

**UNIVERSITY OF PENNSYLVANIA**  
**The Wharton School**

**ADVANCED CORPORATE FINANCE-FINANCE 726**

**B. YILMAZ**

**Fall 2009**

**Course Description:**

The course both extends and deepens the materials covered the introductory course in corporate finance 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 course webpage:  
<https://webcafe.wharton.upenn.edu/eRoom/fnce/726-fa09-2>
- Recommended but not required: Berk and DeMarzo, Corporate Finance, Addison Wesley, 2007 (**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.**

If you must attend another section, you may do so with my permission. 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. Second exam will cover the entire course and will form 40% of the course grade.

**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:**

Wednesday noon-1:20pm.

**Contact Information:**

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## **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: September 10**

Introduction and Organization

### **Session 2: September 15**

Basic Valuation Concepts and Weighted Average Cost of Capital

Reading:

- “Chapter 2: Using Financial Reporting Information” by Simon Benning and Oded Sarig
- Berk and DeMarzo: Chapter 18.2 and 18.4

### **Session 3: September 17**

Adjusted Present Value, Costs and Benefits of Debt Financing

Reading: Berk and DeMarzo: Chapters 15 and 18

### **Session 4: September 22**

Divisional Hurdle Rates, Effects of Leverage on WACC

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

### **Session 5: September 24**

**CASE 2: American Chemical Corporation**

Reading: Berk and DeMarzo: Chapter 19

### **Session 6: September 29**

Wrap-up of Discounted Cash Flow Methods

### **Session 7: October 1**

**CASE 3: California Power Project**

**Session 8: October 6**

CASE 4: Paramount 1993

Reading: Berk and DeMarzo: Chapter 28

**Session 9: October 8**

**CASE 5: The Acquisition of Consolidated Rail Corp. (A)**

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

**Session 10: October 12, 6:00-7:30pm, JMHH G06**

Optional Review Session

**Session 11: October 13, 6:00-7:30pm, location TBA**

**EXAM I**

**Session 12: October 15**

Capital Structure Policy, Financing and Security Design

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

**Session 13: October 22**

**CASE 6: MCI Communications Corp. (1983)**

**Session 14: October 27**

International Project Financing

CASE 7: Petrolera Zuata

Reading: Berk and DeMarzo: Chapter 31

**Session 15: October 29**

Option Pricing Perspective and Valuation

Reading: Berk and DeMarzo: Chapters 20.6 and 21.2

**Session 16: November 3**  
Warrants and Convertibles

**Sessions 17 and 18: November 5 and November 10**  
Corporate Bailouts  
**CASE 8: Chrysler's Warrants**

**Session 19: November 12**  
Distribution Policy  
CASE 9: Avon Products

Reading: Berk and DeMarzo: Chapter 17

**Session 20: November 17**  
Financial Distress  
CASE 10: Cumberland Worldwide

Reading: "Chapter 12: Methods of Dealing with a Distressed Firm" by Kevin Kaiser

**Session 21: November 19**  
Chapter 11 Proceedings and Corporate Bankruptcy  
**CASE 11: National Convenience Stores Incorporated**

Reading: "Chapter 13: Overview of U.S. Bankruptcy Law" by Kevin Kaiser

**Session 22: November 24**  
TBA

**Session 23: December 1**  
Review Session

**Session 24: December 3, 6:00-8:00pm, location TBA**  
**EXAM II**

**Session 25: December 8**  
Wrap-up