# Corporate Finance

## Prof. Ettore Croci; Prof. Andrea Roncella

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

The course aims to provide students with a wide-ranging knowledge of corporate finance. The course initially explores the different concepts such as flows, time, rates and risk, the main asset pricing methodologies. The second part covers the main institutional elements of corporate governance, also in the light of the recent debate concerning responsible capitalism, the financial models, the main methods of evaluating the economic capital of the enterprise and the related problems in the field of evaluation with particular attention to the Discounted Cash Flows (DCF) method. These topics are addressed from a perspective that integrates the traditional financial lens with considerations related to the ESG framework, thus offering a richer hermeneutic of these topics. The course ends with some considerations on Fintech and on how blockchain technology is helping to transform corporate finance.

*KNOWLEDGE UND UNDERSTANDING*

At the end of the course students will be able to appreciate the relevance of the main theoretical and empirical topics of corporate finance, to know the main and most current elements of corporate governance, the most important methods of evaluating corporate capital as well as the topics of financial structure. 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 varied knowledge acquired to theoretical and empirical cases related to business situations. In particular, students will be able to identify the main corporate governance problems, evaluate the advantages of investment projects selecting the most profitable projects that integrate considerations deriving from the ESG framework, and 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. Students will also be able to recognise the mechanisms of the financial structure. 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 stocks and bonds

– Investment selection criteria

– Investment decisions

– Risk-return relationship

– The Capital Asset Pricing Model

Module 2: *Prof. Andrea Roncella*

After an initial overview of the main and most recent institutional elements in terms of financial markets and corporate governance, the module will examine the methodologies for calculating the cost of capital (WACC) in its various components of equity and debt. Then, the module will deepen the analysis of the *beta* in its double case: levered and unlevered, as well as the alternative pricing models to the CAPM.

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).

The course also aims to focus on the methodologies for evaluating the current value of business economic capital, in particular on the discounted cash flow method (DCF Levered and Unlevered) and the major operational challenges and difficulties in the field of evaluation, including how to apply an ESG lens to the use of these instruments. In particular, the course will delve into the following topics, also from an empirical point of view: intrinsic value, di risk adjusted value, Firm valuation vs Equity Valuation.

The course will end with a review 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 several topics that are interrelated in a sequential way. Each block of topics is in turn structured into a few points:

1. Fundamentals of the structure of financial markets and corporate governance
2. The cost of capital: the WACC and the opportunity cost of capital.
3. Alternative pricing models.
4. The financial structure of companies: the Modigliani and Miller model without and with corporate and personal taxes.
5. The calculation of a firm’s economic capital: direct and indirect methods.
6. The financial method: Discounted Cash Flow (the dichotomy between *Firm Value vs Equity Value*). The *Risk adjusted value*. Corporate valuation in an ESG world.
7. Fintech and Blockchain in Corporate Finance: brief outline of 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, 4th Italian Edition, 2021.

Supplementary material (slides, etc.) will be made available to students on the Blackboard site of the course.

Module 2

Reference textbooks

D. Hillier-S.A. Ross-R.W. Westerfield-J.F. Jaffee-B.D. jordan, *Corporate Finance*, Mc Graw-Hill, 4th Italian Edition, 2021.

M. Dallocchio, A. Salvi, *Finanza d’azienda*, EGEA, 4th Edition, 2021.

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

Collection of readings (available on the Blackboard site of the course).

Supplementary material (transparencies, data, slides, etc.) will be made available to students on the course Blackboard site, on a weekly basis.

Suggested textbooks

C. Bellavite Pellegrini , L. Pellegrini, M. Catizone C*limate 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, Milan, pp. 135, 2020.

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

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.

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.

During lectures additional reading list references and other teaching material may be provided.

***TEACHING METHOD***

The course includes both frontal teaching, structured into theoretical lessons and practical exercises in class including cases carried out by the lecturer, and possible interventions by experts in the sector.

In relation to the second module held by Prof. Andrea Roncella, an additional 18-hour practice module held by Dr Rachele Camacci will be offered.

***ASSESSMENT METHOD AND CRITERIA***

Module 1

Attending students are given the opportunity to take the part of the exam relating to the first module in a partial mid-course exam. On the exam date, there will be a single written test for the two modules. The test consists of theoretical and numerical questions relating to both modules, with an approximate duration of 120 minutes.

Module 2

The methods for assessing the knowledge and skills acquired include an exam that takes place during the exam dates, and for both modules it is a single written test. The test consists of theoretical and numerical questions relating to both modules, with an approximate duration of 120 minutes.

Attending students are given the opportunity to take the part of the exam relating to the second module through a partial test on the first available exam date in December. For the second module the exam consists of 4 questions, two open-ended questions and two empirical questions.

The second module of the course also includes the possibility of developing *case studies* and *assignments* if requested by the teacher. These projects will contribute to the overall assessment of the second module, accounting for 25% of the overall outcome.

The exam is aimed at assessing the overall preparation of the student, both as regards the principles and fundamental aspects of *corporate finance*, and in relation to its application and empirical implementation of concrete cases. Through the written test, students must first of all demonstrate their knowledge and ability to orient themselves through the themes and basic issues discussed during lectures, with particular attention also to the part of the practical exercises. The assessment will take into account relevance of answers, appropriate use of specific terminology, reasoned and consistent structuring of the presentation, ability to identify conceptual links, as well as rigour in the application of the chosen methods and of the empirical investigations developed.

The final outcome of the course will consist of an overall assessment of the two modules, with a weight equal to 50% for the first module and 50% for the second module.

***NOTES AND PREREQUISITES***

Before accessing the course, students should:

- 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;

- master the use and evaluation of the main mathematical-statistical indices (calculation of the mean, variance, correlation coefficient, etc.);

- be able to carry out independent analyses and reasoning on the concepts set out above, also interpreting their significance.

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