

COURSE INFORMATION

Course title:	Mergers & Acquisitions	Credits:	1.5
Course code:	BAFI 507, Section 001	Class location:	HA 335
Session, term, period:	2022W1, Period 6	Class times:	Mon/Wed 2:00–4:00pm
Section(s):	001	Make-up class:	Fri Sep 9, Fri 2:00–4:00pm
Course duration:	Sep. 6 to Oct. 16, 2022	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 2:00-3:00pm (in person) or by appointment or by appointment via Zoom
Email:	elena.pikulina@sauder.ubc.ca		

Teaching assistant:	Shiqi Zhang
Office hours:	Thu 3:00-4:00pm (in person), HA 358, or by appointment, or by appointment via Zoom
Email:	shiqi.zhang@sauder.ubc.ca

ACKNOWLEDGEMENT

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

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 lectures, simulations, 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 their negotiations skills in an M&A. The simulation will take place in class (please, bring your laptops) on Wednesday, September 14.

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/968488>. Please register with the Harvard Business Publishing before purchase.

Assessment:

You will be able to download all the necessary data via the simulation website and we'll discuss it in more details on Monday, September 12, one class before the simulation.

- 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).
- Groups submit a valuation spreadsheet (with the calculations for the reservation price from above) via canvas.ubc.ca before the Wednesday, September 14 class. The valuation spreadsheet is due electronically via canvas.ubc.ca at 1:59 pm PST on Wednesday, September 14.

- Each student will also submit a short simulation reflection by 11:59pm, Sunday, September 25. In the reflection, please, briefly answer the following three questions:
 1. What was done well by your firm? 1-3 items
 2. What would you do differently next time? 1-3 items
 3. What are the key lessons you've learnt from doing the simulation? 1-3 items

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 3-4 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) before the class when the case is discussed. Group Case memorandum is due electronically via canvas.ubc.ca at 1:59 pm 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. 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 trying 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/968488>. 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) at 11:59 pm PST on Sunday, October 9, 2022.

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.

V. Group Formation

For the simulation, students will work in groups of two people. For all other group-based assignments, students will work in the same group of three to four people. 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 me in person or via email at elena.pikulina@sauder.ubc.ca or the teaching assistant Shiqi Zhang at shiqi.zhang@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/968488>. 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 (chapters recommended below are based on 7th edition, but an earlier edition would also suffice)
- “Investment Banking: Valuation, Leveraged Buyouts and Mergers and Acquisitions”, by J. Rosenbaum, J. Pearl (chapters recommended below are based on 3rd edition, but an earlier edition would also suffice)

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:

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

Useful Links:

- Recent deals: <https://www.reuters.com/markets/deals/>
- WSJ deal blog: <https://www.wsj.com/news/types/deals-deal-makers>
- HBR on M&As: <https://hbr.org/topic/subject/mergers-and-acquisitions>
- Reports by practitioners (just a few examples):
 - <https://www.pwc.com/ca/en/services/deals/trends.html>
 - <https://www.jpmorgan.com/solutions/cib/investment-banking/2022-global-ma-outlook>
 - <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acquisitions/us-deloitte-2022-mna-trends-report.pdf>

COURSE SCHEDULE

(Subject to change with class consultation)

Class	Date	Topic	Readings or Activities	Assessments due
Week 1	Sep 6 - Sep 11	Course Outline and Objectives M&As in Perspective & Theoretical Frameworks Valuation: DCF	Wed, Sep 7: Intro lecture Fri, Sep 9 (make-up class): Lecture "Discounted cash flow method (DCF)" Gaughan: Chapters 1, 2, 15 Rosenbaum: Chapters 3, 6, 7	By the end of the week: Form groups of 3-4 for the cases and final pitch books. Form groups of 2 for the simulation. Ideally groups should have members with distinct backgrounds and expertise Purchase the course pack from the HBP website, https://hbsp.harvard.edu/import/968488
Week 2	Sep 12 - Sep 18	Valuation: Multiples Simulation "M&A in the Vine Country"	Mon, Sep 12: Lecture "Multiples valuation method" Briefing before the simulation Gaughan: Chapter 15 Rosenbaum: Chapters 1-2 Wed, Sep 14: We play the simulation "M&A in the Wine Country"	Due Mon, Sep 12: 1. Watch the videos about how to play the simulation 2. Prepare questions about how to play the simulation Due Wed, Sep 14: 1. Do the valuation exercises and compute the reservation prices , depending on your role in the simulation (Bel Vino, Starshine, International Beverage). 2. Submit your valuation spreadsheet on Canvas
Week 3	Sep 19 - Sep 25	Transaction structuring Leveraged Buyouts Selling a private company	Mon, Sep 19: Lecture "Transaction structuring" Gaughan: Chapter 16 Wed, Sep 21: Case presentation & discussion "Selling Buck"	Questions for the Buck case: Due on Wed, Sep 21 before class 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. Who and why? – Who are buyers/sellers? Why are they interested in buying/selling a company? b. What? – 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. Where and when? – What are the relevant market/industry conditions? E.g. economic boom vs. recession. What are the relevant country conditions? E.g. regulations, political risks.

				<ol style="list-style-type: none"> As a seller, what risks should Cynthia Buck (the seller) consider when selling her business? (20 points) As a potential buyer, what risks should you consider? Here, think of common risks for a similar transaction as well as deal-specific risks. How could you mitigate those risks? (20 points) What's the value of Buck's equity? Equity value is defined as the value of the entire business value minus the value of debt. (20 points) <ol style="list-style-type: none"> Using DCF valuation method Using multiples valuation method As a buyer what price would you be willing to pay? As a seller what price would you be willing to accept? Why those could be different? How those differences affect the chances of deal closure? (20 points)
Week 4	Sep 26 - Oct 2	Legal framework and corporate governance	<p>Mon, Sep 26: Lecture "Legal framework and corporate governance"</p> <p>Gaughan: Chapters 3, 13</p> <p>Wed, Sep 28: Case presentation & discussion "Bidding for Hertz"</p>	<p>Questions for the Hertz case: Due on Wed, Sep 28 before class</p> <ol style="list-style-type: none"> Who and why? What? Where and when? For more details on this question, see question #1 for the Buck case. (20 points) How does the dual-track process used by Ford affect the bidding process for Hertz? (20 points) In what ways does Hertz conform or not conform to the definition of an "ideal LBO target"? Is Hertz an appropriate buyout target? (10 points) What is the value of Hertz using the Multiples method of valuation? (20 points) What is the value of Hertz using the Free Cash Flow to Capital and APV methods of valuation? (20 points) What is the market-required rate of return for this investment? Why might it differ from the sponsors' target return of 20%? (10 points)
Week 5	Oct 3 - Oct 9	Hostile takeovers	<p>Mon, Oct 3: Lecture "Hostile takeovers, tactics and defenses"</p> <p>Gaughan: Chapters 5, 6</p> <p>Wed, Oct 5: Case presentation & discussion "Roche vs. Genentech"</p>	<p>Questions for the Roche vs. Genentech case: Due on Wed, Oct 5 before class</p> <ol style="list-style-type: none"> Who and why? What? Where and when? For more details on this question, see question #1 for the Buck case. (20 points) As a majority shareholder of Genentech, what responsibilities does Roche have to the minority shareholders? (10 points) As of June 2008, what is the value of the synergies (per share) Roche anticipates from a merger with Genentech? To simplify the analysis, use 9% WACC in your calculations. (20 points)

				<p>4. Based on DCF valuation techniques, what range of values 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, 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 financial crisis? (10 points)</p> <p>6. Should Franz Humer launch a tender offer for Genentech’s shares? What are the risks? If yes, what price should he offer? (20 points)</p>
Week 6	Oct 10 - Oct 16	Pitch book presentations		<p>Pitch book due on Oct 9. Presentations will be done during the exam week. The exact date is TDA.</p> <p>Peer evaluation due on Oct 16</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 Considerations

All students must assess themselves daily for COVID-19 symptoms prior to coming to class. Please stay home if you exhibit symptoms or have tested positive for COVID-19. A list of COVID-19 symptoms can be found [here](#). Use the BC Ministry of Health’s [self-assessment tool](#), to help determine whether further assessment or testing for COVID-19 is recommended. Full UBC COVID-19 Campus Rules can be found [here](#).

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.

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