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## **Corporate Finance and Valuation**

**Professor:** Filippo Ippolito

**E-mail:** [filippo.ippolito@upf.edu](mailto:filippo.ippolito@upf.edu)

**Office hours:** by appointment

**Course Type:** Compulsory

**Credits:** 4 ECTS

**Term:** 1

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### **Course Description**

This is an introductory course on corporate finance with a focus on capital structure, liquidity and payout policy, and capital budgeting. It comprises a mix of lectures, seminars and case studies.

We first analyze the capital structure decision in a setting of perfect capital markets in which all securities are fairly priced, there are no taxes or transactions costs, and the total cash flows of the firm's projects are not affected by how the firm finances them. We then examine the impact of taxes and of other frictions on the capital structure decision to explain the observed differences in capital structure across firms and industries.

We then shift the attention to liquidity and payout policy and to how these policies are shaped by market imperfections, such as taxes, agency costs, transaction costs, and asymmetric information, just as capital structure is. We discuss why some firms pay dividends and some do not, and why some firms prefer share repurchases.

Next, we investigate the complexities of capital budgeting, how to estimate the appropriate cost of capital, and also how the financing decision can affect the cost of capital and cash flows. We introduce the three main methods for capital budgeting with leverage and market imperfections: the weighted average cost of capital (WACC) method, the adjusted present value (APV) method, and the flow-to-equity (FTE) method.

Finally, we investigate issues related to short-term financial planning and working capital management.

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### Objectives

The main objective of this course is to give students the ability to apply, in real world situations, the theoretical models and practical techniques for the optimization of corporate financial decisions and the estimation of the value of a corporation.

### Methodology

The main learning outcomes of this course are

- i. Understand the theories of optimal capital and debt structure
- ii. Assess the optimal payout/dividend policy for the firm
- iii. Assess the optimal liquidity policy for the firm
- iv. Estimate the value of a firm using standard discounted cash flow methods
- v. Understand how firms manage their short-term financing and working capital needs

The course comprises lectures, seminars and case studies. Cases require significant in-depth preparation, always including non-trivial calculations. You are expected to participate constructively in class discussions.

The competences, the learning outcomes, the assessment elements and the quality of the learning process included in this Teaching Plan will not be affected if during the academic trimester the teaching model has to switch either to an hybrid model (combination of face-to-face and on-line sessions) or to a complete on-line model.

### Evaluation criteria

The grade is constructed as follows:

- 60% Presentations = 18%\*2 presentations + 8%\*3 other cases
- 40% final exam
- Simulation: extra points

All groups will hand in a ppt+xls for all cases, regardless of whether they present that specific case or not. In building the ppt, please follow these guidelines:

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- Introduce the main issues presented by the case
- Provide an executive summary
- Explain how you intend to address them, methodologically
- Present the analysis for each issue (possibly showing or summarizing tables from xls).
- Discuss explicitly the assumptions made, and how results would change under different assumptions.
- Summarize your arguments and answers to the issues discussed in the case

During the course problems sets will be distributed as individual homework. Solutions to the problem sets will be provided and discussed in the seminars with the teaching assistant. The problem sets will not be graded.

Students are required to attend 80% of classes. Failing to do so without justified reason will imply a Zero grade in the participation/attendance evaluation item and may lead to suspension from the program

Students who fail the course during the regular evaluation are allowed ONE re-take of the evaluation, in the conditions specified above. If the course is again failed after the retake, the student will have to register again for the course the following year.

In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the "Retake" period). In the meantime, the student will get an "incomplete", which will be replaced by the actual grade after the final exam is taken. The "incomplete" will not be reflected on the student's Academic Transcript.

Plagiarism is to use another's work and to present it as one's own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the "Honor Code," students acknowledge that they understand the schools' policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program."

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Calendar and Contents

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Note: This document is for informational purposes only. Course contents and faculty may change.

1,5 hour Session	Content	Chapter BDM 4 <sup>th</sup> Edition	Date
1	Overview of the course Lecture: Introduction to Financial Statements	Ch 02	
2	Lecture: Fundamentals of Capital Budgeting Work in class: Case Hannson (Useful: Ch 07 of BDM)	Ch 08	
3	Lecture: Valuing stocks Work in class: Case Hannson	Ch 08	
4	Lecture: Estimating the Cost of Capital	Ch 09	
5	Presentations: Case Hannson		
6	Lecture: Estimating the Cost of Capital Work in Class: Case Jones Electrical	Ch 12	
7	Lecture: Capital Structure Work in Class: Case Jones Electrical	Ch 14	
8	Work in Class: Financial Budgeting Simulation Game		
9	Presentations: Case Jones Electrical		
10	Lecture: Capital Structure Work in Class: Case Blaine Kitchenware	Ch14	
11	Lecture: Capital Structure - Taxes Work in Class: Case Blaine Kitchenware	Ch 15	
12	Lecture: Capital Structure - Taxes Lecture: Capital Structure – Bankruptcy costs	Ch 15 Ch 16	
13	Presentations: Case Blaine Kitchenware		
14	Lecture: Payout Policy Work in Class: Case Teuer A	Ch 17	
15	Lecture: Payout Policy Work in Class: Case Teuer A	Ch 17	
16	Lecture: Capital Budgeting and Valuation with Leverage	Ch 18	

17	Presentations: Case Teuer A	Ch 19	
18	Lecture: Valuation and Financial Modelling Work in Class: Case Teuer B	Ch 19	
19	Presentations: Case Teuer B		
20	Wrap Up of the course Lecture: Valuation and Financial Modelling		

### Reading Materials/ Bibliography/Resources

A number of cases and slides will be distributed with the course pack. The main reference book for the course is

- Jonathan Berk and Peter DeMarzo, Corporate Finance, Fourth Edition, 2016, Pearson Prentice Hall.

The latest editions of the following books offer additional reference for the various topics discussed in class.

- Aswath Damodaran, Investment Valuation: Tools and Techniques for Determining the Value of Any Asset
- Richard A. Brealey, Stewart C. Myers, Franklin Allen: Principles of Corporate Finance
- Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, Corporate Finance
- Aswath Damodaran, Applied Corporate Finance

### Bio of Professor

Filippo Ippolito is Associate Professor of Finance at Universitat Pompeu Fabra and research affiliate at the Centre for Economic Policy Research (CEPR), London, and Director of the Master in Finance at the Barcelona Graduate School of Economics. Prof Ippolito holds a PhD in finance from Said Business School, Oxford, and an MPhil in Russian and Eastern European Studies from the University of Oxford. He has industry experience in the financial and consulting sectors. His research focuses on corporate debt, capital structure, corporate liquidity management and private equity.

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Prof Ippolito has published in the *Journal of Finance*, *Journal of Financial Economics*, *Journal of Monetary Economics*, *Journal of Financial Intermediation*, *Journal of Money, Credit and Banking*, and *Journal of Corporate Finance*.