



# FBE 560

# Mergers, Acquisitions, and Restructuring

*Professor Gerard Hoberg*

# Administrative Details

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1. **FBE560 is a Full Semester Course**
2. **Case Based Learning: we cover 9 cases throughout the semester.**
3. **Pre-requisite: experience with DCF valuation models.**
4. **Specialist and generalist knowledge: to understand M&A (changing the firm) is to understand corporate finance at a high level (understanding static behavior easy).**
5. **Diverse views in class: class is in “most frequently taken” category for 6 careers!**
6. **Engage students with live discussions about current events, in class discussions guided by a BB “chat room” allowing extensive sharing of knowledge.**

# Careers in Finance

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1. **Finance: Very high relevance with direct mentions of these career roles in class**
  - A. **Investment banking careers in corporate finance.**
  - B. **Private equity and leveraged transactions.**
  - C. **Investment-banking equity analysis.**
  - D. **Corporate finance positions in major non-finance companies (forecasting, capital structure, investment/M&A).**
  
2. **Finance: Relevance mainly through generalist knowledge conveyed**
  - A. **Commercial Banking**
  - B. **Investment banking and Fixed Income**
  - C. **Venture Capital**
  - D. **Hedge funds and mutual funds**

# Careers in Other Areas (most frequent)

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FBE 560 among “most frequent electives” in these areas:

1. **Management: Second strongest contingency in the class**
  - A. M&A has deep implications for developing corporate strategies.
  - B. M&A integration, understanding dynamic markets.
  - C. Cases offer students deep dives in evaluating these scenarios.
  
2. **Consulting: generalist knowledge of FBE560 invaluable**
  
- 3,4,5: **Healthcare, Media +Entertainment, Technology Areas**
  1. These are among the most dynamic industries in existence.
  2. Our students need specialist and generalist knowledge to handle the continuous redrawing of firm boundaries.
  3. Course includes specific cases in technology and entertainment areas.

# Careers in Other Areas (noteworthy)

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FBE 560 among “noteworthy electives” in these areas:

## 1. Marketing:

- A. M&A has deep implications for marketing as deals can fundamental change how sales are generated and where areas for rapid growth exist.
- B. Branding and complementarity of products also relevant in a popular category of M&A transactions known as product line acquisitions.
- C. 2-3 of our cases explore product line acquisition deals.
- D. Limitation: addresses marketing at a high level as course needs to focus on focus on strategy, legal, valuation, and finance aspects of M&A.

## 2. Operations:

- A. M&A transactions are heavily motivated by cost cutting and efficiency.
- B. Vertical transactions often relate to operational synergies.
- C. Many class cases have horizontal/efficiency motives. One is vertical.
- D. Limitation: addresses operations at a high level as course needs to focus on focus on strategy, legal, valuation, and finance aspects of M&A.

# Course Objectives

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## 1. Quantitative Review

- Cash Flow Identification, Discount Rate Selection.
- Valuation Models: FCF/Constant WACC, APV, Multiples

## 2. Structuring Deals

- Confluence of Finance, Corporate Law, and Tax Law

## 3. Record of Success and Economic Sources of Gains

- Use historical record of past deals to frame likely path of current deal

## 4. Examine specific transaction types

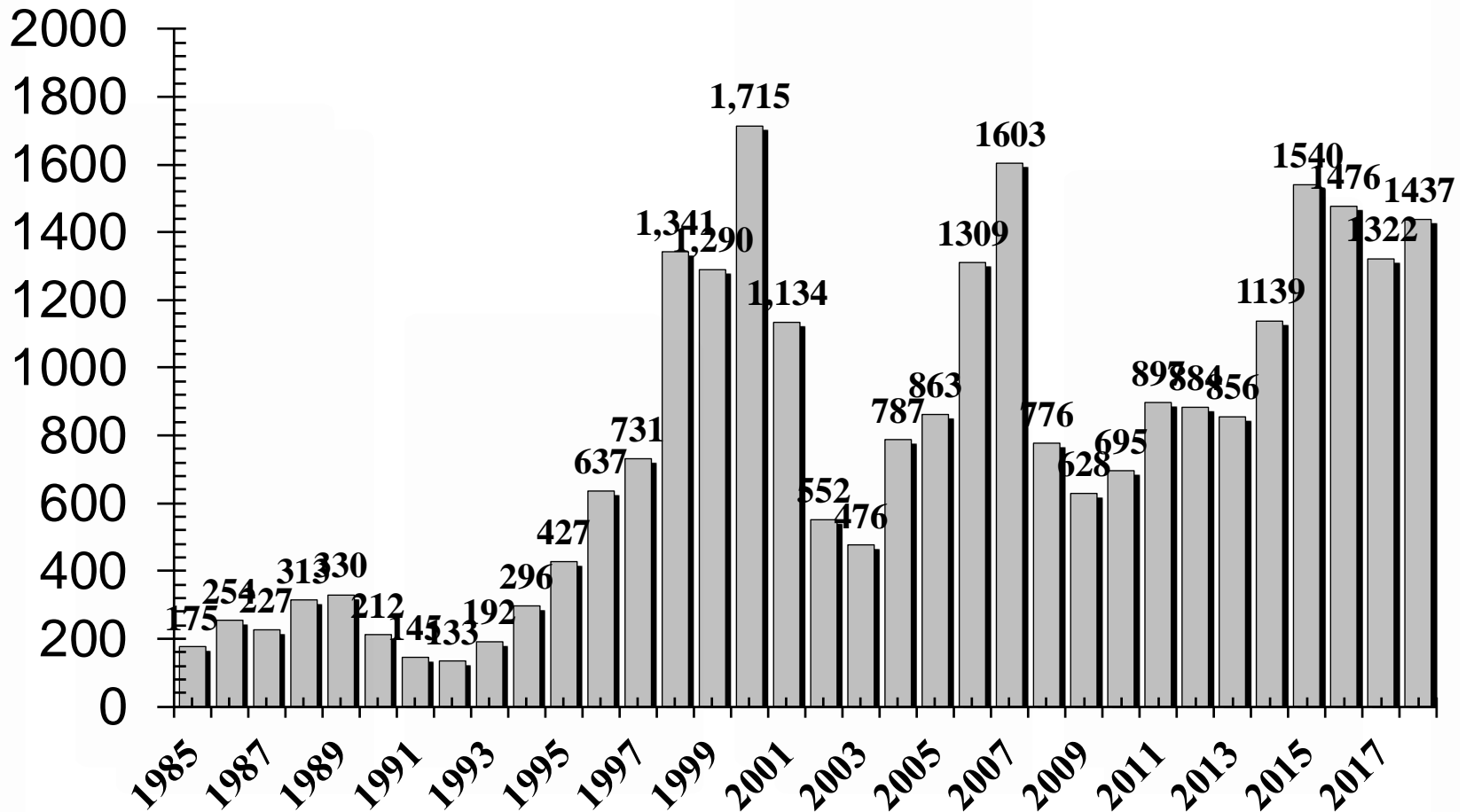
- Spin-offs, Carve-outs, Divestitures, Targeted Stock, Bankruptcy Acq.

## 5. International Transactions and Considerations

## 6. Leveraged Transactions and Private Equity vs Strategic M&A

This class will instill institutional knowledge regarding transaction evaluation from start (identifying and confirming best strategic choices) to finish (pitching your conclusions). Because large amounts of cash, jobs, and the welfare of communities are often at stake, an entire body of evidence needs to back transactions.

# Value of Acquisitions (US) (\$Billions) 1985-2017



**\*\* Goal: Train our students to think dynamically. This enables them to thrive in both booms and busts!**

# Some Class Themes

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M. Bradley et al., Synergistic gains from successful tender offers

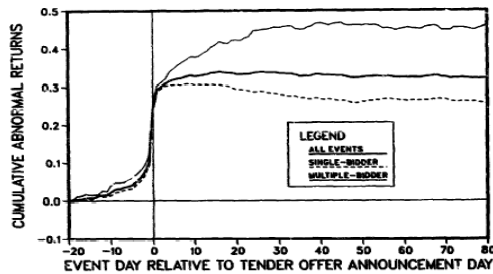
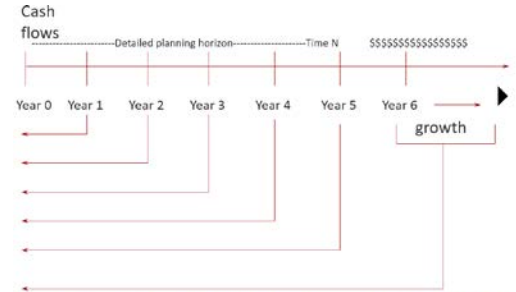


Fig. 2. Cumulative abnormal returns to the portfolio of target firms involved in 236 contests, 163 single-bidder contests and 73 multiple-bidder contests, 1963–1984. Event day relative to tender offer announcement day.



A good strategy is to model in detail what you know, and until you think the firm reaches a mature state: 5 years for old economy firm, 10 years for growth firm, maybe 15 years for tech. firm. Rest is terminal value (next slide).

## Negotiated Merger

The Exchange

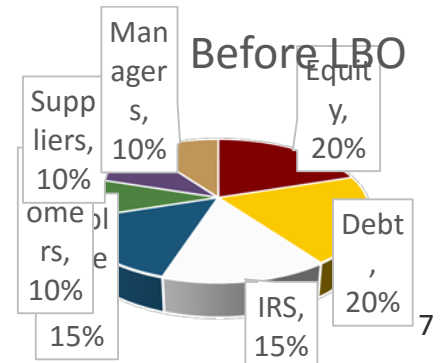
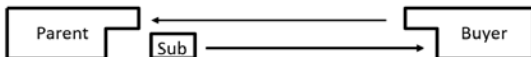


After the Exchange



1. Nicholson File Company Takeover
2. Radio One
3. Atlantic Corporation
4. Conrail (A)
5. Microsoft+Intuit
6. Conrail (B)
7. Dow+Rohm
8. USX: Targeted Stock Restructuring
9. Navigator Gas

## Sell-off : Divestiture







# Venture Capital and Private Equity

## FBE 523

Stephen G. Moyer

Course Overview

# Learning Objectives

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- Improve modeling and valuation skills in Excel
- Develop basic credit analysis skills, debt pricing methodologies, LBO capital structure considerations
- Learn motivations/concerns of providers of capital in the VC & PE markets and gain perspective on both sides of capital transaction



# Overall Course Goals

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- Perform well in IB/VC/PE interview
- Start finance job with solid skills foundation
- Improve skills as personal investor
- Better understand business transactions/developments

# Course Outline



- Crash course on integrated 3S projection models and valuation.
- Venture Capital Market Place
  - VC fund strategies and fund raising considerations
  - VC due diligence process
  - Understanding VC term sheets
  - Staged Financing—tying financings to milestones
  - Deal negotiation—how to bridge the bid/ask gap on valuation
  - Late Stage Challenges—Difficult Series E deal structure vs Early sale to strategic
  - Corporate VC activity
  - Bio-tech VC
  - Venture Lending—a less dilutive option
  - IPO Process—Overview of process and deal pricing

# Course Outline (Continued)



- Private Equity Market Place
  - Overview of impact of leverage on returns
  - Fundamentals of credit analysis and debt pricing
  - LBO models and deal pricing process
  - Formulating a bid in an auction context
  - Negotiating loan covenants
  - Mezzanine loan analysis and market place
  - PE roll-up strategies & add-on transactions
  - Structuring the purchase transaction: asset v stock deals
  - How PE's effect biz improvement plans (2 real world cases)
  - Management/PE options in over-leveraged context
  - Negotiating a corporate restructuring

# Learning Tools

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- Multiple Excel modeling projects
- Investment memo—related to case
- Team investment analysis presentation—related to case
- Team corporate restructuring negotiation
- Socratic class style—ad hoc role playing
- Ripped from the headlines current events discussions



# Guest Speakers

- VC Fund Investing—Fred Nunez, USC Endowment
- Corporate VC—Fred Theil, Navigate Ventures
- Bio-Tech VC—Harsha Murthy, Consummate Capital
- Venture Lending—Randy Churchill, Square One
- PE Rollups—Scott Wandzilak, Physical Therapy rollup
- PE Case Study—Peter Goodson, Ex-Clayton Dubilier
- PE Case Study—Kellen Haines, K1 (TBD)
- PE Options in Financial Distress—David Hollander, Ex-Tennenbaum
- Corporate Restructurings—Mark Levin, Ex-Imperial Capital

# Course Success



Course Rating: S16-4.73, S17--4.89, F18—4.74

## Student Feedback:

- Your course was absolutely essential in acquiring the skills required for this position
- I wouldn't have gotten the job if I hadn't taken your class
- At the interview I wasn't asked a single question that we didn't cover in class
- I'm amazed by the material you covered, 523 has without a doubt been one of my best learning experiences
- Thank you for such an incredible class...for challenging us, teaching us to think beyond the obvious, drawing our attention to details, keeping the bar high
- Thank you for this amazing class...it's the best and most practical finance class I have taken at USC.





FBE 527 / Korteweg  
*Entrepreneurial Finance*

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# Course Aim

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- This is a case-based course about ***entrepreneurship*** and ***finance***.
- Goal is to understand the financial issues that arise between entrepreneurs and investors, including:
  - Evaluating entrepreneurial opportunities.
  - Raising capital and marshaling resources.
  - Managing, negotiating, and contracting with investors.
  - Ultimately harvesting success.
- Develop a framework for thinking about entrepreneurial finance that transcends the status quo in the U.S.
  - Environment always changing, both opportunities and financing options.
  - non-U.S. start-ups.

# Target Audience

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- Students who:
  - Want to become entrepreneurs,
  - Want to join a small, privately-held firm,
  - Are interested in pursuing a career in venture capital, angel investing, [or private equity].
- Main perspective: entrepreneur.
- But also consider investor's point of view.

# Course Overview

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- Main deliverable: Group project
  - Start-up company pitch presentation to potential investor.
- Broad outline:
  - Module 1: Asset side (6 classes).
    - Evaluating entrepreneurial opportunities.
    - Understanding funding requirements.
  - Module 2: Liability side (11 classes).
    - Raising capital and marshaling resources.
    - Negotiating and contracting with investors.
  - Module 3: Growth and Exit (7 classes).
    - Follow-on financing and balanced growth.
    - Exit: IPOs, Acquisitions.
  - Final classes: Group pitch presentations.



FBE 532

*Corporate Financial Strategy*

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# Course Aim

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- This is a case-based course about strategic corporate decisions from a finance perspective.
- Main goals:
  1. Develop and use standard tools and models of corporate finance.
    - Emphasis on valuation as a guide to decision-making.
  2. Apply these tools and models to a wide range of real-world corporate decisions using cases on:
    - Capital budgeting.
    - Working capital and sustainable growth.
    - Capital structure (mix of debt, equity securities).
    - Mergers & Acquisitions.
    - Financial distress and bankruptcy.
    - and others...
- Cases span companies in different industries and different stages of their lifecycle.
  - Shows how same techniques can apply to a variety of settings.



# Target Audience

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- Students interested in a career in:
  - Investment banking.
  - Consulting.
  - Corporate functions:
    - Finance function (CFO, ...).
    - General management function (CEO, COO, ...).

# Course Overview

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- Main deliverable: group case preparations and exams (midterm, final).
- Broad course outline:
  - Module 1: Asset side (6 classes).
    - Evaluating entrepreneurial opportunities.
    - Understanding funding requirements.
  - Module 2: Liability side (11 classes).
    - Raising capital and marshaling resources.
    - Negotiating and contracting with investors.
  - Module 3: Growth and Exit (7 classes).
    - Follow-on financing and balanced growth.
    - Exit: IPOs, Acquisitions.
  - Final classes: group pitch presentations.



# FBE 555

## Investment Analysis and Portfolio Management

What it is:

- Intro to security markets
- Portfolio choice
- The relation between risk and return

What it's not:

- Stock picking

What careers is it important for:

- Asset management (funds, private wealth, consulting)
- Some IB (S&T, structuring)
- Some corporate finance

What students is it a good fit for:

- Quantitatively competent
- Interested in models

# FBE 599

## Quantitative Investing

What it is:

- Programming (Python)-based quantitative investment research
- Reading academic articles and replicating main results
- Proposing and testing novel hypotheses about asset returns

What it's not:

- An introduction to investment management
- A general programming course

What careers is it important for:

- Asset management

What students is it a good fit for:

- Quantitatively advanced
- Interested in data analysis
- Solid in finance (555) and/or data analysis or *highly* motivated

# FBE 524: Money and Capital Markets

The objective of this course is to make a wide range of financial market events comprehensible within an integrated framework. At the conclusion of this course students will have:

1. An analytical framework to how financial institutions interact and affect financial markets and the economy.
2. A framework to understand the behavior of central banks and how they impact capital markets and economic activity.
3. A framework to articulate a business investment decision or a strategic business plan.
4. A broad understanding of global financial and economic policy
5. An ability to place current event into a context and anticipate likely future economic/financial developments.

# Course Overview:

Main Deliverables: Group project presentations, problem set assignments, and exams.

Main Goals: Understand, develop and use theories, tools, forces, policies, and models that shape capital markets and financial institutions.

Broad course outline:

Module 1: Theoretical Foundations

Module 2: Financial/Capital Markets

Module 3: Financial Institutions

Module 4: Monetary Policy

Module 5: Financial System and the Macro Economy using various models.

# Target Audience

Students interested in a career in:

Commercial and Investment Banking.

Real Estate Market, Accounting, and Marketing.

Investment management, or managing small or start-up firms.

Consulting careers in the financial services industry.

Corporate Functions (CFO,...).

General Management Function (CEO, COO, ...).

This course will likewise be very useful for non-finance students needing background in the functioning of financial markets because of their importance to the success of business strategies.

# FBE 526: Macroeconomic Analysis for Business

This course explores the macroeconomic environment in which business operate: economic and social goals and policies and their impact on business, growth, stability, and the new priorities; and international forces influencing business.

Making sound business decisions requires knowing the economic environment in which firms operate. It requires an understanding of key economic indicators (both in the national and international contexts), the relationship among economic variables, the mechanics of how the economy works as a whole, and the role of economic institutions. Main Goals: understand, develop and use theories, tools, forces, policies, and models that shape our economies.

# Course Aim and Objective

We will spend a considerable amount of time learning, and understanding Macroeconomic theories, since those tools are important in developing the economic intuition we need to organize concepts and facts. This will help to evaluate current and real world economic and financial developments in sensible way.

Emphasis is placed on providing a solid grounding in basic macro economic data, terms, and concepts. Managers in a global marketplace care about sales growth, competitiveness of company, cost of capital, labor market conditions, and profit. Macroeconomic policies and events directly influence how these factors are determined. The course will help students develop a general management view in the analysis, development, and evaluation of the global issues that shape business decisions.

# Course Overview

Main Deliverables: Team Project and presentation, problem set assignments, and exams (Midterms and Final).

Broad Course Outline:

Module 1 : Theoretical Foundations- Measurement of Economic Data, Production, Productivity and Labor Market, and Saving and Investment in Open Economy.

Module 2: Growth using various Models

Module 3: International Trade, Capital movements and Exchange Rate Determinations, regimes, and policies.

Module 4: Business Cycles, Financial Crisis, global imbalances, domestic and Sovereign debt crisis.

Module 5: Financial System, Monetary Policy and Fiscal Policy



Students interested in a Career in:

Commercial and Investment Banking.

Real Estate Market, Accounting, and Marketing

Investment management, or managing small or start-up firms

Consulting careers in the financial services industry.

Corporate Functions (CFO,...).

General Management Function (CEO, COO, ...).

This course will likewise be very useful for non finance students, because of its importance to the success of business strategies. Given the almost universal importance of the topics covered , students with a broad spectrum of career interests—including international relations, political science, and communication -will also find the course highly relevant.



# **FBE 557 Business Law and Ethics**

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## **Course description**

This course examines the following legal aspects of business: the sources for legal and regulatory controls over domestic businesses, the aspects of constitutional law affecting business transactions, business ethics, litigation and alternative dispute resolution, business torts, strict liability and product liability, intellectual property, white collar crimes, contracts, warranties, Uniform Commercial Code sales and lease contracts, selected aspects of employment law, and, business successorship issues and estate planning connected therewith.

## **Course objective**

This course is designed to provide a broad framework and understanding of relevant issues students will face as potential business owners, employees, and investors of both privately held and publicly held organizations.



# **FBE 558: LAW FOR STRUCTURING, FINANCING, AND MANAGING BUSINESSES**

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## **Course description**

This course covers a variety of legal topics of greatest interest to those who wish to organize, finance, and manage business organizations. It covers the legal aspects of the life cycle of a business. The course begins with a review of agency law, a subject that is important because organizations and their principals will be liable for the acts of their agents occurring within the scope of their employment. The coverage then proceeds on the subjects of business structures, including partnerships, both general and limited, limited liability companies, and special entities such as cooperatives, joint ventures and franchising. The law of human capital including wage and hour law and employment discrimination is discussed. Credit, debt and financing issues precede the survey coverage of securities law, including non-registered securities. Corporate governance and compliance including the legal and regulatory environment in which the business operates is discussed. The course material includes a survey of the legal aspects of acquisitions and entity sales. The course concludes with a complete overview of the law of unfair competition, anti-trust, and consumer pricing issues involving the Robinson-Patman Act.



# **FBE 558: LAW FOR STRUCTURING, FINANCING, AND MANAGING BUSINESSES**

## **Course objective**

1. Understand and evaluate legal theories and factual issues relating to the formation, financing, and operation of business organizations.
2. Develop and improve critical thinking skills in selecting competing ethical and legal choices in the operation and management of businesses.
3. Understand and be able to integrate ethical decision making into the legal functions of the business.
4. Improve the ability to identify legal issues and provide analytical solutions.
5. Apply the acquired knowledge of the laws and regulatory environment to mitigate risk to the enterprise.
6. Explain the law and regulations pertaining to accountants, business bankruptcies, securities, and competition laws.
7. Recognize and anticipate conflicting fiduciary duties arising within governance of organizations.
8. Explain and compare the complexities of duty-based obligations owed to various constituencies and stakeholders.
9. Develop business practices to remain compliant with the ethical and legal operating requirements of organizations.
10. Perform a negotiation of the purchase and sale of a small business.
11. Execute electronic legal research to analyze case law precedents, synthesize the conflicting results, and effectively communicate recommendations collaboratively.