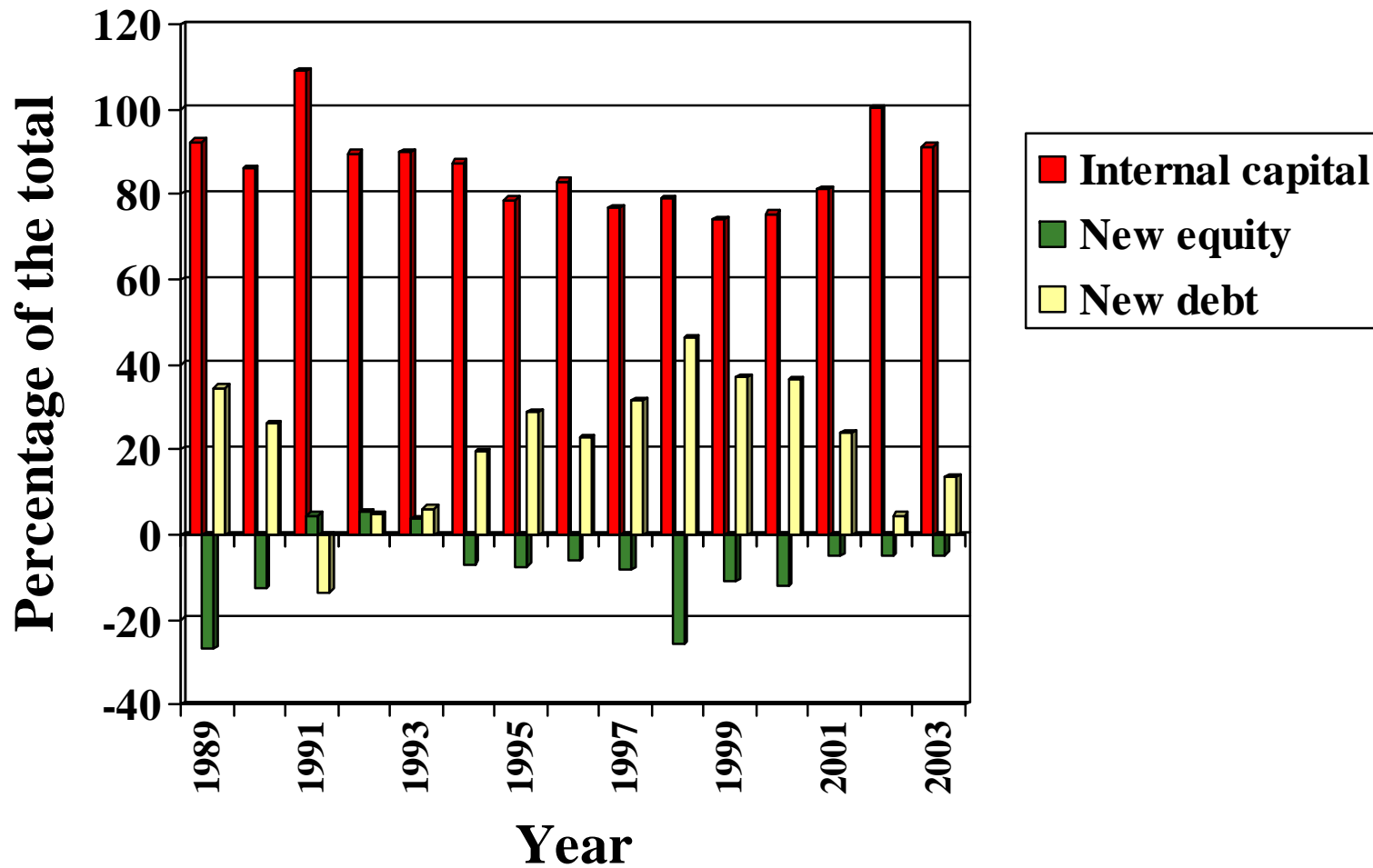
- Valuing real assets:
  - Projects: Factories, machines, patents,...
  - Decide whether to invest in a project/ select projects
  - How to adjust to take into account “risk”?

# Financing

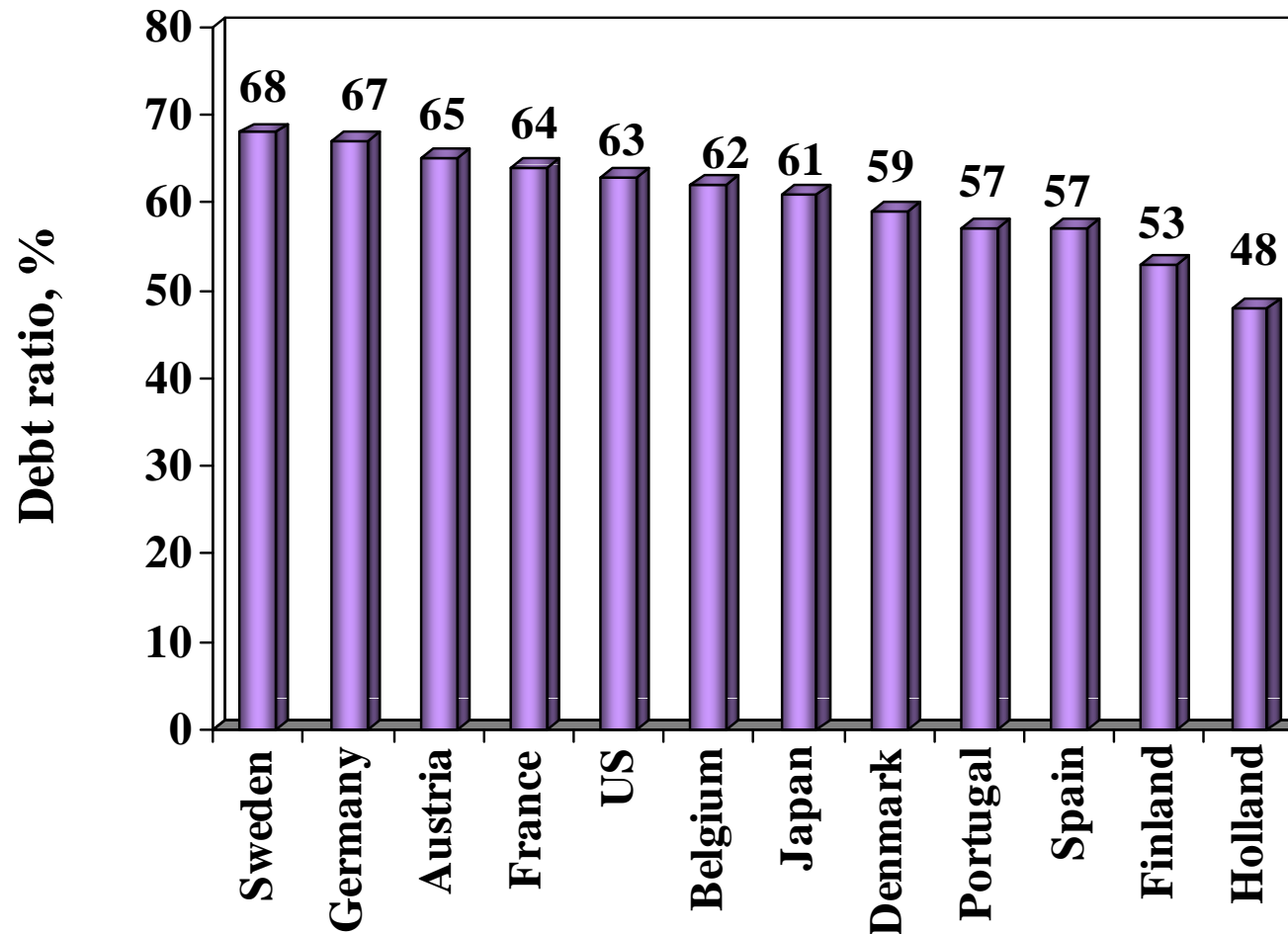
- Internal capital (reinvestment)
- External capital:
  - Shares (*equity*):
    - Ordinary (common stock) or preference shares (preferred stock) (preference stock has priority, but carry less control rights)
  - *Debt*
    - Examples: ?
  - Financial leverage:

$$\text{debt - to - value} = \frac{\text{debt}}{\text{company value}} = \frac{\text{debt}}{\text{debt value} + \text{equity value}}$$

# Financing in the US



# Leverage per country



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# The first big question (chapter 2)

- Debt:
  - Regular payments (interests + amortizations)  
(interests are considered as an expense)
  - Priority in the payments
  - No voting rights
- Shares:
  - Control rights
  - Payments not necessarily regular
- Debt/equity: In which proportion? What is the optimal capital structure?



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# Financing through debt (chapter 3)

- Which type of debt?
  - ❑ Long or short term?
  - ❑ Fixed or variable interest?
  - ❑ In domestic or foreign currency?
  - ❑ Priority order / additional guaranties?
  - ❑ Other advantages (convertibility,...)?

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# Equity (chapter 4)

- What is the best dividend policy?
- Dividends and/or share repurchases? What is the impact of the information problems?
- Impact of the separation between ownership and control

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# Company valuation (chapter 5)

- How can we value a company?
- What are the best methods?
- What are the levels of uncertainty in our estimations and what is their impact on value?