



3rd Term MBA-2018

1 credit

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Corporate Finance

Introduction

Corporate Finance is about companies, investors, and their interaction in financial markets. Essentially, companies make decisions (how to raise capital, how to invest that capital, ...) and investors react to those decisions by bidding the company's stock and bond prices up or down. During this course we will look at this interaction from the point of view of both companies and investors, with a special emphasis on the former.

Objectives

This course discusses, in a very practical way, the essential issues a general manager needs to understand in order to participate intelligently in discussions involving financial issues in his or her company. Those issues include stock and bond valuation; risk, return, and diversification; the cost of capital; project evaluation; market efficiency; capital structure; dividend policy; corporate value creation and valuation; and mergers and acquisitions.

Learning Outcomes

This course aims to provide you with practical tools so that by the end of it you will be able to value stocks and bonds; assess the risk and return of assets; properly diversify a portfolio; estimate a cost of capital; evaluate investment projects; understand the practical implications of market efficiency; find the mix of debt and equity a company should have in its balance sheet; implement a reasonable dividend policy; assess whether a company is creating or destroying value; and value a target company from the point of view of an acquirer.

Competences

The general competences include receiving and transmitting ideas effectively; understanding the interrelationship between the different units of a company; and meeting the needs of customers and capital providers. The specific competences include applying a sound process in the analysis of business situations and decision making; learning to assess, select, and develop projects in different contexts; and implementing effective financial policies.

Content

See a list of all the topics to be discussed during the course, as well as the required cases and readings for each session, in the 'Course Outline & Bibliography' section of this syllabus.

Methodology

This course consists of a combination of cases and participative lectures, with heavy emphasis on the former. Before each session you are expected to read the material indicated in the outline, prepare the case assigned, and very often both. After each session you are expected to review the material discussed and read the complementary material that will be posted on Blackboard.

Evaluation

Performance in this course will be evaluated on the basis of class participation (20% of the final credit), a closed-book midterm exam (35% of the final credit), and an open-book final exam (45% of the final credit).

Course Outline & Bibliography

• Introduction

1. Course overview
 - Case: *Warren E. Buffett, 1995*
 - Preparation sheet

• Stocks

2. Stocks (I) – The Dividend Discount Model
 - Case: *Hilton Hotels, Corp.*
 - Preparation sheet 1
 - Readings: 'Stocks: The Dividend Discount Model'
3. Stocks (II) – Multiples
 - Case: *Hilton Hotels, Corp.*
 - Preparation sheet 2
 - Readings: 'P/E Ratio Tutorial'
 - 'The Essential Financial Toolkit – Tool 9' (*After class*)

• Bonds

4. Bonds (I) – Return and Default Risk
 - Case: *Atlas Investment Management*
 - Preparation sheet 1
 - Readings: 'Bond Basics Tutorial'
5. Bonds (II) – Market Risk and Duration
 - Case: *Atlas Investment Management*
 - Preparation sheet 2
 - Readings: 'Bonds: Duration and Convexity' (Excerpt)
 - 'The Essential Financial Toolkit – Tool 10' (*After class*)

Outline continues in the next page →

Course Outline & Bibliography (Cont.)

• Risk, Return, and Diversification

6. Return and Risk

- Diversification workout
- Preparation sheet
- Readings: 'The Essential Financial Toolkit – Tool 3'
'Risk and Return: Portfolios'
'The Essential Financial Toolkit – Tool 4' (*After class*)
'The Essential Financial Toolkit – Tool 5' (*After class*)

7. Risk and Diversification

- Diversification workout
- Same preparation sheet and readings as for the previous session

• The Cost of Capital and Project Evaluation

8. The Cost of Capital (I)

- Case: *The Boeing 777*
- Preparation sheet 1
- Readings: 'The CAPM, the Cost of Capital, and Project Evaluation'

9. The Cost of Capital (II)

- Case: *The Boeing 777*
- Preparation sheet 2
- Readings: 'Beta, Leverage, and the Cost of Capital'

10. Project Evaluation

- Case: *The Boeing 777*
- Preparation sheet 3
- Readings: Same as for the previous two sessions

• Partial Assessment

11. What You Hopefully Learned So Far

- Discussion

• Market Efficiency

12. Market Efficiency and Practical Implications (I)

- Discussion
- Preparation sheet
- Readings: 'The Titanic: The Untold Economic Story'
'Monkey Business: Contest Ignores Risk'

13. Market Efficiency and Practical Implications (II)

- Discussion
- Same preparation sheet and readings as for the previous session

Course Outline & Bibliography (Cont.)

• Capital Structure

14. Capital Structure (I)

- Case: *Tonka Corporation*
- Preparation sheet
- Readings: 'The Modigliani-Miller Propositions: A Simple Example'

15. Capital Structure (II)

- Case: *Polaroid Corporation, 1996*
- Preparation sheet
- Readings: Same as for the previous session

• Dividend Policy

16. Dividend Policy (I)

- Case: *Consolidated Edison Company*
- Preparation sheet
- Readings: 'Dividend Policy'

17. Dividend Policy (II)

- Case: *Telefónica: The Dividend Decision*
- Preparation sheet
- Readings: Same as for the previous session

• Corporate Value Creation and Valuation

18. Corporate Value Creation and EVA

- Discussion
- Readings: 'All About EVA'
'Value Driven'

19. DCF Analysis

- Discussion
- Readings: 'Stocks: The WACC Model'

• Mergers & Acquisitions

20. Mergers & Acquisitions (I)

- Case: *Hertz & Dollar Thrifty*
- Preparation sheet
- Readings: Same as for the previous session

21. Mergers & Acquisitions (II)

- Case: *Hertz & Dollar Thrifty*
- Same preparation sheet and readings as for the previous session

• Final Assessment

22. What You Hopefully Learned

- Discussion

Professor's Biography



Javier Estrada is a Professor of Finance at IESE Business School in Barcelona, Spain. He is also a partner and financial advisor at Sports Global Consulting Investments, a company that specializes in providing wealth management advice to professional athletes. Javier holds an M.S. in Finance and a Ph.D. in Economics from the University of Illinois at Urbana-Champaign (USA), and a B.A. in Economics from the National University of La Plata (Buenos Aires, Argentina). His areas of specialization are wealth management, portfolio management, investments, and law & economics.

Javier held positions at both the Economics Department and the Finance Department at Carlos III University (Madrid, Spain). He is also a regular visiting professor at HANKEN (Helsinki, Finland), IPADE (Mexico City, Mexico), Torcuato Di Tella University (Buenos Aires, Argentina), and the University of Montevideo (Montevideo, Uruguay), and has lectured to executives, graduates, and undergraduates around the world.

Javier is the author of *Finance in a Nutshell* (FT Prentice Hall, 2005), originally written in English and subsequently translated into Spanish, Italian, and Chinese; a second edition of this book was published in 2011, is entitled *The FT Guide to Understanding Finance*, and was translated into Korean. He is also the author of *The Essential Financial Toolkit – Everything You Always Wanted To Know About Finance But Were Afraid To Ask* (Palgrave Macmillan, 2011).

Javier has done extensive research in the areas of portfolio management, investment strategies, and risk with a special focus on downside risk. He has also done research on emerging markets and insider trading. His articles have appeared in the *Journal of Portfolio Management*, the *Journal of Investing*, the *Journal of Asset Management*, and the *Journal of Wealth Management*, among other journals. He was also the founding editor of the *Emerging Markets Review*, the leading journal on emerging markets; was editor of the journal between inception in 2000 and the end of 2006; and remains an associate editor. He is also in the advisory board of several other academic journals.

Javier is a member of the CFA Institute's Speaker Retainer Program; is Director of both the Senior Executive Program (SEP) that takes place between New York and Miami and the open-enrollment program on *Managing Your Own Portfolio*; and was a tennis instructor.