

Mergers and Acquisitions - II

Spring 2018, 2nd half-semester (March 19 to May 10)

Prof. Vijay Yerramilli¹

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 second 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-II. This module will focus mostly on leveraged buyouts, spinoffs, and the importance of valuing real options in M&A transactions.

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

There are two prerequisite courses that you must complete before enrolling in M&A-II:

1. Either *M&A-I* OR *FINA7A33*; and
2. *FINA 7A20 (Capital Markets)*. In particular, I require that you have a basic understanding of financial options and are familiar with the Black-Scholes formula. It is not advisable to enroll in this class if you have never been exposed to these concepts.

You must also be comfortable with Microsoft Excel because the case studies require you to build and analyze complex spreadsheets.

¹This is only a tentative syllabus that is aimed at providing you with a broad overview of the class. A final version will be made available in early March.

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 cases studies can be downloaded directly from Harvard Business School Publishing (*HBSP*: <http://hbsp.harvard.edu>) at a reasonable price.

There is no required textbook for this class. If you are interested in a textbook that covers this material in great depth, then I recommend “*Mergers, Acquisitions, and Other Restructuring Activities*,” *Sixth Edition*, by Donald M. DePamphilis, Academic Press (ISBN: 978-0-12-385485-8). 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 (30%), case studies (50%), 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 at the end of the half-semester. 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:

- Bidding for Hertz: Leveraged Buyout
- Seagate Technology Buyout
- Humana Inc.: Managing in a Changing Industry
- MW Petroleum Corporation (A)

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.

Quizzes

I will hold quizzes (30 minutes each) 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.

Appendix: Course Schedule

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

- Week 1:
 - Leveraged buyouts (LBOs): Motivation, structure, and valuation.
- Week 2:
 - LBO Valuation (continued).
- Week 3:
 - (**CASE STUDY**) *Seagate Technology Buyout*
- Week 4:
 - Spin-off transactions
 - (**CASE STUDY**) *Bidding for Hertz: Leveraged Buyout*
- Week 5:
 - Review of financial options
 - (**CASE STUDY**) *Humana Inc.: Managing in a Changing Industry*
- Week 6:
 - Valuation of real options
- Week 7:
 - (**CASE STUDY**) *MW Petroleum Corporation (A)*