

FINA7397: Mergers and Acquisitions
Spring Semester 2012
Prof. Vijay Yerramilli

General Information

- Class Time: Mondays- 6:00-9:00pm (MH 248)
- Office: 240D, Melcher Hall
- Office Hours: Wednesday 4:00-5:00pm, or by appointment
- Email: vyerramilli@bauer.uh.edu¹
- Phone: (713) 743 2516

I. Course Overview

Mergers and acquisition (M&A) transactions are an important form of corporate restructuring, that have the potential to both create and destroy shareholder value on a large scale. The purpose of this course is to provide you with an in-depth understanding of the most important aspects of M&As. These include:

- Motivations underlying M&As
- The takeover process, and key players
- Valuation issues and risks
- Deal structure, method of payment, financing, and tax issues
- Leveraged buyout (LBO) structures and valuation
- Legal and regulatory framework
- Corporate governance and takeover defenses
- Takeover attack and bidding strategies
- Other forms of corporate restructuring

A thorough understanding of M&As is important for corporate finance professionals. It lays the foundation for effective work in a wide range of fields, such as, investment banking, consulting, and corporate development. I hope that the lecture notes, class discussions and cases will help you acquire these important career skills.

¹Email is my preferred mode of communication if you need to reach me outside of class.

II. Course Material

Required Text: *Mergers, Acquisitions, and Other Restructuring Activities*, Sixth Edition, by Donald M. DePamphilis, Academic Press (ISBN: 978-0-12-385485-8).

The cases studies can be downloaded directly from Harvard Business School Publishing (*HBSP*: <http://hbsp.harvard.edu>) at a reasonable price. I have prepared a case packet, the URL for which is <http://cb.hbsp.harvard.edu/cb/access/11590433>. Once you log in to HBSP, click on “*My Courses*” and select the course name “*Mergers and Acquisitions (Spring 2012)*”.

I will post all my lecture slides, Excel files, and copies of articles on the course page (*FINA7397 21021*) on Blackboard (<http://www.uh.edu/blackboard>). All important announcements will also be made on Blackboard. So please make sure to check this page regularly.

III. Grading

Your overall grade for this course is based on your performance in the midterm and final exams, the case studies, and on your in-class participation. I will first compute a “*base grade*” in which the midterm gets a weight of 20%, the final exam gets a weight of 30%, and each of the five case studies gets a weight of 10%. I will then adjust your “*base grade*” based on your individual class participation to arrive at your overall grade. If your individual class participation is strong, I will increase your base grade by a notch (i.e., ‘A-’ would become an ‘A’). On the other hand, if your individual class participation is weak, I will decrease your base grade by a notch (i.e., ‘A-’ would become a ‘B+’).

There is no pre-specified grade distribution for this course. I am prepared to assign a high proportion of ‘A’ grades if performance is excellent, and will not hesitate to assign lower grades if performance is not up to the mark. Below is a detailed description of the individual components in the grading schedule.

A. Case Reports

You will be required to submit written case reports for the following cases:

1. Merger of Hewlett-Packard and Compaq (A and B)
2. Seagate Technology Buyout
3. Acquisition of Consolidated Rail Corporation (A)

4. Acquisition of Consolidated Rail Corporation (B)
5. Bankruptcy and Restructuring at Marvel Entertainment Group

All case reports are equally weighted (note that there is one combined report for parts A and B of the HP/Compaq case). The specific questions pertaining to each case will be provided to you well in advance of the due date. Detailed guidelines for preparing case reports are in Appendix B.

You will work on case reports in teams of 4. Given the importance of teamwork in this class, it is imperative that you form teams by the end of the first week of classes. Once you form a team, you should designate one team member to send me an email containing the names of all team members. **The deadline for sending me this email is 3:00pm on Friday, January 27th.** If you are unable to find teammates by this date, please let me know so that I can assist you in forming/ joining a team.

Case reports must be submitted electronically through the **Turnitin** portal on BlackBoard. Please designate a team member to submit the case report, as well as an excel file (with live formulas) by 5:00pm on the day on which the case is due for discussion in class. Do retain a hard copy of the report with you because you may need it for the in-class discussion. You will receive the team score on your case report within a week of submission. Late submissions carry a penalty of the score-equivalent of one letter grade on the case report grade for each day your report is late. *I do not allow any resubmissions after the case has been discussed in class.*

Your individual score on case reports will depend on your team score and a confidential peer evaluation submitted by your teammates at the end of the course. The integrity of the peer-evaluation is essential to avoid free-riding within teams. Peer evaluations are mandatory and must be turned in by April 30. I will post the peer evaluation form on Blackboard closer to the due date. I reiterate that these evaluations are confidential. I will not share individual evaluations with your teammates under any circumstances.

B. Class Participation

A case-based course such as this requires maximum involvement, participation and sharing of ideas on the part of all the students in the class. I expect you to actively participate in the lectures and case discussions. *Be prepared for “cold call” questions during case discussions.* Your class participation grade will reflect the *quality of your contribution* to class discussions, especially when we discuss cases. Any unexcused absences, especially on the days on which we discuss cases, will have an adverse effect on your participation grade.

C. Exams

There are two exams in this class: a midterm examination conducted during the regular class hours, and a comprehensive final exam that will be held during the finals week. As per the University's "Spring 2012 Final Exam Schedule," the final exam for this class is scheduled for **5:00-8:00pm, Monday, May 7**. To prepare you for exams, I will assign homework assignments periodically (most of these will be end-of-chapter problems from the textbook). The assignments do not have to be turned in, and will not be graded. However, they will be very useful in preparing for the exam, as well as for analyzing the case studies.

IV. Miscellaneous Information

A. Accessibility Statement

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD), and present approved accommodation documentation to their instructors in a timely manner.

B. Academic Misconduct

The University of Houston's Academic Honesty Policy is strictly enforced by the Bauer College and by this professor. A discussion of the policy is included in the UH Student Handbook, <http://www.uh.edu/dos/publications/handbook.php>. It is your responsibility to fully understand and comply with all principles contained within this Handbook. Please make sure you understand this policy and in particular, you understand the meaning of plagiarism.

Appendix A: Course Schedule

- Class 1: Introduction; Overview of M&As
 - Textbook Reading: Chapters 1 and 2
 - Article: “New Evidence and Perspectives on Mergers”
- Class 2: Review of Valuation Methods
 - Textbook Reading: Chapters 7 and 8
 - Article: “Using APV: A better tool for valuing operations”
- Class 3: Review of Valuation Methods
 - Textbook Reading: Chapters 7 and 8
- Class 4: Deal Structuring and Financing Strategies
 - Textbook Reading: Chapters 11 and 12
- Class 5: HP/ Compaq Case (A and B)
- Class 6: Leveraged Buyouts (LBOs): Deal Structure and Valuation
 - Textbook Reading: Chapter 13
 - Article: “Corporate governance and merger activity in the United States: Making sense of the 1980s and 1990s”
- Class 7: Seagate Buyout Case
- Class 8: Exam 1 (March 19th)
- Class 9: Takeover Attack and Defense; Corporate Governance
 - Textbook Reading: Chapter 3
 - Article: “An Overview of Takeover Defenses”
- Class 10: The Acquisition of Consolidated Rail Corporation (A)
- Class 11: The Acquisition of Consolidated Rail Corporation (B)
- Class 12: Alternative Restructuring Strategies
 - Textbook Reading: Chapters 15 and 16
- Class 13: Cross-border M&As and Joint Ventures
 - Textbook Reading: Chapters 14 and 17
- Class 14: Bankruptcy and Restructuring at Marvel Entertainment Group

Appendix B: Guidelines for Preparing Case Reports

I will provide you with a list of questions for each case, to help guide and focus your analysis of the case. Your case report can be structured in the form of answers to these questions. Follow these suggestions when preparing your case reports:

- Read the case thoroughly to identify the main issues and problems. Critically evaluate the information provided to you. As in real life, you will never have all the information you require to make a decision. You will, therefore, have to make reasonable assumptions regarding the missing data/links. Describe these assumptions in the case report, and provide a short justification.
- State your recommendation clearly, and justify your choice. Failure to come up with a specific recommendation, or failure to explain your choice, will lower your score by a letter grade. Do not be vague, and do not try to hedge your bets: take clear a stand on the issue!
- The case report must be *self contained*; i.e., it must contain all the tables, graphs and figures that are necessary to support your analysis. DO NOT refer the reader to an Excel file.
- Be brief. Your report should include a write up not exceeding 4 pages in length, plus any supporting tables, graphs or figures. Do not waste space rehashing the facts of the case. Use font size of 11 or higher. Make sure that the tables are readable.
- I may refer to your Excel spreadsheet for grading purposes. So make sure that I can view the formulas that you used, and that I can easily navigate your spreadsheet.

Please designate a team member to submit your report and excel spreadsheet electronically on Blackboard by 5:00pm on the day the case is due for discussion in the class.