

FIN 394

Spring 2018

Mergers, Acquisitions, and Corporate Restructurings

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Office Hours
Tues. 1:00 p.m. – 3:00 p.m.
or by appointment

Course Objective

Finance 394 focuses on merger and acquisition decisions of corporations. It also covers corporate restructuring. The course builds upon and reinforces the theoretical and institutional framework learned in prior finance courses, and primarily through the vehicle of case analyses, seeks to apply these concepts to real or simulated business situations.

The course will require the student to deal with case applications of various financial concepts and to consider recent empirical and theoretical findings in the field. Topics include: valuation, motivations for mergers and acquisitions, takeover defenses, LBOs, and regulation. Topics also include: corporate divestitures, insider trading, IPOs, and joint ventures.

Case Analysis

I recognize that analysis of cases can be a painful process. Cases cannot be solved through memory, their solution requires judgment and sound analysis, but so do decisions of any significance in business and government.

It is common to hear the complaint that not enough guidelines are provided to aid you in structuring your analysis. Remember, however, an important objective of the case method is for you to develop expertise in knifing through to the heart of the important issues in a case and recognizing the important problems which must be dealt with and solved. These "problem definition" skills, along with your supporting analysis and conclusions, are extremely valuable regardless of the path your ultimate career takes.

I strongly urge you to work in groups to analyze the cases. You reduce the computational time, increase the level of accuracy, and learn from your colleagues. Be sure that you are pulling your weight. If you are a parasite on the group, you are merely substituting the group for the instructor in an effort to obtain an easy "solution." You are encouraged to use Excel in the solution of the cases.

On the presumption that you are professionals, you will recognize that you do not learn much of the analytical process by relying on somebody else's notes. You learn to swim by swimming, not by reading a learned treatise on swimming.

Course Packet and Useful References

The course packet, which is available at the University COOP, contains daily assignments, readings, and the cases that will be discussed during the course. The instructor will post other materials on Canvas as the course progresses.

The course packet is the only required text. However, students may find the following books to be useful references at various times during the course.

General references:

Ross, Stephen A., Randolph W. Westerfield, Jeffrey F. Jaffe, and Bradford D. Jordan, Corporate Finance: Core Principles and Application, 4th ed., New York, NY, McGraw Hill, 2014.
Berk, Jonathan, and Peter DeMarzo, Corporate Finance: The Core, 3rd ed., Boston, MA, Pearson, 2013.

Valuation, restructuring, and M&A references:

Koller, Tom, Marc Goedhart, and David Wessels, Valuation: Measuring and Managing the Value of Companies, 6th ed., New York, NY, John Wiley & Sons, Inc., 2015.
Gaughan, Patrick A., Mergers, Acquisitions, and Corporate Restructurings, 5th ed., New York, NY, John Wiley & Sons, Inc, 2011.
Weston, J. Fred, Mark Mitchell, and J. Harold Mulherin, Takeovers, Restructuring, and Corporate Governance, 4th ed., Pearson Prentice-Hall, 2004.

Spreadsheets and Class Notes

Excel spreadsheets for many of the cases are available on the course Canvas web page. Other course materials will also be found on the Canvas site.

Internet Based Information

From time to time you may find it necessary to obtain financial data or information from outside sources. Obviously, the Internet is one of many places to search. Historical interest rates can be found on the St. Louis Federal Reserve Board web site (<http://research.stlouisfed.org/fred2/categories/32991>).

Grading

Final grades will be determined as follows:

Weight

Individual case write-ups

10%

Each student will be responsible for writing and turning in a one page summary of two cases. Each of these summaries will count 5% of the final grade.

First case write-up due in class on January 25

Please calculate a WACC for Midland Energy as a whole. (Segment WACCs will be discussed in class.) Submit a one page printout of your work with all assumptions clearly stated.

Second case write-up due in class on April 19

Please calculate a value of Eskimo Pie. Submit a two page printout of your spreadsheet calculations.

Group case write-ups

30%

There are two group case write-ups. Groups are self-selected and should have four members. Each of the group write-ups will count for 15% of the final grade. The submitted document should be written as a report to senior management. The first page should provide a short executive summary that is no more than two paragraphs long. The detailed analysis should be presented on the following pages which is limited to four pages of text.

All pages should be numbered and the document typed with one-inch margins and double spacing. Use a 10 point font or larger. Tables, Charts, spreadsheets, or any other supporting materials may be attached as exhibits. Each exhibit must be referred to in the text and clearly labeled.

First group case write-up due in class on February 15.

This project consists of a written case analysis of the Cooper Industries case. Determine the value of the Nicholson File Company from the viewpoint of Cooper. Be sure to explain your methodology. Clearly state and justify your assumptions. Focus on questions 2 and 3 from your list of Suggested Questions. Use the questions as a guideline for your analysis, but do not answer the list of questions directly.

Second group case write-up due in class on April 10.

This project consists of a written case analysis of the Nova Chemicals case. Be sure to address all three questions found in the Suggested Questions. Be sure to explain your methodology. Clearly state and justify your assumptions.

Final Exam

30%

A take-home final exam case will be distributed on the last day of class. Your document is due on May 11 via email.

Class Contribution

30%

Class contribution is viewed as an important indication of daily preparedness. Thoughtful and aggressive feedback from you is essential in making the case method function effectively. In each class session, various members of the class will be called upon randomly to contribute their insights and segments of their analysis. I recognize that this procedure involves putting some pressure on you and may even be as one student noted "fear invoking." But again, in your professional career you may be frequently called upon for answers on the spur of the moment and in the presence of others. Note that it is the quality--not the quantity--of your class discussion that counts. Relatively frequent contributions to the discussion that demonstrate logical and thorough analysis will be required to earn 20%. If you miss a class, you are responsible for any material that you miss, including any administrative announcements. **Missed classes seriously impair class contribution grades.**

To be fair to other students, there will be no extra-credit assignments. Course grades will be determined solely by the system described above. At the end of the course, each student will be assigned a letter grade of A, A-, B+, B, B-, C+, C, C-, or F for the course. All course grades are final, except in the instance of a recording error.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

You should treat the Texas MBA classroom as you would a corporate boardroom.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared, they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Students do not confuse the classroom for the cafeteria.** The classroom (boardroom) is not the place to eat your breakfast tacos, wraps, sweet potato fries, or otherwise set up for a picnic. Please plan accordingly. Recognizing that back-to-back classes sometimes take place over the lunch hour, energy bars and similar snacks are permitted. Please be respectful of your fellow students and faculty in your choices.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Technology is used to enhance the class experience.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of technology in class. Faculty will let you know when it is appropriate.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Policy on Scholastic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. As a Texas MBA student, you agree to observe all of the student

responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should consider the writing of the final examination to be an individual effort. Group preparation for daily class is acceptable and encouraged. Homework assignments are to be turned in individually. Group project discussions should be restricted to your group members.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Access to Canvas

All students must have access to the Canvas web site for this course. I will use this venue to post class notes, assignments, announcements, and grades. I will also use the E-mail feature of Canvas to correspond with you. Check the site (and your E-mail) regularly to ensure that you have the most current information. Please note the following:

Web-based, password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: <http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html>

Computers and Electronic Devices

The use of laptop/tablet computers to review cases during class and make presentations is acceptable. All other uses are prohibited. Other electronic devices and accessories (cell phones, MP3s, etc.) should be stowed away during the class session. Violation of these policies, including texting and web surfing during class, will reduce your participation grade.

Religious holy days

By UT Austin policy, you must notify an instructor of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Campus safety

- Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/>:
- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.

- Students requiring evacuation assistance should inform the instructor in writing in the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructor.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

Additional Comments

The requirements and recommendations for succeeding in this course are outlined in this syllabus. Since no extra-credit is available, you are encouraged to follow these policies and utilize office hours to maximize your understanding of the assignments and their specific requirements. The above policies provide the basic guidelines and code of conduct for this course. They are designed to reduce confusion and establish an equitable framework for the entire class. As a matter of principle, these policies will be enforced fairly and strictly.

The “spirit” of the course is just as important as the “rules and regulations.” The instructor’s goal is to create a cooperative classroom environment in which we learn from each other. To that end, your constructive comments and suggestions are welcome as we progress through the course. Your feedback is an important element of course delivery and development.

Barring an emergency, the instructor will be available during office hours and at additional times. You are encouraged to visit with the instructor regarding the class assignments, concerns with the course, or just to say “hello.” You can also reach the instructor via telephone or email.

Instructions for Preparing Case Analyses

Case Analysis

1. Read the case carefully. Identify the significant points and relationships. Use the exhibits to help you understand and/or interpret the text.
2. Analyze the data presented in the case and evaluate it in light of the situation. Try to understand not only the present situation, but also its historical origin and how it developed.
3. Decide what the major problems are and, if appropriate, prioritize them.
4. With the problems in mind, identify the feasible alternative courses of action. Determine what additional information is necessary to evaluate the alternative courses of action. Obtain that additional information.
5. Decide what your specific recommendation is to be. In doing so, use your understanding of the alternatives to frame a solution to the problem(s), and predict and evaluate the probable consequences of your solution.
6. Decide how you will organize the presentation of your solution to the case.

Document Organization

1. **Problem Statement:** Identify the problem(s) concisely, using whatever case facts are necessary to show significance and/or priority.
2. **Analysis:** Avoid generalities. Be as specific as possible. Express your ideas clearly, supporting them adequately with evidence, explanation, and references to appropriate exhibits. The strengths and weaknesses of alternative courses of action should be developed. The analysis should build to support your recommendation. Reasons for accepting or rejecting alternatives should be stated and, if necessary, defended.
3. **Recommendation:** State your recommendation clearly and in detail sufficient to guide implementation. Discuss both the positive and negative results of following your recommendation and why you think that it is the appropriate course of action. Make sure that the recommendation follows logically from your analysis.

Honor Code

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the McCombs School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

Faculty Involvement in the Honor System

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

Expectations under the Honor System

Standards

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Management Office. Below are some of the specific examples of violations of the Honor System.

Lying

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

Stealing

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

Cheating

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

Actions Required for Responding to Suspected and Known Violations

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the McCombs School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the McCombs School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the McCombs School of Business."

COURSE SCHEDULE

12/22/2017 Subject to Revision.

Items in italics are found in Canvas.

O signifies optional reading

<u>Date</u>	<u>Topic</u>	<u>Assignment</u>
1/16	Introduction and Pro Forma Fin. Stmts.	Case: Clarkson Lumber
1/18		Case: Clarkson Lumber (continued)
1/23	Valuation Review	Reading: Methods of Valuation for Mergers and Acquisitions Lecture: <i>Principles of Valuation</i>
1/25	WACC Review	Case: Midland Energy Resources – Individual Case Write-up Reading: <i>Best Practices in Estimating the Cost of Capital - An Update</i>
1/30	M&A Justifications M&A Mechanics	Reading: <i>Takeovers, Restructuring, and Corporate Governance; Ch. 6</i> <i>The Takeover Controversy: Analysis and Evidence (O)</i> <i>Diversification Abstracts (O)</i> <i>Does M&A Pay?</i> <i>Justice Dept. AT&T Complaint (O)</i> Lecture: <i>M&A Justifications</i>
2/1	M&A Valuation	Case: The Timken Company – Guest Speaker
2/6	M&A Valuation	Case: Mercury Athletic Footwear Reading: <i>Takeovers, Restructuring, and Corporate Governance; Ch. 8</i>
2/8	Legal Issues and Takeover Defenses	Reading: <i>PA Law: State Antitakeover Laws and Stock Prices</i> <i>Do Takeover Laws Matter? (O)</i> Lecture: <i>Legal Issues and Takeover Defense</i> <i>M&A Empirical Evidence</i>
2/13		Reading: Evaluating M&A Deals – How Poison Pills Work <i>Financial Management Review of Recent M&A Literature (O)</i>
2/15	Synergies	Case: Cooper Industries – Group Case Write-up Reading: <i>Making M&A Deal Synergies Count</i> <i>Merger Motives and Target Valuation: A Survey of Evidence</i>
2/20	LBOs	Reading: <i>Efficiency and Org. Structure: A Study of Reverse LBO's</i> <i>Eclipse of the Public Corporation (O)</i> <i>The Evolution of Buyout Pricing and Financial Structure</i>
2/22		Case: The Buyout of AMC Entertainment
2/27	Antitrust Regulation	Case: The GE/Honeywell Merger

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3/1	Flex Day		
3/20	M&A in the Oil Industry	Case:	Gulf Oil Corporation - Takeover
3/22		Case:	Gulf Oil Corporation - Takeover (continued)
3/27	M&A in Banking	Case:	<i>ABN AMRO?</i> - Guest Speaker
3/29	Strategic Bidding	Case:	The Acquisition of Consolidated Rail Corp. (A)
4/3		Case:	The Acquisition of Consolidated Rail Corp. (B)
4/5	Insider Trading	Reading:	<i>The Law and Finance of Corporate Insider Trading</i>
		Case:	Anheuser-Busch Co. and Campbell Taggart
4/10	Selloffs	Case:	The Restructuring of Nova Chemical– Group Case Write-up
4/12	Spinoffs	Case:	Canadian Pacific Ltd.: Unlocking Shareholder Value
4/17	IPOs	Reading:	<i>The Market's Problems With the Pricing of IPOs</i>
4/19	Equity Carveouts	Case:	Eskimo Pie - Individual Case Write-up
4/24	JVs/Project Finance	Case:	BP Amoco (A): Policy Stmt. on the Use of Project Finance
4/26	Post-Merger Integration	Case:	PMI at Northrup Grumman Information Technology
5/1	Mkt for Corporate Control	Case:	Hershey Foods Corp: Bittersweet Times in a Sweet Place
		Videos:	Watch the <i>Hershey Foods Videos</i>
5/3	Flex Day		
5/11	Take Home Final Exam Due		- Individual case write-up