

UNIVERSITY OF PENNSYLVANIA

The Wharton School

FNCE 203 - Advanced Corporate Finance

Prof. Cecilia Parlatore Siritto

Fall 2013

Office	2455 Steinberg Hall-Dietrich Hall - 3620 Locust Walk
E-mail	cecip@wharton.upenn.edu
Phone	(215) 898-5210
Classes	Section 001: Tue/Thu 9:00am-10:20 am – Location TBD Section 002: Tue/Thu 10:30am-11:50am – Location TBD
Office hours	TBD
Teaching assistants	Brandon Clark brclark@wharton.upenn.edu Kelsey Hilbrich hkelsey@wharton.upenn.edu Brian Tolles btolles@wharton.upenn.edu
TA office hours (start 09/03/2013)	Location, time and day TBD
Course Website	http://wharton.instructure.com

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, STAT 101, STAT 102.

Reading Materials

1. The recommended textbook is: *Principles of Corporate Finance*, by R. Brealey, S. Myers, and F. Allen, 11th edition, McGraw Hill, 2013. (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 may be different.

2. Required bulk pack (BP) of readings & cases: available on Canvas (via Study.Net)

This is a required bulk pack available through the course's Canvas website. The bulk pack includes the cases for the course along with some news articles that are applicable to the course material (and will be discussed in class)..

3. Further material distributed in class and on Canvas

Questions

If you have any questions you may come to either my office hours, or the TAs' office hours. Questions pertaining to cases and practice problems can also be posted directly to the related Canvas 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. 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 (midterm and final exam): To ensure fairness, there is a deadline for exam-related questions: We will answer questions that you send or post on Canvas by 6:00pm EST on the day before an exam. Questions sent or posted afterwards will not be answered until after the exam.

Case Study Assignments

Study Groups

The class will be organized into study groups, with three to four people in a group. You are free to choose your own members within your section. All study groups should be registered on Canvas no later than Friday, September 6. You may use the discussion board on Canvas to post that you are looking for a team member or a group. If you have difficulty finding a group, please let me know in time (before the deadline), and I will be happy to help you find a group to work with.

Written Case Analysis

Each group will prepare detailed reports on all the assigned cases. Each group should submit only one report on each case. Reports are submitted via Canvas. All group members will earn the same grade on the assignment. The report has to contain the following three parts:

1. *Cover page:* The cover page clearly lists the names of all group members and your study group number, and has to include the following disclaimer (submissions without the disclaimer will not be accepted):

"We, the listed group members, certify that we have complied with the University of Pennsylvania's Code of Academic Integrity in completing this assignment. We understand that any failure to comply with the Code of Academic Integrity will result in severe penalties, such as an automatic failing grade for the course and referral to the Office of Student Conduct."

Important: see section “Code of Ethics” below for additional information.

2. *Executive summary*: One page, double-space.
3. *Case analysis*: 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. If your analysis section exceeds 5 pages, the TAs will ignore the content on the extra pages (that is, content on pages 6, 7, 8, etc.). The cover page, the executive summary, and the appendices do not count towards the 3-5 pages of analysis. Your report should address the suggested questions for the case (which will be posted on the Canvas course web page), but students are strongly encouraged to address additional points believed to be important for the analysis. The report should be a complete review of the situation analyzed and address all points believed to be important for the analysis.

Submission Deadlines: Written case analyses should be submitted via Canvas and are due at 11am on the assigned dates (see course schedule). **No late submissions will be accepted.**

Case Presentation

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. 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 reserve the right to randomly allocate a team to do the presentation. Students that do a presentation will automatically get ‘participation’ credit (Please see next bullet).

It is important that all members of both teams speak during the presentation/discussion.

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).

Participation

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. Students are expected to prepare for each class and participate actively.

The total maximum participation points one can receive is 15 (out of 100). 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 3’ 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.

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. You are required to take the exam in the section you are enrolled in. The final exam will be in the Final Exam week. 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.

Grading

The course cannot be taken Pass/Fail. 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:

Written Case Analyses	25%
Midterm Exam	25%
Final Exam	35%
Participation	15%

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 9 cannot be dropped.

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.

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.

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 11th 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 (Aug. 29)	<u>Lecture:</u> FCF & Capital Budgeting	BMA 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig Ch.2 (BP)	
2 (Sept. 3)	<u>Lecture:</u> Risk and CAPM	BMA 8.2-8.3,9.1-9.2	
3 (Sept. 5)	<u>Lecture:</u> Cost of Capital	BMA 19.1-19.3	
4 (Sept. 10)	Case #1 (Cost of Capital): Marriot	HBS #289-047	Case #1 Written analysis (due at 9:00am on Canvas)
5 (Sept. 12)	<u>Lecture:</u> Valuation	BMA 12.2, 19.4-19.5 Lowenstein, "Rethinking Latest Economic Elixir" (BP) Benninga & Sarig pp305-19 (BP)	
6 (Sept. 17)	Case #2 Harris Seafoods, Inc.	HBS #281-054	Case #2 Written analysis (due at 9:00am on Canvas)
7 (Sept. 19)	<u>Lecture:</u> Capital Structure I	BMA 17-18.1	
8 (Sept. 24)	<u>Lecture:</u> Capital Structure II	BMA 17.2-18.4 Gifford (BP)	
9 (Sept. 26)	Case #3 American Home Products	HBS #283-065	Case #3 Written analysis (due at 9:00am on Canvas)
10 (Oct.1)	Case #4 California Power Project		
11 (Oct. 3)	<u>Midterm Review:</u> Review of key concepts		
12 (Oct. 8)	<u>Midterm Exam</u> (in class)		

13 (Oct. 15)	Lecture: Dividend Policy	BMA 16	
14 (Oct. 17)	Case #5 FPL Group A	HBS #295-059	Case #5 Written analysis (due at 9:00am on Canvas)
15 (Oct. 22)	Lecture: Leveraged Transactions I	BMA 32.1-32.3	
16 (Oct. 24)	Lecture: Leveraged Transactions II	Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	
17 (Oct. 29)	Case #6 RJR Nabisco	HBS #289-056	Case #6 Written analysis (due at 9:00am on Canvas)
18 (Oct. 31)	Lecture: Options, Warrants, Convertibles I	BMA 20-21.5	
19 (Nov. 5)	Lecture: Options, Warrants, Convertibles II	BMA 22.1,24.6 Jen, Choi, and Lee (BP)	
20 (Nov. 7)	Case #7 Corning	UVA-F-1339, version 2.6	Case #7 Written analysis (due at 9:00am on Canvas)
21 (Nov. 12)	Lecture: Leasing	BMA 25	
22 (Nov. 14)	Case #8 Aberlyn Capital Management	HBS #294-083	Case #8 Written analysis (due at 9:00am on Canvas)
23 (Nov. 19)	Lecture: Mergers and Acquisitions I	BMA 31 Lowenstein, "Why All Takeovers Aren't Created Equal" (BP)	
24 (Nov. 21)	Lecture: Mergers and Acquisitions II	Jensen, 1986 (BP) BMA 32.2	
25 (Nov. 26)	Case #9 Consolidated Rail Corp A & B	HBS #298-006 HBS #298-095	Case #9 Written analysis (due at 9:00am on Canvas)
26 (Dec. 3)	Case #9 (Cont.) Consolidated Rail Corp A & B	HBS #298-006 HBS #298-095	
27 (Dec. 5)	<u>Review and/or make-up class</u>		

Final Exam Week (TBA)	Final Exam		
--------------------------	-------------------	--	--