

Financial Strategy

UGRA_003405

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| Departments | Department of Economics, Finance & Accounting |
| Teaching Languages | English, Spanish, Catalan |
| ECTS | 4 |
| Teacher responsible | Ansotegui Olcoz María Carmen - carmen.ansotegui@esade.edu |

Course Goals

The objective of the Financing Strategy course is for students to acquire a global and comprehensive view of finance, specifically in terms of corporate strategy and the economic setting. Analysing financial operations requires participants to integrate the knowledge acquired in numerous program courses: finance, accounting and analysis, markets and corporate finance.

We will study the implications that business structure and organic and inorganic growth have on a company's finances. We will also analyse market operations: buy-backs, dividends, stock increases, going public, etc. The results of these operations depend on technical factors, the relative position of the intervening parties and their respective and often conflicting interests. Similarly, we cannot forget that companies make decisions within a given institutional framework and economic setting. Using case studies to analyse corporate operations allows us to see financial decisions within the specific corporate and economic context and understand the players involved.

Prior knowledge

Analysis and appraisal tools used in Financial Mathematics and Analysis courses and their application to corporate finance evaluation models: IRR, DCF and multipliers.

Prerequisites

Core and compulsory courses: Accounting and Financial Analysis, Foundations of Financial Markets, Micro and Macro Economics and Corporate Finance.

Recommended courses

Accounting, Financial Economics, Corporate Finance

Description

Course

This course aims to frame corporate financial decisions and dividend policies within companies' global strategies, market conditions and types of

contribution to program

stakeholders. Examining business reality is easier when using publicly-listed companies. Based on the Modigliani and Miller paradigm, this course introduces the concepts and situations which can harm market efficiency: asymmetric information, conflicts of interest and irrational economic agents. With these distortions, prices are not the result of objective valuations.

In previous finance courses, students studied basic financial instruments: accounting, analysis, investment selection, financial planning, financial and corporate and financial instrument appraisal models, etc. We will use these instruments to analyse decision-making within firms.

We begin with the assumption that corporate financial decisions are closely linked to the type of business. On the other hand, the varying interests of the different agents involved in the companies and the general economic conditions are also important. Within this framework, the subject will focus on long-term financial decisions: capital structure, dividend policy, going public, M&As and start-ups. As part of these long-term decisions, we will study the dynamics between companies and financial markets and how asymmetric information and conflicts of interest condition the possibilities of surviving and creating value.

The economic-financial setting also conditions companies' possibilities and determines the relative importance of the different economic agents and institutions. In this course we will study to what extent various investor groups (private equity firms, venture capital firms, hedge funds, etc.) can influence the economic setting and the financial decisions of the companies in which they participate.

Short description

1. Financial classification of economic activities

Balance sheets and profit and loss accounts according to the business. Representation of the balance sheet in terms of the total net investment and capital used. Analytical foundations: margins and turnover. ROE, operational and financial leverage.

2. Valuation using multiples

Valuation using multiples: selecting comparable, determining the multiple that best suits the valuation objective, the valuation range and instance. Application to a specific case and practical exercises.

3. Going public. Capital increases and buy-backs

Changes in corporate financial structure occur with capital increases or, alternatively, by paying dividends or buying back shares. We will analyse the reasons why companies decide to go public, the importance of this process and alternatives to the traditional process of using an investment bank as an underwriter. Buying back shares has frequently been used in the market. Throughout the course we will examine why companies might opt for this. We

will also study how this process works and compare it to paying extraordinary dividends.

4. Institutional investors

Key institutional investors, their investment objectives and strategies. The investors' different objectives are going to influence company strategies. The different types of investors: investment funds, pension funds, insurance companies, private equity firms, venture capital firms, family offices, activist investors and hedge funds.

5. Game theory & Behavioral Finance

In previous courses the Modigliani and Miller conditions have been limited to the existence of taxes. In Financial Strategy the dimensions of information asymmetry, conflict of interest, irrationality of agents, and other behavioral and game concepts are introduced. The goal is to be aware that finance goes beyond numbers

6. Capital structure. From WACC to flexibility

Capital structure policy and implementation. Share buy-back. Pros and cons of debt. "Pecking order". What do companies do?

7. Compensating shareholders

Ordinary and extraordinary dividends. Share buy-back. Theories on giving out dividends: The irrelevance of clients.

Program Learning Objectives

BBA20-Bachelor of Business Administration (BBA)

- Global Mindset and Perspective
 - Recognise the challenges posed by a complex global environment in the management of companies and other organisations.
 - Propose strategic actions aligned with the objectives of companies and organisations that take into consideration the complex global environment in which decisions are made, including their global impact.

Bibliography

Berk, J.; De Marzo, P., Corporate Finance, Pearson, 2017 (Book)

Allen, Franklin; Myers, Stewart; Brealey, Richard., McGraw-Hill (Book)

Brealey, R.A.; Myers, S.C.; Allen, F., Principles of Corporate Finance, McGrawHill (Book)

, American Greetings (Case Study)

, Blaine Kitchenware (Case Study)

, Apple Financial Policy (Case Study)

, JetBlue (Case Study)

, Prada to trade or not to trade (Case Study)

, Facebook IPO (Case Study)

Activities

Online training activities
Quizz

Written and/or oral exams
Midterm and final exams

Case study analyses
Study the comparable valuation and the strategic decision of companies

Content

| # | Topic |
|---|--|
| 1 | Part I: The business and multiples Topic 1: Financial characterisation by industry Structure of financial statements by industry Profitability and solvency ratios Case: Case of unidentified industries Topic 2: Market Concepts and Multiples Balance sheet at book values, market values and valuation Outstanding shares, free-float and minority interest. Multiples definition Topic 3: Relative Valuation The market as the assessment of value Multiples definition Valuation with multiples CASE: Blaine Valuation (Exercise) JetBlu Valuation Part I: The company in the market Topic 4: Institutional investors Mutual funds Pension plans Insurance companies ETF Hedge funds - financial Hedge funds - commodities Private equity Venture capital Wealth management Family office / high net wealth individuals Activist investors Topic 5: Initial public offerings Reasons to go public The process of going public Regularities and under-pricing CASE: Prada Facebook Snap Part III: The Modigliani and Miller paradigm Topic 6: Modigliani and Miller conditions Information asymmetry Principal – agent problems Buybacks as signal CASE: American Greetings Readings: Shiller and Wolf Topic 7: Capital structure WACC and trade-off theory Pecking order Flexibility CASE Blaine Kitchenware Topic 8: Dividend policy Traditional dividend policy Company practice – tax effect Clientele effect Different compensation schemes CASE: Apple |

Assessment

| Tool | Assessment tool | Category | Weight % |
|---------------------------|-----------------|----------------|----------|
| Written and/or oral exams | | Ordinary round | 50.00% |
| Written and/or oral exams | | Ordinary round | 30.00% |
| Quizzes/tests | | Ordinary round | 20.00% |

PROGRAMS

BBA20-Bachelor of Business Administration (BBA) (Undergraduates: Business)
BBA20 Year 3 (Mandatory)

BBE20-Bachelor of Business Administration (BBA) (Undergraduates: Business)
BBE20 Year 1 (Mandatory)
BBE20 Year 3 (Mandatory)

DBAI21-Double Degree in Business Administration and Artificial Intelligence for Business (Undergraduates: Business)

DBAI21 Year 5 (Mandatory)
DBAI21 Year 3 (Mandatory)

DBAI23-Double Degree in Business Administration and Artificial Intelligence for Business (Undergraduates: Business)

DBAI23 Year 3 (Mandatory)

G114-Global Governance Exchange Program (Undergraduates: Law)
G114 Year 1 (Optative)

GBD15-Double Degree in Business Administration and Law (Undergraduates: Law)
GBD15 Year 4 (Mandatory)

GBD20-Double Degree in Business Administration and Law (Undergraduates: Law)
GBD20 Year 4 (Mandatory)