

The Wharton School – University of Pennsylvania
FNCE 391/891
Corporate Restructuring
Spring 2017
Preliminary Course Syllabus

*(Please note that this syllabus is subject to change over the duration of the course;
however, the general structure and content of the course will remain the same.)*

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Office Hours: 10:00-12:00 Tuesday and By Appointment

Course Overview

The objective of this course is to familiarize students with the financial, legal, and strategic issues associated with the corporate restructuring process. The main focus of the course is restructuring financially distressed firms. We begin by reviewing the financial instruments commonly used by risky firms (leveraged loans and high-yield bonds) and learn to interpret the contracts that govern them (credit agreements and bond indentures). We survey a variety of restructuring methods (exchange offers and out-of-court workouts, prepackaged and pre-negotiated bankruptcies, distressed asset sales, and Chapter 11 reorganizations) available to troubled firms, and study the dynamics of the restructuring process through a number of case studies. Finally, we'll consider distressed debt as an asset class and develop techniques for investing in distressed securities.

The course will provide students with tools to value distressed companies, understand the legal framework governing bankruptcy and reorganization in the U.S. and other countries, and navigate the key strategic issues facing managers and investors in distressed companies. It will also provide students with a specialized vocabulary and important facts about the restructuring industry, distress investing, and leveraged financial markets.

The course will be delivered as a mixture of lectures, case studies, and guest speakers. The objective of the cases is to use the logic of financial theory to arrive at sensible conclusions when faced with real world problems. The speakers will be Wharton alumni with leadership roles in the restructuring industry as managers, advisors, and investors.

Who should enroll? This course is designed for Finance majors who fit one of the following criteria:

- Students interested in restructuring advisory, turnaround management, or distressed debt investing careers
- Students interested in private equity who want to learn (i) how to take advantage of investment opportunities in distressed companies and industries, or (ii) what to do when a deal goes bad (less likely for Wharton grads)
- Students interested in investment banking who want broaden their knowledge of leveraged loan, high-yield, and distressed financing deals, as well as build a skill set for downturns in the M&A or IPO markets
- Students interested in public debt or equity investing (or any other students) who want to expand their understanding of capital structure and improve their investment analysis and modeling skills

Prerequisites: The prerequisites for the course are FNCE 203/726-Advanced Corporate Finance or FNCE 207/728-Corporate Valuation. The main purpose of the prerequisites is to ensure that students have a solid understanding of corporate finance (particularly an understanding of capital structure, accounting and financial statement analysis, valuation methods, and cost of capital), so that we can spend more time on the nuances of distressed situations and less time on reviewing background material. *Students who receive permission to enroll without the prerequisites are expected to review the relevant topics as necessary to meet the requirements of the class.*

Course Format

Regular classes: Mondays and Wednesday, 9:00-10:20am (MBA) in SHDH 1206, 12:00-1:20pm (UGR) in JMHH 245, and 3:00-4:20pm (MBA) in JMHH G60. Regular class sessions begin on Wednesday, January 11th and end on Wednesday, April 26th. There is no mid-term exam and no final exam.

Guest lectures: The course will feature several guest speakers from the corporate restructuring and distress investing industries. In order to accommodate the speakers, guest lectures will be scheduled outside of regularly scheduled class times. Regularly scheduled classes on the days of the guest lectures will be canceled unless otherwise noted. Times and locations for most guest lectures will be set prior to the start of Spring semester (they will be held at 4:30pm or 6:00pm on Monday or Wednesday). *Please check the guest lecture times before enrolling in the course to ensure that you will be able to attend, since the guest lectures are an important part of the course.*

Grading: Final grades in the course will be based on:

1. Five team case write-ups (30%)
2. One team case presentation (10%)
3. Team negotiation exercise (15%)
4. Term project/presentation (25%)
5. Class participation (20%)

Case assignments: For five of the cases discussed in the course, teams will be required to submit their analysis as a written memo and/or as answers to an online quiz on Canvas. The form of the submission will vary depending on the case; details will be provided in advance. If a memo is required, it should respond to a specific set of questions that I will provide with the case. Memos should never exceed 2 pages of write-up plus 2 exhibits. The case assignments should be completed in teams of three-five. Please hand in your case report electronically before 8:30am on the due date.

Case presentation: Each team will choose one of the five cases for which a written memo is required to present in class. Three to four ten-minute slots are to be assigned to presentations. Each team has six minutes for presentation, two minutes for Q&A, and two minutes for feedback. The presentation will take place at the beginning of the class on the day when the case is discussed. Please select the case you would like to present before February 6. The signup sheet will be available on January 30.

Negotiation: The negotiation exercise will simulate a bankruptcy negotiation with teams of students positioned on opposing sides of the negotiating table (e.g., senior vs. junior creditors). Each team will deliver a pre-negotiation write-up detailing their valuation and their negotiation approach and a brief post-negotiation summary of their accepted reorganization plan. Additional details are provided in the Negotiation Case.

Term project: The term project will be a detailed analysis of a current restructuring situation, viewed either from the standpoint of management or a prospective distressed investor. The project will conclude with a presentation that describes the team's findings to the class. Additional details are provided in the Term Project Guidelines.

Participation: Class participation is an important component of this course and will be judged based on attendance and in-class contribution. *Students should be prepared to discuss all cases, whether or not a write-up is required.*

Course Resources

Course materials: The primary resource for the course is the course pack available from Study.net and Wharton Reprographics. The course pack contains cases and selected readings that will augment the lectures. Additional readings will be posted on Canvas. There is no required textbook for the course, but the book by Stephen Moyer, *Distressed Debt Analysis: Strategies for Speculative Investors* (J. Ross Publishing, 2004) is an excellent reference. The books listed below are also good references, especially for those who are interested in working in restructuring advisory, turnaround management, or distressed debt investing (books listed in alphabetical order):

Leveraged Finance and Credit Analysis

- *A Pragmatist's Guide to Leveraged Finance: Credit Analysis for Bonds and Bank Debt*, by Robert S. Kricheff, 2012, FT Press.
- *The LSAT's Complete Credit Agreement*, by Richard Wight, Warren Cooke, and Richard Gray, 2009., McGraw-Hill.
- *Fundamentals of Corporate Credit Analysis*, by Blaise Ganguin and John Belardello, 2004, McGraw-Hill

Bankruptcy Restructuring

- *Creating Value through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts, and Breakups*, by Stuart C. Gilson, 2nd edition, Wiley Finance.
- *The Art of Distressed M&A: Buying, Selling, and Financing Troubled and Insolvent Companies*, by H. Peter Nesvold, Jeffrey M. Anapolsky, and Alexandra Reed Lajoux, McGraw Hill.

Distress Investing

- *The Vulture Investors*, by Hilary Rosenberg, 2nd edition, Wiley.
- *Distress Investing: Principals and Techniques*, by Whitman and Diz, Wiley.
- *Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, and Analyze and Invest in Distressed Debt*, by Edward I. Altman and Edith Hotchkiss, 3rd edition, Wiley Finance.

The Bankruptcy Code

- *Elements of Bankruptcy*, by Douglas G. Baird, 3rd edition, Foundation Press.
- *United States Bankruptcy Code and Rules Booklet*, legalpub.com
- *The Book of Jargon – Global Restructuring*, Latham&Watkins

Course website: There is a Canvas site for this class where I will post readings and case materials.

Teaching assistants: The teaching assistants for the course are:

Shawn Alt (shawnalt@wharton.upenn.edu)

Aastha Jain (aasthaj@wharton.upenn.edu)

Anish Khanorkar (anishk@wharton.upenn.edu)

The teaching assistants are responsible for answering questions about the cases and grading the case write-ups and presentations.

Detailed Class Schedule

(Discussion topics and sequence subject to change)

Class	Date	Topic	Readings/Deliverables
#1	1/11 Wed	Lecture: Introduction	
	1/16 Mon	Martin Luther King, Jr. Day – No Class	
#2	1/18 Wed	Lecture: Leveraged Loans and Credit Agreement: Part 1	A Guide to the Loan Market by S&P
#3	1/23 Mon	Lecture: Leveraged Loans and Credit Agreement: Part 2	CP: Insolvency Regimes and Debt Structures;
#4	1/25 Wed	Lecture: HY Bonds and Credit Analysis (<i>Jackson Automotive Systems</i>)	CP: Jackson Automotive Systems High-Yield Bond Market Primer
#5	1/30 Mon	Guest: Stephen Hazelton , Street Diligence (<i>Leveraged Loans and High Yield Debt</i>)	**All sections meet at 4:30PM** (TBA)
#6	2/1 Wed	Lecture: Causes and Costs of Financial Distress (<i>Paramount Equipment</i>)	CP: Paramount Equipment
#7	2/6 Mon	Lecture: Chapter 11 Basics I (<i>Introduction to Chapter 11</i>)	CP: Coming through a Crisis CP: Note on Bankruptcy in the US CP: Notes on BAPCPA of 2005
#8	2/8 Wed	Guest: Harlan Cherniak , KKR (<i>When Good Deals Gone Bad</i>)	**All sections meet at 6:00PM** (TBA)
#9	2/13 Mon	Lecture: Chapter 11 Basics II (<i>Kmart and Notable Issues</i>)	CP: Kmart & ESL CP: Hedge Funds and Chapter 11 CP: A Primer on Distressed Debt Investing
#10	2/15 Wed	Case: Navigator Gas Transport (<i>Chapter 11 Plan Confirmation</i>)	*Assignment due *Presentation slide deck due CP: Navigator Gas CP: Gilson Technical Valuation Notes
#11	2/20 Mon	Guest: Ray Dombrowski , Alvarez & Marsal (<i>Restructuring Patriot Coal</i>)	**All sections meet at 4:30PM** (TBA)
#12	2/22 Wed	Case: Six Flags Corporation (<i>Strategies for Junior Creditors</i>)	*Assignment due *Presentation slide deck due CP: Six Flags Recovery and Returns of Distressed Bonds in Bankruptcy
#13	2/27 Mon	Honorable Guest: Judge Shelley C. Chapman , United States Bankruptcy Judge for the Southern District of NY	**All sections meet at 4:30PM** (TBA)
#14	3/01 Wed	Negotiation Meetings (no class)	*Pre-Negotiation write-up due 9am 2/28 *Post-Negotiation write-up due 9am 3/03.

*** SPRING BREAK ***

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#15	3/13 Mon	Lecture: Default Prediction	CP: Modelling Default Risk (KMV)
#16	3/15 Wed	Guest: Jamie O'Connell , PJT Partners (Restructuring Genco Shipping)	**All sections meet at 6:00PM** (TBA)
#17	3/20 Mon	Case: Flagstar Companies (Bargaining in Chapter 11)	*Assignment due *Presentation slide deck due CP: Flagstar Companies
#18	3/22 Wed	Guest: Greg Segall , Versa Capital Management (Control Investing)	**All sections meet at 4:30PM** (TBA)
#19	3/27 Mon	Case: Pinewood Mobile Homes (Distressed Exchange Offer)	*Assignment due *Presentation slide deck due CP: Leveraging Exchange Offers
#20	3/29 Wed	Guest: Michael Weinstock , Monarch Capital (Distress Investing and Opportunities in the Mark)	**All sections meet at 4:30PM** (TBA)
#21	4/3 Mon	Case: Groupe Eurotunnel (International Insolvency Regimes)	*Assignment due *Presentation slide deck due Maximizing Value of Distressed Assets.
#22	4/5 Wed	Lecture: Governance in Bankrupt Firms (Incentivizing Key Employees in Chapter 11)	Provision of Management Incentives in Bankrupt Firms CP: Costly Bankruptcy for Top Executives
#23	4/10 Mon	Case: Delphi Corp CDS (Credit Default Swaps)	CP: Delphi Corp CDS
#24	4/12 Wed	Guest: David Matlin , MatlinPatterson Global Advisors (Distress for Control Investing)	**All sections meet at 6:00PM** (TBA) Project proposal due
#25	4/17 Mon	Case: School Specialty (DIP Financing and 363 Sales in Bankruptcy) Or Case: Lyondell Chemical (DIP Financing, and Senior Creditor Strategy) Or Guest: TBD	CP: School Specialty Or CP: Lyondell Chemical
#26	4/19 Wed	Presentation of term projects (A)	*Project slide deck due (8:30am April 18)
#27	4/24 Mon	Presentation of term projects (B)	
#28	4/26 Wed	Presentation of term projects (C)	