Title: Managing Mergers and Acquisitions

I. General Information

Course Number: Mgmt 646

Title: “Managing Mergers and Acquisitions”

Units: 3.0 credits

Prerequisites: MBA Standing, Mgmt 500 or equivalent.

Course Coordinator: Sal Kukalis

SCO Prepared by: Sal Kukalis

Date prepared/revised: October, 2012

II. Catalog Description

Developing trends in mergers and acquisitions (M&A). Examination of the merger and acquisition process. Coordination and integration across new business boundaries, exploiting synergies from M&A transactions, strategic vs. operating focus of M&A, hierarchical structure of combined companies, learning transfer, and the rationalization of shared activities in M&A.

III. Curriculum Justifications

Recently, the pace of mergers and acquisitions (M&A) transactions has risen to a historical level. For instance, the total dollar value offered for M&A transactions in the U.S. rose from $108 billion in 1990 to $1.325 trillion in 2000! The market then steadily declined to $504 billion in 2003, due to the bursting of the dot.com bubble, a recession, and corporate scandals. This increase in M & A activities had been even more impressive for the rest of the world; it went from $430 billion in 1990 to $3.18 trillion in 2000. In the three busiest years, 1998 to 2000, M&A deals totaled nearly $4 trillion, more than in the preceding 30 years combined. As recently as 2011, the U.S. M&A activities have seen a return to the
mega-deal transaction where M&A transactions for 2011 exceeding the prior record set in 2000. Despite the rising popularity of M&A transactions, performance of many acquisitions has been called into question due to myriad of post merger integration problems among other managerial-related issues.

This course is aimed at MBA students who have completed the core courses in their program. A fundamental academic and career objective for students in this course is to integrate the concepts, models and tools of the core courses and other electives into a coherent analysis of the strategic and operating challenges of mergers and acquisitions activities. Students contemplating careers in corporate development, strategy consulting, and private equity or investment banking will find the material relevant to their career interests.

Specifically, this course is designed to explore the various modes of mergers and acquisitions employed by managers to achieve corporate strategic objectives. Generally, the term “mergers and acquisitions (M&A)” encompasses a widening range of activities, including restructuring and reengineering, diversifications, vertical and horizontal integration, alliances and partnering, joint ventures, spin-offs, licensing, and divestitures. This course is also designed to address analytical techniques often employed in corporate development decisions as well as process issues such as negotiation strategies, valuations, alliance management, competitive bidding and post merger integration. In order to give students as complete a perspective as possible, these dimensions will be related systematically in turn to four modules of corporate development as follows:

1. The first module provides a historic perspective and the basic ideas pertaining to M&A.
2. The second module explores a wide range of transactional dimensions and valuations of M&A.
3. The third module deals with integration and the ongoing process of post acquisition optimization and financial restructuring.
4. The fourth module deals with using M&A transactions to accomplish corporate goals in areas such as Divestitures & Corporate Spinouts, vertical integration, and diversifications.

IV. Course Objectives

The primary objective of this course is to develop the conceptual framework and the analytic skills to understand a wide variety of operational and strategic issues related to how to manage a merger or an acquisition. The specific objectives of this course are as follows:

- **Critical Thinking Skills**: Students will develop their critical thinking skills through mastering managerial decision-making processes in managing M&A transactions through the case-study method and simulation models.
• **Interpersonal, Leadership, and Team Skills:** Students will develop the appreciation of the importance of team work, interpersonal and leadership skills in an organizational setting. Students will be able to demonstrate the interpersonal, leadership and team skills through team M&A related projects that involve case analysis and field of different M&A transactions.

• **Strategic/Conceptual Skills:** Students will be able to develop and sharpen their strategic/conceptual skills that are required in a successful corporate officer who oversees typical M&A transactions.

• **Quantitative & Technical Skills:** Students will acquire the necessary quantitative and technical skills enabling them to analyze and interpret complex M&A transactions. Students will be able to demonstrate these skills through examining issues involving valuations of target acquisitions, risk management associated with M&A transactions, M&A-related operational efficiency issues through course assignments like case analysis, field studies and experiential exercises.

**MEASURABLE STUDENT LEARNING OUTCOME(S).**

A. **EVALUATION INSTRUMENTS.** During the conduct of this course, instructors will administer examinations consisting essay, short M&A cases, and application-oriented questions that will test the student’s understanding of presented material. Instructors will also administer homework and team projects that will be evaluated to determine the student’s grasp managing M&A transactions and their ability to apply what they have learned.

B. **INSTRUCTIONAL STRATEGIES FOR SKILL DEVELOPMENT.** The instructor will assign students to a project teams that will simulate an M&A project team. These teams will be provided with methods and objectives to be used and meet incrementally during the course. The instructor will explain the purpose and learning objective of each of these assignments.

C. **COURSE LEVEL ASSESSMENT.**

**OBJECTIVE:** This course is designed with the perspective that students are being trained to be corporate managers or members in teams that oversee M&A transactions in their organizations. Upon completion of this course the students will be able to demonstrate a familiarization with advanced management tools/skills that are commonly applied in M&A transactions.

**MEASURABLE OUTCOME:** Students will be able to demonstrate advanced understanding of the practices/approaches used in managing M&A transactions through successful completion of team projects, individual assignments, exams, and class discussions.

**STUDENT ACHIEVEMENT:** Specific assignments will vary by instructor, but typical assignments include quizzes, examinations, team projects, written homework and feedback during class discussions.
INSTRUCTIONAL STRATEGIES: Instructors will provide students with a rubric that will explain the objectives and evaluative methods and criteria for each assignment.

V. Outline of Subject Matter (below is a model outline):

Course Material
Required:
2. Course pack # 1: A set of Harvard Cases
3. Course Pack # 2: A set of HBR Readings

Grading Plan:
- Team Case Presentation 30%
- Individual Project 20%
- Class Participation 20%
- Individual Presentations (two) 10%
- Case Brief 5%
- Final Exam 15%

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<thead>
<tr>
<th>Date</th>
<th>Topic, Content, and Activity</th>
<th>Required Readings and Cases</th>
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<tbody>
<tr>
<td>Week 1</td>
<td>Introduction and Organization</td>
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<td>Week 2</td>
<td>Historical Perspective on Contemporary M&amp;A Activity and Corporate Development</td>
<td>Read:</td>
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<td>Pre-Class Considerations and Case Guidelines:</td>
<td>1. Chapters 1&amp;4 in text</td>
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<td>• Review the Investex Guide to acquaint yourself with available resources for research in M&amp;A. Tour a few websites.</td>
<td>2. “Resources: The Essence of Corporate Advantages”</td>
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<td>• Come to class prepared to engage in a discussion about trends and explanations of major historical events in M&amp;A activity</td>
<td>3. “Investex Guide to Mergers &amp; Acquisitions”</td>
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<td>• Contrast Emerson’s strategy with that of skill. Is there a strategic fit between both companies?</td>
<td>Assigned Case:</td>
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<td>Week 3</td>
<td>Transactional Dimensions of Mergers &amp; Acquisitions – 1</td>
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<td>• The following topics will be covered in this session:</td>
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<td>--Elements of Due Diligence</td>
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<td>--Negotiation considerations</td>
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<td>--Legal Planning and Management</td>
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<td>--Cultural Factors</td>
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<td>--The Process and Workflow</td>
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<td>--Methods of Payment</td>
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**Pre-Class Considerations and Case Guidelines:**

- Consider the major issues described in the readings. The purpose is to establish the human and organizational issues that are often overlooked in the M&A process. Establish a framework for future reference.
- Characterize the steps in the acquisition process through your readings of the assigned articles/cases/text chapters.
- In this case:
  1. What is Tyco’s strategy for growth?
  2. Is the strategy sustainable? Why or why not?
  3. What constraints are inherent to the strategy? Will it work in all of the industries in which Tyco plays? Why or why not?
  4. What are the implications of the Tyco strategy for the conglomeration approach to corporation growth in general?

**Week 4**

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<th>Transactional Dimensions – 2</th>
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<td>The following topics will be covered in this session:</td>
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**Read:**

1. Chapter five in text
2. “Acquisitions: The Process can be a Problem.”
3. “Stock or Cash: The Trade-offs for Buyers and Sellers in M&A.”

**Assigned Case:**

- “Tyco International”
### Pre-Class Consideration and Case Guidelines:

- Was AHP’s decision to bid for Cyanamid a good one for both firms’ shareholders? What evidence would you cite to support your case?
- How did Cyanamid’s management respond to the AHP offer? Whose interests were they taking into account when considering an offer?
- What are the potential sources for value creation, if any, in an AHP/Cyanamid merger?

### Assigned Case:

- “American Cyanamid (A): Boardroom Response to a Hostile Takeover”

### Week 5

**INTEGRATION**

This session, and the supporting readings, will build on some transactional issues discussed in prior sessions, but focus on the managerial aspects of implementation. This session will also look at specific approaches to optimizing an acquisition and its integration through financial planning and dynamic reengineering.

**Pre-Class Consideration and Case Guidelines:**

- In your consideration of the case, be prepared to articulate what the optimum strategic outcome is for Sculthorpe as he takes over the leadership in PCS.
- What are the key challenges facing him?
- Based on your readings and your careful analysis of the situation, be prepared to discuss recommendations we would make as he sets about integration.

### Read:

- Chapter 8 in text: “Restructuring and Financial Engineering”
- “Integration Managers: Special Leaders for Special Times”
- “Postmerger Integration”

### Assigned Case:

- “Morgan Stanley Dean Witter Private Client Services”

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<th>Week 6</th>
<th>Paradigm 1: Growth Via Divestitures &amp; Corporate Spinouts</th>
<th>Read:</th>
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<td>Chapter 6 in text:</td>
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Pre-Class Considerations and Case Guidelines:

What factors motivated Xerox to set up XTV?
Among the issues to consider are:
-- The severity of Xerox’s problems in commercializing innovations.
-- The design of the problem.
-- The process that led to its formation.

Evaluate the merits and demerits of Xerox’s approach to corporate venturing. Does the structure of XTV make sense? Which terms and conditions seem the most interesting or problematic?

“Alternative Paths to Growth”
- Not all M&As are alike – and that matters

Assigned Case:
- “Xerox Technology Ventures”

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<th>Week 8</th>
<th>TEAM CASE PRESENTATIONS</th>
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| Week 9 | Paradigm 2: DIVERSIFICATIONS
Diversifications: Expanding the company’s presence in a greater range of industries. Generally, an out-of-favor strategy today, but companies in mature, slow growth markets with a great deal of cash have moved into higher growth industries via acquisitions. |
|-------|---------------------------------------------------|

**Pre-Class Considerations and Case Guidelines:**
- What factors in their industry are precipitating consideration of diversifications? Why?
- Evaluate and value Monsanto’s core resources and strengths
- Do you see any underlying logic as to why a particular mode of development (internal, alliance, acquisition) is chosen in a specific instance?
- Comment on the overall process and transactional dimensions of Monsanto’s activity with respect to diversification into biotechnology.

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<th>Week 10</th>
<th>Team Case Presentations</th>
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Read:
- “Diversification via Acquisition: Creating Value”

**Assigned Case:**
- “Monsanto’s March into Biotechnology”
Week 11
Paradigm 3: VERTICAL INTEGRATION: Building Links in the Value Chain
Vertical Integration: A company stays in the same industry, but seeks to participate in additional links of the value chain in their business by, for example, acquiring suppliers or production technology, or by acquiring sales or distribution capacity. New links in the Value Chain. The acquisition of pharmaceutical benefits management companies by major pharmaceutical companies, e.g., Merck-Medco, is representative.

Pre-Class Considerations and Case Guidelines:
- What was the rationale for pharmacy benefit management (PBM)? Does it make sense? Why? Why not? Does Medco fit with Merck’s strategy? What does Medco bring to Merck? What are the advantages and disadvantages? What does Medco get from the Merck acquisition? Is health management the future? If so, what are the implications for future acquisition activities for Merck and other pharmaceutical manufacturers?

Week 12
Paradigm 4: DIAGONAL INTEGRATION:
Diagonal Integration is basically a hybrid of an acquisition with both horizontal and vertical aspects. The AOL-TIME Warner deal effectively defined Diagonal Integration. It is a merger that combines content and intellectual property ownership, with distribution technology and infrastructure. The marriage may define an entire new media industry. Diagonal integration can occur on a smaller scale even in traditional industries. Most diagonal integrations occur on a smaller scale and frequently, especially in an economy under the influence of

Read:
- "Beyond Vertical Integration: The Rise of Value-Added Partnership"

Assigned Case:
“Merk-Medco: Vertical Integration in the Pharmaceutical Industry”

Read:
- "Capturing Value in High Tech Acquisitions"

Assigned Case:
- “AOL-Time Warner”
### Week 13

**Paradigm 5: STRATEGIC ALLIANCES AND PARTNERING**

The notion that alliances, joint ventures and partnering are critical tools of modern corporate growth is certainly accurate. There are companies, however, that are organized around the formation of permanent alliances and the management of linkages and synergies between them. Corning is the classic example.

**Pre-Class Considerations and Case Guidelines:**
- What systems and processes are in place in Corning that allows it to be a “network of alliances”
- How adoptable is Corning’s structure and approach to partnering?
- How is value created and sustained in their approach?
- What recommendations would you make to other companies contemplating a similar strategy?

**Read:**
- “A Note on Strategic Alliances”
- “How to Make Strategic Alliances Work”

**Assigned Case:**
- “Corning Inc.: A Network of Alliances”

### Week 14

**Paradigm 6: STRATEGIC CONSOLIDATOR**

Most large, capital-intensive industries in their mature years become consolidators or are bought. The examples are numerous. The principle of economies of scale and market share is the driver here. Generally, the top two companies in a given industry are the only ones really making money over time. Synergy for consolidators means the elimination of redundant functions and the expansion of the most productive resources. Consolidation is a move to sustain and protect value, generally speaking, not to create it.

**Pre-Class Considerations and Case**

**Read:**
- “Managerial over-commitment in Corporate Acquisitions Process”
- “Meeting the Challenge of Disruptive Change”

**Assigned Case:**
- “Kraft-General Foods”
### Guidelines

- Analyze the sources of scope economies (or synergies) that result from the merger of Kraft and General Foods
- Consider the organization impact of consolidating established mature businesses, and cultural issues.
- Critique the corporate strategy pursued by Philip Morris which is using FCF generated by its mature business to diversify. Are there ethical issues here? Should PM pay out cash to shareholders?
- Is this a successful merger? Why? What made it work?
- Distill lessons on how to coordinate across business units?

### VI. Methods of Instruction

a) Instructors should use appropriate instruction methods that are consistent with the graduate level of instruction and the course description stated in Section II, and serve the course objectives listed in Section IV of this SCO. Examples of instruction methods for the course include:
   - Class lecture/examples/discussion
   - Individual and team case analysis
   - Written assignments including research projects
   - Individual and team projects
   - Simulations

b) Instructors should use appropriate readings and cases that are consistent with the graduate level of instruction and the course description stated in Section II, and serve the course objectives listed in Section IV of this SCO. Given the diverse nature of the material covered, a custom course pack may be appropriate. The following is illustrative:
   - Readings’ Packet from Harvard Business review and other publication outlets
   - Appropriate cases from Harvard or Ivey school of business

c) Instructors in planning the exams, and other grading procedures, should adhere to the relevant [University Policy on “Grades, Grading Procedures, and Final Assessments, Final Course.”](#) Examinations **must** be essay-type and/or problem solving questions and avoid the use of multiple-choice questions.
Suggested Textbooks:

VII. Instructional Policy Requirements

The students are expected to comply with the universally accepted norms of considerate and courteous behavior, and with all University rules and policies found in the current University Catalog, including the Withdrawal Policy and Policy on Cheating and Plagiarism. It will be assumed that the students will adhere to the tenets of academic integrity as articulated in Dean’s Letter on Academic Integrity throughout this course. Instructors may specify their own policies with regard to plagiarism, withdrawal, absences, etc. as long as these policies are consistent with the above mentioned University policies.

It is expected that all students to attend classes regularly and to be responsible from all materials covered in class, regardless of their attendance. Make-up exams are strongly discouraged and will only be given with documented proof of an excused absence. Acceptability of the excuse will be determined based on the appropriateness of the documents. It is important that the student provides all documentation without special prompting from the instructor. The student should give earliest possible notification of an anticipated excused absence. The students refer to the specific university policy on these issues.

Occasionally adjustments in the course assignments become necessary. The students should be notified about changes, if any, and, whenever possible, they should be consulted in advance about any changes.

Students with Disabilities: Students with disabilities are responsible for notifying their instructor as early as possible of their needs for an accommodation of a verified disability. A student with a disability is urged to consult with Disabled Student Services as soon as possible in order to identify possible accommodations to enhance academic success.
LIST OF SUGGESTED READINGS:


