

FINE31128
CORPORATE FINANCIAL MANAGEMENT

Faculty: José Miguel Gaspar (A406)

Objectives

This course studies the theory and practice of how a firm is financed. At the end of the course, you should:

- Calculate a firm's financing needs, formulate a matching financial policy, and suggest ways to implement it
- Understand the theories behind firms' capital structure choices and their interaction with firm value, as well as their relation with the broad capital market trends, players and institutions.
- Learn how derivative securities can help firms achieve their financial policy goals.

Background

Students are **strongly advised** to have completed (or be simultaneously attending) FINE31123/124 (**Financial Theory**). Familiarity with the contents of FINM31165 (**Financial Markets**) will be helpful.

Organization

The course consists of: a series of 9 lectures, case studies, and a final exam. The cases and the final exam will be graded according to the rule described below. There are no regular office hours. Send my personal assistant, Aurelia Canteteau (canteteau@essec.fr) an email and we can fix an appointment if necessary. A tutor will be available before the final exam to conduct review sessions. **You need to bring a calculator to class throughout the course** (usually, any calculator with memory and y^x , $1/x$, e^x and \ln buttons is sufficient).

Cases

The cases should be handed in by groups of 3 to 4 students. Originality of thinking and clear, professional reports will be rewarded. The **first page** of the report should be an **executive summary** of the analysis and the recommendations proposed by the students. The remainder of the text **should be no more than 6 pages long**. Tables, figures, graphs etc. that support the analysis can be added without limit. Each case will be discussed on the class their delivery is due. **A group of students will be randomly selected** to present their work on the case. The presentation counts towards the grade. **WARNING: copying and/or plagiarism from any source without acknowledgement are not tolerated and are penalized severely.**

Grading

- The grade for the cases C is equal to the arithmetic mean of the grades of the 4 cases.
- The participation grade P can take the values $\{-1, 0, 1\}$.
- The final grade is equal to the exam grade E plus P if $E+P < 10$, and is equal to $0.5 \times C + 0.5 \times (E + P)$ otherwise.

Readings

The main textbook of the course is

- [RWJ] Ross, Stephen, Randolph W. Westerfield and Jeffrey Jaffe, 2005, "Corporate Finance" (8th edition), McGraw-Hill: Boston.

Complementary material is taken from

- [GT] Grinblatt, Mark, and Sheridan Titman, 2002, "Financial Markets and Corporate Strategy" (2nd edition), McGraw-Hill: New York.

Students are encouraged to read the financial press (in particular the *Financial Times*, *The Wall Street Journal* or *The Economist*). Other occasional articles, references, websites etc. of interest will be suggested throughout the course according to the topic of each session.

Course Outline

Session 1

Introduction to financial management. Financial planning. Bonds: reinvestment risk, interest rate risk, duration, convexity and immunization.

Readings: RWJ, chapters 2, 3, and 20. GT, chapters 2 and 23.

Session 2

Binomial pricing of options. Equity and debt as options.

Reading: RWJ: chapter 22. GT, chapters 7 and 8.

Session 3

Modigliani-Miller propositions and debt tax shields.

Reading: RWJ: chapter 15. GT, chapter 14.

Session 4

Trade-off theory and bankruptcy costs. Credit risk. The ratings process.

Delivery and discussion of "Diageo Plc." (Case 1).

Reading: RWJ: chapter 16. GT, chapter 14.

Session 5

Advanced capital structure theory: personal taxes, agency theory, shareholder-bondholder conflicts.

Reading: RWJ: chapter 16. GT, chapter 16.

Session 6

Equity issuance, initial public offers, secondary equity offers, rights issues, costs of equity issuance. Shareholder-manager conflicts.

Delivery and discussion of "Cox Communications Inc. - 1999" (Case 2).

Readings: RWJ: chapter 19. GT, chapter 3, 18 and 19.

Session 7

Dividend policy.

Discussion and delivery of "Dividend Policy at Linear Technology" (Case 3).

Readings: RWJ: chapter 18. GT, chapter 15.

Session 8

Convertibles. Project Finance.

Discussion and delivery of "Aluminium Bahrain (Alba): The Pot Line 5 Expansion Project " (case 4).

Readings: RWJ: chapter 13 and 24.

Session 9

Invited guest speaker.

Session 10

Final Exam. The exam lasts for 3 hours. You are allowed to bring one A4 sheet of paper written on both sides. Don't forget to bring a calculator. **WARNING: The final exam cannot be replaced by any assignment, project, etc. if you do not attend. BE THERE OR BE SQUARE.**