

UNIVERSITY OF PENNSYLVANIA
The Wharton School
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FNCE 726: ADVANCED CORPORATE FINANCE

Professor Nihat Bülent Gültekin

Fall 2019

Office: Steinberg Hall-Dietrich Hall Room 2344
Office Hours: Mondays 3:30-5:00 pm or by appointment

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Course Objective

The objective of this course is to teach students how to apply modern financial theory to the investment and financing decisions of a modern corporation. The course is designed for finance majors who will pursue careers in major corporations, the financial sector, and consulting firms. The core theory introduced in the Financial Analysis course is extended for applications to the strategic financial decision areas of a firm.

Course Content

The theme of this course is value-based management. Financial theory explains the real world using abstract and simplified models. While such conceptual models are often not sufficiently rich for dealing with all the complexities of the real world, financial decisions based on rigorous theory and models are superior to ad hoc alternatives. Concepts and techniques introduced in this course should help you express key decisions in terms of their impact on firm value.

The first four sections of the course focus on a range of financial issues that confront managers in their ordinary course of doing business; mainly financial planning, capital budgeting, and the interaction between investment and financing decisions. The options approach to investment decisions is in Section IV. Section V deals with dividend policy. The last two sections of the course focus on financial distress and corporate restructuring, mergers, and acquisitions.

Course Format

This course is taught mostly with cases. The case method of instruction offers some distinct benefits. In preparing cases, you learn more than just the financial theory required to analyze a case. You learn about the agents, institutions, and transactions that comprise the modern financial system. You also learn to contribute effectively to fast paced discussions about complex financial issues and test your understanding and your solutions to these issues that are not often black and white.

The case method helps you use financial theory to arrive at coherent and defensible conclusions when faced with real world problems. One should keep in mind that there is not necessarily “the right” answer to a case; different assumptions may lead to different solutions and decisions. There is, however, always a theoretically correct and sound approach to the problems encountered in cases.

The course will succeed if all students come to class well prepared. Class participation is vital to your learning as well as the learning of others. Furthermore, to foster mutual trust and respect, it is imperative that students attend each class, arrive on time, and minimize subsequent class disruptions.

Textbooks

Cases are the only required reading materials in this course. For some cases, explanatory teaching notes on your reading list might be useful. If you need to review the prerequisite background materials for the cases, you may refer to the relevant chapters indicated in the following or any similar texts:

J. Berk and P. DeMarzo, *Corporate Finance*, 4th (or more recent) ed., Pearson - Prentice Hall, 2014. (Henceforth BD)

T. Koller, M. Goedhart, and D. Wessels, *Valuation: Measuring and Managing the Value of Companies*, McKinsey & Company, Inc., John Wiley & Sons, Inc. (Henceforth KGW).

The text by Koller et al. is a valuation book written from practitioners' perspective. Readings here are optional.

Course Pack

The course pack is available online through Study.net. It contains all of the cases and other recommended readings. Students will be charged for class handouts that will be distributed regularly throughout the term

Canvas

The course site on Canvas contains suggested questions for cases; Excel files for exhibits for most cases and lecture notes and handouts will be distributed in class. You will find the most updated information and announcements for the course on Canvas, such as office hours and rooms for the teaching assistants, review sessions, exams, and guest speakers. Canvas is the information center for the course. Please check the course site regularly.

Grades

The final grade for the course will be based on:

- | | |
|---------------------------------------|-----|
| 1. Class attendance and participation | 20% |
| 2. Written assignments | 25% |
| 3. Midterm Exam | 30% |
| 4. Individual case writeup | 25% |

You may opt out of the individual case writeup. If you do so, your maximum course grade would be B+. You should make your decision before the final assignment is posted.

1. Class Attendance and Participation

Case courses require attendance. If you cannot attend the classes regularly, you should not take this course. Students will be excused for absences due to illness with the approval of the MBA Program Office or that are necessary to observe religious holidays.

Your active class participation is expected. I will start the class by cold calling a student to open the case discussion. Failure to prepare for class reflects an unacceptable disregard for your fellow students. Learning in this course is dependent on everyone's preparation for class.

If you cannot attend a class, you should send me an analysis of the case assignment if there is one by email before your session.

You are welcome to make a 20 minute group presentation of any case at the beginning of the class. This will count toward your class participation.

2. Written Group Assignments

You should hand in 6 case assignments as written group reports throughout the semester. These cases are indicated on the last page. Your reports will be graded on a scale from 1 to 10. Your case report should be in the form of an executive summary of 4 pages *at most*. You may include your supporting computations and tables in an appendix. We will grade your reports for your honest effort, not necessarily for “the” correct answer. Specifically, we will use the following criteria for grading the case write ups:

- a. ability to identify the main issues,
- b. theoretical and analytical soundness of your approach to your decision and/or conclusions,
- c. clarity and succinctness of the report.

Instruction for uploading your reports will be provided during the first week of the course.

3. Individual Assignments

There are two individual assignments: a midterm exam and a comprehensive individual case writeup toward the end of the course.

The midterm exam will be “closed book”. It will consist of problems similar to those in the cases. They will be shorter and more focused. No laptops or any other electronic devices other than a calculator are allowed in the exams. You will need a calculator with NPV and IRR features. You are allowed to bring a single “cheat sheet” (standard 8.5x11 size, double sided) to the exam.

You cannot take the midterm exam at other times unless you have an official permission from the MBA office.

Further information will be provided on the individual case assignment later in the course.

All graded materials will be returned to your mail folders or posted on Canvas.

Study Groups

You should form groups of no more than four students to work on cases. Groups offer a good opportunity to leverage your strengths with other team members for a more comprehensive case analysis. Suggested study questions often require extensive calculations and/or valuations. Your team members also enable you to try out your own ideas prior to class discussion. Each student is responsible for these questions. All questions are fair game if you are cold called to open class discussion.

Review Sessions and Office hours by Teaching Assistants

I will offer periodic review sessions for those needing extra help with the prerequisite finance theory. Teaching assistants will hold office hours to answer your questions before the exams. The rooms and schedules of TA office hours will be posted on Canvas.

Correspondence by e-mail

I will not provide lengthy answers to your course related questions or hold tutorial sessions by e-mail. Use office hours, review sessions, or TA office hours for that purpose. You can see me by appointment any time, including weekends, if you have further questions on any aspect of the course.

Workload

This course is quantitative; the pace is fast and the work load is very heavy. Case preparation requires significantly more time than lecture-based courses. The course is designed for finance majors and is not a remedial course. Furthermore, I assume that you are thoroughly familiar with the material taught in the Financial Analysis in the first year. There will be few lectures in this course and they will be on subjects not covered in the core finance course.

Unlike an introductory finance course, this course uses real world cases where the information you need is seldom complete before you make a decision or solve a problem. Your results may differ depending on the initial set of assumptions you have to make in the absence of complete information. If you have difficulty with such ambiguity and the case method of teaching, this course may not be for you.

Academic Integrity and Code of Ethics:

Most case materials in this course are based on real companies and transactions. In preparing for class discussions or presentations, you may use any publicly available past or current information about the companies covered in cases. You are strongly encouraged to study cases in a study group. Any submitted assignments for grading should be your own or your group's in case of joint work. Each member of your group is expected to contribute equally to group work.

Use of previously distributed materials from this course, including old exams is, however, not allowed. You cannot use work completed by other students, old notes or handouts, or solutions to the cases from previous years or other sections of this course at Wharton or similar courses at other business schools or elsewhere for any purpose. Furthermore, you are not allowed to see old exams unless provided by your professor. Violation of this rule will result in an automatic failing grade for the course. Furthermore, the violators will be reported to the Wharton Graduate Division for further disciplinary action.

If you use materials from any public or private source, including those sources on the internet, private company presentations, etc. in your submitted work for any reason, you should properly cite them. Otherwise, it may be considered plagiarism.

If you register for this course, you agree with the principles of academic integrity described above in conjunction with the Wharton Graduate Division Code of Ethics.

I. INTRODUCTION

Readings: KGW, Chapters 1-4 or BD, Chapters 1 -2

1. Lecture: Introduction and Course Overview

II. FINANCIAL ANALYSIS AND PLANNING

Readings: BD, Chapters 26-27
Teaching Note: "Assessing a Company's Future Financial Health"

2. Case: Clarkson Lumber Company

III. VALUE CREATION: INVESTMENT & FINANCING DECISIONS

A. Value Creation

3. Case: Generating High Value at IBM

B. Capital Budgeting

Readings: BD, Chapters 4-9
Capital Budgeting Decisions Part I and II (on Canvas:Files/Teaching Notes)

4. Case: Empirical Chemicals A&B

C. Valuation Theory: DCF Methods for Valuation

Readings: KGW, Chapters 5-9
Capital Structure and Valuation Theory Part I & II (Canvas: Files/Teaching Notes)
Teaching Note: "Alternative Methods for Estimating Terminal Value"
Teaching Note: "An Introduction to Cash Flow Valuation Methods"
Teaching Note: "The Adjusted Present Value Method for Capital Assets"
Teaching Note: "Valuing Equity Cash Flows"

5. Lecture: Capital Structure and Valuation Theory I
6. Lecture: Capital Structure and Valuation Theory II
7. Case: M&M Incorporated (posted on Canvas)

D. Cost of Capital and Capital Structure

Readings: BD, Chapters 10-13
KGW, Chapters 10 and 11
"What Practitioners Should Know About Future Value" by M. Kritzman

8. Case: Marriott Corporation

E. Interaction between Investment and Financing Decisions

Readings: DB, Chapters 14-18 and 31
KGW, Chapters 11 and 12

9. Case: Galveston Fishing Company (posted at Canvas)
10. Case: Southport Minerals

F. Capital Structure

- 11. Case: Stone Container
- 12. Case: Sealed Air
- 13. Case: American Chemical Company
- 14. Lecture: Review

15. MIDTERM EXAM OCTOBER 21 6:00-8:00 PM. Rooms TBA
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IV. THE OPTION VALAUTION IN CORPORATE FINANCE

- Reading: BD, Chapters 20-22
Teaching Note: "Capital Projects as Real Options: An Introduction"
KGW, Chapter 20
"The Options Approach to Capital Investment" by Dixit and Pindyck
- 16. Lecture: Review of Option Valuation Models
- 17. Case: MW Petroleum Corporation
- 18. Case: Chrysler's Warrants

V. DIVIDEND POLICY

- Readings: BD, Chapter 17
- 19. Case: New Field Energy

VI. MERGERS & ACQUISITIONS, CORPORATE GOVERNANCE

- Reading: BMA, Chapters 32-34 or BD, Chapters 28-29
KGW, Chapter 7 and 17-19
- 20. Case: Philip Morris
- 21. Case: RJR Nabisco
- 22. Case: TXU
- 23. Case: Conrail A&B
- 24. Guest Lecturer: TBD
- 25. Lecture: TBD
- 26. Case: SFM
- 27. Case: FANUC

VII. OVERVIEW

- 28. Case: Individual Case Discussion

**FNCE 726: ADVANCED CORPORATE FINANCE
COURSE SCHEDULE
FALL 2019**

Session	Date	Topic and Assignments	Class Format
1	Aug 28	Introduction	Lecture
2	Sep 04	Clarkson Lumber Company	Case discussion
3	Sep 09	Generating Higher Value at IBM (A)	Case discussion
4	Sep 11	Empirical Chemicals A&B	Case discussion/required write-up 1
5	Sep 16	Capital Structure and Valuation Theory I	Lecture
6	Sep 18	Capital Structure and Valuation Theory II	Lecture
7	Sep 23	M&M Inc.	Case discussion/required write-up 2
8	Sep 25	Marriott Corporation	Case discussion
9	Sep 30	Galveston Fishing Company	Case discussion/required write-up 3
10	Oct 02	Southport Minerals	Case discussion
11	Oct 07	Stone Container	Case discussion
12	Oct 09	Sealed Air	Case discussion
13	Oct 14	American Chemicals	Case discussion/required write-up 4
14	Oct 16	Review for Midterm Exam	
15	Oct 21	MIDTERM EXAM	6:00-8:00 PM
16	Oct 23	Option Valuation Review & Real Options	Lecture
17	Oct 28	MW Petroleum	Lecture and Case discussion
18	Oct 30	Chrysler's Warrants	Case discussion/required write-up 5
19	Nov 04	Newfield Energy	Case discussion
20	Nov 06	Philip Morris	Case discussion
21	Nov 11	RJR Nabisco	Case discussion
22	Nov 13	TXU	Case discussion/required write-up 6
23	Nov 18	Conrail A&B	Case discussion
24	Nov 20	Guest Lecturer	Case discussion
25	Nov 25	TBD	Case discussion
26	Dec 02	SFM	Case discussion
27	Dec 04	FANUC	Case discussion
28	Dec 09	Individual Case Discussion & Overview	INDIVIDUAL WRITE UP