Washington University in St. Louis
Mergers & Acquisitions
B62.523B, Section I and Section II
Spring Mini-B 2010
T&R: 10-11:30am (Section I), 11:30am-1pm (Section II)
Simon Hall, Room 107

Instructor: Lubo Litov (LL)
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Office: Simon Hall, Room 208
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Fax: 314-935-6359
Our Emails: litov@wustl.edu
Office hours: Wed, 3-4:30pm & by appointment
Cases, Review Sessions: 3/26 (Simon 110, 5-6pm), 4/9 (Simon 110, 5-6pm), 4/16 (Simon 113, 5-6pm)
Teaching Assistants: Aparna Misra (misra.aparna@wustl.edu), Abhinav Agarwal (agarwala@wustl.edu), Polina Lagutina (polina.lagutina@wustl.edu), Brian Shaw (shawb@wustl.edu), Derek Wilton (wiltond@wustl.edu)

Course Description and Objectives

This course focuses on identifying ways to increase firm value through mergers and acquisitions (M&A) and corporate restructurings. We will survey the drivers of success (& failure) in M&A transactions and develop skills in the design and evaluation of such transactions.

Specific topics that we will address in the course are the valuation of companies, the motivations underlying mergers, structuring of transactions, deal tactics and strategy, leveraged buyouts, corporate restructuring through divestitures, spin-offs, carveouts, and acquisitions of private firms. We will also delve into issues of law, accounting and tax and how they affect the outcome of M&A transactions.

Why is M&A an important component of any corporate finance professional toolset? It lays the foundation for effective work in a wide range of fields including corporate development, investment banking, consulting, and strategy advising senior management. I hope my presentations, class discussions, case analyzes, & readings will help you master these important career skills.
Course Materials

There is a required textbook and course packet. We will use a selection of cases and lecture presentations. The course packet is available in the campus bookstore. It contains the four main cases: HP/Compaq merger (A&B parts), Seagate Buyout, Marvel Entertainment restructuring, and the Conrail (A & B) case.


You can obtain the textbook & the workbook online through any book vendor. Alternatively you can buy from the University bookstore. I encourage you to obtain a copy of the book: I will refer to it throughout the course. Ad-hoc questions from it will be often basis of discussion in class, too. For your convenience I have places several copies of this book in the Kopolow Business Library, on the two-hour reserve.

*Supplementary valuation texts*
One further supplementary reading is *Investment Valuation* by Aswath Damodaran, published by Wiley & Son (henceforth referred to as AD). We would not use this textbook in class, but it has very useful review materials on multiples valuation (Chapters 12, 18 and 19) and a chapter on the cost of capital for private companies (Chapter 24). I also recommend it as most associate training programs on Wall Street use that book. An additional feature of this textbook is that it has a very extensive online support (presentations, etc @ http://www.stern.nyu.edu/~adamodar). I have also placed a copy of this book on the two-hour reserve at the Kopolow library.

Another good book, that I recommend is *Investment Banking (Valuation, Leveraged Buyouts, and Mergers & Acquisitions)* by Joshua Rosenbaum and Joshua Pearl published by Wiley Finance (henceforth referred to RP). It contains very useful materials and examples on LBO analysis.

Blackboard materials

This course will rely on Blackboard – class materials such as lecture presentations, articles and supplementary readings, replies to memo questions, and hints for cases will be posted online. I have also created a discussion board, where you can ask questions on the class sessions. I will post my answers to these questions online. You can also check your performance at the Grade-book section of Blackboard: that would usually be available within a week after the case report date.

Course Expectations

This course will be time-consuming. Plan your time in advance to avoid over-committing. If you feel you will not have enough time to devote, it would be advisable not to take it. That said expect a fun
course: you would learn a lot, and need not be nervous for the amount of material referenced, as my job is to make it comprehensible with minimum effort on your part.

**Course Design and Requirements**

Your grade for the course will be determined by your group cases, your peers’ evaluation of team work, class participation, and an individual take-home final exam, all as defined below. Following is the summary of weights on the various components that I will use to evaluate your performance in this class:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class participation</td>
<td>10%</td>
</tr>
<tr>
<td>Case reports</td>
<td>50%</td>
</tr>
<tr>
<td>HP/Compaq (A &amp; B)</td>
<td>13%</td>
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<tr>
<td>Seagate Buyout</td>
<td>13%</td>
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<td>Marvel Restructuring</td>
<td>12%</td>
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<td>Hilton-ITT Wars</td>
<td>12%</td>
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<td>Peer Review</td>
<td>10%</td>
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<tr>
<td>Final Case (Take-Home) Exam (Individual)</td>
<td>30%</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
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There is no definitive grade distribution for this course. I believe that hard work toward learning and top in-class performance should be rewarded with excellent grades. Consequently I am prepared to assign higher share of top grades if the class performance is indeed excellent. Below is a description of the individual components in the grading schedule.

**Case reports (50%)**

I will include in the class contents five case studies. Each case carries weight of 10% toward your final score. You will work in teams to prepare these cases. Each team shall have six teammates. You can choose fellow peers from both sections I and II. The deadline for forming these teams is Friday, March 26th. Your team has to send Aparna Misra (the teaching assistant in charge of organizing the teams, misra.aparna@wustl.edu) an email by that date letting her know who the teammates in your group are. If you could not find teammates by that date please let Olga know as soon as possible, so that we can assist you in joining/forming a team.

Team-building skill and ability to work well with your teammates are crucial for successful completion of this course (and for any career choice advancement, for that matter). More than 50% of your grade is based on a team-based performance benchmark. If you think that this is unreasonably high, consider this: FIN 523 may be one of the few left safe opportunities to practice (and improve at) working efficiently with your peers. Second, due to the intensity of this course, you would probably find yourself spending more time with your teammates for FIN523, than you will for any other class. I suggest therefore that you get an early start of your team.
A main component in your effort to build a successful team is choosing your teammates. How to approach this? Go back to your past classes, where you might have worked together with others. Try to find out whether old teammates are enrolled in this class. If you have difficulty creating a team of your own, do not wait, but instead attempt to enroll in a team that may have already built up. I have noticed that oftentimes students come up with a list of three teammates, and then face difficulty finding three more (usually because others are already signed up in complete teams, or similarly, have their own mini-team of three students by that time). If you find yourself in a similar situation, you may want to consider merging your team with another team, in order to build your team up to six students by the deadline. I advise you once again to prioritize your team building effort. To facilitate your effort, Aparna Misra will send you updates on the team building, 3/23 through 3/26.

Guidelines for Case Reports Preparation
Case reports are due at the beginning of the first class that we discuss the case, 10am. You have to send an electronic copy to me through the SafeAssign portal in Blackboard (the report in Word document) and through the digital drop box in Blackboard (the Excel attachments). I expect you to submit your Excel attachment to each case. I expect you to submit your Excel attachment to each case. The Excel spreadsheet shall contain live formulas (i.e. I can read the Excel cells that contain your formulas as opposed to viewing static numbers only). For each of the cases that will be discussed in this course an instructive list of questions is provided to help guide and focus your analysis at the end of this syllabus. Your case report should include (but is not limited to) an analysis of these guiding questions. Follow these suggestions when preparing your case:

1. Read case thoroughly. Determine major problems &/or opportunities (main issues).
2. Critically evaluate the information provided. Sometimes this information is incomplete. Indecision is the greatest inefficiency that you would have to battle with. Hence do not be afraid to make reasonable assumptions regarding missing data/links. Clearly describe them. Justify them carefully, since you will have to defend them.
3. Think of & search for alternative courses of action and motivate your approach. Analyze and evaluate the alternatives considering both the strengths and the weaknesses of each. Always pay attention to both the condition of the firm & the status of its competitors.
4. Decide what your specific recommendation is to be & fully develop the logic supporting your recommendation. I stress logic: it has to be crystal clear what you write, no shortcuts! Do not attempt to hedge your bets or be vague: that will lower your score by a letter grade. If you do not back up your pick w/ arguments, I view this as having made no recommendation.
5. Be brief: 5 pages maximum report length + all supportive evidence. Do not repeat the facts of the case: I am interested in your opinion, not facts. Use font of 11 or higher.

The case reports could be written in essay form or in form of individually answering questions that accompany the case. It should be written with your classmates in mind as your intended audience. Keep a copy of your answers as you will be expected to contribute to the class discussion. All cases include a quantitative part. For this part, show your calculations clearly (in Excel appendix). Make your spreadsheets readable and have all formulas displayed.

Please submit your report on time (i.e. submit it electronically to the SafeAssign portal in Blackboard by 10am of the case date). Late submissions carry a penalty of the score-equivalent of one letter grade.
on the case report grade for each day your report is late (e.g. if you submit by noon on the presentation date, as opposed to by 10am, your case grade would be at best B). You will receive the team score on your case report within about one week after the class discussion of this case.

Peer review (10 %)

Since work in teams requires equal participation of all members I will evaluate your case reports based on two components. First, I will assess the quality of your report on a group basis. Group tasks shall be given group rewards. This means that you must make not only a direct contribution to the development of the case study, but that you also have an obligation to make your team work efficiently. Second, I will ask you to rate your fellow teammates’ contribution to the project. For that purpose you will use the peer evaluation form on the Blackboard website (under course materials). It will ask you to evaluate your group members on their teamwork for the five cases. Note that integrity in this evaluation is essential: furthermore it would be easy for me to tell whether that teammate is delivering a fair and unbiased view of his other teammates in this group. The peer review is due on Friday, April 30th, through the SafeAssign portal in Blackboard.

A problem sometimes associated with group projects is that a team member might not do his/her share of the job. I urge you not to let problems develop to the point where they become serious. Groups often ignore problems, wishing that they disappear. Try to solve the problems among yourselves. If you can’t, bring it to me, as soon as possible. I will also ask you to fill a peer evaluation form for your team for that particular case. If I am convinced that someone has not carried his/her fair share for any reason – I reserve the right to reduce that person’s grade for the case by as much as a half of the team’s grade. I would also communicate/mediate with all team members & help resolve & oversee the projects’ progress in such instances.

Course participation (10 %)

Since this course is case-based, it requires maximum involvement, participation and sharing of ideas on the part of all students in class. I therefore expect you to attend each class and to be well-prepared. This will determine how much you learn.

I expect you to actively participate in the lectures & case discussion. In order to get a good grade on the class participation section I will expect you to answer question in class and to provide comments on answers given by your fellow students. Participation quality (thoughtfulness of comments & questions) is valued more than participation quantity (frequency of comments & questions). All of the A+, A, and A- that I will give shall have participated actively. Please be prepared to talk about the readings & cases that are assigned for class. To facilitate class participation, each class I will also bring one-minute memos: these are memos that you would fill at the end of each class. Memos’ primary goal is to provide you with an opportunity to ask me questions on the topic of that day’s class. Although they are not graded, they would count toward your class participation. Second, I would (usually) ask you a question related to that class, that you would need to answer as part of these memos.

Your attendance is an essential part of your participation score. Since I know that you may be looking at this stage for internships/ full-time positions, I would allow a reasonable number of absences (three)
for this class. Any additional absence would lower your participation score by the equivalent of one letter grade. Note also that by having your memos for a given class, I would also have a record of your attendance of that class.

### Individual final exam - take-home (30 %)

The exam is cumulative on the material in the course. The registrar has scheduled it on Thursday, **May 6th, 2010**. Note however that this is a take-home exam. Essentially, on **Thursday, May 6th, at 8am** I would send you the case that you would have to prepare individually and send back to me through the Safe Assign portal, created in Blackboard, **by 8am on Friday, May 7th, 2010**. Please note that if you deliver it late, I would lower your final case score with as much as the equivalent of two letter grades, depending on the extent of delay in submission. The final exam would mimic the cases that we would have covered in class, and add questions related to the case that require use of the concepts covered in class. You can expect me to send you my evaluation of your writeup report and case resolution recommendation within a week after I have received your final exam case.

I want to alert you to the need to avoid any representation of others’ work as your own. Note that the SafeAssign software is designed with that sole purpose of helping me check whether this is the case. Plagiarism is an serious academic offense and would result in lower overall course performance.

The limitation for the final exam report is once again **five pages** plus all tables, graphs, spreadsheets and figures that you deem necessary to support your case resolution.

### Academic Integrity Policy

This course will be conducted according to the standards specified in the ‘Code of Conduct and Undergraduate Student Academic Integrity Policy’, presented to both the students and the faculty of the John M. Olin Business School (if you are not familiar with it, please take a look at [http://www.wustl.edu/policies/undergraduate-academic-integrity.html](http://www.wustl.edu/policies/undergraduate-academic-integrity.html)). Note that I would rely on these policies of academic integrity, even though they are not specific to the graduate program. All discussions about the case assignments are to be limited to your team only. Any attempt to represent the work of others (including reports on similar cases distributed prior semester by instructors in this class) as your own will be considered plagiarism. Penalties for academic offenses such as plagiarism and cheating have ranged from academic probation to expulsion from the school. Please consider the following steps when you cite the work of others (a quote from the academic integrity policy code):

1. “Enclose quotation in quotation marks, and acknowledge its source.
2. Cite the source of every summary, paraphrase, abstraction or adaptation of material originally prepared by another person and any factual data that is not considered common knowledge. Include the name of author, title of work, publication information, and page reference.
3. Acknowledge materials obtained from lectures, interviews, or other oral communication by citing the source (name of the speaker, the occasion, the place, and the date).
4. Cite materials from the internet just as if it were from more traditional published sources.”

### Disabilities
I will make reasonable accommodations for students with verifiable disabilities. Students that qualify for accommodations on that ground, have to register at the Washington University’s Center for Advanced Learning Disability. Note that since the final exam is a take-home one, essentially your accommodation would amount to me granting you the verified allowable surplus time for completing your take-home final exam.

**Student Info Card**

I will distribute on the first day of class (3/23) a paper copy of the student information card. Please fill it in and bring it back to class on Thursday, 3/25 (no need to add a photo, unless you have a spare one).

**Professional Conduct in the Classroom**

- **Punctuality:** I expect you to arrive & be seated prior to start of class session. Please display your name card in all classes, *at all times*, 😊. You can receive a new one from Simon Hall 12.
- **Courtesy:** In-class interactions will (I hope) be spirited, but always w/ professional courtesy & personal respect.
- **Prep work:** I expect you to complete the readings, case preparations & other assignments prior to each class session & be prepared to actively participate.
- **Laptop use:** I encourage you to use laptops, should it help you better prepare for class & take notes in a more efficient manner. Be mindful though, it could be difficult to compete you’re your attention w/ Internet.
- **Please be sensitive to these:**
  - *Exiting and Entering:* I expect you to remain in class for duration of session unless an urgent need arises/ you made prior arrangements with me.
  - *Cellular Phones & Pagers:* I expected you to keep your mobile phones & pagers turned off or have them set on silent/vibrate during class. If however you receive a call in class, I ask of you to take it, in front of everyone.

**Office Hours & Review Sessions**

I will hold office hours and case review sessions, the times and location of which are listed on the first page of this syllabus. The office hours would be in my office (208) from March 23rd through April 29th. I encourage you to stop by the office hours, as well as attend the case Q&A review sessions. The latter would also provide a venue for discussing class material and provide guidance on upcoming assignments.

Another way to reach me for questions is by email. Please send inquiries to my email address, mentioned on the first page of this syllabus. I would collect all such contents-related emails and answer them to the entire class. The answers would be type-written and posted on Blackboard for everybody to read (this would also include questions asked in the review session, so even if you cannot come to it due to prior engagements, you would receive access to the Q&A from these). Note that I would always acknowledge to you receipt of your email, but would not reply individually to it unless it relates to you or your in-class performance. My reasons for taking this approach are twofold. First, my experience suggests that you ask excellent questions related to the course material. Thus, to benefit everyone, I would always answer your contents-related questions to the entire class. Second,
occasionally students may ask questions immediately prior to assignment deadlines that mimic closely the questions in the corresponding assignments. Since I believe it is unfair to provide selective guidance via such email responses, I would answer such questions to the entire class.

You can also contact the teaching assistants, of course.

**Course Schedule**

A detailed course outline, including the readings and textbook chapters assigned for each lecture, is listed below. I intend to adhere to this schedule, but if we need to slow down on certain topics or move fast on others we would adjust it slightly.

**Your Notes & Questions** (intentionally left blank)
<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3/23, T</td>
<td><strong>In-class:</strong> Introduction (course overview, student introduction, student information sheet). Merger &amp; Acquisitions Evidence, Goals, and Main Economic Drivers. <strong>Assignment:</strong> In-class memo question &amp; article readings</td>
<td>Syllabus Brunner [B]: Ch. 4, 6, and 7 (posted online)</td>
</tr>
<tr>
<td>2</td>
<td>3/25, R</td>
<td><strong>In-class:</strong> Deal Design: choosing reorganization form, payment form &amp; financing, terms of exchange &amp; contingent payment plans. <strong>Assignment:</strong> In-class memo question.</td>
<td>B: 19, 20, 21, 22</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Review</strong> 3/26, F <strong>Review Session (optional):</strong> Simon 110, 5-6pm, Review of the HP/Compaq case <strong>Deadline:</strong> Final teams’ list is due, please contact Aparna Misra.</td>
<td>HP/Compaq Case (A&amp;B)</td>
</tr>
<tr>
<td>3</td>
<td>3/30, T</td>
<td><strong>In-class:</strong> Continue with deal design discussion. <strong>Assignment:</strong> In-class memo question.</td>
<td>B: 11, 15, 16 (note: 11 is already posted online)</td>
</tr>
<tr>
<td>4</td>
<td>4/01, R</td>
<td><strong>In-class:</strong> HP/Compaq case. I will lead the discussions. <strong>Assignment:</strong> be prepared to discuss your resolution of the case.</td>
<td>Case Reading Presentation slides</td>
</tr>
<tr>
<td>5</td>
<td>4/06, T</td>
<td><strong>In-class:</strong> Continue with deal design discussion. If time permits, start tax issues in M&amp;A reorganizations. Taxable &amp; tax-free acquisition structure for C and S corporations. <strong>Assignment:</strong> In-class memo question.</td>
<td>Scholes et al.: 14, 15, 16 (posted online)</td>
</tr>
<tr>
<td>6</td>
<td>4/08, R</td>
<td><strong>In-class:</strong> Valuation &amp; Accounting Issues. Synergies &amp; motive-based valuation, Liquidity premium adjustment, control discount adjustment. Review of purchase accounting method. <strong>Assignment:</strong> In-class memo question.</td>
<td>B: 11, 15, 16 (note: 11 is already posted online)</td>
</tr>
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<td></td>
<td></td>
<td><strong>Review</strong> 4/09, F <strong>Review Session (optional):</strong> Simon 110, 5-6pm, Review of the Seagate case.</td>
<td>Seagate Case</td>
</tr>
<tr>
<td>7</td>
<td>4/13, T</td>
<td><strong>In-class:</strong> Seagate case. I will lead the discussions. <strong>Assignment:</strong> be prepared to discuss your resolution of the case.</td>
<td>Case Reading Presentation slides</td>
</tr>
<tr>
<td>8</td>
<td>4/15, R</td>
<td><strong>In-class:</strong> Continue valuation. Leverage Buyouts (LBO) - valuation. <strong>Assignment:</strong> In-class memo question.</td>
<td>B: 13 (LBO) &amp; 8 &amp; 25 (process)</td>
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<td></td>
<td></td>
<td><strong>Review</strong> 4/16, F <strong>Review Session (optional):</strong> Simon 113, 5-6pm, Review of Marvel case.</td>
<td>Marvel Case</td>
</tr>
<tr>
<td>9</td>
<td>4/20, T</td>
<td><strong>In-class:</strong> Marvel case. I will lead the discussions. <strong>Assignment:</strong> be prepared to discuss your resolution of the case.</td>
<td>Case Reading Presentation slides</td>
</tr>
<tr>
<td>10</td>
<td>4/22, R</td>
<td><strong>In-class:</strong> Deal process: due diligence timing &amp; output, first-round documents, definitive agreement, disclosure to investors. Merger proxy statement &amp; prospectus, negotiation hints &amp; facts, auction structures. Legal aspects (antitrust, hostile takeovers, takeover attack &amp; defense) <strong>Assignment:</strong> In-class memo question.</td>
<td>B: 28, 29, 30, 31, 32, 33</td>
</tr>
<tr>
<td>11</td>
<td>4/27, T</td>
<td><strong>In-class:</strong> Conrail A &amp; B case. I will lead the discussions. <strong>Assignment:</strong> be prepared to discuss your resolution of the case. <strong>There is no report due for this case.</strong> Class Evaluation.</td>
<td>Case Reading Presentation slides</td>
</tr>
<tr>
<td>12</td>
<td>4/29, R</td>
<td><strong>In-class:</strong> ITT-Hilton Wars Case. Class wrap-up. I will lead the discussions. <strong>Assignment:</strong> Be prepared to discuss your resolution of the case. Please submit report through SafeAssign portal in Blackboard.</td>
<td>Case Reading Presentation slides</td>
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Appendix I: Case Questions

Hewlett-Packard & Compaq Merger: Strategy & Valuation (Part A) & Deal Design (Part b)

This case discussion will assess the specific terms of merger of HP and Compaq. Are these terms right for this deal?

1. Value the synergies projected by HP and Compaq.

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?

Seagate Technology Buyout

1. Why is Seagate undertaking this transaction? Is it necessary to divest the Veritas shares in a separate transaction? Who are the winners and losers resulting from the transaction?

2. What are the benefits of leveraged buyouts? Is the rigid disk drive industry conductive to a leveraged buyout?

3. Luczo and the buyout team plan to finance their acquisition of Seagate’s operating assets using a combination of debt and equity. How much debt would you recommend that they use? Why?

4. Based on the scenarios in Ex. 8, and on your assessment of the optimal amount of debt to be used in Seagate’s capital structure, how much are Seagate’s operating assets worth? For both of the assumptions listed below, estimate the value of Seagate’s operating assets. Assume that of the $800 million in cash that the buyout team will acquire as part of the transaction, $500 million is required for the net operating capital and $300 million is excess cash.

(a) Assume that the buyout team plans to maintain its debt at a constant percentage of the firm’s market value.

(b) Assume that the buyout team plans to pay down its debt as cash flows permit until a terminal debt level of $700 million is reached.
Bankruptcy & Restructuring @ Marvel Entertainment Group

1. Why did Marvel file for Chapter 11? Were the problems caused by bad luck, bad strategy, or bad execution?

2. Evaluate the proposed restructuring plan. Will it solve the problems that caused Marvel to file for chapter 11? As Carl Icahn, the largest unsecured debtholder, would you vote for the proposed restructuring plan? Why or why not?

3. How much is Marvel’s equity worth per share under the proposed restructuring plan assuming it acquires Toy Biz as planned? What is your assessment of the pro-forma financial projections and liquidation assumptions?

4. Will it be difficult for Marvel or other companies in the MacAndrews and Forbes holding company to issue debt in the future?

5. Why did the price of Marvel’s zero-coupon bonds drop on Tuesday, November 12, 1996? Why did portfolio managers at Fidelity and Putnam sell their bonds on Friday, November 8, 1962?

Consolidated Rail Corporation (ConRail) Acquisition (Parts A & B)
(Note: you do not have to submit a report on this case – questions are for class discussion)

1. Why does CSX want to buy Conrail? How much should CSX be willing to pay for it? Use the following two methods:
   a. Evaluate Conrail using multiples.
   b. Estimate WACC of merged firm. Assume that the market risk premium is 7.5%, and that the debt beta of both firms is 0.1. Using the WACC, evaluate the value of Conrail as its current price plus the PV of the merger synergies.

2. 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 pills)? Do these provisions protect shareholders?

3. From the bidder’s point of view, what are the advantages of a two-tiered offer? You can also use in your answer the reading “The takeover controversy: Analysis and Evidence” by Michael Jensen in the course packet.

4. As a Conrail shareholder, would you tender your shares to CSX at $92.50 in the first-stage offer?

5. Why did Norfolk Southern make a hostile bid for Conrail?
6. In a bidding war for Conrail, who should be willing to pay more, Norfolk Southern or CSX? In order to answer the question, follow these steps:
   a. Estimate WACC of the two potential merged-firm pairs (CSX-Conrail and Norfolk Southern-Conrail)?
   b. Evaluate the value of Conrail as its current price plus the PV of the synergies to each of the two bidders.
   c. What other motives could there be in determining the two bidders’ valuation? Notice the difference between Exhibit 7 in case A and Exhibit 6a in case B. Can you explain this difference?
   d. Would you reflect the break-up fee in your Conrail valuation for Norfolk Southern shareholders? If not, why? If yes, how?
   e. Would you reflect the lock-up provision cost in your Conrail valuation for Norfolk Southern shareholders? If not, why? If yes, how?

7. Why does CSX refer to Norfolk Southern bid as a “non-bid”? Do you agree? In order to answer this question try to evaluate Norfolk’s offer given the time delay related to it due to the anticipated proxy fight.

8. As a shareholder, would you vote to opt-out of the Pennsylvania antitakeover statute? What do the capital markets expect will happen?

9. Do market regulations such as the Pennsylvania antitakeover law protect investors?

**Hilton-ITT Wars Case**

1. Please familiarize yourself with the valuation analysis in the case. What was ITT’s equity market value? What was ITT’s estimated "break-up" value? What is the estimated value of the synergy between Hilton and ITT?

2. Why did Hilton tender for ITT? What is the difference between a tender offer and a negotiated transaction? How did ITT respond?

3. Why might Bollenbach have opened his bidding for ITT at $55 per share? What are the pros and cons of Bollenbach's initial $55 bid? What was the likely mood of the risk arbitrageurs (arbs) at the date of the case (July 17, 1997)?

4. What do you recommend that Bollenbach do? Should he raise the bid? If so, by how much?
Appendix II: Peer Review Form

**Instructions:**
- Rate each teammate on each item, honestly and fairly. *Evaluate each teammate separately.*
- Your feedback will have critical influence upon each teammate course grade.
- Submit your peer evaluation after the last class on April 23rd, through the SafeAssign portal on Blackboard.

Peer Evaluation Form (note that the maximum team member score is 15)

Scale: 5 = excellent; 4 = better than average; 3 = average; 2 = somewhat below average; 1 = very poor

<table>
<thead>
<tr>
<th>Name:</th>
<th>Team Members</th>
<th>Criteria</th>
<th>Ratings</th>
<th>Cases</th>
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<td>Member 1:</td>
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<td>Ability:</td>
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<td>Effort:</td>
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