

Syllabus

MERGERS, ACQUISITIONS AND RESTRUCTURING

Faculty of Economic Sciences

School of Finance

Year: 2019/2020

Course name: Mergers, Acquisitions and Restructuring

Level: Master, 2Y

Language of instruction: English

Period: Module 1-2

Workload: 56 hours of classes

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Section 1. General information about the course

The purpose of the course "Mergers, acquisitions and restructuring" is to study the basic theoretical and applied aspects of mergers and acquisitions (M&As) and corporate restructuring.

The course examines main motives for M&As, performance of mergers and acquisitions, M&A transactions realization mechanisms, strategic growth and development of the company in the context of M&As, methods of M&A deals structuring, legal, tax and accounting aspects of M&A transactions, and financing transactions (private equity, hedge funds, and LBO structures and valuation). A special attention is paid to particularities of cross-border mergers and acquisitions, alternatives to M&As, restructuring decisions and mechanisms. The course is based on the standard international textbooks on M&A deals, research papers and business cases. Applied aspects of the course are based on recent actual M&A transactions on international and Russian markets. The course consists of lectures along with seminars with lecturers from School of Finance and Lincoln International CIS Holding B.V.

Section 2. Course goals, learning objectives, expected learning outcomes

The objective of the course is to provide students with abilities to:

- define the motives and mechanisms for the implementation of mergers and acquisitions;
- analyze various operating and financial factors and indicators affecting M&A strategy of a company;
- determine the feasibility of specific M&A transaction based on the results of the company valuation;
- understand the fundamentals of legal, tax and accounting aspects of M&A transactions;
- understand financing transactions (private equity, hedge funds, and LBO structures and valuation);
- analyze various ways of restructuring of a company to assess their applicability in a specific situation.

This discipline belongs to the special block of compulsory subjects of “Strategic Corporate Finance” Masters Program.

Prerequisites. The course requires knowledge of following disciplines:

- "Microeconomics - 2"
- "Corporate Finance - 2"
- "The theory of money and credit"
- "Company Valuation"
- "Behavioral Finance"

Section 3. Course Outline

The course "Mergers, acquisitions and restructuring" consists of three logical parts: "Theoretical and practical aspects of M&A and LBO deals" (Sections 1-4), "Challenges of cross-border M&As and M&As in Russia" (Section 5), "Reorganization and restructuring of companies" (Sections 6-7). Each part is taught and evaluated separately. Within each part students prepare cases and analytical tasks in teams. To get a grade for the case/analytical task, a student should take part in analytical paper and excel preparation, to take part in presentation at the seminars, answer questions and ask questions for the colleagues. Overall assessment for the course is set as the average of the three grades for each part of the course.

№	Topic/Focus/Activity	Course format: lectures, seminars, consultations, workshops, etc. (in hours)			Readings
		Lectures	Seminars	Self-study	
1	Growth through strategic deals, theoretical aspects: - Tendencies - Motives - Forms of financing Performance of M&As for targets and acquirers.	4	0	16	Patrick A. Gaughan, Mergers, Acquisitions, and Corporate Restructurings, Wiley; 4 edition, 2007, Ch.1,2 DePamphilis D.M., 6 edition, Mergers, Acquisitions, and Other Restructuring Activities: Academic Press, San Diego, Ca., 2012, Ch. 1 The Art of Capital Restructuring. Creating Shareholder Value Through Mergers and acquisitions. Edited by Baker H.K., Kiyamaz H. John Wiley&Sons. 2011. Ch.7, 12.

2	Deal structure: - Transaction structure - Transaction materials - Due diligence - Negotiation process - Financing mechanisms - Deal structuring	6	6	24	Patrick A. Gaughan, Mergers, Acquisitions, and Corporate Restructurings, Wiley; 4 edition, 2007, Ch. 1
3	Deal valuation: - DCF method - Cost of capital - Comparable multiples - Accounting aspects - Value drivers - Information sources	6	6	22	Patrick A. Gaughan, Mergers, Acquisitions, and Corporate Restructurings, Wiley; 4 edition, 2007, Ch.14,15 Additional: Stowe J.D., Robinson T.R., Pinto J.E., McLeavey D.W. (2002), Analysis of Equity Investments: Valuation. AIMR. Ch. 3,4.
4	Financing Transactions: - How to choose LBO candidate? - The efficiency of LBOs - Common forms of LBO deal structures - LBO Valuation and Structuring Model	4	4	20	Patrick A. Gaughan, Mergers, Acquisitions, and Corporate Restructurings, Wiley; 4 edition, 2007, Ch.7-9 DePamphilis D.M., 6 edition, Mergers, Acquisitions, and Other Restructuring Activities: Academic Press, San Diego, Ca., 2012, Ch. 1
5	Cross-Border M&As: - Motives in developed and emerging markets, - Structuring and Financing C-B M&As, - Performance, - Valuation Challenges of M&A deals in Russia	0	4	16	DePamphilis D.M., 6 edition, Mergers, Acquisitions, and Other Restructuring Activities: Academic Press, San Diego, Ca., 2012, Ch. 17 The Art of Capital Restructuring. Creating Shareholder Value Through Mergers and acquisitions. Edited by Baker H.K., Kiymaz H. John Wiley&Sons. 2011. Ch.11

6	Valuation of business and assets after M&A deal. Purchase price allocation.	4	4	16	Patrick A. Gaughan, Mergers, Acquisitions, and Corporate Restructurings, Wiley; 4 edition, 2007, Ch.1,14,15
7	Financial restructuring - Macro overview and corporate-level restructuring - Debt and equity restructuring. Triggers for restructuring - Liquidity planning - Financial covenants - Decision on restructuring scenarios. Modelling and financial / accounting aspects - Structuring of mortgages and legal issues in restructuring	4	4	20	Patrick A. Gaughan, Mergers, Acquisitions, and Corporate Restructurings, Wiley; 4 edition, 2007, Ch.10,11 Additional: Stuart C. Gilson. Creating Value Through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts, and Breakups. Wiley (2010) Edward I. Altman. Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, Analyze and Invest in Distressed Debt. Wiley (2005)
Total:		28	28	134	190

While teaching the course the following teaching methods and forms of study and control are used:

- lectures;
- seminars;
- home assignments;
- analytical papers (essays);
- self-study;
- teachers' consultations.

Assessment and grade determination:

you will have 3-4 home assignments (HA) in teams (cases or analytical tasks). One-two HA will be within the part "Theoretical and practical aspects of M&A and LBO deals", one HA - within "Challenges of cross-border M&As and M&As in Russia" and one HA - within "Reorganization and restructuring of companies".

Final grade for the course is set as the average of the grades for each part of the course.

Grades criteria:

From	To	Mark
0	4	Not passed
4	5	Satisfactory
6	7	Good
8	10	Excellent

Only the final grade is rounding according to general mathematical rules.

Section 4. Texts, readings and other informational resources

1. Required readings:

- Gaughan P., Mergers, Acquisitions and Corporate Restructuring, 4th edition, John Wiley&Sons, 2007 (or later editions), Available at: <https://proxylibrary.hse.ru:2258/toc.aspx?bookid=16917>
- Mergers, Acquisitions, and Other Restructuring Activities: An Integrated Approach to Process, Tools, Cases, and Solutions, 6th edition, by Donald M. DePamphilis, Academic Press, San Diego, Ca., 2012 (or later editions), Available at: <https://proxylibrary.hse.ru:2258/toc.aspx?bookid=44696>
- The Art of Capital Restructuring. Creating Shareholder Value Through Mergers and acquisitions. Edited by Baker H.K., Kiyamaz H. John Wiley&Sons, 2011. Available at: <https://proxylibrary.hse.ru:2258/toc.aspx?bookid=41753>

2. Additional readings:

- Stuart C. Gilson. Creating Value Through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts, and Breakups. Wiley (2010).
- Edward I. Altman. Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, Analyze and Invest in Distressed Debt. Wiley (2005).
- The Art of Capital Restructuring. Creating Shareholder Value Through Mergers and acquisitions. Edited by Baker H.K., Kiyamaz H. John Wiley&Sons. 2011.
- Berkovitch E., Narayanan M.P., Motives for Takeovers: An Empirical Investigation // Journal of Finance and Quantitative Analysis. 1993. №28(3). P.347-362
- Bhagat, Sanjai; Ming Dong; Hirshleifer, David; Noah, Robert (2005), Do Takeovers Create Value? New Methods and Evidence, Journal of Financial Economics, Vol. 76, p. 3-60.
- Dong, Ming; Hirshleifer, David; Richardson, Scott; Hong Teoh, Siew (2005), Does Investor Misvaluation Drive the Takeover Market? Journal of Finance.
- Dyer, Jeffrey H.; Prashant, Kale; Singh, Harbir (2004), When to Ally and When to Acquire? Harvard Business Review (July-August), p. 108-115.
- Eccles, Robert G.; Kersten L. Lanes; Thomas C. Wilson (1999), Are You Paying Too Much for That Acquisition? Harvard Business Review (July-August), p. 136-146.
- Eun C.S., Kolodny R., Scheraga S. Cross-border acquisitions and shareholder wealth: Tests of the synergy and internalization hypotheses // Journal of Banking and Finance. 1996. № 20. pp. 1559-158
- Fuller, K.; Netter, J.; Stegemoller, M. (2002), What Do Returns to Acquiring Firms Tell Us? Evidence from Firms That Make Many Acquisitions, Journal of Finance, Vol. 57, p. 1763-1793.
- Healy P.M., Palepu K.G., Ruback R.S. Does corporate performance improve after mergers? Journal of Financial Economics, 31 (1992) 135-175.
- Healey, Paul M.; Krishna G. Palepu; Richard S. Ruback (1997), Which Takeovers Are Profitable? Strategic or Financial? Sloan Management Review, Vol. 38, №4, p. 45-57.

- Holmstrom, B. and Roberts, J. (1998), The Boundaries of the Firm Revisited, *Journal of Economic Perspectives*, Vol. 12, p. 73-94.
- Khanna T., Palepu K. Why Focused Strategies May Be Wrong for Emerging Markets // *Harvard Business Review*. 1997. July-August. P. 41-51
- Lerner, Josh and Robert P. Merges (1998), The Control of Technology Alliances: An Empirical Analysis of the Biotechnology Industry, *Journal of Industrial Economics*, Vol. 46, p. 125-156.
- Lerner, Josh and Ulrike Malmendier, Work in progress, Contractibility and Contract Design in Strategic Alliances, National Bureau of Economic Research Working Paper, Vol. 11292.
- Martynova M, Oosting S, Renneboog L (2007) The long-term operating performance in European mergers and acquisitions. In: Gregoriou GN, Renneboog L (ed) *International mergers and acquisitions Activity since 1990*. Elsevier, USA, pp 79-116
- Moeller, Sara B.; Schlingemann, Frederik P.; Stulz, René M. (2005), Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave, *Journal of Finance*, Vol. 60, p. 757-782.
- Narayan PC, Thenmozhi M (2014) Do cross-border acquisitions involving emerging market firms create value. *Impact of deal characteristics*. *Management decision* 52(8):1451-1473
- Pagano, M.; Volpin, P. F. (2005), Managers, Workers, and Corporate Control. *Journal of Finance*, Vol. 60, p. 841-868.
- Rhodes-Kropf, Matthew; Viswanathan, S. (2004), Market Valuation and Merger Waves, *Journal of Finance*, Vol. 59, p. 2685-2718.
- Rossi, Stefano and Paolo Volpin (2003), Cross-Country Determinants of Mergers and Acquisitions, *LBS Working Paper*, Vol. 25.
- Shleifer, Andrei and Robert W. Vishny (2003), Stock market driven acquisitions, *Journal of Financial Economics*, Vol. 70, p. 295-311.
- Stowe J.D., Robinson T.R., Pinto J.E., McLeavey D.W. (2002), *Analysis of Equity Investments: Valuation*. AIMR.
- Yaghoubi, R., Yaghoubi, M., Locke, S., Gibb, J. (2016). Mergers and acquisitions: a review (Part 1). *Economic Studies in Economics and Finance*, 33(1), pp. 147–188.
- Yaghoubi, R., Yaghoubi, M., Locke, S., Gibb, J. (2016). Mergers and acquisitions: a review (Part 2). *Economic Studies in Economics and Finance*, 33(3), pp. 437–464.
- Zhu, H., Zhu, Q. (2016). Mergers and acquisitions by Chinese firms: A review and comparison with other mergers and acquisitions research in the leading journals. *Asia Pacific Journal of Management*, 33(4), pp. 1107–1149.

Section 5. Examination/Evaluation

- Examples of topics and requirements for cases and analytical tasks:
 - **Preparation of the presentation for initiation of the deal.** Students should prepare a presentation for a business owner or for an investor with detailed description of reasons justifying a possibility to sell or to purchase a company in a specific industry. The industry is selected by the lecturer.
 - **Preparation of the discounted cash flow valuation model.** Students are provided with a list of fixed and flexible assumptions, which may help to create a financial model for

company valuation in a specific industry. The industry is selected by the lecturer. Separate groups of students create models of a “buyer” and a “seller” and compare the results.

- **Preparation of cases devoted to LBOs and cross-border M&As.** Students should prepare the analysis and valuation of cross-border and LBO deal by choosing the real transaction or using suggested case.
- **Preparation of a presentation on financial restructuring** of a specified company (6-10 slides). Preparation of a simplified financial model (3-5 spreadsheets), scenarios on restructuring, assumption book and outputs. Providing recommendations based on the analysis performed.
- Examples list of test questions:
 - What are the main motives for mergers and acquisitions?
 - How could strategic alliances and M&A deals fit into the strategy of the company?
 - Give examples of financial synergies during a merger.
 - How do researchers assess the performance on M&A deals in short- and long-run, based on the sample of transactions?
 - Describe the basic steps for the assessment of the company value on the basis of P/E, EV/EBITDA multiples.
 - Describe the basic steps of creating a DCF financial model.
 - Explain the fundamental differences between DCF method and P/E, EV/EBITDA method.
 - Describe the main forms of the company's financial statements and their use in creating financial models for the valuation of the company.
 - Based on empirical data known to you, describe which type of deals usually create value?
 - Describe the most typical means of financing the merger.
 - Give an analysis of methods of protection against hostile takeovers.
 - Give examples of argumentation in favor of the sale or acquisition of a company for its owners or potential investors.
 - Describe the purchase price allocation procedure. Valuation approaches and methods used
 - How to choose LBO candidate?
 - How do LBOs create value?
 - How to value LBOs?
 - What are the main motives of cross-border M&A deals (when acquirers and targets are from developed or emerging capital markets?)
 - How we should value a company across borders?
 - Describe the basic principles of reorganization in the bankruptcy case.
 - Selecting between restructuring scenarios: company, bank and state views
 - State the major financial and non-financial covenants. Impact on financing decisions and financial reporting
 - Explain the mechanism of maximizing shareholder returns during a restructuring.

Section 6. Academic Integrity

The Higher School of Economics strictly adheres to the principle of academic integrity and honesty. Accordingly, in this course there will be a zero-tolerance policy toward academic dishonesty. This includes, but is not limited to, cheating, plagiarism (including failure to properly cite sources), fabricating citations or information, tampering with other students' work, and presenting a part of or the entirety of

another person's work as your own. HSE uses an automated plagiarism-detection system to ensure the originality of students' work. Students who violate university rules on academic honesty will face disciplinary consequences, which, depending on the severity of the offense, may include having points deducted on a specific assignment, receiving a failing grade for the course, being expelled from the university, or other measures specified in HSE's [Internal Regulations](#).