

### COURSE INFORMATION

Course title:	Mergers & Acquisitions	Credits:	1.5
Course code:	BAFI 507	Class location:	HA 335
Session, term, period:	2021W1, Period 5	Class times:	Tue/Thu 8 – 10am
Section(s):	001	Make-up class:	Fri Nov 12, Fri 8 – 10am
Course duration:	Nov. 1 to Dec. 11, 2021	Pre-requisites:	BAFI 500 or BAFI 580A
Division:	Finance	Co-requisites:	n/a
Program:	MBA		

### INSTRUCTOR INFORMATION

Instructor:	Elena S. Pikulina, PhD	Office location:	HA 864
Phone:	604-822-3314	Office hours:	Thu 10am - 12pm or by appointment
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Teaching assistant: Chelsea (Chunxue) Yang  
Email: chunxue.yang@sauder.ubc.ca

### COURSE DESCRIPTION

Mergers and acquisitions (M&As) can be critical to the success of corporations and their managers. Our study of change of control will include the economic motivations for M&A activity, advanced valuation, transaction structuring, creative financing, risk management, tactics for friendly M&A negotiations and hostile transactions, due diligence, and execution.

This course aims to:

- Provide a general understanding of M&A processes, their causes, including economic and agency motivations, and their consequences
- Familiarize students with valuation and transaction structuring techniques
- Illustrate tactics for friendly and hostile negotiations in M&A context
- Promote students' attention to due diligence, risk management, and execution as important causes of M&A failure and success

### COURSE FORMAT

The course is balanced between lecture, cases, and student presentations and discussions. Active participation is essential. The course is useful for students pursuing careers in corporate finance, investment banking, commercial banking, and business consulting.

### LEARNING OBJECTIVES

By the end of this course, students will be able to:

1. Identify main motives for transactions
2. Apply different valuation techniques in M&A settings and know their pros and cons
3. Recommend and justify a method of payment and financing packages for a deal
4. Use tactics for friendly negotiations and hostile transactions
5. Understand the role of legal environment and good corporate governance
6. Propose a plausible M&A transaction including motivation, valuation, structuring, and integration.

## ASSESSMENTS

### Summary

<u>Component</u>	<u>Weight</u>
Simulation	10%
Cases (by group)	30%
Pitch book (by group): write-up + in-class presentation	20% + 20%
Participation: by instructor + by peers	<u>10% + 10%</u>
 Total	 <u>100%</u>

### Details of Assessments

#### I. Simulation

In this simulation the students will practice different valuation techniques, including forecasting and analysis of synergies as well as negotiations skills in M&As. The simulation will take place in class (please, bring your laptops) on Friday, November 12.

Each student will play the role of a CEO at one of the three publicly traded wine makers: Bel Vino, StarShine, and International Beverage. Each role evaluates a merger and acquisition opportunities among the three companies and then initiated negotiations, submits and responds to bids and counterbids. The provided data includes historical stock prices for each company and operating projections based on Wall Street analysts' current views of the industry and of each companies' prospects. The students will observe bids and changes in public stock prices in real time.

#### **To prepare:**

The simulation is included in the course pack and can be purchased from the Harvard Business Publishing online at: <https://hbsp.harvard.edu/import/870521>. Please register with the Harvard Business Publishing before purchase.

You will be able to download all the necessary data via the simulation website and we'll discuss it in more details on Tuesday, November 9.

- Do the valuation exercise and submit your reservation price to the simulation before the Friday class (you won't be able to proceed with the simulation if you do not submit the reservation prices).
- Submit your valuation spreadsheet (with the calculations for the reservation price from above) via [canvas.ubc.ca](https://canvas.ubc.ca) before the Friday class. The valuation spreadsheet is due electronically via [canvas.ubc.ca](https://canvas.ubc.ca) at 11:59 pm PST on November 11, 2021.

#### II. Cases

Cases bring realistic and contextually rich situations into the classroom and allow students to appreciate the beauty and complexity of M&A processes. They provide a detailed background to identify key features of all M&As and crucial details of a particular deal. They help in developing a structured approach to M&A and getting into the habit of creating a full picture of a deal via filling in information gaps (via inside and outside research).

There are four cases in the course and students will work on cases in groups of 3 students. For all the cases (Buck, Hertz, and Roche) the students will write a memorandum and submit electronically (each group submits one memo on [canvas.ubc.ca](https://canvas.ubc.ca)) before the class when the case is discussed. Group Case memorandum is due electronically via [canvas.ubc.ca](https://canvas.ubc.ca) at 7:59 am on the day when the case is due (see the course schedule below as well as course calendar on Canvas).

**Memorandum:** A case memo should be 3 pages of text max (!), 1.5 spacing, 12pt and 1-inch margins (roughly), plus any necessary appendices. All groups will write a memo for all three cases. A few tips on writing a good memo:

- Focus on the question at hand; don't just repeat the facts listed in the case.
- Make sure your arguments, figures, and tables directly address the issue.
- Focus on impact and interest, not quantity. A memo is not an essay, so tables and bullet points are welcome.
- Make sure that all your attachments are really necessary and add value; eliminate those that do not clearly make the cut.

Class discussion: In class, the case discussions will start with a Power Point presentation by the lead group(s), followed by open/structured discussion. Groups have to decide beforehand what case they want to discuss and enter their decision on [canvas.ubc.ca](https://canvas.ubc.ca)). If there is more than one group working on a case then a variety of styles for coordinating the presentations are possible:

1. Leader / Follower: One group leads off the presentation (20 minutes) while the second group focuses on follow up and response. The first group can focus on presenting their analysis, while the second group can analyze which points are shared in common and which there is disagreement on, which should present opportunities for class discussion. Please note that this setup is not intended to be adversarial, and the focus should be primarily on illuminating the relevant issues, rather than devolving into an argument over who is right. This requires tact in putting forward one's own view while allowing thoughtful consideration of other perspectives.
2. Symmetric / joint presentation: The two groups essentially choose to merge their presentations, while still making an effort to point out where they share common ground and where the analysis in their memorandum differed.
3. Role play: The two groups decide to take on different roles (e.g., target vs. acquirer) in order to more effectively present the case to the class.

All the cases can be purchased from the Harvard Business Publishing online via course pack at: <https://hbsp.harvard.edu/import/870521>. Please register with the Harvard Business Publishing before purchase.

### III. M&A Pitch Book

The final project for the course is to develop a pitch book for a proposed M&A transaction, where the students take the point of view of an M&A advisor for either a potential buyer or seller. Your client has to be a publicly traded company with sufficient data available to make informed recommendations. Each group pitch book should be 5 pages of text maximum, 1.5 spacing, 12pt and 1-inch margins (roughly), plus any necessary appendices. The pitch book is due electronically (each group submits one pitch book on [canvas.ubc.ca](https://canvas.ubc.ca)) at 11:59 pm PST on Sunday, December 5, 2021.

Outline format for a potential buyer (seller):

1. The strategic situation of your client (buyer/seller), and why an acquisition is a plausible way to increase shareholder value.
2. Why the proposed target or buyer makes sense in light of the above; specific ways in which its acquisition would make strategic sense to your client; what is the essence of the opportunity for your client? Is it a market of target-specific opportunity? To what extent this opportunity would be unique to this transaction?
3. Why the target might be available? E.g., large block of stock in the hands of someone who might want to sell, an aging founder of a private firm with no apparent successor, etc.
4. A list of other potential acquirers and/or targets, and why this particular deal dominates other potential combinations (for example, an investment bank looking for an acquirer for a specific seller often will start with all potential candidates, and break these down into A list, B list, and C list buyers.)
5. Preliminary valuation of the target as a stand-alone entity, plus an assessment of possible synergies. As much as possible, try to create a tight link between the quantitative assessment of synergies here and the economic logic of the transaction explained earlier.
6. Explain key due-diligence issues that will need to be answered before a final agreement on value is reached. Pending/potential law suits? Any environmental concerns? Clash of cultures? Etc.
7. Propose how to approach the target/acquirer and propose a structure of the offer, e.g., a friendly meeting to discuss a merger or a formal tender offer, an all cash offer or stock-swap or some combination, etc. You should include both an initial offer and an upper bound for what your client should be prepared to pay.
8. Potential legal-regulatory-antitrust hurdles that need to be considered.
9. Principal issues in a successful integration of the target/buyer with your client's operations.

The above suggestions are not required but they are just ideas to get you started. Use your judgement and creativity to address the specific issues of a specific deal.

If you choose a target as a client (in that case you are looking for a buyer), you have to turn the exercise on its head a bit, but the principles are the same. Following the discussion above, one thing I like to see early on in this type of presentation is a list of potential buyers, broken down into categories (A list – good candidates, B list – maybe, C list – unlikely), with short explanation. This is also a good exercise to go through if your client is a buyer. For a merger of equals, you could choose your client to be either of the two parties and focus on that point of view.

During the exam week, students will make their group presentations of the pitch book. These should be about 15 minutes in length followed by a general discussion with other class participants. Evaluation will be based upon both the oral and written components of the pitch book presentation: written part is 20% and the presentation is 20%.

#### **IV. Participation**

Evaluation by instructor (10%):

- Your questions and comments in class are very important. It really helps if I know your name -- please use your name tag for every class. I try to adjust for people's personalities. For those who are more reserved, I appreciate very much when you make an effort to express your thoughts. For those who are more outspoken, I am the most impressed when you can find ways to draw your classmates into a discussion.

Evaluation by peers (10%):

- At the end of the course, each of you should submit peer evaluation of their teammates. The purpose of evaluations is neither to praise nor criticize your group members but rather learn how to give constructive and fair feedback.
- High quality evaluations should both acknowledge individual's achievements and strong sides as well as point out issues to work on, skills to improve.
- To help you with peer evaluations, I will provide a short form on [canvas.ubc.ca](https://canvas.ubc.ca).

## V. Group Formation

Students will work in the same group of three people for all group-based assignments. Groups should make sure that their members have distinct background and expertise as much as possible given the overall class composition. At the end of the term, students will grade the contribution of his/her team members.

For group signup, please use the group function under "People" on Canvas.

If you have any questions or difficulty forming a group by the end of the first week, please contact the teaching assistant Chelsea at [chunxue.yang@sauder.ubc.ca](mailto:chunxue.yang@sauder.ubc.ca).

## LEARNING MATERIALS

### *Required*

All cases can be purchased from the Harvard Business Publishing online via course pack at: <https://hbsp.harvard.edu/import/870521>. Please register with the Harvard Business Publishing before online purchase.

Estimated cost of the required materials: USD 27.75

### *Optional*

Two useful books (recommended but not required) on M&A are:

- "Mergers, Acquisitions, & Corporate Restructurings" by P. A. Gaughan
- "Applied Mergers and Acquisitions" by R. F. Bruner

A good corporate finance textbook will be helpful but not necessary. For example,

- "Corporate Finance" by Berk, DeMarzo, and Stangeland, or "Fundamentals of Corporate Finance" by Brealey, Myers, and Allen
- "Corporate Finance" by Ross, Westerfield, Jaffe, and Roberts

Other useful books:

- "Mergers & Acquisitions: A Condensed Practitioner's Guide", S. M. Bragg
- "Mergers & Acquisitions from A to Z", A. J. Sherman

- “Valuation: Measuring and Managing the Value of Companies”, T. Koller, M. Goedhart, D. Wessels

Other Learning Resources:

- Power point slides and other materials will be posted on the course website:  
<https://canvas.ubc.ca/>

Useful Links:

- Recent deals: [reuters.com/finance/deals/mergers](https://reuters.com/finance/deals/mergers) & [reuters.com/finance/deals/](https://reuters.com/finance/deals/)
- WSJ deal blog: [blogs.wsj.com/deals/](https://blogs.wsj.com/deals/)
- HBR on M&As: [hbr.org/topic/mergers-and-acquisitions](https://hbr.org/topic/mergers-and-acquisitions)
- Reports by practitioners:
  - <https://www.pwc.com/ca/en/services/deals/2019-outlook.html>
  - <https://www.jpmorgan.com/jmpdf/1320746694177.pdf>
  - <https://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/ma-trends-report.html>

**COURSE SCHEDULE**

(Subject to change with class consultation)

Class	Date	Topic	Readings or Activities	Assessments due
Week 1	Nov 1-7	Course Outline and Objectives  M&As in Perspective & Theoretical Frameworks  Valuation: DCF	<b>Tue:</b> Intro lecture by the instructor  <b>Thu:</b> Lecture “Discounted cash flow method (DCF)”  No readings required	<b>By the end of the week:</b> <b>Form groups of 3</b> , ideally groups should have members with distinct backgrounds and expertise
Week 2	Nov 8-14	Valuation: Multiples  Simulation “M&A in the Vine Country”	<b>Tue:</b> Lecture “Multiples valuation method” Briefing before the simulation  <b>Thu:</b> No class (Remembrance Day)  <b>Fri (make-up class):</b> We’ll play the simulation	<b>Due Thursday Friday Nov 12:</b>  1. Watch the videos about how to play the simulation 2. Do <b>the valuation exercises and compute the reservation prices</b> , depending on your role in the simulation (Bel Vino, Starshine, International Beverage)
Week 3	Nov 15-21	Transaction structuring Leveraged Buyouts  Selling a private company	<b>Tue:</b> Lecture “Transaction structuring”  <b>Thu:</b> Case presentation & discussion “Selling Buck”	<b>Questions for the Buck case: Due on Thursday Nov 18 before class</b>  1. First of all, let’s understand the environment because no deal is done in vacuum. Understanding the business environment is the crucial to answering all the other questions. Note: We’ll start analysis of all our cases with this question and its sub-questions. Try to make your answers here as <u>forward-looking</u> as possible. For example, if you mention any recent trends or changes, try to assess whether these trends will continue in the future and what these changes will mean for companies in question. Also, <u>be brief but very specific.</u> (20 points) a. <b>Who and why?</b> – Who are buyers/sellers? Why are they interested in buying/selling a company? b. <b>What?</b> – What is the essence of the opportunity from the buyer’s perspective? Industry vs. company opportunity? What are the alternatives, if this opportunity is missed? c. <b>Where and when?</b> – What are the relevant market/industry conditions? E.g. economic boom vs. recession. What are the relevant country conditions? E.g. regulations, political risks. 2. As a seller, what <b>risks</b> should Cynthia Buck (the seller) consider when selling her business? (20 points) 3. As a potential buyer, what <b>risks</b> should you consider? Here, think of common risks for a similar transaction as well as deal-specific

				<p>risks. How could you <b>mitigate</b> those risks? (20 points)</p> <p>4. What's the <b>value of Buck's equity</b>? Equity value is defined as the value of the entire business value minus the value of debt. (20 points)</p> <ol style="list-style-type: none"> <li>Using DCF valuation method</li> <li>Using multiples valuation method</li> </ol> <p>5. As a buyer what price would you be <b>willing to pay</b>? As a seller what price would you be <b>willing to accept</b>? Why those could be different? How those differences affect the chances of deal closure? (20 points)</p>
Week 4	Nov 22- Nov 28	Legal framework and corporate governance	<p><b>Tue:</b> Lecture "Legal framework and corporate governance"</p> <p><b>Thu:</b> Case presentation &amp; discussion "<b>Bidding for Hertz</b>"</p>	<p><b>Questions for the Hertz case: Due on Thursday Nov 25 before class</b></p> <ol style="list-style-type: none"> <li><b>Who and why? What? Where and when?</b> For more details on this question, see question #1 for the Buck case. (20 points)</li> <li>How does <b>the dual-track process</b> used by Ford affect the bidding process for Hertz? (20 points)</li> <li>In what ways does Hertz conform or not conform to the definition of an "ideal LBO target"? Is Hertz <b>an appropriate buyout target</b>? (10 points)</li> <li>What is the value of Hertz using the <b>Multiples</b> method of valuation? (20 points)</li> <li>What is the value of Hertz using the <b>Free Cash Flow to Capital</b> and <b>APV</b> methods of valuation? (20 points)</li> <li>What is the <b>market-required rate</b> of return for this investment? Why might it differ from the sponsors' target return of 20%? (10 points)</li> </ol>
Week 5	Nov 29- Dec 5	Hostile takeovers	<p><b>Tue:</b> Lecture "Hostile takeovers, tactics and defenses"</p> <p><b>Thu:</b> Case presentation &amp; discussion "<b>Roche vs. Genentech</b>"</p>	<p><b>Questions for the Roche vs. Genentech case: Due on Thursday Dec 2 before class</b></p> <ol style="list-style-type: none"> <li><b>Who and why? What? Where and when?</b> For more details on this question, see question #1 for the Buck case. (20 points)</li> <li>As a majority shareholder of Genentech, what <b>responsibilities</b> does Roche have to the minority shareholders? (10 points)</li> <li>As of June 2008, what is <b>the value of the synergies</b> (per share) Roche anticipates from a merger with Genentech? To simplify the analysis, use 9% WACC in your calculations. (20 points)</li> <li>Based on DCF valuation techniques, what <b>range of values</b> is reasonable for Genentech as a stand-alone company in June 2008? Exclude synergies from your valuation and assume a 9% WACC. Assume that as of the end of June 2008,</li> </ol>



				<p>Genentech held approximately \$7 bln in cash, including investments and securities that were not needed in its daily operations. <i>Hint: Ex. 10</i> is a good starting point for this analysis. (20 points)</p> <p>5. What changes in Genentech’s valuation assumptions occurred between June 2008 and January 2009? What changes were due to the <b>financial crisis</b>? (10 points)</p> <p>6. Should Franz Humer launch a <b>tender offer</b> for Genentech’s shares? What are the <b>risks</b>? If yes, what price should he offer? (20 points)</p>
Week 6	Dec 6- Dec 12	Pitch book presentations		<p><b>Pitch book due on Dec. 5.</b> Presentations will be done during the exam week. The exact date is TDA.</p> <p><b>Peer evaluation due on Dec. 12</b></p>

**COURSE-SPECIFIC POLICIES AND RESOURCES**

*Missed or late assignments, and regrading of assessments*

Late submissions will not be accepted and will receive a grade of zero.

*Academic Concessions*

If extenuating circumstances arise, please contact the RHL Graduate School program office as early as reasonably possible, and submit an [Academic Concession Request & Declaration Form](#). If an academic concession is granted during the course, the student will be provided options by RHL, or by the instructor in consultation with RHL, per [UBC’s policy on Academic Concession](#).

**POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL**

*Attendance*

Excepting extenuating circumstances, students are expected to attend 100% of their scheduled class hours. Absent students limit their own academic potential, and that of their classmates, and cause unnecessary disruption to the learning environment. Students missing more than 20% of the total scheduled class hours for a course (including classes held during the add/drop period) without having received an academic concession will be withdrawn from that course. Withdrawals, depending on timing, could result in a “W” or an “F” standing on the transcript.

*COVID-19 Policies for Attendance & Academic Concessions:*

If a student feels unwell, they should stay home and send a courtesy email to each impacted instructor and cc their program manager. The student should also submit an [Academic Concession Request & Declaration Form](#).

If a student suspects possible COVID-19 infection, they should use the BC Ministry of Health’s [self-assessment tool](#), to help determine whether further assessment or testing for COVID-19 is recommended.

If a student is required to self-isolate (e.g., while waiting for test results), they should follow the steps above (stay home, email instructor(s) and program manager, submit an [Academic Concession Request & Declaration Form](#), and follow BC Health Guidance.

Students who are required to quarantine, should get in touch with their Program Manager to discuss the possibility of academic concessions for each impacted course. The Program Manager will work closely with your instructors to explore options for you to make up the missed learning.

#### *COVID-19 Safety in the Classroom:*

**Masks:** Masks are **required** for all indoor classes, as per the BC Public Health Officer orders. For our in-person meetings in this class, it is important that all of us feel as comfortable as possible engaging in class activities while sharing an indoor space. For the purposes of this order, the term “masks” refers to medical and non-medical masks that cover our noses and mouths. Masks are a primary tool to make it harder for COVID-19 to find a new host. You will need to wear a medical or non-medical mask for the duration of our class meetings, for your own protection, and the safety and comfort of everyone else in the class. You may be asked to remove your mask briefly for an ID check for an exam, but otherwise, your mask should cover your nose and mouth. Please do not eat in class. If you need to drink water/coffee/tea/etc, please keep your mask on between sips. Students who need special accommodation are asked to discuss this with the program office.

**Seating in class:** To reduce the risk of COVID-19 transmission, please sit in a consistent area of the classroom each day. This will minimize your contacts and will still allow for the pedagogical methods planned for this class to help your learning.

Visit the following website for the most recent updates regarding COVID-19 protocol on campus:  
<https://students.ubc.ca/campus-life/returning-to-campus>

#### *Punctuality*

Students are expected to arrive for classes and activities on time and fully prepared to engage. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving later than halfway through a scheduled class will be treated as absent for that class.

#### *Electronic Devices*

Devices such as laptops, tablets, and cell phones are not permitted to be used in class unless directed by the instructor for in-class activities. Students who do not follow the School’s policy in this regard may be required to leave the room for the remainder of the class, so that they do not distract others. Research shows that students’ use of laptops in class has negative implications for the learning environment, including reducing their own grades and the grades of those sitting around them.

#### *Citation Style*

Please use the American Psychological Association (APA) reference style to cite your sources.

Details of the above policies and other RHL Policies are available at:  
<http://www.calendar.ubc.ca/vancouver/index.cfm?tree=12,199,506,1625>

### UNIVERSITY POLICIES AND RESOURCES

UBC provides resources to support student learning and to maintain healthy lifestyles but recognizes that sometimes crises arise and so there are additional resources to access including those for survivors of sexual violence. UBC values respect for the person and ideas of all members of the academic community. Harassment and discrimination are not tolerated nor is suppression of academic freedom. UBC provides appropriate accommodation for students with disabilities and for religious observances. UBC values academic honesty and students are expected to acknowledge the ideas generated by others and to uphold the highest academic standards in all of their actions. Details of the policies and how to access support are available on the UBC Senate website at <https://senate.ubc.ca/policies-resources-support-student-success>.

#### *Respect for Equity, Diversity, and Inclusion*

The UBC Sauder School of Business strives to promote an intellectual community that is enhanced by diversity along various dimensions including status as a First Nation, Metis, Inuit, or Indigenous person, race, ethnicity, gender identity, sexual orientation, religion, political beliefs, social class, and/or disability. It is critical that students from diverse backgrounds and perspectives be valued in and well-served by their courses. Furthermore, the diversity that students bring to the classroom should be viewed as a resource, benefit, and source of strength for your learning experience. It is expected that all students and members of our community conduct themselves with empathy and respect for others.

#### *Academic Integrity*

The academic enterprise is founded on honesty, civility, and integrity. As members of this enterprise, all students are expected to know, understand, and follow the codes of conduct regarding academic integrity. At the most basic level, this means submitting only original work done by you and acknowledging all sources of information or ideas and attributing them to others as required. This also means you should not cheat, copy, or mislead others about what is your work. Violations of academic integrity (i.e., misconduct) lead to the breakdown of the academic enterprise, and therefore serious consequences arise and harsh sanctions are imposed. For example, incidences of plagiarism or cheating may result in a mark of zero on the assignment or exam and more serious consequences may apply if the matter is referred to the President's Advisory Committee on Student Discipline. Careful records are kept in order to monitor and prevent recurrences.

### COPYRIGHT

All materials of this course (course handouts, lecture slides, assessments, course readings, etc.) are the intellectual property of the instructor or licensed to be used in this course by the copyright owner. Redistribution of these materials by any means without permission of the copyright holder(s) constitutes a breach of copyright and may lead to academic discipline and could be subject to legal action. Any lecture recordings are for the sole use of the instructor and students enrolled in the class. In no case may the lecture recording or part of the recording be used by students for any other purpose, either personal or commercial. Further, audio or video recording of classes are not permitted without the prior consent of the instructor. Students may not share class Zoom links or invite others who are not registered to view sessions.

**ACKNOWLEDGEMENT**

UBC's Point Grey Campus is located on the traditional, ancestral, and unceded territory of the xʷməθkʷəy̓əm (Musqueam) people, who for millennia have passed on their culture, history, and traditions from one generation to the next on this site.