FNCE 203 – ADVANCED CORPORATE FINANCE
Fall 2020

Please note: This class will only be offered remotely. This tentative syllabus has been revised to reflect that, but there will be minor updates in the coming weeks.

Course Information
Section 001 meetings: Monday/Wednesday, 1:30pm-3:00pm
Section 002 meetings: Monday/Wednesday, 3:00pm-4:30pm
Location: Remote
Class Website: https://canvas.upenn.edu/

Professor Information
Name: Daniel Garrett
Email: danielgg@wharton.duke.edu
Office Hours: Mondays and Wednesdays, 10:30am-11:30am (remote, information on Canvas)

TA Information
Names and contacts: TBA
Office Hours: See Canvas.

Prerequisites: FNCE 100 and FNCE 101 (or the equivalent, such as FNCE 611)

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 100 (FNCE 611). Some areas of financial management not covered in FNCE 100 (FNCE 611) are covered in FNCE 203. 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 100 (FNCE 611) are covered more in depth and more rigorously in FNCE 203. 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, but lectures will be self-contained and it is possible to complete this course successfully without the textbook. Older versions of the book are fine, and a digital copy of the textbook will also be on reserve through Lippincott Library but this is only usable by one student at a time, so don't rely on this for tests. If you use a

version older than the 11th edition, please note that chapter numbers might be 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 along with some news articles that are applicable to the course material (and will be discussed in class). To save you money, I've tried to only place news articles in the bulk pack that might be hard to obtain otherwise. Other articles available through Lippincott Library or for free online are listed separately on Canvas.

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 seven cases. You are free to choose your own members but group members must all be in the same section. 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 Thursday, September 10, 2020. 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 at Canvas: . In particular, there will be a discussion board for each case and exam on Canvas where TAs and I will answer your questions.

How to Ask Questions?

The best place to get questions answered is in either my office hours, or the office hours of TAs. However, questions pertaining to cases and practice problems can also be posted directly to the related Canvas discussion board. Both the TAs and 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.*** 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 seven 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 (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. If your analysis section exceeds 5 pages, the TAs will ignore the content on the extra pages (that is, content on pages 6, 7, 8, etc.). The cover page, the executive summary, and the appendices do not count towards the 3-5 pages of analysis. Your report should address the suggested questions for the case (which will be posted on the Canvas course webpage), but students are strongly encouraged to address additional points believed to be important for the 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 seven cases, only your best six case grades will count towards your final grade. In other words, students 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 introduce these topics, but to examine how our finance models can be applied to reasonably realistic situations. It should be noted that there are usually no absolute right 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 solutions." 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 PowerPoint presentation of the case. You should signup as groups and your group may sign-up to do a presentation in any section in which at least one group member is enrolled. 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 #3, one team must argue that LBO is a bad investment, whereas the other presenting team must argue it is a good investment. 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 4 ways to get participation points in class:

1. Do an in-class case presentation. Students that do this will get 15 points towards the total 30 participation points. If the meeting time is a problem, it will be possible to pre-record these presentations but you are strongly encouraged to present in class if at all possible.

2. Turn in a 'top 5' written case assignment. The five best written case assignments for each case in each section, in terms of going above and beyond just answering the suggested questions, will receive 3 points towards their participation.

3. Attend/participate in class discussions. Students who attend/participate in a case or class discussion (not reviews) for which they did not present will receive 1 point (24 possible). I will only track attendance unless participation is lacking, in which case I will update this.

4. To accommodate students who may be in different time zones due to the remote nature of the course, students can also get participation points, up to 1 per class (24 possible) during the week when material is covered, by watching the lectures on canvas and asking thoughtful questions or making insightful comments for 0.5 points each.

The total maximum participation points one can receive is 30. The idea is that all students who attend and participate in most classes who also either give a presentation or turn in a few really good cases will easily surpass a perfect score. If you are not able to attend classes, which I advise against even though we are remote, you are expected to watch all lectures, to try to do a presentation, and to be a contributing member of the Canvas site.

Exams:

There are two exams in this course: a midterm and final. Exams are not optional, and both exams will be given as take home tests to be completed within 1.5 hours during a 24 hour window (see schedule below for details). The final exam is cumulative.

Exams are take home and open note since the course is remote. The exams are intended to be somewhat time-sensitive. Unless you meet regularly with your group and work through the case analyses, you will have an extremely hard time completing the exams on time. You are not permitted to work on exams with other people in or out of class.

The exam 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 exam times do not conflict with a religious holiday, etc.). If you think you will miss an exam (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 exam. The exams only take a 1.5-hour portion of a full 24-hour window, so there really aren't excuses for missing a test.

Grading:

Your grade for the course will be determined by written case analyses, participation, and exams. There will be a total of 180 points available, and the points are allocated as follows:

Written Case Analysis	60 points (10 points each)
Participation	30 points
Midterm Exam	40 points
Final Exam	50 points

There are seven assigned cases, but I will only count the grades on your six best cases. In other words, you are more than welcome to skip a 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 seven cases you will be better prepared for the exam and you will potentially increase the score of your top six 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 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.

Lastly, the course is not designed to be curved. However, if the median score is below 153/180 (85%) and most of the section has been making a tangible effort, 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 a distribution of 40% As, 40% Bs, and 20% below.

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.

Remote Class Etiquette

"Classroom" etiquette is extra important in an online setting when sharing social cues is more challenging than in a traditional classroom. The following is a list of the most basic ground rules that we will follow in class that will continue being updated:

1. Mute your microphone when not talking

2. One person will be guiding conversation at any point in time. Use text communication to alert others that you have a question so you can be called on to avoid talking at the same time as other participants.

3. Leave cameras turned on unless you are having connection problems. Be aware you are on camera and try to avoid doing other tasks, checking emails, looking at your phone etc. This is a commitment mechanism for you to focus on the class as if this was in person.

Tentative Course Outline

Lec.	Date	Topic	Reading	Assignments
1	9-2	FCF & Capital Budgeting	BMA 2.1-2.3, 5.1, 6.1-6.2; Benninga & Sarig, Ch. 2 (BP)	
2	9-9	Risk and CAPM	BMA; 8.2-8.3, 9.1-9.2	
3	9-14	Cost of Capital	BMA; 19.1-19.3 "Warren Buffet," 2 articles (OA)	
4*	9-16	Marriott Case	HBS #289-047	Case #1 Due on Canvas (10am)
5	9-21	Valuation	BMA 12.2, 19.4-19.5; Lowenstein "Rethinking Latest Economic Elixir" (BP); Benninga & Sarig, pp. 305-19 (BP); "Facebook," 2 articles (OA)	
6*	9-23	Harris Case	HBS #281-054	Case #2 Due on Canvas (10am)
7	9-28	Leveraged Transactions 1	BMA 32.1; Inselbag and Kaufold (BP); Shleifer and Vishny (BP)	
8	9-30	Leveraged Transactions 2	BMA 32.1-3; "Dell," 4 articles (OA)	
9	10-5	Leasing	BMA 25; "Amazon" (OA); "McDonald's" (OA); "The Lease Bad Solution" (OA)	
10*	10-7	Congoleum Case 1	HBS #287-029	Case #3 Due on Canvas (10am)
11	10-12	Congoleum Case 2	HBS #287-029	
12	10-14	Review 1		
	10-14	**Midterm Exam**		24 hours starting at 6pm, take 1.5-hour exam remotely at your convenience
13	10-19	Capital Structure 1	BMA 17-18.1; "Apple iBonds" (OA)	
14	10-21	Capital Structure 2	BMA 18.2-4; "After the Revolution" (OA)	
15*	10-26	American Home Case	HBS #283-065	Case #4 Due on Canvas (10am)
16	10-28	Dividend Policy	BMA 16; "Apple" (OA); "Tax Change" (OA)	
17*	11-2	FPL Group Case	HBS #295-059	Case #5 Due on Canvas (10am)

Lec.	Date	Topic	Reading	Assignments
18	11-4	Options 1	BMA 20-21.5	
19	11-9	Options 2	BMA 24.2; Jen, Choi, and Lee (BP); "Convertibles" (OA); "Ford" 2 articles (OA); "Goldman Sachs" (OA)	
20	11-11	Real Options	BMA 22; "Apple Prototypes" (OA); "Tesla" (OA)	
21*	11-16	Corning Case	UVA-F-1339, version 2.6	Case #6 Due on Canvas (10am)
22	11-23	M&A 1	BMA 31.1-3, 31.6; Jensen, (1986) (BP); "Bad Directors" (OA); "Home Builders" (OA); "US Airways" (OA)	
23	11-30	M&A 2	BMA 31.3; Lowenstein "Why All Takeovers Aren't Created Equal" (BP); "AB Inbev," "AT&T," "Cadbury," "Hulu," "Netflix," "Poison Puts" (OA)	
24	12-2	M&A 3	BMA 31.4-5, 32.2	
25*	12-7	Conrail Cases 1	HBS #298-006, #298-095; "Dell Go Shop" (OA)	Case #7 Due on Canvas (10am)
26	12-9	Conrail Cases 2	HBS #298-006, #298-095	
27	12-10	Review 2		
		Final Exam		Take home test with date assigned by registrar (will be updated when available)