

FNCE 7030 – ADVANCED CORPORATE FINANCE Fall 2023

Course Information

Class meetings: Monday/Wednesday, 1:45pm-3:15pm

Location: G65 Jon M. Hunstman Hall

Class Website: <https://canvas.upenn.edu/>

Professor Information

Name: Daniel Garrett

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Office: 2328 Steinberg-Dietrich Hall

Office Hours: Mondays, 3:30pm-5pm or by appointment

(remote appointments are also available by request)

Prerequisites: FNCE 6110 (or the equivalent)

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 using both lectures and cases. This course serves as a complement and supplement to FNCE 6110. Some areas of financial management not covered in FNCE 6110 are covered in FNCE 7030. These include leasing, dividend policy, mergers and acquisitions, corporate reorganizations, financial planning and working capital management, and some other selected topics. Other areas that are covered in FNCE 6110 are covered more in depth and more rigorously in FNCE 7030. These include investment decision-making under uncertainty, cost of capital, capital structure, and the pricing of selected financial instruments and corporate liabilities.

Reading Materials

1. The recommended textbook is: *Principles of Corporate Finance*, by R. Brealey, S. Myers, and F. Allen, 13th edition, McGraw Hill, 2019. (BMA)

This is a recommended (not required) textbook because many lectures will closely follow the book and the book contains extra practice problems. However, lectures will be self-contained and it is possible to complete this course successfully without the textbook. Older versions of the book are fine, but note that chapter and optional problem set numbers are slightly different.

2. Required bulk pack (BP) of readings and cases: available on Canvas (via Study.Net)

This is a required bulk pack available through the course's Canvas website. The bulk pack includes the cases for the course.

3. Online articles (OA) [Listed on Canvas]

Study Groups

The class will be organized into study groups, which will write detailed reports on up to six cases. You are free to choose your own members. Groups cannot exceed a maximum of four students, and given the difficulty of the cases, I strongly recommend a minimum of three students. All teams should be registered on Canvas no later than Friday, September 10, 2022. If you have difficulty finding a group, please let me know, and I will be happy to help you find a group to work with.

Canvas

Important course materials such as lecture notes, required assignments, extra materials, recordings of all lectures and discussions, and other useful information will be available on the course web page on Canvas. In particular, there will be a discussion board for each case and exam on Canvas where I will answer your questions.

How to Ask Questions?

The best place to get questions answered is in class or in my office hours. However, questions pertaining to cases and practice problems can also be posted directly to the related Canvas discussion board. I will monitor these boards frequently, and I will check the boards at least once an evening. This board helps ensure that all students have access to the same information, and it reduces the duplication of answers on our part. ***Please avoid using e-mail to ask case- and practice exam-related questions as I will not reply and will post the answer to Canvas instead.*** More sensitive questions and concerns that you don't want shared with others are welcome and encouraged over e-mail.

Written Case Analysis

Groups will be asked to write detailed reports on up to six cases. Each group should submit only one report. All group members will earn the same grade on the assignment. The report has to contain the following three parts:

1. Cover page: The cover page clearly lists the names of all group members and your study group number, and has to include the following disclaimer (submissions without the disclaimer will not be accepted): "We, the listed group members, certify that we have complied with the University of Pennsylvania's Code of Academic Integrity in completing this assignment. We understand that any failure to comply with the Code of Academic Integrity will result in severe penalties, such as an automatic failing grade for the course and referral to the Office of Student Conduct." See section "Code of Ethics" below for additional information.
2. Executive summary: One page, double-space.
3. Case analysis: Each report should include 3-5 pages of analysis and should be as clear as possible in tying the tension in the case to the material from class. Cases will be penalized for being excessively long (more than 5 pages of text/more than 5 additional exhibits). Be judicious with space and prove that you have read the case and understand the major complications. Be certain to make clear assumptions where needed and test assumptions with sensitivity analysis.

Completed cases must be uploaded to Canvas by 10am (Eastern Time) on the day it is due. No late submissions will be accepted under any circumstances. This early deadline allows me to post

(and you to download) the case-related lecture notes before class. Graded cases will be returned via Canvas.

Case Grades: Cases will be graded on a 10 point scale with perfect scores requiring both sound financial arguments and clear communication. While there are six cases, only your best five case grades will count towards your final grade. In other words, each group will have the option to skip one case without penalizing their grade during the semester. However, I encourage all students to complete all cases.

A Note about Cases: The objective of this course is to develop decision-making ability based on corporate finance theory. Hence, it combines lectures with case analysis. The purpose of the cases is not to simply introduce these topics, but to examine how our finance models can be applied to reasonably realistic situations. It should be noted that there are not unique correct solutions for study cases. Rather, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good arguments and bad arguments. This course is designed to help the student learn to distinguish between sensible and weak arguments, but not to provide detailed answers to specific cases. Thus, “case solutions” will not be handed out, though I will provide you with “suggested discussions,” which cover the important margins of the decision to be considered from a financial perspective. Ambiguity is a big part of making financial decisions.

Case Presentations:

On dates in which cases are due, there will be at least one student presentation of the case (with PowerPoint or visual aid). Your group will sign-up to do a presentation on one of the case discussion days. A list of the available slots is given on Canvas, and slots are first-come, first-serve. Notice that some slots require you to take a particular view. E.g. In Case #2, one team must argue that the sale is a bad decision, whereas the other presenting team must argue it is a good decision. This is used to help facilitate discussion of the case in class. If a presentation slot remains empty one week prior to a case being due, I will randomly allocate a team to do the presentation. Students that do a presentation will automatically get ‘participation’ credit (Please see next section).

Participation:

Learning through cases requires lots of active participation on the part of the students. There are 2 ways to get participation points in class:

1. Do an in-class case presentation. This will count for up to 6% of the course grade.
2. Answer questions in class. I will cold call several students in every class. If you are called upon and fail to be present, you will lose up to 10% of the course grade.

The goal is that all students do one complete case presentation and then to enhance the class by engaging on a regular basis.

Quizzes:

There are three quizzes in this course. Quizzes are not optional. The quizzes are intended to be somewhat time-sensitive and to test the ability to apply lessons learned in the cases to simple, general problems. Unless you meet regularly with your group and work through the case analyses, you will have an extremely hard time completing the quizzes on time.

The quiz days are non-negotiable. If you have a conflict, you must inform me by the end of the second week of the course (i.e. Please check now to ensure the quiz times do not conflict with a planned absence, etc.). If you think you will miss a quiz (1) contact me as soon as possible and (2) bring reliable proof of absence (hospital receipt, copy of obituary, etc.). Without clear and hard evidence, you will get no credit and will not be allowed to retake the quiz.

Quiz Schedule:

Quiz 1 In class, September 20, 2023

Quiz 2 In class, October 30, 2023

Quiz 3 In class, December 11, 2023

Grading:

Your grade for the course will be determined by written case analyses, participation, and quizzes. The grading weights are allocated as follows:

Case Analysis	24%
Participation	16%
Quizzes	20% each

There are six assigned cases, but I will only count the grades on your five best cases. In other words, you are more than welcome to skip the case of your choice if you find it conflicts with your other obligations, and this will not affect your grade. However, if you do all six cases you will be better prepared for the quizzes and you will potentially increase the score of your top five cases.

Grades are non-negotiable, and the quality of your written work and participation is a matter left to the course instructor's judgment. **Grade appeals (e.g. points weren't added up correctly or a correct answer was overlooked) must be submitted within a week after the grades for a given assignment are released**, and I reserve the right to re-grade the entire exam or case. If you have a question about feedback or an assigned grade, please ask.

The final grades will be based on a 10 point scale (98-100 A+, 93-97 A, 90-92 A-, 88-89 B+, etc.). Lastly, the course is not designed to be curved. However, if the median score is below 85% and most of the section has been making a tangible effort (again, instructor's judgment), I will curve the final class grades such that the median score is at least 85%, which is a B. My expectation is that no such curve is necessary and the grades will follow the historical distribution of at least 35% As, and no more than 20% below B.

Code of Ethics

Matters of academic integrity are important. Submitted cases for grading should be your own or your team's own work only. You may use firm specific or market data that are publicly available for your analysis. You cannot use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Exams should only include your own work and no work from classmates, teammates, or other individuals or resources. Failure to observe this rule, will at a minimum, result in receiving zero points on that assignment or exam, and may result in an automatic failing grade for the course and referral to the Office of Student Conduct. Refer to the **Code of Academic Integrity** and the **Wharton Learning Agreement** if you have any questions.

Unrestricted use of Generative AI permitted:

Within this class, you are welcome to use AI models (ChatGPT, GPT, DALL-E, Stable Diffusion, Midjourney, GitHub Copilot, and anything in the future) in a totally unrestricted fashion outside of the classroom at no penalty. However, you should note that all large language models still have a tendency to make up incorrect facts and fake citations; code generation models have a tendency to produce substantially inaccurate outputs; and image generation models can occasionally come up with highly offensive products. You will be responsible for any inaccurate, biased, offensive, or otherwise unethical content you submit regardless of whether it originally comes from you or an AI program. If you use an AI program, its contribution must be acknowledged in the assignment; you will be penalized for using an AI program without acknowledgment. Having said all these disclaimers, the use of an AI program is encouraged, as it may make it possible for you to submit assignments with more polish in less time. The university's policy on plagiarism still applies to any uncited or improperly cited use of work by other human beings, or submission of work by other human beings as your own.

Tentative Course Outline

Lec.	Date	Topic	Reading	Assignments
1	8/28	FCF & Capital Budgeting	BMA 2.1-2.3, 5.1, 6.1-6.2; Benninga & Sarig, Ch. 2	
2	8/30	Risk and CAPM	BMA 8.2-8.3, 9.1-9.2	
3	9/6	Cost of Capital	BMA 19.1-19.3	
4	9/11	Midland Case	HBS #4129	Case #1 Due on Canvas (10am)
5	9/13	Valuation	BMA 12.2, 19.4-19.5; Lowenstein "Rethinking Latest Economic Elixir"; Benninga & Sarig, pp. 305-319	
6	9/18	Eaton Case	HBS #221-006	Case #2 Due on Canvas (10am)
	9/20	Quiz # 1 (in class)		***
7	9/25	Capital Structure 1	BMA 17-18.1	
8	9/27	Capital Structure 2	BMA 18.2-4	
9	10/2	Capital Structure 3 (Leasing)	BMA 25	
10	10/4	Capital Structure 4 (Levered Transactions)	BMA 32.1-3; Inselbag and Kaufold; Shleifer and Vishny	
11	10/9	Chipotle Case	UV8638	Case #3 Due on Canvas (10am)
	10/11	Core Exams (No Class)		
	10/16	MBA Opportunity Week (No Class)		
	10/18	MBA Opportunity Week (No Class)		
12	10/23	Dividend Policy	BMA 16	
13	10/25	FPL Group Case	HBS #295-059	Case #4 Due on Canvas (10am)
14	10/30	Quiz #2 (in class)		***
15	11/1	Options 1	BMA 20-21.5	
16	11/6	Options 2	BMA 24.2; Jen, Choi, and Lee	
17	11/8	Real Options	BMA 22	
	11/13	Corning Case	UVA-F-1339, version 2.6	Case #5 Due on Canvas (10am)
18	11/15	M&A 1	BMA 31.1-3, 31.6; Jensen (1986)	
19	11/20	M&A 2	BMA 31.3; Lowenstein "Why All Takeovers Aren't Created Equal"	
20	11/27	M&A 3	BMA 31.4-5, 32.2	
21	11/29	Conrail Case 1	HBS #298-006, #298-095	Case #6 Due on Canvas (10am)
22	12/4	Conrail Case 2	HBS #298-006, #298-095	
23	12/6	Review and Discussion		
	12/11	Quiz #3 (in class)		***