# Corporate finance (cfu 10)

## module i: Dr. Lara Faverzani; Module II: Prof. Carlo Bellavite Pellegrini

### curriculum: finance

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

The course aims to provide students with a broad knowledge of *corporate finance.* The course initially explores the different concepts such as flows, time, rates and risk, the main asset pricing methodologies. In the second part, the main institutional elements of corporate governance will be seen, also in the light of the recent debate concerning responsible capitalism, the financial structure models, the main methods of firm evaluation – problems and peculiarities – with strong focus on Discounted Cash Flows Method (DCF). These topics will be addressed considering traditional financial features, jointly integrated with ESG framework and value creation features. We make use of statistical/ mathematical and economic features.

*Knowledge and understanding*

At the end of the course, students will be able to appreciate the relevance of the main theoretical and empirical issues of *corporate finance*, to know the most relevant methods of assessing and valuating corporate capital, as well as issues related to the relevant financial structure. Furthermore, they will be able to identify and understand the main problems concerning Valuation issues, proposing applied solution on specific topics.

*Ability to apply knowledge and understanding*

At the end of the course, students will be able to analyse data concerning applied Valuation and make choices about these features. The students will be able to apply the different knowledge acquired to theoretical and empirical cases related to business situations. In particular, the student will be able to identify the main corporate governance problems, evaluate the convenience of investment projects, selecting the most profitable projects and which 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. The student will also be able to recognize the mechanisms of the financial structure.

***COURSE CONTENT***

## **Module i:** Dr. Lara Faverzani (5CFU)

### The first module of the course is devoted to the fundamentals of corporate finance. The concept of corporate finance, what is it and why it is so important is first introduced. A review of the accounting figures of a company with its financial statements follows; it is complemented with a financial ratio analysis to understand company performance. The time value of money, which has to do with time and risk, is then addressed, in order to obtain a current valuation of any cash flow the firm has to receive in the future. These concepts are applied to evaluate stocks and bonds issued by companies, and to learn the methods used by companies to evaluate and choose among their different investment options. Last, risk is introduced and evaluated more specifically, and its relationship with investment return is studied. The capital asset pricing model concludes the first module.

– Introduction to corporate finance.

– Review of financial statement analysis.

– Present value and cash flows.

– Valuation and pricing of stocks and bonds.

– Investment choice criteria.

– Investment decisions.

– Risk-return relationship.

* Risk measure: Beta levered vs beta unlevered: data, models and empirical

features.

– The Capital Asset Pricing Model.

## **Module ii:** Prof. Carlo Bellavite Pellegrini (5 CFU)

After an initial overview of the main and most recent institutional elements in terms of financial markets and corporate governance, the methodologies for calculating the cost of capital (WACC) in its various components of equity and debt will be examined. The analysis of the alternative pricing models to the CAPM will then be deepened. 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, then, intends to devote attention to the methodologies for evaluating the current value of business economic capital, in particular to the Discounted Cash Flow Method (DCF Levered and Unlevered) and to the major operational challenges and difficulties in the field of evaluation, considering together the ESG approaches and perspectives to create value. These issues will also be developed from an empirical point of view, through empirical and concrete case studies, data and the use of empirical databases. Generally speaking, the issues of intrinsic value, risk adjusted value, the issues of Firm Valuation vs Equity Valuation will be carefully explored. We will also pay attention to elements and evaluation problems that characterize companies differently according to their life cycle: young firms, mature companies, and declining and distressed firms; but also depending on the sector in which they operate. We analyse the main *indirect methods.*

The course is structured around different sequentially linked issues. Each set of issues is subdivided into the following points:

1. Institutional elements of financial markets structure: some international evidences.

2. Institutional elements of corporate governance: some international evidences.

3. The Weighted Average Cost of Capital: WACC.

4. Cost of capital: the alternative pricing models.

5. Corporate capital structure and Modigliani and Miller features (models without

and with corporate and personal taxes).

6. Applied Valuation and data. The Discounted Cash Flow method (DCF). Intrinsic

value vs intrinsic characteristics issues. Risk adjusted value, and the concepts of

Firm Value vs Equity Value. Valuation problems: a) across the life cycle b) across

sectors. Models and empirical features. Theoretical and empirical approach, with

case studies and models. Corporate valuation in an ESG world.

7. The direct and indirect methods: relative valuation approach.

***READING LIST***

***MODULE I***

*Textbook used*

*D. HILLIER, S ROSS, J. WESTERFIELD, J. JAFFEE, B. JORDAN Corporate Finance, Fourth European Edition, McGraw Hill, 2019.*

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

***MODULE II***

*Textbook used*

*R. BREALEY, S. MYERS, F. ALLEN, A. EDMANS Principle of Corporate Finance, Fourteenth Edition, McGraw Hill, 2023.*

*D. HILLIER, S ROSS, J. WESTERFIELD, J. JAFFEE, B. JORDAN Corporate Finance, Fourth European Edition, McGraw Hill, 2019.*

*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. (For advanced issues)

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

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

***TEACHING METHOD***

The course includes both frontal lectures, consisting of theoretical lectures and empirical exercises concerning cases analysed by lecturer (90%), and possible speeches by field experts (10%). The course includes the possibility of carrying out group projects that will be considered as part of the exam.

For module II, carried out by Professor Carlo Bellavite Pellegrini, it is expected the activation of an additional 18-hour module of academic tutorials held by Dr. Claudia Cannas.

***ASSESSMENT METHOD AND CRITERIA***

MODULE I

Attending students are given the opportunity to take the part of the exam relating to the first module through a partial mid-course exam. During the exam session, the exam session for the two modules is unique and is carried out in written form. The test consists of questions of a theoretical nature and questions of a numerical nature relating to both modules, with an approximate duration of 120 minutes.

MODULE II

The methods for assessing the knowledge and skills acquired include a test which takes place during the exam session and, for the two modules, is unique and is carried out in written form. The test consists of questions of a theoretical nature and questions of a numerical nature relating to both modules, which last approximately 120 minutes.

This exam aims to test overall student preparation both as regards the institutional and fundamental aspects of corporate finance, and in relation to their applicative and empirical implementation to concrete cases.

Attending students are given the opportunity to take the part of the exam relating to the second module through the partial test at the first available session in December. For the second module the exam consists of 4 questions, two open questions and two questions of an empirical nature. The second module of the course also provides for the possibility of developing case-studies and assignments upon invitation by the teacher. These projects will contribute to the overall assessment of the second module, to the weight of 20% of the final mark.

The exam is aimed at assessing the overall preparation of the student, both as regards the institutional and fundamental aspects of corporate finance, and in relation to the application and empirical declinations of concrete cases of the same.

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

Through the written exam, 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 exam 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.

***NOTES AND PREREQUISITES***

Before accessing the course, the student should:

- have a solid basic knowledge of the main subjects 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;

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

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

*Academic office hours and place*

Prof. Carlo Bellavite Pellegrini receives students at the Institute of Economic Policy, 1st floor or by remote call (via Teams), according to the timetable indicated in the notices published on the BB (Blackboard platform) and on the Professor's web page.

Dr. Claudia Cannas receives at the Institute of Economic Policy, 1st floor, or by remote call (via Teams), by appointment: please contact her at the following email: claudia.cannas@unicatt.it.

Dr. Lara Faverzani receives students by remote call (via Teams), by appointment: please contact her at the following email: lara.faverzani@unicatt.it.