

SUMMER SCHOOL IN LAW, BUSINESS & ECONOMIC POLICY
WWZ/University of Basel
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Corporate Mergers & Acquisitions

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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.

Note: This is a demanding course in terms of rigor, homework and readings (it is partly quantitative). **You need to have knowledge in finance, especially corporate finance.**

Students are encouraged to bring up issues and events associated with material covered in class. Please coordinate with me in advance.

Grading: Homework - 35%, final exam - 65%. Class participation may help in marginal cases.

Reading material:

Class notes will be provided in class and posted on the course's web site (ADAM) after the class. **Textbook** (recommended): Mergers, Acquisitions and Corporate Restructurings by Patrick Gaughan, John Wiley 2018, 7th edition. You can use the 2015, 6th edition, reading marked by {...}, or 2011 5th edition – readings marked by {{ ... }}.

Chapter numbers in [...] = skim, "esp." = this is especially important. The book has a new edition, but you can buy this edition more cheaply on the Internet.

Case study: Cooper Industries. It can be purchased at

<https://www.hbs.edu/faculty/Pages/item.aspx?num=5668>

Assignments: Two short written homework assignments + Copper case.

Homework assignments are done in groups of **three**. They should be e-mailed to yamihud@gmail.com before the class. The file name should be: "HW1 (or 2 or 3), Smith, John, Johannes" (last names of the three group members). The first line on the HW should include the full names of the group members.

Final exam (19 August 2019, exact time to be announced)

Course Outline:

Date: Topic:

- 5.08. (a) Introduction: types of business acquisitions and combinations; reasons for M&A – right and wrong. Who benefits from M&As.
(b) Institutional framework: tax and regulatory issues.
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.} {{Ch. 1, [2], 3 (esp. pp.74-86, 110-124), 4, 6 (pp. 243-261)}}.
(c) Discussion of cases: Staples-Office Depot, Kraft-Cadbury, AOL-Time Warner, Monsanto-Syngenta, Microsoft-Yahoo, Broadcom-Qualcomm, Mylan-Perrigo-Teva. Auction situations: Guidant-BSX-JNJ
Assignment: valuation exercises, **due 7.08**.
- 6.08. (a) Introduction (continued).
(b) The effects of M&A on stockholders' wealth in target and bidding firms - theory and empirical evidence.
Readings: pp. 254-260, 589-595. {pp. 265-272, 578-592}. {{Ch. 4. pp. 260-266, 564-586.}}
- 7.08. Solving valuation exercises.
(a) Valuation of merger targets; errors in valuation and the "bootstrap" game.
Solving homework exercises
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} {{Ch. 14}}.
Solving homework problems
(b) Methods of payment in acquisitions: reasons and consequences; contingent payment, special financial instruments associated with acquisitions: collars, contingent value rights, more.
Readings: pp. 14-15, 602-603. {15-17, 597}. {{pp. 15-16, 593.}} The collar handbook (provided with class notes).
Assignment: Valuation of two offers with contingent payments, **due 12.08**
- 8.08. (a) **Methods of payment** (continued)
(b) **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/} {{pp. 327-330.}}

12.08. (a) Solving the HW assignment on methods of payment

(b) **Defensive measures** against hostile takeovers, state laws and major law cases: rationale and methods. Board's responsibility.

State and federal regulations and takeover laws.

Empirical evidence.

Readings: pp. 96-107, Ch. 5, 13, pp. 551-553. {pp. 101-108, Ch. 5, 13, pp. 547-549.} {Ch. 3, pp. 95-104, Ch. 5, [6], pp. 539-540.}

13.08. Defensive measures (continued), case laws in M&As.

Discussion of some recent cases, including Monsanto-Syngenta.

14.08. Solving **Cooper Industries** (solution is **due today**)

15.08. Cooper Industries (Cont.) Summary and integration

Final exam: 19 August 2019 (time will be announced)

The final exam is with closed book, closed notes.

You should bring a simple calculator (without memory).