

University of Connecticut
Mergers and Acquisitions, FNCE 5894 Fall 2017
Monday, 6pm – 9pm in Room 604

Instructor: Cristian Pinto

Phone: 860-486-4439

Office: BUS 462

E-mail: cristian.pinto-gutierrez@uconn.edu

Office Hours: T/Th 3pm – 4pm and by appointment

SCHOOL OF BUSINESS MISSION STATEMENT:

Real World, Real Learning, Real Impact. Be a globally recognized provider of exceptional managerial and business leadership through innovative experiential learning in a dynamic global business context: integrating real world education, outstanding research and strategic outreach.

COURSE DESCRIPTION:

The primary objective of this course is to provide the student with the theoretical background as well as the analytical and technological tools necessary to analyze corporate combinations, restructurings, and bankruptcies.

COURSE GOALS:

At the conclusion of the course, the student will have gained an appreciation for the role mergers and acquisitions (M&A) plays in today's corporate landscape and have formed an opinion as to whether or not an M&A transaction makes sense for the companies involved. Students who are interested in investment banking, consulting, equity research, asset management, strategic planning, private equity, leveraged finance, or proprietary trading may wish to consider this course.

Major topics covered will include:

- ***Introduction to M&A:*** What exactly is M&A? What are the major forces driving each of domestic and international M&A activity? What is the likely future of M&A activity? Who are the major players on the M&A landscape and what are the incentives for the players?
- ***Valuation basics:*** How is a company valued? What is the purpose of valuation analysis, including stand-alone value, synergy value and break-up value?
- ***Strategic and practical considerations:*** What is the origination process for an M&A idea and what is the process from origination to closing? What role do synergies play in M&A analysis? What are the important strategic considerations before approaching a potential target?
- ***Financing decisions:*** How does the transaction get financed? What macro and micro factors impact M&A financing? What are the major financing alternatives from senior secured debt to high yield? How will an acquisition impact the acquiring company's debt rating, EPS, and stock price and why does it matter?
- ***Transaction structures:*** What forms can a transaction take and how do they differ? What is a tender offer? What is the difference between a one-step and two-step deal? How do tax factors influence the choice of transaction structure?
- ***Merger agreements:*** What are the basic components of the Merger Agreement? How does the Merger Agreement relate to the due diligence process? How do you protect a friendly deal from interlopers (i.e., lock-ups and no-shops)?

- **Restructuring options:** What are the alternatives available to the firm to unlock shareholder value, including mechanics of the divestiture process and maximization of after-tax proceeds, straight sale, leveraged joint ventures, letter stock, rights offerings, spin-offs, spin-outs, and split-offs? When should a firm consider going private, including mechanics of a leveraged buy-out (LBO), what constitutes a good LBO candidate and exit strategies for the LBO?
- **Takeover defense:** What makes a company vulnerable? What are the major defense mechanisms and do they work? How do you launch a hostile bid?

COURSE PRE-REQUISITES:

FNCE 5101 (Financial Management). In addition to the MBA program’s general requirements, the course presumes that students have knowledge of basic accounting, economics, and financial management concepts and tools.

COURSE MATERIALS:

- **Textbooks (optional):** Patrick A. Gaughan. Mergers, Acquisitions, and Corporate Restructurings, 6th Edition, John Wiley & Sons, Inc., 2015. (PG)
- **Cases:** Course pack with cases and simulations. The course pack is available for download at the HBS site at the following link: Available at <http://cb.hbsp.harvard.edu/cbmp/access/67052921>
 - Shenzhen Development Bank (210020-PDF-ENG)
 - Sterling Household Products Company (913556-PDF-ENG)
 - Finance Simulation: Blackstone/Celanese (3712-HTML-ENG)
 - Roche's Acquisition of Genentech (210040-PDF-ENG)
 - Bidding for Hertz: Leveraged Buyout (UV1056-PDF-ENG)
 - Divesting Vetra S.L. (NA0471-PDF-ENG)
 - Hershey Foods Corporation: Bitter Times in a Sweet Place (UV2510-PDF-ENG)
 - Finance Simulation: M&A in Wine Country V2 (4805-HTML-ENG)

GRADE DETERMINATION:

<u>Percent of Total</u>	<u>Activity</u>
30%	Group cases
40%	Two quizzes
30%	M&A Pitch Book (done by group)

CASES:

There are six cases in the course. Student groups will write a report for each case and present one case in class by answering case assignment questions. Please, send me an email at cristian.pinto-gutierrez@uconn.edu on your choice(s) of case to be presented in class. The cases will be allocated on the “first-come, first-served” basis. **Students will work in the same group for all group-based assignments.** Each group case report should be three pages of text maximum, with 1.5 spacing and 12 pt. font, plus any appendices that are necessary. Avoid simple repetition of case facts, and instead focus on analysis in your report. Note that although limits are not imposed on tables and appendices, unnecessary or weak attachments are not helpful. Check to make sure that all your attachments are really necessary and add value; eliminate those that do not clearly make

the cut. Every group (including presenters) should electronically submit a case report to me at cristian.pinto-gutierrez@uconn.edu before the beginning of the class when the case is discussed. Generally, the case discussions will start with a Power Point presentation (30 minutes) by the lead group, followed by open/structured discussion.

M&A PITCH BOOK:

The final project for the course will be to develop a proposal for an M&A transaction. Students will work in the **same group** for all group-based assignments. Your point of view should be as an M&A advisor for either a potential acquirer or potential seller. The only restrictions I make on your choice of the client is that it has to be a publicly traded company with sufficient data available to make informed recommendations. The target length of your pitch book should be about five pages of text maximum, plus any necessary appendices, with the usual caveat about including only necessary appendices. The pitch book is due electronically at cristian.pinto-gutierrez@uconn.edu on Monday, December 4, 2017, before the class.

Below is a possible outline format for a potential acquirer (change accordingly if your client is a target):

1. The strategic situation of your client, and why an acquisition is a plausible way to increase shareholder value.
2. Why the proposed target or buyer makes sense in light of the above; specific ways in which its acquisition would make strategic sense to your client; emphasize the economic synergies that would be generated, and the extent to which those synergies would be unique to this transaction.
3. Why the target might be available, e.g., large block of stock in the hands of someone who might want to sell, an aging founder of a private firm with no apparent successor, etc.
4. A list of other potential acquirers and/or targets, and why this particular deal dominates other potential combinations (for example, an investment bank looking for an acquirer for a specific seller often will start with all potential candidates, and break these down into A list, B list, and C list buyers.)
5. Preliminary valuation of the target as a stand-alone entity, plus an assessment of possible synergy. As much as possible, try to create a tight link between the quantitative assessment of synergies here and the economic logic of the transaction explained earlier.
6. Explain key due-diligence issues that will need to be answered before a final agreement on value is reached.
7. Proposed approach to target and proposed structure of the offer, e.g., a friendly meeting to discuss a merger or a formal tender offer, an all cash offer or stock swap or some combination, etc. You should include both an initial offer and an upper bound for what your client should be prepared to pay.
8. Potential legal-regulatory-antitrust hurdles that need to be considered.
9. Principal issues in a successful integration of the target/buyer with your client's operations.

The above are not required, they are just ideas to get you started. A little creativity usually ends up in a better product than simply following boilerplate, so I leave the rest up to you. If you choose a target as a client (in that case you are looking for a buyer), you have to turn the exercise on its head a bit, but the principles are the same. Following the discussion above, one thing I like to see early on in this type of presentation is a list of potential buyers, broken down into categories (A list –

good candidates, B list – maybe, C list – unlikely), with short explanation. This is also a good exercise to go through if your client is a buyer. For a merger of equals, you could choose your client to be either of the two parties and focus on that point of view.

CLASS OUTLINE

The following outline is a *tentative* schedule of topics to be covered; we may change the timing or order as needed. Make sure to check with your fellow students for any changes if you miss any class.

Week	Dates	Topic and Material
Week 1	8/28	<p><i>Course Overview and Objectives</i></p> <p><i>Introduction to M&A</i></p> <p>To do list:</p> <ul style="list-style-type: none"> - Form groups, decide on case preferences. - Read Chapters 1, 2, and 3 of PG.
Week 2	Off (9/4)	No class – Labor Day
Week 3	9/11	<p><i>M&A Valuation</i></p> <p>Case discussion: Shenzhen Development Bank (SDB).</p> <p>To do list:</p> <ul style="list-style-type: none"> - Read Chapter 15 of PG. - Read SDB case and prepare your answers to the following questions: <ol style="list-style-type: none"> 1) What makes SDB an attractive target for investment, and what are the potential sources of value? 2) What are the key risks for investing in SDB, and how can Newbridge mitigate these risks? 3) Why can Newbridge win the deal? What is the value-added from Newbridge as a private equity investor? 4) Is Newbridge paying the right price for SDB? What is an appropriate valuation range? 5) Why has the Newbridge-SDB deal failed to go through the transition stage? What are the key lessons that can be learned from the failure? 6) Given the public falling-out, should Newbridge continue to pursue the investment or should it walk away? If Newbridge decides not to give up, what should it do

		immediately to save the deal, and what should be the key initiatives in Newbridge’s turnaround plan post-investment?
Week 4	9/18	<p><i>Merger Strategy</i></p> <p>Case discussion: Sterling Household Products Company (SHPC).</p> <p>To do list:</p> <ul style="list-style-type: none"> - Read Chapters 4 of PG. - Read SHPC case and prepare your answers to the following questions: <ol style="list-style-type: none"> 1) What are the strategic issues associated with the proposed acquisition? What uncertainties or trends do you see which could make the acquisition more or less attractive on both a financial and a strategic basis? 2) How much business risk is associated with Sterling’s proposed acquisition? What is the cost of equity capital appropriate for evaluating the free cash flow associated with this investment? What is the correct capital structure and weighted average cost of capital for discounting the investment’s free cash flow? 3) What is the forecasted free cash flow and terminal value to Sterling from the acquisition? 4) What is your final decision on the proposed acquisition?
Week 5	9/25	<p><i>Valuation, Due Diligence and Financing Considerations</i></p> <p>Simulation: Blackstone/Celanese.</p> <p>To do list:</p> <ul style="list-style-type: none"> - Review the Prepare section ahead of class (including the Foreground Reading and Intro videos). - Develop a negotiating strategy, and play round 1.
Week 6	10/2	<p><i>Valuation and Merger Strategy Recap</i></p> <p><i>Take-Home Exam #1</i></p>
Week 7	10/9	<p><i>Take-Home Exam #1 Review</i></p> <p><i>Leveraged Buyouts</i></p>
Week 8	10/16	<p><i>Leveraged Buyouts</i></p>

		<p>Case discussion: Bidding for Hertz: Leveraged Buyout.</p> <p>To do list:</p> <ul style="list-style-type: none"> - Read Chapters 8, 9, and 10 of PG. - Read Hertz case and prepare your answers to the following questions: <ol style="list-style-type: none"> 1) How does the dual-track process used by Ford to initiate “consideration of strategic alternatives” affect the bidding process for Hertz? 2) In what ways does Hertz conform or not conform to the definition of an “ideal LBO target”? Do you believe Hertz is an appropriate buyout target? 3) Strategically, what value-creating opportunities can the sponsors exploit in this transaction? 4) How realistic are the key assumptions that underlie the Bidding Group’s projections in case Exhibits 8, 9, and 10? Which assumptions are most likely to have the largest impact on returns? 5) What is the value of Hertz using the Equity Cash Flow method of valuation? 6) Based on the base-case estimates in case Exhibits 8, 9, and 10 and your estimate(s) of terminal value if the sponsors put up \$2.3 billion in equity, what return can they expect to earn? 7) If Carlyle desires a 20% target return on its equity investment, does your analysis suggest that \$2.3 billion is too much to pay, or can it afford to pay more—in either case, by how much? 8) What is the market-required rate of return for this investment, and why might this differ from the sponsors’ target return?
<p>Week 9</p>	<p>10/23</p>	<p><i>Hostile Transactions</i></p> <p>Case discussion: Roche’s Acquisition of Genentech.</p> <p>To do list:</p> <ul style="list-style-type: none"> - Read Chapter 5 of PG. - Read Roche case and prepare your answers to the following questions: <ol style="list-style-type: none"> 1) Why is Roche seeking to acquire the 44% of Genentech it does not own? From Roche’s point of view, what are the

		<p>advantages of owning 100% of Genentech? What are the risks?</p> <ol style="list-style-type: none"> 2) As a majority shareholder of Genentech, what responsibilities does Roche have to the minority shareholders? 3) As of June 2008, what is the value of the synergies Roche anticipates from a merger with Genentech? Assess the value of synergies per share of Genentech. Please use 9% weighted average cost of capital in your analysis. 4) Based on DCF valuation techniques, what range of values is reasonable for Genentech as a stand-alone company in June 2008? Please exclude synergies from your valuation and use a 9% weighted average cost of capital. You can assume that as of the end of June 2008, Genentech held approximately \$7 billion in cash, which included investments and securities that were not needed in its daily operations (Note: Exhibit 10 is a good starting point for this analysis). 5) What does the analysis of comparable companies (Exhibits 12, 13, and 14) indicate about Genentech's value within the range established in question 4? 6) How has the financial crisis affected Genentech's value? What changes in valuation assumptions occurred between June 2008 and January 2009? 7) How did Genentech's board and management respond to Roche's offer of \$89 per share? 8) What should Franz Humer do? Specifically, should he launch a tender offer for Genentech's shares? What are the risks of this move? What price should he offer? Should he be prepared to go higher? How much new financing will Roche need to complete the tender offer? <p>Take-Home Exam # 2</p>
Week 10	10/30	<p><i>Take-Home Exam # 2 Review</i></p> <p><i>Corporate Governance</i></p>
Week 11	11/6	<p><i>Corporate Governance</i></p> <p>Case discussion: Hershey Foods Corporation (HFC): Bitter Times in a Sweet Place.</p> <p>To do list:</p>

		<ul style="list-style-type: none"> - Read Chapters 13 of PG. - Read HFC case and prepare your answers to the following questions: <ol style="list-style-type: none"> 1) How do you think the members of the Hershey Trust Company board view their responsibility? 2) Is diversification a valid reason to sell HFC? 3) Which bid (if any) would you vote to accept for the purchase of HFC? Is your decision primarily based on the economics of the bids or on the desired to honor the legacy of Milton S. Hershey? 4) If you decided to reject both bids and not sell HFC, what would you do to achieve the diversification objective? If you decide to accept one of the bids, what (if anything) would you want to communicate to the constituents who opposed the sale? 5) Base on your valuation of HFC, do you feel it was fairly valued by the market before the announcement of the sale? Are the Nestle – Cadbury Schweppes and Wrigley bids fair to their own shareholders (i.e., what needs to happen in order to for these bids to create value for the bidding companies)? 6) Assuming the majority of the board takes your side of the vote, how do you think the financial markets will react to this decision?
<p>Week 12</p>	<p>11/13</p>	<p><i>Corporate Restructuring</i></p> <p>Case discussion: Divesting Vetra S.L.</p> <p>To do list:</p> <ul style="list-style-type: none"> - Read Chapters 11 and 12 of PG. - Read Vetra case and prepare your answers to the following questions: <ol style="list-style-type: none"> 1) How do you see the investment operation in 2007 described in the case? 2) What do you think of the proposed alternative ways for IV to divest from Vetra? 3) Assuming Mr. Garcia would split the valuation into two parts, how would you evaluate the investment of IV in Vetra at the end of 2012? How would you include a sensitivity analysis of this valuation? What do you think would be a reasonable price to get for the sale? Assuming

		<p>IV sells its participation in Vetra at the resulting price, what do you think about this investment from the shareholders' perspective?</p> <p>4) How would you target potential buyers interested in this operation?</p>
Week 13	Off (11/20)	No class– Thanksgiving recess.
Week 14	11/27	<p>Course Recap</p> <p>Simulation: M&A in Wine Country V2.</p> <p>To do list:</p> <ul style="list-style-type: none"> - Watch the How to Play video and Guide, accessible from the role-agnostic Prepare → How to Play screen. - Review the the information about role assignments on Prepare → Introduction screen. - Review historical stock prices data on Prepare → Historical Stock Prices screen.
Week 15	12/4	Pitch Book Presentations