

NORWEGIAN SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

EXECUTIVE MBA COURSE OFFERING

CORPORATE FINANCE, RESTRUCTURING AND GOVERNANCE

Solstrand, August 13-19, 2008

INSTRUCTORS

B. ESPEN ECKBO

Tuck Centennial Professor of Finance
Founding Director, Center for Corporate
Governance
Tuck School of Business at Dartmouth (USA)
b.espen.eckbo@dartmouth.edu

KARIN S. THORBURN

Associate Professor of Finance
Associate Director, Center for Corporate
Governance
Tuck School of Business at Dartmouth (USA)
karin.s.thorburn@dartmouth.edu

TARGET AUDIENCE

The course exposes participants to key issues in corporate finance, takeovers and restructuring, as well as to the ongoing debate over corporate governance and investor protection. These issues are particularly relevant for investment bankers, consultants, corporate executives, and directors. We provide practical tools for financial decisions and valuation, and participants are exposed to financial and strategic issues surrounding corporate mergers and acquisitions, financial restructurings, and IPOs.

COURSE DESCRIPTION

The seven-day course at Solstrand is highly intensive, with group assignments throughout the evening. Each day consists of a mix of lectures, 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. An initial valuation review is provided to refresh and explain basic valuation techniques needed for case solving.

The intense program at Solstrand does not provide time for individual reading and preparation. In order to get the most out of the sessions, participants should carefully read and prepare the cases ahead of time. Participants are encouraged to bring a laptop in order to build spread sheets for valuation purposes and work on class room assignments. The laptop should preferably have a wireless card so that it can be connected to the intranet, where we will share files underway.

Following the week at Solstrand, participants are expected to in groups of four write a term paper that analyzes different aspects of a transaction of their choice. The term papers will be presented and discussed during a two-day session at Soria-Moria Konferensesenter in Oslo in November 2008.

COURSE OVERVIEW

CORPORATE FINANCE, RESTRUCTURING AND GOVERNANCE

DAY 1: INTRODUCTION AND CORPORATE VALUATION

<i>Session</i>	<i>Time</i>	<i>Topic</i>
	1.0 hr	Introduction and welcome, set-up of laptops
1	1.5hr	Valuation review (K)
2	2.0 hr	Case preparations: Interco

DAY 2: GOVERNANCE, RESISTANCE AND MERGER DEAL STRUCTURE

3	1.5 hr	Governance break down: Interco case discussion (E)
4	1.5 hr	Corporate governance and investor protection (E)
5	1.5 hr	Case preparations: Cooper
6	1.5 hr	Target valuation and payment method: Cooper case discussion (K)
7	2.0 hr	Case preparations: General Mills

DAY 3: MERGER GAINS, CONTINGENT PAYMENTS AND MERGER ARBITRAGE

8	1.5 hr	Contingent payments: General Mills case discussion (K)
9	1.5 hr	Wealth effects of takeovers (E)
10	1.5 hr	Case preparations: AXA MONY
11	1.5 hr	Conditional deal financing: AXA MONY case discussion (K)
12	2.0 hr	Case preparations: AT&T/McCaw

DAY 4: NEGOTIATION STRATEGIES, RAISING CAPITAL

13	2.0 hr	Merger negotiations: AT&T-McCaw
14	1.0 hr	Negotiation debriefing: biases and strategies (K)
15	1.5 hr	Takeover bidding strategies (E)
16	1.5 hr	IPOs and SEOs (E)
17	2.0 hr	Case preparations: Nova Chemical

DAY 5: BREAK-UP TRANSACTIONS AND PRIVATE EQUITY FINANCING

18	1.5 hr	Divestitures: Nova case discussion (K)
19	1.5 hr	Case preparations: Cytec
20	1.5 hr	Spinoffs and carveouts: Cytec case discussion (K)
21	1.5 hr	Private equity financing and capital structure choice (E)
22	2.0 hr	Case preparations: Sealed Air

DAY 6: FINANCIAL RESTRUCTURING AND EXECUTIVE COMPENSATION

23	1.5 hr	Leveraged recaps: Sealed Air case discussion (K)
24	1.5 hr	Executive compensation (E)
25	3.5 hr	Case preparations: Lubrano Can

DAY 7: LEVERAGED BUYOUTS

26	1.5 hr	Leveraged buyouts: Lubrano case discussion (K)
	30 min	Closing remarks

DETAILED PROGRAM

The readings below contain more material than will be covered directly in class. While cases should be prepared in advance, other 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:

Eckbo-Vol1: Eckbo, B. Espen (ed.), 2007, *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 1*, (Elsevier/North-Holland Handbook of Finance Series), ISBN-9780444508980.

Eckbo-Vol2: Eckbo, B. Espen (ed.), 2008, *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 2*, (Elsevier/North-Holland Handbook of Finance Series), ISBN-9780444530905.

Note that Volume 1 is already out, while Volume 2 will be available in early August. Given the risk that the book may be late from the publisher, we will provide hardcopies of selected chapters from Volume 2. You can then acquire the book in due course.

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, 2008, *Modern Financial Management*, 8th ed. (McGraw-Hill/Irwin). 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.

DAY 1: INTRODUCTION AND CORPORATE VALUATION

Wednesday, August 13

Coffee and gathering, 15:00 – 15:30

15:30 – 16:30: **Introduction and welcome, set-up of laptops**

- Introduction of instructors and participants
- Course overview
- Expectation on preparation and participation
- Assistance to connect laptops to the intranet

- **Session #1, 16:30 – 18:00: Valuation review**
 - Discounted cash flow valuation techniques
 - Cost of capital
 - Multiples valuation

Readings:

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

Thorburn, Note on WACC valuation.

RWJ chapter 17 (APV and WACC)

Dinner: 18:30—20:00

• **Session #2, 20:00 – 22:00: Case preparations: Interco**

Readings: Interco, HBS 9-291-033

DAY 2: GOVERNANCE, RESISTANCE AND MERGER DEAL STRUCTURE

Thursday, August 14

• **Session #3, 08:30 – 10:00: Governance breakdown: Interco case discussion**

- Valuation of a bid
- Management response
- Board deliberations
- Interco defensive strategies

Readings:

WSJ chapter 19 (takeover defenses)

Pickens, T. Boone, Jr., 1986, Professions of a Short-Termer, *Harvard Business Review* 64, 75-79.

Coffee break, 10:00 – 10:30

• **Session #4, 10:30 – 12:00: Corporate governance and investor protection**

- The invention of limited liability
- Definition of a corporate governance system
- Why do boards fail?
- Expropriation technologies around the world

Readings:

Shleifer, Andrei and Robert W. Vishny, 1997, A survey of corporate governance, *Journal of Finance* 52, 737-783

Eckbo, B. Espen, 2006, Corporate governance i et nøtteskall, *Penger og Kreditt* 34, 87-99.

Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2007, The Economic Consequences of Legal Origins, *Journal of Economic Literature*, forthcoming

RWJ chapter 1 (corporate objective function)

Lunch 12:00 – 13:30

• **Session #5, 13:30 – 15:00: Case preparations: Cooper**

Readings: Cooper Industries, Inc., HBS 9-274-116

Coffee break, 15:00 – 15:30

- **Session #6, 15:30 – 17:00: Target valuation and payment method: Cooper case discussion**

- Valuation of target and synergies
- Cash versus stock
- Exchange ratios and acquisition premiums
- Accretion/dilution

Readings:

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.

Technical notes on equity-linked consideration, part 1: All-stock deals (HBS 9-903-027) and part 3: Cash-and-stock deals (HBS 9-903-029).

RWJ chapter 29 (mergers & acquisitions)

Dinner: 18:30—20:00

- **Session #7, 20:00 – 22:00: Case preparations: General Mills**

Readings: General Mills' acquisition of Pillsbury from Diageo Plc., UVA-F-1326.

DAY 3: MERGER GAINS, CONTINGENT PAYMENTS AND MERGER ARBITRAGE

Friday, August 15

- **Session #8, 08:30 – 10:00: Contingent payments: General Mills case discussion**

- Evaluating a deal
- Clawbacks
- Floors, caps and collars
- Earnouts

Readings:

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.

Technical note on structuring and valuing incentive payments in M&A: Earnouts and other contingent payments to the seller, UVS-F-1322.

Technical note on considerations: floors, caps, and collars, HBS 9-902-056.

Coffee break, 10:00 – 10:30

- **Session #9, 10:30 – 12:00: Wealth effects of takeovers**

- Abnormal stock returns around takeover announcements
- Source of target gains
- Why the low returns to bidders?
- Industry wealth effects of mergers

Readings:

Eckbo-Vol2 Ch 16 (Corporate takeovers)

Lunch 12:00 – 13:30

- **Session #10, 13:30 – 15:00: Case preparations: AXA MONY**

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

Coffee break, 15:00 – 15:30

- **Session #11, 15:30 – 17:00: Contingent deal financing: AXA MONY case discussion**
 - Convertible bonds as acquisition financing
 - Control compensation payments
 - Voting incentives and trading incentive effects
 - Merger arbitrage

Readings:

Technical note on equity-linked consideration, part 2: Announcement effects, HBS 9-903-028.
Wyser-Pratte Guy P., Merger Arbitrage, Merger & Acquisition Handbook, 2nd ed. by Rock-Rock-Sikora, 1987.
Weston, Fred J., Mark L. Mitchell and J. Harold Mulherin, 2004, chapter 21 (Merger arbitrage) in Takeovers, restructuring and corporate governance, 596-638.

Dinner: 18:30—20:00

- **Session #12, 20:00 – 22:00: Case preparations: AT&T-McCaw**

Readings:

American Telephone & Telegraph (AT&T): The AT&T/McCaw merger negotiation, UVA-F-1142, or McCaw Cellular Communications: The AT&T/McCaw merger negotiation, UVA-F-1143.
Aiello, Robert J., and Michael D. Watkins, 2000, The fine art of friendly acquisition, *Harvard Business Review* (Nov-Dec), reprint R00602.
Giving great advice: An interview with Bruce Wasserstein, 2008, *Harvard Business Review* (jan), reprint R0801G.

DAY 4: NEGOTIATION STRATEGIES, RAISING CAPITAL

Saturday, August 16

- **Session #13, 08:30 – 10:30: Merger negotiations: AT&T-McCaw**

Coffee break, 10:30 – 11:00

- **Session #14, 11:00 – 12:00: Negotiation debriefing: biases and strategies**
 - Biases affecting negotiations

- Effective negotiation strategies
- How to come prepared

Lunch 12:00 – 13:30

• **Session #15, 13:30 – 15:00: Takeover bidding strategies**

- Winner's curse
- Rational bidding strategies
- Bidding with toeholds
- Poison pill dilution: Circon case

Readings:

Chapter 6 (takeover tactics) in Gaughan, Patric A., 2007, Mergers, acquisitions & corporate restructurings, 4th ed. (John Wiley & Sons).

Dasgupta, Sudipto and Robert G. Hansen, Auctions in corporate finance, Ch. 3 in Eckbo-Vol1

Betton, Sandra, B. Espen Eckbo, and Karin S. Thorburn, Corporate takeovers, Ch. 15 in Eckbo-Vol2.

Circon, HBS 9-801-403 (A)

Coffee break 15:00 – 15:30

• **Session #16, 15:30 – 17:00: IPOs and SEOs**

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

Readings:

Ljungqvist, Alexander, 2006, IPO underpricing, Ch 7 7 in Eckbo-Vol1.

Eckbo, B. Espen, Ronald W. Masulis and Øyvind Norli, 2007, Security offerings, Ch 6 in Eckbo-Vol1.

RWJ chapters 19 (issuing equities to the public) and 20 (long-term debt)

Dinner: 18:30—20:00

• **Session #17, 20:00 – 22:00: Case preparations: Nova Chemical**

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

DAY 5: BREAK-UP TRANSACTIONS AND CAPITAL STRUCTURE CHOICE

Sunday, August 17

• **Session #18, 08:30 – 10:00: Divestitures: Nova case discussion**

- Benefits of breaking up
- Valuation of a division

- Walk-away price
- Tax considerations

Readings:

Eckbo, B. Espen and Karin Thorburn, 2008, Corporate Restructuring: Breakups and LBOs, Ch. 16 in Eckbo-Vol2

Coffee break, 10:00 – 10:30

- **Session #19, 10:30 – 12:00: Case preparations: Cytec**

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

Lunch 12:00 – 13:30

- **Session #20, 13:30 – 15:00: Spinoffs and carveouts: Cytec case discussion**
 - Spinoffs
 - Splitoffs
 - Equity carveouts
 - Transaction mechanics and choice of break-up method

Eckbo, B. Espen and Karin Thorburn, 2008, Corporate Restructuring: Breakups and LBOs, chapter 15 in Eckbo-Vol2

Coffee break, 15:00 – 15:30

- **Session #21, 15:30 – 17:00: Private equity financing and capital structure choice**
 - Players in the private equity industry
 - Deal financing and contractual terms
 - Exits
 - Risk shifting and debt overhang

Readings:

Gompers, Paul, 2007, Venture capital, Ch. 9 in Eckbo-Vol1

RWJ chapters 15 (capital structure basic concepts), 16 (limits to the use of debt), 22 (options and corporate finance), 24 (warrants and convertibles), and 30 (financial distress)

Also recommended for capital structure and financing choice:

Maksimovic, Vojislav and Gordon Phillips, Conglomerate firms and internal capital markets, Ch. 8 in Eckbo-Vol1.

Drucker, Steven and Manji Puri, Banks in capital markets, Ch. 5 in Eckbo-Vol1

Frank, Murray, and Vidhan K. Goyal, Tradeoff and Pecking Order Theories of Debt, Ch. 12 in Eckbo-Vol2.

Parsons, Chris, and Sheridan Titman, Capital Structure and Corporate Strategy, Ch. 13 in Eckbo-Vol2.

Dinner: 18:30—20:00

- **Session #22, 20:00 – 22:00: Case preparations: Sealed Air**

Readings: Sealed Air Corporation's leveraged recapitalization (A), HBS 9-294-122

DAY 6: FINANCIAL RESTRUCTURING AND GOVERNANCE INVESTING

Monday, August 18

- **Session #23, 08:30 – 10:00: Leveraged Recaps: Sealed Air case discussion**

- The incentive effects of debt
- Mechanics of leveraged recaps
- Pros and cons of high leverage
- 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.

Jensen, M., "Agency costs of free cash flow, corporate finance and takeovers", *American Economic Review* 76, 323-329, 1986.

- **Session #24, 10:30 – 12:00: Executive Compensation**

- Asset pricing anomalies
- What are priced risk factors?
- Is governance priced?

Readings:

Jensen, Michael C. and Kevin J. Murphy, 2004, "Remuneration: Where We've Been, How we Got to Here, What are the Problems, and How to Fix them", Working paper, HBS and USC.

Aggarwal, Rajesh, Executive Compensation and Incentives, Ch 17 in Eckbo-Vol2

Lunch 12:00 – 13:30

- **Session #25, 13:30 – 17:00 Case preparations: Lubrano Can**

Readings:

Introduction to LBO Analysis: Lubrano Can Company

Peter A. Hunt, 2004, "Structuring Mergers & Acquisitions," 2nd ed., Aspen Publishers, chapter 8 (leverage buyout analysis).

Drinks 18:30 – 19:30

Dinner 19:30 –

DAY 7: LEVERAGED BUYOUTS

Tuesday, August 19

- **Session #26, 9:00 – 10:30: Leveraged buyouts: Lubrano case discussion**
 - Value creation in LBOs
 - Financing principles
 - Valuation of LBOs
 - Risks in LBO investing
 - Characteristics of LBO candidates

Readings:

Jensen, M., et al., 2006, “Morgan Stanley roundtable on private equity and its import for public companies,” *Journal of Applied Corporate Finance* 18 (Summer), 8-37.

Wright, M., L. Renneboog, T. Simons, and L. Scholes, 2006, “Leveraged buyouts in the UK and continental Europe: Retrospect and prospect,” *Journal of Applied Corporate Finance* 18 (Summer), 38-55.

Eckbo, B. Espen and Karin Thorburn, 2008, Corporate Restructuring: Breakups and LBOs, chapter 15 in Eckbo-Vol2.

10:30 – 11:00: **Closing remarks**

- Coffee and departure: 11:00—11:30