Course Content and Objectives

This course exposes students to a broad range of financial restructuring techniques that can be applied to increase firm value. Case discussion and visitors help illustrate how various corporate restructuring approaches may be used to improve business performance and highlight characteristics of potential candidates for different restructuring techniques. The case analysis provides ample opportunity to practice the application of standard corporate valuation methods. Participants will gain a basic understanding of corporate governance, with particular focus on agency problems and managerial incentives.

The first part of the course deals with financial restructuring techniques aimed at strengthening the firm’s competitive situation. Such restructurings can be initiated as a response to poor business performance caused by e.g. changes in technology or customer demand, or to avoid a takeover threat. Topics include divestitures, spinoffs, splitoffs, equity carveouts, leveraged recapitalizations, and leveraged buyouts.

The second part focuses on the restructuring of financially distressed firms. Since bankruptcy provides a threat point for any distressed restructuring, the legal framework of the U.S. bankruptcy code is examined. The topics of this section are private workouts, prepackaged bankruptcy filings, and restructuring in bankruptcy. We will discuss the importance of market mechanisms in resolving bankruptcy, including the role of distressed investors and difficulties in valuing bankrupt firms.

The course is intended for students with an interest in learning about the financial, strategic, and business issues surrounding corporate restructuring. It will be useful for a range of careers, including investment banking, commercial banking, turnaround management, general management, strategy consulting, securities analysis, and investment management.

Visitors

The class will be visited by the following speakers (in alphabetical order):
Course Materials

The materials for the course consist of a number of cases and readings contained in the course packet. Additional materials and assignments will be distributed in class. You should focus your effort on the cases, using the readings as reference material and support for the case analysis.

Supplementary Books

For students interested in additional readings, the following books are held on reserve at Feldberg:


Written Assignments and Grades

The course grade is based on individual class participation (A) and several written team assignments (B, C and D).
A. Class participation – 40% of grade

Students are expected to attend every class. You should come prepared to discuss your analysis of the case and to show your calculations. I encourage voluntary participation but may call on any student to discuss the assignment. Class participation is individual effort and is graded after each session on a scale from 0-3 (0 being the lowest grade). Your grade is based on the total class participation score. The class participation grade is -1 for a missed session.

B. Case write-ups – 10% of grade

Students will be organized into teams of four and assigned to a “stream” A or B. Each team is required to hand in a written case analysis (3-5 pages) for each case in the assigned stream at the beginning of class.

<table>
<thead>
<tr>
<th>Stream A</th>
<th>Stream B</th>
</tr>
</thead>
<tbody>
<tr>
<td>DuPont/Conoco</td>
<td>Sealed Air</td>
</tr>
<tr>
<td>1/14</td>
<td>1/22</td>
</tr>
<tr>
<td>Wisconsin Railroad</td>
<td>Seagate</td>
</tr>
<tr>
<td>1/23</td>
<td>1/29</td>
</tr>
<tr>
<td>Flagstar</td>
<td>Flagstar</td>
</tr>
<tr>
<td>2/12</td>
<td>2/12</td>
</tr>
<tr>
<td>Finova</td>
<td>Finova</td>
</tr>
<tr>
<td>2/26</td>
<td>2/26</td>
</tr>
</tbody>
</table>

The case write-ups should show a reasonable level of understanding of the material and an effort to address the case questions. I am aware that many of the topics may not have been covered in class prior the write-up. The assignments are graded with √, √+ or √-. Students may form teams and submit by email to Beth Perkins by 6 pm on Thursday 1/10. All students that have not emailed their group to Beth by this deadline will be assigned to a team and notified by 12 pm on the next day.

C. LBO case project – 20% of grade

Students are required to value an LBO candidate and to analyze issues related to LBO transactions in teams of four. The project is based on a real buyout transaction using current market conditions. You have to build your own LBO model from scratch and may not use an existing LBO model in your possession. A bid letter and write-up of the analysis are due at 3 pm on Friday 2/8 in two copies. You should be ready to present your analysis to Michael Koester, Goldman Sachs, on Monday 2/11.

D. Term project – 30% of grade

Your team should analyze the financial, operational, and governance implications of a recent or potential corporate restructuring transaction. The company and topic should be selected by you, but is subject to my final approval. A one-paragraph description of the term project should be emailed to me by Tuesday 2/12. The final report is due at the beginning of class on Wednesday 3/5.

Honor Code

Class participation is a strictly individual effort. Students are, however, encouraged to work in groups when preparing for class. You may not use notes or other material from any previous offering of this or a similar course, or discuss the material with students who have already taken the course. This restriction extends to case-related information obtained from other sources.

Laptops

Laptops may not be used in class. Make sure to bring print-outs of any calculations that you may want to reference during the class discussion. If I see a laptop screen open during class, you will get a class participation score of –3 for that session.
Course overview: Corporate Restructuring winter 2008

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Day</th>
<th>Topic</th>
<th>Visitor</th>
<th>Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>01/07</td>
<td>Mon</td>
<td>Divestitures</td>
<td></td>
<td>Nova Chemical</td>
</tr>
<tr>
<td>2</td>
<td>01/08</td>
<td>Tue</td>
<td>Spinoffs and equity carveouts</td>
<td>Cytec Industries</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>01/14</td>
<td>Mon</td>
<td>Splitoffs</td>
<td></td>
<td>DuPont/Conoco</td>
</tr>
<tr>
<td>4</td>
<td>01/15</td>
<td>Tue</td>
<td>Breaking up and restructuring Corning</td>
<td>James B. Flaws T’73</td>
<td>Sealed Air</td>
</tr>
<tr>
<td>5</td>
<td>01/22</td>
<td>Tue</td>
<td>Leveraged recapitalizations</td>
<td></td>
<td>Wisconsin Railroad</td>
</tr>
<tr>
<td>6</td>
<td>01/23</td>
<td>Wed</td>
<td>Leveraged buyouts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>01/28</td>
<td>Mon</td>
<td>Managing the balance sheet</td>
<td>Mark W. Peterson</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>01/29</td>
<td>Tue</td>
<td>Technology buyouts</td>
<td></td>
<td>Seagate Technology Buyout</td>
</tr>
<tr>
<td>9</td>
<td>02/04</td>
<td>Mon</td>
<td>Middle-market LBOs</td>
<td>Hunter R. Peterson T’04</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>02/05</td>
<td>Tue</td>
<td>Financial distress, workouts and prepacks</td>
<td>Loewen</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>02/11</td>
<td>Mon</td>
<td>LBO case presentations</td>
<td>Michael E. Koester T’99</td>
<td>Lubrano Can</td>
</tr>
<tr>
<td>12</td>
<td>02/12</td>
<td>Tue</td>
<td>Bankruptcy: valuation and negotiation</td>
<td></td>
<td>Flagstar</td>
</tr>
<tr>
<td>13</td>
<td>02/25</td>
<td>Mon</td>
<td>Restructuring a distressed firm</td>
<td>Peter D. Fitzsimmons T’85</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>02/26</td>
<td>Tue</td>
<td>Bankruptcy and distressed investors</td>
<td></td>
<td>Finova</td>
</tr>
<tr>
<td>15</td>
<td>03/03</td>
<td>Mon</td>
<td>Distressed investing</td>
<td>David J. Breazzano</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>03/04</td>
<td>Tue</td>
<td>Taking USG through bankruptcy</td>
<td>Richard H. Fleming T’71</td>
<td></td>
</tr>
<tr>
<td>17/18</td>
<td>03/05</td>
<td>Wed</td>
<td>Student term project presentations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SCHEDULE
Corporate Restructuring Fall 2006

1. Divestitures
Monday 01/07

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

Case questions:
1. Should the company divest its Industrial Products Division (IPD)?
2. Is the offered price of $160 million acceptable? Do a DCF valuation of the IPD division. What is the lowest bid Nova should accept?
3. Why did the offer for IPD come as a surprise to management and the board of directors?
4. What implications would a divestiture of the IPD division have for Nova’s future financing needs? Do the financing options have any implication for the decision to sell/not to sell IPD?


2. Spinoffs and equity carveouts
Tuesday 01/08

Case: Cytec Industries’ spin-off (A): sink or swim? HBS 9-897-053
B-case, HBS 9-897-054, will be distributed in class.

Case questions:
1. Why did American Cyanamid spinoff Cytec? Was it a good idea? For whom? Why a spinoff instead of an equity carveout or a divestiture?
2. If you were Darryl Fry or Steve Crum would you jump at the opportunity to run Cytec or would you want to stay with Cyanamid? What are the implications for Fry's or Crum's career if Cytec fails?
3. Analyze the structure of the spinoff agreement, including Cytec's equity structure and the balance sheet, from both the parent's perspective and Cytec's.
4. What organizational changes were made at Cytec prior to and after the spinoff? How did these changes affect performance? Why weren't such changes made years earlier under Cyanamid?
5. Assuming Cytec's stock trades at multiples that are average for its industry, how can the pessimistic analyst's valuation of $3 per share be justified? What about the market's $12 to $16 valuation?
6. Why didn't the market pay much attention to Cytec? Should it have? Why did managers care whether Wall Street noticed the company?
7. What would you predict Cytec's stock would trade for two years after the spinoff? What assumptions about the organization and the stock market underlie your predictions?

3. Splitoffs
Monday 01/14

Case: E.I. du Pont de Nemours and Company: the Conoco split-off (A), HBS 9-202-005
B-case, HBS 9-202-006, and C-case, HBS 9-202-007, will be distributed in class.

Case questions:
1. Do you believe DuPont management’s claim in early-to-mid 1998 that Conoco was dragging
down DuPont’s value?
2. Assuming DuPont’s stock price was in fact undervalued, was the October 1998 IPO of
Conoco the best way to address this problem? Would any other approaches for divesting
Conoco have been preferable, for example a divestiture?
3. As a DuPont shareholder presented with the proposed split-off transaction in July 1999,
what factors would you consider in deciding whether to exchange your shares for Conoco
Class B shares?
4. Does it make sense for DuPont management to have structured the second-stage divestiture
of Conoco as a split-off rather than as a conventional spinoff?
5. The Limited’s splitoff of its Abercrombie & Fitch unit was structured as a “modified Dutch
auction”. Do you think this would have been a superior way to structure DuPont’s split-off
of Conoco?

Please note: The closing trading prices of DuPont and Conoco Class A common stock on July
8, 1999 were $68.625 and $27.375, respectively.

Readings: Schlingemann, F., R. Stulz, and R. Walkling, “Divestitures and the liquidity of the market for

Chapter 10 (p.153-177) in Lease, R.C., K. John, A. Kalay, U. Loewenstein, and O.H. Sarig,

4. Breaking up and restructuring Corning
Tuesday 01/15

Visitor: James B. Flaws T’73, Vice Chairman and CFO, Corning Incorporated.

5. Leveraged recapitalizations
Tuesday 01/22

Case: Sealed Air Corporation’s leveraged recapitalization (A), HBS 9-294-122
B-case, HBS 9-294-123, will be distributed in class.

Case questions:
1. Why did Sealed Air undertake a leveraged recapitalization? Do you think that it was a good
idea? For whom?
2. How much value was created? Where did it come from?
3. Is pursuing a program of manufacturing excellence such as World Class Manufacturing
(WCM) inconsistent with “levering up”?
4. Why did Dermot Dunphy, the CEO, feel it was necessary to change the company’s priorities
and incentive structure following the recap?
5. Why did Sealed Air’s investor base turnover completely after the recap? Is this something
managers should be concerned about?
6. Was the constraint imposed on capital expenditures under the bank lending agreement good
or bad for the company? Do you think managers will be able to successfully renegotiate this
covenant?
7. Would a similar increase in leverage be good for all companies? Why or why not?


6. Leverage buyouts
Wednesday 01/23

Case: Wisconsin Central Ltd. Railroad and Berkshire Partners (A), HBS 9-190-062
B-case, 9-190-070, will be distributed in class.

Case questions:
1. What are Wisconsin Central Railroad’s competitive advantages, if any? Why would this company be a good candidate for a leveraged buyout?
2. How is the deal structured? What is the reason for this particular structure?
3. Is the LBO a good deal? For whom? Compute the value of the LST division to WCA, using a DCF analysis.
4. Why did the budget crisis occur?
5. How do you think the problems facing Burkhardt and Ferenbach should be resolved?


7. Managing the balance sheet
Monday 01/28

Visitor: Mark W. Peterson, SVP and Treasurer, The ServiceMaster Company.

8. Technology buyouts
Tuesday 01/29

Case: Seagate Technology Buyout, HBS 9-201-063

Case questions:
In answering the following questions, assume that the transaction is expected to close on December 31, 2000.

1. Why is Seagate undertaking this transaction? Is it necessary to divest the Veritas shares in a separate transaction? What are the potential gains? Who are the winners and losers resulting from the transaction? Do the analysis as of 3/10/00 when Seagate’s stock trades at $169.
2. What are the benefits of leverage buyouts? Is the rigid disk drive industry conducive to a leveraged buyout?
3. Suez Acquisition Company plans to finance their acquisition of Seagate’s operating assets using a combination of debt and equity. How much debt would you recommend that SAC use? Why?

4. Based on the scenarios presented in Exhibit 8, and on your assessment of the optimal amount of debt to be used in Seagate’s capital structure, how much are Seagate’s operating assets worth? For both of the assumptions listed below, estimate the value of Seagate’s operating assets. (a) Assume that SAC plans to maintain its debt at a constant percentage of the firm’s market value. (b) Assume that SAC plans to pay down its debt as cash flows permit until a terminal debt level of $700 million is reached.


9. Middle-market LBOs
Monday 02/04

Visitor: Hunter Ryan Peterson T’04, Senior Associate, Blue Sage Capital Partners.

10. Financial distress, workouts and pre packs
Tuesday 02/05

Case: The Loewen Group Inc., HBS 9-201-062

Case questions:
1. How serious are Loewen’s financial problems?
2. Are Loewen’s problems inevitable? Was the rollup strategy a fundamentally flawed concept? Is financial distress a reason to shun high leverage?
3. What did Loewen do wrong?
4. What options does the company have for dealing with its problems? Which of these options is most or least desirable?
5. What does the capital market believe will happen to Loewen?
6. How will the restructuring process affect Loewen’s business? What impact will the restructuring have on Loewen’s stockholders and creditors? Why?


11. LBO case presentation

Monday 02/11

Student presentations of the Lubrano Can case. Write-ups are due in two copies at 3 pm on Friday 2/8.

*Visitor:* Michael E. Koester T’99, Managing Director, Goldman Sachs.

12. Bankruptcy: valuation and negotiation

Tuesday 02/12

*Case:* Flagstar Companies Inc., HBS 9-299-038

*Case questions:*
2. What do you think of DLJ’s and Jefferies’ competing valuation analysis?
3. Do you see any merit in the junior creditors’ objections to the debtor’s proposed reorganization plan?
4. As the debtor or senior sub debt, what legal tactics and negotiation strategies would you recommend for dealing with the junior sub debt?
5. As a “vulture investor,” do you perceive any opportunities to make money by trading in Flagstar’s debt and equity claims?


*Note:* A one-page description of the term project is due in class.

13. Restructuring a distressed firm

Monday 02/25

*Visitor:* Peter D. Fitzsimmons, Co-President, AlixPartners LLP

14. Bankruptcy and distressed investors

Tuesday 02/26

*Case:* The Finova Group Inc. (A), HBS 9-202-095

B-case, HBS 9-202-096, will be distributed in class.

*Case questions:*
1. Were there any indications that Finova was financially troubled prior to its $80 million write-off in March 2000?
2. What financial return can Berkadia expect to make on its proposed investment in Finova?
3. As an unsecured creditor in Finova, would you find Berkadia’s offer attractive? What alternative options do you have, and how attractive are they relative to Berkadia’s offer?
4. As one of Finova’s shareholders, would you find Berkadia’s offer attractive?
5. As a distressed investor, what securities would you acquire in order to try to gain control of the firm? What opportunities are there to make money in this situation?
6. How is the outcome of this case likely to be affected by the presence and participation of distressed investors in Finova’s debt and equity claims?


15. Distressed investing
   Monday 03/03

*Visitor:*  David J. Breazzano, Co-founder and Principal, DDJ Capital Management

16. Taking USG through bankruptcy
   Tuesday 03/04

*Visitor:*  Richard H. Fleming T’71, Executive Vice President and CFO, USG Corporation

17/18. Student term paper presentations
   Wednesday 03/05

Term papers are due at the beginning of class. Note that this session run over 3.5 hours: Section 1 from 8:30-12 pm and Section 2 from 1-4:30 pm. You should work your calendar so that you can attend.