DePaul University

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Course Syllabus: Mergers & Acquisitions, LBOs and Corporate Restructuring

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The Charles H. Kellstadt Graduate School of Business
DePaul University

FIN 558: Mergers & Acquisitions
Section 301
Spring 2010

José María Liberti

COURSE SYLLABUS

A. Aims and Objectives

The course involves analysis of corporate restructuring strategies including mergers, acquisitions, and takeovers, financial re-capitalization, leveraged buyouts, management buyouts, going private, and reorganization under bankruptcy. The course integrates the corporate governance and agency dimensions, financial and strategic management aspects, and legal and accounting considerations into a unified framework for investigating issues such as, pre-merger planning, fact-finding, accounting and tax implications, anti-trust problems, post-merger integration, and short-term and long- term shareholder wealth consequences of financial and organizational restructuring transactions. The course combines applied theoretical approach with the case study method through detailed analysis of domestic and global restructuring cases. The focus will be on fundamental concepts of valuation and analytical tools of corporate finance related to restructuring.

The aim of the course is for the students to understand the motivations, decision processes, transaction execution, and valuation consequences of financial, business, and organizational restructuring by corporate units. The course facilitates developing ability among students to plan, evaluate, and execute corporate restructuring strategies using financial modeling and quantitative techniques. In addition, objective of this course is to enable students to appreciate the fundamental issues involved in the structure and functioning of market for corporate control within the framework of finance theory. The course is designed so as to create an interface or link between the academic and the practitioner perspectives of various dimensions of corporate restructuring process.

Who Should Take This Course? The course is aimed at students planning to work for investment banks and corporate advisory firms involved in business restructuring and turnarounds, mergers and acquisitions, and financial reorganization transactions. The course offers a comprehensive strategic perspective, a framework of conceptual and theoretical paradigms, and applied tools for deal design and corporate valuations that may facilitate students establishing their own consulting and advisory services.

At the completion of the course the students will have developed a capability to accomplish the following:

- *Master the language and processes of M&A.* Basic knowledge about the field of M&A is the foundation for effective work in a wide range of fields including corporate development,

investment banking, consulting, and advising senior management. Class case discussions, the books and articles, the lecture slides and the practical experience of the instructor will help you master the basics.

- *Identify M&A issues worth of attention.* For example, in today's environment Corporate Restructuring, Corporate Reorganization, Private Equity and Leveraged Buyouts seem to be the most relevant. The next stage of professional competency is to develop an instinct for the problems and opportunities in an M&A situation. This course highlights elements in the structure and process of every M&A transaction that deserve professional scrutiny.
- *Analyze both M&As and LBOs transactions rigorously.* Valuation analysis is the core skill in M&A and is supplemented by analyses of strategy, dilution, financing, and risk management. The course will exercise analytics in these areas.
- *Develop a concept and design deals.* All transactions begin with the spark of an idea. Translating that idea into a concrete proposal takes hard work. Doing so teaches a lot about the drivers of M&A success, where value will be coming from (the asset side or liability side of the balance sheet) and the elements of deal design. Designing a transaction requires skills of analysis and negotiation. We will survey a number of analytic tools, and then exercise them. Solving and modeling each case will teach you a great deal about the design process. We will survey some strategic frameworks useful in M&A, and the steps necessary to translate a concept into a solid proposal.
- *Form an opinion about a proposed deal.* The key aim of the course is to create an ability to think *critically*, rather than becoming specialists of one particular area of M&A. Training in M&A should settle for nothing less. We will review a framework about deal design, and apply it to several cases.

The subject is complex, competition in M&A is intense, and the consequences of error are large. If you tackle this course earnestly, you will learn a great deal. At the same time, your learning will be deeper and more effective if you engage the course in the spirit of invention and curiosity rather than for the sake of a "grade." The course will argue that deal design is fundamentally a *creative* effort. The best creativity happens in an environment that is both demanding and fun. I will intend and do my best to promote this; you should too.

B. Learning Outcomes

The learning goals of the course are given by the following:

- Develop an all-inclusive analytical framework for planning corporate restructuring transactions:
    - Explain the structure and functioning of market for corporate control.
    - Identify major market forces generated and corporate specific opportunities for creating value through corporate restructuring transactions.
    - Evaluate the objectives and motivations of various stakeholders: shareholders, managers, bondholders and employees among others behind restructuring activities.

- Explain various legal and regulatory provisions as they impact the choice and performance implication of various restructuring transactions.
    - Evaluate available alternatives- deal structures and terms- for various corporate combinations to achieve positive value consequences given the US and global regulatory parameters.
    - Analyze implications of tax, fair trade practices, and securities laws for deal design and implementation.
    - Be able to design a "Win-Win" deal for both the parties involved in a corporate combination transaction.

- Be able to conduct valuation of the mergers, acquisitions, and corporate divestitures.
    - Use due diligence process to identify and strategically evaluate a target or an acquisition offer.
    - Apply various valuation methodologies to quantify the financial impact of restructuring transactions.
    - As an acquirer, conduct comparative valuation of various targets to arrive at different offer price scenarios.
    - From a target perspective, apply well accepted finance concepts like risk-return trade-off, cost of capital, capital structure, equity risk premium, and CAPM framework to evaluate acquisition proposals.
    - Quantify value implications of various financing alternatives and payment methods.

- Be able to design and implement restructuring transactions.
    - To be able to utilize forecasting tools to quantify future cash flows and capital needs.
    - To be able to identify and estimate value of operational, financial, and managerial synergies and incorporate those into the deal value calculations.
    - Demonstrate knowledge of deal negotiation process and deal documentation.
    - From an investor perspective, be able to negotiate with other players pre- and post-deal structuring.
    - Identify and resolve conflicting issues in the target/acquirer relationship.
    - Understand how corporate restructuring creates value; when it makes sense for a company to restructure; and what kind of most restructuring is most appropriate for dealing with a given problem.
    - To be able to identify what issues and challenges managers have to deal with when implementing a restructuring and to ensure the goals of the restructuring strategies are achieved.

- Analyze various corporate governance structures and agency conflicts and their implications for corporate investors and hence market value of the firm in question.
    - Identify variety of exit modes for incumbent managements and boards of target firms.
    - As an acquirer, design various takeover tactics in a manner so as to minimize value loss to either the target, or the acquirer or the combined post-merger entity. Be able to minimize adverse impact of takeover defense provision in the target firm.
    - As a target, evaluate and redesign existing takeover defense mechanisms to maximize positive value consequences of a particular deal.

- Design and implement going private/ leveraged buyout transactions including being able to identify alternative sources of capital and planning post LBO reorganization plan.

- Learn how to calculate IRR to sponsors.
- Using the LBO model as a backward induction tool, determine the maximum amount of equity that a Private Equity firm may be willing to offer in an LBO transaction.

- Explain various factors leading to financial distress and be able to evaluate alternatives available to restore to financial health.
- Evaluate *Pros* and *Cons* of Chapter 11 (Reorganization) and Chapter 7 (Liquidation) restructuring options and their wealth consequences for various stakeholders in the firm.
- Be able to analyze financial and legal aspects unique to cross-border restructuring transactions and incorporate those aspects into deal design and implementation.

C. Focus of Study: Scope of Ideas and Topics

M&A will draw on cases and examples with the following leanings:

- The large publicly held corporation headquartered in the U.S. and abroad.
- Mainly oriented to finance, though the course will draw in contributions from accounting, law, business strategy, organizational behavior, and the role of incentives of each of the players involved in the transaction.
- Primary attention will be given to U.S. laws and regulations.
- Mainly oriented to transaction design, rather than the development of long-term policies.

Success in M&A is defined first and foremost in the creation of economic value or *unlocking* value. This value may come from different sources, such as, enhanced financial stability, improved competitive position, strengthened organization, enhanced reputation, and observance of the letter and spirit of laws and ethics, among many others.

These kinds of outcomes are the fruits of *two* important influences:

- Structure of the Environment in Which the Deal Takes Shape. This includes the nature of the economic opportunity, the strategic setting of the buyer and target, the nature of the organizations of the buyer and target, the reputation and incentive of the players, and the matrix of laws and ethical norms surrounding the firms.
- Conduct of the Players. Given the constraints and opportunities in the environment, how you play the M&A game significantly shapes outcomes. We will explore the influence of conduct in areas such as acquisition search, due diligence, negotiation and bidding, dealing with laws, regulations, and the judicial system, deal design, post-merger integration, communication, and management of the deal development process.

In short, the course presents a considerably richer view of M&A than you will have seen in previous courses and newspaper or magazine articles.

We will use the case method to motivate our discussion to close the gap between rigorous finance theory and its application to practical problems in corporate finance, and the thought-process required when faced with this gap. The course is roughly divided into 5 core topics.

Part A: **Valuation Methods Review. Where Is Enterprise Value Coming From?**

Valuation Methods and Techniques

- Weighted Average Cost of Capital (WACC)
- Unlevering and Relevering Betas
- Discounted Cash Flows Modelling
  - Free Cash Flows *or* Unlevered Cash Flows
  - Capital Cash Flows *or* Levered Cash Flows
  - Equity Cash Flows *or* Residual Cash Flows
- Adjusted Present Value (APV)
  - The Relation Between APV and CCF
- Relative Valuation Analysis: Transaction and Trading Multiples
- Developing Break-Up Analysis
- Sensitivity Tables

Part B: **Traditional M&A Topics and Transactions**

Hostile Takeovers and Friendly Acquisitions. Strategic and Financial Aspects

- Tender Offers: Hostile *vs.* Friendly Takeovers
- Defense Tactics: Pre-Emptive Defenses *vs.* Post-Offer Defenses
  - Deal Agreements and Deal Protections
  - Structural Defenses *vs.* Non-Structural Defenses
  - "The White Knight"
  - Poison Pills: Flip-In vs. Flip-Over
  - "Vote" *vs*. "Value" *vs.* "Board" Related Defenses
- Why Perform Accretion/Dilution Analysis?
- Why Perform Contribution Analysis?
- Acquisition Currency: Cash *vs.* Stock
- One *vs.* Two-Tier Offers
- Merger of Equals: How to Split the Firm?
- The Diversification Discount. Is it a Myth?
- The Market for Corporate Control
  - Delaware vs. Pennsylvania Courts
  - Fiduciary Duties of Board of Directors

Part C: **The Role of Corporate Raiders in Disciplinary Takeovers**

- Shareholders activism as a corporate governance mechanism.
  - Are Corporate Raiders "good" or "bad"? For whom?
  - Are Corporate Raiders or Activist Shareholders necessary?
- Corporate Raiders as a disciplinary takeover mechanism.
  - Why are disciplinary takeover the most successful?
- The Role of Proxy fights
- Staggered boards as defense mechanism to hostile takeovers.

Part D: **Creating Value through Corporate Restructuring**

- Corporate Reorganization Strategies
  - Spin-Offs, Carve-Outs, Target Stock and Divestures
- Financial Distress & Bankruptcy
  - Chapter 11 (Reorganization)
  - Chapter 7 (Liquidation)
  - Out-of-Court Restructuring vs. On-Going Concern
- Net Operating Losses (NOLs and Capital Losses)

Part E: **Private Equity and Leveraged Buyouts (LBOs)**

- The Role of Private Equity Firms: Screening for Candidates
  - Strategic and Financial Sponsors
  - *Pros* and *Cons* of Different Sponsors
- Financial Modeling of LBOs
  - The Problem of Changing Capital Structure
  - Capital Cash Flows vs. Equity Cash Flows
  - The Method of Backward Induction
  - The Role of a Target IRR
  - Maximum Equity vs. Debt Capacity

Part F: **The Role of "Arbs"**
Managing M&A Risk: Collars, Earn-Outs and Contingent Value Rights

- The Role of *Arbitrageurs* in the M&A scenario.
  - Interpreting *arbitrage spreads*.
  - Calculating the probability of success of a transaction from the *arbitrage spread*.
- Managing M&A Risk with Collars, Earn-Outs and CVRs
- Two classes of M&A risk:
  - <u>Pre-Closing</u>: Fluctuations in bidder's and target's stock prices.
  - <u>Post-Closing</u>: Failure of target to perform to expectations.
- *Pros* and *Cons* for bidder and target shareholders of using Fixed Collar Offers *vs.* Floating Collar Offers.

Part A acts as reference material. We will go back and forth to the material in Part A throughout the course. In addition to analyzing the specific financing problems or issues, we will consider how those issues relate to the *strategic* and *business* objectives of the firm. It will be important to examine the "big picture" assumptions that are used in the numerical calculations. This course also places emphasis on presentation and discussion skills. It will be important to explain your positions to each other and to argue convincingly for your recommendations.

Part D, E and F are very important in today's economic environment. I teach the course from the perspective that corporate restructurings —far from being a rare or episodic event that happens to "someone else"— is a common and important event in the professional lives of many managers. The reach of Corporate Restructuring, Private Equity and LBOs is far greater than *any* statistic

may show. The course also emphasizes that the scope of corporate restructuring has become increasingly global, as heightened competition in international product, capital and labor markets puts tremendous pressure on companies worldwide to increase, their competitiveness and maximize their market value.

D. Course Material

The reading material for the course is contained in:

- A digital case and article packet which is available at (www.study.net). The digital package contains all the cases and copyrighted material you will need to purchase for the class during the quarter. All the other necessary material including slides, lecture notes and articles will be posted on Blackboard. I will not distribute this material in class, so you should therefore print this material or just read the material on-line before class and for each assignment. I will only distribute in class the case solution(s) for the case(s) we are discussing and solving in that specific session.

- Bruner, R.F. (Bruner), "Applied Mergers & Acquisitions," First Edition, John Wiley & Sons, Inc., 2004. You may want to by the edition *without* the CD-Rom.

- Castillo, J.J. and Peter J. McAniff (CA), "The Practitioner's Guide to Investment Banking, Mergers & Acquisitions, Corporate Finance," First Edition, Circinus Business Press, 2007.

- Kim, K.A. and John R. Nosfinger and Derek J. Mohr, (KNM) "Corporate Governance," Third Edition, Prentice Hall, 2010.

I highly recommend a small, practical and inexpensive but surprisingly comprehensive dictionary defining over 5,000 terms:

- Downes, J. and Jordan Elliott Goodman, "Dictionary of Finance and Investment Terms," Seventh Edition, Prentice Hall, 2008. The Eight Edition is scheduled to be released on May 2010.

As reference material for basic corporate finance topics you may want to use any of the usual graduate textbooks:

- Berk. J. and Peter DeMarzo (BDeM), "Corporate Finance," First Edition, Pearson Addison Wesley, 2006. The Second Edition of this book will be released on January 25, 2010. Use this textbook as a reference book. You can also use any other textbook you used in your *core* corporate finance classes.

- Brealey, R., Stewart Myers and Franklin Allen (BMA), "Principles of Corporate Finance," 9th Edition, McGraw-Hill/Irwin, 2007. This is another textbook you may find useful in case you want to review core topics that were taught in your corporate finance classes.

- Grinblatt, M and Sheridan Titman, "Financial Markets and Corporate Strategy", 2nd Edition, Irwin/McGraw Hill, 2001.Use this textbook as a more *advanced* reference book.

In addition (most of) the material will also be posted on Blackboard during the term (subject to copyright regulations). I will also hand out during the course teaching slides and additional reading material as well as case solutions. In some cases I will e-mail my valuation model, so you can follow in class how my solution looks like relative to the one your group produced. All material I distribute in class will also be posted on Blackboard, except for the solutions of the cases. If you are missing any material, you should contact me via e-mail. I will be happy to provide it.

There are several other books on the market covering *Mergers & Acquisitions* and *The Market for Corporate Control* to various degrees of depth. We will not use these books in this course, but if you nevertheless wish to consult other books occasionally, here are some good useful books. In some cases I will post in Blackboard some of the chapters of these books according to the topics we cover each week. You should also feel free to ask me for book recommendations in other topics if you are interested.

- Adolph, G., Justin Pettit and Michael Sisk, "Merge Ahead: Mastering the Five Enduring Trends of Artful M&A," First Edition, McGraw-Hill, 2009. The book contains the most up-to-date information available on recent mergers and trends in the world of M&A. It conveys critical information in concise and fast-paced language, providing a hands-on resource that won't bog you down.

- Arzac, E.R., "Valuation for Mergers, Buyouts and Restructuring," Second Edition, John Wiley and Sons, Inc., 2008.

- DePamphilis, D.M., "Mergers, Acquisitions, and Other Restructuring Activities," Fourth Edition, Academic Press, Elsevier Inc., 2008.

- Gaughan, P.A., "Mergers, Acquisitions and Corporate Restructurings," Fourth Edition, John Wiley and Sons, Inc., 2007.

- Gaughan, P.A., "Mergers: What Can Go Wrong and How to Prevent It," John Wiley and Sons, Inc., 2005.

- Gilson, S.C., "Creating Value Through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts and Breakups," John Wiley and Sons, Inc., 2001.

- Hunt, P.A., "Structuring Mergers & Acquisitions: A Guide To Creating Shareholder Value," Third Edition, Wolters Kluwer, Law & Business, Aspen Publishers, 2007.

- Lajoux, A.R. and Charles M. Elson, "The Art of Due Diligence," McGraw-Hill, First Edition, 2000. Drawing on the experience of 100 experts, the book shows non-lawyers how to navigate due diligence and how to uncover data that can break a deal. Featuring global

perspectives and special insights for small businesses, manufacturers, and service companies, this primer is essential for everyone involved in M&As.

- Lajoux, A.R. and H. Peter Nesvold, "The Art of M&A Structuring: Techniques for Mitigating Financial, Tax, and Legal Risk," McGraw-Hill, 2003.

- Reed, S.F., Alexandra Lajoux, and H.Peter Nesvold, "The Art of M&A: A Merger Acquisition Buyout," Fourth Edition, McGraw-Hill 2007. This is a *classic* book with vital information on the process of M&As: Getting Started; Planning and Finding; Valuation and Pricing; Financing and Refinancing; Structuring Deals; Due Diligence Practices; Negotiation, Agreements and Letter of Intent; Post-Merger Integration Issues, Workout, Bankruptcies and Liquidations and Structuring Transactions with International Aspects.

- Schweiger, D., "M&A Integration: A Framework for Executives and Managers," First Edition, McGraw-Hill, 2002. Studies of Fortune 500 executives found that post-merger integration issues such as culture clashes, style, ego, and management changes are the most common pitfalls that can derail otherwise successful mergers or acquisitions. The book provides a practical framework for integrating acquisitions while helping managers direct each step in the volatile and uncertain post-merger integration process.

For valuation purposes *four* good references are:

- Castillo, J.J and Peter J. McAniff, "The Practitioner's Guide to Investment Banking, Mergers & Acquisitions, Corporate Finance," First Edition, Circinus Business Press, 2007.

- Damodaran, A., "Damodaran on Valuation: Security Analysis for Investment and Corporate Finance," Second Edition, John Wiley and Sons, Inc., 2006.

- Damodaran, A., "Investment Valuation: Tools and Techniques for Determining the Value of *Any* Asset," Second Edition, John Wiley and Sons, Inc., 2002.

- Koller, T., M. Goedhart and D. Wessels "Valuation: Measuring and Managing the Value of Companies", Fourth Edition, McKinsey & Company Inc., John Wiley and Sons, Inc., 2005.

- Rosenbaum, J. and Joshua Pearl, "Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions," John Wiley and Sons, Inc., 2009.

They are generally pretty expensive books, so feel free to consult me before buying any of them. I can lend them to you so you can browse through them and check whether you feel they may be useful for your future careers or current jobs. I highly recommend the two valuation books since they are unique source of reference when dealing with particular topics in valuation.

The following list of books is those which I have found interesting as well as informative. They are more like bed-time reading. If after my class you are interested in additional reading, please, let me know. This list is meant to be my suggestions of where you can start looking.

- Anders, G., Merchants of Debt: KKR and the Mortgaging of American Business, Beard Books, 2002. An insider Wall Street Journal reporter explores the leveraged-buyout operations of Kohlberg Kravis Roberts. The LBOs of Safeway, Beatrice, Duracell and RJR Nabisco are explained in an easy way.

- Bernstein, P., Capital Ideas: The Improbable Origins of Modern Wall Street, Wiley, 2005. This book is a history of modern finance. If you read this book you will notice how closely academic and practical finance are intertwined.

- Chew Jr., D.H., The New Corporate Finance. Where Theory Meets Practice, McGraw-Hill Irwin, 3rd Edition, 2001. This is a good source of readings on applied corporate finance classic papers.

- Koller, T. Marc Goedhart, and David Wessels, Valuation: Measuring and Managing the Value of Companies, McKinsey & Company, 4th Edition, 2005. A reasonable reference on valuation, more practical and less analytical than BMA and GT. This is a practitioner guide to valuation, and is on the whole correct.

- Milgrom, P. and John Roberts, Economics, Organization & Management, Prentice Hall, 1992.

- Schwager, J.D., The New Market Wizards: Conversations with America's Top Traders, Harper, 1994. This book is a series of interviews with very successful traders. These are people who have beaten their respective markets.

E. Course Procedures: Group Case Write-Ups

Deadlines for the class are non-negotiable. If you have a question about a deadline, you should resolve it prior to the deadline. Under special circumstances, you may arrange to turn in your work *early*. Submissions will not be accepted after the due date and exams may not be taken late. Late submissions or taking an exam later than your scheduled time may provide a student with unfair advantage over other students. In the interest of fairness, all students must face the same set of deadlines.

There will be **10/11** group case write-ups/assignments depending on the availability and feasibility of time as the course progresses. Case write-ups must be submitted on time before the beginning of each lecture. No credit will be given for late cases. I will grade the cases on a scale of 0 to 5 (including decimals places) and give you as much feedback as possible in the corrections. I have a very particular way of grading, it is tough but it is very detailed and, most important, you will learn from the mistakes. The Case-Study Questions for each of the 8 cases will be available on Blackboard a week in advance. Note that the Mini-Cases in the Course Outline are not graded. These cases and material will be covered in class.

You are allowed and encouraged to meet in groups outside of class to discuss and analyze the cases. In the past, students have found that these groups complement the class discussion well. I encourage you to collaborate on cases. Groups should be composed by exactly **4-5** students. If you have any problems in finding someone to work with, please e-mail me and let me know. I will be happy to assist you in finding a group.

Diversity in group composition will be rewarded (strong and weak finance students, men and women, single and married…) and you can describe on the cover page along which dimension your group is diverse. You are allowed to change groups during the term (although I do not prefer this situation). Also, bear in mind that it may be helpful to chose groups according to the specific home addresses of the group members since most likely you will be meeting during the week-ends to solve and discuss the cases.

Regarding the cases, each group will submit a **three-page** (and **NOT** a single page more) memorandum of analysis and recommendations covering the case study questions plus any accompanying tables, models, graphs and exhibits you wish to include as appendices. Tables should be well organized and labeled. Include whatever exhibits you deem necessary, but I suggest not to waste the reader's time with exhibits that do not add significant value to the analysis. For example, do not use two similar exhibits that do not add much to the analysis and understanding of the case, or do not repeat what is written on the case. Be sure to indicate how you arrived at your conclusions. I care about the thinking process and the logic behind the cases rather than the correct or incorrect answer. I will accept one memorandum from the group and count it for all students in the group. Write these as if you were writing a recommendation for the CEO or major decision maker in the case. Be sure to address in each paragraph of the memorandum the questions you are being asked in the case-study questions. I urge you to start each paragraph with a number referring to the question you are answering. For your convenience, I will also post some of the relevant data for each case in a worksheet on Blackboard.

Each group should also submit (via Blackboard) the excel file that contains the (professional, neat, complete, and clear) analysis. This way is easier for me to grade your quantitative analysis. The excel file should be named **FirstName_LastName_CASENAME.xls.** The first and last name can correspond to any member of the group.

For your convenience, I will also post some of the relevant data from each case in an Excel worksheet on the corresponding week in Blackboard.

The main point of the cases is to help you learn by ensuring that you prepare for class and think about the material to cover each week. Reading the material assigned for each week is crucial and preparing for the cases is the best way to enjoy and learn from this course. My advice about the cases is: do your best in working through them, but recognize that they are hard and you will not always get it right. They will get harder and harder as the course progresses.

Brevity is a virtue for case write-ups. Do not repeat the facts of the case. You should turn in your memo at the beginning of the class on the due date. You are expected to have read the case and

prepared your answers. Keep a copy of your answers as you will be expected to contribute to the class discussion based on your written answers. I expect the answers to be well-reasoned. The cases are your opportunity to apply the concepts you have learned thus far to messy, not-so-clear, and complex real-world problems. Understanding the ideas is important and being able to explain them to your boss and co-workers is equally important. Thus, your case write-ups will be graded both on your answers as well as how well you defend your proposed solution.

The readings and articles, which I have assigned and will hand out as the course progresses or post in Blackboard, are largely non-technical in nature and summarize the findings of academic and business research in corporate finance in the recent past. These articles are meant to be background material, which will help you to analyze the cases. The readings should not necessarily be cited in the case discussion; I do not want a summary of my reference material! You should try to argue as if you were in a corporate boardroom rather than in a doctoral seminar. The goal is to have an open and interactive class-case discussion, where the process of arriving at the answer is as important as getting the answer.

Because of the nature of this course (and its grading criteria), it is extremely important that you attend every class, arrive on time, and are prepared to participate. To help me remember who said what, it is important that you **always sit** in the same places. Also, if your picture is not in the DePaul directory/roaster face book, I recommend that you come and introduce yourself to me on the first day of class.

F. Grading

The weighting for the final grade is given by:

Class Participation	25%
Group Case Write-Ups	55%
Peer Review Evaluation	20%

As a strict rule, there is **no** make-up days for material due. It is your responsibility to schedule the rest of your activities such that you are able to attend comply with the rules of the class.

Class Participation: By design, this is a case-based course. Given the format, class participation is an *indispensable* part of the learning experience. I will judge your performance based both on the quality and the number of your comments. Because so much of the learning in this course occurs in the classroom, it is very important that you attend every class. Low class participation combined with several absences can lead to a lower grade. If you are uncomfortable with such a heavy weight on class participation, this class may not be for you. I will grade for each case your class participation using a discrete scale of 1, 2 and 3. For the best (or bests) student(s) in terms of class participation for each session, I will assign only one numerical value of 5 per class. I will post in Blackboard each night (after class) the class participation grades for that day so you can check the performance for that particular session.

Group Case Write-Ups: As mentioned in Section E, this grade will be based on the 10/11 group case write-ups. Grading is very seriously done and I expect from all the groups high-quality write-ups.

Peer-Review Evaluation: During Week X, I will distribute and post a peer-review evaluation which you will have to complete individually evaluating each member of the group. In addition you may submit an attached hard-copy letter to the peer-review evaluation describing each team members' performance and contribution to the group, and an assessment of "how the process went." Please, remember to put your name on the letter. I recommend you hand me in the peer-review evaluation and your letter in a sealed signed envelop in class on the last class of the quarter.

G. Blackboard Portal

The class webpage on Blackboard is intended as the main information dissemination mechanism. When you have a question, you should consult Blackboard first, as in most cases; you will find the answer there. If it is not the case, then contact me. In particular: lecture notes, teaching slides, handouts, announcements, frequently asked questions (and their answers) and supporting material will all be posted on Blackboard.

From Blackboard you will be able to download excel spreadsheets and case questions for the 7 graded cases. Each workspace, in turn, contains one or more of the exhibits in the case. This will make it easier for you to spend time on the analysis, rather than punching in numbers. From the portal you will also be able to download most of the handouts I supply throughout the course as well as teaching material and slides. Anything I hand out in class will also be put on the home page (unless it is copyright material).

H. Office Hours and Contact Information

The best way to get in touch with me is via email: jliberti@depaul.edu . I follow an open door policy. You can also call, come to my office hours, or put a note in my mailbox. You can call me at 312.362.8739. My office is located at DePaul Center: Department of Finance, Suite 6100, Office 6131. I will also be available for individual meetings by appointment at times that are mutually convenient. Please e-mail me to make appointments. If you come, I will stay until student exhaustion or midnight whichever comes first. I will stay until student exhaustion or midnight whichever comes first.

As a rule to follow, I will **NOT** discuss any question related to the cases before they are solved in class. After they are solved I will be more than happy to discuss them with you. I am happy to discuss anything you want regarding the course material, job offers, projects, careers, etc.

I. Finance Review and Reference Material

One of the challenges of Mergers & Acquisitions is that students' background is generally very different, specifically coming from different programs and careers and having taken different courses at different times in their MBAs careers. For some of you some of the finance material will be fresh, but for some others it will be rusty (or eve very rusty since the last time you took a finance course was at College). For those of you who feel you need to review some of the "old" material I am providing you with some of material from core corporate finance courses (FIN 555). I have been writing these notes during the last 5 years now. I am still updating them. Feel

free to let me know about typos or things that are unclear. I will be more than happy to correct them. You will **NOT** need the 15 chapters for this class. I will let you know which the relevant chapters are for each session. You should check the Reading Material for that particular week.

Feel free to browse the specific issues and chapters for each of the relevant cases as indicated in the assigned Weekly Readings. I will assume that you are acquainted with this material; I will **NOT** lecture this material during the course. Use these slides as a reference material in case you need so, and obviously feel free to download them as reference material for upcoming courses.

J. First Week Class Assignment

In Week I, Monday March 29, we will go over some basic valuation review concepts including different types of cash flows (Free Cash Flow and Capital Cash Flow) WACC, Adjusted Present Value (APV) and understanding where *Enterprise Value* is coming from. Show up in class, happy, rested and ready to work! You may want to read the material under Week 0: Introduction: Does M&A Pay? and Why Do We Follow M&A Transactions?

K. Tips On How To Engage The Course

Diversify. The course offers a number of learning modes. **Engage them all!** The plan for the course shows that regular case studies will be the focus of 11 of the class meetings.

Follow Your Interest. This is a "self-tailoring" course in that it leaves much of the technical reading to the discretion of the student. The two books, articles and slides will give you the framework of terminology and tools in M&A. Consider reading carefully where you find interesting topics.

Join a Learning Team to Prepare For Class. The ideas in the cases and readings for class are deep; the analysis can get complex. You will learn more from the course, and perform better in class participation by discussing these cases together in a learning team. I will serve as a clearinghouse for those students who have been unable to join a learning team.

Commit to Your Write-Ups and Learning Teams. Team-based work makes a large contribution to the course. The Group work accounts for 40% of the final grade. High performance teams show a number of common attributes:

- Members commit to the success of the team.
- The team plans ahead, leaving time for contingencies.
- The team meets regularly.
- Team members show up for meetings and are *prepared* to contribute.
- There may or may not be a formal

L. Academic Integrity Policy

As a condition of their enrollment in this course, students are expected to understand and abide by DePaul University's Academic Integrity Policy (AIP) as outlined in

http://studentaffairs.depaul.edu/handbook/code16.html. A violation of the AIP will result in sanctions, including a failing grade for the course.

M. Course Reading List and Course Outline

The course reading list is divided by Weeks and classified in *Required Readings*, *Business Readings* and *Supplementary Readings*. You do not need to read the *Supplementary Readings.* This supplementary material is provided to expand you knowledge in the particular topic we are covering. It is more to suffice your curiosity in the specific topic we are covering that day. If you want any additional information please do not doubt to let me know. I will be happy to provide you with any additional material or readings.

Week 0

[Before First Meeting]

Introduction:
Does M&A Pay?

The M&A Environment: 1990-2010

Recommended Readings

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 3: Does M&A Pay?

- Bruner, R., "Where M&A Pays and Where It Strays: A Survey of Research," *Journal of Applied Corporate Finance*, Volume 16, Number 4, Fall 2004.

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part I: The Basics, Chapters 4 (Strategic Transactions), 5 (Introduction to M&A), 6 (Analyzing Strategic Acquisitions) and 7 (Screening for M&A Transactions).

- Liberti, J., "Why Follow M&A Transactions?," Note, DePaul University, 2010.

- Liberti, J., "The M&A Environment: 1990-2010," Lecture Slides, DePaul University, 2010.

- University of Rochester Roundtable on Corporate M&A and Shareholder Value, *Journal of Applied Corporate Finance*, Volume 17, Number 4, Fall 2005

Supplementary Readings on the Current Status of the M&A Market

Given the chaos in the financial economy, it should come as no surprise that M&A activity fell sharply in the fourth quarter of 2008. Since 1980, US recessions have led to steep declines in the value of global M&A activity—typically, of around 50% during the first year. That fall-off results from factors we see in the current downturn as well, including lower deal values in sinking equity markets; difficulties with financing, particularly for very large transactions; and a general fear about the economic outlook, which forces acquirers to put plans on hold. Moreover, in December 2008 stock markets were down 40 to 50 percent from their January levels.

- Baghai, M., Sven Smit and S.Patrick Viguerie, "M&A Strategies in a Down Market," *The McKinsey Quarterly*, Corporate Finance, September 2008.

- Capaldo, A., David Cogman, and Hannu Suonio, "What's Different About M&A in this Downturn," *McKinsey on Finance*, Number 30, Winter 2009.

- Capaldo, A., Richard Dobbs, and Hannu Suonio, "Deal Making in 2007: Is the M&A Boom Over?," *McKinsey on Finance*, Number 26, Winter 2008.
- Dobbs, R. and Timothy M. Koller, "The Crisis: Timing Strategic Moves," *McKinsey on*

Finance, Spring 2009.

- Jiang, B. Timothy M.Koller and Zane D. Williams, "Mapping Decline and Recovery Across Sectors," *McKinsey on Finance*, Winter 2009.

- Rehm, W., Carsten Buch Sivertsen, "A Strong Foundation for M&A in 2010," *McKinsey on Finance*, Number 34, January 2010.

Business Reading

- "Faceless Shareholders To Drive M&A Action," *Financial Times*, January 10, 2010.

- "M&A Cycle Turns," *Financial Times*, December 20, 2009.

- "M&A Springs Back To Life," *Financial Times*, April 20, 2009.

Week I

[March 29]

Valuation Methods Review
Where Is Enterprise Value Coming From?

Recommended Readings

Required Readings on Valuation

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part II: Valuation, Chapters 8 (The Role of Valuation) and 11 (Discounted Cash Flow Analysis).

- Kaplan, S., "A Note on Discounted Cash Flow Valuation Methods," University of Chicago, Booth School of Business, 2004.

- Liberti, J., "Valuation Methods: Discounted Cash Flow Analysis. Risk of Tax Shields: WACC *vs.* APV," Lecture Slides, DePaul University, 2010.

- Liberti, J., "Capital Budgeting: Types of Cash Flows. Free Cash Flows, Capital Cash Flows and Equity Cash Flows," Reference Material: Chapter I, DePaul University, 2010.

  [Concentrate on the 2 basic Cash Flows: FCF and CCF. This chapter is already in the set of slides I distributed in class!]

- Liberti, J., "Capital Structure I: Modigliani Miller Irrelevance Theorem. Estimating Cost of Capital," Reference Material: Chapter IV, DePaul University 2010.

- Liberti, J., "Capital Structure II: Corporate Taxes. Estimating Cost of Capital. Valuation Techniques," Reference Material: Chapter V, DePaul University, 2010.

- Liberti, J., "Summary Tables: Constructing Cash Flows EBIT and Net Income Version," DePaul University, 2010.

- Liberti, J., "Valuation Techniques: Summary of Formulae and Concepts," Note, DePaul University, 2010.

Supplementary Readings on Valuation

- BdeM, "Corporate Finance," Chapter 18 and 19 (Part VI: Valuation).

- BMA, "Principles of Corporate Finance," Chapter 17, 18 and 19 (Financing and Valuation).

- Kaplan, S. and Richard S. Ruback, "The Market Pricing of Cash Flow Forecasts: Discounted Cash Flow vs. The Method of Comparables", *Journal of Applied Corporate Finance*, Volume 8, Number 4, Winter 1996.

- Sloan, R.G., "Using Earnings and Free Cash Flow To Evaluate Corporate Performance", *Journal of Applied Corporate Finance*, Volume 9, Number 1, Spring 1996.

Business Readings

- Schroeder Salomon Smith Barney, European Credit Research, "Bond and Credit Valuation Criteria", November 2002.

  [Concentrate on Pages 11-28: Measuring Cash Flows and Free Cash Flow: A Better Measure.]

Week I

Review Session

[April 2-3]

Valuation Methods (cont.'d)
APV *vs.* WACC

Reconciliation of Valuation Methods

Recommended Readings

Go through Week I material *again* especially:

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part II: Valuation, Chapter 11 (Discounted Cash Flow Analysis).

- Liberti, J., "Valuation Methods: Discounted Cash Flow Analysis. Risk of Tax Shields: WACC vs. APV," Lecture Slides, DePaul University, 2010.

- Liberti, J., "Capital Structure II: Corporate Taxes. Estimating Cost of Capital. Valuation Techniques", Reference Material: Chapter V, DePaul University, 2010.

- Liberti, J., "Summary Tables: EBIT and Net Income Version", DePaul University, 2010.

- Liberti, J., "Valuation Techniques: Summary of Formulae and Concepts", Note, DePaul University, 2010.

Required Readings on Reconciliation Methods

- Liberti, J., "Mini-Case: Valuation Using WACC and APV – GM's Bid For Hughes Aircraft Corporation", Lecture Slides, DePaul University, 2010.

Required Readings on Adjusted Present Value

- Luehrman, T., 1997, "Using APV: A Better Tool For Valuing Operations", *Harvard Business Review*, Volume 73, Number 3, 1997.

Required Readings on Capital Structure

- Heine, R., and Fredric Harbus, "Toward a More Complete Model of Optimal Capital Structure," *Journal of Applied Corporate Finance*, Volume 15, Number 1, 2003.

- Liberti, J., "How To Come Up With a Capital Structure Policy? Overview/Summary," Note,

DePaul University, 2010.

Required Readings on Transaction and Trading Multiples

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part II: Valuation, Chapters 9 (Comparable Company Analysis) and 10 (Comparable Transaction Analysis).

- Chadda, N., Robert S. Mc Nish and Werner Rehm, "All P/Es Are Not Created Equal," *McKinsey on Finance*, Spring 2004.

- Goedhart, M., Timothy Koller and David Wessels, "The Right Role for Multiples In Valuation," *McKinsey On Finance*, Spring 2005.

- Liberti, J., "The Market Approach to Value: Relative Valuation Techniques," Lecture Slides, DePaul University, 2010.

Required Readings on Sensitivity Tables

- Ecklund, P., "Introduction to Data Tables and Data Table Exercises," Tools for Excel Modeling, Duke, The Fuqua School of Business, Excel Review 2001-2002.

Supplementary Readings on Transaction and Trading Multiples

- Esty, B., "What Determines Comparability When Valuing Firms With Multiples?," *Journal of Financial Education*, Fall 2000.

Supplementary Readings on Capital Structure

- Myers, S.C., "Still Searching for Optimal Capital Structure," *Journal of Applied Corporate Finance*, Volume 6, Number 1, 1993.

- Opler, T., Michael Saron, and Sheridan Titman, "Designing Capital Structure to Create Shareholder Value," *Journal of Applied Corporate Finance*, Volume 10, Number 1, 1997.

Business Readings

- "Reducing Volatility in Earnings and Cash Flow," *Global Corporate Finance*, Citigroup, April 2004.

Week II
[April 5]

Mergers & Acquisitions:
Valuation of Hard and Soft Synergies
Multiples In Practice

Break-Up Analysis:
The Diversification Discount: Is It a Myth?

Takeover Defenses: Implementing Structural Defenses
Structuring Acquisition Offers

Recommended Readings

Required Readings on M&As & Structuring Acquisition Offers

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part II: Valuation, Chapter 13 (Break-Up Analysis) and Part III: M&A Analysis, Chapter 15 (Acquisition Currency).

- Liberti, J., "Mergers and Acquisitions: The Market for Corporate Control", Reference Material: Chapter XII, DePaul University, 2010.

- Liberti, J., "Special Cases in Valuation: Mergers and Acquisitions & Corporate Restructuring", Note, DePaul University, 2010.

Required Readings on Synergies

- Bekier, M.M, Anna J. Bogardus and Tim Oldham, "Why Mergers Fail?," *The McKinsey Quarterly*, Number 4, 2001.

- Christofferson, S.A., Robert S. McNish and Diane L. Sias, "Where Mergers Go Wrong," *The McKinsey Quarterly*, 2004, Number 2.

- Dobbs, R., Mare Goedhart and Hannu Suonio, "Are Companies Getting Better at M&A," *McKinsey on Finance*, Winter 2007.

- Dobbs, R., Hannu Suonio and Vincenzo Tortorici, "Maintaining Discipline In M&A," The McKinsey Quarterly, Commentary 2007, Number 2.

- Sirower, M.L. and Sumit Sahni, "Avoiding the 'Synergy Trap': Practical Guidance on M&A Decisions for CEOs and Boards," *Journal of Applied Corporate Finance*, Volume 18, Number 3, Summer 2006.

Required Readings on the Diversification Discount

- Liberti, J., "M&A Activity. Valuing Conglomerates: The Diversification/Conglomerate Discount," Lecture Slides, DePaul University, 2010.

Supplementary Readings on M&As, Structuring Acquisition Offers and Synergies

- Andrade, G., Mark Mitchell and Erik Stafford, "New Evidence and Perspectives on Mergers", *The Journal of Economic Perspectives*, Volume 15, Number 2, Spring 2001.

- BdeM, "Corporate Finance," Chapter 28.

- BMA, "Principles of Corporate Finance", Chapters 32 and 34.

  [Concentrate especially on Section 32.5: Takeover Battles and Tactics]

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 11 (Valuing Synergies).

- Holmstrom, B. and Steven N. Kaplan, "Corporate Governance and Merger Activity in the United States: Making Sense of the 1980s and 1990s", *Journal of Economic Perspectives*, Volume 15, Number 2, Spring 2001, 121-144.

Supplementary Readings on the Diversification-Conglomerate Discount

- Inns, K. and Henri Servaes, "International Evidence on the Value of Corporate Diversification," *The Journal of Finance*, Volume LIV, Number 6, December 1999.

- Villalonga, B., "Research Roundtable Discussion: The Diversification Discount," April 24, 2003, Available at SSRN: http://ssrn.com/abstract=402220

Week III

[April 12]

The Market for Corporate Control: Delaware *vs.* Pennsylvania

Structuring Offers: Two-Tier Offers Avoiding the Free-Rider Problem in M&A Contexts

Takeover Battles and Corporate Defense Tactics

Merger of Equals (MEO)

Recommended Readings

Required Readings on Takeover Defenses, Battles, Tactics and Merger of Equals

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part III: M&A Analysis, Chapter 18 (Merger of Equals) and Part IV: Transaction Structuring, Chapter 23 (Corporate Defense).

- Gaughan, P.A., "Mergers, Acquisitions, and Corporate Restructurings," Fourth Edition, John Wiley and Sons, Inc., 2007. Chapter 5 (Antitakeover Measures) and Chapter 6 (Takeover Tactics).

  [Read *all* Chapter 5. For Chapter 6 only read pages 247-249 devoted to Two-Tier Offers.]

- Hunt, P.A., "Structuring Mergers & Acquisitions: A Guide To Creating Shareholder Value," Third Edition, Wolters Kluwer, Law & Business, Aspen Publishers, 2007. Chapter 24 (Hostile Acquisitions).

- Kim, K.A. and John R. Nosfinger and Derek J. Mohr, (KNM) "Corporate Governance," Third Edition, Prentice Hall, 2010.

- KNM, "Corporate Governance," Chapter 2, (Executive Incentives), Chapter 4 (The Board of Directors) and Chapter 8 (Corporate Takeovers: A Governance Mechanism?)

- Liberti, J., "The Market for Corporate Control – M&A Motives, Tactics and Takeover Defenses," Class Lecture Slides, DePaul University, 2010.

Supplementary Readings on Strategic Acquisitions and Takeover Defenses

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 33 (Takeover Attack and Defense).

- Hunt, P.A., "Structuring Mergers & Acquisitions: A Guide To Creating Shareholder Value," Third Edition, Wolters Kluwer, Law & Business, Aspen Publishers, 2007. Chapter 23 (Anti-Takeover Measures).

- Jarrell, G.A., James A. Brickley and Jeffry M. Netter, "The Market for Corporate Control: The Empirical Evidence Since 1980," *The Journal of Economic Perspectives*, Volume 2, Number 1, Winter 1988.

- Subramanian, G., "Takeover Defenses and Bargaining Power," *Journal of Applied Corporate Finance*, Volume 17, Number 4, Fall 2005.

Business Readings

- "North American Railways: Stop Me Before I Merge Again," *The Economist*, July 20, 2000.

- "Mergers & Acquisitions. Hostile Bids are Back," *Financial Times*, February 18, 2004.

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Week III

Workshop

[April 17]

Workshop I
Merger Consequences Analysis:
Affordability Analysis

In this workshop you will learn how to perform the mechanics of merger consequences analysis, which are often called *affordability analysis*. This includes using accretion/dilution analysis to determine how the proposed transaction will affect the acquirer's earnings per share (or EPS), and using credit analysis to determine how the proposed transaction will affect the acquirer's credit rating. We will also discuss the fundamentals of purchase accounting, the concept and creation of goodwill and asset-write ups and how to determine fixed exchange ratios using relative contribution analysis.

Using Hershey Foods Corporation's (HFC) 10-Q financial reports from March 31 2002, we value HFC as a **potential target** for an acquirer. Why is it a potential target? Using *financial* and *qualitative* information available in the 10Qs we compute the *Intrinsic* Enterprise and Equity Value and comparing them to the market sock price. Is HFC undervalued? Overvalued? Does it have a fair price? In doing so we use WACC, Transaction & Trading multiples. We will finally go over the merger consequences analysis for Wrigley's acquisition of Hershey.

Recommended Readings

- Hershey Foods Corporation, Form 10-Q, March 31, 2002.
- Hershey Foods Corporation, Management's Discussion and Analysis.
- Liberti, J., "Corporate Valuation: Hershey Foods Corporation Using Form 10-Q," Lecture Slides, DePaul University, 2010.

Week IV
[April 19]

Merger Analysis:
Relative Contribution Analysis
Accretion/Dilution Analysis
Affordability Analysis: Debt Capacity Analysis

Implied Exchange Ratios

Social Issues, Governance and Other Issues

Recommended Readings

Required Readings on Strategy and Value

- Goedhart, M., Timothy M. Koller, and David Wessels, "How Inflation Can Destroy Shareholder Value," *McKinsey on Finance*, Number 34, Winter 2010.

- Hazelkorn, T., Anil Shivdasani and Marc Zenner, "Creating Value with Mergers and Acquisitions," *Salomon Smith Barney*, Global Corporate Finance, Financial Strategy, January 2003.

- Liberti, J., "Strategy, Motives, Execution, Integration and Other Issues in Mergers and Acquisitions," Lecture Slides, DePaul University, 2010.

- Liberti, J., "Synergies as a Focus of M&A Transactions," Presentation, DePaul University, 2010.

Required Readings on Forms of Payments

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part III: M&A Analysis, Chapter 15 (Acquisition Currency) and Chapter 16 (Stock Deals).

  [Re-read Chapter 15. Concentrate on the Section: Ownership Dilution [Pages 328-331]. For Chapter 16 read pages 331-340.]

- Eccles, R.G., Kersten L. Lanes and Thomas C. Wilson, "Are You Paying Too Much for That Acquisition?," Harvard Business Review, July-August 1999.

- Rappaport, A. and Mark L. Sirower, "Stock or Cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions," Harvard Business Review, November-December 1999.

Required Readings on Merger Analysis and Implied Exchange Ratios

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part III: M&A Analysis, Chapter 14 (Accretion/Dilution Analysis), Chapter 17 (Other M&A Analysis) and Chapter 18 (Merger of Equals).

- Dobbs, R., Billy Nand, and Werner Rehm, "Merger Valuation: Time To Jettison EPS," *The McKinsey Quarterly*, 2005, Special Edition: Value and Performance.

- Hunt, P.A., "Structuring Mergers & Acquisitions: A Guide To Creating Shareholder Value," Third Edition, Wolters Kluwer, Law & Business, Aspen Publishers, 2007. Chapter 7 (Merger Analysis).

  [Must read Chapter!]

Required Readings on Social Issues, Governance and Other Issues

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part III: M&A Analysis, Chapter 14 (Accretion/Dilution Analysis), Chapter 17 (Other M&A Analysis) and Chapter 18 (Merger of Equals).

  [Pages 367 and 379-380 skim through the concept of Social Issue and Governance.]

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 18 (An Introduction to Deal Design in M&A).

- Palter, R.N. and Dev Srinivasan, "Habits of the Busiest Acquirers," *McKinsey on Finance*, Summer 2006.

Required Readings on Cross-Border M&As

- Firstbrook, C., "Cross-Border M&A: Handle With Care," *Merger & Acquisitions*, Accenture Outlook 2008, Number 3.

- Zenner, M., Matt Matthews, Jeff Marks and Nishant Mago, "The Era of Cross Border M&A: How Current Dynamics are Changing the M&A Landscape," *Journal of Applied Corporate Finance*, Volume 20, Number 2, Spring 2008.

Supplementary Readings on Merger Analysis

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 16 (Financial Accounting for Mergers and Acquisitions).

Week V
[April 26]

Hostile Takeovers: Agency Issues
The Use of EVA™ in M&A

The Role of Corporate Raiders:
How Effective Is Corporate Governance?

Recommended Readings

Required Readings on Agency Costs and Benefits of Debt

- Jensen, M., "The Agency Costs of Free Cash Flow: Corporate Finance and Takeovers," *American Economic Review*, Volume 76, Number 4, 1986.

Required Readings on Hostile Acquisitions and Proxy Contests

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part IV: Transaction Structuring, Chapter 20 (Deal Mechanics).

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 26 (Governance In M&A: The Board of Directors and Shareholder Voting).

  [Read only pages 415-428.]

- Hunt, P.A., "Structuring Mergers & Acquisitions: A Guide To Creating Shareholder Value," Third Edition, Wolters Kluwer, Law & Business, Aspen Publishers, 2007. Chapter 24 (Hostile Acquisitions).

  [Read in detail only §24.02 and §24.03]

Required Readings on EVA™

- Liberti, J., "Economic Value Added (EVA™) - Executive Compensation," Class Lecture Slides, DePaul University, 2010.

- Stewart III, G.B., "EVA™: Facts and Fantasy," *Journal of Applied Corporate Finance*, Volume 7, Number 2, 71-84, Summer 1994.

Supplementary Readings on EVA™

- BdeM, "Corporate Finance," Chapter 6.

  [Recommended Pages: Read 156-161 (section 6.3)]

- BMA, “Principles of Corporate Finance,” Chapter 12.

  [Recommended Pages: Read 309-313 (section 12.4)]

- Gandhok, T., A. Dwivedi and Jatin Lal, “EVAluating Mergers and Acquisitions – How to Avoid Overpaying,” *Stern Stewart Research India*, Volume 3, Issue 8, November 2001.

- O'Byrne, S.F., “EVA and Its Critics,” *Journal of Applied Corporate Finance*, Volume 12, Number 2, Summer 1999.

Supplementary Readings on Corporate Governance

- Jarrell, G.A., James A. Brickley and Jeffry M. Netter, “The Market for Corporate Control: The Empirical Evidence Since 1980,” *The Journal of Economic Perspectives*, Volume 2, Number 1, Winter 1988.

- Shleifer A. and Robert W.Vishny, “A Survey of Corporate Governance,” *The Journal of Finance*, Volume LII, Number 2, June 1997.

Week V Alternative

[April 26]

Hostile Takeovers: Dynamics
Defense Strategies

The Logic of Investors and Risk Arbitrageurs

Recommended Readings

Required Readings on Hostile Takeover and the Role of Arbitrageurs

- Bruner, R., "Applied Mergers & Acquisitions," Chapter 32 (Hostile Takeovers: Preparing a Bid in Light of Competition and Arbitrage).

  [Concentrate on the concept of takeovers as games and EVNT analysis. The Chapter is intended to support this case and others in the area of takeovers.]

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part III: M&A Analysis, Chapter 16 (Stock Deals).

  [Concentrate on Sub-Section: Risk Arbitrage [Pages 347-354].]

- Hunt, P.A., "Structuring Mergers & Acquisitions: A Guide To Creating Shareholder Value," Third Edition, Wolters Kluwer, Law & Business, Aspen Publishers, 2007. Chapter 24 (Hostile Acquisitions)

- Ruback, R. "The Conoco Takeover and Stockholder Returns," *Sloan Management Review*, 23, 1982.

Supplementary Readings on Hostile Takeover and the Role of Arbitrageurs

- Burrough, B. and John Helyar, "Barbarians at the Gate: The Fall of RJR Nabisco," New York, Harper Collins, 1990.

- Jensen, M. and Richard S. Ruback, "The Market for Corporate Control: The Scientific Evidence," Journal of Financial Economics, 11, April 1983.

- Ruback, R., "The Cities Service Takeover: A Case Study," *Journal of Finance*, May 1983.

- Ricardo-Campbell, R., "Resisting Hostile Takeovers: The Case of Gillette," Westport, Connecticut, Praeger Publishers, 1997.

- Wasserstein, B., "Big Deal 2000: The Battle for Control of America's Leading Corporations," New York, Warner Books, 2000.

- Wyser-Pratte, G.P., "Risk Arbitrage II," New York: Salomon Brothers Center for the Study of Financial Institutions, Graduate School of Business Administration, New York University, Monograph, 1982.

Week VI

[May 3]

Bankruptcy, Corporate Restructuring and Financial Distress
Chapter 11, Chapter 7, On-Going Concern and Private Workouts

The Capital Cash Flow Method

Recommended Readings

Please refer to the Reference Material on Week I in case you are having doubts on the Capital Cash Flow Method in order to value Marvel Entertainment Group. In case you are having doubts you can review (again!):

- Liberti, J., "Summary Tables: Constructing Cash Flows EBIT and Net Income Version," DePaul University, 2010.

- Liberti, J., "Valuation Techniques: Summary of Formulae and Concepts," Note, DePaul University, 2010.

Required Readings on Bankruptcy and Financial Distress

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part IV: Transaction Structuring, Chapter 22 (Corporate Restructurings).

  [Concentrate on Financial Restructuring [Pages 530-535]].

- Gaughan, P.A., "Mergers, Acquisitions, and Corporate Restructurings," Fourth Edition, John Wiley and Sons, Inc., 2007. Chapter 11 (Restructuring in Bankruptcy).

- Gilson, S., "Managing Default: Some Evidence On How Firms Choose Between Workouts and Chapter 11," *Journal of Applied Corporate Finance*, Volume 4, Issue 2, Summer 1991.

  [This is a must read article!].

- Liberti, J., "Special Cases In Valuation: Mergers & Acquisitions and Corporate Restructuring," Note, DePaul University, 2010.

  [Concentrate on Section II: Corporate Restructuring. Section I was covered during Week III (Paramount)].

- Liberti, J., "Summary of the Chapter 11 Process – Glossary of Terms," Note, DePaul University, 2009.

  [Concentrate on Summary of the Chapter 11 Process [Pages1-7]].

- Liberti, J., "Bankruptcy – Codes and Practices," Lecture Slides, DePaul University, 2010.

- Liberti, J., "Corporate Restructuring in Financial Distress: Private Workouts and Bankruptcy," Lecture Slides, DePaul University, 2010.

- Liberti. J., "Distressed Debt Investment," Lecture Slides, DePaul University, 2010.

  [Concentrate on the Corporate Restructuring Section and the Prisoner's Dilemma problem [Slides 16-26]].

Supplementary Readings on Capital Cash Flow

- Ruback, R., "Capital Cash Flows: A Simple Approach to valuing Risky Cash Flows," Working Paper, May 2000.

Supplementary Readings on Bankruptcy and Financial Distress

- Baker, G.P., "Beatrice: A Study in the Creation and Destruction of Value," *The Journal of Finance* , Vol. XLVII, Number 3, July 1992.

- Bris, A., Ivo Welch and Ning Zhu, "The Costs of Bankruptcy: Chapter 7 Liquidation versus Chapter 11 Reorganization," *The Journal of Finance*, Vol. LXI, Number 3, June 2006.

- Franks, J., Kjell G. Nyborg and Walter N. Torous, "A Comparison of US, UK, and German Insolvency Codes," *Financial Management*, Volume 25, Number 3, Autumn 1996.

- Sprayregen, J.H.M. and Jonathan P. Friedland, "The Legal Considerations of Acquiring Distressed Business: A Primer," *Journal of Bankruptcy Law and Practice*, Volume 11, 3-26, November 2002.

- Sprayregen, J.H.M., Jonathan P. Friedland, Shirley S.Cho, "The Zone of Insolvency: What a Company Entered Into It, And Once There, What Are The Boards' Duties?", Kirkland & Ellis, May 22, 2002.

- Sprayregen, J.H.M., Jonathan P. Friedland and Evan Gartenlaub, "First Things First – A Primer On How To Obtain Appropriate "First Day" Relief In Chapter 11 Cases," Journal of Bankruptcy Law and Practice, Volume 11, 275-312, November 2002.

- Teitelbaum, J., Richard S. Toder and Wendy S. Walker, "A Overview of the 2005 Bankruptcy Act," *Morgan Lewis Counselors at Law*, April 2005.

Business Readings

- "A Guide to Bankruptcy, Insolvency Practices in the U.S. and Europe", *Turnaround Management Association*, International News, 18-26, April 2006.

Week VII
[May 10]

Valuation of Leverage Buyouts (LBOs)

Private Equity
Strategic *vs.* Financial

Dealing With Time-Varying Capital Structure
Using Cash Flow Available for Debt Service (CADS)

Required Readings on Private Equity & LBOs

- Allen, J.R., "LBOs – The Evolution of Financial Structures and Strategies," *Journal of Applied Corporate Finance*, Volume 8, Number 4, Winter 1996.

- BMA, "Principles of Corporate Finance", Chapters 33.

  [Concentrate on Section 33.1: Leveraged Buyouts and Section 33.2: Fusion and Fission In Corporate Finance]

- Jensen, M., "Eclipse of the Public Corporation," Harvard Business Review, 1997.

  [This is a fantastic article to understand the role of Leveraged Buyouts and other transactions such as takeovers, corporate break-ups and spin-offs in shaping a new organization during the late 1980s.]

- Kaplan, S. N. and Jeremy C. Stein, "The Evolution of Buyout Pricing and Financial Structure (Or, What Went Wrong) In The 1980s," *Journal of Applied Corporate Finance*, Volume 6, Number 1, Spring 1993.

- Liberti, J., "An Example of a LBO Transaction: Is Debenhams a Potential LBO Candidate?," Presentation, DePaul University, 2010.

- Liberti, J., "Leveraged Buyouts (LBOs)," Lecture Slides, DePaul University, 2010.

Supplementary Readings on LBOs and the Market for Corporate Control

- Acharya, V., Julian Franks and Henri Servaes, "Private Equity: Boom or Bust?," *Journal of Applied Corporate Finance*, Volume 19, Number 4, Fall 2007.

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Chapter 12.

- Cornell, B. and Kevin Green, "The Investment Performance of Low-grade Bond Funds," *The Journal of Finance*, Volume 46, Number 1, March 1991.

- Denis, D.J., "The Benefits of High Leverage: Lessons From Kroger's Leveraged Recap and Safeway's LBO," *Journal of Applied Corporate Finance*, Volume 7, Number 4, Winter 1995.

- Harper, N.W.C. and Antoon Schneider, "Private Equity's New Challenge," *McKinsey on Finance*, Summer 2004.

- Jarrell, G.A., James A. Brickley and Jeffrey M. Netter, "The Market for Corporate Control: The Empirical Evidence Since 1980," *The Journal of Economic Perspectives*, Volume 2, No.1, Winter 1988.

Supplementary Readings on Limited Arbitrage

- Mitchell, M., Todd Pulvino and Erik Stafford, "Limited Arbitrage in Equity Markets," *The Journal of Finance*, Volume 57, Number 2, April 2002.

Business Readings

- "Forget Formulae and trust gut instinct, advises Buffett," Financial Times, May, 2003.

- "The Next Warrant Buffett?," *Business Week*, November 2004.

  [Recommended Pages: Definitely read this article. Fantastic!]

Week VII

Workshop

[May 15]

Workshop II: LBO Modeling

CCF and Cash Flow Available to Service Debt (CADS)

Equity Cash Flows and IRRs to Sponsors

The LBO Valuation Model

Required Readings on Private Equity and LBOs

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part II: Valuation, Chapter 12 (Leverage Buyouts).

- Liberti, J., "Private Equity and LBOs: Equity Cash, IRR and the LBO Valuation Model," Lecture Slides, DePaul University, 2010.

Week VIII
[May 17]

Strategic *vs.* Financial Sponsors

Sources of Value in LBOs
Value Creation in Private Equity

The LBO Valuation Model
CCF, CADS, ECF and IRRs to Sponsors

Required Readings on Private Equity and LBOs

- CA, "The Practitioner's Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance," Part II: Valuation, Chapter 12 (Leverage Buyouts).

- Gaughan, P.A., "Mergers, Acquisitions, and Corporate Restructurings," Fourth Edition, John Wiley and Sons, Inc., 2007. Chapter 7 (Leveraged Buyouts).

- Hall, R., "Stapled Finance Packages Under Scrutiny," Cravath Swaine & Moore, IFLR 1000.

- Heel, J. and Conor Kehoe, "Why Some Private Equity Firms Do Better Than Others," *The McKinsey Quarterly*, Number 1, 2005.

- Kaplan, S. and Per Strömberg, "Leveraged Buyouts and Private Equity," *Journal of Economic Perspectives*, Volume 23, Number 1, Spring 2009.

  [This is a must read article! The Section: Is Private Equity a Superior Organizational Form? [**Pages 130-136**] describes in detail the changes private equity firms apply to the firms in which they are investing in.]

- Kehoe, C. and Robert N. Palter, "The Future of Private Equity," *McKinsey on Finance*, Spring 2009.

- Liberti, J., "Private Equity and LBOs: Equity Cash, IRR and the LBO Valuation Model," Lecture Slides, DePaul University, 2010.

- Liberti, J., "An Example of a LBO Transaction: Is Debenhams a Potential LBO Candidate," DePaul University, 2010.

Business Reading

- "Dearborn Partners In Transition," *Crain's Chicago Business*; February 9, 2009.

- "Lacking Leverage, Firms Embrace EBOs," *The Wall Street Journal*; March 12, 2009.

- "Leveraged Loan Financing Comes Out of Deep Freeze, " Financial Times; February, 2010.

- Schneider, K., "How Do You Solve a Problem Like Sharia?" *Real Deals*, November 27, 2008.

  [As Islamic financial products become increasingly popular, Kai Schneider of Latham & Watkins explains how to make a fund Sharia-compliant.]

- Tinlin, A., Markus Rimner and Rajesh Sennik, "Dealing with the Downturn Private Equity: Private Practices," Accenture Outlook, 2009.

Supplementary Readings on Private Equity and LBOs

- Acharya, V., Julian Franks and Henri Servaes, "Private Equity: Boom or Bust?," *Journal of Applied Corporate Finance*, Volume 19, Number 4, Fall 2007.

- Allen, J.R., "LBOs – The Evolution of Financial Structures and Strategies," *Journal of Applied Corporate Finance*, Volume 8, Number 4, Winter 1996.

- Butler, P., "The Alchemy of LBOs," *The McKinsey Quarterly*, 2001, Number 2

- Denis, D.J., "The Benefits of High Leverage: Lessons From Kroger's Leveraged Recap and Safeway's LBO," *Journal of Applied Corporate Finance*, Volume 7, Number 4, Winter 1995.

- Gompers, P. and Josh Lerner, "Money Chasing Deals?: The Impact of Fund Inflows on the Valuation of Private Equity Investments," *Journal of Financial Economics*, 55, 281-325, February 2000.

- Kaplan, S. N. and Jeremy C. Stein, "The Evolution of Buyout Pricing and Financial Structure (Or, What Went Wrong) In The 1980s," *Journal of Applied Corporate Finance*, Volume 6, Number 1, Spring 1993.

- Kay, I.T and Mike Shelton, "The People Problem In Mergers," *The McKinsey Quarterly*, 2000, Number 4.