

# Mergers and Acquisitions - I

Spring 2018, 1<sup>st</sup> half-semester (January 16 to March 10)

Prof. Vijay Yerramilli<sup>1</sup>

**Class Time/ Venue:** Wednesday 6:00–9:00pm, CBB214  
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## Course Overview

Mergers and acquisitions (M&As) are an important form of corporate restructuring, that have the potential to both create and destroy shareholder value on a large scale. This course is the first part of a semester-long sequence of two 1.5-credit courses (M&A-I and M&A-II) aimed to provide you with an in-depth understanding of the most important aspects of M&As. See the appendix for a list of topics covered in M&A-I.

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 case studies will help you acquire these important career skills.

## Prerequisites

***FINA 7A10 (Intermediate Corporate Finance: Valuation)*** is a necessary prerequisite to enroll in this course. I require that you have a thorough understanding of the discounted cash flow (DCF) valuation methods taught in FINA 7A10: both the weighted average cost of capital (WACC) method and the adjusted present value (APV) method. M&A transactions may also lead to changes in capital structure and operating risk characteristics of the acquirer/target firm. Therefore, you should be familiar with the concepts of de-levering and re-levering of equity betas that allow you to compute equity betas after such changes.

You must also be comfortable with Microsoft Excel because the case studies require you to build and analyze complex spreadsheets.

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<sup>1</sup>This is only a tentative syllabus that is aimed at providing you with a broad overview of the class. A final version will be made available in early January.

## Course Material

I will post all my lecture slides, Excel files, and copies of articles on the course page 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. The cases studies can be downloaded directly from Harvard Business School Publishing (*HBSP*: <http://hbsp.harvard.edu>) at a reasonable price.

There is no required textbook for this class. If you are interested in a textbook that covers this material in great depth, then I recommend “*Mergers, Acquisitions, and Other Restructuring Activities*,” *Sixth Edition*, by Donald M. DePamphilis, Academic Press (ISBN: 978-0-12-385485-8). It is definitely a worthwhile investment for students specializing in finance.

## Grading

Your final letter grade for this class will depend on your performance on the case studies, the quizzes, and the final exam. The weightages of these components are as follows: **final exam (30%), case studies (50%), and quizzes (20%)**.

There are no fixed cutoffs for determining the letter grades, because I grade on a curve. I also reward active class participation: if you attend class regularly and contribute to in-class discussions, I could increase your base grade by a notch if you are at the margin (i.e., ‘A-’ could become an ‘A’). 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.

## Final Exam

A comprehensive final exam will be held at the end of the half-semester. This will be a closed-book and closed-notes exam. However, you are allowed to bring a “cheat-sheet” with notes written on one side of one sheet (8.5”x11”), to help you recall essential formulas and procedures. I will assign homework assignments periodically to prepare you for the exam (moreover, the case studies will also offer you the opportunity to further hone your valuation skills). These assignments do not have to be turned in, and will not be graded.

You should also bring a calculator (and some spare batteries!) because I do not allow use of computers during the exam. Make sure you know how to operate the calculator. The best way to prepare for the final exam is to solve the homework problems with the aid of

the cheat-sheet and the calculator.

## **Case Studies**

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

- Mellon Financial and The Bank of New York
- Acquisition of Consolidated Rail Corporation (A)
- Acquisition of Consolidated Rail Corporation (B)
- Roche's Acquisition of Genentech

You will work on case studies in teams (of up to 4 students). Given the importance of teamwork in this class, it is imperative that you form teams by the end of the first week of classes.

## **Quizzes**

I will hold quizzes (30 minutes each) periodically to assess your understanding of the topics covered in class, and to provide you timely feedback regarding your individual performance. These will be online quizzes administered through Blackboard so that you may take them at your convenience within a stipulated time frame. To assist in your preparation for the final exam, I recommend that you treat the online quizzes also as closed-book, closed-notes tests, and rely only on the cheat-sheet (described above) and a calculator.

## Appendix: Course Schedule

The course schedule is only tentative, and may change depending on the progress that we make.

- Week 1:
  - Motives behind M&A transactions; drivers of M&A activity; key players; effect on shareholder value.
  - *Article*: “New Evidence and Perspectives on Mergers”
- Week 2: Valuation issues in M&As
- Week 3:
  - **(CASE STUDY)** *Mellon Financial and The Bank of New York*
  - Takeover defense and attack strategies; corporate governance
- Week 4:
  - Anti-takeover provisions and corporate governance.
  - *Article*: “An Overview of Takeover Defenses”
- Week 5:
  - M&A deal structures, method of payment (cash vs. stock), and tax implications
  - **(CASE STUDY)** *The Acquisition of Consolidated Rail Corporation (A)*
- Week 6:
  - Hostile takeovers and attack strategies
  - **(CASE STUDY)** *The Acquisition of Consolidated Rail Corporation (B)*
- Week 7:
  - **(CASE STUDY)** *Roche’s Acquisition of Genentech*