

New York University
Stern School of Business

B40.3196.W1
Corporate Mergers & Acquisitions

Professor Yakov Amihud
Winter (Jan-Feb) 2009

Time: 1/27: 6-9pm, 1/29: 6-9pm, 2/1: 9am-4pm, 2/3: 6-9pm, 2/5: 6-9pm.
Office: Kaufman MEC 9-58
Communication: Tel: 998-0720, Fax: 995-4220, e-mail: yamihud
Office hours: 4-5pm on days of lectures and by appointment.
Grader: TBA

Notes:

- 1) This is an intensive, demanding course. The workload is similar to that of a regular 1.5-credit course. Please take this into account when registering for the course. Some students commented in the past that there was "too much work for such a short course."
- 2) Knowledge of corporate finance is highly recommended.
- 3) Because of class discussion of current M&A events, the schedule may change. Please follow the announcements in class.
- 4) Students are expected to abide by the Stern MBA Honor Code in all aspects of this course.
"Because intensive courses are short and compressed, missing class diminishes the educational experience more than during a regular semester. Therefore, students are informed that they should not register for an intensive course if they anticipate missing even one session."

Course Description:

This course will present theories and empirical evidence on corporate control transactions, the process of evaluating acquisition targets and its application in practice. Findings on the reaction of stock prices to information on control transactions will be used to analyze the effects of various policy options in such transactions. Strategies of acquisition will be studied as well as defensive measures against them, their purpose and their consequences.

The class combines lecture material, quantitative and qualitative analyses and discussions of relevant news. There will be an emphasis on fundamental concepts of valuation and other areas of corporate finance related to M&As.

Students are encouraged to follow the M&A activity that is reported in the press during the term and bring up issues and events associated with material covered in class. Please coordinate with me in advance.

Grading:

Homework - 40%, final exam - 60%. The final grade distribution is expected to be as follows: 25% A and A-, 15%-20% C (inc. +/-), D & F, and the balance B (+/-). Class participation may help in marginal cases.

Reading material:

Recommended textbook: *Mergers, Acquisitions and Corporate Restructurings*, 2007, by Patrick Gaughan. John Wiley. We may have a low-priced edition at the NYU bookstore. Some chapters have "esp." meaning the pages that are especially important.

Additional reading material will be distributed in class during the course.

Assignments:

Assigned readings; solving the case **Cooper Industries** (available in the bookstore) and **two** sets of problems\cases. The three written assignments are solved in groups of three formed by the students. At least one member of the group should have taken a course in corporate finance.

There is a final exam (last class).

Course Outline:

Date: Topic and readings:

1/27 **(a) Introduction:** types of business acquisitions and combinations; reasons for M&A - right and wrong. Who benefits from M&As.

(b) Institutional framework: tax issues; regulatory issues (antitrust).

Readings: G – Chs. 1, [2], 3 (esp. pp. 78-85, 100-113); 4, 6 (pp. 240-250), 15.

(c) Case discussion: Staples-Office Depot, AOL-Time Warner, Guidant (time permitting)

Homework (**due 2/1**): Valuation of targets and determination of exchange ratios

1/29 (a) Introduction (continued)

(b) Methods of payment in acquisitions: reasons and consequences; special financial instruments associated with acquisitions: collars, contingent value rights, more.

Homework (**due 2/1**): Valuation of two offers with contingent payment

2/1 **(a) Valuation of merger targets;** errors in valuation and the "bootstrap" game.

Determining the exchange ratio.

Issues in pricing takeover targets. Issues in valuation.

The discounted cash flow method; method of comparables.

Readings: G – Ch. 14.

Solving homework valuation problems (Valuation and determination of exchange ratios)

(b) Solving homework problems – Valuation of two offers with contingent payment

(c) The effects of M&As on stockholders' wealth in target and bidding companies - theory and empirical evidence.

Readings: G – Ch. 4, pp. 250-258, 555-566.

(d) Leverage: The effects of M&As on bondholders' wealth.

Wealth transfer between stockholders and bondholders; bankruptcy effect; maturity effect; risk effects; priority effects.

Readings: G – pp. 184, 325-328.

(e) Defensive measures against hostile takeovers: rationale and methods. Board's responsibility. State and federal regulations and takeover laws. Major case laws. Empirical evidence.

Readings: G – Ch. 5, 6. pp. 91-96, 115-116, 531-532.

2/3 Solving **Cooper Industries (case due)**

2/5 **(a) Final exam**

(b) Divestitures: selloffs, carve-outs, spin-offs, tracking stocks.

Readings: G – Ch. 10.