

New York University
Stern School of Business

B40.2304.10

Restructuring firms and industries

Professors Yakov Amihud

Fall 2009

Time: Wednesday 6-9, Rm TBA
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Grader: TBA

The first part of this course is on M&As. Students should not take this course if they have already taken, or are planning to take the course Mergers & Acquisitions (B40.3196).

Course Description:

This course will present the theories and empirical evidence on corporate control and restructuring transactions. This includes mergers and acquisitions, divestitures, restructuring under bankruptcy and reorganization, the process of evaluating acquisition targets and of restructuring transactions and its application in practice, strategies of acquisition and defensive measures, and restructuring considerations. Empirical findings on the reaction of stock and bond prices to information on control and restructuring transactions will be used to analyze the effects of various policy options in such transactions. The class will combine lecture material, quantitative and qualitative analyses. There will be an emphasis on fundamental, rigorous concepts of valuation and other areas of corporate finance related to restructuring.

It is assumed that students have knowledge of **corporate finance**.

The course includes discussion and analysis of current events that are associated with the lecture material. Students are encouraged to follow the current M&A and restructuring activity and bring up issues and events associated with material covered in class. Please coordinate with me in advance.

Reading material:

Textbook: *Mergers, Acquisitions and Corporate Restructurings* by Patrick Gaughan 2007. Available in the bookstore and in some Internet site at a reduced price (prices vary).

Chapter numbers are in [.] -- skim. ("esp." means especially important). **Additional reading material** will be distributed every week during the semester.

Case studies: Cooper Industries, Conrail A&B, USX, Marvel Entertainment (packet available in the bookstore). The case Sungard will be provided.

Assignments:

There are assigned readings, five cases and two problem sets. The homework assignments are done in groups of three (unless otherwise stated) and handed in. It is important that at least one member of the group has taken the course "Corporate Finance." Some cases/problems require you to cover material independently **before** it is discussed in class.

There is a **final exam** in the last class.

In addition, I may assign groups to do short presentations in class of recent M&A\ restructuring cases.

Grading: Homework - 40%, final exam - 60%. Class participation can help in marginal cases. The final grade distribution is expected to be as follows: 20%-25% A and A-, 15%-25% C (inc. +/-), D & F, and the balance B (+/-).

Course Outline:

Day: Topic:

9/23 (a) Introduction: types of business acquisitions and combinations; reasons for M&A – right and wrong. Who benefits from M&As. Discussion of Guidant – Boston Scientific deal.

(b) Institutional framework: tax issues; regulatory issues (mainly antitrust), accounting treatment of M&As. Discussion of the Staples-Office Depot case.

Readings: G – Chs. 1, [2], 3 (esp. pp. 78-85, 100-113); 4, 6 (pp. 240-250), 15.

Assignment (due 9/30): Problem set: Valuation and determination of exchange offers. Consider (for class discussion) arguments for and against the AOL-Time Warner merger. What do you think of this merger?

9/30 **Solving:** valuation assignment

Valuation of merger targets; errors in valuation and the "bootstrap" game.

Determining the exchange ratio.

Issues in pricing takeover targets. Issues in valuation.

The discounted cash flow method; method of comparables.

Readings: G – Ch. 14 .

Discussion of the cases of AOL-Time Warner, Microsoft-Yahoo, Boston Scientific-Guidant, other deals.

10/7 Methods of payment in acquisitions: reasons and consequences; special financial instruments associated with acquisitions: collars, contingent value rights, more.

Readings: G -- pp. 530-542. Handout material.

Assignment (due 10/14): valuation of two offers for ITT-Sheraton.

10/14 **Solving:** valuation of two offers for ITT-Sheraton.

The effects of M&As on stockholders' wealth in target and bidding firms - theory and empirical evidence.

Readings: G – Ch 4. , pp. 250-258, 555-566.

10/21 **Solving: Cooper Industries**

10/28 Defensive measures against takeovers: rationale and methods. Board's responsibility. State and federal regulations and takeover laws. Major cases. Major case laws in M&As. Empirical evidence.

Discussion of **Pfizer, BEAS-Oracle** (notes will be provided in class).
Readings: G – Ch. 5, 6, pp. 91-96, 115-116, 531-532.

11/4 **Solving: Consolidated Rail Corp. A&B**

11/11 Divestitures
Selloffs, carve-outs, spin-offs, tracking stocks.
Readings: G – Ch. 10

Solving: USX

11/18 **Solving: Sungard**

Leverage: The effects of M&As on bondholders' wealth.
Wealth transfer between stockholders and bondholders; bankruptcy effect; maturity effect;
risk effects; priority effects.
Readings: G – pp. 180, 319-321.

Leveraged Buyouts (LBOs).
Source of benefits in LBOs; the LBO puzzle; effects of LBOs on stockholders' and
bondholders' wealth; the aftermath of LBOs; reverse LBOs; tax issues.
Case: OM Scott.
Readings: G – Ch. 7.

11/25 Break

12/2 Financial distress and bankruptcy; methods of restructuring; workout or bankruptcy?
Vulture investing.
Readings: G – C. 11
Ofek: "Capital structure and firm response to poor performance" J. Fin. Econ. 1993, 3-30.

12/09 **Solving: Marvel Entertainment**

12/16 **Final exam** (last class)

Because of class discussion of current M&A events, the schedule may change through the term.
There may also be guest speakers. Please follow the announcements in class.