

University of Guelph
College of Management and Economics

DEPARTMENT OF ECONOMICS AND FINANCE

ECON*3360 The Strategy of Mergers & Acquisitions

Fall 2012

Instructor: K. Smith, Room 800 MacKinnon, Ext. 52346, email: kensmith@uoguelph.ca

Lecture: 2 x ~1½ hrs, Mondays and Wednesdays at 4:00 P.M., plus Thursday November 29 (in lieu of Statutory Holiday October 8th)

Office Hours: Monday and Wednesday: 1:30 pm to 3:30 pm.

Reminder: It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

<http://www.uoguelph.ca/economics/node/1115>

WHY A COURSE ON M&A STRATEGY

As changes occur in product markets, public policy, and technology, the scope and scale required to be competitive often changes as well. For example, globalization has introduced new market opportunities and new competitors for most companies. In turn, many industries are restructuring as companies seek to access new markets, to build low cost international supply chains, and to achieve competitive scale with respect to a newly defined competitor set. Merger and acquisition activity (M&A) is not the only means to reposition in such changing industries, but it is becoming much more prevalent as the pace of change accelerates and so called "organic" growth (growth without business combinations) is often not enough or not fast enough. Indeed, in many industries, those companies that are not buyers will eventually be sellers.

Yet the failure rates in M&A are high. Many otherwise successful companies have been embarrassed or even bankrupted by deals poorly conceived or poorly executed. Of more than two thousand large transactions in North America and Europe in the last decade, half have destroyed shareholder value. In the worst cases, strategies had been hastily developed when the market presented an irresistible opportunity. In many other cases, the deals had the potential to create value, but the means of value creation were considered only superficially. Well in excess of \$1 trillion in shareholder value has dissipated in the last decade—not in deals that fell apart but in deals that simply failed to deliver.

So understanding how M&A can create value is an important part of understanding today's business. In addition, basic skills in M&A strategy, once only needed in investment banking and in a few acquisitive companies, are now needed in most companies. Indeed, most executives will have a role to play in at least a few important deals in the span of their careers, and the decisions made will make or break their companies and careers.

COURSE OUTLINE

Overview: This course offers the means to assess M&A and to consider the various roles M&A can play in strategy depending on the nature of the company and the industry dynamics. Students will learn the process of M&A strategy development and the roles of the various players – management, boards, and advisors – in these high stakes decisions. There is also the opportunity to develop basic skills required in most businesses today for effective M&A strategy development and successful execution.

Textbook: *The Art of M&A Strategy: A Guide to Building Your Company's Future Through Mergers, Acquisitions, and Divestitures*, by Ken Smith and Alexandra Lajoux, McGraw-Hill, New York, 2012.

Course delivery: The course will consist of 2 hours and 40 minutes of class hours for lecture and discussion every week spread over two classes. At various points in the semester we will host 2 or 3 senior M&A practitioners.

In addition, as part of the learning you will develop restructuring plans, industry assessments, acquisition proposals, and M&A strategies for real companies based on publically available information. This work will be completed in teams of 2 or 3 students.

The first exercise will be the development of a restructuring plan for a company including divestments, performance improvement and growth options. A selection of companies will be provided.

The second exercise will involve the examination of an industry that may restructure. Three industries will be chosen for the class and each team will be assigned one company in one of the industries. The restructuring of each industry will be simulated through up to 3 rounds of M&A proposals presented in class. Each round may or may not result in business combinations. If there are business combinations, then the respective project teams will merge for the next round of the simulation.

For the third exercise, the above learning will be used by each of the original teams to develop an M&A strategy for the original assigned company.

Grades:

| | |
|---|-----|
| 1. Two exams worth 20% each: <ul style="list-style-type: none"> • Midterm Exam is on October 22nd in class • Final exam is Dec. 12th, 7-9 pm | 40% |
| 2. Company Restructuring Proposal, due October 12, 2012 | 20% |
| 3. Industry Restructuring Simulation - Group presentation on your industry restructuring assessments and recommendations (10 minutes per group, 30 minutes per industry) <ul style="list-style-type: none"> • Round 1: Presentation & discussion in class November 12 • Round 2: Presentation & discussion in class November 19 • Round 3: Presentation & discussion in class November 26 (if necessary) | 20% |
| 4. Final team M&A Strategy with Peer rating form, due November 29 | 20% |

Please note that both exams are compulsory. There will be an opportunity for rewriting the midterm only to those students who have a medical emergency (with a certificate signed by a medical doctor) or for compassionate reasons (with the proper U of G documentation from counselors). Without this documentation the grade for a missed midterm is zero. You are allowed to bring to the exam room the course textbook and your course notes ONLY.

Course Evaluation: You will be asked to complete an evaluation of this course at some time during the last two weeks of the semester. The department of Economics policy regarding the conduct and use of these evaluations will be found at:

<http://www.uoguelph.ca/economics/academics/courses/course-evaluation>

Key Steps for Group Assignments:

1. Register your team of 2 or preferably 3 students
2. For the first exercise, each team will be assigned one company as their own
3. For the second exercise, the simulation, the teams will stay with the same company but must now study the relevant industry, competitors and other buyers in more detail
4. For the third exercise, the M&A strategy will be based on the original company and will incorporate all the learning in the course to that point, including the practical conclusions of the industry simulation.

Expectations and tips for assignments are provided following the Course Outline.

Course Schedule:**I. INTRODUCTION****Week 1:**

(Sept 10, 12)

The M&A imperatives – the rising importance of M&A in strategy and the risks of failure

Reading: S&L Introduction, Introduction to Part I, and Appendix to Part I

Form your teams: 2 – 3 students per team. Email names using the form in this course outline. **This is due by September 12.**

Exercise: Choose a good and a bad deal from 2011. Prepare to discuss in class September 12.

II. HOW VALUE IS CREATED IN M&A**Week 2:**

(Sept 17, 19)

Portfolio companiesReading: S&L Chapter 1 and “*GE’s Crotonville: A Staging Ground for Corporate Revolution*,” Noel M. Tichy, *Academy of Management Executive*, May 1989. <http://www.jstor.org/pss/4164880>.

By the end of week 2 the assigned companies will be posted.

Exercise: Classify the following portfolio companies as Controller, Coach, Orchestrator, Surgeon, or Architect: Google, Onex, Tata, Astral Media, Fairfax Financial, Microsoft. Prepare to discuss in class September 19.

Week 3:

(Sept 24, 26)

Restructuring the companyReading: S&L Chapter 7; see “*Wall Street*”, a 1987 Oscar winning film, widely available.Team Assignment: The Company Restructuring exercise begins this week. **Due at the end of week 5.****Week 4:**

(Oct 1, 3)

Industry consolidation and cost synergiesReading: S&L Chapter 2 and Alan Friedman, “*A Case of Culture Shock in the Global Arena*,” *New York Times*, April 23, 1997, from <http://www.nytimes.com/1997/04/23/news/23ihtclash.t.html?pagewanted=all>, accessed October 9, 2011**Week 5:**

(Oct 10)

Growth and revenue synergiesReading: S&L Chapter 3 and “*Top 10 History of Google Acquisitions and Where They Are Today*,” *Lilo Magazine*—Benny, March 22, 2011, accessed October 9, 2011, <http://lilomag.com/2011/03/22/top-10-history-of-google-acquisitions-and-where-they-aretoday/>.

Exercise: Identify the principal sources of value in the following 2012 deals: (to be completed based on recent news)

Week 6:
(Oct 15, 17)

Real Options in M&A

Reading: S&L Chapter 4; Timothy Luehrman "*Strategy as a Portfolio of Real Options*", Harvard Business Review, September 1998

Week 7:
(Oct 22)

Midterm in class on Introduction, Appendix to Part I, Chapters 1- 4 and 7

III. DEVELOPING M&A STRATEGY

(Oct 24)

Determining the role of M&A in Strategy

Reading: S&L: Introduction to Part II and Chapter 5

Team Exercise: Complete a WOFC for your assigned company for discussion in class October 23rd.

Week 8:
(Oct 29, 31)

Searching & screening M&A partners

Reading: S&L Chapter 6 and Ronald N. Ashkenas, Lawrence J. DeMonaco, Suzanne C. Francis, "*Making the Deal Real: How GE Capital Integrates Acquisitions*," Harvard Business Review, January–February 1998.

Team Assignment: The Industry Restructuring assignment begins this week. **First round proposals due in class in week 10.**

Week 9:
(Nov 5)

Governance and the Directors' Role

Reading: S&L Chapter 8 and Part I of "*Corporate Governance in Canada: A Guide to the Responsibilities of Corporate Directors in Canada*." Osler, Hoskin & Harcourt LLP, 2009.

IV. THE DYNAMICS OF RESTRUCTURING INDUSTRIES

(Nov 7)

The impact of globalization

Reading: S&L Chapter 9 and Gordon Pitts, "*Australia's BHP Deal a Blueprint for Ottawa*," Globe & Mail, November 1, 2010.

Week 10:
(Nov 12)

Round 1 of industry restructuring simulation

Team Assignment: Second round proposals due in class in week 11; Also document for M&A strategy due November 29.

(Nov 14)

How value is created after the deal

Reading: S&L Chapter 10

Week 11:
(Nov 19)

Round 2 of industry restructuring simulation

**Team Assignment: Third round proposals due in class in week 12;
Also document for M&A strategy due November 29.**

(Nov 21)

The role of advisors

Reading: S&L Chapter 11

Week 12:
(Nov 26)

Round 3 of industry restructuring simulation and review

(Nov 28, 29)

Core competencies for restructuring industries

Reading: S&L Chapter 12 and C. K. Prahalad and Gary Hamel, "*The Core Competence of the Corporation*," Harvard Business Review, May-June 1990.

M&A Strategy assignment due; Peer reviews due

Final exam during exam period focused on Chapters 5, 6 and 8 - 12, Dec. 12th, 7-9 pm.

FORMS, EXPECTATIONS, TIPS FOR GROUP ASSIGNMENTS

Expectations for Company Restructuring/Acquisition Proposal: In this report of FIVE pages maximum (use double-space; Georgia font; size 12), plus appendixes where appropriate you will propose to the board of directors of your company a course of action to maximize the value of the company, including divestments and possible acquisitions as appropriate. The proposal should include: an estimate of the current market value and "as is" cash flow value, identification of improvement options (internal improvements, divestments, growth options), a proposed restructuring strategy with rationale and with the sources of value identified and calibrated.

Expectations for Industry Restructuring Simulation: In this PowerPoint presentation of 20 pages maximum plus appendixes where appropriate each team will outline: untapped sources of value, how restructuring can create value, and a proposed merger, acquisition or divestment. The class will act as shareholders and discuss which proposed deals should go through and (for the sake of the simulation) approve or reject proposals by "shareholder" vote.

The requirements are the same for each round of the simulation, but in each subsequent round the conditions will have changed by virtue of the information shared and the deals approved in the previous rounds.

Some tips:

1. The objective is value creation not industry domination. Do what makes sense for the shareholder.
2. Consider the long-term as well as short-term impact on performance.
3. Be prepared to defend your proposal to directors, shareholders, and employees on both sides of the deal.

Expectations for M&A Strategy: The M&A strategy for your company should include:

1. A description of the current company structure and performance
2. A description of the relevant industry structure and performance
3. An overall strategic vision including:
 - a. A perspective on the key trends or pressures that could affect change in the industry
 - b. Considering the above, the opportunities for value creation most suited to your company
 - c. A description of the position you expect to/need to achieve to succeed, considering customer and competitive position including scope and scale of the business
4. An examination of organic vs M&A options to achieve the strategic vision
5. A first draft assessment of the potential merger partners
6. Defined steps and timelines for implementation.

What makes a good group presentation: Speaking effectively and convincingly to a management committee, board, shareholder group, or analysts about your position and proposed course of action is one of the most important skills for business executives. An effective presentation explains, clarifies and inspires. Here are some tips for convincing your audience (and getting a good grade):

1. Look professional.
2. Introduced yourselves and your roles.
3. Provide an outline so the audience knows where you are going.
4. Engage with the audience – eye contact, interesting (but natural) style, look for understanding, welcome questions at appropriate time.
7. Presentation materials that help, not hinder, understanding and engagement – i.e. interesting, provide/reinforce key information, simple and easy to follow.
5. The combination of the material and the presentation do the job: leveraging course concepts to make a compelling case for the recommended actions.

How to fill the Peer Rating Form: (this is due with your final report)

1. Ideally, your group functioned well and you shared the work load (the two reports in the portfolio management exercise and the final presentation) equally, i.e. in a group of 3, you assigned each other 33 1/3 %.
2. In cases where the work load was not shared equally, the student(s) who has the highest percentage will receive the unaltered total mark for the two reports and group presentation. The other student(s), who has not shared equally the work load, will receive a discount from the assigned grade. The discount is calculated based on the proportion of the work relative to “fair share” of one third. (Note that this is NOT a zero-sum game where the student(s) who has done the most work wins the points lost by the student(s) who has done less.)
3. Each student in the group must sign the group sheet and return it to me with your final portfolio report.

PEER RATINGS**ECON*3360 The Strategy of Mergers and Acquisitions**

(due with your final M&A strategy report)

GROUP NUMBER: _____**RATINGS:**

If your grade for group work is 100%, how would you allocate this mark to reflect the amount of work done by each group member? For example, in a group of 3, each member participating equally would receive a rating of 33 1/3%, for a total of 100%. Please file one form per group. Each member must sign this form to show agreement. Read explanation on "How to fill the Peer Rating Form".

| <u>Names</u> | <u>Rating</u> | <u>Signature</u> |
|--------------|---------------|------------------|
| 1. _____ | _____ | _____ |
| 2. _____ | _____ | _____ |
| 3. _____ | _____ | _____ |

COMMENTS:

Membership in your group
(to be submitted by September 12)

1.-----

2.-----

3.-----