MGT 661
Mergers and Acquisitions
Fall 2010

Professor: Inmoo Lee

email: inmool@business.kaist.ac.kr
Office: Supex 324
Phone: 958-3441
WWW site for MGT 661
http://www.business.kaist.ac.kr/faculty/inmoo/MGT661.htm
Office Hours: 3:00-4:00 p.m. on Thursday and by appointment.

Hours: Tuesday and Thursday 5:30 – 7:00 p.m.
Lecture Room: 103
Teaching Assistant: Sungwon Seo (email: seosung84@business.kaist.ac.kr)

COURSE OBJECTIVES

This course helps students understand various issues regarding mergers and acquisitions M&A), and obtain critical knowledge on valuation that is essential in evaluating M&A. The course will focus on financial aspects of M&A, rather than legal or strategic aspects. The course will require basic understanding of financial economics. The course will cover five Harvard Business School cases on M&A and require students to write a real case on M&A and present the case analyses during class hours. The course will be taught in English and all presentations should be made in English.

Required Materials

1) Various materials available on the course web page
2) Damodaran on Valuation (2nd Edition) by Aswath Damodaran (Wiley, 2006) (http://he-cda.wiley.com/WileyCDA/HigherEdTitle/productCd-0471751219.html)

Other References

1) Investment Valuation (2nd Edition) by Aswath Damodaran (Wiley, 2002) (http://he-cda.wiley.com/WileyCDA/HigherEdTitle/productCd-0471414905.html)
2) Takeovers, Restructuring and Corporate Governance (4th edition) by J. Fred Weston, Mark L. Mitchell and J. Harold Mulherin (Prentice Hall, 2004) (http://www.pearsonhighered.com/educator/academic/product/0,3110,0131407376,00.html)

Reading

Students are expected to read assigned materials **before** coming to each class.

Contact Information

Anyone is welcome to stop by my office during my office hours to discuss any class related issues. I strongly encourage students to contact me even outside my regular office hours whenever a more clear explanation for a covered topic is necessary. The best way to communicate is through email but an alternative arrangement can be made once an email is received with a clear indication of an alternative arrangement.

Grading Policy: Grade will be based on the following;

	Contribution to the final grade
Mid-term exam	20 %
Final exam	30 %
5 Cases	20 %
Final group project & presentation	20%
Participation & Attendance	10%

Exams

Exams are closed-book exams but students are allowed to bring an A4 size paper with any relevant **hand-written** notes on **one side** of the paper. Copies of lecture notes or typed notes are **NOT** allowed. Students who violate this rule will receive only **50%** of exam scores. Final exam is a semi-comprehensive one in the sense that for the materials covered prior to the mid-term exam, students are responsible for only those issues covered in the mid-term exam.

Case Assignments

Everyone will be asked to join a group of 5 (or less depending on the size of the class) students on the first day of the class. Each group is responsible for submissions of five case analyses and presentations of those analyses during class hours. Case analyses will require students to answer questions on Harvard Business School cases. Each group is responsible for the submission of case analyses **before the end of the due date** through an email. The report should be no longer than **10** pages (double spacing with at least 10 pts) including all exhibits (Excel add-ins). **Late** assignments will **not be graded** even though they are submitted. Each group should also prepare for presentation materials and is required to present when asked to do so during class hours. Each group will be asked to **present at least twice** during the semester. For each case, most groups with adequate work and good presentations will get 3 points out of 4. Groups with exceptionally well done case analyses and good presentations will receive 4 points and groups with poorly done assignments will receive 1 point. Exceptionally poorly prepared assignments and late assignments will receive 0 points. Groups with poor presentation will receive at least one point less than the above mentioned points.

Final Group Project & Presentation

Each group is responsible for choosing a real M&A case that is not covered in the course and writing a case similar to Harvard cases together with thorough analyses of the chosen case. The analyses should include some basic valuation analyses, stocks price reactions to announcements and long-term stock price performance of acquiring firms. In analyzing these, it is required to interpret the results based on various theories and empirical results covered in class hours or documented in other academic studies. In addition to the financial analyses, any discussion on strategic and legal issues will be a plus. The report should be no longer than **20** pages (double spacing with at least 10 pts) including all exhibits. In addition, each group should prepare a 15-minute presentation at the end of the semester. Most groups with adequate preparation and good presentations will get 15 points. Groups with very thorough analyses and creative ideas with good presentations will get 20 points. Groups with poor preparation but good presentations will get 5 points. Groups with poor presentations will get 5 points off from the above mentioned points. Each group should notify me of the chosen case through an email by **November 8**. The due date for the submission of the report together with presentation materials is **December 8**.

Participation & Attendance

Most students with regular participation and attendance will get 7 points out of 10. Students with very active participation and perfect attendance will get 10 points. Students with no participation or many absences will get 2 point.

Group Management

Each member of a group is expected to motivate others to participate equally. If any member of a group is shirking his or her duties, please bring that to my attention as early as possible. I will try to work with the group to solve the problem. To discourage someone from shirking, **a peer evaluation** will be done at the end of the semester to identify those who are obviously free-riding. Those who receive the worst evaluation (1 out of 5) from all other members will get zero scores for all group assignments. Those who receive the worst evaluation from the majority of group members will receive **70%** of the scores of all group assignments.

Course Schedule

The following summarizes topics and articles to be covered in each class during the semester. Both topics and articles to be covered are subject to change. Any changes made will be posted on the class web site. Class discussion of articles will focus on key hypotheses/theories, methodologies and results in tables and figures from each article.

Week	Topic	Due Date
1 W	**Merger activities and introduction to valuation** 1. Rhodes-Kropf, Matthew, David T. Robinson and S. Viswanathan, 2005, "Valuation Waves and Merger Activity: The Empirical Evidence," *Journal of Financial Economics* 77, 561-603. 2. Harford, Jarrad, 2005, "What Drives Merger Waves?" *Journal of Financial Economics* 77, 529-560. Chapter 1 & 2	
2 W	**Estimation of discount rates and cash flows** Chapter 2 & 3	
3W	**Harvard Case: Coopers Industries** No class on 9/21 (Chuseok)	Case 1 (9/15)
4 W	**Estimation of growth and terminal value** Chapter 4 No class on 9/23 (Chuseok)	
5 W	**Discounted cash flow models** Chapter 5 & 6 Harvard Case: Adecco SA's Acquisition of Olsten Corporation	Case 2 (10/4)
6 W	**Relative valuation models** Chapter 7 & 8	
7 W	**Review and Firm and enterprise value multiples and value of synergy** Chapter 9 & 15	Class on 10/14 and Exam on

	Mid-term exam	10/19
8 W	**Firm and enterprise value multiples and value of synergy** Chapter 9 & 15	No class on 10/21
9 W	**Do takeovers create value?** 1. Andrade, Gregor, Mark Mitchell, and Erik Stafford, 2001, "New evidence and perspectives on mergers," *Journal of Economics Perspectives* 15, 103-120. 2. Moeller, Sara, Frederik Schlingemann and Rene M. Stulz, 2004, "Firm Size and the Gains from Acquisitions," *Journal of Financial Economics* 73, 201–228. 3. Bargeron, Leonce L., Frederik P. Schlingemann, Rene M. Stulz and Chad Zutter, 2008, "Why do Private Acquirers Pay so Little Compared to Public Acquirers?" *Journal of Financial Economics* 89, 375-390. Harvard Case: Gulf Oil Corporation - Takeover	Case 3 (11/1)
10 W	**Sources of merger gains and bidding strategies** 1. Damodaran, Aswath, 2005, "The value of synergy", New York University Working Paper. 2. Song, Moon H., and Ralph A. Walkling, 2000, "Abnormal Returns to Rivals of Acquisition Targets: A Test of the Acquisition Probability Hypothesis," *Journal of Financial Economics* 55, 143-172. 3. Fee, C. Edward and Shawn Thomas, 2004, "Sources of Gains in Horizontal Mergers: Evidence from Customers, Supplier, and Rival Firms," *Journal of Financial Economics* 74, 423–460. 4. Eckbo, B. Espen, 2009, "Bidding Strategies and Takeover Premiums: A Review", *Journal of Corporate Finance* 15, 149-178.	
11 W	**Financing methods** 1. Loughran, Tim, and Anand M. Vijh, 1997, Do long-term shareholders benefit from corporate acquisitions?, *Journal of Finance* 52, 1765–1790. 2. Bharadwaj, Anu and Anil Shivdasani, 2003, "Valuation Effects of Bank Financing in Acquisitions," *Journal of Financial Economics* 67, 113-148. 3. Schlingemann, Frederik P., 2004, "Financing Decisions and Bidder Gains," *Journal of Corporate Finance* 10, 683-701. Harvard Case (Seagate Technology Buyout)	Case 4 (11/15)
12 W	**Hostile takeovers and defense tactics**	

	1. Comment, Robert and G. William Schwert 1995. "Poison or Placebo? Evidence on the Deterrence and Wealth Effects of Modern Anti-Takeover Measures", Journal of Financial Economics 39, 3–43. 2. Officer, Micah S., 2003, "Termination Fees in Mergers and Acquisitions", *Journal of Financial Economics* 69, 431–467. 3. Bates, Thomas W., David A. Becher and Michael L. Lemmon, 2008, "Board Classification and Managerial Entrenchment: Evidence from the Market for Corporate Control", *Journal of Financial Economics* 87, 656-677.	
13 W	**Merger arbitrage** 1. Baker, M., and S. Savasoglu, 2002, "Limited Arbitrage in Mergers and Acquisitions", *Journal of Financial Economics* 64, 91–15 2. Hsieh, J., and Ralph A. Walking, 2005, "Determinants and Implications of Arbitrage Holdings in Acquisitions", *Journal of Financial Economics* 77, 605–648. Harvard Case: (Vodafone AirTouch's Bid)	Case 5 (11/29)
14 W	**Corporate governance, LBOs and private equity fund** 1. Grinstein, Yaniv and Paul Hribar, 2004, "CEO Compensation and Incentives: Evidence from M&A Bonuses", *Journal of Financial Economics* 73, 119-143. 2. Harford, Jarrad, 2003. "Takeover Bids and Target Directors' Incentives: Retention, Experience, and Settling Up", *Journal of Financial Economics* 69, 51–83. 3. Kaplan, Steven and Jeremy Stein, 1993, "The Evolution of Buyout Pricing and Financial Structure (or, What Went Wrong) in the 1980s," *The Continental Bank Journal of Applied Corporate Finance* 6, 72-88. 4. Kaplan, Steven and Per Stromberg, 2009, "Leveraged buyouts and private equity", *Journal of Economic Perspectives* 23, 121-146	
15 W	**Final group project presentation and review**	Final Group Project (12/8)
16 W	**Final exam**	Final exam (12/16)