



Mergers & Acquisitions

Prof. Ian Giddy

A mini-course dedicated to the valuation, structuring, financing and negotiating of M&A transactions

- Evaluating and pricing acquisitions
- Identifying and implementing operational and control synergies
- Creating shareholder value through rigorous pre-merger analysis
- Negotiating the terms of the deal
- Post-merger restructuring and divestitures
- Financing the acquisition

The Course

This course uses an analytical framework and real-world applications to introduce the key principles and techniques of successful mergers, acquisitions, divestitures and leveraged buyouts. It addresses crucial questions including: Why do mergers that looked great on paper fail in reality? How does one value companies acquiring, or being acquired? What is the best negotiation strategy? What does it take to make the "synergy" come to life? How can a merger be funded in such a way as to retain the merged entity's flexibility? When do leveraged buy-outs make sense, and how can they be financed?

One goal for students is to develop a critical appreciation of the key finance criteria in a proposed acquisition, so as to grasp the main strengths and risks of the company's strategic and financial alternatives.

Course Requirements

There is no course textbook, although several recommended books are listed at the bottom of this page. Students will be provided with an online package of materials useful for analysis and structuring of merger and LBO transactions, including case studies, pertinent articles, rating agency reports and sample documentation from actual deals done in North America, Europe and elsewhere. Each student will be given the opportunity to demonstrate their understanding of deals through individual and group work and plenary discussions. Grading will be based on your class contribution, written assignments and an online final exam.

Pre-course assignment: Read the case study Houston Exploration, and be prepared to discuss it in class.

Issues for Discussion

- How should a target company be valued? How does the method of valuation

affect the availability of funds from banks, institutional investors and private equity investors?

- How can one assess the potential gains from an acquisition? How dependable are these projections, from an investor's viewpoint?
- What are the key features of due diligence?
- How much money is needed for the transaction, including fees and restructuring costs?
- When should a company divest? What are the alternative ways of divesting a business?
- What are the key terms and conditions, covenants and pricing, of different sources of acquisition finance, including subordinated notes, mezzanine finance and high yield bonds?
- What are the essential features of leveraged buyouts? How can one structure the financing of an LBO to raise the funds needed without losing control?

Course Outline

Session Topics	Materials
<p>One Corporate Finance, Strategy and the Economics of M&A</p> <ul style="list-style-type: none"> • The decisions that create shareholder value • Investment, financing, payback and risk management • Managers' vs shareholders' vs lenders' interests: the agency problem • Why M&A drives the market for corporate control • Mergers and acquisitions: when do they make sense? • Mini-case studies: Wärtsilä NSD, Sterling Drug, AOL-Time Warner • The distinguishing features of successful and unsuccessful deals • Research evidence on which mergers add value, and which destroy value • The four sources of acquisition value • Case study: The SBC-AT&T Merger. We seek to isolate the potential synergies in a merger of two mature telecoms companies. 	<p>Presentations Mergers & Acquisitions: The Economics Acquisitions: Strategy and Due Diligence</p> <p>Case Studies Houston Exploration The SBC-AT&T Merger The Acquisition of Allied Colloids: Episode 1 The Acquisition of Allied Colloids: Episode 2 New York Magazine</p> <p>Articles Getting Better at M&A? Glossary of M&A Terms Technology Mergers Types of Mergers and Acquisitions Sample Due Diligence Checklist</p> <p>Spreadsheets sbc-att.xls valuedrivers.xls</p>
<p>Evaluating Acquisitions, and Undertaking Due Diligence</p>	
<ul style="list-style-type: none"> • What are the target's value-drivers? • Required performance improvements embedded in acquisition premiums 	

- Competitive conditions that must drive valuations
- What due diligence can reveal – and what it cannot
- The winner's curse and morning-after woes
- **Case study: The Acquisition of Allied Colloids.** We trace the sequence of events in this cross-border merger and develop a due diligence checklist.
- Tailoring due diligence to the company and industry
- **Case study: New York Magazine.** What are the key aspects of due diligence in the publishing world?.

Two
Valuation for Mergers and Acquisitions

- Asset-based and balance-sheet approaches
- Market value approaches
- Multiples and comparables
- Enterprise value and EBITDA
- Establishing required rates of return
- Free cash flows to equity
- Free cash flows to firm
- Dividend- and cashflow-discount models
- **Case study: Active Generation.** Teams value a private company for acquisition, using both comparables and cash flow methods and incorporating the results of potential synergies
- Real option approach
- Distress situations
- Blank-check acquisition companies
- **Application: Jamba Juice.** Where's the value added?
- Break-up valuation
- Synergy analysis
- Sensitivity analysis
- **Case study: MTC-Celtel.** How can one value the synergies resulting from a potential acquisition, adjusting for risk and cost-of-capital effects and employing sensitivity analysis on the hoped-for synergy gains?

Presentations

[M&A: Tools of Valuation](#)
[M&A: Valuation Applications](#)

Case Studies

[Actavis Valuation](#)
[Active Generation](#)
[Jamba Juice](#)
[MTC-Celtel](#)

Articles

[Calculating a Company's Cost of Capital](#)
[Methods of Valuing a Business](#)

Spreadsheets

[actavis_ev.xls](#)
[actavis_fcf.xls](#)
[actavis_valuation.xls](#)
[schirnding.xls](#)
[mergersynergy.xls](#)
[bofaffleetupdate.xls](#)
[active_generation_valuation.xls](#)
[mtc-celtel.xls](#)

Three
Negotiating the Terms of a Merger

- Role of investment bankers and

Presentations

[Negotiating a Merger](#)

- other advisors
- Developing a negotiating stance
- Understanding sellers' goals and constraints
- Dealing with defensive strategies: poison pills and other devices
- **Mini case study: Goldfield's Anti-takeover Defenses**
- Dealing with rival bidders
- Dealing with private owners
- Structuring the deal: How much should we pay? How should we pay?
- The proposed basic Term Sheet
- Keep the romance alive during due diligence and while you secure financing
- Closing the deal
- **Case study: Ashanti-Bogoso.** Teams engage in a hands-on negotiating exercise including valuation, setting the price and payment terms of the merger, and negotiating control

Case Studies

[Goldfield: Anti-Takeover Defenses](#)
[Johnson & Johnson vs Guidant](#)
[Ashanti-Bogoso: Negotiating a Merger](#)

Articles and Documents

[Sample Letter of Intent](#)
[Sample Confidentiality Agreement](#)
[Sample Purchase Agreement](#)
[Analysis of a Merger Failure](#)

Spreadsheets

[ashanti-bogoso.xls](#)

Four

Divestitures

- Post-acquisition divestitures
- Measuring and managing break-up value
- **Application: John Deere - Breakup Value**
- Taxable and tax-free corporate breakups
- Before-and-after divestiture analysis
- **Case study: Pinault-Printemps-Redoute.** We learn how to perform a before-and-after divestiture valuation

Presentations

[Divestitures](#)

Case Studies

[Caterpillar](#)
[Pinault-Printemps-Redoute: Divestiture of Finaref](#)

Spreadsheets

[johndeere.xls](#)
[breakup.xls](#)

Five

Acquisition Finance

- Finding the optimal capital structure: debt, equity or mezzanine?
- Capital structure considerations
- **Case study: Photronics.** Financing acquisitions at a technology company
- Senior secured bank financing
- Asset-based finance
- Bridge financing
- Second-lien and PIK notes
- **Application: Jefferson Smurfit acquisition finance**

Presentations

[Acquisition Financing](#)

Case Studies

[Financing Acquisitions at Photronics](#)
[Jefferson Smurfit](#)
[Woodstream Mezz](#)
[Woodstream Termsheet](#)
[Le Meridien: A Leveraged Acquisition](#)

Articles

[Second Lien Loans](#)
[Mezzanine Finance 1](#)

- Subordinated seller notes
- Mezzanine debt
- Refinancing strategies
- High-yield bonds
- Private equity sources
- **Case study: Le Meridien.** Students evaluate a variety of creative financing techniques in the context of this challenging acquisition situation.

[Mezzanine Finance 2](#)

Spreadsheets
[woodstream.xls](#)

Six

Leveraged Buy-Outs

- The different approaches of financial vs strategic buyers
- The leverage effect
- How to structure and price the leverage for an acquisition or buyout
- **Exercise: spreadsheet-based debt capacity analysis for leveraged finance**
- Focus: synthetic ratings and debt pricing
- Focus: mezzanine and private equity finance
- **Case Study: The LBO of ISS**
- Management vs outside equity
- Valuation in LBOs: "The VC Method"
- Paydown and exit analysis
- **Case study: Exit for Reykjavik Fleet Leasing**
- **Integrating Case Study: Flexics.** Rivals teams employ the tools and ideas of the course to a competitive situation featuring a leveraged buyout and sale to a strategic buyer. They negotiate key features, including:
 - Valuation of the target
 - Raising the funding
 - Terms of payment
 - Summary "term sheet" agreement

Presentations

[Leveraged Buy-Outs](#)

Case Studies

[Nukem Security](#)
[The LBO of ISS](#)
[iss_financials.xls](#)
[Reykjavik Fleet Leasing](#)
[Flexics: Selling the Company](#)

Articles

[Introduction to Leveraged Finance](#)
[A Note on LBOs](#)
[Debt-to-EBITDA](#)
[LBO Legal Checklist](#)

Spreadsheets

[ratings.xls](#)
[lbo_capacity2.xls](#)
[financing_iss](#)

Additional Resources

Books

Robert Bruner, *Applied Mergers and Acquisitions*
Enrique Arzac, *Valuation for Acquisitions, Buyouts and Restructurings*
Donald de Pamphilis, *Mergers, Acquisitions and Other Restructuring* (Academic Press)
Aswath Damodaran, *Damodaran on Valuation*
McKinsey Quarterly (on-line subscription)

Background Articles

[Methods of Corporate Valuation](#)

Notes on [cost of capital](#) and [capital structure](#) .
[Critique of Valuation Methods](#)
[Private Equity Valuation Guidelines](#)
[A Company in One Page](#)
[The Fool's Method](#)
[Warren's World](#)
[Corporate Financial Restructuring](#)
[Real options valuation](#)

Useful Links

[dealbook](#) (M&A and private equity deals)
[biz.yahoo.com](#) (summary data and financials)
[morningstar.com](#) (summary financials)
[investinginbonds.com](#) (treasury rates, corporate bond prices and ratings)
[standardandpoors.com](#) (bond ratings)
[bondsonline.com](#) (corporate bond spreads)
[damodaran.com](#) (industry ratios)
[advfn.com](#) (corporate financial ratios)

About the Instructor

[Ian Giddy](#) has taught finance at NYU, Columbia, Wharton, Chicago and in 40+ countries worldwide for the past two decades. He was Director of International Fixed Income Research at Drexel Burnham Lambert from 1986 to 1989. The author of more than fifty articles on international finance, he has served at the International Monetary Fund and the U.S. Treasury and has been a consultant with numerous corporations and financial institutions in the U.S. and abroad. As a banker and consultant he has been involved in the growth of the structured finance market in the USA, Europe and Asia. He is the author or co-author of *The International Money Market*, *The Handbook of International Finance*, *Cases in International Finance*, *Global Financial Markets*, *Asset Securitization in Asia* and *The Hudson River Watertrail Guide*. He and his wife are the founders of Cloudbridge, a nature reserve in Costa Rica.

[giddy.org](#) | [giddyonline.com](#) | [ABSresearch.com](#) | [cloudbridge.org](#) | [contact](#)

Copyright ©2006 Ian Giddy. All rights reserved.