

Corporate Finance

Introduction

In this course we will look at corporate long-term financing. The ultimate goal of corporations 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 corporations 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, corporate bonds, 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.)

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

Learning Outcomes

- i. Evaluate different projects and choose the best alternative using different tools (NPV, IRR, payback, etc.).
- ii. Identify the risks and returns of an investment project.
- iii. Analyze different scenarios that have an impact in the risk-return profile of an investment decision.
- iv. Perform stock valuation by means of relative valuation/multiples.
- v. 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.
- vi. Distinguish different ways of financing a company and determine the effects of leverage.
- vii. Evaluate the specific characteristics of a Private Equity acquisition.
- viii. Calculate and interpret the cost of equity and debt financing.
- ix. Determine the Weighted Average Cost of Capital and its consequences in the value of a company.
- x. Assess an M&A deal considering important issues: Discounted Cash Flow and Multiples valuations, cost of capital, terminal value, etc.
- xi. Identify different dividend policies and specify the outcome of each alternative.
- xii. Perform IPO analysis by knowing the mechanics and how the price is chosen.
- xiii. Determine the best way to carry out a Management Buy Out.

Competences

General Competences

- Decision Making
- Critical Thinking
- Judgment
- Conciseness

Specific Competences

- Understand and apply appropriate quantitative and qualitative analysis and tools to the investment and financing process in the presence of risk and uncertainty.
- Emit consistent and unbiased judgments taking adequately into account the characteristics and circumstances of the decision.

Content

The course is divided in four modules:

Project Evaluation

Valuation Methods

Financing and cost of capital

Advanced Topics in Corporate

Methodology

Method: The course is case-based (i.e., 15 sessions are based on cases, 3 sessions are lectures, and 2 review sessions). Cases, technical notes, and readings will be assigned for each session. Cases require heavy preparation. You are expected to participate constructively in class discussions.

Preparation Sheets show detailed instructions for each session, with reading requirements from EMA excerpts, technical notes, and articles (some of them optional and available on blackboard). Supportive spreadsheets will be provided for most of the cases.

Valuation project: There will be a company valuation report to be submitted near the end of the course. More details will be announced later.

Evaluation

Your final course grade will depend on three components:

- Midterm & Final Exams: 70%
- Professionalism (27%), i.e., constructive, well-bred, and timely class and off-class interaction
- Projects: 3%

Professor's Biography



Prof. Heinrich Liechtenstein

Professor of Financial Management

Doctor of Business and Economic Sciences, University of Vienna Master in Business Administration, IESE, University of Navarra Degree in Business and Economic Sciences, Universidad Autónoma de Graz Certified European Financial Analyst

Professor Liechtenstein holds a Ph.D. in Managerial Science and Applied Economics from The Economics School of Vienna, Austria, a Master's degree in Business Administration from IESE Business School, and a BSc in Business Economics from the University of Graz. Professor Liechtenstein specializes in entrepreneurial finance, management of wealth, governance of entrepreneurial families and Impact Investing. He is co-author on several publications on private equity. Professor Liechtenstein lectures in the MBAs and Executive Programs. As a consultant he collaborated with leading families and financial institutions and serves on the board of family controlled foundations. Prior to his academic career, Professor Liechtenstein was engaged in LGT dealing with ultra-high net worth individuals. He also advised families within the Boston Consulting Group and established and sold two successful businesses. Areas of interest:

- Entrepreneurial finance, private equity
- Impact Investing
- Owners/Investors strategy and family governance