# Corporate Finance

## I Mod. Prof. Ettore Croci; II Mod. Prof. Carlo Bellavite Pellegrini

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course aims to provide students with a broad understanding of corporate finance. After an initial approach to the role of corporate finance and the main institutional elements of corporate governance, also in light of the recent debate concerning responsible capitalism, the course explores various concepts such as flows, time, rates and risk, the main asset pricing methodologies, the main methods of valuation of the economic capital of the company and the related problems in the valuation field with particular attention to the Discounted Cash Flows (DCF) method, and the relevant and current issue of the valuation of intangibles. These topics are addressed from a perspective that integrates the traditional financial lens with considerations concerning the ESG framework, thus offering a richer hermeneutics of the topics.

In addition, the course explores issues related to the financial structures of the company, the new financing mechanisms (i.e. ‘quasi-equity’ instruments). The course ends with some considerations on Fintech and how blockchain technology is helping to transform corporate finance.

*Knowledge and understanding*

At the end of the course, students will be able to appreciate the relevance of the main theoretical and empirical themes of corporate finance, to know the main and most current elements of corporate governance and agency costs, the most relevant methods of evaluating corporate capital and intangibles, as well as the relevant issues of financial structure and new financing mechanisms. Finally, they will be able to identify the challenges related to financial innovation linked to blockchain technology.

*Ability to apply knowledge and understanding*

At the end of the course, students will be able to apply the various knowledge acquired to theoretical and empirical cases related to business situations. More specifically, students will be able to identify the main problems of corporate governance, evaluate the convenience of investment projects, selecting the most profitable projects that integrate considerations deriving from the ESG framework, determine the current value of the economic capital of a company identifying and applying the most appropriate evaluation method among those known in the literature, and evaluate the intangibles. Students will also be able to recognise the financial structure mechanisms, also in light of recent developments in the field of financing through quasi-equity instruments. Finally, students will be able to recognise the challenges and opportunities that blockchain technology is bringing to corporate finance.

***COURSE CONTENT***

Module 1: *Prof. Ettore Croci*

– Introduction to corporate finance.

– Present value and cash flows.

– Valuation of shares and obligations.

– Investment choice criteria.

– Investment decisions.

– Risk-return relationship.

– The Capital Asset Pricing Model.

Module 2: *Prof. Carlo Bellavite Pellegrini*

After an initial overview of the main and most recent institutional elements in terms of financial markets and corporate governance, the course will explore the methodologies for calculating the cost of capital (WACC) in its various components of equity and debt. After a first distinction of direct and indirect methods for business valuation and the presentation of alternative asset pricing models, the course aims to focus on the methodologies for valuing the current value of the company’s economic capital, in particular on the method of Discounted Cash Flows (DCF Levered and Unlevered) and on the greatest operational challenges and difficulties in the valuation field, being able to apply an ESG lens to the use of these tools. In particular, the course will analyse, also from an empirical point of view, the issues of intrinsic value, risk adjusted value, Firm valuation vs Equity Valuation, and the relevant issue of valuation of intangible assets, such as Brands. Subsequently, the topics relating to the corporate financial structure will be addressed, through the study of the Modigliani and Miller models (with and without corporate and personal taxes), particularly focussing also on innovative equity and quasi-equity financing instruments. The course will conclude with an overview of the transformations that the development of blockchain technology is bringing to some dimensions of corporate finance, through new processes and models.

The course is divided into various topics sequentially related to each other. Each block of topics is in turn organised in some points:

1. Financial market structure and institutional context
2. Institutional elements of corporate governance: Agency costs of equity and agency costs of debt capital.
3. The cost of capital: the WACC and the opportunity cost of capital.
4. Direct and indirect evaluation methods.
5. The pricing models
6. The assessment of corporate economic capital through an ESG framework and CSR and sustainability issues. Discounted Cash Flow. The concepts of Intrinsic Value and Intrinsic Characteristics. Risk adjusted value, the dichotomy between Enterprise Value vs Equity Value. The evaluation of intangibles.
7. The financial structure of companies: the Modigliani and Miller model with and without corporate and personal taxes. New financing mechanisms: the “Quasi-Equity”
8. Fintech and Blockchain in Corporate Finance: innovation processes and models.

***READING LIST***

Module 1

D. Hillier-S.A. Ross-R.W. Westerfield-J.F. Jaffee-B.D. Jordan,*Corporate Finance,* Mc Graw-Hill, 2018, 3rd Italian Ed..

Any supplementary material (slides, etc.) will be made available to students on the Blackboard platform.

Module 2

*Textbooks used*

D. Hillier-S.A. Ross-R.W. Westerfield-J.F. Jaffee-B.D. Jordan,*Corporate Finance,* Mc Graw-Hill, 2018, 3rd Italian Ed.

M. Dallocchio-A. Salvi, *Finanza d’azienda*, EGEA, Quarta Edizione, 2021.

J. Berk-P. De Marzo, *Corporate Finance*, Pearson, 4th Edition (2017)

Collection of readings (available on the Blackboard platform for the course).

Any supplementary material (slides, data, etc.) will be made available to students on the Blackboard platform on a weekly basis.

*Suggested textbooks*

C. Bellavite Pellegrini-L. Pellegrini-M. Catizone, *Climate Change Adaptation, Governance and New Issues of Value. Measuring the impact of ESG scores on CoE and Firm Performance*, Palgrave Mac Millan, 2022.

A. Damodaran, *The Dark Side of Valuation: Valuing Young, Distressed, and Complex Businesses,* Pearson Education (US), Third Ed., 2018, pp. 800.

C. Bellavite Pellegrini, M. Dallocchio, E. Parazzini *Valutazione d’azienda nel mondo ESG,* Egea, Milano, pp. 135, 2020.

C. Bellavite Pellegrini, R. Caruso *Società Benefit: Profili giuridici ed economico-aziendali,* Egea, Milano, Italia pp.152, 2020.

M. Arnone-L. Borlini, *Corruption. Economic Analysis and International Law,* Edward Elgar, UK, 2014.

C. Bellavite Pellegrini,*Pirelli. innovazione e passione. 1872-2015, Storie di Imprese*, Il Mulino, Bologna, pp. 838, 2015.

C. Bellavite Pellegrini, *Una storia italiana. Dal Banco Ambrosiano a Intesa Sanpaolo – Con i Diari di Carlo Azeglio Ciampi,*pp. 562. Il Mulino,Bologna*,* 2013.

P. Moles-R. Parrino-D. Kidwell, *Corporate Finance,* European Edition, Wiley, 2012.

D. Venanzi,*Il puzzle della Struttura Finanziaria,* Pearson-Prentice-Hall, Milan-Turin, 2010.

C. Bellavite Pellegrini,*Modelli d’equilibrio e fondamentali d’impresa - I rendimenti azionari nell’area dell’euro,* Carocci, Rome, 2008.

C. Bellavite Pellegrini, *Il Quasi Equity: aspetti istituzionali, teoria economica ed evidenza empirica*, Giuffrè, 2003.

Further reading list references and other study material may be provided during lectures.

***TEACHING METHOD***

The course includes both frontal lectures, consisting of theoretical lectures and empirical exercises concerning cases analysed by lecturer, and possible speeches byfield experts.

In relation to the second module held by Prof. Carlo Bellavite Pellegrini, an additional 15-hour practical exercise module will be held by Prof. Claudia Cannas.

***ASSESSMENT METHOD AND CRITERIA***

*Module 1: Prof. Ettore Croci*

Attending students may take part of the exam related to the first module through a partial interim test.

The two modules have a single written exam which consists of theoretical and numerical questions on both module contents. The exam may last approximately120 minutes.

*Module 2: Prof. Carlo Bellavite Pellegrini*

The methods for verifying the knowledge and skills acquired include a test to be taken during the exam session for the two modules have a single written exam which consists of theoretical and numerical questions on both module contents. The exam may last approximately 90-120 minutes.Attending students are given the opportunity to take partial test on the second module part of the exam on the first exam session in December. For the second module, the exam consists of 4 questions, two open-ended questions and two empirical questions.

This module includes also the possibility of developing *case studies and assignments*, if agreed with the lecturer. These projects will be part of the overall assessment of the II moduleand weigh 25% of the final mark.

The exam aims at assessing the overall preparation of students, both as regards the institutional and fundamental aspects of *corporate finance*, and in relation to their applicative and empirical implementation to concrete cases. Through the written test, students will firstly have to demonstrate their knowledge and familiarity with the topics and the fundamental issues discussed during lectures, with special attention also to the practical exercise part. The assessment will be based on the relevance of the students’ answers, their appropriate use of the specific terminology, an argumentative and consistent structure of the speech, their ability to identify conceptual links, as well as the rigorous application of the chosen methods and the developed empirical investigations.

*Assessment method for the entire exam*

The course final mark will result from the overall assessment of the two modules, which will account for 50% (module 1) and 50% (module 2).

***NOTES AND PREREQUISITES***

Prerequisites for attending the course:

* have a solid basic knowledge of the main topics of Business Economics and Accounting;
* have a solid basic knowledge of Private Law and Commercial Law, as well as a basic knowledge of the financial market as a whole;
* have a solid basic knowledge of Microeconomics;
* demonstrate mastery in the use and evaluation of the main mathematical-statistical indexes (calculation of the mean, variance, correlation coefficient etc.);
* be able to conduct independent analyses and reasoning regarding the above concepts, and interpreting their significance.

In case the current Covid-19 health emergency does not allow frontal teaching, remote teaching will be carried out following procedures that will be promptly notified to students

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG, or on the Faculty notice board