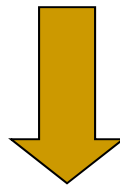

Corporate Finance

The Role of the Financial Manager

Albert Banal-Estanol

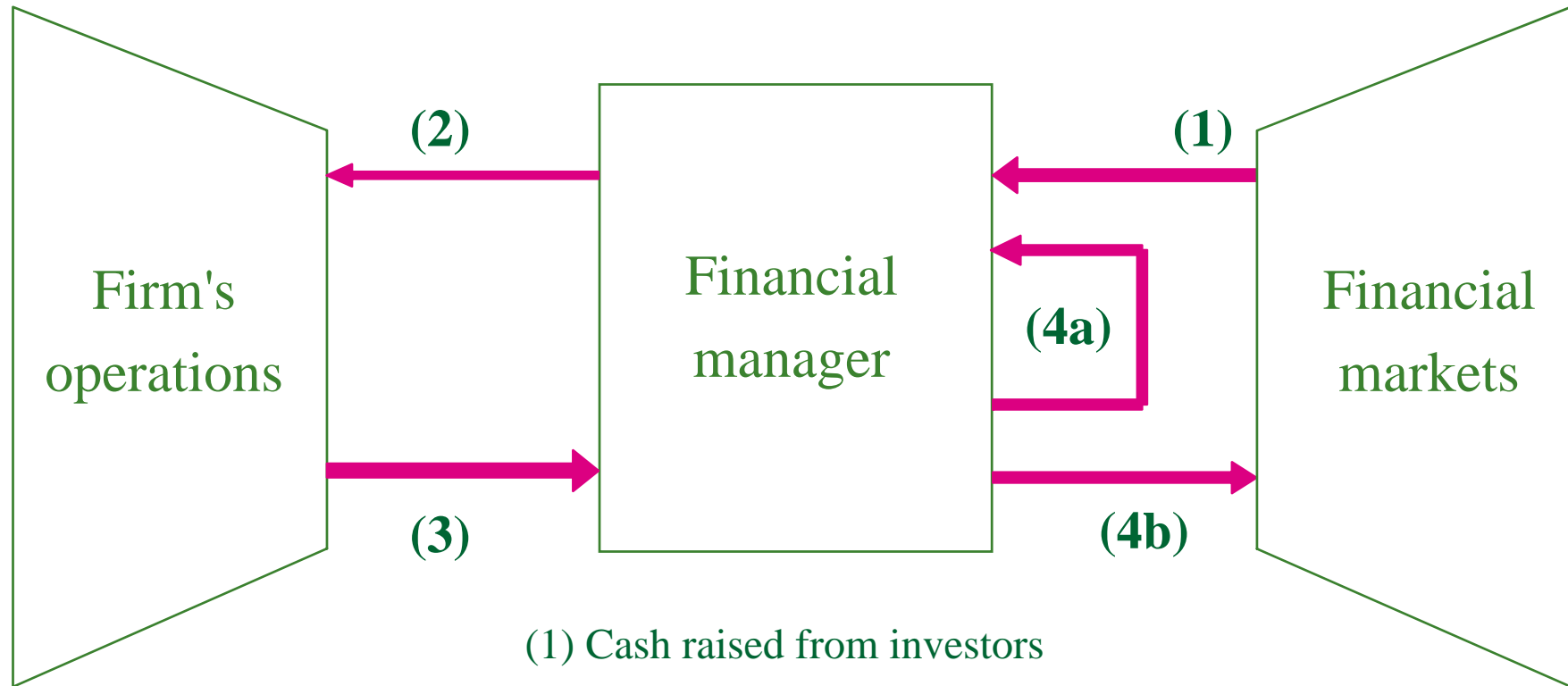
Corporate Finance

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

Investment (chapter 1)

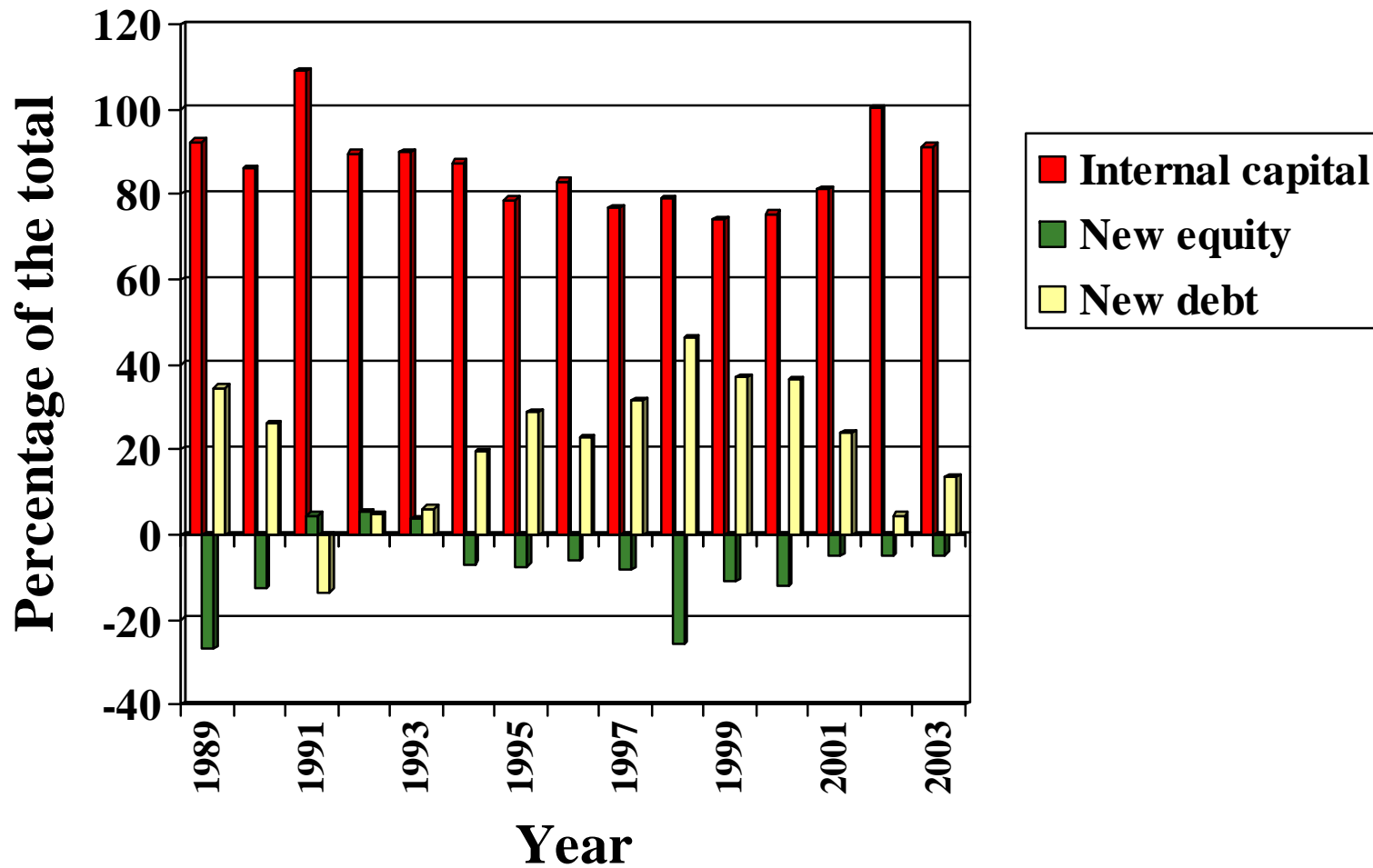
- Valuing real assets:
 - Projects: Factories, machines, patents,...
 - Decide whether to invest in a project/ select projects
 - How to adjust to take into account “risk”?

Financing

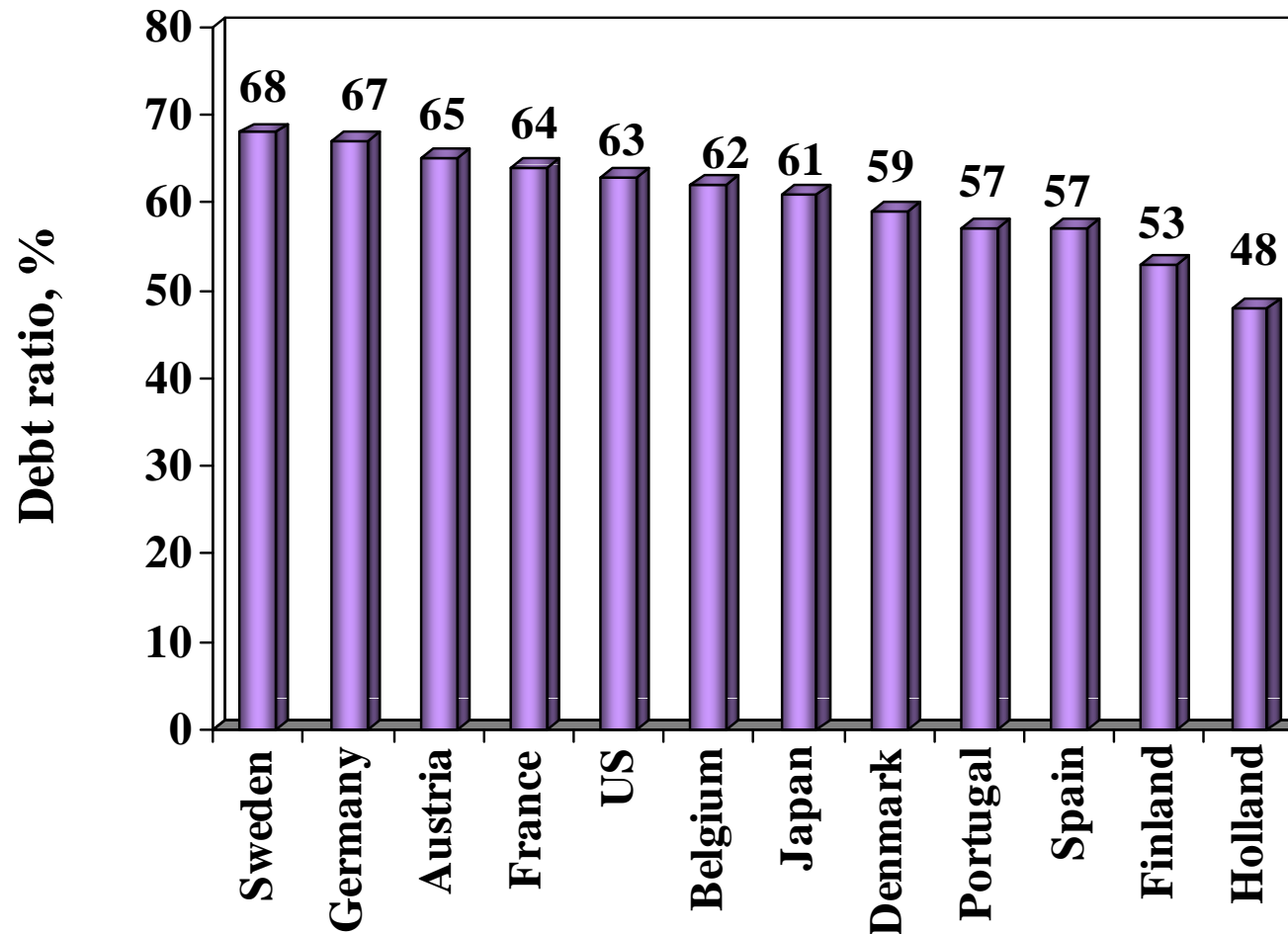
- Internal capital (reinvestment)
- External capital:
 - Shares (*equity*):
 - Ordinary (common stock) or preference shares (preferred stock) (preference stock has priority, but carry less control rights)
 - *Debt*
 - Examples: ?
 - Financial leverage:

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

Financing in the US



Leverage per country



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?

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,...)?

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

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?