

## FIN4714: VALUATION AND MERGERS & ACQUISITIONS

AY 2022/2023 Semester 2

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### OBJECTIVE

The objective of this course is to provide an overview of mergers and acquisitions, buyouts, and corporate restructuring. Although the lectures and cases will often focus on the financial aspects of these transactions, we will also consider the various related legal, strategic, organizational, and general management issues, as these in fact drive the financial analysis and ultimate success of the M&A. We will examine the process of evaluating opportunities in the corporate control market and will analyze how deal structure affects both value creation and value division.

### BACKGROUND READING

Background readings each week are assigned from a variety of sources and available on LumiNUS. In addition, you might find one of the following textbooks useful:

*S.A. Ross, R.W. Westerfield, B.D. Jordan, J. Lim and R. Tan (2016), Fundamentals of Corporate Finance, 2nd Asia Global Edition, McGraw-Hill Education.*

*J. Rosenbaum and J. Pearl. Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions.*

The valuation primer, by Aswath Damodaran, is also excellent and available for free on the class website:

*Valuation Approaches and Metrics: A Survey of the Theory and Evidence, 2006*

### ASSESSMENTS (Tentative – Subject to Change)

| Component             | Weights           |
|-----------------------|-------------------|
| Class participation   | 20 points         |
| Case Assignments      | 25 points         |
| Project               | 25 points         |
| Final Quiz (in class) | 30 points         |
| <b>Total</b>          | <b>100 points</b> |

## CASE ASSIGNMENTS

The class will be organized into six study groups. As a class we will cover a number of cases, selected to illustrate various aspects involved in M&A transactions. Each group will work together to complete:

- (I) **Case Presentation (15%):** A case presentation on a specific case to be assigned to the group – should reflect thorough case analysis, whereby the group will both “teach” the case and garner class participation/discussion in addressing the interesting and important aspects raised by the case.
- (II) **Case Critique Write-Ups (10%):** For all other cases (including ‘in-class’ cases), each group will submit a write-up discussing the main questions brought forth in the case study.

## PROJECT

Each group will also be responsible for writing up their analysis of a prospective M&A opportunity – to be further discussed in class – and presenting their analysis to the class. Thus, you will submit both a report and a class presentation. You are responsible for obtaining all the necessary information, and for developing your own analysis and valuation templates based on models we develop in class.

## PARTICIPATION

Participation will be an important component of this class. Each class period, I will evaluate each student on a scale of 1 – 5 regarding his or her participation and input into the decision-making process.

We will in some classes discuss for 10 minutes a current transaction, e.g. a takeover or a shareholder activism engagement that has been announced in the media. The choice of transaction should help to provide further illustrations of relevant institutions and ideas covered in the course. Students are encouraged to follow financial and economic news covered in the Financial Times, the Wall Street Journal, the Economist, or the Business section of the Straits Times.

## CONTACT

The easiest way to contact me is via e-mail. I will do my best to respond to all e-mails within 24 hours. In addition, I am generally at the university 5 days a week if you need to schedule an appointment or to drop in to talk.

## COMPUTER & CALCULATOR

A computer and a financial calculator App are both a necessity in this course. Make sure that your App has bond valuation, net present value (NPV), and internal rate of return (IRR) functions. They are useful for quick calculations during discussions.

### SCHEDULE (Tentative – Subject to Change)

| Week | Date          | Topics Session                               | Case Studies      |
|------|---------------|--|-------------------|
| 1    | 10 Jan        | M&A Overview                                 |                   |
| 2    | 17 Jan        | Valuation                                    |                   |
| 3    | <u>24 Jan</u> | <u>Chinese/Lunar New Year</u>                |                   |
| 4    | 31 Jan        | Valuation / M&A Valuation                    | Group Case 1      |
| 5    | 07 Feb        | M&A Valuation                                | Group Case 2      |
| 6    | 14 Feb        | Real Options                                 | Group Case 3      |
|      | <u>21 Feb</u> | <u>Reading Week</u>                          |                   |
| 7    | 28 Feb        | <b>Presentation of Group Cases 4 &amp; 5</b> | Group Cases 4 & 5 |
| 8    | 07 Mar        | TBD  |                   |
| 9    | 14 Mar        | Private Equity                               | Group Case 6      |
| 10   | 21 Mar        | Corporate Restructuring / Bankruptcy Codes   |                   |
| 11   | <b>28 Mar</b> | <b>M&amp;A Presentations</b>                 |                   |
| 12   | <b>04 Apr</b> | <b>M&amp;A Presentations</b>                 |                   |
| 13   | <b>11 Apr</b> | <b>Final Quiz (In Class)</b>                 |                   |

### READING MATERIAL

#### Weeks 1 and 2

- A. Damodaran, 2006, “Valuation Approaches and Metrics: A Survey of the Theory and Evidence” Working Paper, Stern School of Business (Pages 1-31)
- J. Graham and C. Harvey, 2002, “How do CFOs Make Capital Budgeting and Capital Structure Decisions?” *Journal of Applied Corporate Finance* 15
- Ross et al.: Chapters 5, 6, 8, 9, 10, 12, 13, and 14
- Rosenbaum and Pearl: Chapters 1, 2, and 3

#### Weeks 4 and 5

- A. Damodaran, 2005, “The Value of Synergy,” Working Paper, Stern School of Business.
- Rosenbaum and Pearl: Chapters 6 and 7
- Ross et al.: Chapter 26

#### Week 6

- Ross et al.: Chapters 24 and 25
- A. Damodaran, 2000, “The Promise of Real Options” *Journal of Applied Corporate Finance* 13(2):29-44

#### Week 9

- Acharya, Kehoe, and Reyner, 2009, Private Equity vs. PLC Boards in the U.K.: A Comparison of Practices and Effectiveness. *Journal of Applied Corporate Finance*

- Shivdasani, and Zak, 2007, The Return of the Recap: Achieving Private Equity Benefits as a Public Company. *Journal of Applied Corporate Finance* 19(3):32-41
- Rosenbaum and Pearl: Chapters 4 and 5
- Ross et al.: Chapter 15

### **Week 10**

- Ross et al.: Chapter 16
- Kaplan and Stromberg, 2009, Leveraged Buyouts and Private Equity. *Journal of Economic Perspectives* 23(1):121-146.
- Davydenko and Franks, 2008, Do bankruptcy Codes Matter? A study of defaults in France, Germany, and the UK. *Journal of Finance* 63(2):565-608

### **ACADEMIC HONESTY & PLAGIARISM**

Academic integrity and honesty is essential for the pursuit and acquisition of knowledge. The University and School expect every student to uphold academic integrity & honesty at all times. Academic dishonesty is any misrepresentation with the intent to deceive, or failure to acknowledge the source, or falsification of information, or inaccuracy of statements, or cheating at examinations/tests, or inappropriate use of resources.

Plagiarism is 'the practice of taking someone else's work or ideas and passing them off as one's own' (The New Oxford Dictionary of English). The University and School will not condone plagiarism. Students should adopt this rule - You have the obligation to make clear to the assessor which is your own work, and which is the work of others. Otherwise, your assessor is entitled to assume that everything being presented for assessment is being presented as entirely your own work. This is a minimum standard. In case of any doubts, you should consult your instructor.

Additional guidance is available at:

<http://www.nus.edu.sg/registrar/adminpolicy/acceptance.html#NUSCodeofStudentConduct>

Online Module on Plagiarism:

<http://emodule.nus.edu.sg/ac/>