

SUMMER SCHOOL FOR LAW, ECONOMICS & PUBLIC POLICY
WWZ/University of Basel
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Corporate Mergers & Acquisitions

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Course Description:

This course will present theories and empirical evidence on corporate control transactions, the process of evaluating acquisition targets and its application in practice. Empirical findings on stock price reaction to information on control transactions will be used to analyze the effects of various policy options. Strategies of acquisition will be studied as well as defensive measures against them, their purpose and their consequences. The course combines lecture material, quantitative and qualitative analyses and discussions of relevant news. There will be an emphasis on fundamental concepts of valuation and theories 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 send your suggestions to yamihud@stern.nyu.edu

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 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.

Assignments: Two short written homework assignments + Cooper Industries case. It can be purchased at

<https://hbsp.harvard.edu/product/274116-PDF-ENG?Ntt=cooper%20industries>

Homework assignments are done in groups of **three**. They should be typed and submitted by e-mail to yamihud@gmail.com before the class when they are solved. The file name should be: “HW1 (or 2 or 3), Smith, John, Johannes” (last names of the three group members). The HW should include the full names of the group members.

Final exam: Tuesday, 16 August 2022, 10:15

Course Outline:

(There may be changes in the schedule because of class discussion of current cases.)

Date: Topic:

- 2.08. (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/ Read Kraft-Cadbury, AOL-Time Warner, Monsanto-Syngenta, Microsoft-Yahoo, Mylan-Perrigo-Teva. Auction situations: Guidant-BSX-JNJ
Assignment: valuation exercise, **due 4.08.**
- 3.08. (a) **Introduction** (continued).
(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 09.08**
- 4.08. Solving valuation exercise.
(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** (continued)
Assignment: Valuation of two offers with contingent payments, **due 09.08**
- 5.08. (a) 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.}}
(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.}}

- 09.08. (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.}
- 10.08. **Defensive measures** (continued). Important case laws in M&A.
Discussion of some cases (Roche-Illumina, Monsanto-Syngenta).
- 11.08. Solving **Cooper Industries** (solution is **due today**)
- 12.08. Cooper Industries (Cont.)
Summary and integration: The Kraft-Cadbury case

Final exam: Tuesday, 16 August 2022, 10:15