

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

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Fall 2020

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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 formulate and then make key decisions in terms of their impact on firm value.

There are four strategic decision areas in corporate finance: investments in real assets, financing, capital structure, and dividend policy. The course is structured to cover these four major areas. The course also covers some special areas such as the use of derivative securities in corporate finance, mergers and acquisitions, and corporate governance. The last two areas will also provide you with an opportunity to apply what you have learned in this course.

Course Format

This course is taught mostly with cases and supplemented with few lectures. The case method of instruction offers some distinct benefits. By preparing cases you learn more than just the financial theory required to analyze them. 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 rarely black or white.

Moreover, the case method helps you use financial theory and models selectively so that you can reach 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 and, thus, to the decisions encountered throughout your professional career.

The course will succeed if all students join the class well prepared. Class participation is vital to your learning as well as the learning of others. On the other hand, teaching and learning online will bring about new and unforeseen

challenges for all of us. Vis a vis the new online format, we will maintain the highly professional learning environment for which Wharton is known as to make the best use of our time and effort to learn the content of the course. I am confident that we will achieve that goal.

Textbook

Cases are the only required reading materials in this course. There is no required textbook for the course. Students are expected to know the materials taught in their first-year finance course *Corporate Finance*. 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 text used in the core finance course or any similar texts:

J. Berk and P. DeMarzo, *Corporate Finance*, 5th (or earlier) ed., Pearson - Prentice Hall, 2020. (Henceforth BD)

Course Materials

The course pack is available online through Study.net. It contains all the cases and other recommended readings. I will post all materials covered in class on Canvas before each class.

Canvas

The course site on Canvas contains suggested questions for cases; Excel files for exhibits for most cases and lecture notes and handouts. You will find the most updated information and announcements for the course on Canvas, such as office hours and links for the teaching assistants, review sessions, 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*:

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|--|-----|
| 1. Class attendance and participation | 20% |
| 2. Written group assignments | 25% |
| 3. Written individual assignments I and II | 55% |

* Tentative. I will adjust the percentages to accommodate students in different time zones once I have the class list and the information about your location.

1. Class Attendance and Participation

Case courses require attendance whether the course is taught live or online. Your active class participation is expected. Learning in this course is dependent on everyone's preparation for class. It is crucial that you join the class prepared for case discussions.

If you observe religious holidays recognized by the University, make sure to send your deliverables in advance. 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.

Case discussions online at times is more challenging than live classes. Let's do our best to make the course a success for everyone.

2. Written Group Assignments

You should hand in 3 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 (lowest) to 10 (highest). 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 decisions 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. These assignments will be like the cases you work on as a group. There will be more explicit questions for your analysis, and you should work on them alone. Further information will be provided on the individual case assignments later in the course.

Study Groups

You should form groups of five 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. Once we have the data on the time zones for my students, we can revisit this section.

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 also hold office hours to answer your questions. Schedules of TA office hours will be posted on Canvas.

Correspondence by e-mail and phone

I will do my best to respond to your emails and answer your course related questions. I will not use email as a substitute for review sessions or office hours. Use office hours, review sessions, or TA office hours for that purpose. You can reach me by appointment any time, including weekends, by phone, Facetime, WhatsApp, or Zoom if you have further questions on any aspect of the course. Send an email first to set up an appointment; if I am free, I will get back to you immediately.

Workload

This course is quantitative; the pace is fast and the workload is 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 Corporate Finance course 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 information, past or current, about a company or companies covered in a case. Use of previously distributed materials from this course, however, is not allowed. You may not 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 solutions found on internet. Violation of this rule not only defies the purpose of your learning, but also it is a violation of Code of Ethics. Such behaviour will result in an automatic failing grade for the course. Furthermore, violators will be reported to the Wharton Graduate Division for further disciplinary action.

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.

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

A Final Note

This is the first time this course will be taught remotely in entirety. Students are joining from all around the world. There might be all sorts of unanticipated technical issues over the course of the semester. I plan to have periodic meetings with my students to get their feedback about the course so that we can improve the online teaching. It is important to form a closely-knit learning community more than ever. Wharton students have been a resourceful group and I am confident that we will handle new challenges and unexpected problems as we encounter them throughout the semester.

I. INTRODUCTION

Readings: BD, Chapter 1

1. Lecture: Introduction and Course Overview

II. FINANCIAL ANALYSIS AND PLANNING

Readings: BD, Chapters 2, 26, and 27
Teaching Note: "Assessing a Company's Future Financial Health"

2. Case: Clarkson Lumber Company

III. VALUE CREATION: INVESTMENT & FINANCING DECISIONS

A. Valuing Projects: Capital Budgeting

Readings: BD, Chapters 7 and 8
Capital Budgeting Decisions Part I and II (on Canvas: Files/Teaching Notes)

3. Case: Empirical Chemicals A&B

B. Valuation Theory: DCF Methods for Valuation

Readings: BD, Chapters 9, 14, and 15
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"

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

C. Pricing of Risk: Risk and Return and Cost of Capital, and Capital Structure

Readings: BD, Chapters 10-13

7. Lecture: Pricing of Risk - Asset Pricing Models
8. Case: TBD (Marriott or Eaton Corporation)

D. Interaction between Investment and Financing Decisions

Readings: BD, Chapter 18

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

E. Capital Structure

- Readings: BD, Chapters 16 and, again, 14 and 15
11. Case: Stone Container
12. Lecture: American Chemical Corporation
13. Lecture: Capital Structure Lecture
14. Lecture: Review

15. Case: Individual Case Assignment I

IV. THE OPTION VALUATION FOR CORPORATE FINANCE

- Readings: BD, Chapters 20-22
16. Lecture: Review of Option Valuation Model
17. Lecture: Review of Option Valuation Model
18. Case: Chrysler's Warrants

V. DIVIDEND POLICY

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

VI. RAISING CAPITAL

- Readings: BD, Chapters 23 and 24
20. Case: Snap Inc's IPO
- Readings: BD, Chapter 25
21. Case: Leasing Airbus

VI. MERGERS & ACQUISITIONS

- Readings: BD, Chapters 28
22. Case: RJR Nabisco
23. Case: Dell Goes Private Guest Lecturer: Kurt Simon, Goldman Sachs
24. Case: TBD
25. Case: Conrail A&B

VII. CORPORATE GOVERNANCE

- Readings: BD, Chapter 29
26. Case: SFM
27. Case: FANUC

VIII. REVIEW

28. Case: Individual Case Assignment II
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FNCE 726: ADVANCED CORPORATE FINANCE: COURSE SCHEDULE FALL 2020
(09/01/2020)

Session	Date	Topic and Assignments	Class Format
1	Sep 02	Introduction	Lecture
2	Sep 09	Clarkson Lumber Company	Case discussion
3	Sep 14	Empirical Chemicals A&B	Case discussion/required write-up 1
4	Sep 16	Capital Structure and Valuation Theory I	Lecture
5	Sep 21	Capital Structure and Valuation Theory II	Lecture
6	Sep 23	M&M Inc.	Lecture/Case discussion
7	Sep 28	Asset Pricing Models: Pricing of Risk	Lecture
8	Sep 30	TBD	Case discussion
9	Oct 05	Galveston Fishing Company	Case discussion/required write-up 2
10	Oct 07	Southport Minerals	Case discussion
11	Oct 12	Stone Container	Case discussion
12	Oct 14	American Chemical	Case discussion/Required write-up 3
13	Oct 19	Capital Structure Theory: Review	Lecture
14	Oct 21	Review	
15	Oct 26	INDIVIDUAL CASE ASSIGNMENT	INDIVIDUAL WRITE UP I
16	Oct 28	Option Valuation	Lecture
17	Nov 02	Option Valuation	Lecture
18	Nov 04	Chrysler's Warrants	Case discussion/required write-up 4
19	Nov 09	Newfield Energy	Case discussion
20	Nov 11	Snap Inc.'s IPO	Case discussion
21	Nov 16	Leasing: Airbus	Lecture/Case discussion
22	Nov 18	RJR Nabisco	Case discussion
23	Nov 23	Dell Goes Private	Kurt Simon, Goldman Sachs, WG91
24	Nov 25	TBD	
25	Nov 30	Conrail A&B	
26	Dec 02	SFM	Case discussion
27	Dec 07	FANUC	Case discussion
28	Dec 09	INDIVIDUAL CASE ASSIGNMENT	INDIVIDUAL WRITE UP II