

UNIVERSITY OF PENNSYLVANIA
The Wharton School

Advanced Corporate Finance – FNCE 726
Mark Taranto
Fall 2004

Course Syllabus

Section 001: 9:00-10:20 JMHH 355
Section 002: 10:30-11:50 JMHH 355
Section 003: 12:00-1:20 JMHH 355

Office Hours

Tuesday 2:00-3:30
Thursday 2:00-3:00 Except 9/30, 10/14, 10/28, 11/11
Or By Appointment
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I will have regular office hours on Tuesdays and Thursdays (except for the Thursdays when I fly to San Francisco to teach WEMBA West classes as noted above). I can meet by appointment on any Mondays and some Fridays. I will not be able to schedule appointments on Wednesdays.

However, I will always be available by Email. That is the best way to get a quick answer to any question.

Teaching Assistants

TA contact information will be made available on the WebCafé and in class.

Materials

Required: Course Bulk Back containing cases and articles.
Suggested: **Principles of Corporate Finance**, Brealey and Myers,
Sixth Edition, Irwin/McGraw-Hill, 2000 or
Seventh Edition, Irwin/McGraw-Hill, 2003.

Prerequisites

Financial Analysis (FNCE 601) is a prerequisite for this class.

Course Overview

This course uses case studies, lectures and class discussion to study the important issues of corporate finance. The first portion of the class is concerned with capital structure and financing. We shall consider the need for financing as well as the various sources of funding – both internal (cash from ongoing operations) and external (debt, equity or hybrid issues). We shall discuss the optimal mix of debt and equity financing, as well as policies regarding dividends and open market repurchases of equity.

The second portion of the class is devoted to project selection, project valuation and company valuation. We shall develop the tools needed to find the value of projects. This includes discussions on determining relevant cash flows, choosing a discount rate that reflects the project risk and determining a growth rate. These basic tools are also used to value corporations. One lecture and one case will be devoted to the use and valuation of “real options” in corporations.

Web Page -- <http://webcafe.wharton.upenn.edu/eRoom/fnce/726-fa04-1>

A web page on The WebCafé will be used for class announcements. In addition, copies of the Powerpoint slides will also be made available. These are not to be shared with students not taking the class. Non-Wharton students may need to be added, and should send an email to me. Wharton students enrolled in the class should be able to join the site through the WebCafé web site.

Grading and Class Requirements

The way to learn corporate finance is to do it. For this reason, students are expected to come to classes prepared to discuss the cases. Students are required to hand in a two-page memorandum *on nine of the thirteen* case studies. Students must form teams of between three and five students. No larger or smaller teams are allowed. Students not in teams by the end of the first weekend will be assigned to a team.

Much of the learning in this class comes from team meetings. The first two cases, **Clarkson Lumber Company** and **UST**, are not to be handed in. However, your team should meet to discuss these cases before we meet. Of the remaining cases, six write-ups must be handed in.

Memoranda must be typed and should be double-spaced with a font size of 10-12. They should be written as if they were to be sent to senior management. In addition to the two pages of text, charts and tables may be included. Memoranda are due on the first day that the case is discussed and will not be accepted after the class has met. The grades on the memoranda will often help and occasionally hurt students on the margin between two grades. Failure to hand in memoranda will definitely hurt final grades. All students should bring a copy of their memo to class, since it may help during the class discussion.

Questions for the case memoranda will be uploaded to the WebCafé. No team will have to write up more than one case per week. Each team will have the opportunity to make a 20-minute presentation on one of the cases. The presentation assignments will

be chosen randomly in the second class. The teams will be divided into two groups. The cases assigned to each group are:

Group I	Group II
<i>MCI</i>	<i>Intel</i>
<i>Marriott</i>	<i>Marriott</i>
<i>Dixon</i>	<i>Airbus</i>
<i>BW/IP</i>	<i>BW/IP</i>
<i>Interco</i>	<i>RJR/Nabisco</i>
<i>Pabst</i>	<i>Pabst</i>

One lucky team from each group will be assigned the Arundel case instead of the Pabst case. These teams will be picked randomly, unless there are volunteers. At least one of these teams will present the Arundel case in class.

Students are expected to participate in class discussions. Grading will be based on the quality, not the quantity, of comments. Attendance may be taken on case study days, and will be reflected in the class participation grade.

Grading will be based on class participation (15%), memoranda and presentation (15%), and one midterm exam (35%) and a take-home final exam (35%). A review session will be held in class before the midterm.

Regrading Policy

Regrading requests must be made in writing within one week of receiving the graded material. When an exam is regraded, the entire exam will be regraded. If the points on an exam were not added correctly, then the student may make the request in person and need not submit the request in writing. Students are strongly discouraged from asking for regrading of case memoranda for reasons to be discussed in the introductory session.

Makeup Exams

There will be no makeup exam for the first midterm. If the first midterm is missed due to a documented illness or emergency, the second midterm will receive a weight of 70%. If the second exam is missed, a makeup assignment will be assigned. This assignment is likely to be more difficult than the exam.

Academic Integrity

Students may not submit work that is not their own. If a student submits work that has been copied without attribution from some published or unpublished source, or that has been prepared by someone else, or that in any way misrepresents someone else's work as his own, he will face severe discipline by the university.

Religious Holidays

I have tried to avoid conflicts between religious holidays and assignments or exams. If there is a conflict, then the affected students must let me know as soon as possible.

Advanced Corporate Finance – FNCE 726
Tentative Course Schedule
Spring 2004

Th - Sep 9	Lecture – Introductions, Overview, Accounting Review
T - Sep 14	Lecture – Raising Capital
Th - Sep 16	<i>Clarkson Lumber Company</i> discussion
T - Sep 21	<i>Clarkson Lumber Company</i> discussion, Sustainable Growth
Th - Sep 23	Lecture – Capital Structure (MM with & without taxes)
T - Sep 28	Debt Policy at UST Inc. discussion Lecture – Capital Structure – costs of bankruptcy, private information
Th - Sep 30	Lecture – Dividend Policy, Repurchases
T – Oct 5	<i>MCI Communications Corp</i> , 1983
Th – Oct 7	<i>Intel Corporation</i> , 1992
T – Oct 12	Lecture – Cost of Capital and Valuation
Th – Oct 14	Review
T – Oct 19	Midterm
Th – Oct 21	Marriott Corporation: The Cost of Capital
T – Oct 26	Fall Break
Th – Oct 28	Lecture – Valuation
T – Nov 2	Dixon Corporation: The Collinsville Plant
Th – Nov 4	Airbus A3XX – Developing the World’s Largest Commercial Jet
T – Nov 9	Lecture – Valuation
Th – Nov 11	BW/IP International, Inc
T – Nov 16	Lecture – Takeovers
Th – Nov 18	Interco
T – Nov 23	RJR Nabisco
Th – Nov 25	Lecture – Options Pricing
T – Nov 30	Lecture – Real Options
Th – Dec 2	Arundel Partners: The Sequel Project
T – Dec 7	Special Topics -- IPOs
Th – Dec 9	Pabst Brewing Co.

Cases, Articles and Readings – FNCE 726

The following cases and articles are included in the course pack. Cases will be discussed on the day that the case memoranda are due.

Cases

Clarkson Lumber Company (9-297-028)
Debt Policy at UST Inc. (9-200-069)
Massey-Fergusun Ltd., 1980 (9-282-043)
MCI Communications Corp, 1983 (9-284-057)
Intel Corporation, 1992 (9-292-106)
Marriott Corporation: The Cost of Capital ((9-298-101)
Dixon Corporation: The Collinsville Plant (9-298-165)
Airbus A3XX – Developing the World’s Largest Commercial Jet (9-201-028)
BW/IP International, Inc. (9-293-058)
Interco (9-291-033)
RJR Nabisco (9-289-056)
Arundel Partners: The Sequel Project (9-292-940)
Pabst Brewing Co. (9-289-031)

Articles

Read for Dixon Case	<i>An Introduction to Cash Flow Valuation Methods</i> (9-295-155)
Read for Marriott Case	<i>Best Practices in Estimating the Cost of Capital: Survey and Synthesis</i> by Bruner, Eades, Harris and Higgins
Read for Marriott Case	<i>Leveraged Betas and the Cost of Equity</i> (9-288-036)
Read for Dixon Case	<i>Note on Adjusted Present Value</i> (9-293-092)
Read for Dixon Case	<i>Using APV: A Better Tool for Valuing Operations</i> (HBR Reprint 97306)
Read for Dixon Case	<i>Note on Alternative Methods for Estimating Terminal Value</i>
Read for Arundel Case	<i>The Options Approach to Capital Investment</i> (HBR Reprint 95303)

Suggested Reading in Brealey & Myers

Funding Needs (Clarkson Case)	<i>Brealey & Myers – Chapter 28 (6th Edition)</i> <i>Brealey & Myers – Chapter 29 (7th Edition)</i>
Optimal Capital Structure (Through Midterm I)	<i>Brealey & Myers – Chapter 14-18 (6th Edition)</i> <i>Brealey & Myers – Chapter 14-18 (7th Edition)</i>
Convertible Debt (MCI Case)	<i>Brealey & Myers – Chapter 22 (6th Edition)</i> <i>Brealey & Myers – Chapter 23 (7th Edition)</i>
Real Options (Arundel Case)	<i>Brealey & Myers – Chapter 21 (6th Edition)</i> <i>Brealey & Myers – Chapter 22 (7th Edition)</i>