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orporate 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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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)

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 - Trian fund management)

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Measuring Market Risks

The risk is an inv	estment can be meas	ured by the variance	in actual r	eturne around an	
expected retarn Plankess investin	vesiment Low-	ent Low Rok Investment		High Risk Eventment	
10		00		0.01	
	Step 2: Differentiating	between Rewarded	and Unrea	arded Risk	
The marginal invest- be rewarded and pr	or is assumed to hold				
	Step 3	Measuring Market P			
The CAPM If from is 1. no private internation the optimal diversified partitio mutules every tracked assat. Decryone will hold themselved poor Barket Fish = Fish added by any investi- ta the market portfol	Blay 3 The APB I frem are no addhage opposi- tran the maximum any another to address	Multi-Factor Strop market motion of the unit the uni	Models risk affects restriction from mic factors. • Nak ore ore	Prozy Models In an efficient market, differences in setures acress long periods mu- be due to market risk windows constants dwi windows constants dwi market Risk = Captaned by the Prozy Versibeled	



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le of Corporation	Classical Objective Function	
The Corporate Life Cycle	STOCKHOLDE	ERS
Libronia Lib		timize kholder Ith
	BONDHOLDERS	
Greweth anger Stage 1 Stage 4 Young Goweth High Growth Manuer Growth Manuer Stable	Protect bondholder interests	Costs can be traced to firm
Option Generality Investing Standage Investing Standage Standage Standage Standage Standage Standage Standage Standage	Reveal Mar information effit	rkets are icient and ess effect on
All entry Financing (mark) All entry (phan) philos (phan)	on time valu	ue
Next cash Date booth More towards Burnaria cash Significant Estimation of the second secon	Aswath Damodaran	KKL15
Aswath Damodaran		

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

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Solutions to failed corporate financial theory

Assign responsibility for monitoring managers to someone other than stockholders.

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Solutions to failed	I corporate financial	l theory (cont)
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Choose different objective

Expected Return

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

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maximize earnings, maximize revenues, maximize market share.

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Company Profiles

 Dimey
 Destudy
 Yale (preferred)
 Tass Masser
 Bashe (Class A)

 Institutions
 30.25
 40.8
 71.28
 448
 705

 Institutions
 20.25
 40.9
 71.29
 448
 705

 Institutions
 20.56
 52.76
 22.786
 305
 305

 Instakens
 7.59
 0.56
 1.09
 315.9
 105



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