

FNCE 726 – ADVANCED CORPORATE FINANCE

FALL 2010

Instructor: Professor Todd Gormley

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Class Times: Section 004: Tuesday/Thursday, 10:30 – 11:50 AM at SHDH 213
Section 005: Tuesday/Thursday, Noon – 1:20 PM at SHDH 213
Section 006: Tuesday/Thursday, 1:30 – 2:50 PM at SHDH 213

Office Hours: Tuesday 4:30-5:30 p.m., Friday 1:00-2:00 p.m., or by appointment.
(*Outside of the classroom, this is the best way to interact with me.*)

Teaching Assistants: Marcela Jimenez E-mail: marcelaj@wharton.upenn.edu
Bryan Marcovici E-mail: bmarco@wharton.upenn.edu
Natalie Dwoskin E-mail: natd@wharton.upenn.edu
(*You can contact any of the TAs if you have questions.*)

TA Office Hours: Monday and Wednesdays, 12-1 p.m., SHDH #209
Monday, 10:30 – 11:30 a.m., SHDH #209

Course Websites: webcafe.wharton.upenn.edu & www.study.net

Course Description:

The objective of this course is to study the major decision-making areas of managerial finance and some selected topics in financial theory. The course reviews the theory and empirical evidence related to the investment and financing policies of the firm and attempts to develop decision-making ability in these areas using both lectures & cases.

This course serves as a complement and supplement to FNCE 601. Some areas of financial management not covered in FNCE 601 are covered in FNCE 726. These may include leasing, dividend policy, mergers and acquisitions, corporate reorganizations, financial planning and working capital management, and some other selected topics. Other areas that are covered in FNCE 601 are covered more in depth and more rigorously in FNCE 726. These include investment decision making under uncertainty, cost of capital, capital structure, and the pricing of selected financial instruments and corporate liabilities.

Reading Materials:

1. The recommended textbook is: *Principles of Corporate Finance*, by R. Brealey, S. Myers, and F. Allen, 10th edition, McGraw Hill, 2010. (BMA)

This is a recommended textbook because some lectures will closely follow the book, but lectures will be self-contained and it is possible to complete this course successfully without the textbook. Older versions of the book are fine, and a copy of the textbook will also be on reserve in Lippincott Library. If you use an older version, please note that chapter numbers will all be different by one.

2. Required bulk pack (BP) of readings & cases: available for purchase, www.study.net

This is a required bulk pack for purchase on www.study.net. While it may be tempting to share passwords in order to bypass the online access charge, please keep in mind that Study.Net pre-registers students by means of a university enrollment-feed, and hence, both Study.Net and Wharton will know which students have or have not paid for their online access.

3. Further material distributed in class and on webCafé

Prerequisites: FNCE 601, FNCE 602.

Study Groups:

The class will be organized into study groups, which will write detailed reports on seven cases. You are free to choose your own members and group members may span sections. Groups cannot exceed a maximum of four students, and given the difficulty of the cases, I strongly recommend a minimum of three students. All teams should be registered on webCafé no later than Friday, September 17. If you have difficulty finding a group, please let me know, and I will be happy to help you find a group to work with.

WebCafe:

Important course materials such as lecture notes, required assignments, worked solutions to problems, and other useful information will be available on the course web page at webCafé: <http://webcafe.wharton.upenn.edu/>. In particular, there will be a discussion board for each case and exam on webCafé where I and TAs will answer your questions.

Questions... Where do I ask them?

The best place to get questions answered is in either my office hours, or the office hours of TAs. However, questions pertaining to cases and practice problems can also be posted directly to the related webCafé discussion board. Both the TAs and I will monitor these boards frequently, and I will check the boards at least once an evening. This board helps ensure that all students have access to the same information, and it reduces the duplication of answers on our part. Please avoid using e-mail to ask case- and practice exam related questions. More sensitive questions that you don't want shared with others are of course welcome over e-mail or in person.

Written Case Analysis:

Groups will be asked to write detailed reports on the seven cases. Each report should include 3-5 pages of analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The analysis will be preceded by a one page, double-spaced executive summary. (This one page does not count towards the 3-5 pages of analysis). The report should address the suggested questions for the study case (which will be detailed on the course site at Wharton webCafé), but students are strongly encouraged to address additional points believed to be important for the analysis. Written case analyses are due at the start of class on assigned dates. No late submissions will be accepted.

A Note about Cases: The objective of this course is to develop decision-making ability based on corporate finance theory. Hence, it combines lectures with case analysis. The purpose of the cases is not to introduce these topics, but to examine how our finance models 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, though I will provide you with “suggested solutions”. If you are uncomfortable with ambiguity, this class may not be for you.

Case Presentations:

On dates in which cases are due, there will be at least one student PowerPoint presentation of the case. You are encouraged to sign-up as groups (again, there is a maximum of 4 students per available slot), and you may sign-up to do a presentation in any section in which at least one group member is enrolled. A list of the available slots is given on webCafé, and slots are first-come, first-serve. Notice that some slots require you to take a particular view. E.g. In Case #3, one team must argue that LBO is a bad investment, whereas the other presenting team must argue it is a good investment. This is used to help facilitate discussion of the case in class. If a presentation slot remains empty one week prior to a case being due, I will randomly allocate a team to do the presentation. Students/groups that do a presentation will automatically get ‘participation’ credit (Please see next bullet).

Participation:

There are three ways to earn participation points in the class. 1) Do an in-class case presentation. Students that do this will automatically get 10 points towards the total 15 participation points. 2) Turn in a ‘top 5’ written case assignment. The five best written case assignments for each case, in terms of going above and beyond just answering the suggested questions, will receive 3 points towards their participation. 3) General class participation. I will assign up to 5 points based on this last category at the end of the semester by ranking students according to whether they attended class regularly and were actively involved in class discussion. The total maximum participation points one can receive is 15.

Exams:

There are in total two exams. Exams are not optional, and both exams will be given during normal class times (see schedule below for details). The second exam will cover new and old material; that is, it is a cumulative exam.

Exams are closed-book and closed-notes. Calculators are allowed and necessary for the exam, but no cell phones with calculators or laptops are allowed during exams. The exams are intended to be time-sensitive. Unless you meet regularly with your group and work through the case analyses, you will be unable to complete the exams on time.

The exam times are *non-negotiable*. If you have a conflict, you must inform me by the end of the second week of the course (i.e. Please check now to ensure the exam days do not conflict with a religious holiday, etc.). If you think you will miss an exam (1) contact me as soon as possible and (2) bring reliable proof of absence (hospital receipt, copy of obituary, etc.). Without clear and hard evidence, you will get no credit and will not be allowed to retake the exam.

Grading:

Your grade for the course will be determined by written case analyses, participation, and exams. There will be a total of 150 points available, and the points are allocated as follows:

Written Case Analysis	35 points (i.e. 5 points each)
Participation	15 points
Exam #1	50 points
Exam #2	50 points

Grades are *non-negotiable*, and the quality of your written work and participation is a matter left to the course instructor's judgment. Grade appeals (e.g. because your points weren't added up correctly or a correct answer was overlooked) must be submitted within a week after the grades are released. If you have a question about feedback or an assigned grade, please ask.

Code of Ethics:

I take the matters of academic integrity seriously and expect that you do, too. 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, will at a minimum, result in receiving zero points on that assignment, and may result in an automatic failing grade for the course and referral to the Office of Student Conduct. Refer to the Code of Academic Integrity if you have any questions.

Attendance and Class Etiquette

- **Behavior:** Classroom interaction will be conducted in a spirited manner, but always while displaying professional courtesy and personal respect.
- **Preparation:** Students are expected to complete the readings prior to each class session and be prepared to actively participate in class discussion.
- **Distractions:**

- *Exiting and Entering during class:* Please keep this to a minimum.
- *Laptop, PDA, and Other Electronic Device Usage:* Students are expected to not use laptops or PDAs during class. However, laptops will be allowed for students that wish to take notes on them, but in this case, these students will need to get permission from me beforehand and then send me an e-mail copy of their typed notes after each lecture. Accessing e-mail or the Internet during class is not permitted as they can be distracting for peers and faculty.

Office Hours and E-mail:

If you have any questions or need individual assistance, please visit me during my office hours. If you are unable to make my office hours, just e-mail me so that we can arrange a mutually convenient time to meet in my office. You may also send me questions via e-mail, but be forewarned... I don't usually check e-mail at 3:00 a.m. the night before the exam. ☺

Class Schedule:

The tentative class schedule is given below. The topics covered and the date in which they are covered may change as the semester progresses, but if this occurs, I will notify you of any changes. The readings refer to chapters in 10th Edition of *Principles of Corporate Finance*, by Brealey, Myers, and Allen (BMA). Some readings are found in the bulk pack (BP) on study.net.

Tips for Doing Well in My Course:

Do the work! If you rely on your group members to complete written case analyses for you, you will fail to learn the material and inevitably perform poorly on the exams. Doing well on the exams is crucial to receiving a solid grade in the course, more so than just handing in your case analyses. However, turn in your case analyses! Failure to do so will hurt your final grade.

Student-Faculty Meals Program:

For students that are interested, I will hold a number of student-faculty meals this semester. (For those that aren't aware, the student-faculty meal program is a chance for you to have an interaction (and free meal) with me outside of the classroom or usual office hours). The dates and sign-up sheet for these meals will be posted on webCafé on or around September 17. There is no extra credit given for participating; this is completely voluntary!

Picking up Graded Cases:

In general, I will try to bring graded cases with me to class. But, if you miss class, you can collect your graded materials from me during office hours.

IMPORTANT NOTE!!!

Make-up Classes:

Since my wife and I are expecting the arrival of our first child in mid-September, there is a reasonable chance I may need to cancel a class in the first two weeks of the course. Should this occur, I will send an e-mail to all students letting them know that class is canceled. To minimize the subsequent disruption to the course schedule and case due dates, we will follow the below schedules and make-up dates if a lecture is cancelled.

If Lecture #1, 2, or 3 is cancelled – There will be a make-up class held on Sunday, Sept. 19 from 6:00-7:30 p.m. in JMHH F85 to make up for the missed class.

If Lecture #4 is cancelled – Case #1 will instead be due on Thursday, Sept. 23, and there will be a make-up class held on Sunday, Sept. 25 from 6-7:30 p.m. in JMHH F85.

If Lecture #5 is cancelled – There will be a make-up class held on Sunday, Sept. 25 from 6-7:30 p.m. in JMHH F85.

SCHEDULE OF CLASSES

Class # and (Date)	Topics	Readings	Assignments
1 (09/09)	<u>Lecture:</u> FCF & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig, Ch. 2 (BP)	
2 (09/14)	<u>Lecture:</u> Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
3 (09/16)	<u>Lecture:</u> Cost of Capital	BMA; 19.1-19.3	
4 (09/21)	<u>Case #1 (Cost of Capital):</u> Marriot	HBS #289-047	<i>Case #1 Written Analysis:</i> <i>(due at beginning of class)</i>
5 (09/23)	<u>Lecture:</u> Valuation	BMA; 12.2 & 19.4-19.5 Lowenstein, “Rethinking Latest Economic Elixir” (BP) Benninga & Sarig, pp. 305-19 (BP)	
6 (09/28)	<u>Case #2 (Valuation):</u> Harris Seafoods, Inc.	HBS #281-054	<i>Case #2 Written Analysis:</i> <i>(due at beginning of class)</i>
7 (09/30)	<u>Lecture:</u> Leveraged Transactions	BMA; 32.1, 32.3 Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	
8 (10/05)	<u>Case #3 (LBOs):</u> Congoleum Corporation	HBS #287-029	<i>Case #3 Written Analysis:</i> <i>(due at beginning of class)</i>
9 (10/07)	<u>Case #3 continued:</u> <u>Congoleum Corporation</u>	HBS #287-029	
10 (10/14)	<u>Exam 1 Review/Make-up Class</u> <ul style="list-style-type: none"> • Review Key Concepts • Or, make-up missed class 		
11 (10/19)	<u>Exam 1</u>		
12 (10/21)	<u>Lecture:</u> Capital Structure, Part I	BMA; 17-18.1	

13 (10/26)	<u>Lecture:</u> Capital Structure, Part II	BMA; 18.2-18.4 Gifford (BP)	
14 (10/28)	<u>Case #4 (Capital Structure):</u> American Home Products	HBS #283-065	<i>Case #4 Written Analysis: (due at beginning of class)</i>
15 (11/02)	<u>Lecture:</u> Dividend Policy	BMA; 16	
16 (11/04)	<u>Case #5 (Dividend Policy):</u> FPL Group, Inc. (A)	HBS #295-059	<i>Case #5 Written Analysis: (due at beginning of class)</i>
17 (11/09)	<u>Lecture:</u> Options, Warrants, Convertibles I	BMA; 20-21.5	
18 (11/11)	<u>Lecture:</u> Options, Warrants, Convertibles, II	BMA; 22.1, 24.6 Jen, Choi, and Lee (BP)	
19 (11/16)	<u>Case #6 (Options):</u> Corning, Inc.	UVA-F-1339, version 2.6	<i>Case #6 Written Analysis: (due at beginning of class)</i>
20 (11/18)	<u>Lecture:</u> Mergers & Acquisitions, Part I	BMA; 31 Lowenstein, “Why All Takeovers Aren’t Created Equal” (BP)	
21 (11/23)	<u>Lecture:</u> Mergers & Acquisitions, Part II	Jensen, 1986 (BP) BMA; 32.2	
22 (11/30)	<u>Review and/or make-up class</u> <ul style="list-style-type: none"> • Review Key Concepts • Or, make-up missed class 		
23 (12/02)	Exam #2		
24 (12/07)	<u>Case #7 (M&A):</u> Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	<i>Case #7 Written Analysis: (due at beginning of class)</i>
25 (12/09)	<u>Case #7 continued:</u> Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	