

FINA 690R: Mergers & Acquisitions
August 2006

<p>Professor: Sugato Bhattacharyya Office: 2339 Phone: 2358-7663 Email: sugato@ust.hk <i>Office Hours:</i> Afternoons</p>	<p>Meeting Times Tuesday: 7:00 PM – 10:20 PM and Saturday: 2:30 PM – 5:50 PM</p>
<p>Assistant: Chen Yunling Email: ylchen@ust.hk <i>Office Hours:</i> TBA</p>	<p>Exam on Saturday, August 26</p>

Course Overview

This course will provide students with an understanding of the whys and hows of mergers and acquisitions. Besides talking about the reasons underlying acquisition activity, we will deal with several approaches to valuation and focus on several implementation issues along the way. At the end of the course, students will have been exposed to a wide variety of issues that are important to the field of acquisitions and will be in a position to better understand what investment bankers do.

This is, however, a compressed course and the background exposure of different students to the topic is very heterogeneous. As a result, the course will try to be integrative rather than exhaustive. This means that we will discover various concepts along the way over various points in time, rather than have lists of concepts handed out at the beginning, as in a lecture class. Learning through cases in a relatively unstructured fashion is a crucial feature of the course.

Each class is going to be comprised of lectures and case discussions. Sometimes, lectures will be separate from case discussions. At other times, when the case throws up a concept that we have not seen before, we will take the time out for a mini-lecture on the new concept before resuming our discussion of the case. As a result, it is critical that you are prepared for each class by having read the day's reading material thoroughly. The more you think in advance, the more you will get out of the course.

Readings and Material

Given the compressed nature of the class, I have tried to keep reading material to a bare minimum. There is, thus, no required textbook for the course. However, some people may benefit from following a textbook. I would recommend the following textbook for those who feel they must read a textbook and for those who want to follow up with a textbook after the course is over:

Takeovers, Restructuring and Corporate Governance (4th ed) by J. Fred Weston, Mark L. Mitchell and J. Harold Mulherin, Pearson Prentice-Hall

Please be advised that this book covers a lot more than what we will be able to cover in 4 weeks. Also, the book is likely to be quite expensive. As a result, I will not require you to buy the book and the course will not try to follow the book's approach closely. However, the book is a valuable resource.

Expectations and Grading

Students are encouraged to be pro-active in class discussions and, indeed, the course will not succeed if students do not ask questions, offer suggestions or try to be passive participants. I will cold call in class and class participation will have a role in determining grades. However, this does not mean that you should speak for speaking's sake, since it's the quality of questions and comments that will count more than sheer quantity. Also, students are expected to challenge ideas expressed by other students and by the instructor: there is nothing wrong in challenging ideas.

Cases submissions will not exceed three written pages (plus exhibits, if any). I will provide questions to help focus your analysis of the cases and the submissions will have to address questions that are highlighted. The rest of the questions are also meant to be prepared/discussed among group members but your answers are not required to be presented in the submission. Of course, a submission which addresses more issues than the minimum will be considered to be of higher quality. Grading of submissions will be coarse in order to avoid penalizing you for small mistakes. I will follow the following scheme: Poor, Acceptable and Superior.

Work on cases will be done in groups. Each group should have five members, although I might grant small exceptions under compelling circumstances. Please make sure that your group has people of a variety of backgrounds. Given the varied nature of backgrounds, it would be good if each group has members with different exposures to the field of finance. This will help promote discussions and lead to a better examination of diverse perspectives.

The final exam is designed so that you do not need to prepare explicitly for it. If you have been engaged in the class and have worked on the cases, you should be adequately prepared for the final exam. I will discuss the exact format in class.

The course grades will be determined according to following scheme:

Case Submissions:	45%
Class Discussions:	10%
Final Exam:	45%
Total	100%

Schedule

Below, you will find a **preliminary** schedule that is based on my prior understanding of the background of the people registered for the class. This schedule may be modified if, during the first two classes, I find that student preparation, backgrounds and interests are substantially different from my perceptions before commencement of classes.

Consequently, please feel free to send me any comments that you may have about what you would like the course to be during the first week of classes. A more detailed schedule will be made available by the end of the first week of classes.

Cases marked in red require submissions. Please make sure that you submit in class or via email before the start of the class session.

Tuesday, August 1

Preliminaries; Why M&A?; Valuation fundamentals

Saturday, August 5

Valuation by WACC; Atlantic Corporation case;

Readings: Notes on Valuation

Tuesday, August 8

Valuation by Comparables and by WACC; Tactical Issues;

Consolidated Rail Corporation (A) case

Saturday, August 12

Consolidated Rail Corporation (B) case

Tuesday, August 15

Owens Corning Fiberglass case

Readings: Article on Adjusted Present Value

Saturday, August 19

Goodyear (A) case

Tuesday, August 22

Goodyear (B) case

Saturday, August 26

Final Exam

Questions for Atlantic Corporation case:

The object of this case is to come up with a value for the asset package under consideration. You are given some cash flow estimates prepared by staff engaged in a valuation exercise. You should treat these as expected cash flows.

- 1. How would you determine a correct discount rate for discounting the cash flows associated with the assets to be purchased? Determine the level of (tax-adjusted) WACC that you would use.**
- 2. Calculate the net present value of the project (buying the assets) under the assumption that you pay a purchase price of \$319 million, as assumed in Exhibit 3. You can assume that the staff forecasts are reasonable.**
3. How would you determine the maximum possible price that you might be willing to pay for the assets?
4. Given your valuations, how would advise Halloran to approach possible negotiations with Winters, keeping in mind the fact that he faces a possible takeover threat?

Questions for Conrail (A) case:

In this case, please try and assess the range of reasonable values of Conrail utilizing all the data on other companies and transactions that the case provides. Please comment on what kinds of multiples are reasonable to use and which ones you would not use for this particular situation.

Also, try and evaluate the bidding strategy of CSX. If you were a Conrail shareholder, would you tender? Why?