

EDWARDS SCHOOL OF BUSINESS
University of Saskatchewan

Masters of Business Administration

MBA 855.2 Mergers and Acquisitions

INSTRUCTOR: FAN YANG, PH.D.

DESCRIPTION OF COURSE

Financial and economic aspects of Mergers and Acquisitions (M&A) are examined. Particular attention is paid to the valuation of M&A targets and the overall impact of M&A on corporate governance. The motivation of mergers, both theoretically and empirically, is investigated. The course also explores anti-takeover devices and international M&A activities.

Prerequisites: MBA 803.3 Business and Society;
MBA 807.2 Financial Statement Analysis;
MBA 825.3 Financial Management

STRUCTURE OF THE COURSE

The course aims at providing the students with integrated overview of M&A activities. It is composed of four sub-categories: i) Putting the M&A activities in the perspective of economic development, tracing the characteristics of such activities in different business environments; ii) Exploring the technical details of the M&A activities, such as determining the appropriate discount rate for the target, forecasting its expected future cash flows, and valuing it more accurately; iii) Investigating the motivations of the M&A activities; and iv) Examining the anti takeover devices.

ACTIVITIES WITHIN THE COURSE

The course is designed to be interactive and students are expected to participate in the discussions. The course contains: i) Lectures: the instructor provides the students with economics and finance theories relevant to Merger and Acquisition; ii) Case analysis: both as lectures and student presentations; iii) Student presentation: students are requested to present the analyses of the cases; iv) Guest speaker: **if possible**, local business people are invited to share their viewpoint/experience with respect to merger and acquisition.

Component Element	Weight for Final Grades
Participation to Class Discussion (individual)	20%
Presentation of case analysis	30%
case report	20%
take home final exam	30%
Total	100%

RULES OF THE GAME

- Rule 1 *Email Policy:* The instructor will respond to emails within two business days under normal circumstances.
- Rule 2 There is no *final exam*, instead, there is a *final case presentation & report*.
- Rule 3 *Case presentation:* All cases must be presented using PowerPoint slides. Plan to spend a maximum of 45 minutes, including Q&A time. Budget 30 minutes for presentation and 15 minutes for Q&A. Every team member is expected to participate in the presentation. Contact the instructor for a list of suggested issues to address in the case. All case presentations are scheduled for xxx. Please send the instructor a hard copy of your PowerPoint presentation 24 hours before the presentation.
- Rule 4 *Case report:* All case reports must be submitted in MS Word format or PDF format by email to fyang@commerce.usask.ca, and a hard copy should be delivered at the course mailbox. Case reports are due on xxx). Late submissions will not be accepted.
- Rule 5 *Class Participation:* Class participation marks will be awarded as follows. A total of 10 points are reserved for the class of student presentation. On this day, if you show up, you get 4 points. If you contribute anything, you get 6. If your contribution is deemed substantial, you get 8. A full 10 is for truly noteworthy contribution. In all cases, the instructor will be the sole arbiter of the worth of your contribution. The remaining 20 points are spread equally over the other lectures. I will apply the same scheme every day, toss out the two worst days, and take the mean. Your total class participation mark is the case presentation day scores and this mean.

Students are expected to have read and understood the rules regarding academic dishonesty which are posted on the University of Saskatchewan website at:

http://www.usask.ca/university_council/reports/09-27-99.shtml

TEXTBOOK AND CLASS MATERIALS

- *Takeovers, Restructurings, and Corporate Governance (Fourth Edition, 2004)*, by Weston, Siu, and Johnson.
- Case package for student presentation.

SCHEDULED TOPICS (TENTATIVE)

CLASS ONE

Timing of Merger Activity

Early Horizontal Mergers, 1895-1904

Vertical Mergers, 1922-1929

Conglomerate Mergers, 1960s

Efficiency Mergers, 1980s

Stock Financed Mergers, 1990s

Mini-Case: *Telecommunications industry case study (App. A of Ch.7)*

Read: Ch. 7

CLASS TWO

Cost of Capital (review)
In preparation for Valuation of the mergers
Cost of Debt
Cost of Equity
WACC
Mergers and Economic Growth
Read: Ch. 9 (cost of capital only)

CLASS THREE

Valuation of Mergers
Market Value Method
Comparable Companies Approach
Comparable Transactions Approach
DCF Approach
Market Efficiency and Reliance on Market Values
Read: Ch. 9, including Appendix A
Case: *The Goodyear Tire and Rubber Company* (valuation of M&A)

CLASS FOUR - FIVE

Motivations for Mergers – Wealth Creation/Destruction in M&A
Abnormal Returns Calculation
Market Inefficiency
Tax Considerations
Market Power
Redistribution
Signals
“Synergy”
Mini-Case: A Chemical Industry Case Study (App. A of Ch.6)
Mini-Case: Analysis of a Recent M&A Sample (App. A of Ch.8)
Read: Ch. 6, including Appendices A and B; Ch. 8

CLASS SIX

Corporate Governance for Mergers
Corporate Governance Problems in Targets
Corporate Governance Problems in Bidders
Corporate Governance Mechanisms
Comparative Corporate Governance
Mini-Case: AOL Time Warner (App. A of Ch.6)
Read: Ch. 20.

CLASS SEVEN

Takeover Defenses
Financial Defensive Mechanisms
Greenmail
Anti-takeover amendments

Poison Pills
Golden Parachutes

Read: Ch. 19

CLASS EIGHT

International M&A

Read: Ch. 17

CLASS NINE

Student Presentation