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**Advanced Corporate Finance**  
FNCE 203/726

**Introduction**

The objective of this course is to provide an opportunity to apply the tools and concepts of modern financial theory to corporate financial decisions. Therefore, it combines lectures with case analysis. Cases develop our decision-making ability by forcing us to confront the complexities of real-world situations. The challenge is not to compute a single right answer, as one might do in a problem set, but rather to identify the relevant issues and the appropriate tools and concepts to address them. In fact, a single right answer rarely exists because the best cases are deliberately written to be ambiguous. There are, however, good arguments and bad arguments. To distinguish between these, we will review essential tools and concepts introduced in FNCE 100/601 and introduce new, more advanced, ones.

**Contact information and office hours**

Scheduled office hours are held every week during class time. If you cannot make it to regular office hours, we are also available by appointment.

	E-mail (@wharton)	Location	Office hours
Gustav Sigurdsson	gustav	SH-DH 2437	Tue 4:30-6:00pm
Kiran Choudary	kchoudar		
Zachary Friedman	zfriedman		
Sumita Pandit	sumitap		
Mayank Tiwari	mayankt		

**Exam dates**

Exam 1	Thursday, February 28, time TBD
Exam 2	Thursday, April 17, time TBD

**Case report deadlines**

Harris Seafoods	Tuesday, January 29, 9:00am
Congoleum	Tuesday, February 12, 9:00am
American Home Products	Tuesday, March 4, 9:00am
Aberlyn Capital Management	Tuesday, March 25, 9:00am
Kennecott Copper	Tuesday, April 8, 9:00am
Consolidated Rail	Tuesday, April 22, 9:00am

## Grading

Class participation, six case reports, and two exams determine your final grade in the course. When it is higher, your grade on the second exam will replace your grade on another item. For example, if your participation grade is 75, your case report grade is 90, your first exam grade is 80, and your second exam grade is 85, then your second exam grade will replace the participation grade and the first exam grade, but not the case report grade.

### Class participation (up to 10%)

Class participation can take two forms. First, you can volunteer to present your analysis of a case to your classmates. Second, you can at any time question an assumption of the analysis, share an experience that is relevant to the current topic, or ask a clarifying question.

### Six case reports (up to 30%)

You should organize into groups of four people or less. Each group will write a detailed report on each of six cases. The report should include 2-4 pages of analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached in an appendix. The report should address the suggested questions for the case but should not be written in the form of answers to these questions or be confined to these issues only. Rather, the report should be a complete review of the situation and address all points believed to be important for the analysis.

### Two exams (up to 30% for the first, at least 30% for the second)

There will be two exams: the first on February 28 and the second on April 17. Each exam will contain questions from the entire course up to the exam date. You may bring a calculator (not a computer) and one letter-sized “cheat sheet” to the exams.

Make-up exams will only be offered in case of serious illness, a family emergency, or some other unusual event. Undergraduate students must get approval from their dean’s office and MBA students must get approval from the MBA Program Office.

The MBA Executive Committee recommends the final grade target distribution in the table below. Furthermore, the MBA class average may not exceed 3.33. I will follow these guidelines for both MBA and undergraduate students and treat all three sections of the course as one.

<u>Grade</u>	<u>Target</u>
A	25%-35%
B	60%
C and below	5%-15%

A request for regrading must be provided in writing, stating where and why there is a problem, no later than one week after the exam or case report is returned. The entire exam or case report will then be regraded.

## **Reading list**

Course pack, available from Reprographics, containing articles and cases. (Table of contents below.)

Brealey, Myers, and Allen, *Principles of Corporate Finance* 8/e (BMA).

## **Class etiquette**

Please arrive on time and stay for the duration of the class. If you are late or have to leave early, try to minimize the disruption to your fellow students. Also, to help me get to know you, please display a name card and remain in the same seat and section for the entire semester.

## Class schedule

- 1/17      **A Financial Model of the Firm**  
BMA 2, 5-6.
- 1/22, 1/24      **Valuation and the Cost of Capital**  
BMA 8-9, 19.  
Benninga and Sarig, *Corporate Finance: A Valuation Approach*, Ch. 2, 10.  
Tully, "The Real Key to Creating Wealth," *Fortune*, September 20, 1993.  
Lowenstein, "Rethinking the Latest Economic Elixir," *Wall Street Journal*, February 13, 1997.
- 1/29, 1/31      **Harris Seafoods, Inc.** (HBS # 281-054)
- 2/5      **Marriott Corporation: The Cost of Capital** (HBS # 289-047)
- 2/7      **Leveraged Transactions and Distribution Policy**  
BMA 16.  
Inselbag and Kaufold, "How to Value Recapitalizations and Leveraged Buyouts," *Journal of Applied Corporate Finance* 1989.
- 2/12, 2/14      **Congoleum Corporation** (HBS # 287-029)
- 2/19, 2/21      **Capital Structure Theory**  
BMA 17-18, 24, 33.4.  
Gifford, "After the Revolution," *CFO Magazine*, July 1998.  
Barclay and Smith, "The capital structure puzzle: Another look at the evidence," *Journal of Applied Corporate Finance*, 1999.
- 2/26      **Review class**
- 2/28      **Exam I** (time TBD)
- 3/4      **American Home Products Corporation** (HBS # 283-065)
- 3/6      **Leasing**  
BMA 26.
- 3/11, 3/13      **Spring break**
- 3/18, 3/20      **Options, Warrants, and Convertibles**  
BMA 20-22, 25.6.  
Brennan and Schwartz, "The Case for Convertibles," in Chew, ed., *The New Corporate Finance: Where Theory Meets Practice*.  
Jen, Choi, and Lee, "Some New Evidence of Why Companies Use Convertible Bonds," *Journal of Applied Corporate Finance*, Spring 1997.

- 3/25           **Aberlyn Capital Management** (HBS # 294-083)  
                  “A Note on the Venture Leasing Industry,” (HBS # 294-069).
- 3/27           **Corning Inc.** (UVA-F-1339 v. 2.6)
- 4/1, 4/3       **Mergers and Acquisitions**  
                  BMA 32.  
                  Jensen, “The Takeover Controversy: Analysis and Evidence,” *Midland Corporate Finance Journal*, Summer 1986.  
                  Franks, “Mergers and Acquisitions: A Study of Shareholders’ Gains and Losses,” *London Business School Journal*, Summer 1988.  
                  Lowenstein, “Why All Takeovers Aren’t Created Equal” *Wall Street Journal*, March 6, 1997.
- 4/8, 4/10      **Kennecott Copper Corporation** (HBS # 278-143)
- 4/15           **Review class**
- 4/17           **Exam II** (time TBD)
- 4/22, 4/24     **The Acquisition of Consolidated Rail Corporation** (HBS # 298-006/095)

## Course pack contents

### Textbook chapters, articles, and notes

Benninga and Sarig, *Corporate Finance: A Valuation Approach*, Ch. 2, 10.

Tully, "[The Real Key to Creating Wealth](#)," *Fortune*, September 20, 1993.

Lowenstein, "[Rethinking the Latest Economic Elixir](#)," *Wall Street Journal*, February 13, 1997.

Inselbag and Kaufold, "How to Value Recapitalizations and Leveraged Buyouts," *Journal of Applied Corporate Finance* 1989.

Gifford, "[After the Revolution](#)," *CFO*, July 1998.

Barclay and Smith, "The capital structure puzzle: Another look at the evidence," *Journal of Applied Corporate Finance*, 1999.

Brennan and Schwartz, "The Case for Convertibles," in Chew, ed., *The New Corporate Finance: Where Theory Meets Practice*.

Jen, Choi, and Lee, "Some New Evidence of Why Companies Use Convertible Bonds," *Journal of Applied Corporate Finance*, Spring 1997.

"A Note on the Venture Leasing Industry," (HBS # 294-069).

Jensen, "The Takeover Controversy: Analysis and Evidence," *Midland Corporate Finance Journal*, Summer 1986.

Franks, "Mergers and Acquisitions: A Study of Shareholders' Gains and Losses," *London Business School Journal*, Summer 1988.

Lowenstein, "[Why All Takeovers Aren't Created Equal](#)" *Wall Street Journal*, March 6, 1997.

### Cases

Harris Seafoods, Inc. (HBS # 281-054)

Marriott Corporation: The Cost of Capital (HBS # 289-047)

Congoleum Corporation (HBS # 287-029)

American Home Products Corporation (HBS # 283-065)

Aberlyn Capital Management (HBS # 294-083)

Corning Inc. (UVA-F-1339 v. 2.6)

Kennecott Copper Corporation (HBS # 278-143)

The Acquisition of Consolidated Rail Corporation (HBS # 298-006/095)