The Wharton School
University of Pennsylvania

FNCE 203: Advanced Corporate Finance

Prof. Vito D. Gala

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Office	2451 Steinberg Hall-Dietrich Hall
E-mail	vgala@wharton.upenn.edu
Phone	215-898-7514
Classes	Section 001: Mon/Wed 9:00am-10.30am, L-FH AUD
	Section 002: Mon/Wed 10:30am-12.00pm, L-FH AUD
	Section 003: Mon/Wed 12:00pm-1.30pm, L-FH AUD
Office hours	Mondays 6:00pm-7:00pm, SH-DH 2451
Teaching assistants	Daniel Kaminsky (dankam@wharton.upenn.edu)
	Daniel Weng (wengd@wharton.upenn.edu)
	Jason Zhang (jaszhang@wharton.upenn.edu)
	Shawn Kim (sinkim@wharton.upenn.edu)
TA office hours	Tue, 3:30pm-4:30pm, SH-DH 2305, Desk A
(start 01/17/17)	Wed, 5:00pm-6:00pm, SH-DH 2305, Desk A
	Thu, 5:00pm-6:00pm, SH-DH 2305, Desk A
	Fri, 4:00pm-5:00pm, SH-DH 2305, Desk A

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 include mergers and acquisitions, corporate reorganizations, financial planning, 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, and STAT 102.

Readings

There is no required textbook. The required bulk pack contains the readings and case studies that will be used in the course. Students are expected to complete readings prior to each class session and be

prepared to actively participate in class discussion. The bulk pack is available for purchase at study.net via Canvas. In addition, I am going to distribute material in class and via Canvas. If you are looking for an additional textbook, I recommend:

Principles of Corporate Finance, by R. Brealey, S. Myers, and F. Allen, 12th edition, McGraw Hill. (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 the course successfully without the textbook. Older versions of the book are fine as well, 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 can be different. There is also a recommended custom version of the BMA textbook available for purchase at the bookstore. This custom version contains only book chapters relevant for the course and it is less expensive than the regular textbook.

Course Web Page

Important course materials such as lecture notes, required assignments, and other useful information will be available on the Canvas course web page. Lecture notes will be posted on Canvas before each class, so you can download them and print them in your desired format to take notes. Canvas website is the information center for the course. Please check the course website regularly. In particular, there will be a discussion board for each case and exam on Canvas where TAs and I will answer your questions.

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 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 do not want shared with others are welcome over e-mail or in person.

Deadline for exam-related questions: 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 up to four people in a group. You are free to choose your own members and group members may span sections (001, 002, and 003). Groups cannot exceed a maximum of four students. All study groups should be registered on Canvas no later than **Wednesday, January 18.** 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 assigend 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 webpage), but students are strongly encouraged to address additional points believed to be important for the analysis.

Case Submission Deadlines

Written case analyses are submitted via Canvas and are due at **9:00am** on assigned dates (see course schedule). **No late submissions will be accepted**.

Case Presentations

On day when cases are due, there will be at least one study group PowerPoint presentation of the case. You should sign-up as groups, and you 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 will be given on Canvas starting on **January 20th**, and slots will be available on a *first-come/first-served basis*. To ensure that every group can get the opportunity to present, groups can sign up for only one presentation slot until **January 23rd**. Notice that every student has to join a group first, and then each group can sign-up for a presentation slot. Starting on **January 24th**, groups can sign up for a second or even third presentation. However, you are not allowed to block several slots and later withdraw from the slots. Signing up implies that you are also required to present. If you have an exceptional reason for a withdrawal, you have to contact me at least 5 days in advance. Failure to do so will have a negative effect on your participation grade. If a presentation slot remains empty one week prior to a case being due, I will randomly allocate a team to do the presentation. Study groups that do a presentation will automatically get participation credit (see more below in the 'Grading' section).

Notice that some slots require you to take a particular view. For example, one team may have to argue that a certain investment is value-destroying, whereas the other presenting team must argue it is good. This is used to help facilitate discussion of the case in class.

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 slides that outline our discussions in class. These slides are intentionally incomplete. You will need to attend the classes to understand the slides and to learn what solution approaches are reasonable.

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).

Grading

Code of Ethics

In every aspect of the course, students are required to adhere to the Code of Academic Integrity. 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. Obtaining access to such materials (in hardcopy or electronically) will count as a violation of the Code of Academic Integrity. **Failure to observe this rule will result in severe penalties, such as an automatic failing grade for the course and referral to the Office of Student Conduct.** Please also refer to the Code of Academic Integrity.

Grade Decomposition

Your course grade will reflect your performance on the case assignments, the two exams, and class participation, with the weights determined as follows:

Exam I	25%
Exam II	35%
Case Study Assignments	25%
Participation	15%

Case Study Assignments

There are 8 case study assignments in this course. Each assignment will be graded Pass/Fail. At the end, I will drop your weakest assignment and compute your assignments score based on your 7 best assignments. Assignment 8 cannot be dropped. In addition to the Pass/Fail grade you will receive feedback for each assignment via Canvas so that you get a better sense how well you did. The feedback will also indicate points (between 0 and 5) that determine whether you get a Pass or a Fail. The threshold for a Pass is at 50% for each case.

Exams

There are two mandatory exams. Each exam contains questions from the entire course up to the exam date. Exams are closed-book and closed-notes. A formula sheet is provided with each exam. Calculators are permitted. Cell phones or laptops are not allowed during exams.

Exam Times

The first exam is scheduled for Monday, **February 20th, 2017**, and the second exam is scheduled for Wednesday, **April 19th, 2017**. The exam times are non-negotiable. Failure to take an exam will result in a score of zero absent any clear and reliable proof of absence for "illness, a death in the family, or some other unusual event" as per university policy. If a student is unable to take Exam I, then Exam II will count for 60% of the course grade provided reliable proof of absence. Exam II may be postponed in case of "illness, a death in the family, or some other unusual event". If such a circumstance arises, undergraduates must petition their dean's office for a makeup exam. The makeup exam date for Exam II follows University policy and will take place the following semester.

Participation

You should bring nameplates to every class. The total maximum participation points one can receive is 15. There are two ways to earn participation points. (1) Do an in-class case presentation. Students that do at least one presentation will automatically get 10 points. (2) General class participation. I will assign up to 5 points based on this category. You should be prepared to discuss your group's case study solution on dates when cases are due. Doing a 2nd or 3rd in-class presentation counts toward general class participation but *does not* automatically give you the additional 5 points.

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 written with a pen. Each re-grade request must be accompanied by a concise written explanation of the request and submitted to me within one week after the exams are graded. 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.

Attendance and Class Etiquette

Class participation is an important and essential part of this course. Because so much learning occurs in the classroom, it is important that you attend every class. Students are expected to complete the readings prior to each class session and be prepared to actively participate in class discussion. Classroom interaction will be conducted with professional courtesy and personal respect. Students are expected to keep exiting and entering during class to a minimum.

Laptop, PDA, and Other Electronic Device Usage: Students are expected to not use laptops, phones, 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 others.

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 12th Edition of Principles of Corporate Finance, by Brealey, Myers, and Allen (BMA). Some readings are found in the bulk pack (BP).

Class # (Date)	Topics	Readings	Assignments
1 (Wed, 01/11)	Lecture: FCF & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig, Ch. 2 (BP)	
Wed, 01/18	**Deadline for study group registration on Canvas**		
2 (Wed, 01/18)	Lecture: Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
3 (Mon, 01/23)	Lecture: Cost of Capital	BMA; 19.1-19.3	
Mon, 01/23	**Deadline to sign-up for 1st in-class presentation (guarantees slot for every group)**		
4 (Wed, 01/25)	Case #1 (Cost of Capital): Marriott	HBS #289-047	**Case #1 Written Analysis:** **(due at 9:00am on Canvas)**
5 (Mon, 01/30)	Lecture: Valuation	BMA; 12.2 & 19.4-19.5 Lowenstein, "Rethinking Latest Economic Elixir" (BP) Benninga & Sarig, Ch 10 (BP)	
6 (Wed, 02/01)	Case #2 (Valuation): Harris Seafoods, Inc.	HBS #281-054	**Case #2 Written Analysis:** **(due at 9:00am on Canvas)**
7 (Mon, 02/06)	Lecture: Leveraged Transactions	BMA; 32.1, 32.3 Inselbag and Kaufold (BP) Shleifer and Vishny (BP)	

8 (Wed, 02/08)	Case #3 (LBOs): Congoleum Corporation, Part 1	HBS #287-029	**Case #3 Written Analysis:** **(due at 9:00am on Canvas)**
9 (Mon, 02/13)	Case #3 continued: Congoleum Corporation, Part 2	HBS #287-029	
10 (Wed 02/15)	Review class: Review Key Concepts		
11 (Mon, 02/20)	**Exam I at 8:00pm** (No regular class)		
12 (Wed, 02/22)	Lecture: Capital Structure, Part I	BMA; 17-18.1	
13 (Mon, 02/27)	Lecture: Capital Structure, Part II	BMA; 18.2-18.4 Gifford (BP)	
14 (Wed, 03/01)	Case #4 (Capital Structure): American Home Products	HBS #283-065	**Case #4 Written Analysis:** **(due at 9:00am on Canvas)**
15 (Mon, 03/13)	Lecture: Dividend Policy	BMA; 16	
16 (Wed, 03/15)	Case #5 (Dividend Policy): FPL Group, Inc. (A)	HBS #295-059	**Case #5 Written Analysis:** **(due at 9:00am on Canvas)**
17 (Mon, 03/20)	Lecture: Options, Warrants, Convertibles I	BMA; 20-21.5	
18 (Wed, 03/22)	Lecture: Options, Warrants, Convertibles, II	BMA; 22.1, 24.6 Jen, Choi, and Lee (BP)	
19 (Mon, 03/27)	Case #6 (Options): Corning, Inc.	UVA-F-1339, version 2.6	**Case #6 Written Analysis:** **(due at 9:00am on Canvas)**

20 (Wed, 03/29)	Lecture: Mergers & Acquisitions, Part I	BMA; 31 Lowenstein, "Why All Takeovers Aren't Created Equal" (BP)	
21 (Mon, 04/03)	Lecture: Mergers & Acquisitions, Part II	Jensen, 1986 (BP) BMA; 32.2	
22 (Wed, 04/05)	Case #7 (M&A): Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	**Case #7 Written Analysis:** **(due at 9:00am on Canvas)**
23 (Mon, 04/10)	Case #7 continued: Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	
24 (Wed, 04/12)	Lecture: Derivatives and Hedging		
25 (Mon, 04/17)	Review class: Review Key Concepts		
26 (Wed, 04/19)	**<u>Exam II</u> at 8:00pm** (No regular class)		
27 (Mon, 04/24)	Lecture: Real Options	BMA; 22	
28 (Wed, 04/26)	Case #8: Kennecott Copper Corp.		**Case #8 Written Analysis:** **(due at 9:00am on Canvas)**