

UNIVERSITY OF PENNSYLVANIA
The Wharton School
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FNCE 726: ADVANCED CORPORATE FINANCE

Professor Nihat Bülent Gültekin

Fall 2015

Office: Steinberg Hall-Dietrich Hall Room 2344
Office Hours: Mondays 3:30-5:00 pm or by appointment

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Course Objective

The objective of this course is to teach students how to apply modern financial theory to the investment and financing decisions of a modern corporation. The course is designed for finance majors who will pursue careers in major corporations, the financial sector, and consulting firms. The core theory introduced in the Financial Analysis course is extended for applications to the strategic financial decision areas of a firm.

Course Content

The theme of this course is value-based management. Financial theory explains the real world using abstract and simplified models. While such conceptual models are often not sufficiently rich for dealing with all the complexities of the real world, financial decisions based on rigorous theory and models are superior to ad hoc alternatives. Concepts and techniques introduced in this course should help you express key decisions in terms of their impact on firm value.

The first four sections of the course focus on a range of financial issues that confront managers in their ordinary course of doing business; mainly financial planning, capital budgeting, and the interaction between investment and financing decisions. The options approach to investment decisions is in Section IV. Section V deals with dividend policy. The last two sections of the course focus on financial distress and corporate restructuring, mergers, and acquisitions.

Course Format

This course is taught mostly with cases. We will have a few review lectures.

The case method of instruction offers some distinct benefits. In preparing cases, you learn more than just the financial theory required to analyze a case. You learn about the agents, institutions, and transactions that comprise the modern financial system. You also learn to contribute effectively to fast paced discussions about complex financial issues and test your understanding and your solutions to these issues that are seldom black and white.

The case method helps you use financial theory to arrive at coherent and defensible conclusions when faced with real world problems. One should keep in mind that there is not necessarily “the right” answer to a case; different assumptions may lead to different solutions and decisions. There is, however, always a theoretically correct and sound approach to the problems encountered in cases.

The course will succeed if all students come to class well prepared. Class participation is vital to your learning as well as the learning of others. Furthermore, to foster mutual trust and respect, it is imperative that students attend each class, arrive on time, and minimize subsequent class disruptions.

Textbooks

Cases are the only required reading materials in this course. For some cases, explanatory teaching notes on your reading list might be useful. If you need to review the prerequisite background materials for the cases, you may refer to the relevant chapters indicated in the following or any similar texts:

R. Brealy, S. Myers, and F. Allen, *Principles of Corporate Finance*, Irwin, McGraw-Hill. (Henceforth, BMA)

J. Berk and P. DeMarzo, *Corporate Finance*, 3rd ed., Pearson - Prentice Hall, 2014. (Henceforth BD)

T. Koller, M. Goedhart, and D. Wessels, *Valuation: Measuring and Managing the Value of Companies*, McKinsey & Company, Inc., John Wiley & Sons, Inc. (Henceforth KGW)

The text by Koller et al. is a valuation book written from practitioners' perspective.

Course Pack

The course pack is available online through Study.net. It contains all of the cases and other recommended readings. Students will be charged for class handouts that will be distributed regularly throughout the term

Canvas

The course site on Canvas contains suggested questions for cases; Excel files for exhibits for most cases and lecture notes and handouts will be distributed in class. You will find the most updated information and announcements for the course on Canvas, such as office hours and rooms for the teaching assistants, review sessions, exams, and guest speakers. Canvas is the information center for the course. Please check the course site regularly.

Grades

The final grade for the course will be based on:

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|---------------------------------------|-----|
| 1. Class attendance and participation | 25% |
| 2. Written assignments | 25% |
| 3. Exam 1 | 25% |
| 4. Exam 2 | 25% |

1. Class Attendance and Participation

Case courses require attendance. If you cannot attend the classes regularly, you should not take this course. Students will be excused for absences due to illness with the approval of the MBA Program Office or that are necessary to observe religious holidays.

Your active class participation is expected. I will start the class by cold calling a student to open the case discussion. Failure to prepare for class reflects an unacceptable disregard for your fellow students. Learning in this course is dependent on everyone's preparation for class.

You are welcome to make a 10 minute group presentation of any case at the beginning of the class. This will count toward your class participation.

If you cannot attend a class, send me an analysis of the case assignment if there is one by email before your session. If you cannot prepare for class for any reason, inform me of this prior to class by email, so I will not call on you.

2. Written Group Assignments

You should hand in 6 case assignments as written group reports throughout the semester. These cases are indicated on the last page. Your reports will be graded on a scale from 1 to 5. Groups that provide a competent report will get a full credit, i.e., 3. Exceptionally good reports will get bonus credit of 4 or 5. Your case report should be in the form of an executive summary of 4 pages at most. You may include your supporting computations and tables in an appendix. We will grade your reports for your honest effort, not necessarily for “the” correct answer. Specifically, we will use the following criteria for grading the case write ups:

- a. ability to identify the main issues,
- b. theoretical and analytical soundness of your approach to your decision and/or conclusions,
- c. clarity and succinctness of the report.

3. Exams

There are two exams. These exams will be “closed book”. They will consist of problems similar to those in the cases, but they will be shorter and more focused. No laptops or any other electronic devices other than a calculator are allowed in the exams. You will need a calculator with NPV and IRR features. You are allowed to bring a single “cheat sheet” (standard 8.5x11 size, double sided) to the exam.

You cannot take the exams at other times unless you have an official permission from the MBA office.

All graded materials will be returned to your mail folders or posted on Canvas.

Study Groups

You should form groups of no more than four students during the first day of class. Groups offer a good opportunity to leverage your strengths with other team members for a more comprehensive case analysis. Suggested study questions often require extensive calculations and/or valuations. Your team members also enable you to try out your own ideas prior to class discussion. Each student is responsible for these questions. All questions are fair game if you are cold called to open class discussion.

Review Sessions and Office hours by Teaching Assistants

I will offer periodic review sessions for those needing extra help with the prerequisite finance theory. Teaching assistants will hold office hours to answer your questions before the exams. The rooms and schedules of TA office hours will be posted on Canvas.

Correspondence by e-mail

I will not provide lengthy answers to your course related questions or hold tutorial sessions by e-mail. Use office hours, review sessions, or TA office hours for that purpose. You may see me by appointment any time if you have further questions on any aspect of the course.

Workload

This course is quantitative; the pace is fast and the work load is heavy. Case preparation requires significantly more time than lecture-based courses. Furthermore, you should be thoroughly familiar with the material taught in the Financial Analysis course. The course is designed for finance majors and is not a remedial course for those who want a second chance to learn finance. We will not review the materials covered in the first year finance course. Lectures will only cover new material.

Unlike an introductory finance course, this course uses real world cases where the information is seldom complete before you make a decision or solve a problem. Your results may differ depending on the initial set of assumptions you have to make in the absence of complete information. If you have difficulty with such ambiguity and the case method of teaching, this course may not be for you.

Academic Integrity and Code of Ethics:

Most case materials in this course are based on real companies and transactions. In preparing for class discussions or presentations, you may use any publicly available past or current information about the companies covered in cases. You are strongly encouraged to study cases in a study group. Any submitted assignments for grading should be your own or your group's in case of joint work. Each member of your group is expected to contribute equally to group work.

Use of previously distributed materials from this course, including old exams is, however, not allowed. You cannot use work completed by other students, old notes or handouts, or solutions to the cases from previous years or other sections of this course at Wharton or similar courses at other business schools or elsewhere for any purpose. Furthermore, you are not allowed to see old exams unless provided by your professor. Violation of this rule will result in an automatic failing grade for the course. Furthermore, the violators will be reported to the Wharton Graduate Division for further disciplinary action.

If you use materials from any public or private source, including those sources on the internet, private company presentations, etc. in your submitted work for any reason, you should properly cite them. Otherwise, it may be considered plagiarism.

If you register for this course, you agree with the principles of academic integrity described above in conjunction with the Wharton Graduate Division Code of Ethics.

I. INTRODUCTION

Readings: BMA, Chapter 1
KGW, Chapters 1-4 or BD, Chapters 1 -2

1. Lecture: Introduction and Course Overview

II. FINANCIAL ANALYSIS AND PLANNING

Readings: BMA, Chapters 29-31 or BD, Chapters 26-27
Teaching Note: "Assessing the Financial Health of a Firm"

2. Case: Clarkson Lumber Company

III. VALUATION THEORY AND CAPITAL STRUCTURE

A. Identifying the Relevant Cash Flows for Capital Budgeting Projects

Readings: BMA, Chapters 2-6 and 10-12 or BD, Chapters 4-9
3. Case: Empirical Chemicals A&B

B. DCF Methods for Valuation

Readings: BMA, Chapter 17-19
KGW, Chapters 5-9
Capital Structure and Valuation Theory Part I & II (Canvas: Files/Teaching Notes)
Teaching Note: "Alternative Methods for Estimating Terminal Value"
Teaching Note: "An Introduction to Cash Flow Valuation Methods"
Teaching Note: "The Adjusted Present Value Method for Capital Assets"
Teaching Note: "Valuing Equity Cash Flows"

4. Lecture: Capital Structure and Valuation Theory I
5. Lecture: Capital Structure and Valuation Theory II
6&7. Case: M&M Incorporated (posted on Canvas)

C. Cost of Capital and Capital Structure

Readings: BMA, Chapters 7-9, and 19 or BD, Chapters 10-13
KGW, Chapters 10 and 11
"What Practitioners Should Know About Future Value" by M. Kritzman

8. Case: Marriott Corporation

D. Interaction between Investment and Financing Decisions

Readings: DB, Chapters 14-18 and 31
KGW, Chapters 11 and 12
9. Case: Galveston Fishing Company (posted at Canvas)
10. Case: Kennecott Copper Corporation
11. Case: Southport Minerals
12. Case: American Chemical Company
13. Case: Capital Structure and MCI Corporation
14. Lecture: Review

15. EXAM 1	Wednesday, October 19. In class.
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IV. THE OPTIONS APPROACH TO CAPITAL INVESTMENTS

Reading: BMA, Chapters 20-22 or BD, Chapters 20-22
Teaching Note: "Capital Projects as Real Options: An Introduction"
KGW, Chapter 20
"The Options Approach to Capital Investment" by Dixit and Pindyck

- 16. Lecture: Review of Option Valuation Models I
- 17. Lecture: Review of Option Valuation Models II
- 18. Case: Chrysler's Warrants
- 19. Case: MW Petroleum Corporation

V. DIVIDEND POLICY

- 20. Readings: BMA, Chapter 16 or BD, Chapter 17
Case: Avon Products

VI. MERGERS & ACQUISITIONS & CORPORATE RESTRUCTURING

Reading: BMA, Chapters 32-34 or BD, Chapters 28-29
KGW, Chapter 7 and 17-19

- 21. Case: Philip Morris
- 22. Case: Conrail A&B
- 23. Case: RJR Nabisco

24. MIDTERM EXAM 2 Wednesday, November 18. In Class

VII. OVERVIEW

- 25. No Class
- 26. Case: SFM
- 27. Case: TXU
- 28. Lecture: Overview

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COURSE SCHEDULE
FALL 2015
(September 29, 2015)

Session #	Date	Topic and Assignments	Class Format
1	Aug 26	Introduction	Lecture
2	Aug 31	Clarkson Lumber Company	Case discussion
3	Sep 02	Empirical Chemicals A&B	Case discussion/required write up 1
4	Sep 09	Capital Structure and Valuation Theory I	Lecture
5	Sep 14	Capital Structure and Valuation Theory II	Lecture
6	Sep 16	M&M Inc.	Case discussion/required write-up 2
7	Sep 21	M&M Inc. & Introduction to CAPM	Case discussion cont'd and Lecture
8	Sep 23	Marriott Corporation	Case discussion
9	Sep 28	Galveston Fishing Company	Case discussion/required write-up 3
10	Sep 30	Kennecott Copper	Case discussion
11	Oct 05	Southport Minerals	Case discussion
12	Oct 07	American Chemicals	Case discussion/required write-up 4
13	Oct 12	Capital Structure/MCI	Case/Lecture
14	Oct 14	Review	Q&A Session
15	Oct 19	EXAM 1	In Class Exam
16	Oct 21	Option Valuation Review	Lecture
17	Oct 26	Option Valuation Review & Real Options	Lecture
18	Oct 28	Chrysler's Warrants	Case discussion/required write-up 5
19	Nov 02	MW Petroleum Corporation	Case discussion
20	Nov 04	Avon	Case discussion
21	Nov 09	Philip Morris	Case discussion
22	Nov 11	Conrail A&B	Case discussion
23	Nov 16	RJR Nabisco	Case Discussion/Required write-up 6
24	Nov 18	EXAM 2	In Class Exam
25	Nov 23	No Class	
26	Nov 30	SFM	Case discussion
27	Dec 2	TXU	Case discussion
28	Dec 7	Overview	Lecture