

FNCE 726 – ADVANCED CORPORATE FINANCE SPRING 2016

Instructor: Professor Todd Gormley

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Class Times: Section 001: Tuesday/Thursday, 10:30 – 11:50 AM at JMHH F65
Section 002: Tuesday/Thursday, Noon – 1:20 PM at JMHH F65

Office Hours: Tuesday & Thursday 1:45-2:45 p.m., or by appointment.
(Outside of the classroom, this is the best way to interact with me.)

Teaching Assistants: Allison Dender E-mail: dendera@wharton.upenn.edu
Yen Goh E-mail: ygoth@wharton.upenn.edu
Athena Tsai E-mail: tsaiyi@wharton.upenn.edu
(You can contact any of the TAs if you have questions.)

TA Office Hours: Monday, 3-4 p.m., SHDH 2004 [*Yen*]
Tuesday, 3-4 p.m., SHDH 2406 [*Allison*]
Wednesday, 3-4 p.m., SHDH 2406 [*Athena*]

Course Websites: <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 using both lectures & cases.

This course serves as a complement and supplement to FNCE 611. Some areas of financial management not covered in FNCE 611 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 611 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, 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 might be slightly 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). To save you money, I've tried to only place news articles in the bulk pack that might be hard to obtain otherwise. For other articles that should be freely available online, I've included a list of web links at the bottom of the syllabus.

3. Online articles (OA) [see list at end of syllabus]

Prerequisites: FNCE 611

Study Groups:

The class will be organized into study groups, which will write detailed reports on up to 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, January 22. 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 up to 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. Regardless of what section you and your group members are enrolled in, completed cases must be uploaded to Canvas **by 8:00 am** on the day it is due. No late submissions will be accepted. This early deadline allows me to post (and you to download) the case-related lecture notes before class. Graded cases will be returned via Canvas.

A Note about Case Grades: While there are seven cases, only your best five case grades will count towards your final grade. In other words, students have the option to skip up to two cases without penalizing their grade during the semester. However, I still recommend that students do all seven cases so as to improve their understanding of the course material and maximize the grade on their best five cases. More details on how the course is graded can be found below.

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 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).

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, Feb. 25, 6-8 p.m., see locations below

Section 001 – SHDH 350

Section 002 – SHDH 351

Final Exam – Time and 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	25 points (i.e. 5 points each)
Participation	15 points
Midterm Exam	50 points
Final Exam	60 points

Regarding the written cases, there are seven assigned cases, but I will only count the grades on your five best cases. In other words, you are more than welcome to skip two cases of your choice if you find they conflict with your other obligations, and this will not affect your grade. Though, of course, if you do all seven cases (which is what I recommend), you will be better prepared for the exam and you will likely increase the score of your top five cases.

Lastly, 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, Phones, and Other Electronic Device Usage:* Students are expected to not use phones during class. However, electronic devices will be allowed for students that wish to take notes on them, but in this case, students with laptops should sit in the back of the room to minimize disruption. 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 11th Edition of *Principles of Corporate Finance*, by Brealey, Myers, and Allen (BMA). Some readings are found in the bulk pack (BP).

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 January 22. 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:

All cases will be turned in and graded directly on Canvas.

SCHEDULE OF CLASSES

Class # (Date)	Topics	Readings	Assignments
1 (01/14)	<u>Lecture:</u> FCF & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig, Ch. 2 (BP)	
2 (01/19)	<u>Lecture:</u> Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
3 (01/21)	<u>Lecture:</u> Cost of Capital	BMA; 19.1-19.3 “Warren Buffet,” 2 articles (OA)	
4 (01/26)	<u>Case #1 (Cost of Capital):</u> Marriott	HBS #289-047	<i>Case #1 Written Analysis: (due on Canvas by 8am)</i>
5 (01/28)	<u>Lecture:</u> Valuation	BMA; 12.2 & 19.4-19.5 Lowenstein, “Rethinking Latest Economic Elixir” (BP) Benninga & Sarig, pp. 305-19 (BP) “Facebook,” 2 articles (OA)	
6 (02/02)	<u>Case #2 (Valuation):</u> Harris Seafoods, Inc.	HBS #281-054	<i>Case #2 Written Analysis: (due on Canvas by 8am)</i>
7 (02/04)	<u>Lecture:</u> Leveraged Transactions I	BMA; 32.1 Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	
8 (02/09)	<u>Lecture:</u> Leveraged Transactions II	BMA; 32.1, 32.3 “Dell,” 4 articles (OA)	
9 (02/11)	<u>Lecture:</u> Leasing	BMA; 25 “Amazon” (OA) “McDonald’s” (OA) “The Lease Bad Solution” (OA)	
10 (02/16)	<u>Case #3 (LBOs):</u> Congoleum Corporation	HBS #287-029	<i>Case #3 Written Analysis: (due on Canvas by 8am)</i>

11 (02/18)	<u>Case #3 continued:</u> Congoleum Corporation.	HBS #287-029	
12 (02/23)	<u>Review and/or make-up class</u> <ul style="list-style-type: none"> • Review Key Concepts • Or make-up missed class 		
13 (02/25)	<u>Exam 1</u> Time, 6-8 p.m.; locations above		
14 (03/01)	<u>Lecture:</u> Capital Structure, Part I	BMA; 17-18.1 “Apple iBonds” (OA)	
15 (03/03)	<u>Lecture:</u> Capital Structure, Part II	BMA; 18.2-18.4 “After the Revolution” (OA)	
16 (03/15)	<u>Case #4 (Capital Structure):</u> American Home Products	HBS #283-065	<i>Case #4 Written Analysis: (due on Canvas by 8am)</i>
17 (03/17)	<u>Lecture:</u> Dividend Policy	BMA; 16 “Apple,” 3 articles (OA) “Tax Change” (OA)	
18 (03/22)	<u>Case #5 (Dividend Policy):</u> FPL Group, Inc. (A)	HBS #295-059	<i>Case #5 Written Analysis: (due on Canvas by 8am)</i>
19 (03/24)	<u>Lecture:</u> Options, Warrants, Convertibles I	BMA; 20-21.5	
20 (03/29)	<u>Lecture:</u> Options, Warrants, Convertibles, II	BMA; 24.2 Jen, Choi, and Lee (BP) “Convertibles,” 2 articles (OA) “Ford,” 2 articles (OA) “Goldman Sachs” (OA)	
21 (03/31)	<u>Lecture:</u> Real Options	BMA; 22 “Apple Prototypes,” (OA) “Tesla,” (OA)	
22 (04/05)	<u>Case #6 (Options):</u> Corning, Inc.	UVA-F-1339, version 2.6	<i>Case #6 Written Analysis: (due on Canvas by 8am)</i>

23 (04/07)	<u>Lecture:</u> Mergers & Acquisitions, Part I	BMA; 31.1-31.3, 31.6 Jensen, 1986 (BP) “Bad Directors” (OA) “Home Builders” (OA) “US Airways,” 2 articles (OA)	
24 (04/12)	<u>Lecture:</u> Mergers & Acquisitions, Part II	BMA; 31.3 Lowenstein, “Why All Takeovers Aren’t Created Equal” (BP) “AB Inbev” (OA) AT&T (OA) “Cadbury” (OA) “Hulu” (OA) “Netflix” (OA) “Poison Puts” (OA)	
25 (04/14)	<u>Lecture:</u> Mergers & Acquisitions, Part III	BMA; 31.4-31.5 & 32.2	
26 (04/19)	<u>Case #7 (M&A):</u> Acquisition of Conrail A and B	HBS #298-006 HBS #298-095 “Dell Go Shop,” (OA)	<i>Case #7 Written Analysis: (due on Canvas by 8am)</i>
27 (04/21)	<u>Case #7 continued:</u> Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	
28 (04/26)	<u>Review and/or make-up class</u> <ul style="list-style-type: none"> • Review Key Concepts • Or make-up missed class 		
29 (05/??)	<u>Final Exam</u> Time & Location TBD		

LINKS TO RELATED ONLINE ARTICLES (OA)

Below are links to news articles that are related to the course material and will be discussed in class. Most of these links should be freely accessible to students, but in some cases, the news articles might be behind firewalls (such as at the *New York Times* and the *Wall Street Journal*). In these cases, you can use Wharton's subscription to Dow Jones Factiva to download the articles. You'll just need to click the below link and use your Penn ID and password to login in. Once you do that, you can find a PDF of the articles by searching for their title.

<https://proxy.library.upenn.edu/login?proxySessionID=28360537&url=https://global.factiva.com/en/session/login.asp?xsid=S003XBt0GFyMT'ZyMTAoMDMsOD6qMtm5DFHY96oYqZINFFBQUFBQUFBQUFBQUFBQUFBQUFBQUFBQUFBQUFBQUFB>

The news articles are organized by lecture number. These readings are designated with a (OA).

Lecture #3 – Cost of Capital

1. Warren Buffet Makes an Offer Goldman Sachs Can't Refuse
<http://online.wsj.com/article/SB122256922970483051.html>
2. Warren Buffett Gets an Unwanted Call from Goldman Sachs
www.cnbc.com/id/42153208

Lecture #5 – Valuation

3. The Facebook IPO: What Went Wrong?
<http://knowledge.wharton.upenn.edu/article.cfm?articleid=3007>
4. Facebook is Great. But \$100 Billion Great?
<http://money.cnn.com/2012/02/02/technology/thebuzz/index.htm?iid=EL>

Lecture #8 – LBOs

5. Private-Equity Buyouts Shortchange Shareholders
<http://blogs.wsj.com/moneybeat/2013/07/15/private-equity-buyouts-shortchange-shareholders/>
6. Dell in \$24 Billion Deal to Go Private
<http://dealbook.nytimes.com/2013/02/05/dell-sets-23-8-billion-deal-to-go>
7. Dell: From PC King to Buyout Fodder
<http://online.wsj.com/article/SB10001424127887324595704578244174200133296.html>
8. Dell Makes Case to Go Private in Grim Filing
<http://online.wsj.com/article/SB10001424127887323501004578390692268605644.html>

Lecture #9 – Leasing

9. Amazon Seeks Cargo Planes for Air Freight Operation
<http://www.wsj.com/articles/amazon-seeks-cargo-planes-for-air-freight-operation-1450474520>

10. McDonald's Lands in a Real-Estate Dilemma
<http://www.wsj.com/articles/mcdonalds-lands-in-a-real-estate-dilemma-1440495181>
11. The Lease Bad Solution
<http://www.economist.com/news/business/21589897-proposals-clean-up-lease-accounting-will-hit-many-firms-balance-sheets-lease-bad-solution>

Lecture #14 – Capital Structure I

12. Apple Readies Its First Bond Offering
<http://online.wsj.com/article/SB10001424127887324474004578442783946669310.html>

Lecture #15 – Capital Structure II

13. Gifford, After the Revolution
<http://www.cfo.com/printable/article.cfm/2987574>

Lecture #17 – Dividends

14. Einhorn Squeezes Apple for Cash
<http://online.wsj.com/article/SB10001424127887323511804578298373069091776.html>
15. Apple Snaps Growth Streak
<http://online.wsj.com/article/SB10001424127887324874204578441153601139278.html>
16. Apple Stock-Split Rumor Pushes Shares Higher
<http://blogs.wsj.com/marketbeat/2013/02/26/apple-stock-split-rumor-pushes-shares-higher/>
17. Firms Flood Bond Market to Finance Payouts
<http://online.wsj.com/article/SB10001424127887324020804578149641473505474.html>

Lecture #20 – Options, Part II

18. Convertible Bond Issues at Record Pace
www.ft.com/cms/s/0/e86d5420-5fd3-11e2-8d8d-00144feab49a.html#axzz2aX6yI1IN
19. Convertible Debt is Hanging Heavy
www.nytimes.com/2008/11/19/business/19views.ready.html
20. Ford Reduces Debt by More than \$1.9 Billion in Convertible Bond Exchange
www.bloomberg.com/news/2010-11-24/ford-reduces-debt-by-more-than-1-9-billion-in-convertible-bond-exchange.html
21. Ford Raises \$2.5 Billion in Sale of Convertible Bonds
http://investorshub.advn.com/boards/read_msg.aspx?message_id=43217005
22. Warren Buffett Renegotiates Terms of Goldman Sachs Warrants
<http://blogs.rhsmith.umd.edu/davidkass/uncategorized/warren-buffett-renegotiates-terms-of-goldman-sachs-warrants/>
23. Tesla's Elon Musk: A Financial Wizard
http://www.thestreet.com/story/11932585/1/the-real-reason-tesla-deserves-media-fawning.html?cm_ven=forbeslinks

Lecture #21 – Real Options

24. Apple Tests Larger Screens for iPhones, iPads
<http://online.wsj.com/article/SB10001424127887323829104578620870597408176.html>

Lecture #23 – M&A, Part I

25. Bad Directors and Why They Aren't Thrown Out
www.nytimes.com/2013/03/30/business/why-bad-directors-arent-thrown-out.html
26. Big Home Builders Gobble Up Rivals Starved for Cash
<http://online.wsj.com/article/SB10001424127887324694904578603732063335740.html>
27. American and US Airways Announce Deal for \$11 Billion Merger
<http://dealbook.nytimes.com/2013/02/13/american-and-us-airways-said-to-vote-for-merger/>
28. AMR, US Airways Predict Clear Skies
<http://online.wsj.com/article/SB10001424127887323478004578303630011153910.html>
29. Pfizer, Allergan Agree on Historic Merger Deal
<http://www.wsj.com/articles/pfizer-allergan-on-cusp-of-merger-deal-1448217490>
30. Hedge Funds Bet Big on Overseas Tax Deals
<http://www.wsj.com/articles/hedge-funds-bet-big-on-overseas-tax-deals-1406330775>

Lecture #25 – M&A, Part III

31. AB Inbev to Give Up Modelo Assets
<http://online.wsj.com/article/BT-CO-20130214-709183.html>
32. AT&T Ends \$39 Billion Bid for T-Mobile
<http://dealbook.nytimes.com/2011/12/19/att-withdraws-39-bid-for-t-mobile/>
33. Cadbury is Defiant After Gain in Sales
<http://online.wsj.com/article/SB20001424052748704081704574653512584339346.html>
34. Hulu Faces Nebulous Future as It Seeks a New Owner
www.nytimes.com/2013/06/24/business/media/hulu-seeking-a-buyer-may-shift-course.html
35. Netflix Poison Pill Has a Shareholder-Friendly Flavor
<http://dealbook.nytimes.com/2012/11/06/netflixs-poison-pill-has-a-shareholder-friendly-flavor/>
36. 'Poison Puts' Undercut Mergers
<http://dealbook.nytimes.com/2012/11/06/netflixs-poison-pill-has-a-shareholder-friendly-flavor/>

Lecture#26 – Conrail, Part A

37. Dell in \$24 Billion Deal to Go Private
<http://dealbook.nytimes.com/2013/02/05/dell-sets-23-8-billion-deal-to-go-private/>