The Wharton School
University of Pennsylvania

FNCE 726: Advanced Corporate Finance

Prof. Christian Opp

Spring 2019

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Classes	Section 001: Mo/Wed 1:30pm–2.50pm, JMHH 365
	Section 002: Mo/Wed 3:00pm–4.20pm, JMHH 365
Office hours	Mo, 4:45pm–5:45pm, SH-DH 2328
Teaching assistants	Minwoo Choi
	Karina Shah
	Tammy Tan
	Tong Liu
TA office hours	Tue, 1:00pm–2:00pm, SHDH 2406
	Wed, 9:30–10:30am, SHDH 2406
	Thu, 12:30–1:30pm, SHDH 2403
	Fri, 3:45–4:45pm, SHDH 2403

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 an extension of FNCE 611. Some areas of financial management not covered in FNCE 611 are covered in FNCE 726. These include mergers and acquisitions, corporate reorganizations, financial planning, 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, pricing of selected financial instruments and corporate liabilities, and dividend policy.

Prerequisites

FNCE 611 or FNCE 612.

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 the readings prior to each class session and be prepared to actively participate in class discussions. The bulk pack will be available for purchase at

study.net (see also link on Canvas course page). In addition, I am going to distribute materials via Canvas. If you are looking for an additional textbook, I recommend:

Principles of Corporate Finance, by R. Brealey, S. Myers, and F. Allen, 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 this book. 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.

Course Web Page

Important course materials such as lecture notes, required assignments, solutions to problems, and other useful information will be available on the Canvas course web page.

https://canvas.upenn.edu/courses/1441470

On the Canvas course web page there is also a discussion board where the TAs and I will answer your questions.

Where to Ask Questions

If you have any questions you may come to either my office hours, or the TAs' office hours. The TAs for this course are Minwoo Choi, Karina Shah, Tammy Tan, and Tong Liu. Questions pertaining to cases and practice problems can 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. Please avoid using e-mail to ask case- and practice exam related questions. Further, if your question requires an elaborate answer, please come to the office hours. More sensitive questions that you prefer not to be 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 be answered after the exam.

Case Study Assignments

Study Groups

The class will be organized into study groups, which will write detailed reports on seven cases. You are free to choose your own members. Group members have to be enrolled in Section 001 of FNCE 203. 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 25. 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.

Format

Groups will be asked to write detailed reports on seven cases. Each group should submit only one report. 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 you 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 10:00am on assigned dates (see course schedule). Late submissions will not be accepted.

Case Presentations

On days when cases are due, there will be at least one student presentation of the case. You are encouraged to sign-up *as groups* (again, there is a maximum of 4 students per available slot), although this is not necessary (that is, you can form a group specifically for a presentation). The sign-up sheet for the presentation slots can be accessed via the following link:

https://docs.google.com/spreadsheets/d/1VqoXH-Pb920bWZ7T6xp3bBiSmqrrMgJx7Jo4H310MYY

Slots will be available on a first-come/first-served basis. However, to ensure that every student can get the opportunity to present, students can sign up for only one presentation slot until February 1st. Starting on February 2nd, students 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 required to present. If you have to withdraw from a slot due to an unforeseeable reason, 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. Students/groups that do a presentation will automatically get participation credit (see more below in the "Grading" section).

Note 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 take the opposite position. This is used to help facilitate discussions of the case in class.

What Are the "Right Answers" to Cases?

Given the complexity of real world decisions considered in case studies, there is typically a range of valid analysis approaches. This course is designed to help students 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, although I will provide you with slides that guide 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. 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 and in class discussions.

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 work only. Most cases in this course involve actual companies. You may use firm or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from any source 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. The University of Pennsylvania's Code of Academic Integrity is available at:

https://catalog.upenn.edu/pennbook/code-of-academic-integrity/

Grade Decomposition

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:

Final exam	35%
Midterm exam	25%
Case Study Assignments	25%
Participation	15%

Case Study Assignments

There are seven 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 six best assignments. Case assignment 7 (the last case) 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.

Note that you should be prepared to answer case-related questions when we discuss the case studies in class (on days when cases are due), as these discussions will have a significant impact on your participation grade. Further, you should expect that exams contain questions related to the case studies.

Exams

There are in total two exams, a midterm and a final exam. The final exam will be cumulative. 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 final exam will be in the Final Exam week. Exam times are non-negotiable. If you have an unavoidable conflict, you must inform me by the end of the second week of the course (please check immediately to ensure the exam times do not conflict with another exam or 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.). Absent clear and hard evidence you will receive a failing grade for the exam.

Participation

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 5 points towards the total 15 participation points. Note that doing a 2nd or 3rd in-class presentation counts toward general class participation but *does not* automatically give you additional 5 points. (2) General class participation. I will assign up to 10 points based on this category at the end of the semester by ranking students according to whether they regularly and actively contributed to class discussions. You should bring nameplates to every class and should expect to be cold-called. In particular, you should be prepared to discuss your group's case study solution on dates when cases are due.

Re-grades

Grades are non-negotiable. You may request a re-grade if you think you found a grading error. 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 and available for review. I will re-grade the whole exam. As a result, your score can either increase or decrease.

Laptop and Other Electronic Device Usage

Students should not use laptops, phones, or other electronic devices during class. However, laptops will be allowed for students that wish to take electronic notes, 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 doing so can be distracting for others.

Schedule of Classes

The tentative class schedule is given below. The topics covered and the date on which they are covered may change as the semester progresses, but if this occurs, I will notify you. The readings refer to chapters in the 11th Edition of Principles of Corporate Finance, by Brealey, Myers, and Allen (BMA). Other readings can be found in the bulk pack (BP) on study.net.

Class # (Date)	**Topics**	**Readings**	**Assignments**
1 (Wed, 01/16)	Lecture: FCF & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig, Ch. 2 (BP)	
2 (Wed, 01/23)	Lecture: Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
Fri, 01/25	Deadline: study group registration on Canvas		
3 (Mo, 01/28)	Lecture: Cost of Capital	BMA; 19.1-19.3	
4 (Wed, 01/30)	Case #1 (Cost of Capital): Marriott	HBS #289-047	**Case #1 Written Analysis:** **(due at 10:00am on Canvas)**
Fri, 02/01	Deadline: sign-up for 1st in-class presentation		
5 (Mo, 02/04)	Lecture: Valuation	BMA; 12.2 & 19.4-19.5 Lowenstein, "Rethinking Latest Economic Elixir" (BP) Benninga & Sarig, pp. 305-19 (BP)	

6 (Wed, 02/06)	Case #2 (Valuation): Harris Seafoods, Inc.	HBS #281-054	**Case #2 Written Analysis:** **(due at 10:00am on Canvas)**
7 (Mo, 02/11)	Lecture: Leveraged Transactions, Part I	BMA; 32.1, 32.3 Shleifer and Vishny (BP)	
8 (Wed, 02/13)	Lecture: Leveraged Transactions, Part II		
9 (Mo, 02/18)	Case #3 (LBOs): Congoleum Corporation, Part I	HBS #287-029	**Case #3 Written Analysis:** **(due at 10:00am on Canvas)**
10 (Wed, 02/20)	University operations suspended due to weather		
11 (Mo, 02/25)	Case #3, Part II & Midterm Review		
12 (Wed, 02/27)	**Midterm Exam** (in class)		
13 (Mo, 03/11)	Lecture: Capital Structure, Part I	BMA; 17-18.1	
14 (Wed, 03/13)	Lecture: Capital Structure, Part II	BMA; 18.2-18.4 Gifford (BP)	
15 (Mo, 03/18)	Case #4 (Capital Structure): American Home Products	HBS #283-06	**Case #4 Written Analysis:** **(due at 10:00am on Canvas)**
16 (Wed, 03/20)	Lecture: Dividend Policy	BMA; 16	
17 (Mo, 03/25)	Case #5 (Dividend Policy): FPL Group, Inc. (A)	HBS #295-059	**Case #5 Written Analysis:** **(due at 10:00am on Canvas)**
18 (Wed, 03/27)	Lecture: Options, Warrants, Convertibles I	BMA; 20-21.5	

19 (Mo, 04/01)	Lecture: Options, Warrants, Convertibles, II	BMA; 22.1, 24.6 Jen, Choi, and Lee (BP)	
20 (Wed, 04/03)	Real Options		
21 (Mo, 04/08)	Case #6 (Options): Corning, Inc.	UVA-F-1339, version 2.6	**Case #6 Written Analysis:** **(due at 10:00am on Canvas)**
22 (Wed, 04/10)	Lecture: Mergers & Acquisitions, Part I	BMA; 31 Lowenstein, "Why All Takeovers Aren't Created Equal" (BP)	Lecture: Mergers & Acquisitions, Part I
23 (Mo, 04/15)	Lecture: Mergers & Acquisitions, Part II	Jensen, 1986 (BP) BMA; 32.2	
24 (Wed, 04/17)	Lecture: Mergers & Acquisitions, Part III		
25 (Mo, 04/22)	Case #7 (M&A): Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	**Case #7 Written Analysis:** **(due at 10:00am on Canvas)**
26 (Wed, 04/24)	Case #7 continued: Acquisition of Consolidated Rail Corporation A and B	HBS #298-006 HBS #298-095	
27 (Mo, 04/29)	Review class Review Key Concepts		
28 (Wed, 05/01)	Extra office hours		
Final Exam Week	Tentative **final exam** date (set by the University Registrar): Wednesday, May 8th at 3pm. Registrar's website: https://www.registrar.upenn.edu/finals/index.html		