

UNIVERSITY OF PENNSYLVANIA
The Wharton School

Advanced Corporate finance
FNCE 726

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Course Description and Format

The objective of this course is to develop decision-making ability based on Corporate Finance theory. Hence, it combines lectures with case analysis. The course and the cases deal with selected topics in Corporate Finance such as valuation, capital budgeting, cost of capital, mergers and acquisitions, capital structure policy, leasing, and warrant and convertible use.

The purpose of the cases is not to introduce these topics, but to further examine the theoretical concepts and models of finance and how they can be applied to reasonably realistic situations. It should be noted that there are usually no absolute right solutions for study cases. Rather, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good arguments and bad arguments. This course is designed to help the student learn to distinguish between sensible and weak arguments, but not to provide detailed answers to specific cases. Thus, “case solutions” will not be handed out. If you are uncomfortable with ambiguity, this class may not be for you.

Reading Materials

- Bulkpack (Readings and Cases).
- R. Brealey, S. Myers, and F. Allen, *Principles of Corporate Finance*, 9th edition, McGraw-Hill.
- Further materials distributed in class (lecture notes, etc.).

Grades

Your final grade will be based on:

- **Class Participation:** (Approximately 25% of the course grade)

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. Low participation combined with several absences will have a significant impact on your final grade.

In determining your grades, I will consider the degree to which your comments advance everyone's learning. Quality of your comments and discussions are much more important than quantity. Your comment's impact on our overall understanding of the managerial decision at hand is more important than the right answer per se. I will assess your class participation on this metric, not on "air time" or the number of comments you make.

Please note that cold calling may be used in case discussions in order to ensure adequate preparation. Failure to prepare for class reflects an unacceptable disregard for your fellow students.

- **Written Case Analysis:** (Approximately 25% of the course grade)

The class will be organized into study groups, four people in a group. Each group will write detailed reports on the eight cases. Each 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 study 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 or 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.

Eight groups (of each section) may volunteer or be asked to present their analyses of the cases in class. Additional groups may volunteer or be asked to act as formal discussants. Being a presenter/discussant will generate a bonus towards the final grade. Other groups may be asked, at random, to present their views of certain points raised by the case or its discussion.

- **Exams:** (Approximately 50% of the course grade)

There will be two exams during the semester; one on **October 2** and one on **November 20**. You will be tested on both the concepts and the methods studied in this course. The exams are intended to be time-sensitive. Unless you meet regularly with your group and work through the cases analyses, you will be unable to complete the exams on time. You will have access to a calculator and to a limited amount of information. No laptops are allowed in the exams.

Please note the scheduling of the exams. You are responsible for ensuring that you are available and on campus to take the exams. I will not allow anyone to take the exams at other times unless you are excused officially by the MBA office.

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.

Attendance and Class Etiquette

Students should attend the section of the class for which they are registered. In case of a conflict students can attend another of my sections by permission. Students are expected to arrive on time for class. Once in class, students should remain until the class is completed. Arrivals and departures during class time interfere with the educational process and are not fair to the other students.

Seating Chart and Name Cards

Please display your name cards in class all times so that I get to know you and evaluate your class participations. Please write your name in large, dark letters on the name cards. Please choose your seat during the first week and use the same seat for the remainder of the term.

WebCafé

The course site at Wharton WebCafé contains material essential for this class as well as most updated information and announcements for the course. WebCafé is the information center for the course. Please check the course site regularly.

Tentative Class Schedule

September 4

Lecture: Organization; Introduction

Readings: Brealey, Myers and Allen, Chapters 2 and 6-7.

September 9, 11

Lectures: The Cost of Capital and Valuation

Readings: Brealey, Myers and Allen, Chapters 9-10 and 20.

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

Tully, September 20, 1993, "The Real Key to Creating Wealth," *Fortune*, 38-40, 44, 45, 48, 50.

Lowenstein, February 13, 1997, "Rethinking the Latest Economic Elixir," *WSJ* article, page C1.

September 16

Case 1: "Harris Seafoods, Inc." (HBS # 281-054)

September 18

Case 2: "Marriott Corporation: The Cost of Capital" (HBS # 289-047)

September 23

Lecture: Leveraged Transactions

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

September 25, 30

Case 3: "Congoleum Corporation" (HBS # 287-029)

October 2

Exam I (during class time)

October 7

Lecture: Leasing

Readings: Brealey, Myers and Allen, Chapter 26.

October 9

No Class

October 14

No Class: Fall Break

October 16, 21

Lectures: Capital Structure Theory

Readings: Brealey, Myers and Allen, Chapters 18-19, 24, and 33.4.

Gifford, July 1998: "After the Revolution," *CFO Magazine*, 75-79.

Barclay and Smith, Spring 1999, "The capital structure puzzle: Another look at the evidence," *Journal of Applied Corporate Finance*, 8-20.

October 23

Case 4: "American Home Products Corporation" (HBS # 283-065)

October 28, 30

Lectures: Options, Warrants, and Convertibles

Readings: Brealey, Myers and Allen, Chapters 21-23, and 25.6.

Brennan and Schwartz, 1993, "The Case for Convertibles," in: D. H. Chew, ed., *The New Corporate Finance: Where Theory Meets Practice*, McGraw-Hill, 288–297.

Jen, Choi, and Lee, Spring 1997, "Some New Evidence of Why Companies Use Convertible Bonds," *Journal of Applied Corporate Finance*, 44-53.

November 4

Case 5: "Aberlyn Capital Management" (HBS # 294-083)

November 6

Case 6: "Corning Inc." (UVA-F-1339 v. 2.6)

November 11, 13

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.

Franks, Summer 1988, "Mergers and Acquisitions: A Study of Shareholders' Gains and Losses," *London Business School Journal*, 16-20.

Lowenstein, March 6, 1997, "Why All Takeovers Aren't Created Equal" *WSJ* article, page C1.

November 18

Review Class

November 20

Exam II (during class time)

November 25

Case 7: "Kennecott Copper Corporation" (HBS # 278-143)

November 27

No Class: Thanksgiving Day

December 2, 4

Case 8: “The Acquisition of Consolidated Rail Corporation” A and B

(HBS # 298-006 and HBS # 298-095)