

THE UNIVERSITY OF
NEW SOUTH WALES



Faculty of Commerce and Economics
School of Banking and Finance

MFINS6210
TAKEOVERS, RESTRUCTURING AND CORPORATE GOVERNANCE

COURSE OUTLINE
SESSION 2, 2005

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1. COURSE STAFF

Dr Ronan Powell (Coordinator)

Office: QUAD 3022

Email: r.powell@unsw.edu.au

Tel: 938-54925

Lecturing: Weeks 1 to 7

Consultation: Thursday's 14.00-16.00

Professor Terry Walter

Office: QUAD 3036

Email: t.walter@unsw.edu.au

Tel: 938-55858

Weeks 8 to 14

TBA

1.1 Communication with Staff

You can contact lecturing staff by email or telephone. If face-to-face contact is required, contact the lecturer to arrange a mutually convenient time. Students are encouraged to regularly check the WebCT site for course announcements.

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and Locations

Wednesday, 18.00-21.00 in the CBD (190 or 200 George Street)

2.2 Units of Credit

The course has 6 units of credit and 3 contact hours per week.

2.3 Relationship of this course to other course offerings

MFINS6210 is one of the core courses in the Applied Finance and the Investment Banking streams. Material covered in Applied Corporate Finance (MFIN6202) has direct relevance to this course. In particular, topics relating to investment, capital structure and agency theories provide some guidance in helping to explain corporate restructuring activity. Furthermore, standard valuation techniques (e.g., discounted cash flow) covered in MFIN6202 will be used in conjunction with alternative techniques (e.g., comparable firms' analysis) to value merger targets. Students should also find some of the econometric techniques covered in Empirical Techniques and Applications in Finance (MFIN6201) useful in undertaking the group project.

2.4 Approach to learning and teaching

The teaching and learning approach adopted emphasises the importance of developing critical thinking skills. This is achieved through a mix of informal lectures, intensive discussion groups and student presentations. An important part of the course is linking material covered in class with work undertaken in mergers and acquisitions by the investment banking industry. This is achieved by using several learning techniques, including, (1) the use of an extensive database of actual takeovers that students use in exercises designed to understand actual mergers and acquisitions; (2) class room discussions based on case studies drawn from recent takeovers; and (3) exposing students to M&A experts from leading investment banks, who will take students through actual cases, providing key insights to factors that lead to deal success. Students will be expected to participate actively in all classroom activities and will have the opportunity to present their own research findings from group project work.

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

This course aims to provide an accessible introduction to the literature on corporate takeovers, other forms of corporate restructurings and governance. It includes a complete, yet concise synthesis of the recent available literature on takeovers, restructuring and corporate governance within a logical, analytical structure.

3.2 Student Learning Outcomes

On completion of the course, you will:

1. Be able to work in teams to manipulate large datasets, develop econometric models and test hypotheses and theories using financial statement and market-based data;
2. Have developed sound critical and analytical skills, be able to present, discuss and write-up your own research results in report format;
3. Have an understanding of the restructuring choices faced by managers and how these choices can help resolve agency problems within the firm;
4. Have an understanding of the methodological issues surrounding the measurement of a firm's long-run performance and models of expected performance;
5. Be able to evaluate the impact of takeovers on both shareholder value and operating performance;
6. Have a deeper understanding of valuation models, particularly industry standard methods, including DCF, residual income and comparable firms approaches;
7. Be able to implement merger arbitrage and takeover prediction strategies;
8. Have a deeper understanding of the alternative forms of corporate restructuring open to management, including LBOs, joint ventures, going private transactions and divestitures;
9. Have a sound knowledge of potential defences managers can use to help defend against unwanted bids;
10. Have a clearer understanding of the role played by investment bankers in the takeover process, and whether higher 'quality' bankers lead to better deals.

3.3 Teaching Strategies

Several teaching strategies will be utilised to ensure the above learning outcomes are achieved. Informal lectures will be used to first cover the research literature. Discussion groups, case studies and group work using actual data and presentations will be used to test both your understanding of the theoretical underpinning of literature and its application in explaining restructuring activity in a practical applied setting. During a typical 3-hour session, the first half of class will be devoted to covering the lecture material, which you will have read prior to class. The second half of the class will typically involve the use of discussion groups and student group work presentations to debate key issues raised during the lecture. The use of case studies related to lecture material will also form an integral part of the learning process. Guest speakers from industry will discuss key topics helping to bridge the gap between some of the theoretical material covered in class and business application.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Workload

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, research, working on the group project and class attendance. Note that during periods when you need to complete group project work and take-home assessments the workload will be significantly greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Keeping informed

Subject webCT page: (<http://webct.edtec.unsw.edu.au/webct/public/home.pl>). To access the site, you need a valid Unipass number if you are using campus wide PCs. If you wish to access the site from your home or work PC you will need to connect to the University Dial-Up System (UDUS). Details about Unipass and UDUS may be obtained from www.disconnect.unsw.edu.au/old-index.html.

5. LEARNING ASSESSMENT

5.1 Formal Requirements

In order to pass this course, you must achieve an overall mark of at least 50%

5.2 Assessment Details

- Group project: You will be divided into groups and provided with a dataset comprising of: (1) Corporate restructuring activity; and (2) Accounting and market-based data. Each group will be given a set of research questions related to the material covered in the course. You will have to write-up the results of your empirical analysis in report format. As part of the review process, each group will be asked to present the results of their empirical analysis to the class. Your report should be submitted the week following your group presentation. As a group, you will be awarded a mark based on both the content and presentation of your report. The project has a weighting of 40% (30% for the write-up and 10% for the presentation). Further details of the project will be posted to the subject web page in week 1.
- Mid-session take home exam covering lecture material from week 1 to week 7 (weighting of 30%). You will receive the assessment in week 7 and must submit your answer by email attachment (word or pdf) within two weeks (submission deadline: 6.00pm, 21st September).
- The final exam is a take home assessment given in week 14 (weighting of 30%). You will have two weeks to complete the assessment and must submit your answer by email attachment within two weeks (submission deadline: 6.00pm 16th November)

Summary Table

Assessment	Due Date	Weighting	Learning Outcome(s) Assessed
Group Project (Report)	1 week after presentation	30%	1,2,3,4,5
Group Project (Presentation)	TBA	10%	1,2,3,4,5
Mid-session exam	21 st Sept	30%	3,4,5,6,7
Final Exam	16 th Nov	30%	8,9,10
TOTAL		100%	

5.3 Special Consideration and Supplementary examinations

UNSW policy and process for Special Consideration applies (see <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>). Specifically:

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the assessment to which it refers) – applications will **not** be accepted by teaching staff;
- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;

- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge;
- Please note: a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.

6. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html>

Plagiarism is the presentation of the thoughts or work of another as one's own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person's assignment without appropriate acknowledgement;
- paraphrasing another person's work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does *not* amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- Correct referencing practices;
- Paraphrasing, summarising, essay writing, and time management;
- Appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle

† Adapted with kind permission from the University of Melbourne.

7. STUDENT RESOURCES

7.1 Course Resources

All course lecture notes, information on assessments and discussion questions can be found on the subject web page (WebCT, see 4.2 above). Students are strongly advised to log into the subject web page at least once a week.

Course Text: Weston, Mitchell and Mulherin: Takeovers, Restructuring and Corporate Governance, Pearson/Prentice Hall, 4th Edition (International), 2004. Web link: www.prenhall.com/weston

Additional readings: Academic papers are listed under the lecture program (below) for each week. They are available in full-text format (pdf files) from the library. Simply go to the library home page and click on the hyper link to 'MyCourse@UNSW' and enter the course code.

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- **Learning and study support**
 - o FCE Education Development Unit (<http://education.fce.unsw.edu.au>)
 - o UNSW Learning Centre (<http://www.lc.unsw.edu.au>)
 - o EdTec – WebCT information (<http://www.edtec.unsw.edu.au>)
- **Counselling support** - <http://www.counselling.unsw.edu.au>
- **Library training and support services** - <http://info.library.unsw.edu.au>
- **Disability Support Services** – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (<http://www.equity.unsw.edu.au/disabil.html>). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- **Examination procedures** and advice concerning illness or misadventure <https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html>
- **Occupational Health and Safety** policies and student responsibilities; <http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf>

8. CONTINUAL COURSE IMPROVEMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

9. COURSE SCHEDULE

Week 1 (July 27th)

The takeover process

- Chapters 1, 2, 3 & 4
- Companies Act 2001, Chapter 6 (available from web page)
- Case study: The AOL Time Warner merger (page 20).
- Questions B1.1, B1.2, B1.3, C3.3.1, C3.3.2

Week 2 (August 3rd)

Theories of takeovers, clustering and governance aspects

- Chapters 6 & 7
- Holmstrom, B. and S. Kaplan, 'Corporate governance and merger activity in the United States: making sense of the 1980s and 1990s', Journal of Economic Perspectives, 15, 2001.
- Mitchell, M. and H. Mulherin, 'The impact of industry shocks on takeover and restructuring activity', Journal of Financial Economics, 41, 1996.
- Case study: Acquisition of Lotus Development Corporate by IBM (page 126)
- Questions: C5.2.1, C5.2.2, C5.2.3

Week 3 (August 10th)

Takeover performance: Short-run methodologies

- Chapter 8, including Appendix A; Chapter 6, Appendix B
- Moeller, S., F. Schlingemann and R. Stulz, 'Wealth destruction on a massive scale? A study of acquiring firm returns in the recent merger wave', Journal of Finance, 60, 2005.
- Moeller, S., F. Schlingemann and R. Stulz, 'Firm size and the gains from acquisitions', Journal of Financial Economics, 73, 2004.
- Questions: A8.1, A8.2

Week 4 (August 17th)

Takeover performance: Long-run methodologies

- Chapter 8
- Barber, B., Lyon, J. and C. Tsai, 'Improved methods for test of long-run abnormal stock returns', Journal of Finance, 54, 1999
- Loughran, T. and A. Vijh, 'Do long-term shareholders benefit from corporate acquisitions?', Journal of Finance, 52, 1997.
- Questions: 8.1, 8.2, 8.3, 8.4, 8.7, 8.8

Week 5 (August 24th)

Deal valuation

- Chapters 9 & 10
- Questions: 9.1, 9.2, 9.4, 9.5

Week 6 (August 31st)

Takeovers, arbitrage and investment strategies

- Chapter 21
- Mitchell, M., Pulvino, T. and E. Stafford, 'Price pressure around mergers' Journal of Finance, 59, 31-63, 2004.
- Palepu, K., 'Predicting takeover targets: A methodological and empirical analysis', Journal of Accounting and Economics, 8, 1986
- Case study: Cheap Tickets, Incorporated-Cendant Corporation (page 621)

- Questions: C21.1.1, C21.1.2

Week 7 (September 7th)

Guest industry speaker: Vicki McFadden

Week 8 (September 14th)

Corporate restructuring and divestitures

- Chapters 11, 12 and 13
- J. R. Graham, M. L. Lemmon and J. G. Wolf, 'Does Corporate Diversification Destroy Wealth?', *Journal of Finance*, April 2002, 695-720.
- J. H. Mulherin and A. L. Boone, 'Comparing Acquisitions and Divestitures', *Journal of Corporate Finance*, 6, 2000, 117-139.

Week 9 (September 21st)

CEO compensation in M&A

- Y. Grinstein and P. Hribar, 'CEO Compensation and Incentives: Evidence from M&A Bonuses', *Journal of Financial Economics*, 73, 2004, 119-143.
- J. Harford and K. Li, 'Decoupling CEO Wealth and Firm Performance, Evidence from Acquisitions and Capital Expenditures', Unpublished working paper, University of Washington.

Week 10 (October 5th)

Going private and leveraged buyouts

- Chapter 16
- F. Degeorge and R. Zeckhauser, 'The Reverse LBO Decision and Firm Performance: Theory and Evidence', *Journal of Finance*, September 1993, 1323-1348.

Week 11 (October 12th)

Role of investment bankers, international takeovers

- Chapter 17
- T. Walter, A. Yawson and C. Yeung, 'Does a Quality Premium Exist in M&A Advisory Fees?', Unpublished working paper, University of New South Wales.

Week 12 (October 19th)

Share repurchases

- Chapters 18
- W. Guay and J. Harford, 'The Cash-Flow Permanence and Information Content of Dividend Increases Verses Repurchases', *Journal of Financial Economics*, 57:3, 2000, 385-415.
- G. Grullon and R. Michaely, 'Dividends, Share Repurchases and the Substitution Hypothesis', *Journal of Finance*, August 2002, 1649-1684.

Week 13 (October 26th)

Takeover defences

- Chapter 19
- R.A. Heron and E. Lie, 'On the Use of Poison Pills and Defensive Payouts by Takeover Targets', forthcoming, *Journal of Business*.

Week 14 (November 2nd)

Guest speaker TBA

10. ABOUT THE INSTRUCTORS

Ronan Powell

Ronan Powell received his PhD in Finance from the University of Essex, in the UK. Prior to taking up a position at UNSW in 2001, he lectured in Finance at the Queen's University of Belfast for six years. He has taught a wide range of finance courses on international affiliated programs in Barcelona, Madrid, Kuala Lumpur and Beijing. His research papers have been presented at international conferences, including the American Finance Association, the European Finance Association, the European Financial Management Association and the Australian Banking and Finance Conference. His research is concentrated in the area of takeovers, with particular reference to measuring wealth effects, modelling and takeover prediction. His work is published in the Journal of Business, Finance and Accounting, the Journal of Corporate Finance and the Journal of Banking and Finance.

Terry Walter

Terry Walter is a Professor of Finance and Head of School in the School of Banking and Finance at the University of New South Wales. He is also a Director of Equities Research for the Securities Industry Research Centre of Asia-Pacific (SIRCA Limited), was instrumental (with Mike Aitken and Philip Brown) in SIRCA's establishment and is actively engaged in the research program of the recently formed CRC in Technology Enabled Capital Markets (CMCRC Limited). Terry Walter holds a PhD from the University of Western Australia and a Bachelor of Commerce degree from the University of Queensland. His research interests are in market microstructure, initial public offers, performance of fund managers, mergers and acquisitions and capital market anomalies. He has published in these areas in highly regarded international journals, including the Journal of Financial Economics, the Journal of Financial and Quantitative Analysis, The Journal of Banking and Finance, the Pacific Basin Finance Journal, the Australian Journal of Management, the Journal of Futures Markets and the Journal of Accounting and Public Policy. Professor Walter is a member of the Board of the Pooled Development Fund Registration Board and a former member of the Fund Management Committee. He was appointed to these positions on the nomination of the Federal Minister for Industry Science and Resources.