

Mergers and Acquisitions - II

Spring 2019, 2nd half-semester (March 18 to May 9)

Prof. Vijay Yerramilli

Class Time/ Venue: Wednesday 6:00–9:00pm, CEMO109

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Course Overview

Mergers and acquisitions (M&As) are the most important form of corporate restructuring, and have significant impact on shareholders, consumers, labor and other stakeholders. 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, corporate development, investment banking, private equity, and consulting.

This course is the second part of a semester-long sequence of two 1.5-credit courses (M&A-I and M&A-II) aimed at providing you with an in-depth understanding of M&A transactions. See the appendix for a tentative schedule and list of topics covered in M&A-II. We will examine price-protection mechanisms that are used not only in M&A deals but also more broadly for hedging exposure to risks, such as commodity price risk and foreign exchange risk. We will also study real options valuation techniques which can be used to value assets with options-like features. Finally, we will examine de-merger transactions, such as divestitures and spin-offs.

Prerequisites

M&A-I (or equivalently, *FINA7A33*) is a **necessary prerequisite** for this course. You must also be comfortable with quantitative analysis, and must possess the skills to build and analyze complex spreadsheets in Microsoft Excel.

Course Material

I have posted my lecture slides, spreadsheets, homework problems, and case study assignment questions on Blackboard (<http://www.uh.edu/blackboard>). I also make important

announcements through Blackboard. It is your responsibility to keep track of these.

The case studies are available at Harvard Business School Publishing (HBSP). I have prepared a case packet, which is available at <https://hbsp.harvard.edu/import/596336>. Once you log in to HBSP, click on “*My Courses*” and select the course name “*M&A-II (Spring 2019)*”. I have included an **optional** reading on “*Financial options and their application to corporate finance*” (by E. Scott Mayfield) in the HBSP course packet. This reading provides a detailed overview of options theory from a corporate finance perspective. It is a web-based HTML product that costs \$7.95, and comes with many interactive features including practice questions.

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

Grading will be based on the following components: **final exam (40%)**, **case studies (40%)**, and **quizzes (20%)**. In order to obtain an ‘A’ grade in this class, you must do well on both the team-based case study assignments and the tests. There are no fixed cutoffs for determining the letter grades because I grade on a curve. Class participation is encouraged and will be rewarded at the margin. On the other hand, free-riding on case studies will be penalized. Below is a detailed description of the individual components in the grading schedule.

Case Studies

There are *three case study assignments* in this course. You will work on case studies in teams of 4. Given the importance of teamwork in this class, it is imperative that the teams are in place before the second class. If you know who you want to work with, send me an email containing the names of your team members by *5:00pm on Saturday, March 23*. If not, I can assign you to a team.

You should not get help from outside sources or from other teams while working on case study assignments. Doing so without my permission will be regarded as *academic misconduct*.

All case studies are equally weighted. The specific questions for each case study are available on Blackboard, and the submission deadlines are listed in the Appendix. There is one report per term. Designate a team member *to submit the report (in PDF format) electronically*

on *Blackboard* before the deadline. You don't need to submit the Excel spreadsheet unless I ask for it.

You will receive the team score on your case report within a week of submission. My grading will be based on your quantitative analysis as well as the quality of the written report. Here are some pointers on how to prepare a case report:

- The report should consist of concise responses to the case questions, supported by tables, figures, and quantitative analysis. Do not waste space rehashing the facts of the case or other irrelevant details.
- Do not use information from outside sources. Base your analysis only on the information provided to you in the case, plus any additional assumptions that I may have provided along with the case questions.
- The report must contain all the exhibits that are necessary to support your written analysis, so that the reader can understand your analysis without having to go through your Excel spreadsheet.
- Use font size of 11 or higher. Make sure that the tables and other exhibits are professionally formatted and are readable.

All students are required to submit a *confidential and mandatory peer evaluation* of their teammates at the end of the course. The integrity of the peer-evaluation is essential to avoid free-riding within teams. I could downgrade your final letter grade by several notches if you receive poor grades on your peer evaluation. I reiterate that these evaluations are confidential. I will not share individual evaluations with your teammates under any circumstances.

Quizzes and Final Exam

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. A comprehensive final exam will be held from 6:00–9:00pm on **May 8 (Wednesday)**. You can use the homework questions available on Blackboard to prepare for the quizzes and the final exam. The homeworks do not have to be turned in, and will not be graded.

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

Week 1
(March 20) Financial Engineering in M&A Deals: Floors, Caps, Collars, and other price-protection mechanisms

Week 2
(March 27) Overview of Financial Options, and the Black-Scholes Model
Evaluation of Price-Protection Mechanisms

Week 3
(April 3) Evaluation of Price-Protection Mechanisms
QUIZ 1

CASE REPORT for “*The MCI Takeover Battle: Verizon versus Qwest*” due by **6:00pm on April 7 (Sunday)**

Week 4
(April 10) Discussion of “*The MCI Takeover Battle: Verizon versus Qwest*”
Introduction to “real options” valuations

Week 5
(April 17) Introduction to “real options” valuations
QUIZ 2

CASE REPORT for “*Canadian Pacific’s Bid for Norfolk Southern*” due by **6:00pm on April 21 (Sunday)**

Week 6
(April 24) De-merger transactions: Divestitures, spin-offs, and equity carve-outs
Discussion of “*Canadian Pacific’s Bid for Norfolk Southern*”

CASE REPORT for “*TravelCenters of America*” due by **6:00pm on May 1 (Wed)**

Week 7
(May 1) Discussion of “*TravelCenters of America*”
Discussion of the final exam
QUIZ 3 (tentative)

FINAL EXAM on May 8 (Wednesday) from 6:00–9:00pm
