

UNIVERSITY OF PENNSYLVANIA
The Wharton School
The Finance of Buyouts and Acquisitions: FNCE 751
Part I: Professor Bilge Yilmaz and Professor Vinay Nair
Part II: Professor Karin Thorburn
Fall 2019

Course Objective

The aim of the course is to provide an understanding of key concepts and institutions involved in corporate buyouts and takeovers. 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)
- Materials and lecture notes on the course webpage in Canvas
- Articles distributed electronically through Lippincott library
- Recommended (but not required) for background reading:
 - i. Robert Bruner, *Applied Mergers and Acquisitions*, Wiley Finance, 2004
 - ii. 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.
 - iii. Gaughan, Patrick A., *Mergers, Acquisitions and Corporate Restructurings* 7th ed., Wiley, 2017 (below referred to as Gaughan).

Format

The course structure 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 different assumptions can lead to different solutions and there is not one right answer to a case. Through case discussions, this course will help students distinguish sensible/good arguments and senseless/bad arguments. Considering the professor's analyses as the correct solution defeats the purpose of the course and contributes to the silly notion that there is a single correct recipe to follow in the real world.

Student Responsibilities and Assessment

- Case Study Assignments: (Approximately 20% of the course grade). Students should 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 encouraged to form groups that can work effectively as a team. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not.

Each group is required to submit a total of **five case write-ups**. Case 2 and Case 4, marked with a (*) in the detailed course outline below, are required. In addition, each group should submit write-ups for three of the six cases marked with (**), i.e., case 5 through 10.

Case write-ups must be submitted through Canvas before 9am on the day of the class. The write-up should be 2-3 pages long, with supporting computations and tables in an appendix. Provide all assumptions and formulas that you use—preferably as footnotes. The questions that should be addressed will be posted on the course webpage. The raw data for cases are also available in Excel format on Canvas.

- 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, participation in the classroom discussion is an important and essential part of the course. Because so much learning occurs in the classroom, it is important that you attend every class. Students are expected to prepare for each case and participate actively in class. We encourage voluntary class participation, but will also cold call to ensure that the class enjoys the benefit of every student's contribution. Performance will be judged based on the quality of comments/answers. Inadequate class participation combined with several absences can lead to a failing grade. To facilitate recording of class participation, please keep the same sitting arrangement throughout the semester.

Since class participation is an integral component of the course, we want you to focus on the discussion while in class. Therefore, laptops are **only** permitted on days when a case study is being reviewed. This is to facilitate a "live" review of your model and supplementary financial analysis alongside the case discussion and to contribute your specific thinking processes to the class without printing off an excel sheet that would fail to capture the rather important formula transparency or construction. During all other lectures, **especially** guest speakers, laptops are not permitted, even for note taking, with special exceptions granted for needs-based accommodations.

We will be mindful of posting slides ahead of time to allow students sufficient time to print before class.

- Mid-term Examination for Part I: (Approximately 25% of the course grade)

You will be tested on both the concepts and the methods studied in this course. You will have access to a calculator and limited amount of information.

- Merger Project for Part II: (Approximately 25% of the course grade)

Each group must propose a potential takeover transaction, taking the role of an investment bank 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, you cannot use materials prepared by professionals.

Each group is required to give a 10-minute presentation in class on December 3 (Tue) or 5 (Thu). A **written report and power point presentation are due at 5pm on Monday, December 2, 2018.** Additional details are in the Merger Project Guidelines on Canvas.

Code of Ethics

Assignments submitted 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. However, you cannot 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

Bilge Yilmaz

Office Hours: Thursday 12:15-13:15

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Karin Thorburn

Office Hours: by appointment

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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 promptly—especially the night before a deadline.

Teaching Assistants

The teaching assistants (TAs) are responsible for taking attendance and answering questions about the grading of case hand-ins, exams, and the term project. TAs for the course are:

Geet Bhatt, gbhatt@wharton.upenn.edu (9:00am section)

Kyu Seob Kim, kyukim@wharton.upenn.edu (10:30 section)

Snigdha Srinadhuni, snigdha@wharton.upenn.edu (1:30pm section)

TENTATIVE COURSE OUTLINE

This outline is a preliminary guide as to when material will be covered. There may be changes, with advance notice given in class and/or on Canvas. Most **guest lectures will be held outside regular class time and location, and may be rescheduled due to our guests' busy schedule.**

PART I (Q1): BUYOUTS

Session 1: August 27

Introduction and Organization

Session 2: August 29

PE Framework

Session 3: September 3 (Optional for students who are familiar with basic valuation approaches)

Basic Valuation Concepts, Adjusted Present Value, Costs and Benefits of Debt Financing, Reduced-Form Valuation Methods

Session 4: September 5

Incentives and Private Equity Fund Structure

Session 5: September 10

LBO Model

Session 6: September 12

CASE 1: Sungard

Session 7: September 17

CASE 2: HCA (*)

Session 8: September 19

CASE 2: HCA (cont'd)

Session 9: September 24

CASE 3: Domino's

Session 10: September 26

Middle Market

Session 11: October 1

Case 4: Realogy (*)

Session 12: October 3

Case 4: Realogy (cont'd)

Session 13: October 8

Guest Speaker: Value Creation

Session 14: October 15

Midterm Examination (in class)

PART II (Q2): TAKEOVERS

Session 15: October 17 (Thu)

Introduction to M&A: value creation and the merger process.

Reading:

- Gaughan Ch. 1 and 2.
- Eckbo, B. Espen, 2014, “Corporate takeovers and economic efficiency”, *Annual Review of Financial Economics* 6, 51-74.
- McConnell, John J., and Valeriy Sibilkov, 2016, “Do investment banks have incentives to help clients make value-creating acquisitions”, *Journal of Applied Corporate Finance* 28, 103-117.

Session 16: October 22 (Tue)

Synergy valuation and target stand-alone value.

CASE 5: Monmouth, HBS 4226.

Reading:

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

Session 17: October 24 (Thu)

Accretion/dilution, method of payment, and exchange ratio.

CASE 5: Monmouth, HBS 4226. (**)

Reading:

- 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: October 29 (Tue)

Consideration, distribution of synergy gains, and corporate governance issues in M&A.

CASE 6: Stanley, Black & Decker, HBS 9-211-067 (**)

Reading:

- Gaughan Ch. 4 and 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 19: October 31 (Thu)

Price protection and risk sharing.

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 20: November 5 (Tue)

Minority buyouts and tender offers.

CASE 8: Roche's acquisition of Genentech, HBS 9-210-040. (**)

Reading:

- Gaughan Ch. 6.

Session 21: November 5 (Tue) at 4:30pm (Note the time!)

Roche's acquisition of Genentech

Guest speaker (by skype): Stephen Krognos, CFO of Denali Therapeutics.

Head of Roche's global M&A team, 2004-2009. CFO of Genentech, 2009-2015.

Session 22: November 7 (Thu)

Interactive role-play focusing on the legal and regulatory issues in M&A transactions.

Guest Speaker: Stuart Cable, Partner Goodwin Procter LLP.

Reading: Gaughan Ch. 3.

Session 23: November 12 (Tue)

Expected deal probability, merger arbitrage, and empty voting.

CASE 9: Mylan Labs' 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.
- Gillan, Stuart L. and Laura T. Starks, 2007, "The Evolution of Shareholder Activism in the United States", *Journal of Applied Corporate Finance* 19, 55-73.

Session 24: November 14 (Thu)

Hostility, defensive tactics, and antitrust.

CASE 10: Canadian Pacific's bid for Norfolk Southern, HBS 9-216-057. (**)

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

Session 25: November 19 (Tue) at 4:30pm (Note the time!)

Structuring the deal.

Guest speaker: Stephen Munger, Managing Director and Chairman, Global M&A Morgan Stanley Investment Banking Division

Session 26: November 21 (Thu)

Course review and bidding tactics

Reading:

- Eckbo, B. Espen, 2009, “Bidding strategies and takeover premiums: A review”, *Journal of Corporate Finance* 15, 149-178.

November 26: NO CLASS (Thanksgiving week)

Session 27: December 3 (Tue)

Term project presentations.

Session 28: December 5 (Thu)

Term project presentations.