

Mergers and Acquisitions - I

Spring 2018, 1st half-semester (January 16 to March 10)

Prof. Vijay Yerramilli

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.

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 case 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, which is available at <http://cb.hbsp.harvard.edu/cbmp/access/73427587>. Once you log in to HBSP, click on “*My Courses*” and select the course name “*M&A-I*”. (**Note:** You may have to login with your UH email id for HBSP to recognize you as a UH student.)

There is no required textbook for this class. If you are interested in a book that covers this material in great depth, then I recommend “*Mergers, Acquisitions, and Other Restructuring Activities*,” by Donald M. DePamphilis, *Academic Press*. 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 (40%), case studies (40%), 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 from 6:00–9:00pm on **March 7 (Wednesday)**. 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 (B)
- Seagate Technology Buyout

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. 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 5:00pm on Friday, January 19.* 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.

All case reports are equally weighted. 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. Case reports must be submitted electronically on BlackBoard. Please designate a team member to submit the case report in PDF format 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. *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 the day of the final exam.* 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.

Quizzes

I will hold quizzes 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.

You will need to download and install the “**Respondus LockDown Browser**” for the University of Houston on your computer in order to take the online quizzes through Blackboard. This is a secure browser for taking exams in Blackboard, and prevents you from printing, copying, going to another URL, or accessing other applications during an assessment. *Please note that the quizzes will not be accessible with a standard web browser.* Visit <http://www.uh.edu/fdis/technology/respondus-lockdown/getting-started-lockdown> for more information on how to download and install this browser. A student guide is available at http://www.uh.edu/blackboard/downloads/Learn_LockdownBrowser_student_guide.pdf.

Miscellaneous Information

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.

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/studenthandbook>. 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: Course Schedule

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

- Week 1 (Jan 17):
 - 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 (Jan 24): Valuation issues in M&As
- Week 3 (Jan 31):
 - (**CASE STUDY**) *Mellon Financial and The Bank of New York*
 - Takeover defense and attack strategies; corporate governance
- Week 4 (Feb 7):
 - Takeover defense and attack strategies
 - *Article*: “An Overview of Takeover Defenses”
 - M&A deal structures, method of payment (cash vs. stock), and tax implications
- Week 5 (Feb 14):
 - Introduction to leveraged buyouts (LBOs)
 - (**CASE STUDY**) *The Acquisition of Consolidated Rail Corporation (B)*
- Week 6 (Feb 21): LBO Valuation
- Week 7 (Feb 28):
 - (**CASE STUDY**) *Seagate Technology Buyout*

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 **MUST** 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.
- *Your analysis must be based ONLY on the information provided to you in the case* (plus, a few additional assumptions if necessary). Do not make up your own forecasts/numbers.
- The case report **must contain all the exhibits** (tables, figures, etc.) that are necessary to support your written analysis, so that the reader can understand your analysis without having to go through your Excel spreadsheet. For example, (at a minimum) provide a table presenting your forecasts of future earnings and free cash flow, so that the reader can figure out how you arrived at your value estimate.
- Be brief. Your report should include a write up not exceeding 4 pages in length, plus supporting exhibits. Do not waste space rehashing the facts of the case. Use font size of 11 or higher. Make sure that the tables are readable.

Please designate a team member *to submit your report (in PDF format) electronically on Blackboard* by 5:00pm on the day the case is due for discussion in the class. **DO NOT** email the report/ spreadsheet to me. You **DO NOT NEED TO** submit the Excel spreadsheet unless I ask for it.