

UNIVERSITY OF PENNSYLVANIA
The Wharton School
The Finance of Buyouts and Acquisitions: FNCE 251
Part I: Professor Bilge Yilmaz and Professor Vinay Nair
Part II: Professor Karin Thorburn
Spring 2017

Course Objective:

The aim of the course is to provide an understanding of key concepts and institutions involved in corporate buyouts and mergers and acquisitions. This course is most suitable for finance majors who are considering careers in corporate finance, investment banking and buyout funds.

Reading Materials:

- Course Reader (cases and articles).
- Further materials and lecture notes on course webpage (Canvas)
- Recommended (but not required) for background reading:
 - i. Berk and DeMarzo, *Corporate Finance*, Addison Wesley, 2007 (**or any other substitute**).
 - ii. Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004
 - iii. Thomas Meyer and Pierre-Yves Mathonet, *Beyond the J Curve: Managing a Portfolio of Venture Capital and Private Equity Funds*, the Wiley Finance Series, 2009.
 - iv. Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 6th ed., Wiley, 2015 (below referred to as Gaughan).

Format:

The structure of the course includes lectures, case discussions, and guest speakers. The major objective of the case method in finance is to **use the logic of financial theory to arrive at sensible conclusions** when faced with real world problems. However, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions**. While there are no “right” answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and senseless arguments. Considering the professor’s analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that in the “real world” there is a single correct recipe to be followed.

Student Responsibilities and Assessment:

- Case Study Assignments: (Approximately 10% of the course grade).

Students will organize themselves into groups of five members to work on case assignments. Groups must be fixed throughout the semester. Diverse background within the group is beneficial. Since group work is a cooperative undertaking, students are urged to ensure that they form groups that are able to work effectively as a group. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not. Most cases in this course involve actual companies.

You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous years or similar courses elsewhere for your written reports and class discussions. The cases that require write-ups appear in **bold** (see the tentative course outline below). Each group is expected to **hand in** a hard-copy of their conclusions in a one or two page executive summary **prior to any class discussion**. Supporting computations and tables can be included in an appendix. All of the assumptions and formulas used should be provided (preferably as a footnote). The questions that need to be addressed will be posted at the course webpage. The raw data for cases is also available at the course webpage in .xls format.

- Class Participation and Attendance: (Approximately 30% of the course grade)
A goal of this course is to provide students with the opportunity to learn how to best contribute to discussions about complex financial issues. Therefore, this class depends and thrives on class participation. It is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. **Voluntary class participation is encouraged. “Cold calls” will be made as to ensure that the class enjoys the benefit of every student’s contribution.** Inadequate class participation combined with several absences can lead to a failing grade. Performance will be judged based on the quality of comments/answers. **Students are expected to prepare for each case and participate actively in class.** To facilitate recording of class participation, please keep the same sitting arrangement throughout the semester.

- Deal Proposal for Part I: (Approximately 30% of the course grade)
Each group is asked to identify a target firm as a financial buyer and prepare a deal proposal. The deal proposal is an active learning tool and allows you to apply many concepts that you have learned at the Wharton School. You may use firm specific or market data that are publicly available for your analysis. However, you cannot use materials prepared by professionals for a deal. Furthermore, any existing deal that is used in a teaching material, e.g., a case study, cannot be chosen as the topic of your proposal. **The final version is due at 5pm on Monday, February 27, 2017.** Each group is required to give 15 minutes presentation in front of a panel.

The deal proposal has two components, a presentation and a written report. Presentation will be 15 minutes (maximum) and you should focus on the deal rationale; why do you want to own the business, what is the investment thesis? You should not get into the details of valuation models during the presentation. There will be additional instructions for the written report.

- Merger Project for Part II: (Approximately 30% of the course grade)
Each group is asked to propose a potential takeover transaction, taking the role of an investment banker pitching the deal to the bidder or the target. Using the analytical tools learned during the course, you should select a bidder and a target, and structure the transaction. The analysis should cover different aspects of the deal, such as the strategic and economic benefits, target and synergy valuation, method of payment,

bidding strategy, target management reaction, and corporate governance issues. You should rely on firm and market data that are publicly available for your analysis. However, as for the deal proposal in Part I, you cannot use materials prepared by professionals.

Each group is required to give a 10-15 minute presentation in class on April 24 and 25. Moreover, a **written report is due at 5pm on Sunday, April 23, 2017**. Additional details are in the Merger Project Guidelines on Canvas.

Code of Ethics:

Submitted assignments for grading should be your own or your team's own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Failure to observe this rule may result in an automatic failing grade for the course.

Office Hours and Contact Information:

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If you have questions about the material, the best place is the Canvas discussion board. We will try to answer all questions. However, considering the size of the classes we teach, we may not be able to do so especially the night before an exam.

TENTATIVE COURSE OUTLINE

This outline is a rough guide as to when material will be covered. It is highly likely to have a number of changes with advance notice given in class and/or Canvas. Some of the **guest lectures will be held outside regular class location and time**. Furthermore, some of **the deal proposal presentations may take place outside regular classes**.

PART I (Q1)

Session 1: January 12

Introduction and Organization

Session 2: January 17

Private Equity - A Framework

Session 3: January 19

Incentives and Private Equity Fund Structure

Reading:

- “Note on Private Equity Partnership Agreements” by Josh Lerner
- Meyer and Mathonet: Chapters 2 and 3

Session 4: January 24

CASE 1: Fojtasek

Session 5: January 26

CASE 2: Sungard – I

Session 6: January 31

CASE 2: Sungard – II and LBO Model

Session 7: February 2

Comp Analysis

Session 8: February 7

CASE 3: Domino’s

[This case is posted on Canvas.]

Session 9: February 9

Trends in PE

Session 10: February 14

Case 4: HCA

[This case is posted on Canvas.]

Session 11: February 16

Case 4: HCA (2)

Session 12: February 21, 4:30pm, location TBD

Guest Speaker: Perry Golkin
Value Creation

Session 13: February 23

CASE 5: Realogy
[This case is posted on Canvas.]

Session 14 & 15: February 28 & March 2

Presentation

PART II (Q4)

Session 16: March 14

Introduction to mergers and acquisitions, target valuation
CASE 6: Monmouth, HBS 4226.

Reading:

- Gaughan Ch. 1, 2 and 15.
- Corporate Valuation and Market Multiples, HBS 9-206-039.

Session 17: March 16

Takeover motives, accretion and dilution, exchange rate, payment method.
CASE 6: Monmouth, HBS 4226.

Reading:

- Gaughan Ch. 4.
- Evaluating M&A Deals: Accretion vs. Dilution of Earnings-per-share, HBS 9-208-059.
- Evaluating M&A Deals—Equity Consideration, HBS 9-208-077.
- Rappaport, Alfred, and Mark L. Sirower, 1999, Stock or cash? The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions, *Harvard Business Review* (Nov-Dec), reprint 99611.

Session 18: March 21

Synergy valuation, contingent considerations, risk sharing and deal protection.
CASE 7: General Mills' acquisition of Pillsbury from Diageo Plc., UV0089.

Reading:

- Caselli, Stefano, Stefano Gatti, and Marco Visconti, 2006, Managing M&A risk with collars, earn-outs and CVRs, *Journal of Applied Corporate Finance* 18 (4), 91-104.
- Amobi, Tuna N., 1997, Price protection in stock-swap transactions, *Merger & Acquisitions* 32, 22-28.
- Technical note on consideration: floors, caps, and collars, HBS 9-902-056.

Session 19: March 23

Empty voting, merger arbitrage.

CASE 8: Mylan Laboratories' proposed merger with King Pharmaceutical, HBS 9-214-078.

Reading:

- Gaughan Ch. 7.
- Wyser-Pratte Guy P., Merger Arbitrage, *Merger & Acquisition Handbook*, 2nd ed. by Rock-Rock-Sikora, 1987.

Session 20: March 28

Conditional deal financing, investor activism, appraisal rights.

CASE 9: AXA MONY, HBS 9-208-062.

Session 21: March 30, noon-3pm, location TBD

Investment Committee Presentation

Session 22: April 4

Corporate governance issues in M&A, severance agreements.

CASE 10: Stanley, Black & Decker, HBS 9-211-067.

Reading:

- Gaughan Ch. 13.
- M&A legal context: Basic framework for corporate governance, HBS 9-803-200.
- Standards related to the sale or purchase of a company, HBS 9-904-004.

Session 23: April 6

Minority buyouts, tender offers, hostility

CASE 11: Roche's acquisition of Genentech, HBS 9-210-040.

Reading:

- Gaughan Ch. 5 and 6.
- M&A legal context: Hostile takeovers, HBS 9-904-005.

Session 24: April 11

Deal structure, unsolicited bids, contingent value rights.

CASE 12: Canadian Pacific's bid for Norfolk Southern, HBS 9-216-057.

Session 25: April 13

Valuation in a declining industry, costs of financial distress

CASE 13: Buffet's bid for Media General's Newspaper, HBS 9-213-142.

Session 26: April 18

Guest Speaker

Structuring the deal - I

Session 27: location and time TBD

Guest Speaker

Structuring the deal - II

NO CLASS on April 20

Session 28: April 24

Term project presentations.

Session 29: April 25

Term project presentations.