

## **FNCE 203: Advanced Corporate Finance**

**Prof. Christian Opp**

Spring 2011

Office	2428 Steinberg Hall-Dietrich Hall
E-mail	opp@wharton.upenn.edu
Phone	215-573-3186
Classes	Section 002: Mo/Wed 1:30pm-3.00pm, JMHH F90 Section 003: Mo/Wed 3:00pm-4.30pm, JMHH F90
Office hours	Mo 5:00pm-6:30pm, SH-DH 2428
Teaching assistants	Ryan Corbett (rcorbett@wharton.upenn.edu) Timothy Liu (timliu@wharton.upenn.edu) Alexander Malvone (amalvone@wharton.upenn.edu)
TA office hours	Tue 3:30pm-5:00pm, SH-DH 2305, Desk A Wed 5:00pm-6:30pm, SH-DH 2305, Desk A Thu 4:30pm-6:00pm, SH-DH 2305, Desk B

### **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. This course serves as a complement and supplement to FNCE 100. Some areas of financial management not covered in FNCE 100 are covered in FNCE 203. These may include leasing, mergers and acquisitions, corporate reorganizations, financial planning and working capital management, and some other selected topics. Other areas that are covered in FNCE 100 are covered more in depth and more rigorously in FNCE 203. These include investment decision making under uncertainty, cost of capital, capital structure, pricing of selected financial instruments and corporate liabilities, and dividend policy.

### **Prerequisites**

FNCE 100, FNCE 101, STAT 101, and STAT 102.

### **Readings**

There is no required textbook. The required bulk pack contains the readings and case studies that will be used in the course. Students are expected to complete the readings prior to each class session and be prepared to actively participate in class discussion. The bulk pack is available for purchase at [study.net](http://study.net), the course link is

[http://www.study.net/r\\_mat.asp?crs\\_id=30019108](http://www.study.net/r_mat.asp?crs_id=30019108)

In addition, I am going to distribute material in class and via webCafé. If you are looking for an additional textbook, I recommend:

*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 the 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.

## Course Web Page

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 TAs and I will answer your questions.

## Where to Ask Questions

If you have any questions you may come to either my office hours, or the TAs' office hours. The teaching assistants for this course are Ryan Corbett, Timothy Liu, and Alexander Malvone. Questions pertaining to cases and practice problems can also be posted directly to the related webCafé discussion board. The TAs and I will monitor these boards frequently. 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. Further, if your question requires an elaborate answer, please come to the office hours. More sensitive questions that you don't want shared with others are of course welcome over e-mail or in person. **Deadline for exam-related questions: I will answer exam-related questions that you send by 9:00pm EST on the day before an exam.**

## Case Study Assignments

### Study Groups

The class will be organized into study groups, which will write detailed reports on eight cases. You are free to choose your own members and group members may span sections (002 and 003). 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, January 21. 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.

### Format

Groups will be asked to write detailed reports on eight 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 case (which will be detailed on the webCafé course webpage), but students are strongly encouraged to address additional points believed to be important for the analysis.

Each group should submit only one report, clearly listing the names of all group members on the cover page. All group members will earn the same grade on the assignment.

### **Submission Deadlines**

Written case analyses are due at the start of class on assigned dates. If your study group spans sections you have to submit the case at the beginning of section 002 (at 1:30pm). No late submissions will be accepted.

### **Case Presentations**

On day when 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 available on a first-come/first-served basis. Notice that some slots require you to take a particular view. For example, one team may have to argue that a certain investment is value-destroying, whereas the other presenting team must argue it is good. 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 (see more below in the 'Grading' section).

### **What Are the "Right Answers" to Cases?**

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.

### **Importance of Working on Cases**

If you rely on your group members to complete the case assignments 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 (see below).

### **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.

## **Grading**

### **Code of Ethics**

In every aspect of the course, students are required to adhere to the Code of Academic Integrity. 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. Please refer to the Code of Academic Integrity if you have any questions.

## Grade Decomposition

Your course grade will reflect your performance on the case assignments, the final exam, the midterm exam, and class participation, with the weights determined as follows:

Case Study Assignments	30%
Final exam	35%
Midterm exam	25%
Participation	10%

## Case Study Assignments

There are 8 case study assignments in this course. All assignments will be graded. At the end, I will drop your weakest assignment and compute your assignments score based on your 7 best assignments. Assignment 8 cannot be dropped.

## Exams

There are in total two exams, a midterm and a final exam. The final exam will be cumulative, but it will focus mostly on the issues covered after the midterm. Exams are closed-book and closed-notes. Calculators are permitted. Cell phones with calculators or laptops are not 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.

## Exam Times

The midterm exam will be in class on Wednesday, February 23<sup>rd</sup>. The exams start at 1:30pm and 3:00pm respectively. You are required to take the exam in the section you are enrolled in. The final exam will be on Monday, May 2nd from 6:00pm to 7:20pm (see schedule below for details). 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.

## Participation

The total maximum participation points one can receive is 10. There are two ways to earn participation points. (1) Do an in-class case presentation. Students that do this will automatically get 5 points towards the total 10 participation points. (2) General class participation. I will assign up to 5 points based on this category at the end of the semester by ranking students according to whether they attended class regularly and were actively involved in class discussion.

*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 others.

## Re-grades

Grades are non-negotiable, and the quality of your written work and participation is a matter left to the course instructor's judgment. You may request a re-grade on any exam. Each re-grade request must be accompanied by a concise written explanation of the request and submitted to me within one week after I distribute graded exams. I will re-grade the whole exam, so your score can either increase or decrease as a result. As for the case study assignments, only re-grade requests pointing to obvious grading errors (such as adding up scores incorrectly) will be considered.

## Schedule of Classes

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 the 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.

Class # (Date)	Topics	Readings	Assignments
1 (Wed, 01/12)	Lecture: FCF & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2  Benninga & Sarig, Ch. 2 (BP)	
2 (Wed, 01/19)	Lecture: Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
3 (Mo, 01/24)	Lecture: Cost of Capital	BMA; 19.1-19.3	
4 (Wed, 01/26)	Case #1 (Cost of Capital): Marriot	HBS #289-047	<b>Case #1 Written Analysis:</b>  <b>(due at beginning of class)</b>
5 (Mo, 01/31)	Lecture: Valuation	BMA; 12.2 & 19.4-19.5  Lowenstein, "Rethinking Latest Economic Elixir" (BP)  Benninga & Sarig, pp. 305-19 (BP)	
6 (Wed, 02/02)	Case #2 (Valuation): Harris Seafoods, Inc.	HBS #281-054	<b>Case #2 Written Analysis:</b>  <b>(due at beginning of class)</b>
7 (Mon, 02/07)	Lecture: Leveraged Transactions	BMA; 32.1, 32.3	

		Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	
8 (Wed, 02/09)	Lecture: Leasing		
9 (Mo, 02/14)	Case #3 (LBOs): Congoleum Corporation, Part 1	HBS #287-029	<b>Case #3 Written Analysis:</b> <b>(due at beginning of class)</b>
10 (Wed, 02/16)	Case #3 continued: Congoleum Corporation, Part 2	HBS #287-029	
11 (Mo, 02/21)	Midterm Review: Review Key Concepts		
12 (Wed, 02/23)	<b>Midterm Exam</b> (in class exam)		
13 (Mo, 02/28)	Lecture: Capital Structure, Part I	BMA; 17-18.1	
14 (Wed, 03/02)	Lecture: Capital Structure, Part II	BMA; 18.2-18.4 Gifford (BP)	
15 (Mo, 03/14)	Lecture: Dividend Policy	BMA; 16	
16 (Wed, 03/16)	Case #4 (Capital Structure): American Home Products	HBS #283-065	<b>Case #4 Written Analysis:</b> <b>(due at beginning of class)</b>
17 (Mo, 03/21)	Case #5 (Dividend Policy): FPL Group, Inc. (A)	HBS #295-059	<b>Case #5 Written Analysis:</b> <b>(due at beginning of class)</b>
18 (Wed, 03/23)	Lecture: Options, Warrants, Convertibles I	BMA; 20-21.5	

19 (Mo, 03/28)	Lecture: Options, Warrants, Convertibles, II	BMA; 22.1, 24.6  Jen, Choi, and Lee (BP)	
20 (Wed, 03/30)	Case #6 (Options): Corning, Inc.	UVA-F-1339, version 2.6	<b>Case #6 Written Analysis:</b>  <b>(due at beginning of class)</b>
21 (Mo, 04/04)	Lecture: Mergers & Acquisitions, Part I	BMA; 31  Lowenstein, “Why All Takeovers Aren’t Created Equal” (BP)	
22 (Wed, 04/06)	<b>No lecture</b>		
23 (Mo, 04/11)	Lecture: Mergers & Acquisitions, Part II	Jensen, 1986 (BP)  BMA; 32.2	
24 (Wed, 04/13)	Case #7 (M&A): Acquisition of Consolidated Rail Corporation A and B	HBS #298-006  HBS #298-095	<b>Case #7 Written Analysis:</b>  <b>(due at beginning of class)</b>
25 (Mo, 04/18)	Case #7 continued: Acquisition of Consolidated Rail Corporation A and B	HBS #298-006  HBS #298-095	
26 (Wed, 04/20)	Review class Review Key Concepts		
27 (Mo, 04/25)	Case #8: Kennecott Copper Corp.		<b>Case #8 Written Analysis:</b>  <b>(due at beginning of class)</b>
(Mo, 05/02)	<b>Final Exam</b> 6:00pm to 7:20pm (80mins) Room: STIT B-6		