

COLUMBIA UNIVERSITY GRADUATE SCHOOL OF BUSINESS

B8301-Corporate Finance
Donna M. Hitscherich

Fall Term 1999
Tuesday 6:20 P.M.- 9:10 P.M.

Content and Objective:

This course is designed to be an **applications oriented course and will draw heavily on real world case studies**. The course builds on the prior courses in corporate finance and will not introduce *significantly* different material than the student has been exposed to in the prerequisite introductory courses in finance at Columbia. Rather, the course will seek to apply basic finance principles to actual corporate finance problems likely to be encountered by senior management of major corporations or those who are the advisors to such management.

The theme of this course is Corporate Finance and Maximization of Shareholder Value with the focus of the course on the **solution** to problems encountered in the maximization of shareholder value questions facing the firm. At the conclusion of this course, the student should have an understanding of the major components of shareholder value. Topics covered will include:

- **Valuation Overview:** Fundamentals and purpose of valuation analysis, including stand-alone value, “synergy” value, break-up value, and influence of marketplace dynamics on valuation
- **Valuation Methodologies:** Discounted Cash Flow Analysis, Comparable Companies Analysis and Comparable Acquisitions Analysis
- **Financing Decisions:** Beyond a "good project is a good project." How will an acquisition impact the acquiring company's debt rating, EPS and stock price and why it **does** matter
- **Acquisition Structuring:** Defensive posture of the target, tactical approaches (friendly vs. hostile), stock vs. asset deals, Section 338 elections, and adding value through tax-free structures
- **Duties of the Board of Directors:** Business judgment rule and the board of directors, implications of *Revlon*, *Time Warner* and *Paramount* court decisions on the duties of the board and the role of investment bankers in providing advice to the board, including fairness opinions
- **Capital Structure:** Share repurchases, self-tenders, Dutch auctions, secondary offerings, and dividend policy as means of achieving a target capital structure

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- **IPO Decision:** Mechanics of an IPO, including valuation, economics to purchasing shareholders, role of the underwriters, and after-market support
- **Restructuring Options:** Mechanics of the divestiture process and maximization of after-tax proceeds, including straight sale, leveraged joint ventures, letter stock, rights offerings, spin-offs, life after Morris Trusts, spin-outs, and split-offs
- **LBO:** Mechanics of an LBO, what constitutes a good LBO candidate and exit strategies for the LBO

Classwork:

Corporate finance principles will be imparted through lectures, assigned reading materials, optional problem sets, required written case studies, and presentations by various investment banking and legal professionals. **Students will be expected to complete each of the assigned readings prior to class and consequently, be in a position to participate meaningfully in class discussions.** Class lectures will focus on the "mechanics" of corporate finance, while student discussions will focus on the implications of the "mechanics" on practical corporate finance and managerial problems. While students must turn in their own individual work, students are encouraged strongly to work in groups on the required case studies.

Examinations:

There will be (1) three written case studies (in lieu of a mid-term exam), (2) one group presentation and (3) a final group presentation or a final exam. Students may elect to make a final group presentation or to take a **closed book (with notes) comprehensive final exam.** The final exam will be several essays which will be largely conceptual in nature. There will be a minimum and a "cap" established on the number of students who may elect the final group presentation option. If more than the allotted number of students select the group presentation option, a lottery will be employed to determine the students who will be able to make a final group presentation.

Evaluation of Performance:

Student grades will be based on the following formula: (1) Case Studies (45%), (2) Group Presentation (10%), (3) Final Presentation (40%) or Final Exam (40%), and (4) Class Participation (5%).

Readings:

Reading assignments must be completed prior to class. Before the next class, class time will be devoted to previewing the next assignment and the key concepts thereof. Reading assignments

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are designed to support the case materials which will form the basis of the class discussions. **Class discussions constitute an integral part of the course and prior preparation of the assignments is essential.**

Necessary Course Materials:

Students must have the following materials for this course:

Case Materials for B8301-Corporate Finance and Maximization of Shareholder Value (Donna M. Hitscherich © 1999)¹ (the “8301 Case Materials”)

Relevant articles from *Corporate Control Alert*, *Journal of Mergers and Acquisitions*, *IDD*, and *Corporate Finance Week*²

Suggested Course Materials:

Copeland, Koller & Murrin, Valuation: Measuring and Managing the Value of Companies (Wiley 2d University Edition 1996)

Reed & Lajoux, The Art of M&A: A Merger Acquisition Buyout Guide (Irwin 2d Edition 1995) (On reserve in the library)

Supplemental Reading Materials for B8301-Corporate Finance and Maximization of Shareholder Value (the “Supplemental Reading Materials”) (On reserve in the library)

The 8301 Case Materials are designed to be self contained and to serve as lecture notes for the designated classes. The textbook readings are *suggested* for the reference of the students, and accordingly, do not track the classes referenced with each suggested textbook reading. The suggested textbook readings should provide additional support for the case materials. The Supplemental Reading Materials represent a collection of useful articles in the area of corporate finance. Students are encouraged strongly to consult these materials throughout the semester. **Students are responsible for the content of the Additional Readings.**

* ~~Refer to purchase of Copeland, Koller & Murrin, Valuation: Measuring and Managing the Value of~~

~~Companies~~ (Wiley 2d University Edition 1996) with references in italics to Reed & Lajoux, The Art of M&A: A Merger Acquisition Buyout Guide (Irwin 2d Edition 1995)

COLUMBIA UNIVERSITY GRADUATE SCHOOL OF BUSINESS
Corporate Finance and Maximization of Shareholder Value*

CLASS 1: SEPTEMBER 14, 1999

Topics: Anatomy of a Valuation
 DCF Analysis

Objectives: (1) Understand the market mechanics that impact traditional valuation analysis, including DCF, Comparable Company and Comparable Acquisition Analysis and (2) Review the basics of DCF Analysis, including projections, WACC, terminal value calculations, and adjustments to arrive at equity value.

Suggested Readings: Chpt. 1 pp. 1-30; Chpt. 2 pp. 31-70; Chpt. 3 pp. 71-95
Chpt. 1 pp. 1-8; Chpt. 3 pp. 119-173

Optional Problem Set: BellSouth Corporation, The Stanley Works

CLASS 2: SEPTEMBER 21, 1999

Topics: Comparables Analysis
 Final Valuation Summary
 Valuation Reality Tests
 Overview of Acquisition Financing Alternatives

Objectives: (1) Understand the role of multiple based analysis in valuation, (2) Create valuation summary sheets, including break-up analysis, (3) Define benchmark reality tests for the valuation, including sustainable growth, implied P/Es, reinvestment rate, and total value derived from terminal value, and (4) Understand the role of merger consequences analysis in valuation, including new goodwill rules and the effects of purchase and pooling accounting.

Suggested Readings: Chpt. 4 pp. 96-131; Chpt. 5 pp. 135-158; Chpt. 6 pp.159-207
Chpt. 3 pp. 119-139

Optional Problem Set: Merger Consequences Analysis

CLASS 3: SEPTEMBER 28, 1999

Topics: Corporate Control Transactions
 Acquisition Structures
 Defense Profile of the Target
 Duties of the Board of Directors

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Objectives: (1) Understand the role synergies play in valuation and the result of paying out full value to the target shareholders, (2) Understand and calculate the value of NOLs in an acquisition, (3) Understand the basic acquisition structures, including forward and reverse mergers and the difference between asset and stock deals, (4) Understand the defensive posture of the target corporation through an understanding of the provisions of the target's charter and by-laws, (5) Calculate the impact a Shareholder Rights Plan would have upon an acquisition, and (6) Understand the duties of the Board of Directors to the shareholders of the corporation in the acquisition context.

Suggested Readings: Chpt. 7 pp. 208-246; Chpt. 9 pp. 285-312; Chpt. 10 pp. 313-324
Chpt. 10 pp. 631-672; 684-687; 691-705

Additional Reading: Memorandum from Davis Polk & Wardwell - Acquiring a Publicly Traded Business in the United States (July 1995)

Optional Problem Set: Defense Profile

CLASS 4: OCTOBER 5, 1999

Topics: Applications of the Business Judgment Rule
 Enhancing Valuation Through a Tax-free Transaction
 Target Approach Tactics
 Fairness Opinions
 SEC Disclosure Rules

Objectives: (1) Understand the application of the business judgment rule in the takeover context, (2) Analyze various possible tactical approaches to the target, including two-step acquisitions, bear hugs and friendly transactions and (3) Understand the role fairness opinions play in the acquisition process and the current attitude of the SEC toward disclosure.

Suggested Readings: Chpt. 14 pp. 425-463

Additional Readings: Solomon: "Fairness Opinions in M&A Transactions", Corporate Acquisitions, Mergers & Divestitures (Warren Gorham Lamont November 1994);
Memorandum from Davis Polk & Wardwell - Stock for Stock Mergers in the 90's (November 1994)

Optional Problem Set: Williston Case

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CLASS 5: OCTOBER 12, 1999

Topics: Alternate Investment Rules

Objectives: (1) Understand alternative valuation methodologies, including payback period and IRR and (2) Test the assumptions underlying the Preliminary Valuations.

Suggested Readings: None

CLASS 6: OCTOBER 19, 1999

Topics: Optimal Capital Structure
Debt/Equity Decision
"Costs" of Debt
Financing Products

Objectives: (1) Review the basics of the theory of “optimal capital” structure, (2) Evaluate the tradeoffs of the debt/equity decision, (3) Understand the effects of leverage on operating flexibility and cost of capital, and (4) Review alternative financing products both public and private.

Suggested Readings: Chpt. 8 pp. 247-284; Chpt. 13 pp. 410-423
Chpt. 4 pp. 175-183; 189-195; 216-218; 223-235

CLASS 7: OCTOBER 26, 1999

Topics: Capital Structure Peer Analysis
Dividend Policy
Share Repurchase (OMP, Dutch Auction, Self-tender)

Objectives: (1) Understand how peer analysis can be used to target a capital structure, (2) Review the importance of the dividend policy decision and (3) Evaluate share repurchases as a way to achieve a target capital structure.

Suggested Readings: None

Optional Problem Set: Implications of Capital Structure

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***** ELECTION DAY - NOVEMBER 2, 1999*****

CLASS 8: NOVEMBER 9, 1999

Topics: New Issues Market
Mechanics of an Equity Offering
IPO Valuation
Effect on New Shareholders
After-market Support

Objectives: (1) Understand how the given state of the general market can influence the IPO decision, (2) Review the mechanics of the new issue process, (3) Determine a framework for establishing a filing range for the IPO and the factors that influence the final pricing decision, (4) Understand the “economics” of an IPO for the old shareholders and “new” shareholders, and (5) Understand the importance of after-market support.

Suggested Readings: None

Optional Problem Set: DESI

CLASS 9: NOVEMBER 16, 1999

Topics: Divestiture Mechanics and Process
Tax Strategies
Leveraged Joint Venture
Spin-off / Spin-out/ Split-off
Morris Trust
Letter Stock
Rights Offerings

Objectives: (1) Understand the divestiture decision, including the advantages and disadvantages of a public auction, (2) Analyze the benefits of a joint venture over a straight sale process, (3) Understand the mechanics of each of spin-offs, spin-outs, split-offs, and Morris Trusts, and (4) Understand how rights offerings and letter stock can be used to enhance shareholder value.

Suggested Readings: *Chpt. 5 pp. 282-332*

Additional Readings: Excerpt from Federal Taxes and Management Decisions (Irwin 1995-1996 Edition)

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Optional Problem Set: Value Enhancement Through Tax Strategy

CLASS 10: NOVEMBER 23, 1999

Topics: LBO Analysis

Objectives: (1) Understand the mechanics of an LBO transaction, (2) Calculate the returns necessary to make the LBO work, and (3) Review LBO exit strategies.

Suggested Readings: Chpt. 3 pp. 139-154

Optional Problem Set: Simple LBO Math

CLASS 11: NOVEMBER 30, 1999

Topics: IPO Valuation

Objectives: Understand the pricing decision and the road show necessary to have a successful IPO.

Suggested Readings: None

CLASS 12: DECEMBER 7, 1999

Topics: Presentation of Strategic Restructuring Alternatives

Objectives: Tie together all the elements of shareholder value enhancing alternatives.

Suggested Readings: None

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