

UNIVERSITY OF PENNSYLVANIA
The Wharton School
Advanced Corporate Finance: FNCE 203/726
Spring 2020
Professor Burcu Esmer
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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.

Prerequisites

FNCE 100 (FNCE 611 or FNCE 612), STAT 101, and STAT 102.

Readings

There is no required textbook. The [required bulk pack](#) contains the readings and case studies that will be used in the course. Students are expected to complete the readings prior to each class session and be prepared to actively participate in class discussions. The bulk pack is available for purchase at study.net (see also link on Canvas course page). In addition, I am going to distribute materials via Canvas. If you are looking for an additional textbook, I recommend:

Principles of Corporate Finance, by R. Brealey, S. Myers, and F. Allen (BMA)

This is a recommended textbook because some lectures will closely follow the book, but lectures will be self-contained, and it is possible to complete the course successfully without this book. Older versions of the book are fine as well, and a copy of the textbook will also be on reserve in Lippincott Library. If you use an older version, please note that chapter numbers can be different.

Other good books:

Corporate Finance: The Core by Berk and Peter DeMarzo

Valuation: Measuring and Managing the Value of Companies by Koller, Goedhart and Wessels

These additional materials are not required, but may be useful to some students:

The Wall Street Journal, *The Financial Times*, *The Economist*

Course Web Page

Important course materials such as lecture notes, required assignments, deadlines, solutions to problems, and other useful information will be available on the Canvas course web page.

On the Canvas course web page there is also a discussion board where the TAs and I will answer your questions.

Where to Ask Questions

If you have any questions you may come to my office hours, or go to the TAs' office hours. Questions pertaining to cases and practice problems can be posted directly to the Canvas discussion board. The TAs and I will monitor these boards frequently. This board helps ensure that all students have access to the same information. Please avoid using e-mail to ask case- and practice exam related questions. Further, if your question requires an elaborate answer, please come to the office hours. More sensitive questions that you prefer not to be shared with others are of course welcome over e-mail or in person.

Deadline for exam-related questions: To ensure fairness, there is a deadline for exam-related questions: we will answer questions that you send or post on Canvas by 6:00pm EST on the day before an exam. Questions sent or posted afterwards will be answered after the exam.

Class Format

This course is taught mostly with cases.

The case method of instruction offers some distinct benefits. In preparing cases, you learn more than just the financial theory required to analyze a case. 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 seldom black and white.

The case method helps you use financial theory to arrive at 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. The major objective of the case method in finance is to use the logic of financial theory to arrive at sensible conclusions when faced with real world problems. However, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions.** While there are no "right" answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and senseless arguments. Considering my analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that in the "real world" there is a single correct recipe to be followed.

The course will succeed if all students come to class well prepared. Class participation is vital to your learning as well as the learning of others. Furthermore, to foster mutual trust and respect, it is imperative that students attend each class, arrive on time, and minimize subsequent class disruptions.

We will plan to have a few guest lecturers join us throughout the semester, sharing their extensive knowledge from experiences in their careers.

Since it can be difficult to ask speakers to visit both sections of my class, I will ask students from both sections to attend certain sessions when there is a guest speaker.

Case Study Assignments

The class will be organized into study groups, which will write detailed reports on six cases. You are free to choose your own members. Group members have to be enrolled in the same section of FNCE 203 or FNCE 726. Groups cannot exceed a maximum of five students (and minimum group size is four).

All teams should be self-registered on Canvas no later than *Friday, January 24*. You may use the discussion board on Canvas to post that you are looking for a team member or a group. If you have difficulty finding a group, please let me know in time (before the deadline), and I will be happy to help you find a group.

If a student does not self-register by the deadline, s/he will be randomly assigned to a group. It is student's responsibility to contact with team members and arrange meetings. At the end of the semester, you will be asked to give each group member (including yourself) a grade on his/her performance within your group. This assessment will enter into each student's class participation grade.

Groups will be asked to write detailed reports on six cases. Each group should submit only one report. Reports are submitted via Canvas. All group members will earn the same grade on the assignment.

You are required to take the position of an external consultant to the decision maker(s) in the case, such as the CEO, CFO or corporate board. 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."

Important: See section "Code of Ethics" below for additional information.

- (2) Executive summary: One page, double-space.

The executive summary should outline your recommendation on the course of action accompanied by a brief description of why; a summary of the key assumptions and limitations in your analysis; the focus of your report should be the logic of the argument(s) leading to your conclusion.

- (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 five 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 you are strongly encouraged to address additional points believed to be

important for the analysis.

Case Submission Deadlines

Written case analyses are submitted via Canvas and are due at 10:00am on assigned dates (please see the course schedule below). Submissions via email or late submissions will not be accepted.

Case Presentations

On days when cases are due, there will be at least one student presentation of the case. You are encouraged to sign-up *as groups* (again, there is a maximum of 5 students per available slot), although this is not necessary (that is, you can form a group specifically for a presentation).

Students can sign up for only one presentation slot until January 31. After January 31, I will allow for a second presentation if there are slots available. Signing up implies that you are required to present. If you have to withdraw from a slot due to an unforeseeable reason, you have to contact me at least 5 days in advance. Failure to do so will have a negative effect on your participation grade.

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/groups that do a presentation will automatically get individual participation credits (see more below in the “Grading” section).

What Are the “Right Answers” to Cases?

Given the complexity of real world decisions considered in case studies, there is typically a range of valid analysis approaches. This course is designed to help students 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, although I will provide you with slides that guide our discussions in class. These slides are intentionally incomplete. You will need to attend the classes to understand the slides and to learn what solution approaches are reasonable. If you are uncomfortable with ambiguity, this class may not be for you.

Please do not research “what really happened”. The goal of these cases is to become better decision makers, not to duplicate the decisions made by others.

Importance of Working on Cases

If you rely on your group members to complete the case assignments for you, you will fail to learn the material and inevitably perform poorly on the exams and in-class discussions. Also, the evaluation by your teammates will impact your individual participation grade.

Grading

Code of Ethics

In every aspect of the course, students are required to adhere to the Code of Academic Integrity. Submitted assignments for grading should be your own work only. Most cases in this course involve actual companies. You may use firm or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from any source for your written reports and class discussions. Obtaining access to such materials (in hardcopy or electronically) will count as a violation of the Code of Academic Integrity. Failure to observe this rule will result in severe penalties, such as an automatic failing grade for the course and referral to the Office of Student Conduct. The University of Pennsylvania's Code of Academic Integrity is available at:

<https://provost.upenn.edu/policies/pennbook/2013/02/13/code-of-academic-integrity>

Grade Decomposition

The course cannot be taken Pass/Fail.

Your course grade will reflect your performance on the case assignments, two exams, class participation & attendance, with the weights determined as follows:

Exam I	30%
Exam II	30%
Case Study Assignments	20%
Participation& Attendance	20%

Course grades will be “curved” within each course (FNCE 203 and FNCE 726, separately) at the end of the semester.

Case Study Assignments

There are six case study assignments in this course. Each assignment will be graded Pass/Fail. You will receive feedback for each assignment via Canvas so that you get a better sense how well you did. The feedback will also indicate points (between zero and five) that determine whether you get a Pass or a Fail. The threshold for a Pass is at 50% for each case.

Note that you should be prepared to answer case-related questions when we discuss the case studies in class (on days when cases are due), as these discussions will have a significant impact on your participation grade. Further, the exams may contain questions related to the case studies.

Exams

There are in total two exams. The second exam will mainly focus on material covered after the first exam. Exams are closed-book and closed-notes. Calculators/financial calculators are permitted. Cell phones with calculators or laptops are not allowed during exams.

You may bring a formula sheet to the exams. A formula sheet is an ordinary (A4) piece of paper, 8-1/2"x 11", on which you may write formulas ONLY- no definitions or any other text will be allowed. You may use both sides of the sheets. You may not staple or tape any extensions or booklets onto the formula sheet. You may not use printed or typed formula sheets. Make sure you write your name on the formula sheet and submit it with your exam. (Do not abuse this privilege – if you do, it will negatively impact your final grade.)

Exam Times

Exam times are non-negotiable. If you have an unavoidable conflict, you must inform me by the end of the second week of the course, i.e. January 24 (please check immediately to ensure the exam times do not conflict with another exam or 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.). Absent clear and hard evidence you will receive a failing grade for the exam.

The make-up exam will be cumulative and will be given at the end of the semester. There is no guarantee that the make-up exam will have the same difficulty and type of questions as the common exam.

Participation & Attendance

Case courses require attendance. If you cannot attend the classes regularly, you should not take this course. Attendance will be recorded within five minutes of the start of each lecture (starting on January 27). Lectures will have a seating chart so please keep the same sitting arrangement throughout the semester. Each student is given a credit of two penalty-free absences which require no explanation. This covers religious holidays, illnesses, interviews, case competitions, feeling like sleeping in. Thus, if a student misses two or fewer classes, then s/he will receive a perfect attendance grade. After using up your two penalty-free absences, all subsequent absences will lower your attendance grade. If you do miss a class, you are encouraged to report and explain it using Course Absence Report. This will enable us to keep track of the absences easily. (<https://undergrad-inside.wharton.upenn.edu/attendance/>)

There are three ways to earn participation points. (1) Do an in-class case presentation. Students that do at least one presentation will automatically get 1/3th of max participation points. Note that doing a 2nd or 3rd in-class presentation counts toward general class participation but *does not* automatically give you points. (2) General class participation. We will assign 0, 1 or 2 points to every student based on the quality of their participation at the end of each class. (3) Peer evaluation by your teammates.

You should bring name plates to every class and should expect to be cold-called. In particular, you should be prepared to discuss your group's case study solution on dates when cases are due.

Re-grades

Grades are non-negotiable. You may request a re-grade if you think you found a grading error. Each re-grade request must be accompanied by a concise written explanation of the request and submitted to me, in writing, within one week after the exams are graded and available for review. I will re-grade the whole exam. As a result, your score can either increase or decrease.

OTHER ADMINISTRATIVE ISSUES

Class Etiquette – You are expected to come on time to class and stay for the full lecture. If you must arrive late, leave early, please do it discreetly. We will keep track of these, chronic lateness/leaving the classroom during the lecture may affect your attendance negatively.

Laptop and Other Electronic Device – You are not allowed to use laptops, phones, or other electronic devices during class.

Attending to other sections – is not allowed.

Getting back your assignments – Feedback and points on case write-ups will be sent to you within two weeks.

Name Cards – Please bring name cards to every class.

Seating – Please keep the same sitting arrangement throughout the semester.

Video Recordings – This class will not be video recorded.

Office Hours and TA Contact Information:**Dr. Esmer's Office Hours**

Wednesday 4:30pm - 5:30pm, SHDH 2455

Teaching Assistants (TAs)

Christopher Fletcher cfletch@wharton.upenn.edu

Christopher Pang chrispa@sas.upenn.edu

TA's office hours (will start on the week of January 20)

Wednesday 8:00am - 9.30am

Thursday 8:30am - 10am

Location (TBA)

Schedule of Classes

The tentative class schedule is given below. I reserve the right to add and remove readings from the course and to alter or modify the lecture schedule as required.

The topics covered and the date on which they are covered may change as the semester progresses, but if this occurs, I will notify you. The readings refer to chapters in the 12th Edition of Principles of Corporate Finance, by Brealey, Myers, and Allen (BMA). Other readings can be found in the bulk pack (BP) on study.net.

Week	Session	Date	Topic	Pre-Class Readings	Case	Deadline
Week 1	1	15-Jan	Introduction and Course Overview			
PART I: RETHINKING VALUATION INVESTMENT & FINANCING DECISIONS						
Week 2	2	20-Jan 22-Jan 24-Jan	No Class (Martin Luther King, Jr. Day) Free Cash Flow & Capital Budgeting	BMA; 2.1-2.3, 5.1, 6.1-6.2 Benninga & Sarig, Ch. 2 (BP)		Study group registration on Canvas
Week 3	3 4	27-Jan 29-Jan 31-Jan	Pricing Risk Cost of Capital	BMA; 7, 8.2-8.3, 9.1-9.2 BMA; 19.1-19.3		Sign-up for presentations on Canvas
Week 4	5 6	3-Feb 5-Feb	Carla Nunes, Managing Director, Duff & Phelps 3pm, SHDH 1206 Case #1: Cost of Capital for Divisions		Mariott Corporation HBS #289-047	Case #1 Written Analysis: (due at 10:00am on Canvas)
Week 5	7 8	10-Feb 12-Feb	Valuation Valuation cont.	BMA; 12.2 & 19.4-19.5 Lowenstein, "Rethinking Latest Economic Elixir" (BP) Benninga & Sarig, pp. 305-19 (BP)		
Week 6	9 10	17-Feb 19-Feb	Case #2: Valuing a Project Capital Structure, Part I		Harris Seafoods, Inc. HBS #281-054	Case #2 Written Analysis: (due at 10:00am on Canvas)
Week 7	11 12	24-Feb 26-Feb	Capital Structure, Part II Case #3 Capital Structure	BMA; 17-18.1 BMA; 18.2-18.4 Gifford (BP)	American Home Products HBS #283-06	Case #3 Written Analysis: (due at 10:00am on Canvas)
Week 8	13 14	2-Mar 4-Mar	Optional Review Session Exam I			EXAM I
Week 9		9-Mar 11-Mar	No Class (Spring Break) No Class (Spring Break)			

Week	Session	Date	Topic	Pre-Class Readings	Case	Turn in
PART II: RETHINKING VALUATION						
PAYOUT DECISIONS						
Week 10	15	16-Mar	Payout Policy	BMA; 16		
	16	18-Mar	Payout Policy (cont.)			
Week 11	17	23-Mar	Case #4 Payout Policy		FPL Group, Inc. (A) HBS #295-059	Case #4 Written Analysis: (due at 10:00am on Canvas)
PART III: GOING PUBLIC & GOING PRIVATE						
	18	25-Mar	Going Private: Buyouts			
Week 12	19	30-Mar	Case #5 Buyouts		RJR Nabisco HBS 9-289-056	Case #5 Written Analysis: (due at 10:00am on Canvas)
	20	1-Apr	Going Public: IPOs			
PART IV: CORPORATE CONTROL & GOVERNANCE						
Week 13	21	6-Apr	Mergers & Acquisitions, Part 1	BMA; 31 Lowenstein, "Why All Takeovers Aren't Created Equal" (BP)		
	22	8-Apr	Mergers & Acquisitions, Part 2	BMA; 32.2 Jensen, 1986 (BP)		
Week 14	23	13-Apr	Case # M&A (cont)		Acquisition of Consolidated Rail Corporation Part A	Case #6 Written Analysis: (due at 10:00am on Canvas)
	24	15-Apr	Case # M&A (cont)		Acquisition of Consolidated Rail Corporation Part B	
Week 15	25	20-Apr	Optional Review Session			
	26	22-Apr	Exam II			EXAM II
Week 16	27	27-Apr	Governance & Shareholder Activism			
	28	29-Apr	Course Wrap-Up			