

New York University
Stern School of Business

B40.2304.10

Restructuring firms and industries

Professors Yakov Amihud

Fall 2014, 9/23-12/16

Time: Tuesday 6-9, Room 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).

Note: This is in part a **quantitative and demanding course**, with a considerable amount of homework.

Students are supposed to adhere to the NYU Stern Code of Conduct (attached)

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:

Recommended textbook: *Mergers, Acquisitions and Corporate Restructurings*, 2011, by Patrick Gaughan. John Wiley. There is an old 2007 edition. The readings by this edition are marked in {...} “esp.” indicates the pages that are especially important. [...] means: just skim through.

Additional reading material will be distributed in class during the course, and posted on BB. Unfortunately, there is no textbook in M&As that covers all the material that we cover in this course.

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** and are to be submitted in hard copy at the beginning of the class when they are to be solved. Late submissions are not accepted. At least one member of the group should have taken the course "Corporate Finance." Some cases/problems require covering some 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%. For the homework, all assignments are equally weighted; I'll ignore the worst one out of all assignments that are to be submitted. Class participation can help in marginal cases. The final grade distribution is expected to be as follows: 25%-30% A and A-, 10%-15% C (inc. +/-), D & F, and the balance B (+/-).

Course Outline: (Preliminary, subject to changes)

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.74-86, 110-124), 4, 6 (pp. 243-261), 15. {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, J&N and Boston Scientific-Guidant, other deals. Cases will be provided in class.

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

Readings: G – pp. 15-16, 593 (very little). 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&A on stockholders' wealth in target and bidding firms - theory and empirical evidence.

Readings: G – Ch. 4, pp. 260-266, 564-586. {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, Oracle-BEAS, Roche-Illumina** (will be provided in class).

Readings: G – Ch. 3, pp. 95-104, Ch. 5, [6], pp. 539-540 {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 –no need to hand it in**

Leverage: The effects of M&A on bondholders' wealth.

Wealth transfer between stockholders and bondholders; bankruptcy effect; maturity effect; risk effects; priority effects.

Readings: G – pp. 327-330 {pp. 180, 319-321.} Lecture notes: the effect of M&As on the value of debt.

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.

12/2 Financial distress and bankruptcy; reorganization; methods of restructuring; workout or bankruptcy? Vulture investing.

Readings: G – Ch. 11

Solving **Marvel Entertainment**

12/9 Bankruptcy & Reorganization (Cont.)

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.

Rules:

- 1) Final exam: Failing to participate in the final exam leads to failing the course. The exam is closed books, closed notes. You can bring only a calculator.
- 2) Class: Computers cannot be used in class. Late coming is not welcome.
- 3) Homework and cases will be solved in class. Written solutions will not be distributed. You need to get the solution in class. If anything remains unclear, I'll be happy to explain, in class or during my office hour.
- 4) Homework: Please do not ask me how to solve them, and please do not check with me whether your solution is "on track." It is for you to solve them on your own. As it is, the guidance that I provide for the case compromises its objective, which is to put you in a real-life business situation and tackle it on your own.
- 5) Some (not all) of the homework is on material that has not been fully covered in class. You will need to do some learning on your own in order to solve the cases, you will have to think and be creative.
- 6) Please note the workload in this course in terms of written assignments (some are cases) and readings. In the past, some students thought it was heavy and "exhaustive."
- 7) Classes are not recorded.
- 8) **ASK QUESTIONS** either in class or after class.

School-wide Course Policies

Attendance

- Class attendance is mandatory and part of a student's grade. Absences may be excused only in the case of documented serious illness, family emergency, religious observance, or civic obligation. If you will miss class for religious observance or civic obligation, you must inform your instructor no later than the first week of class. Recruiting activities are not acceptable reasons for class absence.
- Students are expected to arrive to class on time and stay to the end of the class period. Chronically arriving late or leaving class early will have an impact on a student's grade. Students may enter class late only if given permission by the instructor and can do so without disrupting the class. *Note: Instructors are not obligated to admit late students or may choose to admit them only at specific times and instructors are not obligated to readmit students who leave class.*

Participation

- Participation is an essential part of learning in this course. Students are expected to participate in all facets of classroom learning.

Reading/Homework

- Students are expected to come to class prepared having read text and assigned readings prior to class. Homework, case studies, and other assignments are expected to be completed and handed in on time.

Late Assignments and Make-up Policy

- At the discretion of the professor, late assignments will either not be accepted or will incur a grade penalty unless due to documented serious illness or family emergency. Professors will make exceptions for religious observance or civic obligation only when the assignment cannot reasonably be completed prior to the due date and the student makes arrangements for late submission with the professor in advance.

Classroom Norms

- If applicable, note your preference regarding food in class.
- Laptops, cell phones, Smartphones and other electronic devices are a disturbance to both students and professors. All electronic devices must be turned off prior to the start of each class meeting.

Ethical Guidelines

Student Code of Conduct

All students are expected to follow the **Stern Code of Conduct**
(<http://www.stern.nyu.edu/uc/codeofconduct>)

A student's responsibilities include, but are not limited to, the following:

- A duty to acknowledge the work and efforts of others when submitting work as one's own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

Students with Disabilities

- Students whose class performance may be affected due to a disability should notify the professor immediately so that arrangements can be made in consultation with the Henry and Lucy Moses Center for Students with Disabilities <http://www.nyu.edu/csd/> to accommodate their needs.

NYU Stern Code of Conduct for the NYU Stern Community at large

NYU Stern Code of Conduct for the NYU Stern Community at large At NYU Stern, we seek to engage our students, faculty and alumni as lifelong partners in the process of learning, debate and discovery. Academic and personal integrity are central to this mission. As members of our community we commit to:

- 1) Show respect for every member of the NYU community and refrain from all forms of intimidation, harassment, and acts of prejudice that infringe upon the rights of other members of the community.
- 2) Exercise integrity in all aspects of our academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
- 3) a.) Clearly acknowledge the work and efforts of others when submitting written work as our own. The incorporation of the work of others--including but not limited to their ideas, data, creative expression, and direct quotations (which should be designated with quotation marks), or paraphrasing thereof--must be fully and appropriately referenced using notations both in the text and the bibliography.
b.) Submitting the same or substantially similar work in multiple courses, either in the same semester or in a different semester, without the express approval of all instructors is strictly forbidden. Limited quoting or paraphrasing from previous work is permissible so long as we clearly identify and reference, as we would the work of another, any quoted or closely paraphrased passages of our own previously written work, whether published or submitted for course credit at Stern or at any other institution. *
- 4) Demonstrate dignity and integrity in all aspects of our involvement with the School and University, including participation in sponsored organizations and activities, and situations in which we may be seen to represent the School or University. These activities and situations include, but are not limited to, student organizations (including clubs, governments, and honor societies), conferences and meetings, student-organized and school-sponsored travel, interviews, and interactions with alumni.
- 5) Demonstrate sound judgment and integrity in the submission of documents, forms, and information to, or on behalf of, the School, University, or any member of those communities.
- 6) Work to preserve and be wise stewards of the University's resources and facilities and respect the personal property of other members of the NYU community.
- 7) Conduct ourselves as law abiding members of both the NYU community and our broader society – including but not limited to a) refraining from behaviors that infringe upon the rights of others or disrupt the educational process, and b) acting in conformity with NYU and Stern policies and public law.
- 8) Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to have an adverse effect on the NYU Stern community.
- 9) Carefully review and abide by the rules and policies of NYU as outlined in detail at <http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/code-of-ethical-conduct.html> and <http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines.html>

, recognizing that being fully informed about NYU and Stern rules and codes governing civil behavior and academic integrity is an obligation of community membership.

As members of this community we understand that any violation of this Code of Conduct, whether committed knowingly or out of ignorance, can result in disciplinary action and may result in a sanction up to and including expulsion from New York University.

The NYU Stern Code of Conduct was amended and approved by the Stern faculty in May 2010.

*The NYU Stern Code of Conduct was amended by the Stern Faculty in October 2011