

Investment and capital structure decisions (EM365M73A1)

Program	PGE
Course set (UE) / Credits (ECTS) / Track / Specialization	Module :Corporate Finance : 10 ECTS. <ul style="list-style-type: none">Accounting and Auditing
Discipline	Finance
Year	2020
Semester	A
Open for visitors	no
Available spots	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 lectures/tutorials and intermediate/final assessments is mandatory. As in-class work constitutes an essential element of evaluation, any unjustified absence will be penalized (*see Study and Examination Regulations*) and factored into the final grade (*see Assessment*).

Autonomous track :

Attendance at intermediate/final assessments is mandatory, but students have the option of attending lectures/tutorials.

Attendance at lectures/tutorials and intermediate/final assessments is mandatory for all degrees making up the Master's Program and all degrees involving co-op (*apprentissage*). Attendance track must therefore be selected.

Contribution of the course to the educational objectives of the program

How the course contributes to the program :

LEARNING GOAL 1 : Students will master state-of-the-art knowledge and tools in management fields in general, as well as in areas specific to the specialized field of management.

Students will identify a business organization's operational and managerial challenges in a complex and evolving environment.

Students will understand state-of-the-art management concepts and tools and use them appropriately.

Students will implement appropriate methodologies to develop appropriate solutions for business issues.

LEARNING GOAL 2 : Students will develop advanced-level managerial skills.

Students will participate in a decision-making process in a critical way.

LEARNING GOAL 4: Students will study and work effectively in a multicultural and international environment.

Students will demonstrate written and oral competency in two foreign languages.

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, Aswath (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 submitted by mail. Further details during first session.

This evaluation serves to measure LO1.2

Final assessment :

written (90 min) / individual / English / weighting : 80%

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

Grounds for expulsion from classes

Behaviors such as

arriving late, leaving early, or exiting the classroom at inopportune moments during class

ostentatiously eating or drinking in class

using smartphones or laptops for non-class-related purposes

reading texts unrelated to the course

discussing topics unrelated to the course

disrespecting the lecturer

may lead to expulsion from the class/course.