Overview

This course focuses on identifying ways to increase firm value through corporate restructuring. Specific topics include: mergers and tender offers, spin-offs, carve-outs, divestitures, takeover defense strategies, bankruptcy and bankruptcy acquisitions, international acquisitions, leveraged buyouts. We will cover the theory, practice and empirical evidence related to each of these topics. Emphasis will be placed on valuation analysis, understanding deal types, understanding expectations on outcomes, transactional evaluation, and strategic considerations.

Classes will consist of a combination of lectures, discussion and student presentations. Cases will be used to help students gain experience in analyzing financial problems, formulating plans, making strategic decisions, and presenting the results of their work.

Objectives

At the end of this course students should (1) understand alternative types of restructuring techniques and how each can be used to increase shareholder value (2) be able to value restructuring transactions and (3) have a broad understanding of the economic and social consequences of corporate restructuring.

Course Materials

Required: Course Pack
1. Financial Restructuring and Strategy Coursepack. This is available via HBS at this link: https://cb.hbsp.harvard.edu/cbmp/access/42967784

Recommended Texts (Optional, for review or going beyond FBE 560)
1. Ross, Stephen A, Randolph W. Westerfield, and Jeffrey F. Jaffé (RWJ), Corporate Finance, Homewood, IL: Irwin, 9th/10th Edition. (for review, you should have this from the core).


Extra (not required at all, but for folks looking to extend their valuation skills beyond our class)
The FBE 560 packet contains the following articles and case studies:


Cases (Groups must choose one case from the basic, and one from the specific category):
1. Nicholson File Company Takeover                  (Presented by instructor only)
2. Radio One                                           (Student, Basic)
3. Atlantic Corporation                               (Student, Basic)
4. Conrail (A)                                        (Student, Basic)
5. Microsoft+Intuit                                   (Student, Basic)
6. Conrail (B)                                        (Student, Specific: industry competition)
7. Dow+Rohm                                            (Student, Specific: unexpected shock)
8. USX: Targeted Stock Restructuring                  (Student, Specific: divestiture methods)
9. Navigator Gas                                       (Student, Specific: internat. bankruptcy)
10. Risk Arbitrage: Abbott Labs & Alza (A)             (Presented by instructor only)

Articles On-Line (available on Blackboard site)


**Schedule (subject to change)**

<table>
<thead>
<tr>
<th>Week Covered</th>
<th>Topic</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>Course overview</td>
<td>L0</td>
</tr>
<tr>
<td></td>
<td><strong>Introduction [Get Lec Note 1]</strong></td>
<td><strong>WMM – Ch. 1</strong></td>
</tr>
<tr>
<td></td>
<td>Value Gap/Motives/</td>
<td></td>
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<tr>
<td></td>
<td>Sources of Gains/</td>
<td></td>
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<tr>
<td></td>
<td>Ways to Create Value</td>
<td></td>
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<tr>
<td></td>
<td>Current trends in restructuring and examples</td>
<td></td>
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<tr>
<td></td>
<td>Begin <strong>Generalized DCF [Get Lec Note 2]</strong></td>
<td></td>
</tr>
<tr>
<td>Week 2</td>
<td><strong>Generalized DCF</strong></td>
<td><strong>A1</strong></td>
</tr>
<tr>
<td></td>
<td>Free Cash Flow/Acctng. Scorecard</td>
<td><strong>WMM - Ch. 2, 6</strong></td>
</tr>
<tr>
<td></td>
<td>Cash Flow Identity/Valuation Techniques</td>
<td><strong>RWJ—Ch. 2 to 4</strong></td>
</tr>
<tr>
<td>Week 3</td>
<td><strong>Valuation Strategies [Get Lec Note 3]</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case: <strong>Nicholson File Company [Get Lec Note 3A]</strong></td>
<td><strong>Nicholson</strong></td>
</tr>
<tr>
<td>Week 4</td>
<td><strong>Structuring Transactions [Get Lec Note 4]</strong></td>
<td><strong>A2, A3</strong></td>
</tr>
<tr>
<td></td>
<td>Mergers v. Tender Offers/Means of Payment/Accounting Effects/ Tax Effects</td>
<td><strong>L1, L2, L3</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>RWJ - Ch. 29</strong></td>
</tr>
<tr>
<td>Week 5</td>
<td>Case: Radio One</td>
<td><strong>Radio One</strong></td>
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<td></td>
<td>Finish <strong>Structuring Transactions Lecture</strong></td>
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<tr>
<td></td>
<td>Case: Atlantic Corporation</td>
<td><strong>Atlantic</strong></td>
</tr>
<tr>
<td>Week 6</td>
<td><strong>Record of Success [Get Lec Note 5]</strong></td>
<td><strong>WMM - Ch. 8</strong></td>
</tr>
<tr>
<td></td>
<td>Winners and Losers in M&amp;A Transactions/ Empirical Tests of Theories</td>
<td></td>
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<tr>
<td></td>
<td>Case: Conrail (A)</td>
<td><strong>Conrail (A)</strong></td>
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<td></td>
<td>Case: Microsoft+Intuit (Tech Deal)</td>
<td><strong>MSFT/INTU</strong></td>
</tr>
<tr>
<td>Week 7</td>
<td><strong>Takeover Defenses [Get Lec Note 6]</strong></td>
<td><strong>A4, L4, L5</strong></td>
</tr>
<tr>
<td>Week 8</td>
<td><strong>International M&amp;A [Get Lec Note 7]</strong></td>
<td><strong>A5, L6</strong></td>
</tr>
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MIDTERM EXAM: March 5, 2015 in class

Week 9
Finish International M&A Lecture.

*** Spring Break Week is Here ***

Week 10
Case: Conrail (B)

Likely begin lecture notes for
Splitting the Firm Into Parts [Get Lec Note 8]

Week 11
Finish Splitting the Firm Into Parts Lecture L7, L8, L9
Divestitures/Equity Carve-Outs/
Spin-Offs/Tracking Stocks, etc.

Case: Dow+Rohm (Unexpected Shock) DOW/ROHM

Week 12
Bankruptcy Acquisitions [Get Lec Note 9] A6

Case: USX: Targeted Stock Restructuring USX

Week 13
Case: Navigator Gas Bankruptcy NAV

LBOs MBOs [Get Lec Note 10a] A7
Going Private Transactions WMM - Ch. 16
Leveraged Recapitalizations Ch 13 (pp 328 – 340)*
* might be pp. 391-401 depending on your version of WMM

Week 14
Finish LBOs MBOs Lecture L10

RJR/APV [Get Lec Note 10b]

Week 15
Risk Arbitrage [Get Lec Note 11] L11

Case: Abbott Labs & Alza (A) Abbott Labs & Alza

Event Study Meth. [Get Lec Note 12] (if time) WMM - Ch. 6

Week 16
Study period.

FINAL EXAM [TBD]
1. Class Preparation
Preparation for class includes knowledge of assigned readings and a careful review of case materials. **All students** should come to class with an understanding of the case problems and be prepared to recommend solutions. Also, you will find it useful to keep abreast of business events related to the course by reading the *Wall Street Journal* and accessing relevant web sites. The class uses the Blackboard system heavily, and students are encouraged to also visit the “Deal Chat” discussion forum, where information is shared about recent live transactions and relevant topics.

2. Group Assignments
The class will be divided into groups of roughly five students. Each group has “formal” responsibility to analyze two cases (although students should read all cases before they are discussed in class). The formal responsibilities include one case for presentation (the “presentation case”), one for evaluation-only (the “evaluation-only case”). When presenting or evaluating cases, students should position their work as a proposal or plan of action they want to “sell” to the management of the firm involved. Case focus questions and case spreadsheets will be posted on Blackboard in the content area called “Case Spreadsheets”. I now describe the requirements for each case assignment.

The group will analyze and then present the **presentation case** in front of the class. To complete this requirement, the group must create a PowerPoint file for the presentation and an Excel spreadsheet file with all analysis backing up your presentation. There is no need to create a formal write-up (you will have the opportunity to do that for your evaluation-only case) as your powerpoint slides will have your ideas and proposal and I will review that. It is very important that you finish your work one hour before class begins on the day you are scheduled to present. At this time, please email your PowerPoint presentation and Excel Spreadsheet to the instructor. The PowerPoint file should be a 15 to 20 minute presentation (I will stop the presentation if it exceeds 20 minutes so we can stay on schedule). Students should be prepared to answer questions from the class after the presentation. The Excel spreadsheet should be labeled enough so that I can figure out what you did. The PowerPoint file should include extra slides in the back (eg, if you want to show the instructor any work you do not have time to show the class). To be clear, if you wish for any work to count toward your grade, you must include at least a brief discussion of it in these extra slides in the PowerPoint file, as the instructor will not search through spreadsheets to find hidden work.

The group should evaluate the **evaluation-only case** in the same way as the presentation case, however they WILL NOT have to present this case in class and there is thus no need to create a PowerPoint file. For this case, the group will hand in a MS Word file and an Excel spreadsheet file to complete the requirement (both are due BEFORE CLASS BEGINS on the day that the given case is to be discussed in class). Both files should be submitted via email to the instructor before class begins. The Word file must not be more than four double-spaced pages of text (12 point type). The MS Word file should include any exhibits that you would like to have considered in the case grade (include as many exhibits as you like, they don’t count toward the four page maximum for text). This writeup should be a summary of your recommendations, with references made to all exhibits in the text explaining their relevance to your proposal. I will only factor analysis into the final grade if it is referenced in this MS Word report (I will not search through the spreadsheet for hidden work). Although you will not present this case, you are expected to ask questions of the group that is presenting it. It is ideal if you ask questions on issues where your analysis disagrees with the group that is presenting the case. Remember there are no truly right answers in a case. Learning by contrast in this way will make the class better. Asking more questions can only raise your grade as I
reward students who contribute to the learning environment through participation.

For all of the other cases you are not formally assigned, students must read the case prior to coming to class. Spend some time thinking about the core issues of the case and think about issues you want to learn more about. Then ask questions in class during the open Q&A after the case is presented. Asking more questions will only raise your grade as I reward students who contribute to the learning environment through the class participation part of the grade.

3. Grades
The course grade will be based on the presentation case (20%), the evaluation case (20%), midterm exam (25%), final exam (25%), and class participation (10%). Case and class participation grades are based on a targeted class average grade of 90/100. Below average performance will result in deductions, and above average performance will result in grade increases. Exams are graded using a standard scale of 0-100% scale, but exam scores will be curved if the exam is too difficult. A sample exam will be posted on Blackboard prior to the exam. Overall, I will assign final grades to comply with the Dean’s targeted class-wide GPA range (higher or lower aggregate grades will arise when the class does better or worse relative to the numerous sections of this class I taught over the years).

Group performance will be judged on three criteria: accuracy, thoroughness of the analysis, and quality of the oral and written reports. A premium will be placed on quantitative rigor, conciseness, and asking good questions. Analysis with more creativity and quantitative rigor backing up conclusions will be graded higher. Peer evaluation forms will be distributed at the end of the course. I reserve the right to discount a student’s group grade should there be evidence of shirking of responsibilities. Class participation will be based on the quality of class discussions and each student’s contributions, online Deal Chat discussions, your frequency of asking questions following case presentations including those that you are not formally assigned to.

4. Mastering Principles
Learn the tools and methods early in order to apply them to cases and problems. Review material from the Core. Finance is a subject of many details that may seem trivial in a textbook setting, but can have multi-million dollar effects in real world transactions.

5. Web Site
Be sure to regularly check the course Blackboard web site for lecture slides, practice problems and announcements and to participate in Deal Chat. I will make verbal announcements at the start of each class, so try to arrive on time. Use Blackboard to visit the “deal chat” chat room and participate in ongoing discussions on recent deals. Participation in this forum contributes to class participation grades.

6. USC Technology Policy
USC’s technology policy will be strictly enforced in this class. Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated by the respective professor and/or staff. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during academic or professional sessions. ANY e-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, I-pods) must be completely turned off during class time. Upon request, you must comply and put your
device on the table in off mode and FACE DOWN. You might also be asked to deposit your devices in a designated area in the classroom. Videotaping faculty lectures is not permitted, due to copyright infringement regulations. Audiotaping may be permitted if approved by the professor. Use of any recorded material is reserved exclusively for USC Marshall students.

7. Statement for Students with Disabilities
Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to TA) as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

8. Statement on Academic Integrity
USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one’s own academic work from misuse by others as well as to avoid using another’s work as one’s own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. http://www.usc.edu/dept/publications/SCAMPUS/gov/

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Section 11, Behavior Violating University Standards https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, http://policy.usc.edu/scientific-misconduct.

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: http://www.usc.edu/student-affairs/SJACS/. Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

9. Statement on Discrimination
Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the Office of Equity and Diversity http://equity.usc.edu or to the Department of Public Safety http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us. This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. The Center for Women and Men http://www.usc.edu/student-affairs/cwm/ provides 24/7 confidential support, and the sexual assault resource center webpage http://sarc.usc.edu describes reporting options and other resources.
10. Support Systems/Emergency Preparedness/Course Continuity

Students whose primary language is not English should check with the American Language Institute [http://dornsife.usc.edu/ali](http://dornsife.usc.edu/ali), which sponsors courses and workshops specifically for international graduate students. The Office of Disability Services and Programs [www.usc.edu/disability](http://www.usc.edu/disability) provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, USC Emergency Information [http://emergency.usc.edu](http://emergency.usc.edu) will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

In case of emergency, and travel to campus is difficult, USC executive leadership will announce an electronic way for instructors to teach students in their residence halls or homes using a combination of Blackboard, teleconferencing, and other technologies. Instructors should be prepared to assign students a "Plan B" project that can be completed at a distance. For additional information about maintaining your classes in an emergency please access: [http://cst.usc.edu/services/emergencyprep.html](http://cst.usc.edu/services/emergencyprep.html)

Should there be an emergency, I will do my best to promptly send an announcement to the class over email (and on Blackboard) with relevant schedule or other logistical plans.

An incomplete (IN) grade may be assigned due to an “emergency” that occurs after the 7th week of classes. An “emergency” is defined as a serious documented illness, or an unforeseen situation that is beyond the student’s control, that prevents a student from completing the semester. Prior to the 12th week, the student still has the option of dropping the class. Arrangements for completing an IN course should be initiated by the student, and negotiated with the instructor. Class work to complete the course should be completed within one calendar year from the date the IN was assigned. The IN mark will be converted to an F grade should the course not be completed.

11. Assignment Submission Policy
Assignments must be turned in on the due date/time in class. Any assignment turned in late, even if by only a few minutes, will receive a grade deduction (for example, if your work is a B+ grade, you will be given a C+ grade). Late or not, however, you must complete all required assignments to pass this course.

12. Evaluation of Your Work
I will do my best to make my expectations for the various assignments and examinations clear and to evaluate them as fairly and objectively as I can. If you feel that an error has occurred in the grading of any assignment or examination, you may, within one week of the date the assignment is returned to you, write me a memo in which you request that I re-evaluate the assignment. Attach the original assignment to the memo, and explain fully and carefully why you think the assignment should be re-graded. Be aware that the re-evaluation process can result in three types of grade adjustments: positive, none, or negative.

13. Information For Faculty Members Re Grade Changes
All grades assigned by faculty members are final. Students have the right to seek explanation, guidance, counsel and reasons for the assignment of a grade. Students may appeal a grade according
to university policy as set forth in SCampus. Faculty may initiate a change in grade if there is an error in the calculation of a grade. However, a faculty member may not change a disputed grade outside the formal appeals process. In response to a disputed academic evaluation by an instructor, a student is entitled to two levels of appeal after review by the instructor: first to the chairperson of the department and then to the appropriate dean of the school. The full university policy can be found on page 125 of SCampus and at:
http://www.usc.edu/dept/publications/SCAMPUS/gov/disputed_academic_evaluation_procedures.html

Examples of additional issues to think about in casework (if focus questions are not suited to your interests): I believe in academic freedom, and permit groups to pursue case questions tailored to their interests. However, I require that overall quantitative “heft” match typical case work. Also, students should not use material from outside the case so we keep the assignment well defined.

1. How much value was created (destroyed)? For whom? Why did the stock market act like it did? What are the sources of value from the transaction? Why was the transaction attempted?

2. What strategy was followed by the firm (or firms)? How successful were the strategies followed? What alternatives were available that might have resulted in a different outcome? (E.g., for acquisitions: What strategy was followed by the acquirer's and target's managements? Were defensive measures taken? Did these prevent a takeover by the initial bidder? Was the initial bidder forced to raise the level of the offer? Did the strategy appear to be in the best interests of shareholders or was it apparently motivated by a desire to remain entrenched and prevent displacement by a hostile bidder? How successful was the strategy of the target's management? What alternatives were available to the target's management that might have resulted in a different outcome?)

3. What public policy issues were raised by the corporate event? Were shareholders, bondholders, employees or customers adversely affected? Who were the winners and losers? How were their interests affected? How was the transaction affected by tax and takeover regulation? Did the regulatory system do its job well? Did it encourage an undesirable transaction or block a good one?

4. How was the transaction financed? Was it financed by cash, junk bonds, equity, etc.? Why do you think the financing took the form it did?

5. What ultimate restructuring of business activity did the transaction lead to? Was economic efficiency enhanced? What has happened to the participant(s) since the event time?

General Information Sources for Restructuring (partial list):
1. The World Wide Web (Edgar, business information web sites, etc.)
2. Factiva database
3. Annual Reports
4. The corporation itself (call, write, see home page, and/or visit)
5. Value Line
6. SEC (prospectuses, 8-Ks, 10-Ks, etc.)
7. Wall Street Journal
8. Moody's Investment Manuals
9. Standard and Poor's Industry Surveys
10. Brokerage reports
11. Periodicals (Fortune, Business Week, etc.- search Business Periodicals Index)
12. CRSP or Bloomberg for historical prices or returns.
13. Let the class know if you found a creative source not listed here!