FINE31253

Mergers and Acquisitions

Faculty: José-Miguel Gaspar (A406)

Objectives

This course studies the most important corporate restructuring activities from a financial perspective. At the end of the course, you should:

- Understand how valuation plays a central role in the strategic decision-making process
- Carry out valuation analysis of complex corporate/financial structures
- Be familiar with the most common forms of corporate restructuring, as well as understand their different costs and benefits
- Analyze the terms of a restructuring deal in a knowledgeable way, understanding its value implications as well as the incentives and motivations of the major participants

Background

Before registering, students must have completed FINE31123/124 (Financial Theory). It is recommended that students have completed FINE31126/128 (Long-Term Financial Management) and FINM31164/165 (Financial Markets and Institutions).

Organization

The course consists of a series of 9 lectures (including three cases) and a final exam. There are no regular office hours. Send me or my personal assistant Martine Azara (azara@essec.fr) an email and we can fix an appointment if necessary. An hour-and-a-half review session will take place before the final exam. You need a calculator throughout the course (usually, any calculator with memory and y^x, 1/x, e^x and ln buttons is sufficient).

Cases

The case reports should be handed in by groups of 4 students. Reports should be well-written and professional. The **first page** should be an **executive summary** of the analysis and the recommendations proposed by the students. The **remainder** of the text **should be no more than 6 pages long**. Tables, figures, graphs etc. that support the analysis can be added without limit. Each case is discussed on the class their delivery is due. **Participation in the class discussion counts towards the grade**. **WARNING: copying and/or plagiarism from any source without acknowledgement are not tolerated and are penalized severely.**

Grading

- The grade for the cases C is equal to the arithmetic mean of the grades of the 4 cases.
- The participation grade P can take the values {-1, 0, 1}.
- The final grade is equal to the exam grade E plus P if $E+P < 10$, and is equal to $0.5\times C + 0.5\times (E + P)$ otherwise.

Readings

The textbook of the course is

- [WMM] Weston, J. Fred, Mark L. Mitchell and J. Harold Mulherin, 2004, "Takeovers, Restructuring and Corporate Governance" (4th edition), Pearson: New Jersey.

Complementary material is taken from

- [B] Bruner, Robert, 2004, Applied Mergers and Acquisitions, Wiley: New Jersey.
- [G] Gaughan, Patrick, 2002, "Mergers, Acquisitions and Corporate Restructurings" (3rd edition), John Wiley & Sons: New York.
- [CKM] Copeland, Tom, Tim Koller, and Jack Murrin, 2000, "Valuation: Measuring and Managing the Value of Companies" (3rd Edition) John Wiley & Sons: New York.

Students are strongly encouraged to read / watch

- Burrough, Bryan, and John Helyar, 2003, "Barbarians at the Gate: The Fall of RJR Nabisco", HarperCollins Publishers.
- "Wall Street", 1987. Oliver Stone, director; 20th Century Fox, producer.

Course Outline

Session 1. What is Corporate Restructuring? (April 7, 2008)

Asset-based and financial-based restructurings. Value creation in restructurings.

Readings: WMM: ch. 1, 7. B: ch. 1, 4. G: ch. 1, 2. CKM: ch. 1-2, 4-6.

Session 2. Valuation, part I (April 14, 2008)

Building a valuation model: a step-by-step guide. Adjusted present value and weighted average cost of capital models. Multiples and comparable transactions approaches.

Readings: WMM: ch. 9, 10. B: ch. 9, 11. G: ch. 12, 13. CKM: ch. 8-13, 20.

Session 3. Valuation, part II (April 28, 2008)

Valuing multi-divisional businesses. Valuation in an international context. Valuing privately-held firms. **Delivery and discussion of Plenium Service Informatique (case #1).**

Reading: WMM: ch. 17. B: ch. 12, 15. G: ch. 14. CKM: ch. 14, 16-19, 21, 22.

Session 4. Mergers and Acquisitions, part I (May 5, 2008)

Legal, accounting and tax issues. Theories of merger activity: "good" and "bad" reasons to do M&A. Empirical evidence on M&A activity.

Reading: WMM: ch. 2-4, 6-8. B: ch. 3, 4, 16. G: ch. 3, 4, 15.

Session 5. Mergers and Acquisitions, part II (May 12, 2008)

A guide to the M&A process. Strategy formulation, target identification and due diligence. Valuing and structuring the deal: financing method, form of payment, tax implications. Negotiating the deal: disclosure and bidding tactics. Deal implementation and follow-up. **Delivery and discussion of Consolidated Rail A & B (case #2).**

Reading: WMM: ch. 5, 22. B: ch. 18, 20, 21. G: ch. 5 and 6.

Session 6. Leveraged buyouts (May 19, 2008)

The market for LBOs. LBO financing. LBO funds. The theory behind LBOs. Empirical evidence on LBOs.

Reading: WMM: ch. 16. B: ch. 13. G: ch. 7 and 8.

Session 7. Financial restructuring (May 26, 2008)

Alternatives to LBOs: leveraged recaps and dual-class stock recapitalizations.

Delivery and discussion of USG Corporation (case #3).

Reading: WMM: ch. 13. B: ch. 34. G: ch. 11.

Session 8. Bankruptcy and divestitures (June 2, 2008)

Financial distress. Bankruptcy: Chapter 7 and chapter 11. Asset sales, equity carve-outs, spin-offs and split-ups. Theory and empirical evidence on divestitures.

Reading: WMM: ch. 11 and 12. G: ch. 10.

Session 9. Guest speaker (June 9, 2008)

Session 10 (June 16, 2008)

Final Exam. The exam lasts for 3 hours. You are allowed to bring one A4 sheet of paper written on both sides. Don’t forget to bring a calculator. **WARNING: The final exam cannot be replaced by any assignment, project, etc. if you do not attend. BE THERE OR BE SQUARE.**