

Advanced Corporate Finance
FNCE 726

Updated on September 8, 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 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	Tue 4:30-6:00
Derrick Preston	preston	TBA	TBA
Vincent (Zeen) Wu	zeen	TBA	TBA

Exam dates

Midterm exam	Tuesday, October 25, 6pm-8pm, room TBA
Final exam	Friday, December 16, 12pm-2pm, room TBA

Case report deadlines (choose six; cases marked with an asterisk are mandatory)

Harris Seafoods	Tuesday, September 20
Marriott	Thursday, September 22
Congoleum*	Thursday, September 29
American Home Products	Tuesday, October 18
Corning	Tuesday, November 8
Aberlyn	Thursday, November 10
Kennecott Copper*	Tuesday, November 22
Consolidated Rail*	Thursday, December 1

Grading

Two exams, six case reports, 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 on October 25 and a final on December 16. 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.

Six case reports (25%)

You must form a group of 3-4 students and write a detailed report on each of six 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.

Class participation (15%)

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. To further this goal, I will call on you. You may also 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.

Grade distribution, make-up exams, and regrades

All sections will be graded as a single group. 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, you 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 620 and FNCE 601. You can take FNCE 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

9/8	A Financial Model of the Firm BMA 1, 5-6 (2, 6-7 in 9/e; 2, 5-6 in 8/e).
9/13, 9/15	Valuation and the Cost of Capital 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.”
9/20	Harris Seafoods, Inc.
9/22	Marriott Corporation: The Cost of Capital
9/27	Leveraged Transactions “How to Value Recapitalizations and Leveraged Buyouts.”
9/29, 10/4	Congoleum Corporation
10/6, 10/13	Capital Structure Theory 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."
10/18	American Home Products Corporation
10/20	Exam review I
10/25	Exam I (6pm-8pm, no class)
10/27	Leasing BMA 25 (26 in 9/e; 26 in 8/e).
11/1, 11/3	Options, Warrants, and Convertibles 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.”
11/8	Corning Inc.
11/10	Aberlyn Capital Management “A Note on the Venture Leasing Industry.”

11/15, 11/17 **Mergers and Acquisitions**

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.”

11/22, 11/29 **Kennecott Copper Corporation**

12/1, 12/6 **The Acquisition of Consolidated Rail Corporation**

12/8 **Exam review II**

12/16 **Exam II** (12pm-2pm)

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)