

UNIVERSITY OF PENNSYLVANIA
The Wharton School

Advanced Corporate finance
FNCE 726

Itay Goldstein
Spring 2011

Office: Steinberg Hall-Dietrich Hall 2321
Phone: 215-746-0499
Office Hours: Wednesday 12:00-1:30 pm.
E-mail: itayg@wharton.upenn.edu

Course Description and Format

The objective of this course is to develop decision-making ability based on Corporate Finance theory. Hence, it combines lectures with case analysis. The course and the cases deal with selected topics in Corporate Finance such as valuation, capital budgeting, cost of capital, mergers and acquisitions, capital structure policy, leasing, and warrant and convertible use.

The purpose of the cases is not to introduce these topics, but to further examine the theoretical concepts and models of finance and how they 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. If you are uncomfortable with ambiguity, this class may not be for you.

Reading Materials

- Bulkpack on www.study.net (Readings and Cases).
- R. Brealey, S. Myers, and F. Allen, *Principles of Corporate Finance*, 10th edition, McGraw-Hill (previous recent editions are also fine).
- Further materials posted on webCafé (lecture notes, etc.).

Grades

Your final grade will be based on:

- **Class Participation:** (Approximately 15% of the course grade)

This class depends and thrives on class participation. It is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. Low participation combined with several absences will have a significant impact on your final grade.

In determining your grades, I will consider the degree to which your comments advance everyone's learning. Quality of your comments and discussions are much more important than quantity. Your comment's impact on our overall understanding of the managerial decision at hand is more important than the right answer per se. I will assess your class participation on this metric, not on "air time" or the number of comments you make.

Please note that cold calling may be used in case discussions in order to ensure adequate preparation. Failure to prepare for class reflects an unacceptable disregard for your fellow students.

- **Written Case Analysis:** (Approximately 20% of the course grade)

The class will be organized into study groups, with three-four people in a group. Each group will write detailed reports on five of the eight cases (a group should not submit a report on the case they present in class). Each report should include 2-4 pages of analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The report should address the suggested questions for the study case (which will be detailed on the course site at Wharton WebCafé), 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 analyzed and address all points believed to be important for the analysis.

- **Case Presentation:** (Approximately 15% of the course grade)

Each group is required to present their analysis of one of the eight cases in class. There is a signup sheet posted on webCafé with sixteen slots per section. For each case, there is a slot for a group of presenters and a group of discussants. The presenting group should present their analysis of the case. The discussing group should present their analysis while focusing on commenting and criticizing the analysis of the presenting group (which will be made available to the discussing group ahead of time). Each group should plan to talk for about 20-25 minutes. Both groups should be ready to answer students' questions.

I recommend using PowerPoint for both the presentation and the discussion. You can send me the presentation/discussion files by e-mail, so that I'll put it on the network drive before class. If you want to do it differently, or have other things you need for the presentation/discussion, please let me know.

It is important to have all members of both teams speak, i.e., allocate some part of the presentation/discussion to each team member.

- **Exams:** (Approximately 50% of the course grade)

There will be two exams during the semester: a midterm and a final. You will be tested on both the concepts and the methods studied in this course. The exams are intended to be time-sensitive. Unless you meet regularly with your group and work through the cases analyses, you will be unable to complete the exams on time. You will have access to a calculator and to a limited amount of information. No laptops are allowed in the exams.

Please note the scheduling of the exams. You are responsible for ensuring that you are available and on campus to take the exams. I will not allow anyone to take the exams at other times unless you are excused officially by the MBA office.

Code of Ethics

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 may result in an automatic failing grade for the course.

Attendance and Class Etiquette

Students should attend the section of the class for which they are registered. In case of a conflict students can attend another of my sections by permission. Students are expected to arrive on time for class. Once in class, students should remain until the class is completed. Arrivals and departures during class time interfere with the educational process and are not fair to the other students.

Seating Chart and Name Cards

Please display your name cards in class all times so that I get to know you and evaluate your class participations. Please write your name in large, dark letters on the name cards. Please choose your seat during the first week and use the same seat for the remainder of the term.

WebCafé

The course site at Wharton WebCafé contains material essential for this class as well as most updated information and announcements for the course. WebCafé is the information center for the course. Please check the course site regularly.

Tentative Class Schedule (Expect Changes!)

January 13

Organizational Meeting

January 18

Lecture: Introduction

Readings: Brealey, Myers and Allen, Chapters 1-2 and 5-6.

January 20, 25

Lectures: The Cost of Capital and Valuation

Readings: Brealey, Myers and Allen, Chapters 7-9 and 19.

Benninga and Sarig, 1997, *Corporate Finance: A Valuation Approach*,
McGraw Hill, Chapters 2 and 10.

January 27

Case 1: “Harris Seafoods, Inc.” (HBS # 281-054)

February 1

Case 2: “Marriott Corporation: The Cost of Capital” (HBS # 289-047)

February 3

Lecture: Leveraged Transactions

Readings: Inselbag and Kaufold, “How to Value Recapitalizations and Leveraged Buyouts,” *Journal of Applied Corporate Finance*, 87-96.

February 8, 10

Case 3: “Congoleum Corporation” (HBS # 287-029)

February 15, 17

Lectures: Capital Structure Theory

Readings: Brealey, Myers and Allen, Chapters 17-18 and 23.

Gifford, July 1998: "After the Revolution," *CFO Magazine*, 75-79.

Barclay and Smith, Spring 1999, "The capital structure puzzle: Another look at the evidence," *Journal of Applied Corporate Finance*, 8-20.

February 22

Case 4: "American Home Products Corporation" (HBS # 283-065)

February 24

Review

March 1

Midterm Exam (during class time)

March 3

Lecture: Leasing

Readings: Brealey, Myers and Allen, Chapter 25.

March 15, 17

Lectures: Options, Warrants, and Convertibles

Readings: Brealey, Myers and Allen, Chapters 20-22, and 24.

Brennan and Schwartz, 1993, "The Case for Convertibles," in: D. H. Chew, ed., *The New Corporate Finance: Where Theory Meets Practice*, McGraw-Hill, 288–297.

Jen, Choi, and Lee, Spring 1997, "Some New Evidence of Why Companies Use Convertible Bonds," *Journal of Applied Corporate Finance*, 44-53.

March 22

Case 5: "Aberlyn Capital Management" (HBS # 294-083)

March 24

Case 6: “Corning Inc.” (UVA-F-1339 v. 2.6)

March 29, 31

Lectures: Mergers and Acquisitions

Readings: Brealey, Myers and Allen, Chapter 31.

Jensen, Summer 1986, “The Takeover Controversy: Analysis and Evidence,”
Midland Corporate Finance Journal, 465-491.

April 5, 7

Case 7: “Kennecott Copper Corporation” (HBS # 278-143)

April 12, 14

Case 8: “The Acquisition of Consolidated Rail Corporation” A and B

(HBS # 298-006 and HBS # 298-095)

April 19, 21, 26

Review