

New York University
Stern School of Business
FINC-GB.3196.W1
Mergers & Acquisitions

Professor Yakov Amihud
Winter 2022

Time: 1/25, 1/27, 2/1, 2/3 – 6-9pm; 1/30, 2/6 – 1-4pm.
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Office hours: Tu Th 4-5, by appointment & online
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 affect the schedule. 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 expected final grade distribution: about 35% A and A-, about 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 knows well **corporate finance**.

Reading material:

Recommended textbook: *Mergers, Acquisitions and Corporate Restructurings*, 2018, 7th edition by Patrick Gaughan. John Wiley. The readings from the older 2015 6th edition are indicated by {...}. Please let me know if anything is unclear.

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 in the last class.

Course Outline:

Date: Topic and readings:

- 1/25 (a) **Introduction:** Types of business acquisitions and combinations; Rules and regulations; 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.}
(c) Antitrust issues – Staples-Office Depot, other; due diligence; MAC; tax rules. Discussion of some cases.
(d) Homework (**due 1/30**): Valuation of targets, determining the exchange ratio.
- 1/27 (a) Introduction (continued)
(b) **Methods of payment in acquisitions:** The effects of payment methods on outcomes; payment methods that involve contingent payments with **option**-like components: contingent value rights, collars, earnout contracts.
Readings: 14-15, 602-603 {pp. 15-17, 597.} The Collar handbook (Booz).
Please review the “options” material studied in Foundations of Finance.
Homework (**due 1/30**): Valuation of two offers with contingent payment.
- 1/30 (a) **Valuation of merger targets.**
Determining the exchange ratio. and the “bootstrap game.”
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. The likelihood of a firm becoming a target. The effects of the characteristics of the bidder, target and deal characteristics on prices.
Readings: pp. 254-260, 589-595 {pp. 265-272, 578-592.}

2/1 (a) **Leverage:** The effects of M&A on bondholders' wealth.
Wealth transfer between stockholders and bondholders and between classes of bondholders; bankruptcy effect; maturity effect; risk effects; end risk protection.
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. Empirical evidence.
State and federal regulations and takeover laws. Major case laws.
Readings: pp. 96-107, Ch. 5, 13, pp. 551-553 {pp. 101-108, Ch. 5, 13, pp. 547-549.}

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

2/6 a) **Final exam**
b) The Kraft-Cadbury merger and other deals.

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-held) 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 with the group members' names on top. 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 them, 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.

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. 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.
 - 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.

- Carefully review and abide by the rules and policies of the NYU [Code of Ethical Conduct](#) and the [University Policies and Guidelines](#), 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.

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.

ACADEMIC INTEGRITY

Academic integrity and honesty is central to our mission as an educational institution. [The MBA Code of Conduct](#), which all students sign, therefore places particular emphasis on academic integrity. Notably this includes refraining from any method or means that provides an unfair advantage in exams or papers, and clearly acknowledging the work of others in your own work. As a reminder, the [entire Code of Conduct is available here](#).

To help ensure the integrity of our learning community, prose assignments you submit to NYU Classes will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions

to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

Student Accessibility

If you will require academic accommodation of any kind during this course, you must notify me at the beginning of the course (or as soon as your need arises) and provide a letter from the Moses Center for Student Accessibility (212-998-4980, mosescsa@nyu.edu) verifying your registration and outlining the accommodations they recommend. For more information, visit the CSA website:
<https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>

Student Wellness

Classes can get stressful. I encourage you to reach out if you need help. The NYU Wellness Exchange offers mental health support. You can reach them 24/7 at [212 443 9999](tel:2124439999), or via the “NYU Wellness Exchange” app. There are also drop in hours and appointments. Find out more at:
<http://www.nyu.edu/students/health-and-wellness/counseling-services.html>

Name Pronunciation and Pronouns

NYU Stern students now have the ability to include their pronouns and name pronunciation in Albert. I encourage you to share your name pronunciation and pronouns this way. Please utilize this link for additional information: [Pronouns & Name Pronunciation](#)

Religious Observances and Other Absences

NYU’s [Calendar Policy on Religious Holidays](#) states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their religious obligations. You must notify me in advance of religious holidays or observances that might coincide with exams, assignments, or class times to schedule mutually acceptable alternatives. Students may also contact religiousaccommodations@nyu.edu for assistance.

NYU Stern is committed to ensuring an equitable educational experience for all students regardless of identity or circumstances and strives to recognize the obligations its students have outside of Stern. Please review all class dates at the start of the semester and review all course requirements to identify any foreseeable conflicts with exams, course assignments, projects, or other items required for participation and attendance. If you are aware of a potential conflict, please contact me as soon as possible to discuss any potential conflicts to determine whether/how they can be accommodated.

***If full attendance is required:**

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Except for religious observances or other absences that may be required in compliance with nondiscrimination law, this class otherwise requires attendance and participation and cannot accommodate conflicts. Please review all class dates at the start of the semester and review all course requirements to identify any foreseeable conflicts with exams, course assignments, projects, or other

items required for participation and attendance. If you are aware of a potential conflict, it is strongly recommended that you do not take this class.

Inclusion Statement

This course strives to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives with a goal of understanding how others might see situations differently. By participating in this course, it is the expectation that everyone commits to making this an inclusive learning environment for all.