Module 3 - Introduction

Corporate Financial Decision-Making for Value Creation

Welcome and Introduction
(Getting organized)

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Key decisions

Project Evaluation
What do we invest in?

Financing and Payout
How do we pay for investment and how should profits be distributed?

Takeovers and Corporate Restructuring
When should we acquire other business units or sell our own?

Risk Management
When should we manage risk, and what instruments should we use?

Motivation: Why are we interested in takeovers and corporate restructuring?

From a global perspective reasons include:

1. Assets involved are significant
   - Global M&A in 2014 : US$3,100,000,000,000
2. Implications for competition
   - Possible formation of monopolies
3. Implications for transfer of wealth
   - Bidder → Target shareholders
   - Minority → Majority shareholders
4. Implications for governments
   - Cross-border M&A activity = 37% of all M&A.

Motivation: Takeovers and mergers

Your coffee business in NY is a huge success!
You decide to expand your business into Chicago.
There are two options that are available to you:

Grow organically by starting up your own operations in Chicago:

Project evaluation techniques (covered in course 1 already!)

Grow through external investment – acquire a firm that is already operating in Chicago:

- *Should we invest?*
- *What should we pay?*
- *How should we pay?*
- *How should we fund what we pay?*

Motivation: Takeovers and mergers

The central question to be answered is:

Does the takeover create value for the acquiring company's shareholders?

Value isn't created by paying $1m for an asset that is worth $1m to us!

Basic finance identity:

$$MV\ \ Assets = MV\ Debt + MV\ Equity$$

⬇ Cash ⬆ New fixed assets

Motivation: Corporate restructuring

5 years later you find that the "Chicago" experiment has not gone as well as expected – and further investment is required.

Your CFO comes to you with three possible options:

1. Sell off the Chicago operations ***DIVESTITURE***
2. Separate Chicago from the NY operations and establish as a separate listed entity ***SPIN-OFF***
3. Invite another owner to take significant stake in Chicago operations. ***EQUITY CARVE-OUT***

Motivation: Corporate restructuring

As with M&A, the question to be answered is:

Does the restructuring create value for the acquiring company's shareholders?

Value isn't created by receiving $800k for an asset that is worth $800k to us!

Basic finance identity:

$$MV\ \ Assets = MV\ Debt + MV\ Equity$$

Fixed assets sold

Cash

Takeovers, mergers and corporate restructuring

1. The mechanics of a takeover
2. Financial evaluation of takeovers
3. Establishing the economic rationale for takeovers
4. Corporate restructuring
5. Empirical evidence

Source list

Slide 3:
Data source: *Mergers and Acquisitions Review – Full year 2014, Thomson Reuters.* Accessed at http://dmi.thomsonreuters.com/Content/Files/4Q2014_Global_MandA_Financial_Advisory_Review.pdf