

UNIVERSITY OF PENNSYLVANIA
The Wharton School

ADVANCED CORPORATE FINANCE-FINANCE 726
Professor Bilge Yilmaz
Fall 2013

Course Description:

The course both extends and deepens the materials covered in the introductory corporate finance course and analyzes a variety of issues. The topics covered include valuation, capital budgeting, cost of capital, capital structure, corporate bailouts, distribution policy, corporate restructuring, pricing of selected financial instruments, mergers and acquisitions, and financial contracting and security design under adverse selection and moral hazard.

The theme of this course is value-based management. There has been significant progress in financial theory over the past four decades. However, the theory explains the real world by stylized and simplified models. Financial techniques, although based on sound theoretical models, are not always perfect for dealing with the complexities of the real world. Value-based management introduces coherence and consistency in dealing with complex real world problems instead of ad hoc financial decisions with no theoretical basis. Through case studies, we will have an opportunity to tackle real world financial problems faced by corporate financial managers.

Reading Materials:

- Course Reader (cases and articles).
- Further materials and lecture notes on Canvas
- Recommended but not required: Brealy, Myers and Allen, Principles of Corporate Finance, 10th Edition, 2010 (**or any other substitute**).

Format:

The course is decision oriented and mixes lectures and cases. For every topic, I will first cover the relevant institutional facts, empirical evidence and analytical methods. Immediately after this, the class will undertake a case that involves a corporate finance decision intimately related to the lecture and discussion on the topic.

The major objective of the case method in finance is to use the logic of financial theory to arrive at sensible conclusions when faced with real world problems. However, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions**. While there are no “right” answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and senseless arguments. Considering my analyses as the correct

solution defeats the purpose of this course and contributes to the silly notion that in the “real world” there is a single correct recipe to be followed.

Student Responsibilities and Assessment:

- Written Assignments: (Approximately 20% of the course grade)
Students will organize themselves into groups to work on case assignments. Groups must be fixed and have at most four members. Diverse background within the group is beneficial. Since group work is a cooperative undertaking, students are urged to ensure that they form groups that are able to work effectively as a group. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous years or similar courses elsewhere for your written reports and class discussions.

The cases that require write-ups appear in **bold** (see the tentative course outline below). Each group is expected to hand in their conclusions in a one or two page executive summary. Supporting computations and tables can be included in an appendix. All of the assumptions and formulas used should be provided (preferably as a footnote). The raw data for cases is also available at the course website in .xls format.

- Class Participation and Attendance: (Approximately 20% of the course grade)
A goal of this course is to provide students with the opportunity to learn how to best contribute to discussions about complex financial issues. Corporate financial decisions are inevitably made in groups. Therefore, this class depends and thrives on class participation. It is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. Inadequate class participation combined with several absences can lead to a failing grade. I will judge performance based on the quality of comments/answers. **Students are expected to prepare for each case and participate actively in class.** I'd appreciate it if students keep the same sitting arrangement throughout the semester.
- Examinations: (Two exams add up to approximately 60% of the course grade)
You will be tested on both the concepts and the methods studied in this course. You will have access to a calculator and limited amount of information. Since the material in the second half of the course builds on the first half, so the second exam will inevitably test your knowledge of the entire content.

Code of Ethics:

Submitted assignments for grading should be your own or your team's own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Failure to observe this rule may result in an automatic failing grade for the course.

Office Hours and Contact Information:

Office Hours: Monday 9:00-10:30am, SHDH 2333

Email: yilmaz@wharton.upenn.edu

If you have questions about the material, the best place is the Canvas discussion board. I will try to answer all questions. However, considering the size of the classes I teach, I may not be able to do so especially the night before an exam. If you prefer to write me a personal email, I prefer the address above as opposed to an email via Canvas.

Teaching Assistants:

TBA

TENTATIVE COURSE OUTLINE

This outline is a rough guide as to when material will be covered. It is highly likely to have a number of changes with advance notice given in class.

Session 1: August 28

Introduction and Organization

Session 2: September 4

Basic Valuation Concepts and Weighted Average Cost of Capital

Reading:

- “Chapter 2: Using Financial Reporting Information” by Simon Benninga and Oded Sarig
- Brealey, Myers and Allen: Chapter 17 and 19.1-3

Session 3: September 9

Adjusted Present Value, Costs and Benefits of Debt Financing

- Reading: Reading: Brealey, Myers and Allen: Chapter 19.4

Session 4: September 11

Divisional Hurdle Rates, Effects of Leverage on WACC

CASE 1: Marriott Corporation - Cost of Capital (1986)

Session 5: September 16

CASE 2: American Chemical Corporation

Session 6: September 18

Wrap-up of Discounted Cash Flow Methods

Session 7 & 8: September 23 & 25

Capital Structure Policy, Financing and Basic Security Design

Reading: Reading: Brealey, Myers and Allen: Chapter 18.3 and 18.4

Session 9: September 30
CASE 3: American Home Products

Session 10: October 2
CASE 4: California Power Project

Session 11: October 6, 6:00-7:20pm, location TBA
Optional Review Session

Session 12: October 7, 6:00-7:30pm, location TBA
EXAM I

NO CLASS on October 9

Session 13: October 14
Introduction to M&A

Reading: Reading: Brealey, Myers and Allen: Chapters 31 & 32

Session 14: October 16
CASE 5: RJR Nabisco

Session 15: October 21
CASE 6: The Acquisition of Consolidated Rail Corp. (A)

Reading: “Chapter 10: Valuation by Multiples” by Simon Beninga and Oded Sarig

Session 16: October 23
Dynamic Capital Structure Policy and Advanced Security Design

Reading: Berk and DeMarzo: Chapters 16, 23, 24 and 25

Session 17: October 28
CASE 7: MCI Communications Corp. (1983)

Session 18: October 30

Option Pricing Perspective and Valuation

Reading: Reading: Brealey, Myers and Allen: Chapter 20

Session 19: November 4

Warrants and Convertibles

Reading: Reading: Brealey, Myers and Allen: Chapter 24.6

Session 20: November 6

Option Pricing: Theory Meets Practice

Sessions 21 and 22: November 11 and November 13

Corporate Bailouts

CASE 8: Chrysler's Warrants

Session 23: November 18

Distribution Policy

Reading: Reading: Brealey, Myers and Allen: Chapter 16

Session 24: November 20

CASE 9: Avon Products

Session 25: November 23, 6:00-7:20pm, location TBA

Optional Review Session

Session 26: November 25, 6:00-8:00pm, location TBA

EXAM II

Session 27: December 2

TBA

Session 28: December 4

Wrap-up