

Restructuring Firms and Industries
NYU Stern School of Business and NYU School of Law
Fall 2017
Mondays & Wednesdays, 1:30 - 2:50
KMEC 2-60

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Office Hours:
Monday through Thursday (most weeks)
10:00 - 12:00
and by appointment or drop-in

Description: This course examines business problems that arise from conflicts between shareholders, managers, and occasionally other groups such as bondholders, labor, and government regulators. Most of these conflicts lead to either a market-based or regulation-based response that changes the shape of the company involved. Topics include choices of organizational form, mergers and acquisitions, spinoffs and other equity restructuring, private equity, takeover defenses, liability restructuring under financial distress, institutional investors, shareholder activism, and the value of corporate voting and control. Many topics are studied within an agency cost framework, which has become the standard paradigm for analyzing financial contracting and regulation. Readings will be drawn from textbooks and academic journals, and many classes will involve case studies of prominent companies challenged by financial and governance problems.

Prerequisites: This is an advanced course that assumes students are familiar with the concepts of corporate law and/or corporate finance. Law students should have completed at least one semester of the basic Corporations course and done well. Stern students should have already taken Corporate Finance and done well. Further knowledge about capital markets would be helpful for all students, whether through work experience or courses such as Securities Regulation (Law School), Investment Banking, or Mergers and Acquisitions (Stern School).

Textbooks: P. Gaughan, *Mergers, Acquisitions and Corporate Restructurings* (6th ed., 2015)
R. Monks and N. Minow, *Corporate Governance* 5th ed., 2011) (recommended).
B. Malkiel, *A Random Walk Down Wall Street* (11th ed., 2015) (recommended).

Additional readings: Along with readings assigned from the textbooks, I will assign articles from academic journals and the news media, which may be downloaded from NYU Classes.

Lectures: I do *not* record class sessions for later on-line viewing, except for special cases such as religious holidays or calendar conflicts between the two schools when large numbers of students may be absent (see further information below about the Academic Calendar).

Course requirements: The course grade will be based upon a take-home final exam consisting of essay questions. The exam will be distributed by November and will be due at the end of the December exam period. The exam will have eight essay questions of 500 words length, and you

will answer six of the eight questions and have the take-home count as 100% of your grade.

Academic calendar:

The Stern School and Law School have different academic calendars. We will have 26 class session as follows:

- Our first day of class is Wednesday, September 6. There is no assignment to be done in advance of the first class.
- During the week of the Columbus Day holiday, we will have no class on Monday, October 9, and also no class on Wednesday, October 11.
- We will hold class on the day prior to Thanksgiving, Wednesday, November 22. This is a regular class day for the Law School but is a holiday for Stern.
- The final class is Monday, December 11. Though this last class takes place during the Law School exam period, past experience indicates that the inconvenience to most Law School students should be minimal.

Lecture Topics and Readings

Each lecture topic will take 1 to 2 classes to cover

Course introduction

Case Discussion: Restructuring and hostile takeover of ITT Corp.

Gaughan, p 432.

Agency costs; Corporations and other business organizations

Gaughan, pp 477-479.

Monks and Minow, pp 6-11 and 101-129.

E. Fama and M. Jensen, "Separation of Ownership and Control," 26 Journal of Law and Economics 301 (1983).

Case Discussion: Armand Hammer and Occidental Petroleum.

Capital market efficiency and managers' behavior

Case Discussion: T. Lys and L. Vincent, "An Analysis of Value Destruction in AT&T's

Acquisition of NCR," 39 Journal of Financial Economics 353 (1995).

Malkiel, pp 37-55, 134-188, 291-327, 379-392.

"Free cash flow" and financial slack

M. Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," 76 American Economic Review 323 (1986).

Case Discussion: Chrysler Corp. and Kirk Kerkorian.

Mergers and acquisitions: Economic rationales and outcomes

Mergers and acquisitions: Issues for negotiation (Two lectures)

Gaughan, pp 1-39, 111-147, 159-181, 249-278, 479-529. 619-621.

Labor issues in corporate restructuring

A. Shleifer and L. Summers, "Breach of Trust in Hostile Takeovers," in A. Auerbach, ed., *Corporate Takeovers: Causes and Consequences* (National Bureau of Economic Research, 1988).

Case Discussion: "Chainsaw" Albert Dunlap.

Private benefits of control

Family business groups

Corporate voting

Shareholder activism (Four lectures)

Gaughan, pp. 279-308, 479-480.

Monks and Minow, pp 129-237.

D. Yermack, "Shareholder Voting and Corporate Governance," 2 Annual Review of Financial Economics 103 (2010).

Case Discussion: N. Schwartz, "How Wall Street Bent Steel," *The New York Times*, December 6, 2014.

Takeover defenses

Gaughan, pp 75-109, 187-232, 237-248.

Cross-border mergers and acquisitions (Prof. Ingo Walter)

Case discussion: The Acquisition of Martell

Case discussion: The Steel War: Mittal vs. Arcelor

Diversification and conglomerates

Gaughan, pp 49-61, 148-159, 181-183, 513-514.

Malkiel, pp 60-65.

Case Discussion: G. Baker, "Beatrice: A Study in the Creation and Destruction of Value," 47 Journal of Finance 1081 (1992).

Spinoffs, split-offs and other equity restructuring

Gaughan, pp 391-432.

P. Anslinger *et. al*, "Breaking Up Is Good To Do," 1 McKinsey Quarterly 16 (1999).

Case Discussion: R. Parrino, "Spinoffs and Wealth Transfers: The Marriott Case," 43 Journal of Financial Economics 241 (1997).

Private equity and highly leveraged transactions

Gaughan, pp 232-236, 311-369, 618-619.

Case Discussion: D. Denis, "Organizational Form and the Consequences of Highly Leveraged Transactions: Kroger's Recapitalization and Safeway's LBO," 36 Journal of Financial Economics 193 (1994).