Universitat Pompeu Fabra

Plan Docente
Financial Management II (20689)

Titulación: Grado en Administración y Dirección de Empresas / Grado en Economía / Grado en Empresariales (Management)
Curso: Tercero
Trimestre: Segundo (ADE/Economía) y Tercero (Empresariales)
Número de créditos: 5 créditos
Lengua o lenguas de docencia: Castellano/Catalán/Inglés

Professor lectures: Albert Banal-Estanol (albert.banalestanol@upf.edu)
Time and room: Monday-Tuesday, 9:00–11:00; Room 40.S02
Office: Jaume I, 20E26
Office hours: Tuesday, 11:00–12:30 (or by appointment)

Professors seminars: Javier Gomez-Bizcarri/Josep Maria Martos
Time and room: Tbc
Office: Tbc
Office hours: Tbc

Course description:

Financial Management II (FM II) is the natural continuation of Financial Management I (FM I). These courses deal with the two main challenges faced by the financial management of a company: the investment decision, concerning the use of company resources in productive projects, and the funding decision, or of capital structure, which examines how to obtain the money needed to finance the investments. If FM I focused on the analysis of the investment decisions, FM II will focus on the financing decisions.

We first review the basic concepts already studied in FM I: the NPV and the IRR; the notion of risk to address the relationship between risk and profitability, enabling us to reach the CAPM formula, the main tool of valuation of assets; the weighted average cost of capital (WACC). Then, we should study in detail the methods of financing the company or, in other words, the capital structure. We will investigate the different types of debt financing, contrasting them with the rights and obligations arising from financing via equity (shares). The course will also study the interaction of the company with its shareholders and will provide an introduction to the financial markets.

Skills

General skills

- Understand and interpret appropriately written texts of academic type and level.
- Develop the ability of autonomous reasoning with critical distance in controversial issues.
- Having consolidated habits of self-discipline, self-demanding and rigor in the conduct of academic work, as well as in organization and timing.
- Have a proactive approach in the desire to know what is ignored, which is essential in any learning process and in any professional activity.
- Be able to apply with flexibility and creativity the acquired knowledge and to adapt it to new situations and contexts.
- Use the appropriate information in the formulation of proposals and problem solving
- To take decisions in high-risk situations

Previous skills

- General knowledge about the functioning of the financial system in general and its role in the economy, with special attention to financial markets
- Knowledge of the main types of financial instruments
- Knowledge of the basic concepts of asset valuation under certainty and uncertainty, techniques about the absence of arbitrage opportunities, mean-variance analysis (material of Financial Economics).
- Knowledge of the basics of investment project analysis for financial management (Financial Management I).

Specific skills

- Knowledge of the main factors that influence the financing of the company through its various instruments:
    - internal financing
    - external financing - Debt
    - external financing - Equity
- Knowledge of the main resources available to estimate the risk of existing financial assets o assets that may be issued by the company
- Knowledge of the formal informational content at the time of issuing these financial assets
- Knowledge of the necessary inputs and methods for valuing companies

General skills

- Ability to search for relevant information from public sources or business.
- Ability to summarize and communication to the general public of the conclusions of the analysis.
- Teamwork
- Interpretation of the conclusions of the analysis in support of economic and business decisions

Teaching and learning activities:

There will be 20 one and a half hour lectures and 6 seminars of one and a half hours distributed over ten weeks.

Additionally the module requires the preparation of lectures and seminars through personal study, and the completion of individual and/or team complementary tasks.

Lectures will mainly develop the concepts and methodologies that make up the five items of the course list. These classes are based on the textbook that supports the course (Brealey, Myers, Allen), but we have also prepared a set of slides that set out the main material more specifically. Both the textbook and the slides should be the fundamental support for personal preparation before and / or after the lectures.

We will circulate (approximately every two weeks) a problem set with practical exercises. These exercises must be handed-in before each of the six seminars, in which we will discuss some of the most relevant exercises. We recommend that you work in groups to solve problems. The maximum group size is 4 people. Please submit one solution per group. All group members will receive the same score.

The seminars will discuss some of the most relevant exercises and other topics related to the lectures. During the seminar, the professor in charge will encourage student participation in the discussion. This participation, which will be evaluated individually, is essential to achieve the learning objectives of the course.

Evaluation

To pass, you should get at least 50 points out of 100, according to the following distribution:

Final exam: 60 points (must get at least 24 to pass the course)

Attendance and (active) participation in the seminars: 20 points. This shall include at least one group presentation (details will be provided later on).

Problem sets (conditional on seminar participation): 20 points.

Bibliography

The textbooks that will serve as main references are Brealey, R. A., Myers, S. C., Allen, You might use it as future reference: it might be used at higher levels (MSc, MBA, for example). You also have a detailed list of required and optional reading, including journal articles, which might be updated during the course. You should also be reading the Financial Times or the Wall Street Journal on a regular basis and the Economist once a week. During the course, we might be referring to press coverage, and corporate and market news and events, if these are related to, or help to illustrate, topics we are covering in the course.

Programme

Topic 1. Review of investment decision analysis (certainty and uncertainty).
- Chapters 14, 15.1, 5-9 (BMA).

Item 2. Capital Structure
- Chapters 17-18 (BMA).

Item 3. Debt financing
- Chapters 23-25 (BMA).

Item 4. Equity financing
- Chapters 1.4, 34.2, 15, 16 (BMA).

Item 5. Valuation
- Chapters 4, 19.2 (BMA).

Schedule (tentavie) of sessions

The contents in italics refer to topics covered in FMI, and therefore should be covered quickly.

Session	*Content*	*Chapter*	*Week*	*Slides*
	Review of investment decision analysis			
Lecture 1	Organisational aspects FM I vs. FM II: investment and financing Market and accounting values. *Valuation under certainty: discounting cash flows* *- Computing cash flows* *- Free cash flows*	14, 15.1, 5-9	1	1
Lecture 2	*Valuation under certainty: discounted cash flows.* *- Review of NPV, IRR, Payback.* *- Using the criteria for decision making* *Valuation under uncertainty* *- Adjust the cash flows or adjust the discount rates?* *- Certainty equivalents (short)* *- Risk: variance and covariance of returns* *- Diversification*	5-9	1	1
Lecture 3	*Valuation under uncertainty* *- Markowitz portfolio analysis* *- The CAPM* *- Extensions of CAPM*	5-9	2	1
Seminar 1	*Empirical estimation of betas: practical issues*			
	Capital structure			
Lecture 4	Capital Structure: Definition and introductory concepts - Assets vs. Liabilities: the company as a portfolio of assets or liabilities Proposition I Modigliani and Miller: - Assumptions - Implications Proposition II of Modigliani and Miller - Financial leverage and risk - Implications for the return required by shareholders	17-18	2	2
Lecture 5	WACC: M & M vs. traditional position Failure of the cases of M & M (1): taxes - After-tax WACC - Implications for optimal capital structure - Corporate tax and personal taxes: relative advantage formula	17-18	3	2
Lecture 6	Failure of the cases of M & M (2): bankruptcy - The probability of financial failure - Costs of Bankruptcy: direct and indirect - Effect of bankruptcy costs on the optimal capital structure - Conflicts of Interest Equity - debt (1)	17-18	3	2
Lecture 7	Failure of the cases of M & M (2): bankruptcy - Conflicts of Interest Equity - debt (2) Theory on the optimal choice of capital structure: - Trade-off theory - Pecking order theory - Implications and reality	17-18	4	2

	WACC when you change the debt, "deleverage beta"			
	Debt financing			
Lecture 8	Brief introduction to debt issued by the company: bonds and yields Terminology and concepts of bonds: - Issuance of bonds: clauses, information, etc.. Types of bonds: - Convertible bonds - Callable Bonds	23-25	4	3
Seminar 2	*Analysis of investment decisions under uncertainty*			
Lecture 9	Interest rates: review of macroeconomic concepts - Supply and demand of funds: factors influencing the level of interest rates - Real and nominal interest rates - Interest rates of monetary policy and market rates	23-25	5	3
Lecture 10	Bond valuation under certainty (review) - Discount the bond's cash flows: YTM - Term structure: Interest rates in the short and long term spot rates, forward rates - Bond prices and interest rate - Duration and volatility - YTM of zero coupon bonds and the term structure - Some exercises on bond ratings	23-25	5	3
Lecture 11	The term structure of interest rates: - Theory of expectations - Theory on the preference for liquidity - Movements yield curve: what information they give us? Risky bond ratings - Cash flow expected and YTM	23-25	6	3
Lecture 12	Estimating the risk of bonds - Rating of risky bonds - Estimation of risk based on models, credit scoring and discriminant analysis	23-25	6	3
Seminar 3	Capital structure in practice: sector analysis			
Lecture 13	Estimating the risk of bonds - Models based on the evolution of assets: VaR - Exercises for VaR	23-25	7	3
	Equity financing			
Lecture 14	Management vs. company ownership: preliminary concepts Return on capital: - Ways to pay dividends, repurchases, reinvestment. - Information contained in each type of retribution.	1.4, 34.2, 16	7	4
Lecture 15	Does it add value to the dividend policy? (1) - Modigliani & Miller Irrelevance of dividend policy (vs. buybacks and reinvestment). Does it add value to the dividend policy? (2) - The case for dividends - Arguments against dividends	16, 15	8	4

	Issue of securities: - IPO Seasoned offerings: - Procedures and methods - Assessment of subscription rights - Legal aspects - Venture Capital			
	Introduction to company valuation			
Lecture 16	Valuing a business: valuing assets (projects) vs. valuing liabilities (securities) *Valuation of common stock based on dividend discount models (review):* *- A simple model and the dividend growth model* *- Coefficient of reinvestment and dividend growth.* *- Some exercises of stock valuation* Introduction to business valuation - Preliminary Concepts - Market values and book values	4, 19.2	8	5
Seminar 4	Credit rating agencies			
Lecture 17	Introduction to business valuation - Objectives of an assessment - Assessment as an "opinion" based on certain assumptions - The firm as an "asset" cash flow generator Valuation methods (1) - Methods based on balance sheet - Methods of multiples (income statement)	19.2	9	5
Lecture 18	Valuation Methods (2) - Mixed methods Valuation Methods (3): valuation based on discounted cash flow - The process of valuing a company based on discounted cash flows: Where do expectations of future cash flows come from? - Different types of cash flows - Discount rates	19.2	9	5
Seminar 5	*Company Valuation -1: Discussion of a real case*			
Lecture 19	Valuation methods (4): valuation based on discounted cash flow - Estimating the terminal value - Discount cash flows, each flow "with its discount rate" - Adjusted Present Value	19.2	10	5
Seminar 6	*Company valuation – 2: Complete exercise of valuation according to the methods of discounting cash flows*			
	Conclusion			
Lecture 20	Final summary Overview of the subject Review of major concepts Comments and questions		10	