

FNCE 726 – ADVANCED CORPORATE FINANCE

FALL 2012

Instructor: Professor Todd Gormley

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Class Times: Section 004: Tuesday/Thursday, 9:00 – 10:20 AM at L-FH 105
Section 005: Tuesday/Thursday, 10:30 – 11:50 AM at L-FH 105
Section 006: Tuesday/Thursday, Noon – 1:20 PM at L-FH 105

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

Teaching Assistants: Nacer Bouhitem E-mail: bouhitem@wharton.upenn.edu
Christina Hung E-mail: hungchr@wharton.upenn.edu
Georgios Theophanous E-mail: theog@wharton.upenn.edu
(*You can contact any of the TAs if you have questions.*)

TA Office Hours: Location & Time TBD

Course Websites: <http://wharton.instructure.com> & 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 Canvas

Prerequisites: FNCE 601

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 Canvas no later than Friday, September 14. 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.

Canvas:

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 Canvas: <http://wharton.instructure.com>. In particular, there will be a discussion board for each case and exam on Canvas 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 Canvas 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 Canvas), 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 should sign up as groups and your group 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 Canvas, 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 two 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. The total maximum participation points one can receive is 15.

Exams:

There are in total two exams: a midterm and final. Exams are not optional, and both exams will be given outside normal class times (see schedule below for details). The final 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 times 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.

Exam Schedule:

Midterm Exam – Thursday, Oct. 11, 6-8 p.m., see locations below

Section 004 – JMHH G60 [*and JMHH F90 if needed*]

Section 005 – JMHH F95

Section 006 – JMHH F85

Final Exam – Wednesday, Dec. 12, Noon – 2:00 p.m., Location **TBD** by registrar

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
Midterm Exam	50 points
Final Exam	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, and I reserve the right to re-grade the entire exam or case. 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, electronic devices 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 Canvas on or around September 12. You should receive a notification through Canvas 'scheduling' once this is done. 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 Baby Girl Gormley sometime around October 17, there is a reasonable chance I will need to cancel a class in October. 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, I've added a "Flex Lecture" (Class #16) on November 1st that, if needed, we will use to get the course schedule back on track. Otherwise, there will be no class on Nov. 1. Here is how it will work...

If Class #9 (Oct. 4) or earlier is cancelled [Not that likely] – All subsequent classes and case due dates up through Class #9 will shift back by one class and the Exam #1 Review (what was Class #10, Oct. 9) will be replaced with extra office hours sometime before the first exam. E.g. If Class #8 (Oct. 2) is cancelled, then the materials in Classes #8-9 will be covered in Classes #9-10 and Case #3 would now be due in Class #9 (i.e. Oct. 4) rather than Class #8 (Oct. 2). Exam #1 would be done as scheduled, and we will not have class on the "Flex Lecture" day of Nov. 1.

If Class #10 is cancelled [Possible scenario] – We simply won't have the exam review session on this day as scheduled, and Exam #1 will go on as planned. I apologize in advance if this occurs. I realize these review sessions are useful to many students, but moving an exam date is not a feasible option.

If Class #12 (Oct. 16), Class #13 (Oct. 18), Class #14 (Oct. 25), Class #15 (Oct. 30) is cancelled [Most likely scenario] – All subsequent classes and case due dates up through Class #15 will shift back by one class. E.g. If Class #13 (Oct. 16) is cancelled, then the materials in Classes #13-15 will be covered in Classes #14-16 and Case #4 would now be due in Class #15 (i.e. Oct. 30) rather than Class #14 (Oct. 25). Starting with Class #17 (Nov. 6), we will be back on the schedule given below.

SCHEDULE OF CLASSES

Class # (Date)	Topics	Readings	Assignments
1 (09/06)	<u>Lecture:</u> FCF & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig, Ch. 2 (BP)	
2 (09/11)	<u>Lecture:</u> Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
3 (09/13)	<u>Lecture:</u> Cost of Capital	BMA; 19.1-19.3	
4 (09/18)	<u>Case #1 (Cost of Capital):</u> Marriot	HBS #289-047	<i>Case #1 Written Analysis: (due at beginning of class)</i>
5 (09/20)	<u>Lecture:</u> Valuation	BMA; 12.2 & 19.4-19.5 Lowenstein, "Rethinking Latest Economic Elixir" (BP) Benninga & Sarig, pp. 305-19 (BP)	
6 (09/25)	<u>Case #2 (Valuation):</u> Harris Seafoods, Inc.	HBS #281-054	<i>Case #2 Written Analysis: (due at beginning of class)</i>
7 (09/27)	<u>Lecture:</u> Leveraged Transactions	BMA; 32.1, 32.3 Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	
8 (10/02)	<u>Case #3 (LBOs):</u> Congoleum Corporation	HBS #287-029	<i>Case #3 Written Analysis: (due at beginning of class)</i>
9 (10/04)	<u>Case #3 continued:</u> <u>Congoleum Corporation</u>	HBS #287-029	
10 (10/9)	<u>Exam 1 Review/Make-up Class</u> <ul style="list-style-type: none"> Review Key Concepts Or, make-up missed class 		
11 (10/11)	<u>Exam 1</u> Time, 6-8 p.m. Locations above		
12 (10/16)	<u>Lecture:</u> Capital Structure, Part I	BMA; 17-18.1	

13 (10/18)	<u>Lecture:</u> Capital Structure, Part II	BMA; 18.2-18.4 Gifford (BP)	
14 (10/25)	<u>Case #4 (Capital Structure):</u> <u>American Home Products</u>	HBS #283-065	<i>Case #4 Written Analysis:</i> <i>(due at beginning of class)</i>
15 (10/30)	<u>Lecture:</u> Dividend Policy	BMA; 16	
16 (11/01)	<u>FLEX LECTURE</u> Will use if need to cancel earlier class; otherwise, there will be no class. See note above.		
17 (11/06)	<u>Case #5 (Dividend Policy):</u> FPL Group, Inc. (A)	HBS #295-059	<i>Case #5 Written Analysis:</i> <i>(due at beginning of class)</i>
18 (11/08)	<u>Lecture:</u> Options, Warrants, Convertibles I	BMA; 20-21.5	
19 (11/13)	<u>Lecture:</u> Options, Warrants, Converts, II	BMA; 22.1, 24.6 Jen, Choi, and Lee (BP)	
20 (11/15)	<u>Case #6 (Options):</u> Corning, Inc.	UVA-F-1339, version 2.6	<i>Case #6 Written Analysis:</i> <i>(due at beginning of class)</i>
21 (11/20)	<u>Lecture:</u> Mergers & Acquisitions, Part I	BMA; 31 Lowenstein, “Why All Takeovers Aren’t Created Equal” (BP)	
22 (11/27)	<u>Lecture:</u> Mergers & Acquisitions, Part II	Jensen, 1986 (BP) BMA; 32.2	
23 (11/29)	<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:</i> <i>(due at beginning of class)</i>
24 (12/04)	<u>Case #7 continued:</u> Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	
25 (12/06)	<u>Review and/or make-up class</u> • Review Key Concepts		
26 (12/12)	<u>Final Exam</u> Noon – 2:00 pm, Location TBD		