

Finance II

Introductory session

Silvio Vismara
University of Bergamo

September - December, 2018



Convenor

Silvio Vismara, University of Bergamo, silvio.vismara@unibg.it

Section 1: M&A synergies (practical assignment)

Guido Crespi, Boston Consulting Group, guido.crespi@bcg.com

Enrico Tanduo, Boston Consulting Group Tanduo.Enrico@bcg.com

Edoardo Palmisani, Boston Consulting G. Palmisani.Edoardo@bcg.com

T.A.: Gaia Bassani, University of Bergamo, gaia.bassani@unibg.it

Section 2: Entrepreneurial Finance (theoretical topics)

Erik Lehmann, University of Augsburg, erik.lehmann@wiwi.uni-augsburg.de

Arif Khurshed, University of Manchester, arif.khurshed@mbs.ac.uk

T.A.: Alice Rossi, University of Bergamo, alice.rossi@unibg.it

Course objectives and scope

First, the course seeks to deepen participants' understanding of corporate finance by **applying the theoretical frameworks** used to analyze activities and institutions in the equity market. Thus, one goal is to review and apply the key concepts and tools of corporate finance to entrepreneurial firms

Second, the course seeks to familiarize participants with application of financial theory to valuation. A crucial objective of the course is therefore to build an **appreciation of the valuation process**. The goal is to make participants acquainted with the valuation techniques

The course will cover three main fields, namely business valuation, corporate governance and capital raising.

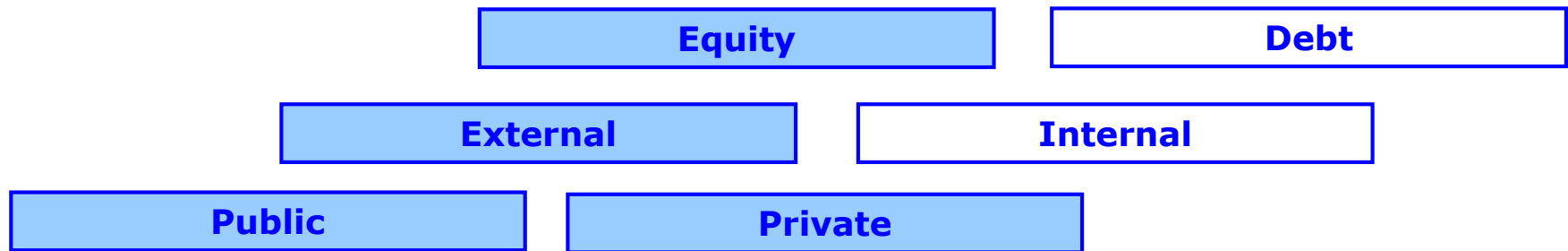
Positioning the course

	Entrepreneurial firms	Large, established firms
Asset pricing		
Corporate finance	EF	

Finance studies:

1. how investors determine the value of assets in financial markets, how to optimize the investors' financial objectives (**asset pricing**)
2. how firms allocate their resources and make financial decisions, how to take optimal financial decisions regarding funding and capital structure (**corporate finance**)

Focus: valuation and capital raising

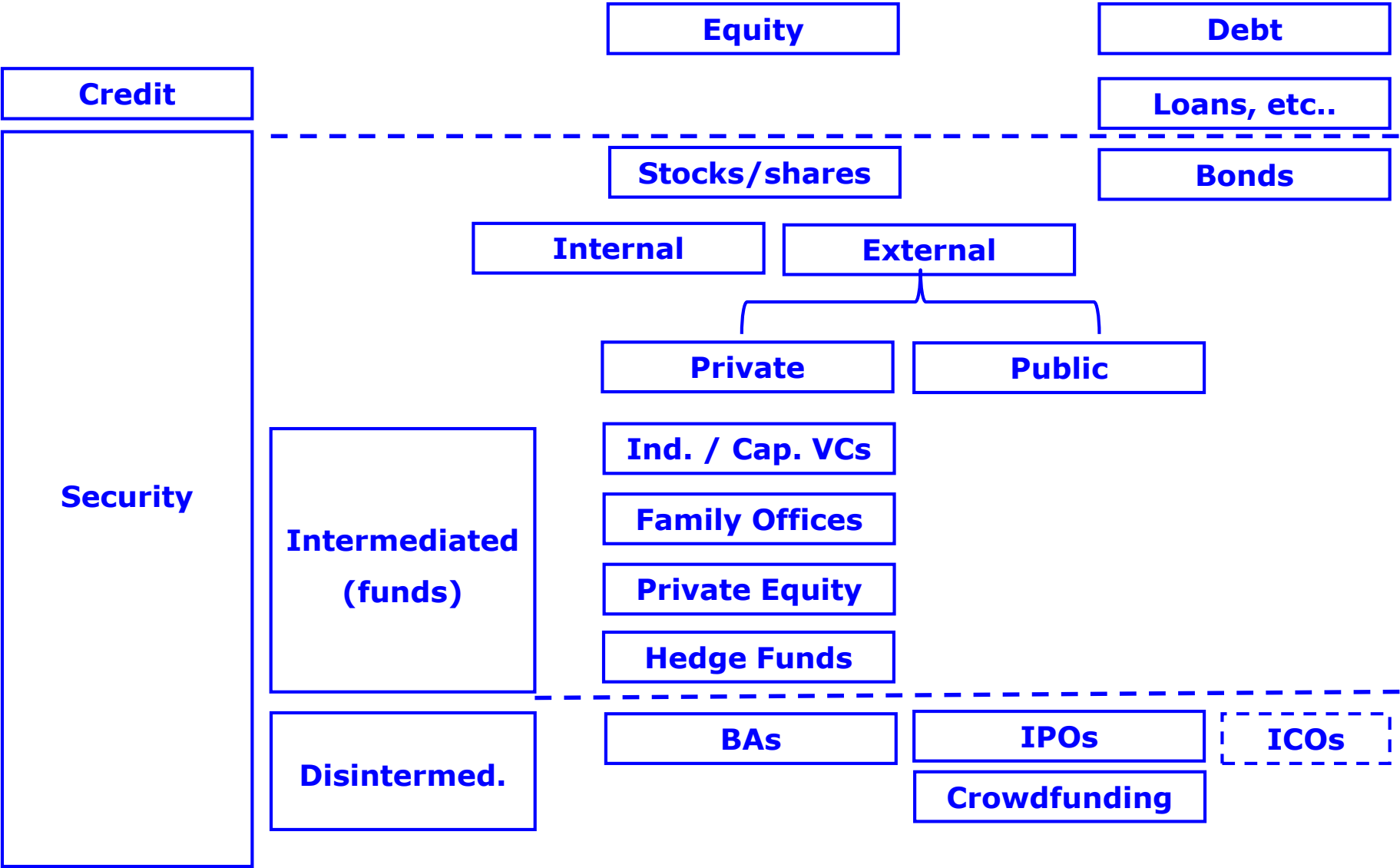


Many discussions have revolved around the **unsuitability of debt** for early-stage financing (Stiglitz and Weiss, 1981): debt holders bear the downside risk, but do not share the upside of successful innovation (Berger and Udell, 1998)

The debate over financing is centered on understanding, evaluating and improving the external funding environment confronting innovative start-ups, in the **absence of sufficient internally generated cash flows**

Thus, start-ups should seek external equity investors willing to bet on future value creation opportunities (Carpenter and Petersen, 2002): **private (e.g. venture capital)** or **public (stock markets) equity**

Means of financing



Assignments

Assignment 1 (M&A case)

In groups of 6 up to 8, participants are expected to study a real-world case of merger and acquisition (M&A) and estimate the synergies

Boston Consulting Group will deliver an initial presentation on the topic, explaining tools, methodology, and (some) data

Gaia Bassani will introduce the specificities of the banking sector and present a case study

Please write an email to gaia.bassani@unibg.it with the list of the members of the group (name, surname, email and university degree)

Final presentations before the convenor, the teaching assistant and BCG managers. Spreadsheets to be submitted to Gaia Bassani

Presentations are expected to take up to 15 minutes, plus Q&A

Assignment 1 (M&A case)

The case study considers a hypothetical M&A between **UBI and BPER**

The task is to evaluate the value created by this M&A deal

Does this M&A generate revenue enhancement and cost efficiencies?

Financial databases (e.g. EIKON, ABI), archival data (e.g. financial statements) and business plans provide the basis for the **estimation of the M&A synergies**

Aims (Assignment 1)

1. Team working
2. Quant skills
3. Perform a business valuation, forecast future performance
4. Collect real-world business and financial data
5. Structure and share spreadsheets

Example of case-based interview

A Bank is the US-based retail banking division of a Canadian Bank. The headquarters for the bank are in Raleigh, North Carolina. Banking centers and ATMs are located throughout the Southeastern USA

B Financial Services is an American financial services corporation headquartered in Pittsburgh, Pennsylvania. Its operations include a regional banking franchise operating primarily in nineteen states and the DoC with more than 2,700 branches

The two are negotiating to merge

You were hired to analyze this proposed merger. How would you do it?

First, tell me the major data and additional information you would need to make a thorough analysis and then whether or not you would recommend the merger

Assignment 2 (ICOs)

In groups of 6 up to 8, participants are expected to study a theoretical question and present before the class on a topic related to Section 2

To choose a topic, please talk with the convenor and then write an email to Alice Rossi with the list of the members of the group (name, surname, email and university degree)

Topics are assigned on a first-come, first-served order (i.e. a specific topic cannot be presented by more than one group)

Presentations are expected to take up to 20 minutes, plus Q&A

Assignment 2 Initial Coin Offerings

Definition of ICO: a decentralized method of financing, whereby a firm calls for funding by issuing coins to online investors (Huang et al., 2018)

Coins (or tokens): digital medium of value exchange based on the blockchain that can operate independently

Huang, W., Meoli, M., Vismara, S., 2018. The geography of Initial Coin Offerings. SSRN working paper

Assignment 2 Sources

- Google scholar
- SSRN

- coinmarketcap.com
- cointrends.top
- coinschedule.com
- cryptoslate.com
- icodrops.com
- Icobench.com
- coinmarketcap.com
- tokendata.io
- tokenmarket.net

Assignment 2 List of questions (ICOs)

Topics to be discussed with some empirical evidence:

- Do VCs invest in ICOs? When (before, during, or after the offering)?
- Which type of firms raise capital through ICOs? Industry? Age?
- Do ICOs democratize entrepreneurial finance? Age, gender, ethnicity (religion, etc..)?
- How do ICOs perform? Investors perspective: Returns on investments?
- How do ICOs perform? Firm perspective: failure, bankruptcy, acquisitions, scale-up?
- How do ICOs perform? Industry perspective: is there a future? Is it just a bubble?
- Do ICO pay dividends? Rewards?

Assignment 2 (ICOs)

After the presentation, each group should send a pdf file (max 2MB) to Alice Rossi. This document will be shared as reference with other students

For empirical evidence, the submission of a spreadsheet is recommended

For a review of the literature, the submission of table of the key findings of academic papers is recommended (see for instance Short et al. 2016, available on the course webpage

Short, J. C., Ketchen, Jr., D. J., McKenny, A. F., Allison, T. H. and Ireland, R. D. 2017, Research on Crowdfunding: Reviewing the (Very Recent) Past and Celebrating the Present. Entrepreneurship Theory and Practice

Aims (Assignment 2)

1. Team working
2. Soft skills
3. Get an in-depth knowledge of one topic
4. Look for sources of information beyond textbooks
5. Discover different predispositions (e.g. empirical vs theoretical)

Tips for in-class presentations

The most important thing is to achieve a good understanding of the topic and to apply sound critical reasoning

- Identify a question, take-home message (e.g. pros vs cons)
- Define the structure of the presentation (e.g. sample or case studies)
- Use what you have studied so far (e.g. insights from IO)
- Provide sources and citations

Calendar: introduction, valuation

Introduction

Monday 17/09, 10.30-12.30 & 14.00-16.00

Silvio Vismara

Valuation

Monday 24/09, 10.30-12.30 & 14.00-16.00

Alice Rossi

Consulting

Monday 15/10, 08.30-10.30

Guido Crespi (Boston Consulting Group)

Asset management

Monday 8/10, 08.30-10.00

Filippo Stefanini (Banca Intesa – Eurizon Capital)

International finance

Monday 22/10, 08.30-10.30

GB Cagninelli (International Monetary Funds)

Calendar: Corporate governance & Capital raising

Corporate Governance

Monday 8/10, 10.00-13.00 and 14.00-17.00

Tuesday 9/10, 8.30-12.30

Erik Lehmann

Capital Raising

Tuesday 27/11, 8.30 - 12.30

Arif Khurshed

Banking system

Monday 01/10, 10.30-12.30

Gaia Bassani

M&A synergies

Monday 12/11, 10.30-12.30, 14.00-16.00

Enrico Tanduo, Boston Consulting Group

Edoardo Palmisani, Boston Consulting Group

Case study

Wednesday 14/11, 14.00-16.00 (case study)

Tuesday 20/11, 17.30-19.30 (available for feedback – single groups)

Monday 26/11, 9.00-13.00 (available for feedback – single groups)

Tuesday 27/11, 16:30-18:30 (available for feedback – single groups)

Gaia Bassani

Please get in touch via email to set up an appointment

Calendar: student presentations

Assignment 1 (M&A synergies)

Monday 3/12, 10.30-12.30 and 14:00-16:00

Gaia Bassani, Enrico Tanduo, Edoardo Palmisani and Silvio Vismara

Assignment 2 (ICOs):

Monday 22 October, 10:30 – 12: 30

OR

Monday 10 December, 14 – 16

Alice Rossi, Silvio Vismara

The final grade is the sum of the group-level grades in the two assignments and individual scores

Group-level assignments are the case study of M&A synergies (practice) and in-class presentations on ICOs (theory)

Individual scores are the sum of the result of the multiple choice test on the whole program of the course and on the contribution to the course

AN ADDITIONAL **ORAL** EXAM MIGHT BE REQUESTED BY THE CONVENOR AFTER THE MULTIPLE CHOICE TEST

<u>Assignment 1 (M&A synergies)</u>	10
Group-level	10
<u>Assignment 2 (in-class presentation)</u>	10
Group-level	10
<u>Test (valuation, theory, seminars)</u>	12
Individual-level	12
<u>Autonomy, participation, diversity</u>	4
Individual-level	4
<u>Total grade</u>	36
Group-level	20
Individual-level	16

The final grade is the sum of the grades in the three assignments, plus 'Autonomy, diversity, constructive feedback' (see next slide)
A final grade of 30 cum laude will be awarded when the sum is higher than 30

Autonomy, diversity, constructive feedback

These aspects will be assessed collectively by the teaching team

Autonomy refers to the ability to take charge of his or her own learning

Diverse backgrounds of group members will be considered

Participation is expected both to facilitate your own learning and to help others learn

"Students who are particularly engaged and helpful may earn a bump-up of their grade; students who are particularly unengaged and unhelpful may earn a bump-down of their grade" [cit. entrepreneurial finance course at Harvard]

This might (ideally, should) refer to both the content and the structure of the course as well as the process used for grading

E.g.: What was the most useful thing? What has been omitted? What should have been omitted?

Which of the two assignments did you find more interesting? What delivered a different experience compared to previous classes?

Are there topics or techniques that you would have liked to be covered in this course?

Were the topics covered by external lectures of interest?

What about the calendar and times of the lectures?

I solicit your feedback on how to make the course better

Requirements: teaching load in line with 6 credits

Students must enroll online!

If unable to participate to the multiple choice test, students can alternatively contact the convenor to ask for oral exam, concerning the whole program (including both practice and theory)

Special projects

(alternative for students not attending the course)

Alternative to the standard exam, students can opt for «special projects»

This option is suggested for participants interested in a '**major**' in finance or for students who are not able to regularly attend lectures

Special projects will be supervised by the course's convenor, along the lines reported in the next slide

Topics of interest are, e.g., crowdfunding, ICOs, IPOs and more broadly entrepreneurial finance

These projects are an option that should be chosen by students with **high commitment** toward their work and high interest in entrepreneurial finance

Students **autonomy** in developing the assignment defined with the convenor is positive

Guidelines for special projects

Step 1 is to **contact** the course's convenor and schedule an office meeting (not online)

Step 2. in the first meeting, the convenor will propose two **topics** to be addressed both theoretically (i.e. reading papers) and empirically (i.e. collecting data); students will select one of the two

Step 3. The convenor will be available for a second, **intermediate meeting**, which should take place after a significant advancement in order to have a valuable feedback on the work done so far
This should normally take place within 1 month from the first meeting

Step 4. The convenor will be available for **final meeting** before the submission of the term paper (if required), in which to discuss the key findings of the project

The term paper and supporting files should be **submitted within 2 months** from the first meeting

Assumed prior knowledge

I am assuming that participants have some previous exposure to finance and a prior understanding of the key concepts

For these pre-requisites, refer to the first chapters the textbooks

- by **Brealey and Myers** "Principles of Corporate Finance"
- or by **Tirole**, "The theory of corporate finance"
- or by **Grinblatt and Titman**, "Financial Markets and Corporate Strategy"

Main references and suggested readings

Course content and handouts will be available **online** for each topic on a weekly basis

A list of **suggested readings** is reported at the end of each handout. Further reference will be made throughout the course to journal articles and working papers, which you are encouraged to read

(My) preferred **textbook on valuation**:

“Valuation: measuring and managing the value of companies”, by T. Koller, M. Goedhart, D. Wessels, T. Copeland, McKinsey and Co.

In alternative:

“Valuation and Common Sense” by P. Fernandez: downloadable for free at this link: <http://ssrn.com/abstract=2209089>

“Damodaran on Valuation: Security Analysis for Investment and Corporate Finance” (Wiley Finance)