

## Advanced Corporate Finance

FNCE 203/726

Updated on January 20, 2011

### 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	Mon 3:00-4:30
Kevin Byron	kbyron	SH-DH 2305C	Wed 3:00-4:30
William (Bill) Fradin	wfradin	SH-DH 2305B	Tue 3:00-4:30
Bryan Marcovici	bmarco	SH-DH 2305B	Thu 12:00-1:30

### Exam dates

Midterm exam	Monday, February 28, during class time
Final exam	Monday, May 2, 6:00pm-8:00pm

### Case report deadlines and presentation dates

Harris Seafoods	Wednesday, January 26
Marriott	Monday, January 31
Congoleum	Monday, February 7
American Home Products	Monday, February 21
Aberlyn	Monday, March 21
Corning	Wednesday, March 23
Kennecott Copper	Monday, April 4
Consolidated Rail	Monday, April 11

## **Grading**

Two exams, five case reports, one case presentation, and class participation determine your final grade in the course. Their approximate weights in your final grade are given below.

### Two exams (30% each)

There will be two exams: a midterm in class on February 28 and a final on May 2. 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.

### Five case reports (20%)

You must form a group of 3-4 students and write a detailed report on each of five cases, chosen from the eight cases covered in the course. Each report should include 2-4 pages of analysis (typed and double-spaced) and 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. In addition to turning in a printed copy of your report in class, you must upload a .pdf copy to WebCafe no later than 8:00am on the due date, along with a .xlsx file containing all your financial analysis. You cannot turn in a report for the case you present in class.

### One case presentation (10%)

You and your group must present in class your analysis of one case, chosen from the eight cases covered in the course. You can sign up to be either *presenters* or (if enrollment allows) *discussants*. The presenters first give a brief introduction of the case and present their analysis. The discussants then thoughtfully comment on and critique the presenters’ analysis and provide their own alternative analysis. Each group should plan to speak for 20-25 minutes, be prepared to answer questions, and ensure that all members speak, i.e., allocate some part of the presentation or discussion to each group member. There is a signup tool on WebCafe with sixteen slots per section – eight presenter slots and eight discussant slots. Do not take a discussant slot unless all presenter slots are taken. You cannot present in class a case for which you turn in a report.

### Class participation (10%)

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 very few people participate voluntarily, I may randomly call on students.

### Grade distribution, make-up exams, and regrades

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.

Grade	Target
A	25%-35%
B	60%
C and below	5%-15%

Make-up exams will only be offered in case of serious illness, a family emergency, or some other unusual event. To take a make-up exam, undergraduate students must get approval from their dean's office and MBA students must get approval from the MBA Program Office.

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.

### **Academic integrity**

The case reports you submit should be the product of your group's joint work only. In particular, this means that you cannot in any way use material from current or prior students in this course or from students in other courses at Wharton or elsewhere. You also cannot in any way use material distributed by me in prior years of this course or by instructors in any other course at Wharton or elsewhere. For example, if you use a spreadsheet model in your analysis, then that model should be created from scratch by the members of your group only, starting with at most some raw data from the case itself. Moreover, all material I distribute is for your own use only and should under no circumstances be shared with students in future years of this course or with students in other courses at Wharton or elsewhere.

Every violation of these rules will be brought to the attention of the Wharton Graduate Division or the Office of Student Conduct for appropriate disciplinary action.

### **Reading list**

Course pack, available through [Study.Net](#), containing articles and cases. (Table of contents below.)

Brealey, Myers, and Allen, *Principles of Corporate Finance* 10/e (BMA). (Other recent editions are fine substitutes.)

### **Communications**

I will use WebCafe to share course material, post grades, and answer your questions, among other things. I will also e-mail important announcements to the entire class. Therefore, please make sure that you have access to WebCafe, which also ensures that you are on the mailing list.

## **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.

## **Disclaimer**

This syllabus reflects my plans for the course at the time of writing. These plans may change, in which case you will be notified promptly.

## **Class schedule**

1/12	<b>A Financial Model of the Firm</b>
	BMA 1, 5-6 (2, 6-7 in 9/e; 2, 5-6 in 8/e).
1/19, 1/24	<b>Valuation and the Cost of Capital</b>
	BMA 8-9, 19 (9-10, 20 in 9/e; 8-9, 19 in 8/e).
	“Using Financial Reporting Information.”
	“Valuation by Multiples.”
	“The Real Key to Creating Wealth.”
	“Rethinking the Latest Economic Elixir.”
1/26	<b>Harris Seafoods, Inc.</b>
1/31	<b>Marriott Corporation: The Cost of Capital</b>
2/2	<b>Leveraged Transactions</b>
	“How to Value Recapitalizations and Leveraged Buyouts.”
2/7, 2/9	<b>Congoleum Corporation</b>
2/14, 2/16	<b>Capital Structure Theory</b>
	BMA 17-18, 23, 32.4 (18-19, 24, 33.4 in 9/e; 17-18, 24, 33.4 in 8/e).
	“After the Revolution.”
	“The capital structure puzzle: Another look at the evidence.”
2/21	<b>American Home Products Corporation</b>
2/23	<b>Exam review I</b>
2/28	<b>Exam I (during class time)</b>
3/2	<b>Leasing</b>
	BMA 25 (26 in 9/e; 26 in 8/e).
3/7, 3/9	<b>Spring break</b>
3/14, 3/16	<b>Options, Warrants, and Convertibles</b>
	BMA 20-22, 24.6 (21-23, 25.6 in 9/e; 20-22, 25.6 in 8/e).
	“The Case for Convertibles.”
	“Some New Evidence of Why Companies Use Convertible Bonds.”
3/21	<b>Aberlyn Capital Management</b>
	“A Note on the Venture Leasing Industry.”
3/23	<b>Corning Inc.</b>

3/28, 3/30	<b>Mergers and Acquisitions</b> BMA 31 (32 in 9/e; 32 in 8/e). “The Takeover Controversy: Analysis and Evidence.” “Mergers and Acquisitions: A Study of Shareholders’ Gains and Losses.” “Why All Takeovers Aren’t Created Equal.”
4/4, 4/6	<b>Kennecott Copper Corporation</b>
4/11, 4/13	<b>The Acquisition of Consolidated Rail Corporation</b>
4/18, 4/20	<b>TBA</b>
4/25	<b>TBA</b>

## **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, “Intrinsic Value: 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: The Evidence Revisited," *Journal of Applied Corporate Finance*, 2005.

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 (Abridged) (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 (both A and B) (HBS # 298-006/095)