

New York University
Stern School of Business

Finc-GB.3196.w1

Mergers & Acquisitions (preliminary outline, subject to change)

Professor Yakov Amihud

Winter 2019

Time: 1/3: 6-9; 1/6: 1-4; 1/8, 1/10: 6-9; 1/13: 1-4; 1/15: 6-9.

Room: TBA

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Communication: e-mail: yamihud, tel: 998-0720.

Office hours: During class day and by appointment.

Grader: TBA

Notes:

1) This is an intensive, demanding course.

2) Knowledge of **corporate finance** is highly recommended.

3) Class discussions of current M&A events may make the schedule 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.

Course Description:

The course presents the theories and empirical evidence on mergers, acquisitions, and restructuring, and analyzes the effects of various policy options on stock values of acquirer and target companies. 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. Topics include valuating acquisition targets, methods of payment in acquisitions, strategies of acquisition, the use of leverage in acquisitions and the effects of acquisitions on bond values, major legal issues, case laws and defensive measures against hostile acquisitions. The course combines lecture material, analysis of cases, quantitative and qualitative analysis, and discussions of relevant news of such transactions. There will be an emphasis on fundamental concepts of valuation and other areas of corporate finance related to M&As. This course is a suitable elective for students majoring in finance as well as students in management with knowledge in 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 - 30% (all assignments are equally weighted), final exam - 70%. The final grade distribution is expected to be as follows: 25% -30% A and A-, 15%-20% C (inc. +/-), D & F, and the balance B (+/-). Class participation may help in marginal cases. Homework assignments are done in **groups of three**. Make sure that at least one in the group has studied corporate finance.

Reading material:

Recommended textbook: *Mergers, Acquisitions and Corporate Restructurings*, 2018, 7th edition by Patrick Gaughan. John Wiley. The readings for the 2015 6th edition are indicated by {...}.

Additional reading material will be provided in class during the course, and posted.

(Unfortunately, there is no single textbook in M&A that covers all the material that we cover in this course.)

Assignments:

Assigned readings; solving the case **Cooper Industries** (available in the bookstore) and **two** sets of problems/cases that will be provided in class. The three written assignments should be 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:

1/3/19 (a) **Introduction:** The Kraft-Cadbury case. Types of business acquisitions and combinations; reasons for M&A - right and wrong. Who benefits from M&A.

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

Readings: Ch. 1, [2], 3 (pp. 71-84, 108-120), 4, 6, (pp. 237-253), 16 (pp. 613-615). {Ch. 1, [2], 3 (pp. 75-78, 109-123), 4, 6, (pp. 249-265), 16.} [2] means skim.

(c) **Case discussion:** Staples-Office Depot, Guidant (time permitting)

Homework (**due 1/8**): Valuation of targets and determination of exchange ratios

1/6 (a) Introduction (continued)

(b) **Methods of payment in acquisitions:** reasons and consequences; special financial instruments associated with acquisitions which include **options**-like components: contingent value rights, collars, earnout contracts, acquisition in stages.

Readings: 14-15, 602-603 {pp. 15-17, 597.} The Collar handbook

Homework (**due 1/8**): Valuation of two offers with contingent payment

1/8 (a) **Valuation of merger targets** 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: Ch. 15. {Ch. 15.}

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&A on stockholders' wealth** in target and bidding companies - theory and empirical evidence. Determining the likelihood of a firm becoming a target. Pricing consequences of characteristics of the bidder, target and the features of the deal.

Readings: pp. 254-260, 589-595 {pp. 265-272, 578-592.}

1/10 **(a) Leverage:** The effects of M&A on bondholders' wealth.
Wealth transfer between stockholders and bondholders; bankruptcy effect; maturity effect; risk effects; priority effects.
Readings: pp. 342-343 {pp. 345-347.} Notes: the effect of M&A on the value of debt.

(b) Defensive measures against hostile takeovers: rationale and methods. Board's responsibility. State and federal regulations and takeover laws. Major case laws. Empirical evidence.
Readings: pp. 96-107, Ch. 5, 13, pp. 551-553 {pp. 101-108, Ch. 5, 13, pp. 547-549.}

1/13 Solving **Cooper Industries (case due)**

1/15 a) **Final exam**
b) Divestitures: selloffs, carve-outs, spin-offs, tracking stocks.
Readings: Ch. 11. {Ch.11.}

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

Rules:

- 1) Final exam: Failing to participate in the final exam leads to failing the course. The exam is closed books, closed notes. You should bring a standard calculator.
- 2) Class: Computers (including hand-helds) cannot be used in class. Late coming is not welcome.
- 3) Homework and cases will be solved in class. Written solutions will not be distributed. You need to get the solution in class. If anything remains unclear, I'll be happy to explain, in class or during my office hour.
- 4) Homework: solutions should be submitted in hard copy, one per group. Please do not ask me how to solve them, and please do not check with me whether your solution is "on track." Please understand, it is for you to solve the HW problems on your own. As it is, the guidance that I provide for the case compromises its objective, which is to put you in a real-life business situation and tackle it on your own.
- 5) Some (not all) of the homework is on material that has not been fully covered in class. You will need to do some learning on your own in order to solve the cases, you will have to think and be creative.
- 6) Please note the workload in this course in terms of written assignments (some are cases) and readings. In the past, some students thought it was heavy and "exhaustive."
- 7) Classes are not recorded.
- 8) **ASK QUESTIONS** either in class or after class.

School-wide Course Policies

Attendance

- Class attendance is mandatory and part of a student's grade. Absences may be excused only in the case of documented serious illness, family emergency, religious observance, or civic obligation. If you will miss class for religious observance or civic obligation, you must inform your instructor no later than the first week of class. Recruiting activities are not acceptable reasons for class absence.
- Students are expected to arrive to class on time and stay to the end of the class period. Chronically arriving late or leaving class early will have an impact on a student's grade. Students may enter class late only if given permission by the instructor and can do so without disrupting the class. *Note: Instructors are not obligated to admit late students or may choose to admit them only at specific times and instructors are not obligated to readmit students who leave class.*

Participation

- Participation is an essential part of learning in this course. Students are expected to participate in all facets of classroom learning.

Reading/Homework

- Students are expected to come to class prepared having read text and assigned readings prior to class. Homework, case studies, and other assignments are expected to be completed and handed in on time.

Late Assignments and Make-up Policy

- At the discretion of the professor, late assignments will either not be accepted or will incur a grade penalty unless due to documented serious illness or family emergency. Professors will make exceptions for religious observance or civic obligation only when the assignment cannot reasonably be completed prior to the due date and the student makes arrangements for late submission with the professor in advance.

Classroom Norms

- If applicable, note your preference regarding food in class.
- Laptops, cell phones, Smartphones and other electronic devices are a disturbance to both students and professors. All electronic devices must be turned off prior to the start of each class meeting.

Ethical Guidelines

Student Code of Conduct

All students are expected to follow the **Stern Code of Conduct**

(<http://www.stern.nyu.edu/uc/codeofconduct>)

A student's responsibilities include, but are not limited to, the following:

- A duty to acknowledge the work and efforts of others when submitting work as one's own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

Students with Disabilities

- Students whose class performance may be affected due to a disability should notify the professor immediately so that arrangements can be made in consultation with the Henry and Lucy Moses Center for Students with Disabilities <http://www.nyu.edu/csd/> to accommodate their needs.

**NYU Stern Code of Conduct
for the NYU Stern Community at
large**

NYU Stern Code of Conduct for the NYU Stern Community at large At NYU Stern, we seek to engage our students, faculty and alumni as lifelong partners in the process of learning, debate and discovery. Academic and personal integrity are central to this mission. As members of our community we commit to:

- 1) Show respect for every member of the NYU community and refrain from all forms of intimidation, harassment, and acts of prejudice that infringe upon the rights of other members of the community.
- 2) Exercise integrity in all aspects of our academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
- 3) a.) Clearly acknowledge the work and efforts of others when submitting written work as our own. The incorporation of the work of others--including but not limited to their ideas, data, creative expression, and direct quotations (which should be designated with quotation marks), or paraphrasing thereof--must be fully and appropriately referenced using notations both in the text and the bibliography.
b.) Submitting the same or substantially similar work in multiple courses, either in the same semester or in a different semester, without the express approval of all instructors is strictly forbidden. Limited quoting or paraphrasing from previous work is permissible so long as we clearly identify and reference, as we would the work of another, any quoted or closely paraphrased passages of our own previously written work, whether published or submitted for course credit at Stern or at any other institution. *
- 4) Demonstrate dignity and integrity in all aspects of our involvement with the School and University, including participation in sponsored organizations and activities, and situations in which we may be seen to represent the School or University. These activities and situations include, but are not limited to, student organizations (including clubs, governments, and honor societies), conferences and meetings, student-organized and school-sponsored travel, interviews, and interactions with alumni.
- 5) Demonstrate sound judgment and integrity in the submission of documents, forms, and information to, or on behalf of, the School, University, or any member of those communities.
- 6) Work to preserve and be wise stewards of the University's resources and facilities and respect the personal property of other members of the NYU community.
- 7) Conduct ourselves as law abiding members of both the NYU community and our broader society – including but not limited to a) refraining from behaviors that infringe upon the rights of others or disrupt the educational process, and b) acting in conformity with NYU and Stern policies and public law.
- 8) Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to have an adverse effect on the NYU Stern community.
- 9) Carefully review and abide by the rules and policies of NYU as outlined in detail at <http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/code-of-ethical-conduct.html> and <http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines.html> recognizing that being fully informed about NYU and Stern rules and codes governing civil behavior and academic integrity is an obligation of community membership.

As members of this community we understand that any violation of this Code of Conduct, whether committed knowingly or out of ignorance, can result in disciplinary action and may result in a sanction up to and including expulsion from New York University.

The NYU Stern Code of Conduct was amended and approved by the Stern faculty in May 2010.

*The NYU Stern Code of Conduct was amended by the Stern Faculty in October 2011