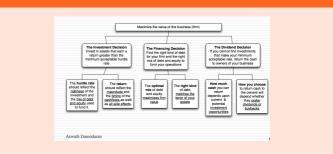
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Corporate Finance BIG PICTURE



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What is Corporate Finance?

Investment Decision--

The **hurdle rate** to reflect the riskiness of the investment and the mix of debt and equity used to fund it.

The **return** should reflect the magnitude and the timing of the cashflows as well as all side effects.

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What is Corporate Finance? (cont)

Financing Decision--

The **optimal mix** of debt and equity maximizes firm value, also: the **right kind of debt matches the tenor** of your assets.

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What is Corporate Finance? (cont)

Dividend Decision--

How much cash can you return? and

How you choose to return cash to the owners should it be dividend or

buybacks?



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Themes of Corporate Finance

1. Corporate finance is common sense

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Themes of Corporate Finance (cont)

 $\ensuremath{\textbf{2}}.$ Corporate finance is $\ensuremath{\textbf{focus}}$ on maximizing the value of the business.

Themes of Corporate Finance (cont)

3. The focus of the Corporate finance in corporate finance **changes** across the life cycle.



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Themes of Corporate Finance (cont)		Themes of Corporate Finance (cont)			
 Corporate finance is universal (Small/large, p US/emergent) 	ublic/private,	5. If you violate first principles, you will pay a price (no matter who you are)			
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Who owns/runs your firm?

Case 1: Splintering of Stockholders (Disney)

Who owns/runs your firm? (cont)

Case 2: Voting versus Non-voting shares & Golden Shares. (Vale)

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Who owns/runs your firm? (cont)

Case 3: Pyramid holdings (Tata)

Who owns/runs your firm? (cont)

Case 4: Legal rights & COrporate Structures (Baidu)

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Examples of Companies

1. Institutional Default (No body will push for you - Disney 2003)

Examples of Companies (cont)

2. Self Holdings (Largest holder is the company itself - China Mobile Ltd)

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Examples of Companies (cont)

3. The Government Influence (Vale - GDF Suez)

Examples of Companies (cont)

4. Different voting rights (Facebook, Google, LinkedIn)

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Examples of Companies (cont)

5. Family Group Company (Tata, LVMH)

Examples of Companies (cont)

6. Founders hang on (Las Vegas Sands Corp, Microsoft)

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Examples of Companies (cont)

7. Corporate Cross Holdings (Lufthansa owns Jet Blue)

Examples of Companies (cont)

8. Activist Investors (Danone SA - Trian fund management)

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Measuring Market Risks

The risk is an investm	ent can be measured b	y the variance in actual	returns around an	
expected retain	nerf Low Fink In	entrant Ma	Mpt Risk Eventment	
10	100		0.01	
(Rep	2 Differentiating betw	een Newsrded and Unre	norded Risk	
2 risk overages and across The marginal investor is be rewarded and priced.	assumed to hold a "div	ensified" portfalle. Thus, using Market Plak	only market risk will	
The CAPM If there is 1. no provide information 2. no transactions can the optimal diversified partitio instudes every tracked assat. Exergione will hold Thismarket portfolio Illecter (Fak – Flash added by any investment to the market portfolio	The APM If there are no advance opportunities that the maxwer fact of any assocrate boots captured by below relative to below affect all investments. Nachet Risk + Risk depolaures of any assact to market factors	Multi-Factor Models Diroo market rok affords most or al tweetbeets, it must come from marris economic factors, Market Plak – Plak exposures of any asset to macro economic factors,	Prozy Models In an efficient market, differences in releance across long periods must be due to market risk differences. Loading for variables constanted with whates though then give us provides for this with. Market Mark in Claptured by the Prozy Vindeble(s)	



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cle of Corporation						on	
	The Corporate Life Cycle						STOCKHOLDERS
organity Granity day Janodig	reverse (reve) (reve) (reversion (Go for the upside)	Stage 2 Young Gowth Growth Investing OMAking on the State State of the State of the State State of the State of the State of the State State of the State of the	Stage 3: High Growth Scaling Investing (Scale up growth)	Stage 4 Mazze Goose Defensive (Prites types Competitive adversaria)	Maintenance Investing	Divesting (Shel note	Hire & fire managers - Board - Annual Meeting Protect bondholder Managers - Managers - No Social Costs - Costs can be traced to firm - Costs can be traced to firm - Costs can be findersis are - Information - Managers - Costs can be traced to firm - Managers - Costs can be - Co
Financing	All equity (usually private)	All equity (shift to public)	First signs of debt capacity, but benefits are small.	Debt cepecity expands, with cautionary notes	Benefits of borrowing significantly exceed costs	Pay down debt as assets are sold.	on time value
Dividend	Need cash from equity investors	Cash needs malkply (beyond private market)	Move towards sufficiency (cash flows meet investment needs.)	Internal cash flows exceed investment needs.	eacess free cash flows	Internal cash flows decline but augmented by cash flows from partial liquidation	I MANCIAL MARKETS
Aswath Damodaran							

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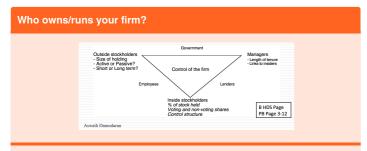
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Who are the top stockholders? Any potential conflicts of interests?

Solutions to failed corporate financial theory

Assign responsibility for monitoring managers to someone other than stockholders.

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Solutions to failed corporate financial theor	y (cont)	Expected Return		
Choose different objective		Expected Return = Riskfree Rate + Beta * (Expected		
maximize earnings, maximize revenues, maxim	nize market share.	Retorn on the Market Portfolio - Riskfree Rate)		
D. states at				
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Company Profiles

 Distance
 Distance
 Visite (preferred)
 Task Heave
 Baskle (Chan A)

 International
 32.95
 Attab
 41.9
 508

 Distribution
 32.95
 Attab
 12.98
 44.9
 508

 Distribution
 32.95
 27.98
 32.98
 208

 Distribution
 2.95
 0.26
 1.96
 31.95
 1096



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