

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 4:30-6:00 |
| Aryea Aranoff | aryea | SH-DH 2305 | Mon 1:30-3:00 |
| Galantino Gallo | ggal | SH-DH 2305 | Thu 3:00-4:30 |
| Christopher Ganis | ganisc | SH-DH 2305 | Mon 10:30-12:00 |
| Rebecca Jin | jinrb | SH-DH 2305 | Fri 10:30-12:00 |

Exam dates

| | |
|---------|--|
| Exam I | Thursday, February 26, during class time |
| Exam II | Tuesday, April 14, during class time |

Case report deadlines

| | |
|------------------------|----------------------|
| Harris Seafoods | Tuesday, January 27 |
| Congoleum | Tuesday, February 10 |
| American Home Products | Tuesday, March 3 |
| Corning | Tuesday, March 24 |
| Kennecott Copper | Tuesday, April 7 |
| Consolidated Rail | Tuesday, April 21 |

Grading

Class participation, six case reports, and two exams determine your final grade in the course. Their approximate weights in your final grade are given below.

Class participation (15%)

This class thrives on your active participation – your questions and comments can further everyone’s learning and are an essential part of the classroom experience. You may at any time question an assumption of the analysis, share an experience that is relevant to the current topic, or ask a clarifying question. The quality of your class participation is far more important than its quantity. If, however very few people participate voluntarily, I may randomly call on students. In addition, you and your group may volunteer to present a case in class.

Six case reports (25%)

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. One of the six case report grades (the lowest one) will be dropped.

Two exams (30% each)

There will be two in-class exams: the first on February 26 and the second on April 14. 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.

All students (both MBA and undergraduate) and all sections will be graded together (not in separate groups). I will follow the grading guidelines of the MBA Executive Committee, which recommends the final grade target distribution in the table below and also requires that the class average not exceed 3.33.

| <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* 9/e (BMA). (Most earlier editions are fine substitutes.)

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.

Prerequisites

You should have passed ACCT 101/620 and FNCE 100/601. You can take FNCE 101/602 and this course concurrently.

Class schedule

- 1/15 **A Financial Model of the Firm**
BMA 2, 6-7 (2, 5-6 in 8/e).
- 1/20, 1/22 **Valuation and the Cost of Capital**
BMA 9-10, 20 (8-9, 19 in 8/e).
Benninga and Sarig, *Corporate Finance: A Valuation Approach*, Chapter 2, "Using Financial Reporting Information," and Chapter 10, "Valuation by Multiples."
Tully, "The Real Key to Creating Wealth," *Fortune*, September 20, 1993.
Lowenstein, "Rethinking the Latest Economic Elixir," *Wall Street Journal*, February 13, 1997.
- 1/27, 1/29 **Harris Seafoods, Inc.** (HBS # 281-054)
- 2/3 **Marriott Corporation: The Cost of Capital** (HBS # 289-047)
- 2/5 **Leveraged Transactions and Distribution Policy**
BMA 17 (16 in 8/e).
Inselbag and Kaufold, "How to Value Recapitalizations and Leveraged Buyouts," *Journal of Applied Corporate Finance* 1989.
- 2/10, 2/12 **Congoleum Corporation** (HBS # 287-029)
- 2/17, 2/19 **Capital Structure Theory**
BMA 18-19, 24, 33.4 (17-18, 24, 33.4 in 8/e).
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.
- 2/24 **Exam review I**
- 2/26 **Exam I** (during class time)
- 3/3, 3/5 **American Home Products Corporation** (HBS # 283-065)
- 3/10, 3/12 **Spring break**

- 3/17, 3/19 **Options, Warrants, and Convertibles**
BMA 21-23, 25.6 (20-22, 25.6 in 8/e).
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.
- 3/24 **Corning Inc.** (UVA-F-1339 v. 2.6)
- 3/26 **Leasing**
BMA 26.
- 3/31, 4/2 **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.
- 4/7 **Kennecott Copper Corporation** (HBS # 278-143)
- 4/9 **Exam review II**
- 4/14 **Exam II** (during class time)
- 4/16 **Aberlyn Capital Management** (HBS # 294-083)
“A Note on the Venture Leasing Industry,” (HBS # 294-069).
- 4/21, 4/23 **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*, Chapter 2, “Using Financial Reporting Information,” and Chapter 10, “Valuation by Multiples.”

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)