

ROTMAN SCHOOL OF MANAGEMENT
UNIVERSITY OF TORONTO
105 ST. GEORGE ST.
TORONTO, ONT.



LAURENCE BOOTH
PROFESSOR OF FINANCE
PHONE: (416) 978-6311
FAX: (416) 971-3408

2309: MERGERS AND ACQUISITIONS

Winter 2005

Office hours

My two M&A sections meet Mondays 1:45-3:45 & 6:30-8:30. I am available on Tuesdays 9:00-12:00, but de facto e-mail me and I'll see you if can see you at any reasonable time. If you have questions try e-mailing me first, since it helps to think through the question.

Course Objective

The course objective is to develop an understanding of the strategic asset acquisition and divestiture process. MGT2301 discusses a firm's decision to make, lease or buy individual assets. The same ideas can be applied to larger scale assets as well as the major product divisions of the firm. These decisions involve mergers and acquisitions of existing firms, as well as spin-offs and divestitures. These *external* asset acquisition and divestiture decisions inevitably run into public policy concerns for the governance structure of corporations and securities legislation. The focus of this course, however, will be to analyse these decisions from a financial perspective emphasising valuation.

Achieving the Objective.

The theoretical framework of the course will be covered in a lecture format comprising about 50% of class time. The lectures will be based on the required textbook and a set of readings contained in the course package. Understanding the lecture materials will be enhanced by analysing a series of cases contained in the readings package.

Textbook

Required: J. Fred Weston, Mark Mitchell and J. Harold Mulherin, Takeovers, Restructuring and Corporate Governance, (4th edition) Pearson/Prentice Hall, 2004. (WMM)

Useful but not required:

* Particularly good on Valuation:

T. Copeland, T. Koller and J. Murrin, (3rd edition) Valuation: Measuring

and Managing the Value of Companies, McKinsey & Co, John Wiley & Sons, 2000.

- * Good on private companies and Canadian regulations:

W. Albo, A. Bryck and A. Pigott, Purchase and Sale of Privately held Businesses, (3rd edition) , CA Press, Toronto, 2000.

- * Good compendium of industry analyses by securities analysts:

Joe Kan, (Editor), Handbook of Canadian Security Analysis, Volumes 1 & 2, John Wiley & Sons Canada, 2000.

Case Analysis

Class participants will be organised into one of eight groups and assigned to “stream” A or B. Each group will then be required to hand in a six page (maximum) case analysis, 12 point font double spaced, of the four cases in its stream plus present one in class. Both overheads and any Excel spreadsheets for the case presented in class should be sent to me for posting on the Portal immediately before class. I will direct class questions to individual members of the presenting group.

A	B
Empire Foods	Time’s Entry into Entertainment
BC Sugar	John Case
Healthvision	Conrail
Marriot (A)	Marvel

The Martel case will also be prepared according to a “mandate” issued to each group (more later), but this will not require a formal hand in. The other two cases will be discussed in class but no formal hand-ins required.

For the other cases each individual should be familiar with the case and be capable of contributing effectively to class discussion. Parts of the final exam may be drawn from a problem emanating from any one of the cases.

Evaluation.

Final Exam	50%
Class Participation	10%
Case Analyses (10% each)	40%

A one page standard 8"x11" (two sided) crib sheet plus calculator (any type) will be allowed for the final exam.

Responsibility

As the course instructor I undertake to do the following:

- Come prepared for class;
- Plan my classes with specific learning objectives, which I will attempt to summarise at the end of each class;
- Create a classroom atmosphere conducive to learning;
- Stimulate discussion by asking appropriate questions;
- Learn to use the Portal.

Your responsibilities are to:

- Come prepared for class;
- Ask questions when you don't understand and when I go too fast. Asking questions is a sign of maturity not ignorance;
- Treat others, particularly your classmates, with respect;
- Hand in case write-ups etc on time.
- Ask questions of the presenting group: no collusion!
- Observe the Rotman Code of Integrity

MGT2309: MERGERS AND ACQUISITIONS.

1. Monday Jan 3

VALUATION 1

Topic DCF Valuation framework
WACC, Comparables

Readings WMM Chapters 9 &10

N. Mohan et al, "Acquisition/Divestiture Valuation Practices in major US Firms," Financial Management and Practice, Spring 1991.

2. Monday Jan 17

VALUATION 2

Topic Alternative approaches to valuation
Fairness Opinions

Readings E. Lie and H. Lie, Multiples Used to Estimate Corporate Value, Financial Analysts Journal, March/April 2002

D. Briody, D. McDonald & E. Moskowitz. "Given Up for Dead, Traditional Valuation Techniques Will Make A Comeback in 2002," Red Herring, January 2002.

Case: Goodyear Tire and Rubber

3. Monday Jan 24

GOVERNANCE ISSUES

Topic Responsibility of the Board of directors
Shareholder rights
Role of the firm

Readings WMM Chapters 1, 2, 19 & 20

P. Anisman, "An Acceptable Poison Pill Rights Plan," Corporate Governance Review 2-2 (February 1990).

M. Nelligan, "Proxy Contests: Some Legal and Practical Considerations," in R. Rupert Canadian Investment Banking Review, McGraw-Hill Ryerson, 1992.

Case: Sherrit Gordon

4. Monday Jan 31 ACQUISITION VALUATION

Topic Valuation

Readings: M. Brophy, Merchandising, in Kan, 2000.

Case: ***Empire Co Ltd.***

5. Monday Feb 7 M&A AND STRATEGY

Topic Integrating strategy & finance
Life cycle issues
Motivation for mergers

Readings WMM Chapter 5 & 6

Case: ***Time's Entry into the Entertainment Business***

Reading Week of Monday Feb 16

6. Monday Feb 21 THE M&A PROCESS

Topics basic theories for mergers

Readings: WMM Chapters 1 & 2

Case: Martel

7. Monday Feb 28 EMPIRICAL EVIDENCE

Topic Market reaction to M&A activity
What makes a successful M&A

Readings: WMM Chapters 7, 8, 17 & 22
J. Bower, "Not all M&A's alike - and that matters," Harvard Business Review, (March 2001)

8. Monday Mar 7 DEAL STRUCTURING

Topic Macroeconomic influences on mergers
Tax structuring/dilution/earnouts etc

Readings WMM Chapters 3, 4, 10 & 15
Petro Panarities, "Income Trusts" in Kan, 2000.

Case: ***BC. Sugar***

8. Monday Mar 14 GOING PRIVATE

Topic Management & Leveraged Buyouts

Readings WMM Chapter 16

S. Sherman and D. Janatka, "Engineering Earn-Outs to get deals done and prevent discord," Mergers and Acquisitions, September/October 1992.

Readings: J. Willis and D. Clark, "An Introduction to Mezzanine Finance and Private Equity," Journal of Applied Corporate Finance, (Summer 1989).

Case: ***John Case***

10. Monday Mar 21 DIVESTITURES

Topic Divestitures, spin offs, equity carve outs

Readings: WMM Chapters 11 & 12

Case: ***Healthvision Corporation***

11. Monday Mar 28 TAKEOVER DEFENCES

topics poison pills/securities Legislation

Readings: WMM Chapter 19 & 21
A. Rappaport & M. Sirower, "Stock or Cash," Harvard Business Review, Nov-Dec 1999.

Case: ***Conrail B***

12. Monday April 4 RESTRUCTURING

Topics Reorganising poorly performing firms
Leverage recaps

Readings WMM Chapters 13 & 18

Case: ***Marriot Corporation A***

13. Monday April 11 TAX & LEGAL ASPECTS OF RESTRUCTURING

Topics Using CCA & bankruptcy legislation, US chapter 11.

CASE: ***Marvel***

April ? FINAL EXAM