

Advanced Corporate Finance
FNCE 203/726
Spring 2021
Date: as of January 19, 2021

Course Information:

Times: MW.

Location: Zoom. Invitations will be posted on Canvas.

Professor:

Name: Ronel Elul

Email: elul@wharton.upenn.edu (the best way to contact me)

URL: <https://canvas.upenn.edu/>

Office Hours: TBA (via Zoom)

TAs: Nafisa Saha (nsaha@wharton.upenn.edu); Daniel Shen (dyshen@wharton.upenn.edu); Finella Tutelman (finella@wharton.upenn.edu)

Office Hours: TBA (via Zoom)

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 builds on the basic building blocks of valuation and other tools introduced in FNCE 100/611 to understand the economics of corporate finance with real world applications.

A broad array of topics will be discussed including: rethinking valuation, cost of capital and capital budgeting, capital structure, real world payout policies, going public, going private (buyouts), corporate governance and corporate control (mergers and acquisitions) and shareholder activism.

The theme of this course is value-based management. There has been significant progress in financial theory over the past four decades. However, the theory explains the real world by stylized and simplified models. Financial techniques, although based on sound theoretical models, are not always perfect for dealing with the complexities of the real world. Value-based management introduces coherence and consistency in dealing with complex real world problems instead of ad hoc financial decisions with no theoretical basis. Through case studies, we will have an opportunity to tackle real world financial problems faced by corporate financial managers.

Please note that there is some overlap between the material in this class and that of Corporate Valuation (FNCE 207/708), so you should not plan on taking both courses.

Class Format: We will generally meet synchronously, via Zoom. Approximately two thirds of the meetings will be devoted to presenting and discussing the background material you will need to work on the case studies; class will be recorded for those who cannot attend. Roughly one third of the classes will be devoted to group case presentations, as well as further discussion of the case.

Prerequisites: Corporate Finance (FNCE 100, 611, 612, or equivalent), Statistics (102, 613, or equivalent)

Grading Policy: Your grade will be based on the following four components: (i) seven case study reports, (38%); (ii) seven quizzes on the material for that topic, as well as the concepts in the case study (30%); (iii) one in-class group case presentation (16%); (iv) class participation (16%). **There will be no midterm or final exam.**

Class participation points will be assigned for attending and participating in the in-class case discussions (dates are below). You will be permitted to miss one out of the eight case discussions with no penalty. Please contact me during the first week of class if you feel you have additional genuinely unavoidable conflicts. Participation points will also be awarded for the guest lecture.

You work together in teams of 4-5 on your cases, and should submit a joint solution with all of your names on it; please note, however, that each of you is required to pull his/her weight. Please only sign up with people from your own section. If you do not have a group, please feel free to post on the Canvas discussion board; at the beginning of the second week of class I will assign the remaining unallocated students to groups. The University takes its honor code very seriously, and all work must be your own. I would like to see a well-reasoned case write-up that shows *your* understanding of the conceptual and institutional issues, and not one that has been written by someone on the internet. Finally, regrading requests must be submitted in writing within one week of the return of the quiz or assignment; please note that any such request will subject the work to a complete regrade.

Quizzes will be on either Tuesdays or Thursdays (see the schedule below), and will be available from 7am-7pm. Quizzes will be approximately 30 minutes in length, and review problems will be posted in advance. I will automatically drop your lowest quiz grade.

Readings: The required bulk pack contains the case studies that will be used in the course, and is available for purchase at study.net (see link on Canvas course page). In addition, I will distribute other materials (including my slides) via Canvas.

There is no required textbook, although I do recommend that you have access to *Principles of Corporate Finance* by Brealey, Myers, and Allen. My slides will refer to the 12th edition (available relatively cheaply online), but slightly newer or older versions should be fine. You should also be able to manage with alternative textbooks, such as those by Ross, Westerfield and Jaffe (*Corporate Finance*), or Berk and Demarzo (*Corporate Finance*).

Topic 1: Cost of Capital

1/20: Introduction & Present Value

1/25: The CAPM

1/27: The Cost of Capital

2/1: Marriot Case – hand in by 4pm. Case discussion in class

2/4 (Thurs): Quiz

Topic 2: Valuation

2/3: Economic Cash Flows - Review

2/8: Capital Budgeting and Taxes

2/10: Harris Seafoods Case – hand in by 4pm. Case discussion in class

2/16 (Tues): Quiz

Topic 3: Capital Structure

2/15: Capital Structure I

2/17: Capital Structure II

2/22: American Home Products Case – hand in by 4pm. Case discussion in class

2/25 (Thurs): Quiz

Topic 4: Dividend Policy

2/24: Dividend Policy I

3/1: Dividend Policy II

3/3: FPL Group Case – hand in by 4pm. Case discussion in class.

3/9 (Tues): Quiz

Topic 5: Leveraged Transaction

3/8: Leveraged Buyouts I

3/10: Spring Break

3/15: Leveraged Buyouts II

3/17: RJR Nabisco Case – hand in by 4pm. Case discussion in class

3/23 (Tues): Quiz

Topic 6: Mergers and Acquisitions

3/22: M&A - I

3/24: M&A – II

3/29: No Class

3/31: M&A - III

4/5: Conrail Case – hand in by 4pm. Case Discussion in Class

4/7: Conrail Discussion, cont.

4/12: Spring Break

4/14: **Guest Speaker: Jonathan Zimbalist, Nili Capital Partners (Wharton '92). 9-10am.**

4/15 (Thurs): Quiz

Topic 7: Options

4/19: Options I

4/21: Options II

4/26: Case: Corning – hand in by 4pm. Case Discussion in class

4/28: Conclusion and Review

4/29 (Thurs): Quiz

Optional Topic (time permitting): Corporate Bankruptcy

Notes: Spring breaks: March 10, April 12. No class Mon March 29