Deals

Instructor Bio
Paolo Zannoni is the Chairman of Goldman Sachs Italian Investment Banking. He is also Chairman of Dolce e Gabbana holding. Previously he served as the CEO of Goldman Sachs Russia and CSIS and the CEO of Goldman Sachs Italian Investment Banking. At Yale, he is an International Finance Fellow at the Yale School of Management and a member of the Board of Directors of the International Center for Finance and Advisory Board of the Jackson Institute for Global Affairs.

Prior to his career in investment banking he held a variety of roles with Fiat, including President of Fiat USA and Fiat Russia and CSIS.

Paolo Zannoni received an MA and MPhil in Political Science from Yale University and a BA in Political Science from the University of Bologna.

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Course Outline
The purpose of the course is to expose students to some of the key practices of deal making among actors in the marketplace. This will be accomplished by looking at a set of ten cases representing transactions in which the instructor has been involved. These cases will be the foundation of the course. The ten cases represent a reasonably diverse set of situations. We will examine how different deal types (acquisitions, mergers, access to capital markets, etc.) are structured and executed in different political, cultural, and regulatory environments.

Students will examine how a number of key financial products and processes are used in deal-specific situations. Students will explore how the structure of the transaction, valuation, and quantitative analysis interact with environmental variables like business culture, tax structure, and political situation in achieving a successful outcome. By deeply analyzing specific cases through the lens of experience, students will gain the analytical toolset to evaluate and execute deals in the marketplace.
The skills needed to structure and execute deals are acquired mostly through apprenticeship. This is true for both principals and advisors. Analyzing real deals and recreating actual transactions is a form of apprenticeship – the instructor will guide the students in doing both.

The deals have been selected to offer students exposure to a variety of products and processes used by actors in the marketplace to achieve their goals. Each deal is highly complex. Multiple actors are involved and the ability to deal with each and all of them is important to achieving a successful outcome for the deal.

The environments where the transactions have been structured and executed are also complex. Privatization of assets owned by different institutions of the state, cross border mergers of equals, and private equity investment in markets with evolving legal and regulatory environments are very challenging to structure and execute. Actors need to be able to assess the impact of these environmental variables on deal structure and execution.

**Course Format**
Each session will be devoted to a different transaction. Each session will involve student presentations and discussion about the assigned readings. Since all deals involve at least two different groups of actors with differing views and interests, presenting students will be asked to represent interests, views, and behaviors of each group of actors.

The first half of each class session will consist of student presentations. Two groups of four students will each present “the deal of the day” analyzed from the point of view of one group of actors. For example, in an equity offering one group will represent the views of the selling shareholders and the other will represent the views of institutional investors on the buy side. At the end of the course, every student will have been an active participant in at least one deal-specific analysis and presentation.

The second half of each session will consist of a class-wide discussion based on the assigned readings and the two presentations. Students are expected to actively participate in discussion and complete the required readings prior to coming to class – discussion will be productive only if students arrive prepared and ready to engage with the complex deals we will be examining.

To help students go through the readings and the presentations for each specific transaction, the main features of each case will be highlighted in advance. The instructor will introduce the deal to be analyzed in each class at the end of the previous class session.

**Course Materials**
All case materials and readings will be provided online. There are no required textbooks for the course.

**Grading**
- Case Presentation 30%
- Case Analysis Write-Up 30%
Class Participation 30%
Peer Evaluation 10%

**Case Presentation**

Each group presentation should last about 20 minutes, for a total presentation time of 40 minutes. The groups of 3-4 students will be formed by the instructor. Groups will be able to sign up for the specific deal/case they would like to present on a first come, first serve basis. Students should inform the teaching assistants of the case their group will present by midnight of the first class day (March 29).

Students will be asked to examine the key questions and issues of the case they are presenting. In each case, they will analyze variables unique to each type of transaction:

- For example, if analyzing a merger of equals across national borders, students will be looking at:
  1. If and how the valuation of each corporate actor satisfy the “equality” requirement;
  2. How the corporate governance of the combined entity can fit with the objectives of the management team;
  3. If and how the combined entity can satisfy the requirements of the shareholders of each merger candidate;
  4. The attitudes of the political elites of both countries toward the proposed combination;
  5. How the proposed combination meets regulatory requirements of would-be jurisdictions.

Case presentations will be graded on content, organization, delivery, responsiveness, and group coordination. All group members are expected to meaningfully participate in the case presentation. A visual aid (PowerPoint presentation or handout) will be expected as part of the presentation.

**Case Analysis**

Students are expected to submit one 4-5-page write-up per group of four on their case presentation (Double-spaced, 12 point font, Times New Roman). The purpose of the write-up is to highlight the main aspects of the position of each side. Each write-up should drive forward a thesis for each side and the analysis should back this thesis.

The two write-ups will be due one week after the case presentation to give students a chance to integrate comments made during the discussion into the write-up. The discussion may give students additional considerations to respond to or analysis to execute – anything to strengthen each case position. Case analysis write-ups will be graded on content, supporting evidence, clarity and quality of writing, and organization. Case write-ups submitted after the deadline will incur a penalty.
**Peer Evaluations**
At the end of the semester, the instructor will distribute peer evaluations in which you will be asked to assess the performance of your teammates based on their contribution to both the Case Presentation and the Case Analysis.

**Class Participation**
Robust class participation can only be achieved with proper preparation before class. Students are responsible for preparing prior to each class session. Preparation should entail a mixture of reading the case material and considering the key aspects of the case. Thinking through the logic and motivating factors of the transaction will help students develop a conceptual framework through which to view each case.

Students are expected to devote their full attention to classmates’ case presentations, noting key points made and questions that arise. After the student presentations in the first half of the session, students are expected to contribute their thoughts on the case to the discussion. Active participation is integral to providing insights on the problems of each case – quality is, however, more important than quantity of comments made. Comments that move the discussion forward by building on the discussion, bring up new factors to consider, or provide an alternative view or analysis of a subject are some examples of quality comments.

Students are expected to attend all of the class sessions and arrive on time. If students expect to miss a class, they must notify the teaching assistants ahead of time.

**Laptop policy**
Students are welcome to use laptops and other technology during the course session only to access materials necessary for discussion. Please refrain from using laptops to engage in non-class related activities.

**Issues of Academic Integrity**
Students should adhere to the Yale School of Management’s standards of academic integrity.

**Plagiarism:** When submitting written assignments for the course, students must properly cite and attribute all works used. Direct quotation, paraphrasing, and analysis that is not the student’s own work require citation. Plagiarism is not permitted and evidence of plagiarism will result in a referral to the Honor Committee.

**Group Work:** Group work will give students the opportunity to develop a complicated analysis with the assistance and feedback of classmates. Students should all work to contribute to the team case presentation – while it is up to you to distribute the work as you see fit, all students should participate significantly in the making and delivery of the presentation. A student should not be credited with work if he or she has not contributed substantively to the presentation.
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Schedule and Case Information

Students are expected to have done all of the assigned readings prior to each session.

**Week 1**
March 29: Introduction

**Objectives:**
- Understand the purpose of the course
- Go over the syllabus
- Receive team assignments

**Readings:**
- No readings

March 31: Enel’s Takeover of Endesa

**Objectives:**
- Understand the strategies of the two potential acquirers of Endesa, Enel and Eon, and examine what led to the success of Enel’s offer

**Readings:**
- SEC Filing
- SOM Raw Case on Endesa: [nexus.som.yale.edu/endesa/](nexus.som.yale.edu/endesa/)

**Week 2**
April 5: Financing Summa’s Acquisition of FESCO with bank loans and high yield bonds

**Objectives:**
- Understand how to finance a domestic acquisition between Russian entities on the international capital market

**Readings:**
- Prospectus: Pgs. 6-75, 133-180

April 7: The Privatization of ALROSA

**Objectives:**
- Understand the challenges posed by the privatization of a Russian diamond company opening capital to international investors

**Readings:**
- Prospectus: Pgs. 1-46, 95-186

**Week 3**
April 12: Prada IPO

**Objectives:**
- Understand how to structure and execute the listing of an Italian family-owned luxury company on the Hong Kong stock exchange

**Readings:**
- Prada Offering Memorandum: Pgs. 64-140, 231-232

April 14: Goldman Sachs Capital Partners Investment in Prysmian

**Objectives:**
- Understand how to structure and execute the LBO of a division of a large corporation into a successful self-standing corporate entity

Week 4
April 19: Prysmian / Draka Merger

Objectives: Understand how to create a world leader in a mature industry through a cross border acquisition/merger
Readings: Draka Offering Memorandum: Pgs. 13-40

April 21: Demerger of Fiat Chrysler Automobiles and Fiat Industrial

Objectives: Understand how to separate the passenger car business from the industrial business (truck, agricultural, and heavy equipment)
Readings: Prospectus: Pgs. 1-60
CEO’s Presentation to the Extraordinary General Meeting

Week 5
April 26: Marco Polo Holdings and ChemChina Take Pirelli Private

Objectives: Understand how a group of long-time shareholders in Pirelli succeeded in taking the company private in partnership with ChemChina, an internationally acquisitive Chinese corporation
Readings: Prospectus, Pgs. 24-33, 53-83, 137-228

Week 6
May 3: Goldman Sachs Investment in Irkutsk Oil

Objectives: Understand the complexities of a structured private equity investment in a Siberian private oil company
Readings: Irkutsk Oil Annual Report, 2014
Wheel of Fortune: The battle for oil and power in Russia, Thane Gustafson (accessible online through Yale Orbis), Pgs. 30-63, 145-167, 465-480

May 5: Sintonia Investment in Atlantia / Summary

Objectives: Understand how the Benetton Family, in partnership with GIC and Goldman Sachs Infrastructure Partners, created one of the largest European owners and operators of infrastructure projects Final takeaways from the course
Readings: Atlantia Board of Directors Report for Extraordinary Session

Enel’s Takeover of Endesa
Objectives: Understand the strategies of the two potential acquirers of Endesa, Enel and Eon, and examine what led to the success of Enel's offer.

In 2007 Enel, Italy’s largest electrical utility, was looking for new growth opportunities abroad. Spain looked like an attractive market and Endesa was an ideal target. The ensuing company would have been the undisputed market leader in Italy, Spain, and most of Latin America. Endesa was an attractive target for other large players as well.

Gas Natural, a large Spanish company, had launched a takeover bid for Endesa in 2005. The offer by Gas Natural was moving slowly through political and regulatory hurdles. On February 2006 Eon, a German company and Europe's largest utility, decided to join the fray and launched a public tender offer for 100% of the shares of Endesa. In February 2007 Enel join the fight by acquiring a stake in Endesa in the public market. The fight for Endesa became highly contested.

We will be looking at the transaction from the point of view of Enel and Eon. One group of students will represent the Italian point of view and the other group will take the side of Eon. Both companies face the same strategic problems. In cross border mergers, political and institutional variables are very important and could heavily affect the final outcome. In highly contested acquisitions, it is possible to overpay for your target. Both foreign suitors of Endesa had to develop a strategy that could win and observe these two constraints. The two groups of students will look at the various moves of Enel and Eon to see how each strategic move tried to observe the two constraints.

Financing Summa’s Acquisition of FESCO with bank loans and high yield bonds

Objectives: Understand how to finance a domestic acquisition between Russian entities on the international capital market.

In 2012 Summa Group, a Russian private holding company, acquired a majority stake in Far Eastern Shipping Company (FESCO). FESCO owns shipping, rail and port assets.

The acquisition was financed by an $800 million term loan facility organized by Goldman, ING, and Raiffeisenbank. In 2013 FESCO priced $800 million of the senior secured notes due in 2018 and 2020. The proceeds were used to repay the acquisition, financing, and the refinancing some pre-acquisition indebtedness.

We will focus on a detailed analysis of the bond offering.

One group of students will represent the point of view of the company and the other group will represent the point of view of the investors willing to invest in the bond.

The first group will focus on the financing alternatives open to the company, their cost and feasibility. They will decide how to choose among these alternatives and once the choice is
made, how to execute a bond deal on the international capital market. Choices of law, covenants, pricing, and total costs will be examined.

The second group will look at the alternatives available for investors if they want to get exposure to fixed instruments of Russian companies with their associated risks and rewards. Company plans, quality of the security offered, shares, and hard assets, etc. will be examined.

In the class discussion we will see how the requirements of both of the constituencies were satisfied.

The Privatization of ALROSA

Objectives: Understand the challenges posed by the privatization of a Russian diamond company opening capital to international investors

In October 2013 the Government of the Russian Federation and the Government of the Republic of Sakha offered ordinary shares in Alrosa. Alrosa is the global leader in rough diamond production with the world's largest diamond reserve base (about ⅓ of world total). Technically the transaction was a re-IPO since the company was already listed on MICEX (the Moscow Stock Exchange), but the shares were very illiquid. The goal was to market the offer to international institutional investors to attract foreign capital into Russian equities. When you do an equity offering that is a multiple of the shares available for sale the transaction is very similar to an IPO and as such, we will treat the deal as an IPO.

One group of students will represent the selling shareholders. It should be noted that we are dealing with two government entities: one federal and the other state. The group should assess the coherence of the goals of the different owners. The audience targeted for the sale was composed largely by international investors looking for exposure to a national resources company. Corporate governance arrangements are an important variable for this constituency.

The second group of students will represent the point of view of the international institutions active on the buyside. The Russian Federal government decided to list the company only on MICEX. For both sides this represented challenges that had to be addressed. Both groups of students should spend time considering these challenges and how to overcome them.

Prada IPO

Objectives: Understand how to structure and execute the listing of an Italian family-
In 2012 Prada SPA issued primary and secondary shares in the company for about $2.15 million. Prada is a global luxury company started in 1913 by a Milanese family. Before the IPO, the shares were owned by the founder’s family.

In examining this transaction one group of student will represent the point of view of the selling shareholders, family, and company. The other will represent the point of view of investors looking to get exposure to a global luxury goods company.

The first group will look at the goals of the shareholders and the alternatives open to them. They will examine the state of the industry, the company strategy, results, and short- and long-term prospects. They will examine listing venues, size, and structure of the offer. They will also look at timing, marketing strategy and potential constituencies.

The second group will look at the potential deal from the point of view of the investors. They will examine the state of the industry and the available investment options. They will look at the equity story and evaluate the strategy and story of the company. They will also examine the corporate governance of the listed entity and the future liquidity of the shares.

In class we will see where and how the two different perspectives/interests meet.

**Goldman Sachs Capital Partners Investment in Prysmian**

**Objectives:** Understand how to structure and execute the LBO of a division of a large corporation into a successful self-standing corporate entity

In 2005 Goldman Sachs Capital Partners (GSCP) acquired the cable division from Pirelli Spa. The new entity, a self standing corporation, was renamed Prysmian. The objective of GSCP was to increase the value of the company by backing the aggressive business plan of management. The exit from the investment in Prysmian could have either been a private sale or a listing of the company on the European stock exchange. The company was successfully listed on the Italian stock exchange in 2007. We will focus on this transaction. However, the whole process of value creation will be examined as it was key in attracting public side investors.

One group of students will represent the point of view of GSCP. They will look at the objectives of the original investment, evaluate how many of them were achieved, and determine the time of the exit. They will also weigh the pros and cons of a private sale versus a public listing.

The second group of students will represent the point of view of the potential investors. They will evaluate the equity story of the company, the timing of the IPO in the cycle, and the corporate governance of the company itself. The main objective will be to decide if all the value in the company had already been expressed or if there were still opportunities for value creation as a listed company at the IPO price.
Prysmian / Draka Merger

Objectives: Understand how to create a world leader in a mature industry through a cross border acquisition/merger

In 2012 Prysmian completed the acquisition of Draka, thus becoming one of the world’s largest cable manufacturers. The acquisition was a long and difficult transaction for three main reasons.

- Draka had many suitors. Prysmian competed against Nexans (France) and Xinmao (China)
- Draka was a Dutch company with a controlling shareholder and the acquisition of a Dutch entity by a foreign acquirer is a complex process.
- Draka and Prysmian operate in the same business and there were significant antitrust regulatory hurdles

We will focus on the merger and the way the merger was financed by a combination of cash and shares. One group of student will present the deal from the point of view of Prysmian the other from the point of view of the Draka.

The students representing Prysmian will focus on the benefits accruing from the acquisition, especially the synergies and the cost associated with them. These costs are represented by the cash outlay and the share dilution.

The students presenting Draka’s point of view will be evaluating the benefits deriving from the company’s stand-alone operations against the portion of cash it will receive plus the share of the profits of the combined entity accruing to it as shareholders of the combined entity.

Demerger of Fiat Chrysler Automobiles and Fiat Industrial

Objectives: Understand how to separate the passenger car business from the industrial business (truck, agricultural, and heavy equipment)

Fiat had two priorities after the financial crisis of 2008/2009:

- Increase critical mass to produce at least 6 million passenger vehicles;
- Solve the conglomerate dilemma

In this session we will look at how Fiat achieved the second goal. With the acquisition of Chrysler automobiles Fiat become an automotive industrial group made of two rather different businesses:

- Automobiles and automotive components (Ferrari, Maserati, Chrysler, Alfa Romeo, Fiat, Lancia)
- Industrial businesses (trucks, agro equipment, and earth moving equipment)
The two businesses are significantly different in terms of earning cycles, capital requirements and volatility. The public equity market perceived this complexity and the public market valuation of the conglomerate did not reflect the competitive position of the two businesses in their respective industries. Fiat senior management decided to separate the two businesses and exchange one share in the conglomerate for two shares, one in the industrial business and one in the passenger cars business.

The objective of the demerger is to show the institutional investors how each of the different business will do on its own and why the separation will create value. One group of students will play the part of the Fiat senior management and the other will represent the institutional investors. Both groups will focus on the potential performance of each group on its own and look at the potential for value creation in each of the two industries.

They will discuss the potential for mergers and alliances of the automobile divisions in a fragmented industry with chronic overcapacity.

They will do the same with the truck division. They will evaluate how each business compares with the “pure play” competitors and what the potential for improvement is in the trading multiples. The attitudes of buyside analysts toward pure players will also be examined. The performance in the market of the two companies after the demerger will also be examined.

**Marco Polo Holdings and ChemChina Take Pirelli Private**

**Objectives:** Understand how a group of long-time shareholders in Pirelli succeeded in taking the company private in partnership with ChemChina, an internationally acquisitive Chinese corporation

In 2014 Camfin, the controlling shareholder of Pirelli Spa, announced that it reached an agreement with China National Chemical Corporation to form a long term partnership to help the company grow. Pirelli is the fifth largest tire manufacturer in the world and it ranks first in the premium tire segment.

The first phase in the implementation of the agreement was to take Pirelli private by launching a mandatory tender offer for all the outstanding shares of the company. Delisting a company in the Italian stock exchange is not easy due to complex regulations governing mandatory tender offers. We will focus on the mandatory tender offer. One group of students will represent the point of view of the shareholders launching the offer, the other will look at the proposed transaction from the point of view of the minority shareholders.

The first group will focus on structuring the offer, pricing it and financing it. They will look at the regulatory requirements to be observed and follow the implementation of the offer.

The second group will evaluate the offer to decide whether to tender the shares or remain a shareholder in the new company. They will look at variables like the price being offered, the
expected liquidity of the shares, and the prospects of the company under the new owners. They would also evaluate the chances of raising the price through various tactics.

**Goldman Sachs Investment in Irkutsk Oil**

**Objectives:** Understand the complexities of a structured private equity investment in a Siberian private oil company

In 2013 at the end of a three-sided negotiation, Goldman Sachs acquired about 4% of a Siberian oil company from the European Bank for Reconstruction and Development (EBRD). The transaction was not a simple investment in common equity but a highly structured agreement designed to satisfy the three main parties in the transaction: the controlling shareholder in Irkutsk, the EBRD, and Goldman Sachs. In any large financial institution transactions that involved complex illiquid products are heavily scrutinized. Specialized committees examine the reward of the transactions, its risk, and the suitability of the product for the counterparties. An understanding of how these processes work is not only of interest to bankers but to all market players.

In this case the two groups of student will argue the point of view of the Goldman team working on the transaction and of the committee examining it.

The students arguing from the position of the team will look at the structure of the transaction, its benefit to the bank, the risk arising from a long-term investment in a privately held Siberian company, and the mitigation structure put in place to limit the risk. The students representing the committee will judge the risk-reward payoff and the suitability of the structure for the three parties to the deal.

**Sintonia Investment in Atlantia**

**Objectives:** Understand how the Benetton Family, in partnership with GIC and Goldman Sachs Infrastructure Partners, created one of the largest European owners and operators of infrastructure projects

In 1992 the Italian government decided to privatize most of the national toll road networks. The assets were placed in a publicly listed corporation group Autostrade. 30% of the shares were sold to a Holding company dominated by the Benetton family. The family had adopted a long-term strategy of investment in infrastructure assets. In 2003 they increased their stake in the Gruppo Autostrade through a tender.

In 2007 the group was reorganized and three institutional investors acquired shares in the holding company, Goldman Sachs Infrastructure Partners, Mediobanca, and Government of Singapore Investment Corporation (GIC).
The next step was to form the Italian national champion in the management of infrastructure by acquiring Gemina, the company that controls the Rome Airport. The acquisition was completed by way of a merger between Atlantia and Gemina.

This is the transaction we will be examining. One group of students will represent the point of view of the shareholders in Autostrade, the other the shareholders in Gemina. The group representing the Autostrade shareholder will examine the potential increase in value accruing from adding an airport operator to toll roads. The challenges of combining different concession business with high concentration in a single market will be examined. The exchange ratio between the shares of the two corporations will be discussed. Regulatory hurdles and the ensuing corporate governance framework will be discussed. The need for a control premium will have to be evaluated.

The second group will look at exactly the same variables, but from the point of view of the other merger partner - Gemina.

This is the way a potential merger of equals is evaluated.