Topic 1 & 2: Raising Capital: Equity, Debt and Leasing

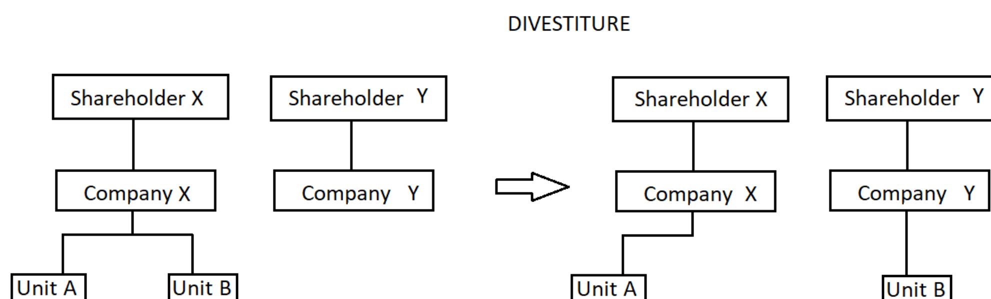
- Capital
  - The value of a company's assets.
  - External capital can be raised by issuing financial securities which are claims over future cashflows generated by a company's capital.

Equity	Debt
Permanent contribution of capital, with no repayment.	Temporary contribution of capital for a specified time period.
Voting rights.	No voting rights, but covenants on supply of capital can influence management
Residual claim to a return on capital during operations and on liquidation	Contractual right to return on capital and of capital if liquidation occurs.
More risky, thus higher required rate of return.	Less risky, thus lower required rate of return.
Dividends are taxed.	Interest repayments are tax breaks.

- Equity
  - Unseasoned (shares not already available on the market, IPO)
    - IPOs are costly, direct costs include legal fees, underwriting fees and listing fees, whilst indirect costs include management time and effort and underpricing cost.
    - Why
      - Develop a liquid market for their shares
        - Don't have to compensate investors for lack of liquidity, thus cheaper access to equity.
        - Allow existing s/h to diversify holding, or fully liquidate holding (V.C).
        - Easier access to equity in the future.
      - Develop market value for their firm.
    - How
      - Engage investment banks/syndicate of investment banks to manage the float process
        - Prepare prospectus
          - Legal document outlining IPO and requires full information disclosure that 'any reasonably careful investor might expect to require' (Corporations Act)
        - Underwriting service
          - Gives firm the option to sell shortfall in shares to the bank at conclusion of IPO, for a fee.

Topic 9: Corporate Restructure

- Corporate restructuring is when a company is reduced in size in order to create value
- Why
  - Better align with s/h interests and managers (potential agency issues)
  - Transfer assets to owners who may better use them
  - Provide focus for management
  - To correct strategic mistakes of management
  - Reflect new information about the value of part of company to a third party.
  - Diversification discount (multi-segment firm is often less valuable than single-segment firms).
  - Overinvestment – investment beyond +NPV projects rather than returning free cash flows to s/h
  - Cross-subsidisation – poor performing segments are subsidised by well performing units.
- How
  - Divestiture – an asset sale that involves firm selling off a business unit for cash.
  - Why?
  - Management may lack expertise to run a unit
  - Focus management
  - Align incentives of management and s/h (goal congruency)
  - Address liquidity issues



  - Spinoff – a firm establishes one of its operating units as a separate listed entity, and all shares in the newly established entity are distributed to existing shareholders.
    - Why?
      - If the units are not natural complements of each other.