

**Finance 203**  
**Syllabus**

PROFESSOR RICHARD KIHLMSTROM

Fall, 2019

• **Readings**

- You will only need one of the three texts listed below. Most, but not all, of the chapters assigned in these texts have been covered in Finance 100.
  - \* Brealey, Myers and Allen, *Principles of Corporate Finance*, Eleventh or Twelfth Edition, McGraw Hill, (BMA),
  - \* Berk and DeMarzo, *Corporate Finance*, Second or Third Edition, Addison Wesley (BD),
  - \* Ross, Westerfield and Jaffe, *Corporate Finance*, Tenth Edition (RWJ) or Ross, Westerfield, Jaffe and Jordan, *Corporate Finance*, Eleventh Edition, McGraw Hill, (RWJJ)
- Higgins, R., *Analysis for Financial Management*, Eleventh or Twelfth Edition, McGraw Hill, 2012. (H)
  - \* A softback version of the Twelfth edition is available in the bookstore. It can also be rented online from [Vitalsource.com](http://Vitalsource.com). The Eleventh edition can also be used. Readings are given for each edition.
- Bulk Pack, Available from Study.Net (B)
- Some additional readings and notes may be handed out in class. These will be duplicated by the instructor at Wharton duplicating and charged to students enrolled in the class. For the most part these notes will also become available on Canvas. On most days notes for the coming day will be on Canvas in advance.

- **Grading**

- **Written Case Analyses: (50%)**

- \* For the purpose of doing the cases, students should organize themselves into groups of three or four. **Larger groups are absolutely not permitted. Normally, all students in a group should be registered in the same section. Exceptions to this rule will be permitted, but only with explicit permission. (To obtain permission, please e-mail the instructor.) Groups should be formed by Monday, Sept. 16.** The list of students in each group should be e-mailed to the instructor prior to class on that date or given to the instructor at the beginning of class on that date or earlier. Consult with the instructor if you are having a problem joining or forming a group.
- \* The written analyses will be done by each group for each of the cases for which a student write-up is required. The written analysis will be **at most five double-spaced pages** and will, if necessary, be supported by appendices. **Appendices that are not referred to in the written analysis should not be included.** The analysis will be preceded by a one page double-spaced executive summary. (Neither the one page summary nor the appendices will count as part of the five pages of analysis.) **The written analyses will be submitted electronically on Canvas by noon on the day of the class during which the case is to be discussed.** (Make additional copies for your own use during the class discussion.) **In addition, hard copies of the write-up should be submitted the same day at the beginning class. Late analyses will not be accepted!**
  - There are three starred cases. Each of these will be worth one-quarter of the case grade (meaning 12.5% of the course grade).
  - The other cases for which a write-up is required will, therefore, in total also represent one-quarter of the case grade (meaning 12.5% of the course grade).

- Grading
  - **Quizzes: (50%)**
    - \* There will be periodic short (20 minute) quizzes. Most of the quizzes will be unannounced.
    - \* There will be between eight and eleven quizzes in total.
    - \* Each quiz will be given a grade between 1 and 10.
    - \* Quizzes may occur at the beginning or at the end of class. They may cover the case to be discussed that day or cases discussed on previous days. They may also cover the reading material assigned for the preceding days or the class discussion and lectures for previous classes.
    - \* **The first possible quiz will be on Monday, September 23.** There will be no quiz on Monday, September 30, Rosh Hashanah. There will be no quiz on Wednesday, October 9, Yom Kippur. There will be no quiz on Monday, October 14, the first class after the fall break. There will be no quiz on Monday, November 25, the class before the Thanksgiving break nor on Monday, December 2, the first class after the Thanksgiving break.
    - \* The bottom two quiz grades will be dropped when the grade is computed.
  - **Attendance:** This will be spot checked. If you are not in class after a quiz, you will not get credit for the quiz! If you are not in class on a day when a case is being discussed, you will not get credit for the case!
  - **Class Participation:** This will enter the grade determination only informally. It will be used for the purpose of determining grades only in borderline cases. In those cases it can definitely make a difference.
  - **There will be no exams!**
- General Information
  - **Office:** SH-DH 2255
  - **Phone:** 8-4378
  - **e-mail:** kihlstro@upenn.edu
  - **Office Hours:** Wednesday, 3:30-4:30, Friday, 3:00-4:00, and by appointment
  - **TAs:** Elana Fortson (Head TA), Ryan Douglas, Do Yeop Kim, Robert Naruse and Anna Schmitt

- **Wed, Aug 28 and Wed, Sept 4: Introduction and Course Overview**

- **Readings**

- \* Benninga and Sarig, Chapters 1 and 2, "Financial Valuation Tools", B (First item on Study.Net)
- \* (For Review) BMA (11th and 12th Editions), Chapters 1-11 or RWJ and RWJJ, (10th and 11th Editions), Chapters 1-13 or BD, (2nd and 3rd Editions), Chapters 1-12.
- \* H, Chapters, 1-4, 7 and 9 (pp. 343-361 in the 11th edition or pp. 337-355 in the 12th edition)

- **Wed., Sept 4, Mon., Sept 9, Wed., Sept 11 and Mon., Sept 16: Financial Statements, UFCF, the Evaluation of Financial Performance and Financial Planning and Instructor Case Presentation and Class Discussion: Clarkson Lumber (No student write up required)**

- **Readings**

- \* Benninga and Sarig, Chapters 1 and 2, B
- \* BMA (11th and 12th Editions), Chapters 28-30 or RWJ and RWJJ (10th and 11th Editions), Chapters 26-28 or BD (2nd Edition), Chapter 7 or BD (3rd Edition) Chapter 8, 26 and 27.
- \* H, Chapters, 1-4, 7 and 9 (pp. 343-361 in the 11th edition or pp. 337-355 in the 12th edition)

- **Mon, Sept 16, Wed, Sept 18 and Mon, Sept 23 (First date for a possible quiz!): Risk Adjusted Discount Rates, Leverage, and WACC and Instructor Case Presentation and Class Discussion: Midland Energy (No student write up required)**

- **Material covered by a possible quiz on 9/23:** Readings and class discussion for 9/4-9/16 and the Clarkson Case

- **Readings**

- \* BMA (11th and 12th Editions), Chapters 5-9, 17-19 or RWJ and RWJJ (10th and 11th Editions), Chapters 5, 6, 10-13, 15-18 or BD (2nd Edition), Chapters 6, 7, 9-12, 14-16, 18 and 19 or BD (3rd Edition), Chapters 7, 8, 9-12, 14-16, 18 and 19
- \* H, Chapter 8(pp. 289-315 and 326-333 in the 11th edition or pp. 285-310 and 321-328 in the 12th edition)

- **Wed, Sept 25 and Mon, Sept 30 : Instructor Case Presentation and Class Discussion: American Chemical (No student write up required)**
  - Material covered by a possible quiz on 9/25: Readings and class discussion for 9/16, 9/18 and 9/23 and The Midland Energy Case
  - No quiz on 9/30!
  
- **Wed, Oct. 2 and Mon, Oct. 7: Valuation Using Multiples and Instructor Case Presentation and Class Discussion: Mercury Athletic (No student write up required)**
  - Material covered by a possible quiz on 10/2 and 10/7: The American Chemical Case and class discussion for 9/25 and 9/30
  - **Readings**
    - \* H, Chapter 9 (pp. 357-361 in the 11th edition or pp. 351-355 in the 12th edition)
    - \* "Corporate Valuation and Market Multiples" B

- **Wed, Oct 9 and Mon, Oct 14: Capital Structure and Bond Ratings and Instructor Case Presentation and Class Discussion: Blaine Kitchenware (No student write up required)**
  - **No Quiz on these days!**
  - **Readings**
    - \* BMA (11th and 12th Editions), Chapters 17-19 and 23-25 or RWJ and RWJJ, (10th and 11th Editions), Chapters 15-18, 20 and 21 or BD, (2nd Edition), Chapters 14-16, 18-19 or BD, (3rd Edition), Chapters 14-16, 18-19, 24 and 25
    - \* H, Chapters 5 (excluding the appendix on hedging, forwards and options), 6 and 88(pp. 289-315 and 326-333 in the 11th edition or pp. 285-310 and 321-328 in the 12th edition)
    - \* Barclay, et.al., “The Determinants of Corporate Leverage and Dividend Policy,” B
- **Wed, Oct 16: Class Discussion: Hansson Private Label (Student write up required)**
  - **Material covered by a possible quiz:** Hansson Private Label Case

- **Mon, Oct 21: Three DCF Approaches: Discounting UFCF at WACC, APV and Discounting Flows to Equity at ROE**
  - **Material covered by a possible quiz on 10/21:** Readings and class discussion for 10/2 and 10/7 and the Mercury Case
  - **Readings**
    - \* BMA (11th and 12th Editions), Chapter 19 or RWJ and RWJJ, (10th and 11th Editions), Chapter 18 or BD, (2nd and 3rd Editions), Chapters 18 and 19
    - \* Luehrman, "Using APV: A Better Tool for Valuing Operations"
  
- **Wed, Oct 23: Takeovers, Mergers and "The Market for Corporate Control" and Instructor Case Presentation and Class Discussion: Gulf (No student write up required)**
  - **Material covered by a possible quiz on 10/23:** Readings and class discussion for 10/9 and 10/14 and the Blaine Case
  - **Readings**
    - \* BMA (11th and 12th Editions) Chapter 31 or RWJ and RWJJ (10th and 11th Editions), Chapter 29 or BD, (3rd Edition), Chapter 28
    - \* H, Chapter 9 (pp. 343-361 in the 11th edition or pp. 337-355 in the 12th edition)
    - \* Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," B

- **Mon, Oct 28: \*Case TBA (Student write up required. Worth 12.5% of the course grade.)**
  - **Material covered by a possible quiz:** The case due this day
  
- **Wed, Oct 30: Takeovers, Mergers and “The Market for Corporate Control” and Instructor Case Presentation and Class Discussion: Gulf (No student write up required)**
  - **Material covered by a possible quiz on 10/30:** Readings and Class Discussion for 10/21
  - **Readings**
    - \* BMA (11th and 12th Editions) Chapter 31 or RWJ and RWJJ (10th and 11th Editions), Chapter 29 or BD, (3rd Edition), Chapter 28
    - \* H, Chapter 9 (pp. 343-361 in the 11th edition or pp. 337-355 in the 12th edition)
    - \* Jensen, “Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,” B



- **Mon, Nov 4 and, Wed, Nov 6: Private Equity and LBOs and Instructor Case Presentation and Class Discussion: Philip Morris and Kraft (No student write up required)**
  - **Material covered by a possible quiz on 11/4 and 11/6:** Readings and Class Discussion for 10/23 and 10/30 and The Gulf Case
  - **Readings**
    - \* BMA (11th and 12th Editions), Chapters 31 and 32 ( Sections 32.1-32.3) or RWJ and RWJJ, (10th and 11th Editions), Chapter 29 or BD, (3rd Edition), Chapter 28
    - \* Jensen, “Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,” B
    - \* “Leveraged Buyouts,” B
    - \* Kaplan and Stromberg, "Leveraged Buyouts and Private Equity" B
- **Wed, Nov 6: Instructor Case Presentation and Class Discussion: RJR Nabisco (No student write up required)**
- **Mon, Nov 11: \*Case TBA (Student write up required. Worth 12.5% of the course grade.)**
  - **Material covered by a possible quiz:** The case due this day
- **Wed, Nov 13: Instructor Case Presentation and Class Discussion: RJR Nabisco (No student write up required)**
  - **Material covered by a possible quiz on 11/13:** Readings and Class Discussion for 11/6 and 11/11 and the Kraft case
- **Mon, Nov 18: Instructor Case Presentation and Class Discussion: Seagate Technology Buyout (No student write up required)**
  - **Material covered by a possible quiz on 11/18:** The RJR case
- **Wed, Nov 20: Class Discussion: \*Case TBA (Student write up required. Worth 12.5% of the course grade.)**
  - **Material covered by a possible quiz:** The case due this day
- **Mon, Nov 25: (No quiz!) Instructor Case Presentation and Class Discussion: Seagate Technology Buyout (No student write up required)**

- **Wed, Nov 27: No Class! (Friday Class Schedule)**
- **Mon Dec 2 (No quiz!) and Wed, Dec 4: : Bankruptcy and Instructor Case Presentation and Class Discussion: Continental Airlines-1992 (No student write up required):**
  - **Material covered by a possible quiz on 12/4:** The Seagate Case
  - **Readings**
    - \* BMA (11th and 12th Editions), Chapters 17-19, 23-25 and 32 (section 32.4), RWJ and RWJJ, (10th and 11th Editions), Chapters 15-18 and 30 or BD, (2nd and 3rd Editions), Chapters 14-16, 18-19
    - \* “Note on Bankruptcy in the US,” B
- **Mon, Dec 9: Class Discussion: Pinewoods Mobile Homes (Student write up required)**
  - **Material covered by a possible quiz:** The Pinewoods case