
Corporate Restructuring, Mergers and Acquisitions

Finance 70400

Mendoza College of Business
University of Notre Dame
Fall 2008, Module 2

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Office hours:
Wednesdays 1:00pm – 2:30pm, or by
appointment

Class: Tues / Thurs, 3:00pm – 4:50pm, MCoB 160

Course Overview:

The objective of this course is to facilitate understanding of corporate merger and acquisition activity, restructurings, and corporate governance in the M&A context. This includes exploring the theory and evidence regarding these topics; the motives for transactions, the sources of value-added, valuation of mergers, and managerial incentives to engage in or resist these activities.

The structure of the class is a combined lecture/discussion format. We will rely heavily upon case studies of past events and news articles of current events to illustrate how financial theory can be applied in an actual business environment. Much of the course is developed around an extensive and on-going project in which student teams propose and analyze a merger transaction by a given acquirer. This project requires students to apply essentially all that they will have learned throughout this course.

Upon completion of the course, students will be able to:

- Describe alternative ways to measure the success of a merger
- Identify theoretical motives for pursuing merger opportunities
- Discuss the impact of corporate governance mechanisms on managers' incentives to engage in or resist corporate control transactions
- Calculate the value of real-world target firms using valuation techniques including discounted cash flow analysis and comparable multiples or transactions analyses
- Calculate the value of projected merger synergies and determine the maximum price that a buyer should be willing to pay for a target firm
- Evaluate the trade-offs involved in various deal structures, and recommend a structure for a given transaction.

Course Materials:

- Required textbook: Mergers, Acquisitions, and Other Restructuring Activities, by Donald M. DePamphilis, 4th edition (Academic Press; ISBN 978-0-12-374012-0).
- Required cases are available on www.study.net (instructions on Concourse).
- In addition, the topics in this course are covered extensively in the popular press and it is useful to monitor recent developments. Some helpful resources include:
 - New York Times' free DealBook service:
<http://dealbook.blogs.nytimes.com/category/mergers-acquisitions/>.
 - CapitalEyes free bi-monthly e-newsletter from Bank of America:
http://corp.bankofamerica.com/public/public.portal?pd_page_label=products/abf/capeyes/index&dcCapEyes=cimenu.
 - I also encourage you to keep up with related news in the Wall Street Journal.
- Due to the emphasis on current M&A market developments in this course, some reading assignments will be given as news stories develop throughout the semester. New assignments will be communicated to students primarily through postings on the course website (<https://concourse.nd.edu>) and email. It is each student's responsibility to monitor their email and course website for new assignments.

Grading

Course grades will be based upon:

Class preparation and discussion	15%
Pitch book project	35%
Midterm, November 20	20%
Final Exam, December 16	30%

Class preparation and discussion

I expect you to be prepared for all in-class cases and discussion topics. I will provide questions prior to in-class case discussions which will help to focus your attention on key issues. Look first for the information required. The necessary information is not always available, however. At times you will need to make assumptions and move on. In addition, understand that all cases contain a great deal of irrelevant information. The ability to recognize what information is and is not useful information is an invaluable skill.

I will assign students a score of zero to three after each in-class case or article discussion, based on the quality of their questions and answers. You do not need to have all of the correct answers to contribute meaningfully to in-class discussions; thought-provoking questions from students are often more valuable than correct responses to the questions I pose. The best way to prepare is to spend adequate time reading the assigned case or article, and then think through the

pertinent issues. If you cannot attend class on a given day, you may receive discussion credit by emailing me your answers to the discussion questions *prior* to class.

Pitch book project

Students must form deal teams of 3-6 students that will produce a pitch book covering the proposed merger of two companies. I will assign the acquirer, and deal teams will identify a potential target. You will then assemble a comprehensive analysis to convince the acquiring firm CEO to proceed with the proposed business combination. I will provide a sample pitch book which illustrates an excellent example of this type of analysis. More information about this comprehensive project is provided on Concourse. To ensure that deal teams are making adequate progress in the project, preliminary portions of the pitch books must be submitted via email (before class begins) by the following dates:

- Thursday, November 13: Submit proposed target, deal rationale, industry overview, and *preliminary* valuation tables
- Thursday, December 4: Completed pitch books due
- Tuesday & Thursday, December 9 & 11: Deal team presentations in class

Exams

There will be one midterm and a final exam. They will be administered on the dates given above in the Grading section. Both the midterm and final exam will take place in MCoB 160 from 3:00pm – 4:50pm. You must inform me during the first week of class if you have a scheduling conflict with an exam date.

Students should bring a financial calculator to all exams, and they may also bring a one-page formula sheet. Cell phones, PDAs, etc. are not permitted in exams.

This course will follow the Academic Code of Honor. The exams must be the sole effort of the individual student. The pitch book project is a group project, and as such, must reflect the effort of the members of your group. Other than collaboration that occurs as part of class discussion, this project is NOT to be done in consultation with members of groups other than your own.

Outline of Topics

This outline is tentative and is subject to change. We may spend more or less time on a given topic depending on current developments in the M&A market. Also, be sure to regularly check email and the course website for detailed postings of reading and case assignments, which will generally be posted one week prior to each class topic.

- 1 Introduction, key concepts, measuring M&A success
- 2 Motives and strategies for restructurings, mergers and acquisitions
 - When to Ally and When to Acquire, Harvard Business Review reprint R0407H
- 3 Merger process, due diligence, and regulation
- 4 Corporate governance; Takeover defenses; ethics in M&A
 - Circon, Harvard Business School case 9-904-023
- 5 Valuation: Comparable multiples and prior transactions analyses; DCF intro
 - Frank Spence, Darden Graduate School of Business case UVA-F-1206.
- 6 Valuation: DCF
 - Radio One, Inc., Harvard Business School case 9-201-025
- 7 Valuation: DCF (*continued*); Dealing with uncertainty
 - Other DCF issues / adjustments
 - Teaching note on earnouts
- 8 Accounting considerations; Deal structure and financing sources
 - Chase Manhattan Corporation: The Making of America's Largest Bank, Harvard Business School case 9-298-016
- 9 Private equity & LBOs; Spin-offs, divestitures, and other exit strategies
 - Seagate Technology Buyout, Harvard Business School case 9-201-063
- 10 Synthesis of topics