1. Faculty Bio

Julian Franks is a Professor of Finance and Academic Director of the Centre of Corporate Governance at the London Business School. Julian’s research focuses on bankruptcy and financial distress, corporate ownership and control, and regulation. His work on ownership and control (with Colin Mayer and Stefano Rossi) has won two international prizes, and two of his published papers have been awarded prizes for the ‘best paper’ of the year. He has been visiting professor at the University of California at Berkeley and at UCLA.

He has served as a member of: the DTI-Treasury committee for reviewing the UK’s insolvency code, the Breedon Committee investigating new avenues of non-bank sources of finance, and The Company Law Review’s committee on corporate governance. He has advised regulators including Ofcom (telephony), ORR (railways) and Ofwat (water), acted as an expert witness for the UK government at The World Court at The Hague and for Ofcom in three appeals to the Competition Appeals Tribunal. He advised (with Professor Brealey) The Office of Constitutional Affairs on the issue of outside equity for law firms. He is partner in the consulting firm of OXERA and is on a number of advisory boards.

2. Aims & Objectives

This elective will examine four forms of corporate reorganizations: mergers (and acquisitions), private equity, reorganization through workouts and bankruptcy, and shareholder activism.

The course will have three main strands. First, there will be a strong financial economics based approach based on academic papers, and a focus on how transactions take place; those transactions include mergers, private equity, and restructurings of distressed and bankrupt companies. We will analyze their role in both the private and public capital markets, and how they perform from a shareholders’ perspective. Second, a strong institutional flavour will run throughout the course. Third, there will be visiting speakers who will contribute to the transactions part of the course.

We will in some classes discuss for 10 minutes a current transaction, e.g. a takeover or a shareholder activism engagement that has been announced in the media. The choice of transaction should help to provide further illustrations of relevant institutions and ideas covered in the course.
3. Assignments & Assessment

There is a final examination that accounts for 60% of the course grade. The exam will take place on Tuesday, 2 December (the tenth session of the course) and will be about 2 ¼ hours. There will be no opportunity to take this exam at any other time so you should make sure that you will be present for the exam; if you have any doubt you should not take the course.

There are five assignments all to be written up and submitted. All will be graded but 2 will be pass/fail (Vodafone and Kohler). The three graded cases will account for a total of 30% of the grade (10% each case). The two pass/fail cases will account for 10% of the total grade (5% each case). Students should prepare all assignments in groups of two. The write-ups should be typed, a maximum of 3 typed pages plus exhibits. All assignments should be submitted electronically through ‘Turnitin’.

The exam will be based upon the class slides (and discussion), assignments, and readings (see below). It will account for 60% of the total grade. I strongly recommend students that attend class since the discussions will elaborate on the slides and contribute to the grading of the final exam.

The course site at Portal contains material essential for this class. It is most efficient to ask questions (either on course material or on administrative items) on the Discussions section of Portal rather than emailing me. This means that all students can read our answers, saving the same question being asked multiple times. It also leads to a faster response since any of us can respond.

4. Textbook [readings and other materials]

READINGS

The course pack provides the readings for the course. I will discuss some of the readings in class; others provide background information. In addition, I have included a past examination paper to provide examples of the kind of questions you may be asked.

For background reading there is a useful textbook by Donald M. DePamphilis, ‘Mergers, Acquisitions, and Other Restructuring Activities’, Seventh Edition. The library holds this as an e-book.

5. Format & Teaching Methods

Session 1: 12 January 2016, 12:45pm

Ownership and Governance Around the World

- Ownership of companies across countries
- Importance of family ownership
- Determinants of successful capital markets

Readings:
Session 2: 19 January 2016, 12:45pm

M & A in Europe, North America and Asia

• How to make a merger or takeover
• Levels of takeover activity in North America, Europe and Asia
• Differences between hostile takeovers and agreed mergers
• Regulation of takeovers

Readings:


Financing of mergers, bid premia and post-merger performance

• Why use debt rather than equity as the medium of exchange
• Using the market model to calculate the bid premium in a takeover

Assignment 1: Chase Manhattan (submit in week 3)

Session 3: 26 January 2016, 12:45pm

M&A Valuation

Readings


Submit and discuss Chase Manhattan
Prepare assignment 2: case study Vodafone Mannesmann (submit week 4)

Session 4: 2 February 2016, 12:45pm

Conglomerate Valuation

Readings


12.45 pm: Discussion of Vodafone Mannesmann Takeover: Discussion of Vodafone Mannesmann case (case discussion to be lead by Warren Finegold, Director of Strategy of executive board of Vodafone)

Prepare assignment 3: USX (submit in week 5)

Session 5: 9 February 2016, 12:45pm

Discuss assignment 3: USX case study

Toeholds in mergers

Prepare Assignment 4: Kohler Company (submit in week 6): Valuation of a Private Company


Session 6: 23 February 2016, 12.45pm

Private Equity Transactions

• Who provides the finance
• A private equity case study
• Profitability of private equity
• Where does profitability come from? How much is from leverage?
Readings:


Discuss case study: Kohler Company

Session 7: 1 March 2016, 12:45pm

Visiting Speaker: David Trenchard (formerly) Vice Chairman of Knight Vinke (activist investor)

Debt overhang and bank debt restructuring

- Bank debt restructuring in distress
- Debt overhang and bank forgiveness
- Distressed rights issues

Readings


Session 8: 8 March 2016, 12:45pm

Visiting speaker on Private Equity: TBC

Do bankruptcy codes matter and how is the pie divided?

Readings


Prepare Assignment 5: Flagstar Corporation (submit in week 9)
Submit and discuss Assignment 5: Flagstar Corporation

Shareholder activism in US, Europe and Japan

- How extensive is activism
- Who are the activists
- How does it work and what are the outcomes
- How profitable is it

Readings:
Marco Becht, Julian Franks, Julian Franks, Jeremy Grant and Hannes Wagner, 2015, “The Returns to Hedge Fund Activism: An international study” working paper.

Session 10: 22 March 2016, 12:45pm

Final exam

OFFICE HOURS

Students are encouraged to visit Julian Franks out of class. You can arrange an appointment or pass by his office without an appointment.