NORWEGIAN SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

EXECUTIVE MBA COURSE OFFERING

CORPORATE FINANCE, RESTRUCTURING AND GOVERNANCE

Solstrand, August 13-19, 2008

INSTRUCTORS

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TARGET AUDIENCE

The course exposes participants to key issues in corporate finance, takeovers and restructuring, as well as to the ongoing debate over corporate governance and investor protection. These issues are particularly relevant for investment bankers, consultants, corporate executives, and directors. We provide practical tools for financial decisions and valuation, and participants are exposed to financial and strategic issues surrounding corporate mergers and acquisitions, financial restructurings, and IPOs.

COURSE DESCRIPTION

The seven-day course at Solstrand is highly intensive, with group assignments throughout the evening. Each day consists of a mix of lectures, case discussions, and case preparations in groups. As much as possible, groups are formed to obtain a mix of individuals with different expertise. Case assignments include valuation exercises as well as discussions of strategic and financial issues. An initial valuation review is provided to refresh and explain basic valuation techniques needed for case solving.

The intense program at Solstrand does not provide time for individual reading and preparation. In order to get the most out of the sessions, participants should carefully read and prepare the cases ahead of time. Participants are encouraged to bring a laptop in order to build spread sheets for valuation purposes and work on class room assignments. The laptop should preferably have a wireless card so that it can be connected to the intranet, where we will share files underway.

Following the week at Solstrand, participants are expected to in groups of four write a term paper that analyzes different aspects of a transaction of their choice. The term papers will be presented and discussed during a two-day session at Soria-Moria Konferensenter in Oslo in November 2008.
# Course Overview

## Corporate Finance, Restructuring and Governance

### Day 1: Introduction and Corporate Valuation

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<thead>
<tr>
<th>Session</th>
<th>Time</th>
<th>Topic</th>
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<td>Valuation review (K)</td>
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<td>Case preparations: Interco</td>
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### Day 2: Governance, Resistance and Merger Deal Structure

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<td>Governance break down: Interco case discussion (E)</td>
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<td>Corporate governance and investor protection (E)</td>
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<td>5</td>
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<td>Case preparations: Cooper</td>
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<td>6</td>
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<td>Target valuation and payment method: Cooper case discussion (K)</td>
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<td>Case preparations: General Mills</td>
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### Day 3: Merger Gains, Contingent Payments and Merger Arbitrage

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<td>Contingent payments: General Mills case discussion (K)</td>
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<td>Wealth effects of takeovers (E)</td>
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<td>Case preparations: AXA MONY</td>
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<td>11</td>
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<td>Conditional deal financing: AXA MONY case discussion (K)</td>
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<td>Case preparations: AT&amp;T/McCaw</td>
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### Day 4: Negotiation Strategies, Raising Capital

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<td>Merger negotiations: AT&amp;T-McCaw</td>
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<td>Negotiation debriefing: biases and strategies (K)</td>
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<td>15</td>
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<td>Takeover bidding strategies (E)</td>
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<td>IPOs and SEOs (E)</td>
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### Day 5: Break-up Transactions and Private Equity Financing

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<td>Divestitures: Nova case discussion (K)</td>
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<td>Case preparations: Cytec</td>
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<td>Spinoffs and carveouts: Cytec case discussion (K)</td>
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<td>21</td>
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<td>Private equity financing and capital structure choice (E)</td>
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<td>Case preparations: Sealed Air</td>
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### Day 6: Financial Restructuring and Executive Compensation

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<td>Leveraged recaps: Sealed Air case discussion (K)</td>
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<td>Executive compensation (E)</td>
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<td>Case preparations: Lubrano Can</td>
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### Day 7: Leveraged Buyouts

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<td>Leveraged buyouts: Lubrano case discussion (K)</td>
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<td>Closing remarks</td>
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DETAILED PROGRAM

The readings below contain more material than will be covered directly in class. While cases should be prepared in advance, other material may be read either before or after the course period, as each student sees fit. Further instructions will be given during the course.

The list of readings use abbreviated references for the following four books:


Note that Volume 1 is already out, while Volume 2 will be available in early August. Given the risk that the book may be late from the publisher, we will provide hardcopies of selected chapters from Volume 2. You can then acquire the book in due course.

**Cornell**: Cornell, Bradford, 1993, *Corporate Valuation* (Irwin McGraw-Hill). This is a useful, practical guide to valuation principles. Selected chapters are provided in the course material.

**RWJ**: Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, 2008, *Modern Financial Management*, 8th ed. (McGraw-Hill/Irwin). This is a standard, widely used textbook at the MBA level in corporate finance. It is used as a “refresher” and background reading for this course. All participants should have this book.

### DAY 1: INTRODUCTION AND CORPORATE VALUATION

**Wednesday, August 13**

Coffee and gathering, 15:00 – 15:30

15:30 – 16:30: **Introduction and welcome, set-up of laptops**
- Introduction of instructors and participants
- Course overview
- Expectation on preparation and participation
- Assistance to connect laptops to the intranet

- **Session #1, 16:30 – 18:00: Valuation review**
  - Discounted cash flow valuation techniques
  - Cost of capital
  - Multiples valuation

**Readings:**
Cornell chapters 4 (multiples), 5 (discounted cash flow valuation), 6 (terminal value), and 7 (cost of capital)
Thorburn, Note on WACC valuation.
RWJ chapter 17 (APV and WACC)
Dinner: 18:30—20:00

- **Session #2, 20:00 – 22:00: Case preparations: Interco**
  
  Readings: Interco, HBS 9-291-033

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**DAY 2: GOVERNANCE, RESISTANCE AND MERGER DEAL STRUCTURE**

**Thursday, August 14**

- **Session #3, 08:30 – 10:00: Governance breakdown: Interco case discussion**
  - Valuation of a bid
  - Management response
  - Board deliberations
  - Interco defensive strategies

  Readings:
  - WSJ chapter 19 (takeover defenses)

  Coffee break, 10:00 – 10:30

- **Session #4, 10:30 – 12:00: Corporate governance and investor protection**
  - The invention of limited liability
  - Definition of a corporate governance system
  - Why do boards fail?
  - Expropriation technologies around the world

  Readings:
  - RWJ chapter 1 (corporate objective function)

  Lunch 12:00 – 13:30

- **Session #5, 13:30 – 15:00: Case preparations: Cooper**

  Readings: Cooper Industries, Inc., HBS 9-274-116

  Coffee break, 15:00 – 15:30
• **Session #6, 15:30 – 17:00: Target valuation and payment method: Cooper case discussion**
  - Valuation of target and synergies
  - Cash versus stock
  - Exchange ratios and acquisition premiums
  - Accretion/dilution

**Readings:**
Technical notes on equity-linked consideration, part 1: All-stock deals (HBS 9-903-027) and part 3: Cash-and-stock deals (HBS 9-903-029).
RWJ chapter 29 (mergers & acquisitions)

Dinner: 18:30—20:00

• **Session #7, 20:00 – 22:00: Case preparations: General Mills**

**Readings:** General Mills’ acquisition of Pillsbury from Diageo Plc., UVA-F-1326.

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**DAY 3: MERGER GAINS, CONTINGENT PAYMENTS AND MERGER ARBITRAGE**

**Friday, August 15**

• **Session #8, 08:30 – 10:00: Contingent payments: General Mills case discussion**
  - Evaluating a deal
  - Clawbacks
  - Floors, caps and collars
  - Earnouts

**Readings:**
Technical note on structuring and valuing incentive payments in M&A: Earnouts and other contingent payments to the seller, UVS-F-1322.
Technical note on considerations: floors, caps, and collars, HBS 9-902-056.

Coffee break, 10:00 – 10:30

• **Session #9, 10:30 – 12:00: Wealth effects of takeovers**
  - Abnormal stock returns around takeover announcements
  - Source of target gains
  - Why the low returns to bidders?
  - Industry wealth effects of mergers

**Readings:**
Eckbo-Vol2 Ch 16 (Corporate takeovers)
Lunch 12:00 – 13:30

- **Session #10**, 13:30 – 15:00: **Case preparations: AXA MONY**

  **Readings**: AXA MONY, HBS 9-208-062.

Coffee break, 15:00 – 15:30

- **Session #11**, 15:30 – 17:00: **Contingent deal financing: AXA MONY case discussion**
  - Convertible bonds as acquisition financing
  - Control compensation payments
  - Voting incentives and trading incentive effects
  - Merger arbitrage

  **Readings**:

Dinner: 18:30—20:00

- **Session #12**, 20:00 – 22:00: **Case preparations: AT&T-McCaw**

  **Readings**:
  American Telephone & Telegraph (AT&T): The AT&T/McCaw merger negotiation, UVA-F-1142, or McCaw Cellular Communications: The AT&T/McCaw merger negotiation, UVA-F-1143.

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**DAY 4: NEGOTIATION STRATEGIES, RAISING CAPITAL**

**Saturday, August 16**

- **Session #13**, 08:30 – 10:30: **Merger negotiations: AT&T-McCaw**

Coffee break, 10:30 – 11:00

- **Session #14**, 11:00 – 12:00: **Negotiation debriefing: biases and strategies**
  - Biases affecting negotiations
- Effective negotiation strategies
- How to come prepared

Lunch 12:00 – 13:30

- **Session #15, 13:30 – 15:00: Takeover bidding strategies**
  - Winner’s curse
  - Rational bidding strategies
  - Bidding with toeholds
  - Poison pill dilution: Circon case

Readings:
Dasgupta, Sudipto and Robert G. Hansen, Auctions in corporate finance, Ch. 3 in Eckbo-Vol1
Betton, Sandra, B. Espen Eckbo, and Karin S. Thorburn, Corporate takeovers, Ch. 15 in Eckbo-Vol2.
Circon, HBS 9-801-403 (A)

Coffee break 15:00 – 15:30

- **Session #16, 15:30 – 17:00: IPOs and SEOs**
  - The IPO selling process
  - Theories and evidence on underpricing
  - Are IPO stocks overpriced in the long run?
  - IPO auctions

Readings:
Ljungqvist, Alexander, 2006, IPO underpricing, Ch 7 7 in Eckbo-Vol1.
RWJ chapters 19 (issuing equities to the public) and 20 (long-term debt)

Dinner: 18:30—20:00

- **Session #17, 20:00 – 22:00: Case preparations: Nova Chemical**

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

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**DAY 5: BREAK-UP TRANSACTIONS AND CAPITAL STRUCTURE CHOICE**

**Sunday, August 17**

- **Session #18, 08:30 – 10:00: Divestitures: Nova case discussion**
  - Benefits of breaking up
  - Valuation of a division
• Walk-away price
• Tax considerations

Readings:
Eckbo, B. Espen and Karin Thorburn, 2008, Corporate Restructuring: Breakups and LBOs, Ch. 16 in Eckbo-Vol2

Coffee break, 10:00 – 10:30

• Session #19, 10:30 – 12:00: Case preparations: Cytec
Readings: Cytec Industries’ Spin-Off (A): Sink or Swim? HBS 9-897-053

Lunch 12:00 – 13:30

• Session #20, 13:30 – 15:00: Spinoffs and carveouts: Cytec case discussion
  • Spinoffs
  • Splitoffs
  • Equity carveouts
  • Transaction mechanics and choice of break-up method

Eckbo, B. Espen and Karin Thorburn, 2008, Corporate Restructuring: Breakups and LBOs, chapter 15 in Eckbo-Vol2

Coffee break, 15:00 – 15:30

• Session #21, 15:30 – 17:00: Private equity financing and capital structure choice
  • Players in the private equity industry
  • Deal financing and contractual terms
  • Exits
  • Risk shifting and debt overhang

Readings:
Gompers, Paul, 2007, Venture capital, Ch. 9 in Eckbo-Vol1
RWJ chapters 15 (capital structure basic concepts), 16 (limits to the use of debt), 22 (options and corporate finance), 24 (warrants and convertibles), and 30 (financial distress)

Also recommended for capital structure and financing choice:
Maksimovic, Vojislav and Gordon Phillips, Conglomerate firms and internal capital markets, Ch. 8 in Eckbo-Vol1.
Drucker, Steven and Manji Puri, Banks in capital markets, Ch. 5 in Eckbo-Vol1
Frank, Murray, and Vidhan K. Goyal, Tradeoff and Pecking Order Theories of Debt, Ch. 12 in Eckbo-Vol2.

Dinner: 18:30—20:00
• **Session #22**, 20:00 – 22:00: **Case preparations: Sealed Air**

Readings: Sealed Air Corporation’s leveraged recapitalization (A), HBS 9-294-122

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**DAY 6: FINANCIAL RESTRUCTURING AND GOVERNANCE INVESTING**

**Monday, August 18**

• **Session #23**, 08:30 – 10:00: **Leveraged Recaps: Sealed Air case discussion**
  - The incentive effects of debt
  - Mechanics of leveraged recaps
  - Pros and cons of high leverage
  - Characteristics of potential candidates

Readings:
Denis, David, and Diane Denis, 1994, Leveraged recaps and the curbing of corporate overinvestment, *Journal of Applied Corporate Finance* (Spring), 60-71.

• **Session #24**, 10:30 – 12:00: **Executive Compensation**
  - Asset pricing anomalies
  - What are priced risk factors?
  - Is governance priced?

Readings:
Jensen, Michael C. and Kevin J. Murphy, 2004, “Remuneration: Where We’ve Been, How we Got to Here, What are the Problems, and How to Fix them”, Working paper, HBS and USC.
Aggarwal, Rajesh, Executive Compensation and Incentives, Ch 17 in *Eckbo-Vol2*

Lunch 12:00 – 13:30

• **Session #25**, 13:30 – 17:00 **Case preparations: Lubrano Can**

Readings:
Introduction to LBO Analysis: Lubrano Can Company

Drinks 18:30 – 19:30
Dinner 19:30 –
**DAY 7: LEVERAGED BUYOUTS**

**Tuesday, August 19**

- **Session #26, 9:00 – 10:30:** Leveraged buyouts: Lubrano case discussion
  - Value creation in LBOs
  - Financing principles
  - Valuation of LBOs
  - Risks in LBO investing
  - Characteristics of LBO candidates

**Readings:**

- **10:30 – 11:00:** Closing remarks

- **Coffee and departure: 11:00—11:30**