The Application Strategy of Options in Corporate Finance

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Abstract: Option refers to the right of the holder to purchase or sell a certain amount of assets according to a certain structure in a certain period of time. One of the basic characteristics of options is that they only have the right to perform the contract terms without responsibility. The application of options in corporate finance can be used to tap value and avoid risks. In the company's financial interaction, option is not only a tool but also a special investment method. This paper explores and analyzes the significance of the application of options in corporate finance, and puts forward effective strategies for the application of options in corporate finance.

1. Introduction

At different stages of the company's development, some of the company's assets will be sold at different prices, while other individuals and groups can subscribe for a specific type of assets sold by the company in a specific period. In today's rapidly changing market environment, we should analyze and predict the market changes through scientific methods, and improve the economic benefits of options by using efficient and flexible operation strategies, and try to avoid the occurrence of investment risks.

2. The Importance of Options in Corporate Finance

Scientific and reasonable options trading is of great benefit to the companies that issue options and the subscribers, but there are also some risks in it.

When buying options, the choice of financial investment is not a blind process. On the contrary, investors should consider various factors of investment projects. First, investors should invest at the most appropriate time. In accordance with the relevant laws and regulations of our country and the development of market economy, and under the condition that the advantages of determining the investment project outweigh the disadvantages, investors can be more assured of the option. Secondly, investors need to scientifically predict and analyze the changes of the investment project in the future, and finally decide whether to invest in the project and how much to invest. Finally, the investor should also consider the changes that may occur in the project during the investment process, and the investor should choose the changes that are beneficial to himself to carry out option subscription.

The content that investors need to consider mainly includes the above points. As an important department of the company, finance needs to make corresponding response to the investment, while attracting more project investors, improving their own economic returns.

3. Effective Strategies of Options in Corporate Finance

3.1 The Application of Options in the Establishment Stage of a New Company

For the newly established company, no matter the operation or management situation is still in the immature stage, and the development of each project is still in the initial state, which needs to be improved. Once there is a shortage of funds in this period, the company is facing a crisis of survival, not to mention development. To ensure the smooth development, financing channels need to be expanded. In the process of financing from the capitalists, the new company will sell some options to the capitalists, and then the capitalists will have the options of the new company. If the capitalists

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fail to accurately evaluate the situation of the newly established company in the process of the call option, they are likely to lose the cost of the call option in the end. On the contrary, if the capitalists thoroughly evaluate and analyze all aspects of the newly established company, and make an accurate prediction of the future development of the new company, it is bound to obtain higher economic benefits. In the initial stage of a new company, the capital reserve is often insufficient, therefore, options can be used to promote the further development of the company. Firstly, a sound financing plan needs to be formulated to inject new impetus into the development of the company. To obtain more operating funds and promote the further development of the company in its initial stage, it's necessary to attract more investors to invest[1].Secondly, when the initial stage has been successfully passed, the shares can be sold to further expand the financing channels and obtain more financing. In this way, more operating funds can be obtained and the situation that the company changes owners can be avoided. Finally, when the company has gradually stepped into a stable development stage, and the business has also stepped into the right track, the company has a greater initiative in financing convenience, and can be financed through other ways.

3.2 The Application of Medium-Term Right of Certified Shares

From the current situation of China's actual development, the ways of raising funds in the issuance of new shares mainly include: first, the issuance of new shares, simply speaking, in the process of issuing new shares, the company does not have any targeted and clear objects, but is oriented to the overall investors. Second, compared with the issuance of new shares, private equity has a clear target, mainly for some investors and investment institutions with a higher level of strength. Third, stocks issued by intermediaries. Fourth, the development of certified equity, which is issued to the original investors of the company. Different ways of raising new shares have different advantages and disadvantages. Option is a way of issuing new shares for internal shareholders. The certified equity is also for the original investors of the company. They can purchase new equity according to the price in the agreement, but this kind of purchase is usually limited, and the stock and the certified equity can be purchased separately. Generally, when the stock price is greater than the warrant, the call right can be realized, but there are some special cases2. To avoid accidents and ensure that the company's options can be sold smoothly as expected, we can use the signing of the agreement to guarantee the purchase of options, but this way needs to pay some fees in advance.

3.3 Using Options in the Issuance of Corporate Bonds

Issuing bonds is another common way for companies to raise funds. Meanwhile, many other financial instruments are derived, including embedded options, convertible bonds, call rights bonds, etc. 3. Among them, subscription bond refers to the bond form in which the individual or organization holding the corporate bond purchases the stock rights according to the time limit and price in the signing agreement. On the basis of not violating the provisions of the agreement, it has the dual status of bondholder and shareholder. Convertible bonds are based on corporate bonds, with options added. Individuals or institutions holding bonds can convert the bonds into stocks. Convertible bonds have the characteristics of both bonds and options. First of all, from the perspective of bonds, bonds are a kind of voucher of bonds, and bondholders can demand compensation from bond issuers. Meanwhile, the bond is also the stock of the company, with the characteristics of equity. The bond holder can take the bond as the voucher, become the shareholder of the company, and exercise the corresponding rights of management, operation and dividend. Secondly, the convertible bonds also have the characteristics of convertibility. The bondholders have the convertibility right, which is also a selective right. If the stock of the company shows the trend of continuous growth, the holders can make full use of their own convertible rights to convert bonds into stocks in order to obtain more economic returns. If the stock of the company continues to decline, the holder can continue to wait and see the company's stock, and then exercise the conversion right in the appropriate opportunity.

4. Conclusion

To sum up, from the current situation of China's market, options play an important role in corporate finance. Therefore, in order to promote the company to achieve more long-term development in the unpredictable market environment, it is necessary to have a deep understanding of the application strategy of options in corporate finance through in-depth study of options.

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