Introduction

The goal of this book is to effectively combine theoretical knowledge and practical applications in the field of corporate debt management. Its peculiarity lies in the specialist approach, on the one hand, and the operational approach, on the other; two distinctive traits that are often undercovered in corporate finance reference books which instead mostly assume a theoretical approach or focus on debt restructuring issues only.
The desire to offer a structured collection of principles, methods, instruments and approaches to the issue of planning and managing corporate debt is based on the intention to make debt management a discipline and practice in and of itself with respect to the general principles of financial management of businesses.

That need for a disciplinary focus on corporate debt management is driven by the current situation, in which debt management has become an increasingly crucial issue, in various economic and financial fields. To paraphrase the recent events in the economic landscape over the last fifteen years, we could undoubtedly say that we are living in the middle of the "debt era".

Expansive monetary policies, that were initiated first by the U.S. central bank at the start of the 2000s, and then spread across the developed countries of Europe and Japan, made debt more accessible to a broader range of companies. At the same time, the vigorous development of international financial markets and the exponential acceleration of financial innovation encouraged financing through debt in complex forms, often the result of financial engineering constructs - all elements that contributed to considerably increasing the overall volume of available debt from which companies can draw as a source of funding.

The data can clarify the dynamics and dimensions of the phenomenon. Based on the reports of the Securities Industry and Financial Markets Association (SIFMA) – the leading association in the U.S. financial community that periodically publishes data on the American financial markets – in 2000 the total volume of bonds issued by companies in the United States amounted to 3,400 billion dollars, which increased to 8,158 billion dollars in 2015, a growth of 240% in fifteen years. Not even the global financial crisis of 2008, caused precisely by a dangerous spiral of debt and its subsequent transmission through increasingly sophisticated financial instruments, was able to stop the growth of the aggregate of corporate debt.

At the beginning of 2016 Bloomberg estimated total corporate bond debt at the global level to be 29,000 billion dollars, with the fear of a possible "crisis due to excess debt" and a consequent economic recession throughout the world.

The vigorous growth of corporate debt has been accompanied by stricter regulations on the international banking system, seen as a "transmission belt" of expansive monetary policies, in order to prevent possible defaults and new systemic crises such as the 'great financial crisis' following the bankruptcy of Lehman Brothers. Stricter analytic criteria were introduced by banks for the analysis of credit and the approval of lines of credit, especially if they regard complex financial transactions.

Today, those who find themselves managing corporate debt thus need more in-depth financial knowledge, a more structured and sophisticated approach than in the past, and complete models that precisely inform both the operational and strategic choices in terms of corporate debt.

To respond to those needs, this text, that emerged from a detailed research process developed in part thanks to the support of the CDR Claudio Dematté Research Division of the SDA Bocconi School of Management, is organized into four chapters (Figure 1) that in turn contain four blocks of knowledge, ordered on a precise logical sequence:

- analysis and synthesis of the principal *theoretical references* for choices regarding corporate debt;
- *practical application* of the principles extracted from the relevant classical theory on the optimal capital structure;
- analysis of the different debt *instruments* available to satisfy a company's financing needs;

- classification and discussion of the principal *strategic approaches* to the management of corporate debt.

Acknowledgements

This book is the result of a constant and fruitful activity of academic research and professional practice carried out by the author in the area of corporate finance. The path of study and application of the principles of financing for businesses led me to focus attention on the issue of management of corporate debt, with the goal of developing and organizing knowledge useful for management to make orderly, conscious and optimal choices in corporate finance.

I would like to thank in particular those who provided support for me in this process, putting me in the best conditions to produce this work.

Thanks go to Leonardo Etro and Andrea Dossi, respectively Deputy Director of the Corporate Finance and Real Estate Department and Associate Dean for the Faculty of the SDA Bocconi School of Management, for their indispensable institutional support in the planning phase of the text.

I also want to thank all of my colleagues at the SDA Bocconi School of Management for the continuous and fruitful intellectual exchanges and all of the participants in the master and university classes in which I have taught, for the opportunities for study and discussion.

Thanks also to all of the partners, professionals, associates and clients of Madison Corporate Finance and Madison Capital who allowed me to enrich my store of academic knowledge with important experiences in professional life.

Lastly, I wish to thank my mother for her constant support and the closeness which she never failed to give me.

Figure 1 Structure of the text

Chapter 1 – Theory of Debt

- Benefits and costs of corporate debt
- The principle theories of debt
- The relationship between corporate financial debt and financial markets

Chapter 2 – Measuring and Choosing Optimal Debt

- The cost of capital
- A practical application to determine the optimal level of debt
- The search for optimal level of debt

Chapter 3 – Debt Instruments

- Corporate financial needs and financing choices
- Short-term debt
- Medium/long-term debt

Chapter 4 – The Strategic Management of Debt

- Corporate debt strategies
- Styles of corporate borrowing
- The strategic dactors that govern decisions regarding debt