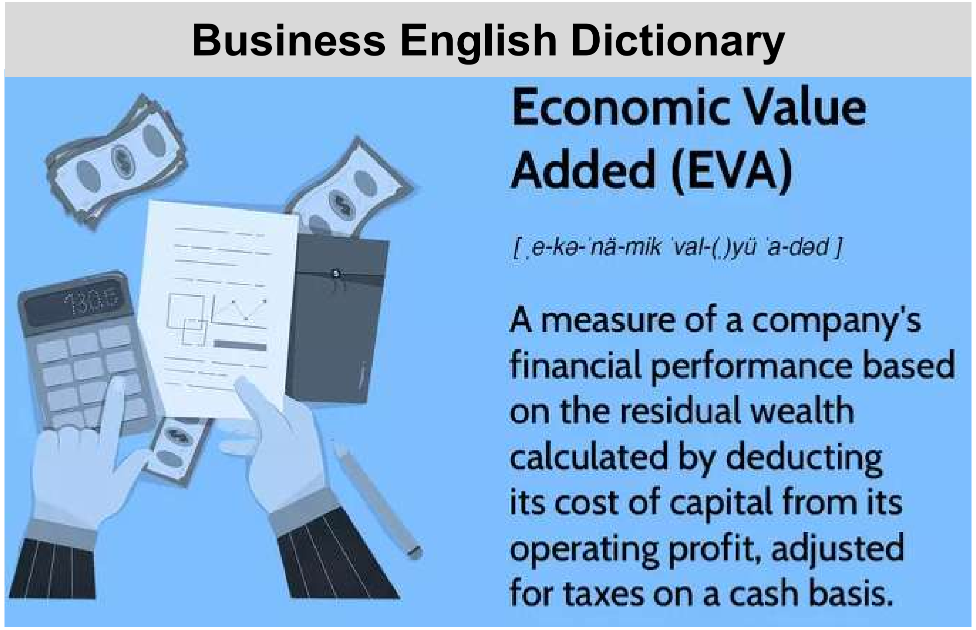
7.b THE FINANCIAL STRUCTURE THAT MAXIMIZES CORPORATE VALUE

A particular method of analyzing corporate value is the well-known EVA (Economic Value Added) corporate value calculation methodology (Stewart Bennet G., 1998).

EVA = NOPAT - (Invested Capital * WACC)

SVM STERN VALUE MANAGEMENT



RECLASSIFICATION OF THE BALANCE SHEET (Management relevance criterion)

1

Uses	Sources
Capitale Investito (Investimenti) **Invested Capital (Investment assets)**	Debts
	Equity

Uses	Sources
Operational Invested Capital (Current operating activities & Non-current operating activities	Operating (or current) debts
	Financial debts
Non-operational activities (ancillary activities)	Equity

Teaching material taken from the handout "Il bilancio e l'analisi della dinamica finanziaria" by Andrea Quintiliani

2

Uses	Sources
Operational Invested Capital	Operating (or current) debts
	Financial debts
Non-operational activities	Equity

Capitale Investito Netto Operativo (CINO) **"Net Operating Invested Capital (NOIC)"**

3

Uses	Sources
Capitale Investito Netto Operativo (CINO) **"Net Operating Invested Capital (NOIC)"**	Financial debts
Non-operational activities	Equity

Capitale Investito Netto **Net Invested Capital**

As far as investments are concerned, the reclassification criterion of management relevance leads us to highlight the **Operational Invested Capital** (investments directly related to operational management: for example trade receivables from customers, warehouse availability, as well as fixed operational activities such as machines, systems, etc.), differentiating it from non-operational investments (Extra-Operational Use).
As regards the sources, it is important to differentiate third party means (debts) into:

- ***operational liabilities***: debts attributable to the economic-technical cycle (think of trade payables to suppliers and the costs of production factors absorbed by the purchasing→production→sales cycle);
- ***financial debts*** (payables).

By subtracting the operational liabilities from the Operating Invested Capital, we arrive at the notion of Net Operating Invested Capital (NOIC), which represents the capital actually invested in operational management.

■ RECLASSIFICATION OF THE INCOME STATEMENT (Cost of Goods Sold) - Il conto economico a costo industriale del venduto

Revenues for the typical financial year (sales - turnover)

- \- Initial product inventories
- \+ Final product inventories
- \+ Initial inventories of materials
- \- Final inventories of materials
- \- Purchase of materials
- \- Labor and contributions
- \- Other consumption (energy etc.)
- \- Third party work
- \- Transport and packaging
- \- Maintenance
- \- Depreciation for production
- \- Leasing fees for fixed assets used in the production process
- \- …..
- = **Gross Margin (or Gross Profit)**
- \- *Administrative and general costs* (Salaries and contributions of administration staff, costs of fixed assets functional to these operations, remuneration of management not involved in production or commercial tasks, other administrative costs, etc.)
- \- *Commercial and distribution costs* (Commissions, transport costs, advertising and promotion, depreciation and leasing fees relating to assets used for commercial activities, costs dedicated to research and development activities)
- = **Earnings Before Interest and Taxes (EBIT)**
- ± Income and expenses from the management of accessory/*ancillary activities*
- ± *Financial* income and expenses
- = **Earnings Before Taxes (EBT)**
- \- Taxes
- = **Net income**

Consumption of materials

Cost of Goods Sold

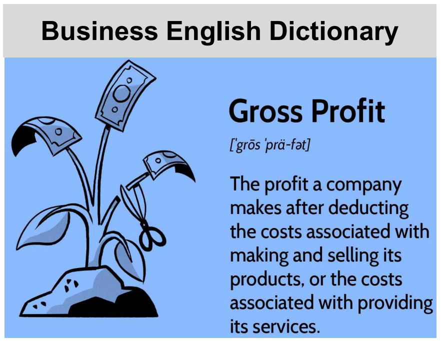
Gross Profit

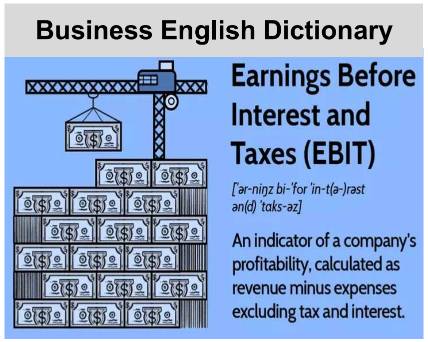
Teaching material taken from the handout "*Il bilancio e l'analisi della dinamica finanziaria*" by Andrea Quintiliani

Lo schema prevede che i valori siano riallocati nell'area operativa e il criterio seguito è quello della destinazione degli stessi (criterio funzionale). I costi sono direttamente imputati, rispettivamente, al processo produttivo, commerciale e amministrativo.

The scheme provides that the values are reallocated in the operational area and the criterion followed is that of their destination (functional criterion). The costs are directly attributed, respectively, to the production, commercial and administrative processes.

See: Dallocchio M., Salvi A., 2021, 'Finanza d'azienda' - IV edizione, EGEA, Milano.





RECLASSIFICATION OF THE INCOME STATEMENT (Value Added)

Valore della produzione (= Fatturato + Rimanenze finali di prodotti - Rimanenze iniziali di prodotti + Costruzioni in economia + Altri ricavi)

- Consumi (acquisti di materie prime e semilavorati, variazione magazzino materie prime)
- Altri costi di acquisto esterni di pertinenza della gestione operativa
- Accantonamento a fondo rischi

= **Valore Aggiunto (VA)**

- Costo del lavoro

= **Margine Operativo Lordo (MOL)**

- Ammortamenti
- Svalutazioni per perdita durevole di valore su attività "core" del periodo

= **Reddito Operativo o Margine Operativo Netto (MON)**

± Proventi e oneri gestione *attività accessoria (attività non core – surplus assets)*

± Proventi e oneri *finanziari*

= **Risultato ante-imposte**

- Imposte

= **Reddito netto**

Production value (= Turnover + Final product inventories - Initial product inventories + Economy construction + Other revenues)

- Consumption (purchases of raw materials and semi-finished products, changes in raw materials inventory)
- Other external purchase costs pertaining to operational management
- Provision to the risk fund

= **Value Added (VA)** ← **Value Added**

- Cost of labor

= **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**

- Depreciation
- Write-downs for lasting loss of value on "core" assets of the period

= **Earnings Before Interest and Taxes (EBIT)**

± Income and expenses from the management of *ancillary/accessory activities (non-core activities – surplus assets)*

± *Financial* income and expenses

= **Earnings Before Taxes (EBT)**

- Taxes

= **Net income**

Teaching material taken from the handout "*Il bilancio e l'analisi della dinamica finanziaria*" by Andrea Quintiliani

PDF

Con questo schema è possibile determinare sia il **valore aggiunto**, sia il **MOL**. Questo schema è utile al fine di mettere in luce quanto valore l'azienda sia stata in grado di aggiungere alla materia prima e a tutte le condizioni produttive acquisite all'esterno tramite il processo di trasformazione. La quantità che ne deriva è definita **valore aggiunto**. Il valore aggiunto, quindi, è l'indicatore che permette di rispondere alla domanda: «Data la materia prima (o semilavorata) e le altre condizioni produttive acquistate all'esterno, quanto valore l'impresa aggiunge a esse tramite il proprio operato?».

With this scheme it is possible to determine both the value added and the EBITDA. This scheme is useful in order to highlight how much value the company has been able to add to the raw material and to all the production conditions acquired externally through the transformation process. The resulting quantity is defined as value added. Value added, therefore, is the indicator that allows us to answer the question: "Given the raw (or semi-finished) material and other production conditions purchased externally, how much value does the company add to them through its own work?" .

See: Dallocchio M., Salvi A., 2021, '*Finanza d'azienda*' - IV edizione, EGEA, Milano.

RECLASSIFICATION OF THE INCOME STATEMENT (The Contribution Margin income statement)

Ricavi dell'esercizio tipico (vendite - fatturato)

- \- Rimanenze iniziali di prodotti
- \+ Rimanenze finali di prodotti
- \+ Rimanenze iniziali di materie
- \- Rimanenze finali di materie
- \- Acquisto di materie
- \- Manodopera (quota)
- \- Lavorazioni di terzi
- \- Trasporti e imballi
- \- Costi commerciali

CONSUMO DI MATERIE

COSTI VARIABILI

= **Margine di contribuzione**

- \- Manodopera e stipendi tecnici (quota)
- \- Manutenzioni
- \- Ammortamenti
- \- Stipendi amministrativi e contributi
- \- Perdite su crediti
- \- Altri costi amministrativi

COSTI FISSI

= **Risultato operativo (EBIT)**

± Proventi e oneri gestione *attività accessoria (attività non core – surplus assets)*

± Proventi e oneri *finanziari*

= **Risultato ante-imposte (EBT – Earning Before Taxes)**

\- Imposte

= **Reddito netto (Net income)**

Revenues for the typical financial year (sales - turnover)

- \- Initial product inventories
- \+ Final product inventories
- \+ Initial inventories of materials
- \- Final inventories of materials
- \- Purchase of materials
- \- Labor (share)
- \- Third party work
- \- Transport and packaging
- \- Commercial costs

Consumption of materials

VARIABLE COST

= **CONTRIBUTION MARGIN** ← **Contribution Margin**

- \- Labor and technical salaries (share)
- \- Maintenance
- \- Depreciation
- \- Administrative salaries and contributions
- \- Credit losses
- \- Other administrative costs

FIXED COST

= **Earnings Before Interest and Taxes (EBIT)**

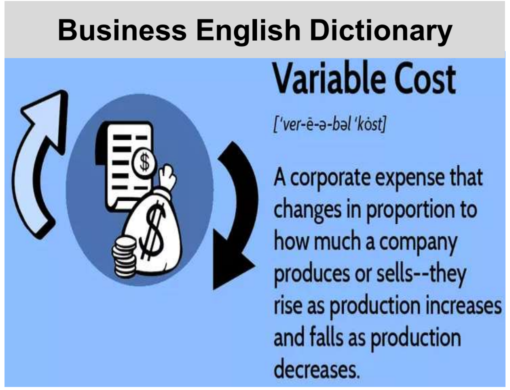
± Income and expenses from the management of *ancillary/accessory activities (non-core activities – surplus assets)*

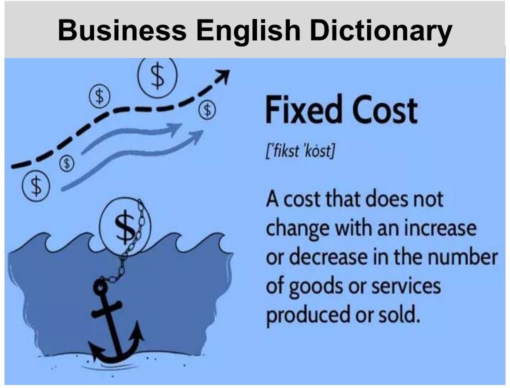
± *Financial* income and expenses

= **Earnings Before Taxes (EBT)**

\- Taxes

= **Net income**





Questo schema riclassifica i costi in relazione alla loro variabilità al variare dei volumi di produzione ed è particolarmente adatto per la redazione di conti economici previsionali.

This scheme reclassifies costs in relation to their variability as production volumes change, and is particularly suitable for the preparation of forecast economic accounts.

See: Dallocchio M., Salvi A., 2021, '*Finanza d'azienda*' - IV edizione, EGEA, Milano.