

NORWEGIAN SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

EXECUTIVE MBA COURSE OFFERING

“CORPORATE FINANCE , RESTRUCTURING AND GOVERNANCE”

Solstrand, August 23—28, 2004

INSTRUCTORS

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TARGET AUDIENCE

The course exposes participants to key issues in corporate finance and restructurings, as well as to the ongoing debate over corporate governance and investor protection. These issues are particularly relevant for executives, directors, and policy makers in both the financial and industrial sector. We provide practical tools for financial decisions and valuation, and participants are exposed to financial and strategic issues surrounding corporate restructuring techniques, IPOs, and takeovers.

COURSE DESCRIPTION

The seven-day course is highly intensive, with daily workloads of 8-9 hours. Each day consists of a mix of lecturing, case discussions, and case preparations in groups. As much as possible, groups are formed to obtain a mix of individuals with different expertise. Case assignments include valuation exercises as well as discussions of strategic and financial issues. A workshop is provided to refresh and explain basic valuation techniques needed for case solving.

COURSE OVERVIEW

“CORPORATE FINANCE , RESTRUCTURING AND GOVERNANCE”

DAY 1: INTRODUCTION AND CORPORATE VALUATION

Session 1	Time 0.5 hr	Introduction and Welcome
2	1.5 hr	Valuation Workshop
3	2.0 hr	Group Work (Divestiture Case Preparation: Nova)

DAY 2: CORPORATE RESTRUCTURING: BREAK-UP TRANSACTIONS

4	1.5 hr	Divestitures (Nova Case Discussion)
5	1.5 hr	Group Work (Spinoff Case Preparation: Cytec)
6, 7	3.0 hr	Spinoffs, Carveouts and Tracking Stock (Cytec Case Discussion)
8	2.0 hr	Group Work (Split-off Case Preparation: du Pont-Conoco)

DAY 3: CAPITAL STRUCTURE

9	1.5 hr	Split-offs and Repurchases (DuPont-Conoco Case Discussion)
10, 11, 12	4.5 hr	Capital Structure and Security Design
13	2.0 hr	Group Work (Leveraged Recapitalization Case Preparation: Sealed Air)

DAY 4: LEVERAGE AND FINANCIAL DISTRESS

14	1.5 hr	Leveraged Recaps (Sealed Air Case Discussion)
15	1.5 hr	Group Work (Financial Distress Case Preparation: Loewen)
16	1.5 hr	Financial Distress (Loewen Case Discussion)
17	1.5 hr	Economic Effects of Bankruptcy Law
18	2.0 hr	Group Work (IPO Case Preparation: Shoppers Drug Mart)

DAY 5: INVESTMENT BANKING AND PRICING OF EQUITY ISSUES

19, 20, 21	4.5 hr	Capital Markets: Risk and the Cross-Section of Expected Returns
22	1.0 hr	IPO Valuation (Shoppers Drug Mart Case Discussion)
23	1.5 hr	IPO Underpricing
24	2.0 hr	Group Work (Takeover Case Preparation: Interco)

DAY 6: CORPORATE GOVERNANCE AND CONTROL

25	1.5 hr	Hostile Takeovers (Interco Case Discussion)
26	1.5 hr	Takeover Bidding
27	1.5 hr	Corporate Governance
28	1.5 hr	Executive Compensation

DAY 7: LEVERAGED BUYOUTS

29	3.5 hr	Group Work (LBO Case Preparation: Lubrano Can)
30	2.0 hr	LBO Analysis (Lubrano Can Case Discussion)

DETAILED PROGRAM

The readings below contain more material than will be covered directly in class. The extra material may be read either before or after the course period, as each student sees fit. Further instructions will be given during the course.

The list of readings use abbreviated references for the following four books:

CHS: Constantinides, George M., Milton Harris and Rene M. Stulz (eds.), 2003, *Handbook of the Economics of Finance: Corporate Finance*, Volume 1A (Elsevier North Holland). This book contains high-level, up-to-date surveys of topics in corporate finance. This is probably the most difficult of the assigned readings, and the chapters assigned below are optional.

Cornell: Cornell, Bradford, 1993, *Corporate Valuation* (Irwin McGraw-Hill). This is a useful, practical guide to valuation principles. Selected chapters are provided in the course material.

RWJ: Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, 2001, *Corporate Finance*, 6th ed. (Irwin McGraw-Hill). This is a standard, widely used textbook at the MBA level in corporate finance. It is used as a “refresher” and background reading for this course. All participants should have this book.

WSJ: Weston, J. Fred, Juan A. Siu and Brian A. Johnson, 2001, *Takeovers, Restructuring, & Corporate Governance*, 3rd ed. (Prentice Hall). This book specializes in topics surrounding restructurings, and it provides a useful mix of practical and theoretical discussions. Selected chapters are provided in the course material.

DAY 1: INTRODUCTION AND CORPORATE VALUATION

Sunday, August 22

- Session #1, 16:00 – 17:00: **Introduction and Welcome**
 - Practical details
 - Course overview
 - Expectation on preparations and participation

Coffee break, 17:00 – 17:30

- Session #2, 17:30 – 19:00: **Valuation Workshop**
 - Discounted cash flow valuation techniques
 - Cost of capital
 - Multiples valuation

Readings:

Cornell: chapters 4 (multiples), 5 (discounted cash flow valuation), 6 (terminal value), 7 (cost of capital).

Thorburn: Note on WACC Valuation

RWJ: chapter 17.3 (WACC)

Light buffet dinner: 19:00—20:00

Session #3, 20:00 – 22:00: **Group Work (Divestiture Case Preparation: Nova)**

Readings: Nova Chemical Corporation, HBS 9-290-059

DAY 2: CORPORATE RESTRUCTURING: BREAK-UP TRANSACTIONS

Monday, August 23

• Session #4, 08:30 – 10:00: **Divestitures (Nova Case Discussion)**

- The conglomerate discount
- Benefits of breaking up
- Valuation of a division

Readings:

WSJ: chapter 11 (divestitures)

Coffee break, 10:00 – 10:30

Session #5, 10:30 – 12:00: **Group Work (Spinoff Case Preparation: Cytec)**

Readings: Cytec Industries' Spin-Off (A): Sink or Swim? HBS 9-897-053

Lunch 12:00 – 13:30

Session #6, 13:30 – 15:00: **Spinoffs, Carveouts, and Tracking Stock (Cytec Case Discussion)**

- Spinoffs
- Equity carveouts
- Tracking stock
- Transaction mechanics and the choice of break-up method

Readings:

WSJ: chapter 12 (breakup transactions)

Coffee break, 15:00 – 15:30

- Session #7, 15:30 – 17:00: **Spinoffs, Carveouts, and Tracking Stock, Cont.**

Dinner: 18:00—20:00

- Session #8, 20:00 – 22:00: **Group Work (Split-off Case Preparation: DuPont-Conoco)**

Readings: E. I. du Pont de Nemours and Company: The Conoco Split-off (A): HBS 9-202-005

DAY 3: CAPITAL STRUCTURE

Tuesday, August 24

Session #9, 08:30 – 10:00: **Splitoffs (DuPont-Conoco Case Discussion)**

- Mechanics of a splitoff
- Pros and cons of splitoffs
- Signaling effects of stock repurchases

Coffee break, 10:00 – 10:30

- Session #10, 10:30 – 12:00: **Tradeoff and Pecking Order Theories**

- Trading off tax benefits and bankruptcy costs
- Information asymmetry and the pecking order

Readings:

CHS: chapter 4 (capital structure)

Barclay, Michael J. and Clifford W. Smith, Jr., 1999, “The Capital Structure Puzzle: Another Look at the Evidence”, *Journal of Applied Corporate Finance*, vol.12, no. 1 (Spring), pp. 8-20.

RWJ: chapters 1 (introduction), 13 (corporate finance and efficient markets), 14 (long-term financing), 15 (capital structure basics), 16 (limits to the use of debt)

Lunch 12:00 – 13:30

Session #11, 13:30 – 15:00: **Debt Security Design**

- Role of debt covenants
- Debt overhang
- Risk shifting incentives

Readings:

Holderness, Clifford G. and Dennis P. Sheehan, 1991, “Monitoring an Owner: The Case of Turner Broadcasting”, *Journal of Financial Economics* 30, 325-346

RWJ: chapter 22 (options and corporate finance), 24 (warrants and convertibles)

Coffee break, 15:00 – 15:30

Session #12, 15:30 – 17:00: **Dividends**

- Dividends and taxes
- Dividends versus stock repurchases
- Dividends, agency and signaling

Readings:

CHS: chapter 7 (dividends)

DeAngelo, Harry, Linda DeAngelo and Douglas J. Skinner, 2004, “Are dividends disappearing? Dividend Concentration and the Consolidation of Earnings”, *Journal of Financial Economics* 72, 425-456.

RWJ: chapter 18 (dividend policy)

Dinner: 18:00—20:00

Session #13, 20:00 – 22:00: **Group Work (Leveraged Recapitalization Case Preparation: Sealed Air)**

Readings: Sealed Air Corporation’s Leveraged Recapitalization (A): HBS 9-294-122

DAY 4: LEVERAGE AND FINANCIAL DISTRESS

Wednesday, August 25

- Session #14, 08:30 – 10:00: **Leveraged Recaps (Sealed Air Case Discussion)**
 - The incentive effects of debt
 - Mechanics of leveraged recaps

- Pros and cons of the transaction
- Characteristics of potential candidates

Readings:

Denis, David, and Diane Denis, 1994, “Leveraged recaps and the curbing of corporate overinvestment,” *Journal of Applied Corporate Finance* (Spring), 60-71.

WSJ: chapter 13, pages 391-398 (leveraged recapitalizations)

Coffee break, 10:00 – 10:30

- Session #15, 10:30 – 12:00: **Group Work (Financial Distress Case: Loewen)**

Readings: The Loewen Group, Inc: HBS 9-201-062

Lunch 12:00 – 13:30

- Session #16, 13:30 – 15:00: **Financial Distress Costs (Loewen Case Discussion)**
 - Rollup strategies
 - Workouts
 - Prepackaged Bankruptcy

Readings:

Gilson, S., 1991, “Managing default: Some evidence on how companies choose between workouts and Chapter 11”, *Journal of Applied Corporate Finance* 4, 62-70.

RWJ: chapter 31 (financial distress)

Coffee break 15:00 – 15:30

- Session #17, 15:30 – 17:00: **Economic Effects of Bankruptcy Law**
 - US: Chapter 11 negotiations
 - Sweden: auctions
 - Cost and benefits of each system

Readings:

“Note on bankruptcy in the United States”, HBS 9-292-062.

Thorburn, K., 2000, “Bankruptcy auctions: Costs, debt recovery and firm survival”, *Journal of Financial Economics* 58, 337-368.

Dinner: 18:00—20:00

Session #18, 20:00 – 22:00: **Group Work (IPO Case Preparation: Shoppers Drug Mart)**

Readings: Shoppers Drug Mart

DAY 5: INVESTMENT BANKING AND PRICING OF EQUITY ISSUES

Thursday, August 26

- Session #19, 08:30 – 10:00: **Risk and Return I: Market Efficiency**

Coffee break, 10:30 – 11:00

- Session #20, 11:00 – 12:30: **Risk and Return II: Efficient Portfolios**

Readings:

RWJ: chapters 9 (overview of capital market theory), 10 (risk and return), 11 (arbitrage pricing theory), 12 (risk and the cost of capital)

Lunch 12:30 – 14:00

- Session #21, 14:00 – 15:30: **Risk and Return III: Performance Evaluation**

Readings:

Schwert, William G., 2003, “Anomalies and Market Efficiency,” in *Handbook of the Economics of Finance*, George M. Constantinides, Milton Harris, and Rene M. Stulz (Eds.), Elsevier North Holland, Amsterdam, 939-974.

Coffee break 15:30 – 16:00

- Session #22, 16:00 – 17:00: **IPO Valuation (Shoppers Drug Mart Case Discussion)**

- Valuation and pricing of an IPO

- Session #23, 17:00 – 18:30: **IPO Underpricing**

- The IPO selling process

- Theories and evidence on underpricing
- Are IPO stocks overpriced in the long run?
- IPO auctions

Readings:

CHS: chapter 5 (IPOs)

RWJ: chapter 19 (issuing equities to the public)

Black Box Technology Inc (VC Term Sheet)

Dinner: 18:30—20:00

Session #24, 20:00 – 22:00: **Group Work (Takeover Case Preparation: Interco)**

Readings: Interco: HBS 9-291-033

DAY 6: CORPORATE GOVERNANCE AND CONTROL

Friday, August 27

- Session #25, 08:30 – 10:00: **Hostile Takeovers (Interco Case Discussion)**
 - Valuation of bid
 - Management response
 - Board deliberations
 - Defensive strategies

Readings:

WSJ: chapter 19 (takeover defenses)

Jensen, Michael C., 2001, “Value Maximization, Stakeholder Theory, and the Corporate Objective Function,” *Journal of Applied Corporate Finance* 14(3) 8-21.

Blair, Margaret M., 2002, Shareholder Value, Corporate Governance, and Corporate Performance: A Post-Enron Reassessment of the Conventional Wisdom, Georgetown University Law Center.

Coffee break, 10:00 – 10:30

- Session #26, 10:30 – 12:00: **Takeover Bidding**
 - Merger waves

- Takeover premiums and the free-riding problem
- Toeholds and breakup fees

Lunch 12:00 – 13:30

- Session #27, 13:30 – 15:00: **Corporate Governance**
 - Investor protection strategies
 - International governance reforms
 - Market value of control
 - SEC proposal for proxy voting and director election reform

Readings:

CHS: chapter 1 (corporate governance)

Jensen, Michael C., 1993, “The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems,” *Journal of Finance* 48, 831-880.

Coffee break, 15:00 – 15:30

- Session #28, 15:30 – 17:00: **Executive Compensation**
 - Optimal contracting view of compensation policies
 - Incentive effects of stock options
 - The stock option controversy
 - The compensation process

Readings:

Hall, Brian J. and Kevin J. Murphy, 2003, “The Trouble with Stock Options”, *Journal of Economic Perspectives* 17, 49-70.

Bebchuk, Lucian Ayre and Jesse M. Fried, 2003, “Executive Compensation as an Agency Problem,” *Journal of Economic Perspectives* 17, 71-92.

Dinner: 18:00—20:00

DAY 7: LEVERAGED BUYOUTS

Saturday, August 28

- Session #29 08:30 – 12:00: **Group Work (LBO Case Analysis: Lubrano Can)**

Note: There will be a 30-minute introductory lecture before starting the group work.

Readings: Introduction to LBO Analysis: Lubrano Can Company

Lunch: 12:00—13:30

- Session #30, 13:30 – 15:30: **LBOs (Lubrano Can Case Discussion)**

- Value creation in LBOs
- Financing principles
- Valuation of LBOs
- Risks in LBO investing
- Characteristics of LBO candidates

Readings:

WSJ: chapter 16 (LBOs)