

UNIVERSITY OF PENNSYLVANIA
The Wharton School
(TENTATIVE)

FNCE 703: ADVANCED CORPORATE FINANCE

Professor N. Bülent Gültekin

Fall 2021

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Office Hours: M 2:00-3:00 PM/Office: SH-SD 2344

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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 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 mergers and acquisitions and corporate restructuring and governance. The last two areas will also provide you with an opportunity to apply what you have learned in this course into complex corporate decisions.

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 you may encounter throughout your professional career.

The course will succeed if all students join the class well prepared. Class participation is important to your learning as well as the learning of others.

Textbook

Cases are the only required reading materials in this course. There is no required textbook for the course. Students are expected to be familiar with 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 most of the cases and other recommended readings. I will post all other 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:

- | | |
|---------------------------------------|-----|
| 1. Class attendance and participation | 25% |
| 2. Group assignments | 25% |
| 3. Take-home exam I | 25% |
| 4. Take-home exam II | 25% |

1. Class Attendance and Participation

Case courses require attendance. Your active class participation is expected and that's how you learn in such a course. It is crucial that you come to class prepared for the discussion of each case.

Your grade will be based on your attendance and contribution to the discussions by your questions and comments in each class. I will drop the lowest three grades to calculate the mean score for your class attendance and participation.

If you observe religious holidays recognized by the University, post your deliverables on canvas in advance or mail them to me. If you need to post them after the class, make sure that you do not look at the handouts or solutions distributed for that particular case.

If you cannot attend a class for any reason, you could post a brief analysis of the case due for that class to get full credit for attendance and class participation.

2. Group Assignments

You should hand in 4 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. Notice that the appendix should purely provide a detailed and easy to follow backup of your key findings and/or recommendations. It must not be an integral, cross-referenced extension of your executive summary. Do not expect us to figure out what you did in the appendix and how it relates to your main report.

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 to Canvas will be provided during the first week of the course.

You can form groups of up to five students which may be from the other section. Groups work offers a good opportunity to leverage your strengths with other team members for a more comprehensive case analysis. Your team members also enable you to try out your own ideas prior to class discussion.

Depending on the complexity of a case I will provide you with some instructions and questions to help you with your case analyses, you will be on your own most of the times. This is how it works in real life; you are confronted with questions and are asked to solve them. It may be frustrating at first, but you will get better after each case.

I will drop the lowest grade to compute the mean grade for group work.

3. Individual Assignments

There are two individual assignments. These assignments will be similar to the cases we cover in the class, but questions will be more explicit for your analysis. Students must work on these assignments individually. Further information will be provided on these assignments during the semester.

Review Sessions and Office hours by Teaching Assistants

I will offer periodic review sessions for those needing extra help with the required finance theory for this course. Teaching assistants will also hold office hours to answer your questions. Schedules of TA office hours will be posted on Canvas. Review sessions and office hours will be either in person or via Zoom.

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 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 like most finance courses is quantitative. Case courses demands more time for preparation than lecture-based courses. The course is designed for finance majors and is not a remedial 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.

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. Foundations of Corporate Finance

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: Review of Modigliani and Miller Theory I
5. Lecture: Review of Modigliani and Miller Theory II
6. Lecture: Capital Structure and Valuation
7. 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

8. Lecture: Pricing of Risk - Asset Pricing Models
9. Case: Eaton Corporation Abridged

D. Interaction between Investment and Financing Decisions

Readings: BD, Chapter 18

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

E. Capital Structure

Readings: BD, Chapters 16 and, again, 14 and 15

12. Case: Delta Air Lines: Navigating the Covid-19 Storm
13. No formal class: Optional Review Class

14. Individual Assignment #1

IV. RAISING CAPITAL

Readings: BD, Chapter 24 & 25

15. Readings: BD, Chapters 23
Case: Snap Inc's IPO/Guest Lecturer: Imran Khan,

V. DIVIDEND POLICY

16. Readings: BD, Chapter 17
Case: Apple, Einhorn, and iPref

VI. MERGERS & ACQUISITIONS

Readings: BD, Chapters 28

17. Case: Canadian Pacific
18. Case: RJR Nabisco I
19. Case: RJR Nabisco II
20. Case: TXU

VII. CORPORATE GOVERNANCE

Readings: BD, Chapter 29

21. Case: SFM
22. Case: Dell Goes Private/Guest Lecturer: Kurt Simon, WG91
23. Case: TBD

VIII. REVIEW

- 24. Case: Individual Assignment #2**

**FNCE 726: ADVANCED CORPORATE FINANCE: COURSE SCHEDULE FALL 2021
(08/15/2021)**

	Date	Topic and Assignments		
1	Aug 30	Introduction	Lecture	
2	Sep 01	Clarkson Lumber Company	Case discussion	
3	Sep 08	Empirical Chemicals A&B	Case discussion/Group work 1	
4	Sep 13	Foundations of Corporate Finance I	Lecture	
5	Sep 15	Foundations of Corporate Finance II	Lecture	
6	Sep 20	Foundations of Corporate Finance III	Lecture	
7	Sep 22	M&M Inc.	Case discussion/Group work 2	
8	Sep 27	Asset Pricing Models: Pricing of Risk	Lecture	
9	Sep 29	Eaton Corporation	Case discussion	
10	Oct 04	Galveston Fishing Company	Case discussion/Group work 3	
11	Oct 06	Southport Minerals	Case discussion	
12	Oct 11	Delta Air Lines: Navigating Covid 19 Storm	Case discussion	
13	Oct 25	Optional Review Class	Lecture	
14	Oct 27	INDIVIDUAL ASSIGNMENT #1		
15	Nov 01	Snap Inc's IPO	Imran Khan	Guest speaker
16	Nov 03	Apple, Einhorn, and iPref	Case discussion	
17	Nov 08	Canadian Pacific	Case discussion	
18	Nov 10	RJR Nabisco I	Case discussion	
19	Nov 15	RJR Nabisco II	Case discussion/Group work 4	
20	Nov 17	TXU	Case discussion	
21	Nov 29	SFM	Case discussion	
22	Dec 01	Dell Goes Private	Kurt Simon, WG91	Guest speaker
23	Dec 06	TBD		
24	Dec 08	INDIVIDUAL ASSIGNMENT #2		