

Mergers and Acquisitions

EF4312, City University of Hong Kong, Semester B 2017/18

Meeting Time:: Wednesday, 12:00 – 14:50
Location: AC1 P4703
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Wednesday, 15:00 – 17:00
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Description

This course is designed to provide the tools necessary to understand and analyze corporate mergers and acquisitions (M&A), restructuring, and corporate governance. Specifically, this course aims to:

- Introduce institutional knowledge of M&A in the U.S.
- Demonstrate valuation techniques in the context of M&A
- Explore economic theories, practice, and empirical evidence related to M&A
- Develop analytical frameworks to understand hypothetical and past M&A activities

Classes will consist of a combination of lectures, discussion, and student presentations. Projects will be used to help students gain experience in analyzing financial problems, formulating plans, making strategic decisions, and presenting the results of their work.

Objectives

At the end of this course, students should understand alternative types of restructuring techniques, how each can be used to increase shareholder value, and have a broad understanding of the economic and social consequences of corporate restructuring.

Textbook (Optional)

Weston, J. Fred, Mark L. Mitchell, and J. Harold Mulherin, 2004. *Takeovers, Restructuring, and Corporate Governance*, Fourth/International Edition., Prentice Hall.

Grades

In-class Activities: Homework and Class Participation	10%
Recent Merger Case Analysis	10%
Merger Proposal Report	30%
Merger Proposal Presentation	10%
Final examination	40%

The final exam is graded using a standard scale of 0–100%, but exam scores will be curved if the exam is too difficult. You are allowed to have a calculator for the exam. Students are required to pass both coursework (i.e., projects and class participation) and examination components in order to pass the course.

In-class Activities

The class will be divided into groups of roughly 6 to 8 students (for a total of 10 groups). There will be a total of 8 homework assignments that is to be completed as a group (i.e., only one copy needs to be submitted per group). For each homework, I will randomly assign a few groups to present their solution. These homework assignments serve to help students review the concepts presented in the course. Homework assignments can include readings and case study questions. **All students** should come to class with an understanding of the homework problems and be prepared to recommend solutions. In general, asking or answering questions will only raise your grade as I reward students who contribute to the learning environment through the class participation part of the grade.

Group Projects

Each group is responsible for also analyzing and presenting two projects: the recent merger case and the merger proposal. When presenting and evaluating cases, students should position their work as a proposal or plan of action they want to “sell” to the management or shareholders of the firm involved.

For each project, the group must:

- Create a PowerPoint file for a 20 minute presentation and an Excel spreadsheet file with all analysis used in the presentation
- Explain the financial rationale for the deal, value the target and synergies, and analyze the deal structure
- Email both PowerPoint slides and Excel spreadsheet to the instructor at least 1 hour before class begins on the day of the presentation
- Be prepared to answer questions from the class after the presentation

The Excel spreadsheet should be labeled enough so that the instructor can figure out what you did. The PowerPoint file can include extra slides in the back (e.g., if you want to show the instructor any work you do but do not have time to show the class). To be clear, if you wish for any work to count toward your grade, you must include at least a brief discussion of it in these extra slides in the PowerPoint file, as the instructor will not search through spreadsheets to find hidden work.

Group performance will be judged on three criteria: accuracy, thoroughness of the analysis, and quality of the oral and written reports. A premium will be placed on quantitative rigor, conciseness, and asking good questions. Analysis with more creativity and quantitative rigor supporting conclusions will receive higher grades. Peer evaluation forms will be distributed at the end of the course. I reserve the right to discount a student’s group grade should there be evidence of shirking of responsibilities. Class participation will be based on the *quality* of your contribution to class discussions and your frequency of asking questions following case presentations.

Recent Case Analysis

Each group will analyze one recent or ongoing merger or restructuring deals using financial information from Thomson One Banker and Bloomberg databases (you may need to go to the EF lab at AC3 7-218). Each group will present its analysis in front of the class.

Merger Proposal

Each group will develop a pitch book proposing a merger of two actual companies based in Hong Kong, Macau, or China. Students can select any publicly traded companies with data available from Bloomberg and the OSIRIS database. Each group will analyze and then present its proposal in front of the class.

Course Outline

Valuation

Session 1	<i>Wednesday, 17 January 2018</i> Lecture: Overview of Mergers and Acquisitions in the U.S. Textbook: Ch. 1 and 7
Session 2	<i>Wednesday, 24 January 2018</i> Lecture: Understanding Free Cash Flow Textbook: Ch. 9 Homework 1 Due: Regulation of M&A in the U.S.
Session 3	<i>Wednesday, 31 January 2018</i> Valuation Techniques Textbook: Ch. 10 Homework 2 Due: Review of Growth Models

Institutional Knowledge

Session 4	<i>Wednesday, 7 February 2018</i> Lecture: Deal Structures and Business Strategies Textbook: Ch. 2, 3, 4, and 5 Homework 3 Due: Market Multiples
Session 5	<i>Wednesday, 14 February 2018</i> Lecture: Takeover Defenses Textbook: Ch. 19 Homework 4 Due: Amgen Inc. Case Study
Holiday	<i>Wednesday, 21 February 2018</i>

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Session 6	<i>Wednesday, 28 February 2018</i> Lecture: Theory of M&A and Empirical Tests of M&A Performance Textbook: Ch. 6 and 8 Homework 5 Due: P&G and Gillette Case Study
Session 7	<i>Wednesday, 7 March 2018</i> Recent Merger Case Submission and Presentation
Session 8	<i>Wednesday, 14 March 2018</i> Recent Merger Case Submission and Presentation

Additional Topics

Session 9	<i>Wednesday, 21 March 2018</i> Lecture: Splitting Apart Textbook: Ch. 11, 12, and 13 Homework 6 Due: Consolidated Rail Corporation Case Study
Session 10	<i>Wednesday, 28 March 2018</i> Lecture: Privatization and Leveraged Buyouts Textbook: Ch. 14 and 16 Homework 7 Due: Risk Arbitrage
Holiday	<i>Wednesday, 4 April 2018</i>
Session 11	<i>Wednesday, 11 April 2018</i> Lecture: International M&A Textbook: Ch. 17 Homework 8 Due: DuPont Co. Case Study
Session 12	<i>Wednesday, 18 April 2018</i> Merger Proposal Report Presentations
Session 13	<i>Wednesday, 25 April 2018</i> Merger Proposal Report Presentations