ESTIMATION OF OPTIMAL CAPITAL STRUCTURE
FOR MD MEDICAL GROUP AND X5 RETAIL GROUP

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Abstract

The maintenance of an optimal capital structure is one of the success factors for companies. Existing theoretical models can estimate an optimal capital structure quite accurately, although managerial decisions are often guided not only by efficiency: there are non-financial factors which affect decision making process.

The purpose of this research paper is to examine a capital structure and financing decisions for Russian companies. In the article we estimated an optimal capital structure for two Russian public companies – MD Medical Group Investments PLC and X5 Retail Group NV, and compared actual results with preferred ones. We used weighted average cost of capital (WACC) and operating profit methods for the analysis. We revealed MD Medical Group has an optimal capital structure, while a debt burden for X5 Retail Group is too high. Using news sources, we concluded that Managers of MD Medical Group based their decisions presumably on the pecking order of financing theory, while an agency problem influenced the decision making process at X5 Retail Group.

We examined news related to the companies and forecasted that MD Medical Group will maintain an optimal capital structure; the managers of X5 Retail Group will try to reduce the debt burden.

The results of this work can be applied by researchers of corporate finance theory as well as by institutional investors and managers of companies. The conclusion on MD Medical Group seems very interesting as it’s the only Russian public healthcare company. We’ll examine financing decisions in MD Medical Group in more details by comparing it with healthcare companies from foreign markets in further researches.

Keywords: optimal capital structure; debt burden, cost of capital; retail; healthcare services

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References