

UNIVERSITY OF PENNSYLVANIA
The Wharton School

ADVANCED CORPORATE FINANCE – FNCE 726: *SPRING 2008*

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TEACHING ASSISTANTS: Names & office hour details to be posted on webCafe.

COURSE DESCRIPTION AND OUTLINE

The objective of this course is to further students' ability to apply corporate finance theory to corporations' real-life investment and financing decisions. This is done through the use of both lectures and case discussions. The lectures and cases deal with a variety of topics in corporate finance including valuation, capital budgeting, cost of capital, mergers and acquisitions, capital structure policy and options, warrants and convertibles. In applying the theoretical concepts and models of finance to realistic case studies, we will find that we are in fact evaluating good and bad arguments for application, rather than correct and incorrect *solutions*.

COURSE MATERIALS

- R. Brealey, S. Myers, and F. Allen, *Principles of Corporate Finance*, 7th or 8th edition, McGraw-Hill
- Course Cases and Additional Readings (via Bullpack)
- Further materials posted on the course website (via Wharton webCafe) and/or distributed in class. **NOTE:** You are expected to check the course webCafe site regularly as this site will contain both course material and course announcements.

GRADE COMPONENTS

Final grades will be based on the following:

- **CLASS PARTICIPATION:** (25%)

This class heavily depends upon class participation. Because so much learning in this course occurs in the classroom, you should attend every class and moreover be prepared to discuss all course cases. Low participation combined with several absences will have a significant impact on your final grade. The quality of your questions, comments and discussions is much more important than is their quantity. Your participation grade will be evaluated accordingly.

Please display your name cards in class at all times, writing your name in large, dark letters. Also please choose your seat during the first week and use the same seat for the remainder of the term. You should attend the class section for which you are registered. In the unusual case of a time conflict, you can obtain permission to attend a different section, after first notifying me.

- **WRITTEN GROUP CASE ANALYSIS: (25%)**

The class will be organized into study groups, with four people per group. Each group will write detailed reports on seven cases. **NOTE:** We will discuss 12 cases over the course of the semester. You are only required to submit group write-ups on the seven cases indicated. The five cases not requiring a group write-up, must nonetheless be carefully read and prepared for the following day's class discussion (one page individual write-ups are required for these cases – see below).

Each written case report should include 2-4 pages of analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The report should address the suggested questions for the case (which will be detailed on the course site at Wharton webCafé), but should not be written in the form of answers to these questions nor necessarily be confined to these issues only. Rather, the report should be a complete review of the situation analyzed and address all points believed to be important for the analysis.

Groups may volunteer to present their analyses of the cases in class. As well, other groups may be asked, at random, to present their views of certain points raised by the case or its discussion.

Academic Integrity: As per the Wharton Graduate Division Code of Ethics, all submitted assignments should be you and your team's own work. Accordingly, be forewarned that you cannot 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.

- **INDIVIDUAL ONE PAGE CASE WRITE-UPS: (10%)**

For each of the five cases not assigned as group cases, you will be required to write a one page review of the options that management has, along with any additional points you deem noteworthy.

- **EXAMS: (40% in total – each of two exams, 20%)**

There will be two time-limited exams during the semester; one on **March 5** and one on **May 7** (during the course's regularly scheduled final exam time slot). You will be tested on both the concepts and the methods

studied in this course. You will have access to a calculator and to some additional information, however no laptops are allowed in the exams.

NOTE: All requests for re-grading must be made in writing detailing the exact matter concerned. Such requests must be received by the TAs no later than one week after distribution of the case write-up or exam. The entire write-up and/or exam will then be re-graded with the associated potential to both go up or down.

TENTATIVE CLASS SCHEDULE (Subject To Change During The Course Of The Semester)

January 16

Lecture: Introduction

Readings: Brealey, Myers and Allen, Chapters 2 and 5-6.

January 23, 28

Lectures: The Cost of Capital and Valuation

Readings: Brealey, Myers and Allen, Chapters 8-9 and 19.

Benninga and Sarig, 1997, *Corporate Finance: A Valuation Approach*, McGraw-Hill,
Chapters 2 and 10.

January 30

Case 1 (Individual Write-Up): “The Super Project” (HBS #112-034)

February 4

Case 2 (Group Write-Up): “Marriott Corporation: The Cost of Capital” (HBS # 289-047)

February 6

Lecture: Leveraged Transactions

Readings: Inselbag and Kaufold, “How to Value Recapitalizations and Leveraged Buyouts,”
Journal of Applied Corporate Finance, 87-96.

February 11

Case 3 (Group Write-Up): “Congoleum Corporation” (HBS # 287-029)

February 13

Case 4 (Individual Write-Up): “Seagate Technology Buyout” (HBS # 201-063)

February 18, 20

Lectures: Capital Structure Theory

Readings: Brealey, Myers and Allen, Chapters 17-18, 24, and 33.4.

"The Capital Structure Puzzle: Another Look At The Evidence" in Chew's *The New Corporate Finance: Where Theory Meets Practice*, 3rd ed. McGraw-Hill, 197–209.

February 25

Case 5 (Group Write-Up): “American Home Products Corporation” (HBS # 283-065)

February 27

Readings: Brealey, Myers and Allen, Chapter 16

Case 6 (Individual Write-Up): “Dividend Policy at Linear Technology” (HBS # 204-066)

March 3

Review Class

March 5

Exam I (during class)

March 17

NO CLASS

March 19, 24

Lectures: Options, Warrants, and Convertibles

Readings: Brealey, Myers and Allen, Chapters 20-22, and 25.6.

“Convertible Bonds: Matching Financial and Real Options” in Chew's *The New Corporate Finance: Where Theory Meets Practice*, 3rd ed. McGraw-Hill, 334–347.

March 26

Case 7 (Group Write-Up): “Aberlyn Capital Management” (HBS # 294-083)

March 31

Case 8 (Group Write-Up): “Corning Inc.” (UVA-F-1339 v. 2.6)

April 2

Case 9 (Individual Write-Up): “Arundel Partners: The Sequel Project” (HBS # 292-140)

April 7.9

Lectures: Mergers and Acquisitions

Readings: Brealey, Myers and Allen, Chapter 32.

Jensen, Summer 1986, “The Takeover Controversy: Analysis and Evidence,” *Midland Corporate Finance Journal*, 465-491.

April 14

Case 10 (Group Write-Up): “Kennecott Copper Corporation” (HBS # 278-143)

April 16, 21

Case 11 (Group Write-Up): “The Acquisition of Consolidated Rail Corporation” A and B (HBS # 298-006 and HBS # 298-095)

April 23

Case 12 (Individual Write-Up): “Gulf Oil” (HBS # 285-053)

April 28

Review

MAY 7: Exam II (during administratively scheduled *final exam* time and location)