

UNIVERSITY OF PENNSYLVANIA
The Wharton School

FNCE 726: ADVANCED CORPORATE FINANCE

Professor Nihat Bülent Gültekin

Fall 2009

Office:	Steinberg Hall-Dietrich Hall Room 2344
Office Hours:	Mondays 3:30-4:30 pm or by appointment
Teaching Assistants	
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Course Objective

The objective of this course is to teach students how to apply modern financial theory to the investment and financing decisions of a modern corporation.

Course Content

This course is designed for finance majors who will pursue careers in major corporations, the financial sector, and consulting firms. We extend the core theory introduced in Financial Analysis for applications to the strategic financial decision areas of a firm.

The theme of this course is value-based management. However, as with all scientific disciplines, the theoretical framework explains the real world with abstract and simplified models. Such conceptual models, while based on sound theory, are never sufficiently rich for dealing with all the complexities of the real world. Value based management introduces coherence and consistency in dealing with real world problems. Despite their limitations, decisions based on financial theory and models are superior to ad hoc alternatives. Concepts and techniques introduced in this course help discipline managers by expressing key decisions in terms of their predictable impact on firm value.

This course consists of seven sections. The first four sections focus on a range of financial issues that confront managers in their ordinary course of doing business, mainly financial planning, capital budgeting, and the interaction between investment and financing decisions. The options approach to investment decisions is in Section IV. Section IV deals with financing decisions, and security issuance and dividend policy is introduced in Section VI. The last section of the course focuses on corporate restructuring, mergers, and acquisitions.

Course Format

This course is taught mostly with cases and a few review lectures.

The case method of instruction offers some distinct benefits. In preparing cases, you learn more than just the financial theory required to analyze a case. You learn about the agents, institutions, and transactions that comprise the modern financial system. You also learn to contribute effectively to fast paced discussions about complex financial issues and test your understanding and your solutions to these issues that are rarely black and white.

These benefits come with a substantial cost, however. Discussion-based classes succeed only if all students come prepared to discuss the case material. To foster mutual trust and respect, it is imperative that students attend each class, arrive on time, and minimize subsequent class disruptions. Class participation is vital to your learning as well as the learning of others.

The case method helps you use financial theory to arrive at coherent and defensible conclusions when faced with real world problems. One should keep in mind that there is not necessarily “the right” answer to a case; different assumptions may lead to different solutions and decisions. There is, however, always a theoretically correct and sound approach to the problems encountered in cases.

Study Groups

You should form groups of no more than four students during the first day of class. Groups offer a good opportunity to leverage your strengths with other team members for a more comprehensive case analysis. Suggested study questions often require extensive calculations and/or valuations. Your team members also enable you to try out your own ideas prior to class discussion. Each student is responsible for these questions. All questions are fair game if you are cold called to open class discussion.

Textbooks

The only required reading materials in this course are the cases. For some cases, explanatory teaching notes on your reading list might be useful. If you need to review the prerequisite background materials for the cases, you may refer to the relevant chapters indicated in the following two or any similar texts:

R. Brealy, S. Myers, and F. Allen, *Principles of Corporate Finance*, 8th Edition, Irwin, McGraw-Hill, 2006. (Henceforth, BMA)

T. Koller, M. Goedhart, and D. Wessels, *Valuation: Measuring and Managing the Value of Companies*, McKinsey & Company, Inc., John Wiley & Sons, Inc., 4th Edition, 2005. (Henceforth KGW)

The text by Koller et al. is a valuation book written from practitioners' perspective. Copies of both texts will be on reserve in the Lippincott Library.

Readings in Course Pack

The course pack is available on line through Study.net and contains all of the cases and other recommended readings. Students will be charged for class handouts that will be distributed regularly throughout the term

webCafé

The course site at Wharton webCafé contains suggested questions for cases; Excel files for exhibits for most cases and lecture notes and handouts distributed in class. You will find the most updated information and announcements for the course, such as office hours and rooms for the teaching assistants, review sessions, exams, and guest speakers. webCafé is the information center for the course. Please check the course site regularly.

Grades

Final grade for the course will be based on:

- | | |
|------------------------|-------|
| 1. Class Participation | (20%) |
| 2. Group Case Reports | (20%) |
| 3. Midterm Exam | (25%) |
| 4. Final Exam | (35%) |

1. Class Participation and Presentations

This course will provide you with the opportunity to learn how to best contribute to discussions about complex financial issues. In a teaching environment, a well articulated expression of confusion is in some instances equally valuable as an abruptly delivered “right” answer. Not having a background in finance, therefore, does not put you at a disadvantage with regard to class participation.

I will mark your class participation for each class on a scale from 0 to 4 points to maintain fairness and to minimize subjectivity in grading. In determining your grades, I consider the degree to which your comments advance everyone's learning. Your comment's impact on our overall understanding of the problem under discussion is more important than the right answer per se. I assess your class participation on this metric, not on “air time” or the number of comments you make.

Cold calling is the only incentive strong enough to ensure adequate preparation. I will start the class by cold calling a student to open the case discussions. Failure to prepare for class reflects an unacceptable disregard for your fellow students. Everyone's learning is dependent on everyone's preparation.

If circumstances arise that leave you with insufficient time to prepare, I ask you only to inform me of this prior to class. Students will be excused for absences due to illness or that are necessary to observe religious holidays. Unexcused absences will have a significant impact on your final grade.

You are welcome to make a 10 minute presentation of any case other than those required at the beginning of class to improve your class participation.

2. Case write-ups

You should hand in six case assignments as written group reports throughout the semester. Three of these write ups are required and indicated on page 8. You can choose any other three. Your reports will be graded on a scale from 1 to 5. Groups that provide a competent report will get a full credit, i.e., 3. Exceptionally good reports will get bonus credit of 4 or 5. Your case report should be in the form of an executive summary of 4 pages at most. You may include your supporting computations and tables in an appendix. We will grade your reports for your honest effort, not necessarily for “the correct” answers. Specifically, we will use the following criteria for grading the case write ups:

- a. ability to identify the main issues,
- b. theoretical and analytical soundness of your approach to your decision and/or conclusions,
- c. clarity and succinctness of the report.

You are welcome to submit more than 6 cases for extra credit.

3. Midterm Exam

The Midterm Exam is on Wednesday, October 28 from 6:00 to 8:00 PM. I will announce the rooms before the course.

4. The Final Exam

Date and the place for the final exam will be announced by the University Registrar. The room will be announced. Both exams are “open book” and “open notes”.

Exams will consist of problems similar to those in the cases, but they will be shorter and more focused. No laptops are allowed in the exams. You will need a financial calculator and be able to use it.

I will not allow anyone to take the exams at another time unless you have official permission from the MBA office. If your travel plans conflict with the exam dates, you should either change your travel plans now or enrol in a different section of the course.

All graded materials will be returned to your mail folders. Please indicate your section and group number on all of your written assignments.

Guest Speakers

We will have one or two guest speakers during the term on current developments in financial markets. In order to accommodate the schedules of the guest speakers, we may have to reschedule one or two classes. I will notify you in advance if we need to reschedule any class.

Review Sessions and Office hours by Teaching Assistants

I will offer periodic review sessions for those needing extra help with the prerequisite finance theory. Teaching assistants will also hold office hours to answer your questions. The rooms and schedules of TA office hours will be posted on webCafé.

Correspondence by e-mail

I will not provide lengthy answers to your course related questions or hold tutorial sessions by e-mail. Use office hours or review sessions or TA office hours for that purpose.

Workload

The subject matter of this course is technical and quantitative and the pace is fast. Furthermore, case preparations require more time and dedication than lecture-based courses.

Unlike an introductory finance course, this course uses real world cases where the information is seldom complete to make a decision or solve a problem. Your results may differ depending on the initial set of assumptions you have to make in the absence of complete information. If you have difficulty with ambiguity of the subject matter and the teaching style, this course may not be for you.

Academic Integrity and Code of Ethics:

Most case materials in this course are based on real events and companies. In preparing for class discussions or for your reports, you may use any publicly available past or current information about the companies dealt in cases. You are strongly encouraged to study cases with members of your group. Submitted assignments for grading should be your own or your group's joint work only. Each member of your group is expected to contribute equally to the group reports. Do not allow specialization in your team. This is your opportunity to develop new skills.

Learning in this course will be a direct function of the amount of time you spend on case analyses. Reliance on the work of others is self defeating. The grading system is designed so that all "good faith efforts" on the group reports will result in full credit.

There are a limited number of good cases in finance and only a few new ones are produced each year. Thus, many cases remain on the course syllabus for few years. I distribute all materials used in class in hard copy and post them on webCafé. Any use of such previously distributed materials is considered plagiarism and will not be tolerated in any way. These materials are for your own use only.

You cannot use work completed by other students, old notes or handouts, or solutions to the cases from previous years or other sections of this course at Wharton or similar courses at other business schools or elsewhere for your written reports and class discussions. Violation of this rule will result in an automatic failing grade for the course. Furthermore, the violators will be reported to the Wharton Graduate Division for further disciplinary action.

If you use materials from any public or private source, including those sources on the internet, private company presentations, etc. in your submitted work for any reason, you should properly cite them. Otherwise, it may be considered plagiarism.

If you register for this course, you agree with the principles of academic integrity described above in conjunction with the Wharton Graduate Division Code of Ethics.

* Acknowledgements:

I would like to acknowledge the contributions of many colleagues and friends to the development of this course. They provided course outlines, teaching notes, reading materials, software, and assistance for case writing; and some shared their expertise as guest lecturers. I would like to thank:

Simon Benninga, Marshall E. Blume, Richard Bower, Guido Cipelli, Desmond Conner, Ignacio de Orue, Steve DesJardines, Sonia Dula, Eugene F. Fama, Adam Frieman, William F. Fruhan, Hulya Eraslan, Ozer Ertuna, Benjamin C. Esty, Jr., Robert Gerry-Wade, Stuart C. Gilson, Robert R. Glauber, Mario Gobbo, Michael Goldstein, Mustafa Gultekin, Robert Hamada, Joel Hasbrouck, Gabriel Hawawini, Trent Hickman, Robert W. Holthousen, Mat Ide, Jeff Jaffe, Peter Jones, Donald Keim, Ronald Koenig, Maria C. Kosloski, Roger Leeds, Dennis E. Logue, Herwig Langohr, Inga Marie-Davis, Matthew McBrady, Morris Mendelson, Ian Murray, Ewa Morowska, Enrique Lavina, John Nellis, George Oldfield, John Percival, Thomas R. Piper, Lee Remmer, Richard J. Rogalski, Steven Ross, Mitch Scherzer, Jeremy Seddon, Arnold Shipp, Seymour Schmidt, Robert Stambaugh, Hans Stoll, Toshi Taga, Seha Tinic, Selim Topaloglu, Ed Travisani, Mete Tuncel, Derek Utter, Claude Viallet, Charles Vuylsteke, Richard West, Randolph Westerfield, Gavin Wilson, J. Peter Williamson, Mimi Xue, Oktay Yenal, Bilge Yilmaz, Unal Zenginobuz, and Joseph Zimmer.

I fondly remember the great contributions of Isik Inselbag, Irwin Friend, James Walter, and Merton Miller. I owe a special debt to Isik Inselbag with whom we developed and taught this course for two decades at the Wharton School.

I. INTRODUCTION

Readings: BMA, Chapter 1
KGW Chapters 1-4

1. Lecture: Introduction and Course Overview

II. FINANCIAL ANALYSIS AND PLANNING

Readings: BMA, Chapters 29-31
Teaching Note: "Assessing the Financial Health of a Firm"

2. Case: Clarkson Lumber Company

III. VALUATION THEORY AND CAPITAL STRUCTURE

A. Identifying the Relevant Cash Flows for Capital Budgeting Projects

Readings: BMA, Chapters 2-6 and 10-12

3. Case: Empirical Chemicals A&B

B. DCF Methods for Valuation

Readings: BMA, Chapter 17-19
KGW, Chapters 5-9
Teaching Note: "Alternative Methods for Estimating Terminal Value"
Teaching Note: "An Introduction to Cash Flow Valuation Methods"
Teaching Note: "The Adjusted Present Value Method for Capital Assets"
Teaching Note: "Valuing Equity Cash Flows"

4. Lecture: Capital Structure and Valuation Theory I
5. Lecture: Capital Structure and Valuation Theory II
6. Case: M&M Incorporated (posted at WebCafé)

C. Cost of Capital and Capital Structure

Readings: BMA, Chapters 7-9, and 19
KGW, Chapters 10 and 11
"What Practitioners Should Know About Future Value" by M. Kritzman

7. Case: Marriott Corporation

D. Interaction between Investment and Financing Decisions

Readings: KGW, Chapters 11 and 12

8. Case: Galveston Fishing Company (posted at WebCafé)
9. Case: Kennecott Copper Corporation
10. Case: Southport Minerals
11. Case: American Chemical Company
12. No Class Second Year Focused Interview Period
13. Lecture Review

14. MIDTERM EXAM Wednesday, October 28. 6:00-8:00 PM Room to be announced
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IV. THE OPTIONS APPROACH TO CAPITAL INVESTMENT

Reading: BMA, Chapters 20-22
Teaching Note: "Capital Projects as Real Options: An Introduction"
KGW, Chapter 20
"The Options Approach to Capital Investment" by Dixit and Pindyck

- 15. Lecture: Review of Option Valuation Models I
- 16. Lecture: Review of Option Valuation Models II
- 17. Case: Chrysler's Warrants
- 18. Case: MW Petroleum Corporation

V. CORPORATE FINANCING DECISIONS

Readings: BMA, Chapters 13-15 and 23-26
KGW, Chapter 17

- 19. Case: MCI
- 20. Case: Airbus 380: Buy or Lease Decision (to be posted on webCafé)

VI. DIVIDEND POLICY

Readings: Brealy and Myers, Chapter 16

- 21. Case: Avon Products

VII. CORPORATE RESTRUCTURING, MERGERS, AND ACQUISITIONS

Reading: BMA, Chapters 32-34
KGW, Chapter 7 and 17-19

- 22 & 23 Case: Financial Distress and Corporate Bankruptcy: The KMART Restructuring (tentative)
Please note: Readings for this session will be posted on the webCafe
- 24. Case: Conrail A & B
- 25. Case: Philip Morris
- 26. Lecture: Review and Course Overview

FINAL EXAM	Date will be announced by the University Registrars Office.
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**FNCE 726: ADVANCED CORPORATE FINANCE
COURSE SCHEDULE FOR FALL 2009**

Session #	Date	Topic and Assignments	Class Format
1	Sept 09	Introduction and Team Building	Lecture/Case discussion
2	Sep 14	Clarkson Lumber Company	Case discussion
3	Sep 16	Empirical Chemicals A&B	Case discussion
4	Sep 21	Capital Structure and Valuation Theory I	Lecture
5	Sep 23	Capital Structure and Valuation Theory II	Lecture
6	Sep 28	M&M Inc.	Case discussion
7	Sep 30	Marriott Corporation	Case discussion
8	Oct 05	Galveston Fishing Company	Case discussion. Required Write-up 1
9	Oct 07	Kennecott Copper Corporation	Case discussion
10	Oct 12	Southport Minerals	Case discussion
11	Oct 14	American Chemical	Case discussion. Required Write-up 2
12	Oct 21	Second Year Focused Interview Period	NO CLASSES
13	Oct 26	Review Class	Q&A Lecture
14	Oct 28	MIDTERM EXAM	6:00-8:00 PM/No regular classes
15	Nov 02	Option Valuation Review	Lecture
16	Nov 04	Option Valuation Review & Real Options	Lecture
17	Nov 09	Chrysler's Warrants	Case discussion
18	Nov 11	MW Petroleum Corporation	Case discussion
19	Nov 16	MCI	Case discussion
20	Nov 18	Airbus 380: Lease or Buy Decision	Case discussion
21	Nov 23	Avon	Case discussion
	Nov 25	No class. (Rescheduled for Nov 30)	
22&23	Nov 30	TBD (Guest Speaker on Bankruptcy)	Keep 4:30-7:30 PM time slot free
24	Dec 02	Conrail A&B	Case discussion
25	Dec 07	Philip Morris	Case Discussion. Required Write-up 3
26	Dec 09	Overview	Lecture
		FINAL EXAM	Date and place to be announced