

FINE31253
Mergers and Acquisitions

Faculty: José-Miguel Gaspar (A406)

Objectives

This course studies corporate merger and acquisition activity from a financial perspective. At the end of the course, you should:

- Understand how valuation plays a central role in the strategic decision-making process
- Carry out valuation analysis of complex corporate/financial structures
- Be familiar with the most common forms of corporate restructuring, as well as understand their different costs and benefits
- Analyze the terms of a restructuring deal in a knowledgeable way, understanding its value implications as well as the incentives and motivations of the major participants

Background

Before registering, students must have completed FINE31123/124 (Financial Theory). It is recommended that students have completed FINE31126/128 (Corporate Financial Management) and FINM31164/165 (Financial Markets and Institutions).

Organization

The course consists of a series of 9 lectures (including four cases) and a final exam. There are no regular office hours. Send me or my personal assistant Aurelia Canteteau (canteteau@essec.fr) an email and we can fix an appointment if necessary. An hour-and-a-half review session will take place before the final exam. You need a calculator throughout the course (usually, any calculator with memory and y^x , $1/x$, e^x and \ln buttons is sufficient).

Cases

The case reports should be handed in by groups of 4 students. Reports should be well-written and professional. The **first page** should be an **executive summary** of the analysis and the recommendations proposed by the students. The **remainder** of the text **should be no more than 6 pages long**. Tables, figures, graphs etc. that support the analysis can be added without limit. Each case is discussed on the class their delivery is due. **Participation in the class discussion counts towards the grade. WARNING: copying and/or plagiarism from any source without acknowledgement are not tolerated and are penalized severely.**

Grading

- The grade for the cases C is equal to the arithmetic mean of the grades of the 4 cases.
- The participation grade P can take the values $\{-1, 0, 1\}$.
- The final grade is equal to the exam grade E plus P if $E+P < 10$, and is equal to $0.5 \times C + 0.5 \times (E + P)$ otherwise.

Readings

The textbook of the course is

- [B] Bruner, Robert, 2004, Applied Mergers and Acquisitions, Wiley: New Jersey.

Complementary material is taken from

- [A] Arzac, Enrique, 2008, Valuation for Mergers, Buyouts and Restructuring (2nd Edition), John Wiley & Sons: New Jersey.
- [G] Gaughan, Patrick, 2002, “Mergers, Acquisitions and Corporate Restructurings” (3rd edition), John Wiley & Sons: New York.
- [CKM] Copeland, Tom, Tim Koller, and Jack Murrin, 2000, “Valuation: Measuring and Managing the Value of Companies” (3rd Edition) John Wiley & Sons: New York.
- [WMM] Weston, J. Fred, Mark L. Mitchell and J. Harold Mulherin, 2004, “Takeovers, Restructuring and Corporate Governance” (4th edition), Pearson: New Jersey.

Students are strongly encouraged to read / watch

- Burrough, Bryan, and John Helyar, 2003, “Barbarians at the Gate: The Fall of RJR Nabisco”, HarperCollins Publishers.
- “Wall Street”, 1987. Oliver Stone, director; 20th Century Fox, producer.

Course Outline

Session 1

Introduction. History and features of M&A. Valuation using DCF models.

Readings:

Books: B: ch. 1, 4, 9. A: ch 2-3, 6. G: ch. 1, 2, 12. CKM: ch. 1, 2, 4-6, 8-14. WMM: ch. 1, 7.

Session 2

Valuation using multiples. Further topics on valuation: multi-divisional businesses, foreign subsidiaries, privately-held firms.

Readings:

Books: B: ch. 9, 11, 12, 15. A: ch 4, 12, 15. G: ch. 13, 14. CKM: ch. 16-19, 21. WMM: ch. 9.

Session 3

Theories of merger activity: “good” and “bad” reasons to do M&A.

Delivery and discussion of Crown Cork and Seal / CarnaudMetalBox (case #1)

Readings:

Books: B: ch. 4. G: ch. 4. WMM: ch. 6, 17.

Session 4

Empirical evidence on M&A activity. The holdout problem. Deal negotiation tactics. Takeover defenses.

Readings:

Books: B: ch. 3, 4, 26, 32, 33. G: ch. 5, 6. WMM: ch. 2, 8, 19, 20.

Session 5

Structuring the deal: financing method, form of payment, tax implications. **Delivery and discussion of Consolidated Rail A & B (Case #2).**

Readings:

Books: B: ch. 16, 18, 19. A: ch. 10-11. G: ch. 3, 15. WMM: ch. 3, 4, 22.

Session 6

Consolidated Rail case (continued). Theory and empirical evidence on divestitures.

Readings:

Books: B: ch. 20, 21, 22. G: ch. 10. WMM: ch. 11, 12.

Session 7

Leveraged Buy-Outs (LBOs). Theory and empirical evidence on LBOs.

Delivery and discussion of Plenum Service Informatique (Case #3).

Readings:

Books: B: ch. 13. A: ch. 13. G: ch. 7. WMM: ch. 16.

Session 8

Financial distress and restructuring.

Delivery and discussion of USG Corporation (Case #4).

Readings:

Books: B: ch. 34. A: ch. 14. G: ch. 11. WMM: ch. 13.

Session 9. Guest speaker

Session 10

Final Exam. The exam lasts for 3 hours. You are allowed to bring one A4 sheet of paper written on both sides. Don't forget to bring a calculator. **WARNING: The final exam cannot be replaced by any assignment, project, etc. if you do not attend. BE THERE OR BE SQUARE.**