

Investment and capital structure decisions (EM365M73A1)

Program	PGE
Module / ECTS / Path / Specialisation	Module :Corporate Finance : 9 ECTS. <ul style="list-style-type: none">Accounting and Auditing
Discipline	Finance
Year	2019
Semester	A
Open for visitors	yes (3 ECTS)
Available places	45

Coordinator

Enrico PRINZ

Lecturers

Instructor	Population	Email
Enrico PRINZ	Population	enrico.prinz@em-strasbourg.eu

Course format

Working language :	English
Volume of contact hours :	22 h
Workload to be expected by the student :	66 h

Course track

Track : Attendance

"Attendance" track :

Attendance at lecture / tutorial classes and intermediate / final exams is mandatory. As evaluation of in class work constitutes an essential element of grading, any absence will be penalized and is taken into account for grading purposes (see academic rules and regulations).

"Autonomous" track :

Attendance at intermediate / final exams is mandatory, but students are free to attend lecture / tutorial classes.

For all Master programs and all other programs realized in the form of dual internships (apprentissage), attendance at lecture / tutorial classes and intermediate / final exams is entirely mandatory. Therefore, only the "Attendance" track can be selected.

Contribution of the course to the educational objectives of the programme

How the course contributes to the programme :

Description

The lecture aims to offer students a comprehensive overview about the complex investment and financing decisions of firms. After an introduction, class participants will deal with major investment decision methods and discuss their respective strengths and weaknesses. Will be presented, in a second step, techniques to transform accounting numbers into free cash flows. The chapter will be completed with an in-depth presentation of risk-pricing methods and the estimation of a firm's cost of capital. The following chapter will be focused on capital structure decisions. After a recall of possible financing solutions, students will discover the assumptions of Modigliani & Miller in a perfect market. Based upon this knowledge, the scope of the financial leverage and its limits will be introduced and discussed in a next step whereas a particular focus will be set on the question of an optimal capital structure. The last part of the course addresses the question of value creation. Will be introduced and compared for this purpose the most frequently used performance indicators for measuring performance. The class finishes with a synthesis of possible payout policies and their consequences for shareholders. To bridge the gap between theory and practice, students will do a couple of exercises throughout the lecture and are expected to hand-in a group work based estimation of the cost of capital of a given corporation.

Educational organisation

In class

Lectures

Tutorials

In groups

Exercises

Interaction

Discussions / debates

Assignments

Specific projects / case studies

Learning outcomes

Upon completion of this course, students should be able to :

- **Describe** the key idea of corporate governance and explain its link to corporate finance.
- **Summarize** the most frequently applied investment decision methods by focusing on their respective strengths and weaknesses.
- **Employ** the net present value method by conducting a project's incremental earnings forecast and the transformation of it into free cash flow expectations.
- **Compute** the cost of equity, cost of debt and cost of capital of listed firms by using their respective accounting / financial documentation and a spreadsheet software.
- **Compare** a firm's major financing solutions under a risk-return perspective.
- **Point out** the key determinants of the financial leverage effect and a firm's chosen capital structure.
- **Synthesize** the most commonly applied indicators for measuring a firm's value creation.
- **Evaluate** possible payout policies from a shareholder wealth perspective.

Outline

I General introduction (½h)

1. Raison d'être of firms
2. Corporate finance put in a nutshell

II Investment decisions (10h)

1. Net present value method and internal rate of return
2. Alternative selection methods
3. Practice of capital budgeting or the transition from profit numbers to free cash flows
4. Risk pricing and cost of capital

III Capital structure decisions (7h)

1. Funding sources and financing solutions
2. Capital structure in a perfect market
3. Market imperfections and limits of debt use
4. Optimal capital structure

IV Value creation and payout policy (4h)

1. Measuring wealth creation for investors
2. Payout policy choices

V General conclusion (½h)

Prerequisites

Key concepts to understand :

Knowledge of :

- Fundamentals of accounting (Financial statements & related principles)
- Fundamentals of corporate finance (Financing sources & underlying principles)
- Basic knowledge in economics

Teaching material

Documents in all formats

- Syllabus
- Transparencies in paper format
- Guide

Software

- Office Pack (Word, Excel, PowerPoint, Access)

Recommended reading

Major works :

- BERK, Jonathan / DE MARZO, Peter / HARFORD, Jarrad (2014): Fundamentals of Corporate Finance, Prentice Hall, 3rd ed. (or previous editions)
- HILLIER, David / ROSS, Stephen / WESTERFIELD, Randolph / JAFFRE, Jeffrey / JORDAN, Bradford (2016) : Corporate Finance, McGraw Hill, 3rd ed.

Further reading :

- BREALEY, Richard / MYERS, Stewart / ALLEN, Franklin (2013): Principles of Corporate Finance, McGraw Hill, 11th ed.

- DAMODARAN, Asworth (2015) : Applied Corporate Finance, John Wiley & Sons, 4th ed.

Research works by EM Strasbourg :

- none

Assessment

Intermediate evaluation / continuous assessment 1 :

written / in group / English / weighting : 20%

additional information : Preparation of a written dossier based on the estimation of a firm's cost of equity, cost of debt and cost of capital (MS Word file for presentation, MS Excel file for computation). Dossier to be sent by mail until November, 24. Further details during first session.

This evaluation serves to measure LO1.2

Final assessment :

written (120 min) / individual / English / weighting : 80%

This evaluation serves to measure LO1.1, LO1.2, LO1.3, LO2.2

Grounds for expulsion from classes

Such behaviors as...

arriving late, leaving early or unannounced leaving of the classroom during class time

disruptive eating or drinking in class

using smartphones and laptops for non class-related purposes

reading non class-related documents

chatting on non class-related issues

showing disrespect towards lecturers

... may lead to expulsion from classes.