FNCE30002 Course Summary Notes

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Overview

- Financing Policy – how to **obtain** funds
- Investment (capital budgeting) – how to **spend** funds
  - Why corporate finance focuses on increasing share price?
  - Investment return must be > borrowing rate
- Payout policy – how to **return** cash to lenders/owners

Raising Capital: Equity

- Markets
  - Primary markets – company to investors (IPOs and SEOs)
  - Secondary markets – transactions between investors (company not involved)
- Pecking order perspective; source of funds priority:
  1. Internal funds
  2. Debt
     - NB: between debt and equity is '**hybrids**' – combinations of debt and equity
  3. Equity (generally accounts for 5-15% of source of public company funds)
     - More expensive (**higher risk so higher return demanded**)
       - But no compulsory payments (dividends are optional)
     - Equity raising often used as a "**last resort**"
     - Accompanies a **share price drop** due to information asymmetry – directors know more than the public
       - Issue shares when equity is overvalued (share price is above where it should be)
       - Signals to investors price is overvalued and decreases share price
       - Compared to debt issues – no information asymmetry so no share price drop (generally)

Unlisted firms (no public trading of shares)

- Private Equity Financing
  - **Angel finance**
    - Informal market direct equity by high net-worth individuals
  - **Venture capital** – **active** financial intermediary
    - Generally provide funds in stages for 5-7 years
    - Active participation in company
    - Cashing out:
      - Trade sale (selling company to another company)
      - IPO