IESE Business School University of Navarra Executive MBA

CORPORATE FINANCE

COURSE OUTLINE

1. Introduction

In this course we will look at corporate long-term financing. One goal of companies is to undertake profitable projects (e.g., a plant expansion) and finance them efficiently (e.g., issuing debt or equity). The time and uncertainty of investment payoffs make these problems nontrivial and essential for long-term success. Corporate Finance answers to the following questions: How can we value and choose projects? How should companies obtain financing? What is the value of a company? How much value does a specific strategy add to the firm?

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 methodologies to value firms, stocks, and risky projects. 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 to 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 (MBOs, IPOs, M&As, etc.).

2. Objectives

The main objective of this course is that students are able 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 projects and companies
- Evaluate the capital structure of a firm
- Identify ways to return money to shareholders

3. Learning Outcomes

- Evaluate different projects and choose the best alternative using different tools (NPV, IRR, payback, etc.).
- Identify the risks and returns of an investment project.
- Analyze different scenarios that have an impact in the risk-return profile of an investment decision.
- Perform stock valuation by means of relative valuation/multiples.

- Assess the acquisition of a non-listed company by considering different factors: strategic fit, stakeholders' interests or different values of the firm depending on the point of view of each party.
- Distinguish different ways of financing a company and determine the effects of leverage.
- Evaluate the specific characteristics of a Private Equity acquisition.
- Calculate and interpret the cost of equity and debt financing.
- Determine the Weighted Average Cost of Capital and its consequences in the value of a company.
- Assess an M&A deal considering important issues: Discounted Cash Flow and Multiples valuations, cost of capital, terminal value, etc.
- Identify different dividend policies and specify the outcome of each alternative.
- Perform IPO analysis by knowing the mechanics and how the price is chosen.
- Determine the best way to carry out a Management Buy Out.

4. Competences

This course builds and reinforces the following competences:

- Students should possess and understand knowledge that provides the basis or opportunity for originality in the development and/or application of ideas, often in a research context.
- Students should know how to apply the knowledge acquired and their problem-solving capacity in new and little-known settings within broader (or multidisciplinary) contexts related to their area of study.
- Students should be able to integrate knowledge and deal with the complexity of making judgements based on information that is incomplete or limited, but includes considerations of the social and ethical responsibilities linked to the application of the students' knowledge and judgements.
- Identifying and effectively dealing with information that is relevant to the job (Information Management).
- Using material and economic resources in the best, fastest, most economical and effective way possible to obtain the desired results (Resource Management).
- Optimizing capital structures to maximize the company's value, and developing a critical sense to revise estimates and identify risk and sensitivity factors.
- Assessing projects, assets and businesses using different models (discounted cash flow, multiples, real options, liquidation value, accounting methods, etc.) and understanding their limitations and implicit assumptions.
- Knowing how markets work and how the value of financial products such as bonds and derivatives is determined.

5. Content and Methodology

The course is divided in four modules:

1. Project Evaluation: 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: This module develops different methodologies used to value a firm and discusses different ways to create corporate value.

3. Financing and cost of capital: In this module, we will analyze the cost of equity and the cost of debt in financial markets—leverage of firms, risk, and the average cost of capital of the firm.
4. Advanced Topics in Corporate Valuation: The last module of the course applies all the corporate finance concepts to mergers and acquisitions (M&A), leveraged buyouts (LBOs), dividend policy, initial public offerings (IPOs), and venture capital/private equity (VC/PE) financing.

Method: The course is case-based. Cases, technical notes, and readings will be assigned for each session. Cases require heavy preparation. You are expected to participate constructively in class discussions.
laptops shut off and down—tablets and readers allowed for class materials.

6. Evaluation

Your final course grade will depend on three components:

- Professionalism (20%), i.e., constructive, well-bred, and timely class and off-class interaction
- Midterm (30%)
- Company Valuation Report (20%)
- Final Exam (30%)

Learning outcomes will be measured in the following way:

Midterm and final exam with decision making problems that require evaluating projects using NPV, IRR, risk-return characteristics and scenario analysis (outcomes i-iii), value companies using comparables (outcome iv), discuss the acquisition of non-listed companies (outcome v), calculate the cost of financing a company and measure the impact of choosing different alternatives (outcome vi, viii and ix), Private Equity investment analysis (outcome vii), determine the value of a company in M&A transactions (outcome x), evaluate different dividend policies (outcome xi), explain the mechanics on an IPO (outcome xii) and justify the best way to do a Management Buy Out in a given context (outcome xiii).
Hand in of a Field project in which the students must implement all the financial techniques acquired during the course to value a firm (all outcomes).