Universitat Pompeu Fabra

Plan Docente
Financial Management II (20689)

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

Course description:

Direcció Financera II (DF II) is the natural continuation of Direcció Financera I (DF 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 DF I focused on the analysis of the investment decisions, DF II will focus on the financing decisions.

We first review the basic concepts already studied in DF I: the computation of expected cash flows, the valuation concepts such as the NPV and the IRR; and the necessary adjustments to take into account risk. Then, we should study in detail the methods of financing companies 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 last part of the course introduces the main valuation methods, which are then used to value company projects and entire companies.

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 the ten weeks. The module requires the preparation of lectures and seminars through personal study, and the completion of complementary tasks.

Lectures will mainly develop the concepts and methodologies that make up the six items of the course list. These classes are based on the textbooks that support the course, 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.

The seminars will discuss topics related to the lectures, either (i) the practical aspects of a particular subject or (ii) the solutions of the practical exercises. In the former, you will be required to prepare and conduct class presentations. In the latter, you will be required to hand-in the solutions of the (previously circulated) problem sets before the seminar.
Both presentations and problem sets need to be prepared in groups of 4 or 5 people, which should be the same for the whole course. Please submit only one solution of each problem set per group. All group members will receive the same score.

Seminar attendance is compulsory. During the seminars, 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 (ordinary)
To pass, you should get at least 50 points out of 100, distributed as follows:
Final exam: 60 points (must get at least 24 to pass the course)
Continued evaluation: 40 points

The points of the continued assessment are distributed as follows:
Seminar presentations: 15 points.
Active participation in the seminars: 5 points.
Problem sets (conditional on seminar participation): 20 points.

UPF students that participate in exchange programmes are subject to the same evaluation criteria. In case you cannot perform any of the activities (final exam, continuous assessment) because of the exchange programme, you should consult the professor (in person or by email) before the end of the third week of term. If they fail to do so in time, the standard evaluation assessment will be applied.

Evaluation (Resit):

A student that has not passed the course can take the resit exam in May (date to be confirmed).

Bibliography

The textbooks that will serve as main references are Berk and P. DeMarzo, Corporate Finance; Grinblatt and S. Titman, Financial Markets and Corporate Strategy; and Brealey, R. A., Myers, S. C., Allen, F. Principles of Corporate Finance. 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 methods
- Chapters 4, 19.2 (BMA).

Item 6. Company 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* *- Risk: variance and covariance of returns* *- Diversification*	5-9	1	1
Seminar 1	*Problem set 1: Investment Decisions*			
	Capital structure			
Lecture 3	Capital Structure: Definition and introductory concepts - Assets vs. Liabilities: the company as a portfolio of assets or liabilities	17-18	2	2
Lecture 4	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	17-18	4	2

	- Implications and reality WACC when you change the debt, "deleverage beta"			
Seminar 2	*Problem set 2: Capital Structure*			
	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
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
Lecture 13	Estimating the risk of bonds - Models based on the evolution of assets: VaR - Exercises for VaR	23-25	7	3
Seminar 3	*Case 1: Empirical capital structure*			
	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	16, 15	8	4

	and reinvestment). Does it add value to the dividend policy? (2) - The case for dividends - Arguments against dividends Issue of securities: - IPO Seasoned offerings: - Procedures and methods - Assessment of subscription rights - Legal aspects - Venture Capital			
Seminar 4	Problem set 3: Debt and equity			
	Valuation methods			
Lecture 16	Valuation Methods: valuation based on discounted cash flow - Where do expectations of future cash flows come from? - Different types of cash flows - Discount rates	19.2	9	5
Lecture 17	Valuation methods: 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 5	Problem set 4: Valuation			
	Company valuation			
Lecture 18	Valuing a business: valuing assets (projects) vs. valuing liabilities (securities) Introduction to business valuation - Preliminary Concepts - Market values and book values	4, 19.2	8	5
Lecture 19	Business valuation - Objectives of an assessment - Assessment as an "opinion" based on certain assumptions - The firm as an "asset" cash flow generator Valuation methods - Methods based on balance sheet - Methods of multiples (income statement) - Methods based on discounted cash flows	19.2	9	5
Seminar 6	Case 2: Valuation of Ebro foods			
	Conclusion			
Lecture 20	Final summary Overview of the subject Review of major concepts Comments and questions		10	