

## Corporate Finance (AMP)

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### Introduction

The ultimate goal of corporations is to undertake profitable activities and to finance them efficiently. The time and uncertainty of investment payoffs make these problems nontrivial and essential for long-term success. Corporate Finance answers to the following questions: How much value does a specific activity add to the firm? How can we value and choose projects? How should corporations obtain financing? What is the value of a company?

### Objectives

The purpose of this course is to provide the basic concepts and tools to critically analyze corporate decisions from a financial perspective. After the course, you should be able to:

- Compute working capital requirements and sustainable growth rate
- Apply valuation methods to value projects and companies
- Identify ways to return money to shareholders

### Content

The course consists of two modules:

a) **Operational Finance Module:** full understanding of the P&L and Balance Sheet, and their interaction with emphasis on the ‘upper side’ of the Balance Sheet, i.e., Current Assets and Short-term Liabilities. Main topics covered include: working capital requirements and sustainable growth rate

b) **Structural Finance Module:** attention to the ‘bottom side’ of the Balance Sheet, i.e., Fixed Assets, Long-term Debt, and Equity. Main topics covered include: capital budgeting, payout policy, and business valuation

### Methodology

The course is based on a mix of case studies and lectures. Reading the cases prior to class is key for successful learning. Active participation in class discussions is strongly encouraged.

Complementary readings—book chapters, technical notes, and articles—are provided in the package. Preparation sheets show detailed instructions for each session. Supportive spreadsheets will be provided for most cases through Global Campus. In order to minimize workload, I suggest you to follow the questions posted in the preparation sheets.

Office hours: Whenever needed—before and after classes, by phone, email, or appointment.

Technical requirements: You can survive with a simple old-school calculator.

## Course Outline

### Operational Finance Module

#### Session #1: Uses & Sources of Finance—The Big Picture

- Case HBS 9-204-126 *Cartwright Lumber*
- Martinez Abascal, E. (2012) *Finance for Managers*, McGraw-Hill, Chapter 1

#### Session #2: Growing Working Capital Requirements—Action Plan

- Case HBS 9-204-126 *Cartwright Lumber* (cont.)
- Martinez Abascal, E. (2012) *Finance for Managers*, McGraw-Hill, Chapter 2

#### Session #3: Seasonal Working Capital Requirements—Linking Finance and Operations

- Case HBS 9-292-003 *Play Time Toy Company*

#### Session #4: Negative Working Capital Requirements—Management of Accounts Payable

- Case IESE F-541-E *Centros Comerciales Pryca, SA*
- Article “*Are Your People Financially Literate?*,” by Karen Berman and Joe Knight, Harvard Business Review, October 2009

### Structural Finance Module

#### Session #5: Analysis of Investment Projects

- Lecture & Case IESE F-760-E *AC Hotels. Investment in New Hotels*
- Article “*How Do CFOs Make Capital Budgeting and Capital Structure Decisions?*” by John R. Graham and Harvey Campbell, Journal of Applied Corporate Finance 15, 2002
- Technical Note HBS 9-295-155 *An Introduction to Cash Flow Valuation Methods*

#### Session #6: Long-term Financing

- Case IESE F-760-E *AC Hotels. Investment in New Hotels* (cont.)
- Article “*What Is It Worth? A General Manager’s Guide to Valuation*,” Timothy Luehrman, Harvard Business Review, May-June 1998

#### Session #7: Payout Policy

- Case HBS 9-204-066 *Dividend Policy at Linear Technology*
- Articles “*Hordes of hoarders*,” by John Authers, Financial Times, January 29, 2012; “*Investors weigh prospects for dividend catch-up*,” by Telis Demos, Ajay Maken, and Dan McCrum, Financial Times, February 20, 2012

#### Session #8: Valuation of a Leveraged Buyout (LBO)

- Case HBS 9-291-008 *John M. Case Company*
- Technical Notes HBS 902-004 *LBO Valuation (A): LBO Structure and the Target IRR Method of Valuation*; IESE E-12-E *Negotiating a Venture Capital Deal III: Structuring a Buy-Out*