

Advanced Corporate Finance

Spring 2015

Professor Serdar Dinc

(Preliminary & Subject to Change. Updated on January 12, 2015)

Overview

This course is based on some of the most important topics in Corporate Finance with an emphasis on their real world applications. The course covers, among others, cost of capital calculation, valuation, capital structure, payout policy, advanced and hybrid security design, mergers and acquisitions, and restructuring. Some of these topics are covered only at the basic level in the Finance core; we will study them in more depth and, more importantly, with more emphasis on real world applications through case studies. Some other topics are not covered in the core Finance course at all.

The course is hands-on, with cases used extensively as well as lectures. Our perspective will typically be that of a CFO or CEO. We will emphasize rigorous financial thinking in real world settings with real world complexities. This course is highly recommended not only for those planning careers in finance, but also for those heading to consulting and general management. In my experience, people learn not only new topics in this course but also reach a deeper understanding of the material covered in the core Finance course after completing this course.

Instructor

Professor: Serdar Dinc (pronounced “Dinch”)
dinc@wharton.upenn.edu
Office hours: T 4.15-5.30p, or by appointment

Readings

The readings will be assigned from the following book.

- Berk, Jonathan, and Peter DeMarzo, *Corporate Finance*, 3ed., Pearson;

Course website

The course website will be on Canvas. Please check the website frequently for announcements and lecture notes.

Groups

You will work in groups of up to four people to prepare your case reports. Each group will sign up online by the second class. Cross-section groups are allowed. Students should sit in the same seat every class and display their nameplates. I encourage the groups to sit together.

While all write-ups are prepared and submitted as a group work, you are expected to have a full understanding of any written material you submit or somebody else submits on your behalf. You

must come to this understanding in collaboration with your group, be completely familiar with the material and able to answer questions about the assignment.

Course Requirements

Case Write-ups:

Case write-ups are required for the cases marked with 'REPORT'. A case write-up consists of a maximum of 2 pages of typed text plus a maximum of 3 pages of exhibits and figures necessary to support the recommendation. Do not present extraneous material and do not succumb to the temptation of using small font size. A recommended (but not required) format for a write-up includes:

- I. *Statement of Problem.* State the main problems of the case as precisely and concisely as possible.
- II. *Statement of Assumptions.* Clearly state any assumptions. Provide any necessary justification for your assumptions.
- III. *Analysis.* This contains your analysis of the various courses of available actions.
- IV. *Recommendation.*

The cases chosen rarely have one 'solution' and different approaches/assumptions will be discussed. In fact, the best cases tend to reflect the real life in their ambiguity and complexity. There may not be a single solution to a case but there are good and bad ways of reasoning and analyzing the situation. Our emphasis will be on the reasoning and analysis.

Report Submission:

The reports will be submitted online through Canvas by 9a on the day they are due regardless of your section. The reports will have to be in pdf format. All the spreadsheets used should also be submitted as a single file in Excel format. *Only the pdf report will be graded.* The spreadsheets will serve as verification if necessary.

Class Participation:

Thoughtful and active participation is essential to a successful case discussion. Have your analysis available in class. I will evaluate individual participation on the basis of both quantity and quality, where the latter is much more important. That is, talking for the sake of talking is not encouraged. Further, I will "cold call". Another factor in judging your participation is attendance (on the theory that you cannot participate if you are not there).

Exams:

There will be two in-class exams during the semester. The second exam will be cumulative. The exams will be closed-book, closed-note. Students will be expected to take their exams in the sections for which they are registered. **Please note that the first test is right before the spring break.** No make-up test will be given for missed tests except for documented medical emergencies.

Grading

Your grade for the course is based on the following:

| | |
|---------------------|------------|
| Case write-ups | 40% |
| Class Participation | 10% |
| Exams | <u>50%</u> |
| Total | 100% |

Honor Code

Write-ups must be your original work. You may not use materials containing solutions or partial solutions to the assignment (including solutions prepared by current or former students) obtained through any means. If your analysis contains information from outside sources, then you must properly cite the sources. You may discuss the cases with your classmates, including those in other groups. This information sharing promotes learning. The work you hand in, however, must reflect your own thinking, analysis, and interpretation. There is an important difference between discussing a problem or various assumptions (something to be encouraged) and copying another group's analysis in whole or in part (whether this group is in your class or another class).

You may not consult with me on the basic arguments, analysis, or logic of your work prior to the class discussion since this would give an unfair advantage over your classmates. However, I'll be happy to meet with you after the case is presented to go over any issue that remains unclear for you.

Student-Faculty Meals

TBA

Laptop & Cell phone policy

Cell phone use is not allowed in class. Laptops and tablets tend to tempt people to check e-mail and can be distracting to others. Nevertheless, I will allow them on a "try-and-see" basis; I reserve the right to ask them to be turned off at any point during the semester.

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Financing Decisions and the Cost of Capital

1. : Introduction, Cost of Capital.
 - a. BDM Ch. 12
2. : Valuation.
 - a. BDM Ch. 8, 18
3. : *****REPORT***** Marriott Corporation: The Cost of Capital, HBS 9-289-047

Investment Evaluation

4. : Lecture – Investment Evaluation
 - a. BDM Ch. 18 (cont.)
 - b. Kaplan, Steven N. and Richard S. Ruback (1995) “The Valuation of Cash Flow Forecasts: An Empirical Analysis,” *Journal of Finance*, 50-4, 1059-1093.
5. : *****REPORT***** American Chemical Corporation, HBS 9-280-102

Capital Structure

6. : Lecture – Capital Structure
 - a. BDM Ch. 14, 15.
7. *****REPORT***** Debt Policy at UST Inc., HBS #9-200-069
8. : Lecture – Capital Structure & Financial Distress
 - a. BDM Ch. 16.
9. Raising Equity and Debt.
 - a. BDM Ch. 23, 24.
10. : MCI Communications Corporation, HBS 9-284-057

Options, Warrants

11. : Lecture – Basic Option Pricing (1)
 - a. BDM Ch. 20, 21.
12. : Lecture – Basic Option Pricing (2)
13. : *****REPORT***** Chrysler warrants (U. of Virginia – Darden case), UVA-F-0682
14. Make-up & Review

15. (March 5, 2015, Thursday) Exam I

Payout Policy

- 16. Lecture – Dividends, Share repurchases
 - a. BDM Ch. 17.
- 17. *****REPORT***** Avon Products, HBS 9-289-049

Mergers & Acquisitions

- 18. : Lecture – M&As, Legal Aspects, Friendly acquisitions, Tax issues
 - a. BDM Ch. 28.
 - b. The Fine Art of Friendly Acquisitions, Harvard Business Review, July-August 1999.
R00602
- 19. Lecture – Payment methods for acquisitions. Valuing Synergies
- 20. *****REPORT***** Philip Morris Companies and Kraft, Inc., HBS 9-289-045
- 21. Lecture - Hostile Takeovers
 - a. M&A Legal Context: Hostile Takeovers, HBS # HBS 9-904-005
- 22. *****REPORT***** The Acquisition of Consolidated Rail Corporation (A), HBS # 9-298-006
- 23. TBA

Restructuring

- 24. : Humana, Inc.: Managing in a Changing Industry, HBS Case # 9-294-062
- 25. Make-up & Review
- 26. **(April 21, 2015, Tuesday) Exam II**
- 27. International M&As,
 - a. Dinc, Serdar and Isil Erel. Economic Nationalism in Mergers & Acquisitions, 2013 (December), *Journal of Finance*, 68: 2471–2514
- 28. Wrap-up