

New York University
Stern School of Business
B40.3196.10

Corporate Mergers & Acquisitions

Professor Yakov Amihud
Fall 2010 – 2H (begins 11/8)

Time: Monday 6-9pm, Room TBA.
Office: KMEC 9-58
Communication: Tel: 998-0720, Fax: 995-4220, e-mail: yamihud@stern.nyu.edu
Office hours: Monday 4:45-5:30 & by appointment
Grader: TBA

Please note: this is a demanding course, with three homework assignments (two sets of exercises and a case) in three consecutive weeks, and a final exam.

Course Description:

This course will present the 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 will combine 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 should form groups of three. It is important that at least one member of the group has taken a course in corporate finance.

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

Grading:

Homework - 40%, final exam - 60%. Class participation can help in marginal cases. The final grade distribution is expected to be as follows: 25%-30% A and A-, 10%-15% C (inc. +/-), D & F, and the balance B (+/-).

Reading material:

Textbook: *Mergers, Acquisitions and Corporate Restructurings*. 2007, by Patrick Gaughan, John Wiley Publishers. Available at reduced price at the NYU bookstore and through some Internet sites. Additional reading material will be distributed during the course.

Case study: Cooper Industries.

Assignments: Assigned readings, a case and two problem sets. There is a final exam in the last class.

Course Outline: (Preliminary)

Topics (6 meetings):

- 11/8 (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 (mainly antitrust).
Analysis of M&A cases.
Readings: G – Chs. 1, [2], 3 (esp. pp 78-85, 100-113), 4, 6 (pp.240-250), 15.
Assignment (due next class): Valuation and determination of exchange offers.
- 11/15 **Solving HW problem:** Valuation and determination of exchange offers
(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.
(b) Methods of payment in acquisitions: reasons and consequences; special financial instruments associated with acquisitions: collars, contingent value rights, other contracts.
Assignment (due next class): Valuation of two offers with contingent payment.
- 11/22 Break
- 11/29 **Solving HW assignment:** of two offers with contingent payment.
(a) The effects of M&As on stockholders' wealth in target and bidding firms - theory and empirical evidence.
Readings: G – Ch. 4, pp. 250-258, 555-566.
- 12/6 Solving **Cooper Industries**.
- 12/13 Leverage: The effects of M&As on bondholders' wealth. Wealth transfer between stockholders and bondholders; bankruptcy effect; maturity effect; risk effects; priority effects.
Readings: pp. 184, 325-328.
(b) Defensive measures against takeovers: rationale and methods. Board's responsibility. State and federal regulations and takeover laws. Major case laws in M&As. Empirical evidence.
G – Ch. 5, 6, pp. 91-96, 115-116, 531-532.
- 12/21 (a) **Final exam**.
(b) Divestitures: selloffs, carve-outs, spin-offs, tracking stocks. G – Ch 10.

Because of class discussion of current M&A events, the schedule may slightly change. Please follow the announcements in class.