

New York University
Stern School of Business
FINC-UB 50

Professor Yakov Amihud
Fall 2019, 9/3 to 10/22

Mergers, Acquisitions & Restructuring

(A preliminary outline)

Time: Tu, Th, 2-3:15. Room: KMEC 5-80
Office: KMEC 9-58
Communication: e-mail: yamihud, tel: 998-0720.
Office hours: Thursday 4-5pm and by appointment.
Grader: TBA

Notes:

1) This is an intensive, demanding course.

2) **Corporate finance** is a prerequisite.

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 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:

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. 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%, final exam - 70%. The final grade distribution is expected to be as follows: about 30% A and A-, about 15% C (inc. +/-), D & F, and the balance B (+/-). Class participation may help in marginal cases. Homework assignments are done in **groups of three**.

Reading material:

Recommended textbook: *Mergers, Acquisitions and Corporate Restructurings*, 2018, 7th edition by Patrick Gaughan. John Wiley. The readings from 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.)

Additional reading material will be distributed in class during the course, and posted on the web.

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, on 10/22).

Course Outline (preliminary):

Date: Topic and readings:

9/3, 5 **(a) Introduction:** The case of Kraft-Cadbury. 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 issues, Staples-Office Depot, contractual provisions – MAC, others.

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.}

Homework (**due 9/17**): Valuation of targets and determination of exchange ratios

9/10, 12 **Methods of payment in acquisitions:** reasons and consequences; special financial instruments associated with acquisitions: collars, contingent value rights, more.

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

Homework (**due 9/24**): Valuation of two offers with contingent payment

9/17 Solving homework valuation problems (Valuation and determination of exchange ratios)

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: Ch. 15. {Ch. 15.} Three files will be posted.

9/19 **The effects of M&As on stockholders' wealth** in target and bidding companies - theory and empirical evidence. Determining the likelihood of a firm becoming a target.

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

9/24 Solving homework problems on valuation of two offers with contingent payments

9/26 **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. 342-343 {pp. 345-347.} Notes: the effect of M&A on the value of debt.

10/1 Class canceled. Makeup class on Friday, **10/11**.

10/3, 8 **Defensive measures against hostile takeovers:** rationale and methods. Board's responsibility. State and federal regulations and takeover laws. Major case laws. Empirical evidence.

Discussing major M&A cases: Roch-Illumina, Jos.A. Bank-Men's Wearhouse (cases will be provided)

Readings: pp. 96-107, Ch. 5, 13, pp. 551-553 {pp. 101-108, Ch. 5, 13, pp. 547-549.}

10/10,17 Solving **Cooper Industries (case due on 10/10)**

(Note: There is no class on 10/15. A make-up class is on **10/11**)

10/22 Final exam

Rules:

- 1) **Final exam:** Failing to participate in the final exam leads to failing the course. The final exam cannot be reschedule. The exam is **closed books, closed notes**. Bring only a plain **calculator**.
- 2) Class: Computers (including hand-held computers) 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: Please do not ask me how to solve them, and please do not check with me whether your solution is "on track." It is for you to solve them 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) **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.