

# Applied Corporate Finance

## Introduction

Rui Silva

# Introducing Myself

- EDUCATION
  - PhD, Economics – University of Chicago
  - MA Economics – University of Chicago
  - BA Economics – Universidade Nova de Lisboa
- Prior to Nova
  - Spent 8 years at the London Business School
  - Taught Corporate Finance in the MBA, EMBA, ExedEC, PhD programs
- RESEARCH INTERESTS
  - Corporate Governance
  - Organizational Economics
  - Corporate Investment
  - Finance and Labour

# The Key Questions of Corporate Finance

- **Valuation:**
  - How do we distinguish between good investment projects and bad ones?
  - What assets/project should a firm invest in?
  - When do we initiate the investment?
  - How do we measure the value of flexibility in real investment decisions over time?
- **Financing:**
  - How should we finance the investment projects we choose to undertake?
  - How can financial structure affect decisions and firm value?
- **Payout:**
  - How and when should we pay out to investors

# Objectives Of The Course

- Develop a coherent/logical framework for addressing problems.
  - To provide you with a *structure* for thinking about corporate finance theory.
  - To show you how to address corporate finance problems in a *systematic* manner.
- Develop a deeper understanding of finance:
  - How to **apply** fundamental ideas of finance to solve practical financial situations and problems.
  - How to deal with the **gap** between setting of a particular practical problem and assumptions underlying finance theory.

# Topics We Will Cover (1)

- Valuation and the investment decision
  - WACC, APV, CCF, FCF, ECF, Real Options
  - Cross-border valuation
- Financial decisions
  - Capital structure
  - Dividend policy
  - Initial public offerings
  - Mergers
  - Bankruptcies
  - Project finance

# Topics We Will Cover (2)

- These topics will be discussed in the context of more advanced principles in corporate finance. For example:
  - **Financial contracting:** What incentives are built into financial deals? How should optimal contracts be written?
  - **Capital Structure:** Rather than just looking at the right level of debt, we will investigate the right debt structure.
  - **Information:** What information do various financial decisions convey to shareholders? How can firms credibly signal the right information?
  - **Valuation:** How do we value a company or project in cases when static NPV methods aren't appropriate?
  - **Behavioural Finance:** What are the implications of financial policy when either managers or investors are irrational?

# Our Approach

## What we will do

- Acquire a set of **general tools** that are crucial to sound business decisions by:
  - Financial managers
  - General managers
- Apply and confront them to a number of real business cases.
  - Usefulness
  - Limitations

## What we won't do

- Pretend to be experts in any industry, financial or other.
- Discuss many institutional aspects in detail.
- Discuss in detail stuff you could learn just as well reading a book or an article.

**Discussions will be complimented by reviews of *recent research* in corporate finance.**

# Getting the Most From This Course

- Understanding of basic finance theory.
  - If you have forgotten this, please review your notes from previous finance classes/textbooks.
- Be Prepared
  - Be on time
  - Know the case
- Be curious
- Be collegial



# Course Materials

- Moodle has a list with the reading materials for each session.
  - These articles comprise the primary reading materials for this course and are highly recommended.
  - Enrolment key: **ACF\_RS\_2025**
- General reference books:
  - **Brealey, Myers, & Allen. *Principles of Corporate Finance*.**
  - Berk & DeMarzo. *Corporate Finance*.
  - Damodaran. *Corporate Finance Theory and Practice*.
  - Grinblatt & Titman. *Financial Markets and Corporate Strategy*.
  - Koller, Goedhart and Wessels (McKinsey). *Valuation: Measuring and Managing the Value of Companies*.

# Cases

- There will be 4 case preparations (and 7 case discussions).
- The cases should be solved in groups. Groups should be formed by 4 or 5 students, but cannot be larger than 6 students.
- Each group will submit a **three-page** memorandum of analysis and recommendations covering the case study questions plus any accompanying tables you wish to include as appendices.
- Relevant spreadsheets for the cases will be posted on the class webpage.

# Assessment Of Course Grade

- Group Case Write-Ups: **40%**
- Individual Final Exam: **60%**