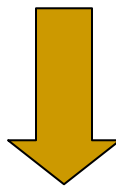

Topics in Corporate Finance

Chapter 1: The Role of the Financial Manager

Albert Banal-Estanol

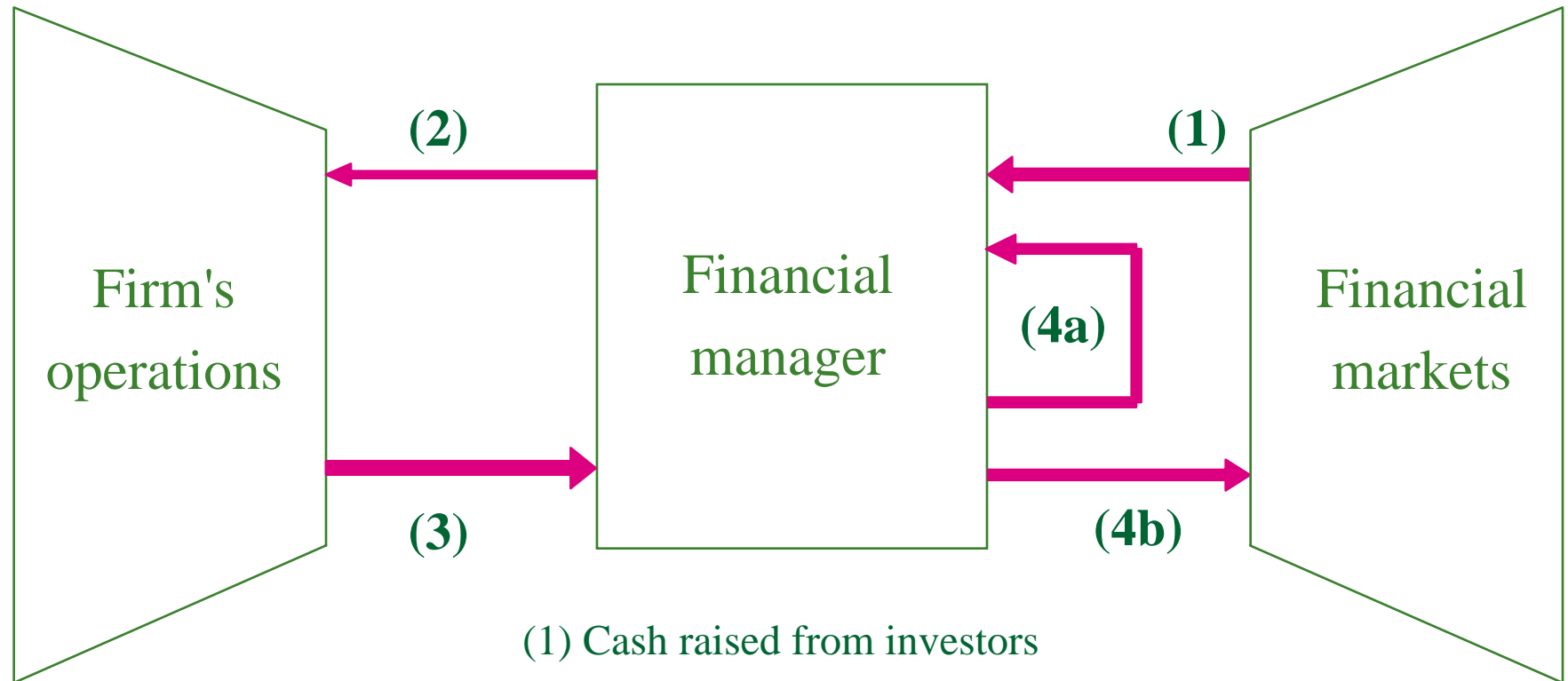
Corporate Finance

- 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 risk-free and risky real assets:
 - Factories, machines,...but also intangibles: patents,...
 - What to value? cash flows!
 - Methods
 - Discounted cash flows (DCF)
 - Internal rate of return (IRR)
 - Payback method

- Using value of financial assets (Asset Pricing module):
 - 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

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

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

Capital Restructuring

- Mergers and Takeovers:
 - Outside takeover threat to incompetent managers
 - But also other synergies,.. and disynergies!
- Leveraged buyouts
- Spin-offs
- Initial public offerings (IPOs)
- Securitisation
- Project finance