Syllabus and Case Packet for

Mergers and Acquisitions

GBUS 857

January-March 2005

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Materials List
Mergers, and Acquisitions
(GBUS 857, January-March 2005)

Book
Robert F. Bruner, *Applied Mergers and Acquisitions* University Edition, (John Wiley & Sons, 2004).

Case materials for distribution *in advance*

Digital Case:	Building a National Footprint Through M&A: Hugh McColl and NationsBank (UVA-F-1399M)
Case:	Brazilian Beer Merger Negotiation: Companhia Cervejaria Brahma S.A. (UVA-F-1418)
Technical Note:	The M&A "Pitch Book": Proposed Acquisition of Heller Financial by United Technologies Corporation." (UVA-F-1338)
Case:	"The Merger of Hewlett-Packard and Compaq (A): Strategy and Valuation" (UVA-F-1450)
Case:	"The Merger of Hewlett-Packard and Compaq (B): Deal Design" (UVA-F-1451)
Case:	"General Electric's Acquisition of Amersham PLC" (UVA-F-1458)
Case:	The Acquisition of Consolidated Rail Corporation (A) (HBS: 9-298-006)
Case:	The Acquisition of Consolidated Rail Corporation (B) (HBS: 9-298-095)
Case:	The Hilton/ITT Wars (UVA-F-1217)

"S. 600. A bill to preserve the diversity and independence of American business."

Materials to be distributed separately in class:

Case:	"The Merger of Hewlett-Packard and Compaq (C): Epilogue" (UVA-F-1452)
Case:	TAKEOVER! (D) The White Knight: United Brands Corporation (UVA-F-1173)
Case:	TAKEOVER! (F) J.P. Hudson & Co. / Hudson Guaranty Bank (UVA-F-1251)

Course Introduction and Syllabus for:
MERGERS AND ACQUISITIONS
(GBUS 857, January-February 2005)

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Course Mission and Goals

The mission of this course is to survey the drivers of success in mergers and acquisitions (M&A) and develop your skills in the design and evaluation of these transactions—thereby the course complements a number of other courses in the Darden curriculum and supports Darden's mission to "better society by developing leaders in the world of practical affairs." In pursuit of this mission, this course guides you to:

1. **Master the language and processes of M&A.** Basic knowledge about the field of M&A is the foundation for effective work in a wide range of fields including corporate development, investment banking, consulting, and advising senior management. Class discussions, the textbook, and the practical experience of the instructors will help you master the basics.
2. **Identify M&A issues worth attention.** The next stage of professional competency is to develop an instinct for the problems and opportunities in an M&A situation. This course highlights elements in the *structure* and *process* of every M&A transaction that deserve professional scrutiny.
3. **Analyze an M&A transaction rigorously.** Valuation analysis is the core skill in M&A and is supplement by analyses of strategy, dilution, financing, and risk management. The course will exercise analytics in these areas.
4. **Develop a concept, design a deal, and present a proposal for an M&A transaction.** All transactions begin with the spark of an idea. Translating that idea into a concrete proposal takes hard work. Doing so teaches a lot about the drivers of M&A success, and the elements of deal design. Designing a transaction requires skills of analysis and negotiation. We will survey a number of analytic tools, and then exercise them and your presentation skills in a "pitch book" exercise. The work in this exercise will teach you a great deal about the design process, and the important leadership skills called for. We will survey some strategic frameworks useful in M&A, and the steps necessary to translate a concept into a solid proposal.
5. **Form an opinion about a proposed deal.** The key aim of any university education should be an ability to think critically, to form a "view" of events and circumstances. Training in M&A should settle for nothing less. We will review a framework about deal design, and apply it to several cases. This will be the focus of the individual paper.

The subject is complex, competition in M&A is intense, and the consequences of error are large. If you tackle this course earnestly, you will learn a great deal. At the same time, your learning will be deeper and more effective if you engage the course in the spirit of invention and curiosity. The course will argue that deal design is fundamentally a creative effort. The best creativity happens in an environment that is both demanding and fun. Your instructors intend to promote this; you should too.

Focus of study

M&A will draw on cases and examples with the following leanings:

- The large publicly held corporation headquartered in the U.S. or abroad.
- Mainly oriented to finance, though the course will draw in contributions from accounting, law, strategy, organizational behavior, and game theory.
- Primary attention will be given to U.S. laws and regulations.
- Mainly oriented to transaction design, rather than the development of long-term policies.

The course assumes familiarity with valuation analysis, financial analysis, and accounting, and requires the course, *Valuation in Financial Markets* as a pre-requisite for enrolment. The intent is to build upon the work of all Darden courses you have had.

Scope of ideas

The course holds that success in M&A is defined first and foremost in the creation of economic value and also in terms of outcomes such as enhanced financial stability, improved competitive position, strengthened organization, enhanced reputation, and observance of the letter and spirit of laws and ethics. These kinds of outcomes are the fruits of two important influences:

- **Structure of the environment** in which the deal takes shape. This includes the nature of the economic opportunity, the strategic setting of the buyer and target, the nature of the organizations of the buyer and target, the reputations of the players, and the matrix of laws and ethical norms surrounding the firms.
- **Conduct of the players.** Given the constraints and opportunities in the environment, how you play the M&A game significantly shapes outcomes. We will explore the influence of conduct in areas such as acquisition search, due diligence, negotiation and bidding, dealing with laws, regulations, and the judicial system, deal design, post-merger integration, communication, and management of the deal development process.

In short, the course presents a considerably richer view of M&A than you will have seen in previous courses and newspaper or magazine articles.

Course Requirements and Grading

The final grade in the course will be determined with these components and weights:

40% Class participation. Regular attendance and participation are expected. Absence from the exercises or from more than two classes for reasons other than personal illness, family emergency or other seriously extenuating circumstance will materially affect the class participation grade. Please call or e-mail Professor Bruner to explain absences.

35% Deal Proposal Exercise This demonstrates your progress toward the fourth course objective. Teams of up to six are self-selected and must prepare an oral presentation and supporting pitch book proposing the combination of two actual firms. The analysis must cover the strategic motives for the deal, target valuation, suggest a deal design, and survey issues likely to be encountered in negotiation and integration of the firms. The pitch book is due 3:00 p.m. February 8th. Please see the assignment for that date for more detail. A peer evaluation will be incorporated into your individual grade on this project.

25% Take-home exam regarding the evaluation of deal terms. This will show your ability to use the tools and concepts of the course. This paper is due during the exam period and no later than 5:00 p.m. March 7th.

100% Total

Tips on how to engage the course

1. **Diversify.** The course offers a number of learning modes. *Engage them all.* The plan for the course shows that regular case studies will be the focus of 11 of the class meetings. The other four include the deal proposal exercise and a discussion of technical material.

2. **Follow your interest.** This is a "self-tailoring" course in that it leaves much of the technical reading to the discretion of the student. The textbook will give you the framework of terminology and tools in M&A. Consider reading carefully where you find interesting topics.

3. **Join a learning team to prepare for class.** The ideas in the cases and readings for class are deep; the analysis can get complex. You will learn more from the course, and perform better in class participation by discussing these cases together in a learning team. Bob Bruner and Kristen Huntley will serve as a clearinghouse for those students who have been unable to join a learning team.

4. **Commit to your project and learning teams.** Team-based work makes a large contribution to the course. The team project accounts for 35% of the final grade. Class participation (which can be enhanced by learning team work) accounts for 40%. High performance teams show a number of common attributes:

- Members commit to the success of the team.
- The team plans ahead, leaving time for contingencies.
- The team meets regularly.

- Team members show up for meetings and are *prepared* to contribute.
- There may or may not be a formal leader, but assignments are clear. Team members meet their assigned obligations.

About the instructors

Bob Bruner has been a Darden faculty member for 22 years. His writing and research are in corporate finance, particularly M&A where he has various projects in development. His next book, *Deals from Hell*, addresses failures in M&A and will be published by John Wiley & Sons in the spring of 2005. He likes to explore Virginia waterways by canoe and kayak. Find more about him at http://faculty.darden.edu/brunerb/.

Kristen Huntley recently retired as partner of Morgan Stanley, where she served clients in the Financial Institutions Group of the firm's Mergers and Acquisitions Department and was Executive Director of Mergers, Acquisitions, and Restructurings in London. She has co-taught this course since 2001. A graduate of Darden's MBA class of 1987, and of the College of William and Mary, she commutes to Darden from Seattle, Washington, where she lives with her husband, Tom.

Day	Date	Class Number	Case	Pages of Case Reading	Pages of Textbook Reading	Items Due
Introduction to the course: key themes and linkage to previous courses.						
Thurs.	Jan. 20	1	Building a National Footprint Through M&A: Hugh McColl and NationsBank	NA	0	
Fri.	Jan. 21	2	Brazilian Beer Merger Negotiation: Companhia Cervejaria Brahma	30	15	
Tools for corporate development and deal design.						
Wed.	Jan. 26	3	Introduction to the deal concept presentation exercise	0	30	Teams for deal concept proposal exercise.
Thurs.	Jan. 27	4	BroadWing LLC	8	20	
Wed.	Feb. 2	5	HP/Compaq (A) and (B)	13	32	Name of target for deal concept exercise, due 5:00 p.m. Feb. 2.
Thurs.	Feb. 3	6	Ford Motor and Ballard	2	10	
Fri.	Feb. 4	7	GE's acquisition of Amersham	28	0	
Wed.	Feb. 9	8	No class meeting: pitch-book presentations	0	0	Briefing book due Tuesday, Feb. 8th, 3:00 p.m.
Thurs.	Feb. 10	9	Debriefing from pitch book exercise	0	0	
Hostile deals, competition, and bidding.						
Wed.	Feb. 16	10	Video: Ethics of Takeover	0	50	
Thurs.	Feb. 17	11	Conrail	30	0	
Wed.	Feb. 23	12	Hilton/ITT	15	0	
Thurs.	Feb. 24	13	TAKEOVER! White Knight and J.P. Hudson	30	25	
Thurs.	Mar. 3	14	TAKEOVER! Debrief	0	0	
Closure: Business and Public Policy						
Fri.	Mar. 4	15	S. 600 A bill to "Preserve the diversity and independence of American business."	2	24	
			Average	11	14	
						Individual paper, March 7, 2005, 5:00 p.m.

Assignment for Thursday, January 20, 2005

Digital Case: Hugh McColl and NationsBank:Building a National Footprint Through M&A (UVA-F-1399M)

Instructions for viewing this digital case study are contained on the CD itself. Please insert the disk into the CD drive of your computer. The case will start automatically.

<u>Questions for advance preparation</u>

1. How did growth by acquisition transform NCNB (later NationsBank) from 1982 to 1998?
2. To what changes in the industry did this strategy respond?
3. How well did the strategy of growth by acquisition serve the shareholders of the firm?
4. Specifically, what was Hugh McColl's approach to M&A negotiation and integration?
5. To what do you attribute the relative success of the firm's acquisition program?
6. Would this approach be effective in other firms and industries? Why?

Assignment for Friday, January 21, 2005

Case: Brazilian Beer Merger Negotiations: Companhia Cervejaria Brahma S.A. (UVA-F-1418)

Reading: Pages 325-341, Chapter 11, "Valuing Synergies," *Applied Mergers and Acquisitions.*

Supporting spreadsheet: Brahma.xls, valuing_synergies.xls

Questions for advance preparation

1. Please estimate the value of synergies and the maximum intrinsic value per share of Antarctica.

2. What are the relative merits of cash and common stock as form of payment in this deal? In your view, does the amount of consideration to be paid depend on the form of payment? Why or why not?

3. Assuming a share-for-share transaction, what is the maximum exchange ratio (number of Brahma shares per Antarctica share) that Brahma shareholders would tolerate? What is the minimum exchange ratio that Antarctica shareholders would tolerate? What factors determine the maximum and minimum?

4. Please prepare a brief term sheet outlining your recommendation for the structure of a proposed combination of Brahma and Antarctica, addressing all of the issues that you believe should be reflected in a deal between these two companies.

Assignment for Wednesday, January 26, 2005
Note: this assignment covers January 26, February 9 and 10

Deal Concept Proposal Exercise

Objectives: This assignment addresses a goal of the course, to develop your ability to conceive and design a proposed deal. It exercises the broad range of skills developed in this course.

Required Readings for January 26th:

1. Briefing materials on General Electric. Please review the materials to form a view of the firm's strategic situation and its acquisition style. **These materials will be distributed separately in advance of class.**

2. Pages in *Applied Mergers and Acquisitions,*
- Pages 883-4: "Communicating the concept proposal to senior management of the buyer (internal only)".
- Pages 184-195: "Some principles of acquisition search."
- Pages 207-228: "Due Diligence."
- Pages 914-925: "Corporate development as a strategic capability."

Optional Reading
"The M&A "Pitch Book": Proposed Acquisition of Heller Financial by United Technologies Corporation." (UVA-F-1338)

Assignment: By January 26th you must have formed a six-person team which will be assigned to serve our "client" this year, General Electric Company. Representatives of this firm will offer briefing comments on January 26th, and will attend the final presentation on February 9 and 10.
- Prepare a deal concept proposal as if you were an internal corporate development officer for the buyer firm to which you have been assigned.
- Present your proposal to a panel representing the actual firm. The presentation will be scheduled for February 9th (the exact time, date and place to be announced). A briefing book to consist of no more than 20 pages should accompany the presentation. An advance copy of your briefing book should be submitted on February 8th by 3:00 p.m. to Betty Sprouse in Room 291C of the Faculty Office Building. The time each team has available is one hour. Each team should anticipate active questioning from the panel, and may present information or appendices not contained in the original briefing book.
- On February 10th, we will meet in class to debrief the deal presentations and consider lessons for best practice.

Your readers are the executive committee of the buyer firm. As of the date of your proposal, your idea has been held secret by your team, unknown to the target firm. Your aim should be to convince the CEO to go forward with the proposed transaction, committing time, capital and influence to consummate the deal.

Deadlines:
Email indicating your target firm is due 5:00 p.m. February 2, 2005 (to Betty Sprouse).
Presentation Briefing Book Due 3:00 p.m. February 8, 2005 to Betty Sprouse in Room 291C of the Faculty office Building;
Presentation: February 9, time and place to be announced.

Choice of target: Pick a target firm with whom there might be some solid strategic rationale to combine. Think seriously about the motives and economics of combination, and try to offer a hypothetical marriage that makes business sense. Your strategic rationale for this deal should be summarized clearly in your presentation, and should reflect careful thinking. You are free to choose any firm, though if you have a choice, you should avoid unnecessarily complex combinations. To spark ideas, you might consult lists of excellent firms and under performers. By 5:00 p.m., February 2nd, please send an email to Betty Sprouse indicating the target firm in your proposed deal, and a few sentences about why you will be recommending this target.

Some possible topics for the briefing book and presentation:

Strategic rationale for your proposal. Is your proposal merely opportunistic, or is there a sound strategic motive for it? The best motives are rooted in a view about the strategic strengths, weaknesses, opportunities, and threats faced by a firm. These motives should have some valuation consequence, as measured by synergies and change in share price. Of course, some consequences may be hard to measure, such as the benefits of new technology, the creation of new strategic capabilities, and so on—but even for the most qualitative benefits you should expect the audience to question you closely. Remember to consider the alternatives to *this* deal: is there another company that you considered? Is there another form of transaction (such as a joint venture or strategic alliance) that might accomplish the same ends?

Risks. What are the risks on which a due diligence research team should focus? These might include risks already disclosed in public information, as well as risks you hypothesize. Your recommendations here should form the foundation for detailed due diligence review by the buyer.

Valuation and price recommendation. Conduct a sensitivity analysis of value, dilution, and accounting results. Value_Merge.XLS may help in this regard, though you are not required to use it. Financial statements (e.g., Form 10-K) on U.S.-listed firms can be downloaded easily from the SEC's database, EDGAR, (see www.sec.gov). The second section of your report should describe your estimated value, the key drivers, and the impact of various possible deals on dilution, stock price, and accounting results.

Term Sheet. Each presentation should close with a term sheet for the proposed transaction. Recommend a deal structure for this hypothetical combination. Be as specific and detailed as possible. One of the aims of this course is to illuminate the enormous range of choice in deal design. Your presentation should reflect a grasp of this range in discussing why your deal structure dominates alternatives.

Form of presentation.

Remember that to be successful, this proposal requires careful analysis, balanced advocacy and effective presentation. This requires attractive format, crisp and concise wording, backed up with appendices that contain greater detail for the interested client. Bullet point lists, graphs, and figures are especially useful in summarizing large ideas.

Expect lots of questions and prepare to be interrupted. Your mastery of facts about the target and buyer is very important. A visiting executive in a previous year wrote,

> *In general, the presentations I enjoyed the most were the ones in which the team knew the most about the target. This is a relevant insight for the exercise and for those going into corporate development. I have found that the most effective M&A pitches in real life are those in which the bankers combine deep knowledge of a target and its industry with true expertise in M&A execution. This expertise needs to be combined with a robust set of projections. It is not enough to just project revenue growth rates and margins. We need to see revenue built from underlying drivers. This is especially true for synergy analysis.*

Assignment for Thursday, January 27, 2005

Readings:

1. Pages 183-204, *Applied Mergers and Acquisitions* "Case Study: Kestrel Ventures LLC"
2. Materials from Broadwing LLC on the organization, unit holders, operating activities, historical and projected financials, and contemplated exit channels and partners.

Spreadsheet: bLogistics.xls

Two of the principals of Kestrel Ventures, Bart Crawford and David Edinger, will visit class today to seek your counsel on strategy and tactics for selling their company. The chapter reading gives you background information on the founding of their firm and on buy-side acquisition search. Today's class builds on that subject by turning the spotlight to *sell-side* acquisition search (i.e., the search for a buyer). Exit considerations include: 1) generating liquidity for passive unit holders, 2) growth catalyst(s) for remaining operations, and 3) fit and liquidity for active unit holders. The discussion will place you in the role of consultants or financial advisors to BroadWing.

Assignment:

From your reading of the material and general knowledge, please prepare recommendations about:
1) exit time and responsibility schedule (3-6 month calendar of activities and responsible parties (e.g. company, advisor, lawyers, accountants)),
2) exit channel (e.g. financial buyer, active strategic buyers, inactive strategic buyers, and recapitalization) participants, merits and risks,
3) expected valuation ranges per exit channel and methodology overview, and
4) fees.

Assignment for Wednesday, February 2, 2005

Cases:
(For background) “The Merger of Hewlett-Packard and Compaq (A): Strategy and Valuation” (UVA-F-1450)
(Focus of class discussion) “The Merger of Hewlett-Packard and Compaq (B): Deal Design” (UVA-F-1451)

Readings:
Pages 531-546: “Introduction to Deal Design”
Pages 547-550: “Choosing the Form of Acquisitive Reorganization.” See also Exhibit 19.3, and section on reverse triangular merger, pages 556-57.
Pages 668-683: “Social Issues”

This case discussion will assess the specific terms of merger of HP and Compaq. Are these terms right for this deal? Use all of the tools and concepts we have surveyed to assess the attractiveness of this term sheet.

Assignment for advance preparation

1. Value the synergies projected by HP and Compaq. Note that “valuing synergies.xls,” that can automate your analysis.

2. Given the acquisition premium, how dependent is HP on the expected synergies for this deal to be economically attractive to HP shareholders? Please estimate the EPS dilution in this deal.

3. How do the terms of merger allocate power in the board and management of the new firm? Is this a merger of equals or a takeover? By whom and of whom? Is this a true merger of equals? Does one side seem to emerge with more power than the other?

4. Assess the appropriateness of the exchange ratio proposed in this deal. In terms of the relative contributions of the two firms, is the exchange ratio fair to HP shareholders?

5. Consider the entire set of terms: is this a good deal? For whom?

6. How should Kathryn Macalester vote her shares?

Assignment for Thursday, February 3, 2005

Discussion materials: Please review attached slides from Mr. Cramton

Reading: Pages 138-148, "Expansion by inorganic growth" in *Applied Mergers and Acquisitions.*

Today, Mr. Kevin Cramton, Director of Corporate Business Development of Ford Motor Company will participate in the class discussion. Our objective in this class will be to evaluate M&A in comparison to strategic alternatives such as joint ventures. Mr. Cramton will present for discussion the joint venture between Ford and Ballard.

Assignment Question:

1. How can the alliance be restructured to better enable all the parties of the alliance to more effectively meet its objectives?

Joint Ventures and Strategic Alliances

Kevin Cramton
Director, Corporate Business Development
Ford Motor Company

1

Fuel Cell Alliance – Ford, DCX and Ballard

Background

- Ford entered into a Fuel Cell Alliance with Ballard and DCX in April 1998
- The Fuel Cell Alliance focuses on the research, development and manufacture of the following Fuel Cell components:
  - Fuel Cell "Stack" – Device that converts hydrogen into electricity
  - Fuel Cell System – All the components that regulate and control the hydrogen going into the stack and electrical power that comes out
  - E-Drive – Device that converts the electricity into tractive power
- Ballard, DCX and Ford restructured the alliance in 2001 in an attempt to address fuel cell stack and system integration problems through consolidating control of all three Fuel Cell components within Ballard.
- The Alliance has a duration of 20 years, and includes several restrictive terms including: exclusive purchase obligations, non-compete provisions, restrictions on independent research and inability for partners to exit.

2

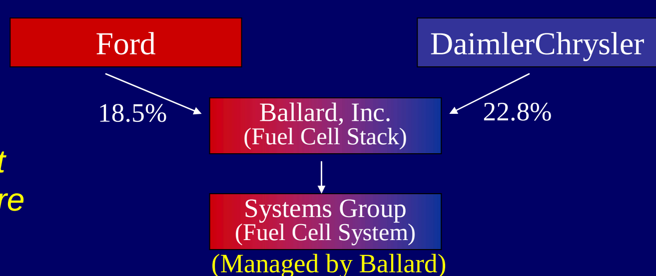
Fuel Cell Alliance – Ford, DCX and Ballard

Key External Factors and Competitive Issues:

- There is ever-increasing pressure from governments worldwide on Automotive OEM's to produce vehicles that are cleaner and reduce dependency on fossil fuels
- As evidenced by the strong market acceptance of Hybrid Electric Vehicles, a growing number of customers desire to own cleaner, more fuel efficient vehicles
- Major OEM's (Toyota, GM and Honda) are internally developing Fuel Cell system capability and have likely surpassed Ballard
- In particular, Ballard has struggled in meeting technical and timing requirements of the OEM's for the Fuel Cell System

FUEL CELL ALLIANCE – PRESENT STRUCTURE

Present Structure



How can the alliance be restructured to better enable all the parties of the alliance to more effectively meet its objectives?

Assumes Forward Exchange Agreement

Assignment for Friday, February 4, 2005

Case: General Electric's Acquisition of Amersham PLC (UVA-F-1458)

Spreadsheet: GE Amersham.xls

Assignment Questions

1. Please assess the reasonableness of the proposed terms by which GE would acquire Amersham. Prepare to discuss the adequacy of the 800 pence per share price.
2. Given that patent protection supports up to 50% of the value for pharmaceutical manufacturers, how would successful patent circumvention by third parties quantitatively impact the value of Amersham?
3. How robust is Amersham's patent position?
4. What questions, concerns, and recommendations would you bring to Jeffrey Immelt's attention?

Dr. David E. Martin, CEO of M*CAM, will visit our class today to offer comments on your recommendations.

Assignment for Wednesday, February 9, 2005

There is no class meeting to day, in lieu of deal concept presentations.

Assignment for Thursday, February 10, 2005

Today's class will be devoted to a debriefing of the deal concept presentation exercise. We will hear general comments from our visitors from GE and develop a list of best practices for the generation of deal concepts and their presentation.

Assignment:

In deal concept teams, please meet after your presentations but in advance of class to consider these questions:

1. What went well for your team?
2. What would you be sure to do differently next time?
3. Please generalize your experience, from this exercise, to professional life beyond Darden. Prepare a flip-chart summary of "best practices" that you would recommend an advisory or corporate development team to follow as they aim to develop transactions in the future. Please bring the flip-chart to class, where we will tape it on the chalkboards for all to see.

Assignment for Wednesday, February 16, 2005

Readings:
Pages 804-823: "Hostile Takeovers: Preparing a Bid in Light of Competition and Arbitrage"
Pages 824-855: "Takeover Attack and Defense"

Comment: during this class we will view a videotaped presentation of leading figures in hostile takeovers in the United States. We will discuss briefly the perspectives of each player and aim to introduce some insights for the module on hostile takeovers.

<u>Questions for advance preparation</u>

1. What are the pros and cons of takeover defenses? Who is best served by them? What should be the stance of a board of directors in response to an unsolicited offer?
2. What is the responsibility of the directors for the interests of employees? Of the community or other groups?
3. Given the turbulence they cause, why are hostile takeovers permitted?

Assignment for Thursday, February 17, 2005

Cases: "The Acquisition of Consolidated Rail Corporation (A)" 9-298-006
"The Acquisition of Consolidated Rail Corporation (B)" 9-298-095

Study Questions

Study Questions for the (A) Case

1. Why does CSX want to buy Conrail? How much should CSX be willing to pay for it?
2. Please analyze the structure of CSX's offer for Conrail.
   A. Why did CSX make a two-tiered offer? What effect does this structure have on the transaction?
   B. What are the economic rationales for and the takeover implications of the various provisions in the merger agreement (i.e., no-talk clause, lock-up options, break-up fee, and poison pill shareholder rights plan)?
3. As a Conrail shareholder would you tender your shares to CSX at $92.50 in the first-stage offer?

Study Questions for the (B) Case

1. Why did Norfolk Southern make a hostile bid for Conrail?
2. How much is Conrail worth? In a bidding war, who should be able to pay more, Norfolk Southern, or CSX?
3. Why does CSX refer to Norfolk Southern's bid as a "non-bid"? What should Norfolk Southern do as of mid-January 1997?
4. As a shareholder would you vote to opt-out of the Pennsylvania anti-takeover statue? What do the capital markets expect will happen?
5. What are the costs and benefits of regulating the market for corporate control through statutes such as Pennsylvania's opt-out law?

Assignment for Wednesday, February 23, 2005

Case: "The Hilton/ITT Wars" (UVA-F-1217)
Spreadsheets: ITTVAL.XLS; EVNT.XLS; ARB.XLS

Questions for advance preparation:

1. Please familiarize yourself with the valuation analysis in the case. What is your estimate of ITT's value range?

2. How have risk arbitrageurs fared in their positions in ITT stock? Please estimate their annualized returns. What is the likely mood of the arbs at the date of the case?

3. At the outset, what considerations must have driven Bollenbach's bidding strategy?

4. Please complete an analysis of the expected value of not tendering (EVNT). This analysis should take the form of a two-way table with Hilton's revised tender offer across the top, and the probability that a competitive bid will be made: in the cells should be the expected price of the competitive bid.

5. How, if at all, should Bollenbach revise Hilton's bid for ITT?

Assignment for Thursday, February 24, 2005
This assignment also covers the class meeting for March 3, 2005

Cases: These will be distributed separately on Wednesday, February 23rd.
TAKEOVER! (D) The White Knight: United Brands Corporation (UVA-F-1173)
TAKEOVER! (F) J.P. Hudson & Co. / Hudson Guaranty Bank (UVA-F-1251)

Reading: Pages 564-589, "Choosing the form of payment and financing."

Today's class is the *briefing* session for a simulated negotiation between a bank and a participant in a hostile takeover fight. You will be assigned a role as either the banker or as a corporation seeking financing for its bidding position. This exercise is a capstone for the module of classes on hostile takeovers and aims to illustrate the role that capital markets play in the market for corporate control.

The objective in today's class will be to review the facts and perspectives of the two sides in this situation:

1. How does a corporate bidder in a hostile takeover contest choose the form of payment and financing for the bid?
2. How does a large corporate lender assess a request for acquisition financing?

You will be assigned another student in the course, who will assume the role of the counterparty in your negotiation. Between today's class and the next (Thursday, March 3rd), your task is to negotiate a commitment letter with J.P. Hudson to support a winning bid by United Brands for Global Foods Corporation.

By 3:00 p.m. on March 2nd, please email to Betty Sprouse the bid (amount and form of payment) that United Brands intends to make, final commitment letter and any supporting details.

In class on March 3rd, we will consolidate the results of the negotiations and consider best practices in acquisition financing. Our visitor in class on March 3rd will be Donald Benson (D'89), Managing Director, J. P. Morgan Securities.

Assignment for Friday, March 4, 2005

Case: S. 600 “To preserve the diversity and independence of American business.” A bill sponsored by Senator Edward Kennedy, March 8, 1979.

Reading: Pages 742-766 “Rules of the road: Antitrust law”

Optional background reading:

Pages 30-67 “Does M&A Pay?”
Pages 69-97 “M&A Activity”

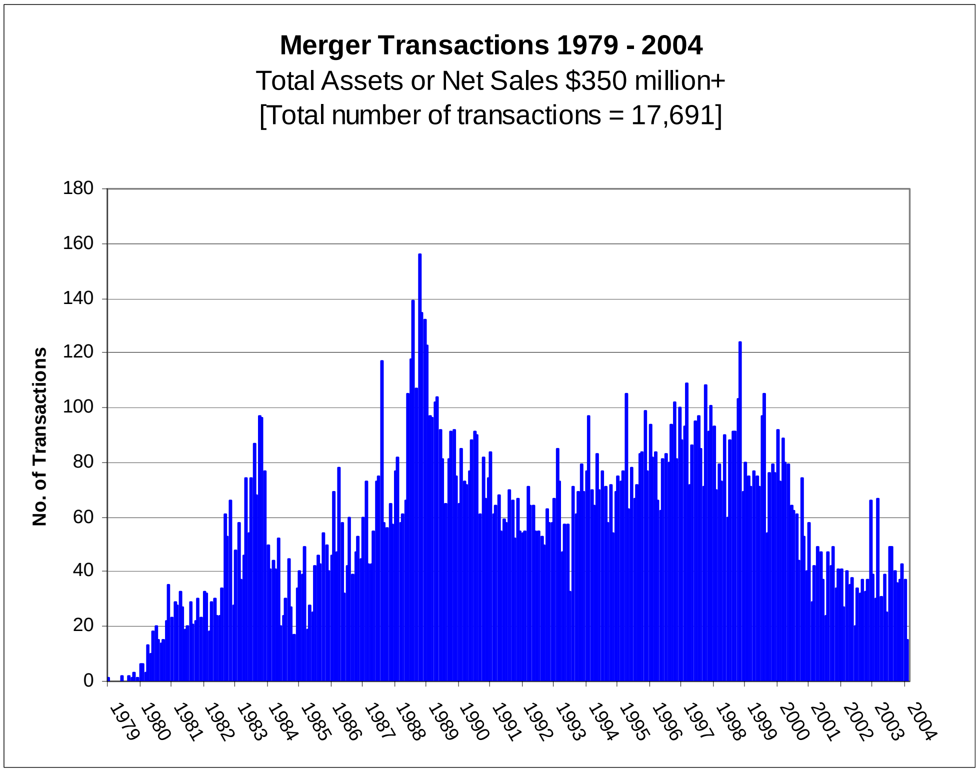
In our final session we turn to the subject of public policy regarding M&A. We will convert our classroom into a session of the U.S. Senate and will debate the merits of the proposed legislation. In order to ensure a hearing of the issues on all sides of the question, you are assigned to advocate the following position:

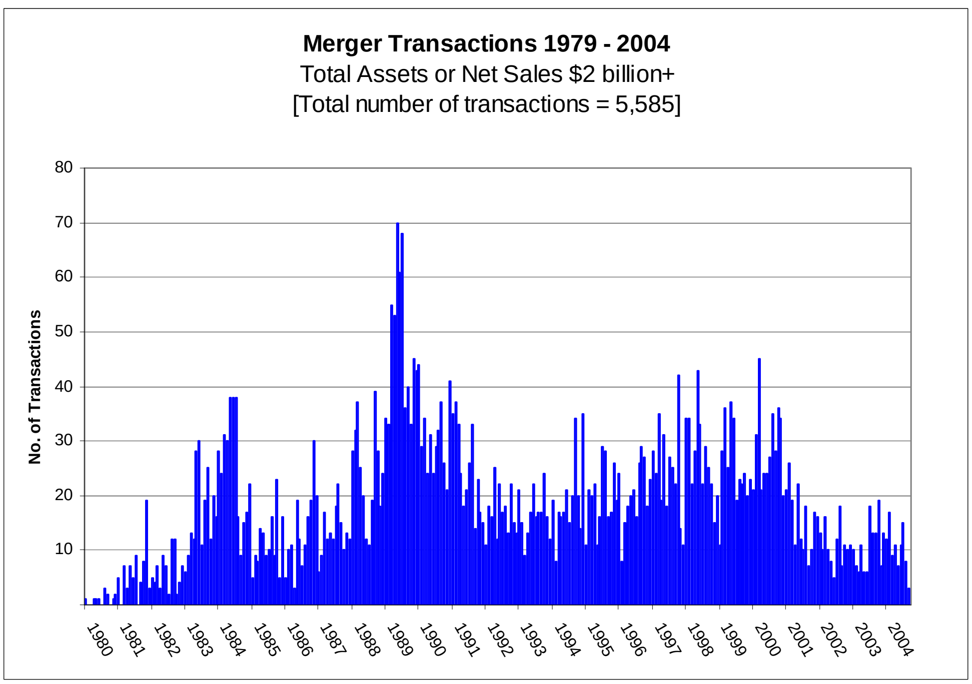
- Your last name begins with the letter A-J: please prepare to debate *in favor* of the bill.
- Your last name begins with the letter K-Z: please prepare to debate *in opposition* to the bill.

As a point of reference, the trigger points mentioned in the legislation have the following purchasing power today:

Value in 1979	**Purchasing Power in 2004**
$350 million	$746 million
$2 billion	$4.27 billion

Also, the following graphs indicate the number of transactions per month that would have triggered the provisions of the bill.


Merger Transactions 1979 - 2004
Total Assets or Net Sales $350 million+
[Total number of transactions = 17,691]
No. of Transactions
0
20
40
60
80
100
120
140
160
180
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004


Merger Transactions 1979 - 2004
Total Assets or Net Sales $2 billion+
[Total number of transactions = 5,585]
No. of Transactions
10
20
30
40
50
60
70
80
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004

Assignment for Take-Home Exam

Subject:	M&A deal design.
Due:	No later than 5:00 p.m. March 7th, Room 291C care of Betty Sprouse.
Maximum length:	Five typewritten pages of text, 12-point font, one-inch margins. No limit on number of exhibits, though the readers will view weak or unnecessary exhibits as an indication of poor organization and communication and will mark the paper accordingly.
Time limit:	Six hours.
Honor pledge:	The work must be performed individually and pledged accordingly.
Distribution of exam:	In class, on Friday, March 4th.
Grading weight:	This paper accounts for 25 percent of the final course grade.