2016

645-01 Mergers and Acquisitions

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Xavier University

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Course Materials: There is no required text for the class. However, there are two good books for background material.

Mergers, Acquisitions, and Other Restructuring Activities, Donald M. DePamphilis, Academic Press (a subsidiary of Elsevier). Most recent edition is the 7th.

Mergers, Acquisitions, and Corporate Restructurings, Patrick A. Gaughan, Wiley. Most recent edition is the 6th.

I will post additional materials including articles and slide decks on Canvas.

Mission of the Williams College of Business: We educate students of business, enabling them to improve organizations and society, consistent with the Jesuit tradition.

Learning Goals – Williams College of Business MBA
The Williams College of Business has chosen to emphasize the following learning goals in its MBA curriculum.

1. Strategic Thinking and Leadership: WCB MBAs will be able to position organizations in chosen market areas, compete successfully, and satisfy stakeholders with the objective of achieving superior organizational performance.

2. Global Perspective and Cultural Diversity: WCB MBAs will be able to work across cultural boundaries, whether these are geographical or societal, in that they possess a recognition and appreciation of the global environment of business and an understanding and appreciation of diversity.

3. Ethics and Social Responsibility: WCB MBAs are able to foster an ethical climate in their roles and responsibilities in business and society.

4. Critical Thinking: WCB MBAs are able to clarify problems, generate and evaluate alternatives using appropriate analytical and quantitative techniques, and draw conclusions.

5. Effective Written and Oral Communication: WCB MBAs are proficient in written and oral communication.
Course philosophy: Mergers and Acquisitions represent a significant aspect of business life both in the U.S. and around the world. Indeed, some of you have probably experienced an M&A related event in your own professional careers. My goal is to provide an overview of the process with a focus on its role in creating value. In particular, we will examine:

- Current trends/deals
- The legal framework
- Private equity
- Valuation techniques
- Deal structure/Merger arbitrage
- Shareholder activism
- Restructuring activity

Ultimately, I hope the course provides a foundation upon which you can build with further education and/or work experience. Plus, in future, I want you to be able to read an article in the Wall Street Journal or elsewhere and understand what is going on.

Course materials: All course supplementary materials will be available on Canvas. It is your responsibility to check announcements on Canvas regularly – I will assume that everyone has access to Canvas and either checks their campus e-mail regularly or forwards the e-mail to another account.

Xavier University policies regarding privacy rights, incomplete work and attendance, and academic honesty will be strictly enforced. If an incident of academic dishonesty occurs, the most severe disciplinary action will be taken. Please see the current University catalog.

Performance Evaluation:

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
</tr>
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<tbody>
<tr>
<td>Various in-class projects</td>
<td>50</td>
</tr>
<tr>
<td>Comparable transactions analysis</td>
<td>75</td>
</tr>
<tr>
<td>Discounted cash flow analysis</td>
<td>75</td>
</tr>
<tr>
<td>Shareholder activism presentation</td>
<td>75</td>
</tr>
<tr>
<td>Test</td>
<td>125</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
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</tbody>
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Most likely I will use a standard grading scale: 90% and above A; 80-89% B; 65-79% C; below 65% F. However, I might use a curve if necessary.

+ or – may be added to these letter grades depending on the distribution of course grades. Typically the lowest 1 or 2 people in a specific range receive a “-” and the highest 1 or 2 receive a “+”.

Test: most likely will be a mixture of short essay questions, True/False questions, and problems. Partial credit is given on tests and all work must be shown on the problems. Bring a calculator but no phones can be in view during the tests.
**Devices in the classroom:** Over the past few years, I have noticed a significant increase in the number of students staring at their phones/tablets/computers. Excessive use of technology during class is insulting to me and can be distracting to your classmates. If necessary, I will lower individual grades and stop providing PowerPoint notes. If you’ve got a sick kid or a job deadline, please let me know and I will make exceptions.

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**Questions Regarding Grading:** Any questions regarding grading of assignments or exams must be addressed within one week of return of the graded assignment or exam to the student.

**Make-Up Exams:** All exams must be taken on the date specified in the course calendar unless approval of a make-up exam is granted PRIOR to that date by the instructor. Without prior approval, make-up opportunities are limited to documented emergencies. The instructor discretion is used in determining whether a situation constitutes an emergency. The sooner you contact me about any problems, the better your chances of working something out. It will be the student’s responsibility to schedule a time for a makeup exam before the next class meets – no exceptions.

**Extra credit:** To ensure fairness, no individual extra credit work is available.

**Important Dates**
- January 18 – No class – MLK Day
- Feb 29 – Premiums paid/comps valuation project due
- March 7 – No class – Spring break
- March 14 – DCF analysis due
- April 25 – Shareholder activism presentations OR Test
- May 2 – Test OR presentations

Next class, we will put the last two dates/deliverables to a class vote regarding the order

In terms of the valuation due dates, I might push them back depending on our progress through the various materials. I will NOT bring the due dates forward.
The Shareholder Activism project (group work): You will choose an ongoing or recent shareholder activism effort. Some questions you will want to address include:
- Who is the target?
- Who is the activist?
- What are the issues under consideration?
- Is/was the activist successful? How is the market reacting?
- What is the overall impact of the activism (positive or negative)?

There will be both a paper and a presentation component to this project.

Valuation - Target selection
You will be using the same company for both of the projects, so a good selection will make your life easier. Some suggestions:
- The company should be relatively small - $10 billion market capitalization or less
- Positive cash flows
- Simple is much better – the company should be focused on only one line of business
- It should be in your industry/sector
- It should not have a majority owner

Premiums paid/Comparable transactions valuation:
- Provide an overview of the target and its financials/industry – why did you select this particular target
- Perform premiums paid and comparable transaction analyses. Things you will want to address include the selection of the comparable transactions, calculation of the multiples, and your ultimate valuation of the target firm.
- Based on this analysis, what is your tentative offer (expressed as a range)?

Discounted Cash Flow (DCF) analysis
- Forecast its cashflows
- Estimate its WACC
- Estimate a terminal value
- Perform sensitivity and goal seeking analysis
- Based on this analysis, what is your tentative offer (expressed as a range)?
- Be sure to justify all your assumptions

Group size: Please form groups of 3 to 4 people. I would like to limit the number of groups to eight to ensure enough time for the presentations.
Topic List – here is a list of topics I hope to cover, in approximate order. The last section is probably extremely optimistic.

Introductory concerns
- Restructuring the food industry with a focus on Kraft/Mondelez
- Definitions/Current data
- Merger Waves
- Legal issues

Valuation
- Premiums paid analysis
- Comparable Transactions analysis
  - Comparable companies/Comparable Transactions analysis
- Discounted Cash Flow (DCF) analysis

Practical issues
- Reasons for M&A activity
- Current Issues in debt markets
- Private Equity
- Takeover defenses/Corporate Governance/Shareholder activism
- Deal structuring
- Merger arbitrage
- Restructuring
- Bankruptcy and other financial restructuring
- Issuing securities to the public and the IPO process
Some good books for outside reading (not all having to do with M&A)

Michael Lewis: *Liar’s Poker* & *The Big Short*

Robert Bruner: *Deals from Hell: M&A Lessons that Rise Above the Ashes*

Bryan Burrough & John Helyar: *Barbarians at the Gate: The Fall of RJR Nabisco*

Andrew Ross Sorkin: *Too Big To Fail*
    (Deals with some shotgun mergers e.g., Bank of America – Merrill Lynch)

Roger Lowenstein: *When Genius Failed: The Rise and Fall of Long-Term Capital Management*

Edward Chancellor: *Devil Take the Hindmost: A History of Financial Speculation*

Gillian Tett: *Saving the Sun: A Wall Street Gamble to Rescue Japan from Its Trillion-Dollar Meltdown*
    (Has a heavy Private Equity component)

Andy Kessler
    *Running Money: Hedge Fund Honchos, Monster Markets and My Hunt for the Big Score Wall Street Meat*

Jean Strouse: *Morgan: American Financier*