

New York University
Stern School of Business

B40.3196
Corporate Mergers & Acquisitions

Professor Yakov Amihud
Summer (September 2012)

Time: 9/4: 6-9pm, 9/6: 6-9pm, 9/9: 9am-4pm, 9/11: 6-9pm, 9/13: 6-9pm.
Room: TBA
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Communication: e-mail: yamihud, tel: 998-0720.
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. One student commented: "I thoroughly enjoyed your course, though the warning included in the syllabus was spot on.... it was a tough course in a short period of time!"

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.

"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: 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*, 2011, by Patrick Gaughan. John Wiley. [...] means: just skim through.

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

Assignments:

Assigned readings; solving the case **Cooper Industries** (can be purchased in the bookstore) and **two** sets of problems/cases. The three written assignments are solved in groups of **three** (hand in one assignment per group with all three names on it) 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:

- 9/4 (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 (pp.74-86, 110-124), 4, 6 (pp. 243-261), 15.
(c) **Case discussion:** Staples-Office Depot, Guidant (time permitting)
Homework (**due 9/9**): Valuation of targets and determination of exchange ratios
- 9/6 (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 9/9**): Valuation of two offers with contingent payment
- 9/9 (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. 260-266, 564-586.
(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. 327-330
(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. 3, pp. 95-104, Ch. 5, pp. 539-540.
- 9/11 Solving **Cooper Industries** (case due)
- 9/13 (a) **Final exam**
(b) **Divestitures:** selloffs, carve-outs, spin-offs, tracking stocks.
Readings: G – Ch. 10.

Rules:

- 1) Final exam: Failing to participate in the final exam leads to failing the course. The exam is closed books, closed notes. Bring only a calculator.
- 2) Class: Computers and iPads cannot be used in class. Late coming is not welcome.
- 3) Homework and cases will be solved in class after they are submitted. 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, or you can schedule an appointment to see me.
- 4) Homework assignments: 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) Classes are not recorded.
- 8) **ASK QUESTIONS** either in class or after class.