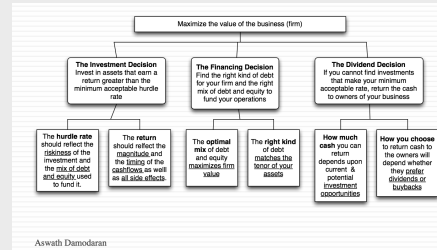


### Corporate Finance BIG PICTURE



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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.

### 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?

### Themes of Corporate Finance

1. Corporate finance is **common sense**

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### Themes of Corporate Finance (cont)

2. Corporate finance is **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)

4. Corporate finance is **universal** (Small/large, public/private, US/emergent)

### Themes of Corporate Finance (cont)

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 - Triun fund management)

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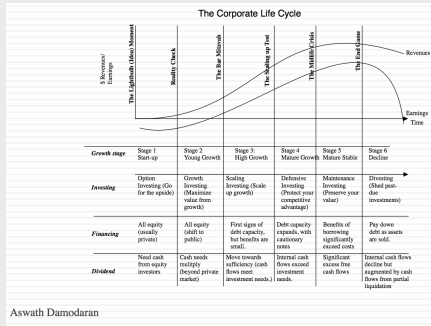
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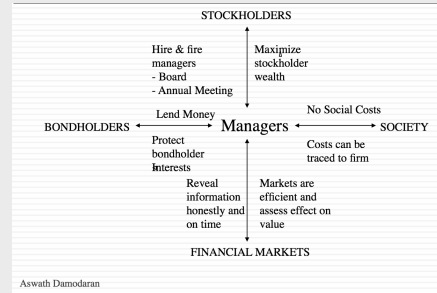
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### Life Cycle of Corporation



### Classical Objective Function

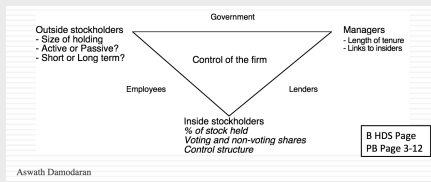


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### Who owns/runs your firm?



### Solutions to failed corporate financial theory

**Assign** responsibility for monitoring managers to someone other than stockholders.

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

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### Solutions to failed corporate financial theory (cont)

Choose **different objective**

maximize earnings, maximize revenues, maximize market share.

### Expected Return

Expected Return = Riskfree Rate + Beta \* (Expected Return on the Market Portfolio - Riskfree Rate)

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### Company Profiles

	Alcoa	Alcoa	Yale (preferred)	Yale (minor)	Alcoa (Class A)
Outstanding	18.7%	18.1%	11.2%	44%	30%
Outstanding	17.5%	18.1%	11.2%	44%	30%
Booked	1.9%	1.1%	1.0%	10%	10%

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