Instructor: Nat Gregory  
Academic Term: Spring 2017  

Overview  
This is a case-based course focused on financial aspects of M&A and private equity buyouts.\textsuperscript{1} We will cover a wide range of topics related to valuation, deal structure, auction design and financing, primarily from the perspective of investment bankers, private equity professionals, deal lawyers, owners and principals, boards of directors and senior management involved in transactions.\textsuperscript{2} Although several of the cases involve analytical issues that are quite challenging, the course is not overly technical in nature. A solid foundation in finance is important, with completion of 15-402 or the equivalent as a prerequisite. The material covered in the course falls into several categories:  

- **Valuation.** Valuation is at the core of all mergers & buyouts, so we will cover valuation issues in most if not all of the cases. I am assuming students are already familiar with tools and theory in some areas of valuation, primarily discounted cash flow (DCF) valuation. We will not spend time in this course going back over DCF valuation. We will spend time, however, on other valuation tools applied to mergers & buyouts, e.g. leveraged buyout analysis; bid tab calculations; multiples analysis for fairness opinions; etc. There is also an interesting case that involves valuing the acquisition of an undeveloped asset that we will cover early in the course.  

- **Deal structure and auction design.** We will cover the basic mechanics of M&A transactions, e.g. one and two-step mergers; use of stock vs cash; how tender offers work; contingent acquisitions; squeeze-outs of minority shareholders; tax implications of deal structure and expatriation mergers; leveraged buyouts; etc. We will discuss goals, conflicts and issues involved in designing a company sale process, and in executing the sale of a company, as well as the purpose of typical terms & conditions in sale and merger agreements.  

\textsuperscript{1} The course was taught as a half-course on M&A in the spring of 2016, but it is being expanded in the spring of 2017 into a full term course that includes added material on private equity buyouts.  

\textsuperscript{2} Students interested in the course should be aware that there is little or no focus on managerial aspects of M&A such as: evaluating acquisition strategies versus internal growth; identifying & screening acquisition targets; due diligence; merger integration; and so on.
• **Buyouts.** A significant fraction of the course will be focused on private equity (PE) and leveraged buyouts. Consistent with the treatment of other M&A transactions in the course, the material on buyouts – how they are structured, valued and financed – will be covered primarily through a variety of cases. We will also spend time on the buyout sector in general, e.g. how most PE firms are organized and compensated; sourcing of deals; strategies to earn superior financial returns; the structure and terms of buyout funds; and historic performance data from an investor perspective. There will be a couple of classes devoted to other interesting areas of the buyout sector, such as the use of blank-check companies, and the growing number of publicly traded PE sponsors.

• **Hostile takeover tactics and defenses.** We will spend some time on several topics in governance of US public corporations, e.g. how corporations are legally organized; the relative roles and responsibilities of boards, management and shareholders in M&A decisions; ownership disclosure requirements; shareholder voting rules; etc. Several classes are devoted to activism and unsolicited takeover offers, with a focus on US takeover law and corporate defense tactics. We will discuss several seminal takeover cases, and there will be a student class exercise set up to debate a company’s takeover defense.

**Class Project**
There will be a class project involving a hypothetical deal for Spyder Inc., a company that sells high-end fitness & skiwear. Students will be divided up into study groups of 3-5 students each to represent either sellers or buyers in the project. Groups on the sell-side, playing the role of company management & investment banker, will put together a pitch that covers the company’s strategy and storyline, projections & financial information, ownership & management goals and proposed steps in the sale process. Groups on the buy-side, playing the role of private equity buyers, will put together a pitch describing their virtues as a buyer and outlining operating plans for the company, including management & incentives, an offer price range, deal financing and so on. Three sell-side groups and three buy-side groups will be selected to make their pitches in class. Students will vote on the best pitch, and winners & prizes will be announced on the last class of the term. I hope we can make this work so that you learn from it and have a little fun as well.

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3 The course is focused on US corporations, so takeover law & tactics outside the US aren’t covered.
4 Spyder was actually sold in the mid-2000s, and an HBS case was written about the sale. Study groups will be able to use the information included in the HBS case as background for the project.
5 It is my current plan, if possible, to involve a couple of MIT Sloan alumni working in investment banking and private equity to help with the project, perhaps by conducting instructional sessions for study groups representing sellers & buyers. That plan is not yet in place, however.
6 Since there are two sections of the course, there will be 2 x (3 + 3) = 12 groups making presentations.
7 This idea is new for me, and my plan for the project is still in a formative stage. There is no assurance the TA and I will be able to pull it off exactly as described here in the syllabus.
Readings
The primary assigned readings for the course are the case write-ups included on Study.Net and/or posted on Stellar. There is no specific textbook. However, three books which may be useful for students with a very strong interest in M&A are:


The first of these books adopts an academic point of view and contains a wealth of data and information about the M&A market. The second is a practitioner’s guide. Of many such guides available, I believe this one is better than most. The third is a law school casebook which covers takeovers, among other topics, at great length and full detail. While useful and interesting, all three books weigh in at 800+ pages, they are fairly expensive, and none of them are necessary for this course. For students who have the time and interest to delve further into M&A, I will include a chapter from each on Stellar for your interest, although these are not required readings.

I am assuming all of you have copies of Brealey, Myers & Allen, *Principles of Corporate Finance*, either 11th or 12th ed. (“BMA”). Please keep that textbook near at hand – it never hurts to go back into BMA and refresh your understanding of fundamental concepts and tools that come up as we go along. Chapter 19 covers some basic valuation tools, and chapter 31 is a very useful overview of mergers. In addition, I will post on Stellar a few academic articles for your interest, some occasional SEC filings (e.g. proxies, 13Ds), as well as handouts on various subjects.

Homework Assignments
This is a time-intensive course, and the more time you are willing to put into it, the more you will get out of it. I assign homework for most of our classes – there will be about 12-14 written assignments to turn in over the course of the term. 4-5 of the assignments will be graded on a curve, and the rest will be pass-fail with potential for extra credit. Students are expected to work in groups of 3-5 to prepare homework assignments. Assignments will be posted on Stellar, usually a couple of weeks before they are due. There is no written assignment for the first class.

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8 Solutions will not be distributed in written or electronic form, but will be discussed in class.
9 There are two sections of the course, and I do allow students to participate in groups across sections. However, homework assignments will have to be turned in by 8:30AM at the beginning of the first class section if there are students from both sections participating in the group. Also, please note: **if a group is selected to make a presentation as part of the class project, all students in the group have to participate in the presentation.** Therefore, students participating across sections have to look at their schedules and build in some flexibility.
Class Participation
At least half of the course will be a lecture format, but there should be plenty of opportunity for class discussion. To get the most out of this course, you need to be well prepared for each case, think about the questions I ask you in the assignments and participate when you get to class. The TA will keep track of who speaks up and class participation is an important way to improve your grade.\textsuperscript{10} You do not need to have any prior M&A or PE buyout experience to contribute. I am simply looking for a willingness to get engaged, ask questions and make constructive comments to help keep the class discussion moving forward.

Grades
There will not be a mid-term or final exam in the course. Homework assignments will count for 30-40\% of the grade; class participation will count 30-40\% of the grade; and the class project will count about 30\% of your grade. I will decide on exact percentage contributions later when I see how the course is going.

Contacts
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Teaching Assistants – Section 1 - TBD
Section 2 - TBD

\textsuperscript{10} I will also ask the TA to keep track of attendance. If you can’t come to class, which I understand may happen for one reason or another, simply send the TA an email. \textit{If you expect to miss several classes during the term, you might not want to register for the course, or you should at least expect your attendance to affect your grade.} For one of the sections this spring, classes are scheduled for 8:30AM, which may be early for some students. \textit{Being late once or twice will not affect your grade, but being habitually late will.} If you have difficulty getting revved up in the mornings, you might not want to register for the course.
Preliminary Course Schedule & Assignments

A preliminary class schedule of cases, topics, readings and assignments is outlined below. I make changes in the schedule & assignments continually during the course, so it is important for students to check Stellar regularly for updates.

Class 1 – Wednesday, February 1
Lecture: Intro – corporations & mergers
Topics: Legal setup of US corporations
        Corporate mergers
        Market reactions to M&A announcements
Reading: Slides posted on Stellar
Supplemental Readings: BMA chapter 31

Class 2 – Monday, February 6
Case: Pepsi-Quaker Oats
Topics: Strategic stock mergers
        Share exchange ratios
        Merger arbitrage
Readings: Baldwin & Soudakov, “PepsiCo’s Bid for Quaker Oats (A), HBS Case
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD

Class 3 – Wednesday, February 8
Case: Conrail-CSX merger
Topics: Strategic stock & cash mergers
        Two step mergers
        Purchase price & fairness
Readings: Esty, “The Acquisition of Consolidated Rail Corp (A), HBS Case
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD

Class 4 – Tuesday, February 14
Case: Roche-Genentech
Topic: Squeeze-outs
Reading: Baldwin, et. al., “Roche’s Acquisition of Genentech”, HBS Case
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD
Class 5 – Wednesday, February 15
Case: CF Industries‒OCI NV proposed merger
Topics: Expatriation mergers
Reading: Instructor, “Merging Fertilizer”
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD

Student Exercise – Sunday, February 19
Case: Antamina
Assignment: Posted on Stellar
Bids Due: 6:00PM

Class 6 – Monday, February 20
Case: Antamina
Topics: Buying & selling undeveloped assets
      Decision trees & real options
      Auction design
Readings: Tufano & Moel, “Bidding for Antamina”, HBS Case
      Handout posted on Stellar, “Antamina Case Addendum”
Assignment: Posted on Stellar
Supplemental Reading: BMA chapter 10

Class 7 – Wednesday, February 22
Case: Cyrus Johnson
Topics: Auction design
      Breakup Fees
      Best & final offers
Readings: Instructor, “Company Auction: The Cyrus Johnson Case”
      Andrade et al, “The Company Sale Process”, HBS Case
Class Exercise: Posted on Stellar
Supplemental Readings: TBD

Class 8 – Monday, February 27
Case: Conrail Part II
Topics: Auction design
      Bidding wars, takeover games & fairness
      Tender offers & shareholder voting
Reading: Esty, “The Acquisition of Conrail (B)”, HBS Case
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD
Class 9 – Wednesday, March 1
Cases: Gulf & Unocal
Topics: Toeholds & takeover economics
        Cumulative voting, greenmail, two-tiered offers, etc.
        Board responses to takeover threats
Readings: Rock, “Gulf Oil Corp. – Takeover”, HBS Case
        Instructor, “Oil Wars: The Unocal Case”
Homework Assignment: Posted on Stellar
Supplemental Readings:
Nulty, “Boone Pickens, Company Hunter”, Fortune
Pickens, “Professions of a Short-Termer”, Harvard Business Review
Denis & Denis, “Leveraged Recaps”, Applied Corporate Finance
Stewart & Glassman, “Corporate Restructuring” Applied Corp Finance

Class 10 – Monday, March 6
Lecture: Overview of US takeover law
Topics: The Unocal standard
        Takeover strategies & defenses
        Poison pills & staggered boards
        Revlon duties
Reading: Slides posted on Stellar
No Homework Assignment
Supplemental Readings:
Instructor, “Shareholder Rights: Dangerous Medicine”
Bauman & Stevenson, “Protecting and Selling Control” in Corporations Law

Class 11 – Wednesday, March 8
Class Exercise: Instructions posted on Stellar
Case: Circon
Continued Topics: US takeover law & tactics
Reading: Hall, Subramanian & Rose, “Circon (A)” HBS Case
Supplemental Reading:
Class 12 – Monday, March 27
Case: Mulheren Buyout
Topics: Intro to leveraged buyouts
       Intro to IRRs and buyout valuation
Reading: Bladwin, “Eastern Electric Apparatus Repair Co (A), HBS Case
No Homework Assignment
Supplemental Readings: TBD

Class 13 – Wednesday, March 29
Case: Yale Investments
Topics: Buyout fund investing
       Benchmarking buyout returns
Reading: Lerner, “Yale Investments Office: February 2015”, HBS Case
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD

Class 14 – Monday, April 3
Course Project: Sell-side pitches
Case: Villalonga et. al., “Spyder Active Sports – 2004”, HBS Case

Class 15 – Wednesday, April 5
Class 16 – Monday, April 10
Class 17 – Wednesday, April 12
Cases: Outback Steakhouse & AMC Entertainment
Topics: Leveraged buyouts
       Leveraged buyout financing
       Negotiations, price & fairness
       Post-buyout financial management
Reading: Chaplinsky et. el., “The Buyout of AMC Entertainment”, Darden Case
       Gompers et. al., “Bain Capital: Outback Steakhouse”, HBS Case
Homework Assignments: Posted on Stellar
Supplemental Readings: BMA chapter 32, p. 836-850
Surowiecki, “Private Lies”, The New Yorker
Allen, “Independent Directors in MBO Transactions”, Business Lawyer

Class 18 – Wednesday, April 19
PE Guest Speaker: TBD
Class 19 – Monday, April 24
Case: The Carlyle IPO
Topics: Buyout fund structures
Developments in PE investing
Reading: Chaplinsky, “The Carlyle Group”, Darden Case
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD

Class 20 – Wednesday, April 26
Case: Twinkie SPAC
Topic: Blank check companies
Reading: TBD
Homework Assignment: Posted on Stellar
Supplemental Readings: TBD

Class 21 – Monday, May 1
Course Project: Buy-side pitches
Case: Villalonga et. al., “Spyder Active Sports – 2004”, HBS Case
   Baker & Quinn, “Berkshire Partners: Bidding for Carters”, HBS Case

Class 22 – Wednesday, May 3
Case & Topics: TBD

Class 23 – Monday, May 8
Guest Speaker: TBD

Class 24 – Wednesday, May 10
Game Show: Can they do that?
Also: Course project wrap-up: winners & prizes