



MERGERS AND ACQUISITIONS

ECON 42415

MODULE HANDBOOK
2020 - 2021

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Module Handbook 2020-2021

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N.B. This handbook is intended for the guidance of students taking this module in 2020/21. Whilst the details contained in this handbook represent teaching staff intentions at the time of writing, it is in the nature of higher education that some module information, such as syllabus, reading lists and assignments, may be subject to modifications during the teaching of a module. Teaching staff reserve the right to make such minor changes in the matters covered by this publication and will endeavour to publicise any such changes as widely and timely as possible.

MERGERS AND ACQUISITIONS

Module Handbook 2020-2021

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MODULE INFORMATION:

In the *Mergers and Acquisitions* module, students are challenged to think in an integrated manner; like an *investment banker/analyst*, a strategist, financier, *Private Equity* manager, and a CEO. *Mergers and Acquisitions* play a vital role in corporate financial strategy. An understanding of *Mergers and Acquisitions* as a discipline is increasingly important in modern business. The dynamism of today's global economy requires corporations to restructure their business to remain competitive. A glance at any business newspaper or business news web page will indicate that *Mergers and Acquisitions* are big business and are taking place all the time. Notably, the field of *Mergers and Acquisitions* has undergone tumultuous changes over the past two decades. Some sectors, such as banking, finance, oil, pharmaceuticals, telecommunications, IT and chemicals, have been transformed since 1994 by the occurrence of very large-scale *Mergers and Acquisitions*.

The module aims to enable students to:

- acquire and demonstrate a specialist knowledge and understanding of the different elements of systems of mergers, acquisitions and other corporate restructurings.
- develop skills in the application of various asset pricing theories to aid the analysis of mergers and acquisitions; this analysis will address individual firms and statistical analysis of performance measures across a variety of cross sections of data.

- develop a critical understanding of reasons for and the impact of differences in pricing methodologies, payment mechanisms and underlying causation factors driving consolidation across various industrial sectors.

LEARNING OBJECTIVES:

In addition, upon completion of this module students should:

- have a specialist knowledge and understanding of:
 - how to combine asset pricing models to identify target prices for firms.
 - identifying the optimal payment structure for a target firm and demonstrate the impact of different payment mechanisms on target valuations;
 - Analysing the corporate finance and asset pricing implications of merger and acquisition activity and understand how agency issues can influence such activities;
 - international differences in systems of M&A;
 - the development and the impact of regulation and accounting on M&A activities and waves.
- be able to apply their understanding of M&A to analyse principal-agent problems in organizations and to develop and evaluate solutions to limit agency problems.
- appreciate the highly complex nature of systems of M&A both in all types of organizations.
- have the ability to assess the appropriate valuation methodologies in potential M&A transactions of various types; this will necessarily include the distinctions between valuation and pricing, and will also cover the payment methods used;
- develop an understanding of the full-costing of a deal;
- understand how private equity and M&A have evolved over time, their global structure and importance;
- appreciate the distinctive characteristics of the two primary forms of private equity – Venture Capital and Buyouts – and the role they play in investments, their economics, returns, risks, skill requirements and similarities/differences;
- understand how prospective deals are sourced, evaluated, modelled, valued, structured and negotiated;

In addition, students will have the opportunity to develop the following key skills:

- *Written Communication* - e.g. through summative assessment.
- *Interpersonal Communication* - e.g. by working in teams to prepare for group presentations; using e-mail to communicate with other students and class leaders; discussing prepared material in lectures and seminars with both the class leader and other students in the group.
- *Oral Presentation* - e.g. by giving group presentations and explaining the answers to seminar questions to other students and the class leader; in general, by actively participating in discussion during classes.
- *Planning, Organisation and Time Management* - e.g. by working in teams; preparing for seminars; downloading OHPs and course notes from DUO; revising relevant material before lectures and seminars; preparing for examinations.
- *Problem Solving and Analysis* - e.g. by applying the necessary analytical skills, as well as the ability to manipulate concepts in Mergers and Acquisitions, in answering seminar questions and undertaking assessed work.
- *Using Initiative* – e.g. in conducting research for seminars and the group presentation.
- *Computer Literacy and Information Retrieval* - e.g. by valuation models using spread sheets and planning research schemes; accessing, and downloading teaching material from DUO; participating in computer based student self-assessment exercises, using e-mail to communicate with the class leader and other students; undertaking bibliographical search and information retrieval for the preparation of formative and summative assessment.

TEACHING METHODS:

Through a mixture lectures and seminar classes as follows:

	Number	Frequency	Duration
Lectures	10	1 per week	2 hours
Seminars	4	Fortnightly	1 hour

LECTURES:

Attendance is not enforced, but I would really like you (students) to be here. Lectures are designed to provide you with a structured treatment of the more technical material and are a framework to facilitate your private study. They are also meant to stimulate your intellectual interest in the subject. However, **lectures are by no means substitutes of private study**. Private study is a key element of your success in the module and I expect you to spend several hours per week in private study on each topic. You have a tremendous amount of freedom. No one is monitoring your progress. No one is checking to see if you are going to lecture class, and no one enforces you to do your assignment. You are responsible for your own academic progress.

Teaching material will be uploaded prior to the lectures on DUO, and **students are expected to study them before attending the class. Students will get much more out of classes if they have read the relevant teaching material before attending the class.** Lectures will be easier to follow; you will be able to understand class discussions, real-world examples and case studies, etc.

SEMINARS:

Seminars are designed to help you understand the material and its applications, to encourage independent study, to translate academic knowledge into practice, to give you the opportunity to actively participate in the course, and to enhance your learning experience. The questions for these will be posted on DUO. **All students are expected to prepare answers to all questions** for each seminar and be prepared to enter into discussion and presentation of the issues. Therefore, you should work on the seminar materials before the meetings. The tutor's role is to help you develop a correct understanding of the relevant issues, to deal with your problems and more generally to lead a constructive discussion during seminars. Indicative solutions to the questions will be posted on DUO ONCE ALL seminar classes have taken place. Seminar's timing, content and assignments will be posted on DUO.

STUDENT WORKLOAD:

There are nine lectures and four seminars, however the course expects that students should be highly skilled and able to undertake extensive extra reading around the topic.

Furthermore, having undertaken study on this topic, you should:

- be able to undertake bibliographic searches in order to be able identify and retrieve key references related to the debate about the operation of as well as the advantages and disadvantages of different valuation techniques and acquisition methods;
- be able to undertake analysis of M&A data to perform a cross sectional or event study.

Group learning is encouraged, however, the course is designed to create financial analysts, investment bankers and private equity analysts that can undertake extensive work in the area of mergers, acquisitions and other forms of corporate restructuring (such as leveraged buyouts, divestitures and bankruptcies).

In addition to attending lectures and seminars and undertaking preparation for classes and formative and summative assessments, **you are expected to undertake independent reading and learning**. This module represents one-sixth of the modules you take during the year and you should therefore devote approximately one-sixth of your (full-time) working week to teaching and learning for this module. Obviously, there will be some weeks in which you devote more time to one module and less to others, but on average about one-sixth of your work time should be devoted to this module.

As a guide, the University Teaching and Learning Handbook defines a single undergraduate module as a study unit comprising 200 hours of Student Learning Activity Time (SLAT) annually. SLAT hours include all formal contact hours (lectures, classes, seminars, workshops, etc.), the time devoted to background reading, and all preparation and reading time associated both with the formal contact hours and the formative and summative assessments (including essays, other assignments and examinations).

FORMATIVE ASSESSMENT:

The main aim of the formative assessment is to help you, in a structured way, to understand the taught material and its applications, consolidate your knowledge and further develop relevant skills. The main formative assessment is practice exam questions in the seminar series. Each seminar will have a set of solutions and guidance to ensure that you are properly prepared for the examination.

Formative Assessment and Feedback - Formative assessment, and feedback, takes a number of forms such as oral feedback on work prepared by students for seminars; answers to questions either discussed during a seminar, or posted on DUO; discussions with teaching staff during consultation hours, or via e-mail.

SUMMATIVE ASSESSMENT:

The summative assessment is one written examination. The exam will be formed of 5 essay-style questions, and you will be required to answer three by using your knowledge and critical thinking.

- ❖ More details will be provided in the last revision class.

Past exam papers are available via the university library website

ASSESSMENT CRITERIA:

Performance in the formative and summative assessments for the module is judged against the following criteria:

- ✓ Relevance to questions
- ✓ Organisation, structure and presentation
- ✓ Depth of understanding
- ✓ Analysis and discussion
- ✓ Use of sources and referencing
- ✓ Overall conclusions

More details will be provided in the class.

STAFF – STUDENT COMMUNICATION:

The lecturer will communicate with the students via announcements in lectures, seminars, e-mails and the announcement board on DUO. You should check your e-mail and announcement on DUO regularly, possibly once a day. You should also check regularly the module entry on DUO, where teaching material will be updated on a regular basis.

Do not hesitate to contact your lecturer whenever you have a concern, problem, or question. While I will be happy to help you, **you must initiate the contact.** You should, of course, respect your lecturers' privacy and personal time; talk to me after class, and see me during my office hours. If you need to meet me during term time, simply send an e-mail to check my availability and to book an appointment during the office hours described in page 3. If you cannot do so because of timetable constraints, or because it is an urgent matter, you can arrange to see me outside my consultation hours. The most effective way to arrange a meeting is by e-mail; alternatively, briefly talk to me after lectures and seminars.

The following material will be available on DUO:

- ✓ A copy of this handbook
- ✓ Lecture notes / slides
- ✓ Seminar questions and outlined solutions
- ✓ Formative assessment question and deadlines
- ✓ Timetable changes and other announcements
- ✓ Additional references and Web links

You should consult the module entry on DUO as often as possible on a regular basis.

OBTAINING HELP:

You are always welcome to talk to your lecturer whenever you wish to discuss any aspect of the module. The first port of call for any general enquiries relating the module's outline, lecture material and readings should be the module leader. However, if there are specific

problems related to the understanding of the material, the class lecturer (if different) should be contacted first. Students should however feel free to contact the module leader if they wish to have a 'second opinion' or to discuss any aspect of the module.

READING LIST:

The main **textbook** for this module is:

Donald M. DePamphilis (2017), *'Mergers, Acquisitions and Other Restructuring Activities'*, 9th ed., Academic Press.

Or the 8th edition, which is almost the same with little differences:

Donald M. DePamphilis (2015), *'Mergers, Acquisitions and Other Restructuring Activities'*, 8th ed., Academic Press.

About the author, Don is a Professor at Layola Marymount, Los Angeles who has specialised in M&A for many years, I met him at Layola College Chicago about ten years ago and I have been a big believer in the project underlying this textbook since then. The idea is to ensure that there is an up-to-date record of the current M&A environment, as you can imagine this has changed out-of-site since 2004, when financing was relatively easy and yields high. The current edition also has an assessment of the impact of the Dodd-Frank act and to my mind this is currently the best assessment in print. I am generally not in favour of using a single source for a course, but this is a very good source and we will stick fairly rigidly to the structure of the book for our nine lectures.

Other useful textbook:

As an additional source you can also refer to the following book:

Patrick A. Gaughan (2015). *Mergers, Acquisitions and Corporate Restructuring*. 6th ed., Wiley Corporate F&A.

Other useful resources:

Ideally this module helps you to enhance and expand your foundational knowledge in Corporate Finance and in Analysing Financial Statements. For example the following books:

- **J. Berk, P. DeMarzo (2016). Corporate finance. 4th global ed., Pearson.**
- **J. Tirole (2006). The theory of corporate finance. Princeton University Press**
- **S.H. Penman (2013). Financial statement analysis and security valuation. 5th ed., McGraw Hill.**

Other useful books which are related with mergers and acquisitions:

- **J. Rosenbaum, J. Pearl (2013). Investment Banking: Valuation, Leveraged Buyouts, and Mergers and Acquisitions. 2nd ed., Wiley & Sons.**
- **Sudi Sudarsanam (2010). Creating Value from Mergers and Acquisitions, 2nd Edition, Prentice Hall/FT.**

This book is very different from Don's book in that it focuses very much on the target identification and optimal deal structure, rather than a scientific analysis of M&A in general. It provides a five stage guide to M&A with an extensive set of examples. The key point is that this is almost exclusively centered on case study examples whereas the main textbook has more of a balance. This book is also updated more rarely than the course text and contains fewer details on the background of M&A. Use this book if you want to have a greater variety of case studies for your extended answers, however, it is not a substitute for the course text.

- **Robert F. Bruner, (2009). Deals from hell: M&A lessons that rise above the ashes. 1st ed., John Wiley & Sons.**

This book makes a detailed look at the worst M&A deals ever and the lessons learned from them. It addresses the key factors to M&A success and failure, and therefore can be used as a comprehensive guide to analyse, design and implement M&A deals.

- **David Luenberger (2009). Investment Science, International Edition, Oxford University Press.**

This book is not about M&A, but is, to my mind, the definitive background text on finance. The book does not pull any punches in carefully describing the basic financial instruments: debt, equity, commodities and all of the basic derivatives. If you feel that any of the financial terms used in the course are somewhat new to you, I strongly suggest you get this book, it is brilliant.

You are also strongly encouraged to browse through finance journals available in the library. Most of these can also be obtained in electronic format in one of the links provided in the e-journals section of the library at:

<http://www.dur.ac.uk/library/resources/online/ejournals/>

MODULE OUTLINE AND SULLABUS:

The following outline gives an overview of the topics covered in this module. In addition to the relevant chapters from the recommended textbooks, an indicative additional reading list for each topic is also provided.

Further information will be provided on DUO as the module progresses. It should be noted that each topic does NOT necessarily correspond to a single lecture.

Lecture 1: The Mergers and Acquisitions Environment

DePamphilis (2015) Section I: Chapters 1 to 3.

- Introduction to M&A.
- The Regulatory Environment.
- The Corporate Takeover Market.

Lecture 2: Merger Waves and Takeover Tactics

DePamphilis (2015) Section II: Chapters 4 to 6.

- Merger waves.
- Friendly and hostile takeovers.
- Takeover tactics and defenses.

Lecture 3: The Acquisition Process

DePamphilis (2015) Section II: Chapter 3.

- The phases of an acquisition.

- Implementing deals.
- A series of examples.

Lecture 4: The Post-Acquisition Process

DePamphilis (2015) Section II: Chapters 4 to 6.

- The Post-Acquisition phases.
- Implementing deals.
- A series of examples.

Lecture 5: Cash Flow Valuation and Modelling Part I

DePamphilis (2015) Section III: Chapters 7 and 9.

- Cash Flow Valuation.
- Practical Examples.

Lecture 6: Cash Flow Valuation and Modelling Part II

DePamphilis (2015) Section III: Chapters 7 and 9.

- Financial Modelling
- Real-Time Application
- Practical Examples

Lecture 7: Alternative Valuation Models

DePamphilis (2015) Section III: Chapters 8 to 10.

- Alternative valuation models.
- Real Options Valuation
- Examples.

Lecture 8: Valuing Private Firms, Deal Structuring, Leveraged Buyouts and Financing Strategies

DePamphilis (2015) Section IV: Chapters 11 to 14.

- Deal Structuring and Financing Strategies.
- Financing the deal.
- Valuing firms that are not publicly listed.
- Highly leveraged transactions.
- Real-Time modelling for financing a deal

Lecture 9: Alternative Business and Restructuring Strategies.

DePamphilis (2015) Section V: Chapters 15 and 16.

- Business alliances.
- Alternative corporate structures.

Lecture 10: Divestiture, Bankruptcies, and Cross-Border M&As.

DePamphilis (2015) Section V: Chapters 17 and 18.

- Bankruptcy as a corporate restructuring activity.
- Alternative business exits.

Revision Lecture: Revision Class and Experimental design of Mergers and Acquisitions

Reading: The Econometrics of Financial Markets (1996) by Campbell, Lo and MacKinley,

Chapter 4: Event Study Analysis.

- Databases, what to use for what part of the study.
- Designing an M&A study.
- Event studies.
- Cross sectional studies.

SEMINARS:

Seminar 1: Understanding M&A activity.

Seminar 2: Valuation I: Cash Flow Valuations.

Seminar 3: Valuation II: Real Option Valuations.

Seminar 4: The strategic component of M&A activity.

Timetable of lectures and seminars:

Lectures:

Fridays 9:00 to 10:50 Durham University Business School (BUSC): 403, Weeks 26 to 34

Seminar Groups (subject to any changes, please check DUO for updates):

Group 1: Wednesdays	12:00 to 12:50	BUSC 453	Weeks 27,29,31,33
Group 2: Wednesdays	12:00 to 12:50	BUSC 453	Weeks 28,30,32,34
Group 3: Fridays	12:00 to 12:50	Elvet Hill (EH) 202	Weeks 27,29,31,33
Group 4: Fridays	12:00 to 12:50	EH 201	Weeks 28,30,32,34
Group 5: Mondays	10:00 to 10:50	EH 201	Weeks 27,29,33,35
Group 6: Mondays	10:00 to 10:50	EH 201	Weeks 28,30,32,34
Group 7: Mondays	11:00 to 11:50	EH 201	Weeks 27,29,33,35
Group 8: Mondays	11:00 to 11:50	EH 201	Weeks 28,30,32,34
Group 9: Mondays	12:00 to 12:50	EH 202	Weeks 27,29,33,35
Group 10: Mondays	14:00 to 14:50	EH 201	Weeks 28,30,32,34

Term Weeks:

26	13-Jan-20	Teaching week 11
27	20-Jan-20	Teaching week 12
28	27-Jan-20	Teaching week 13
29	03-Feb-20	Teaching week 14

30	10-Feb-20	Teaching week 15
31	17-Feb-20	Teaching week 16
32	24-Feb-20	Teaching week 17
33	02-Mar-20	Teaching week 18
34	09-Mar-20	Teaching week 19
35	16-Mar-20	Teaching week 20

Final exam is undertaken in the May/June examination period.