MBA: STRATEGIES OF MERGERS AND ACQUISITIONS

SPRING 2014 SYLLABUS (PRELIMINARY: v. 18 February 2014)

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Class time: Tuesdays 9am-12pm (see page 5 for details)
Office hours: Tuesdays 3.15-4.15 p.m., or by appointment.

COURSE DESCRIPTION

This MBA course analyzes the various modes of Mergers and Acquisitions (M&A) strategies available to firms to create and capture economic value. The objectives of the course are (1) to equip students with a set of quantitative and qualitative tools to assess the drivers and consequences of different types of M&As, and (2) to provide insight into the successful management of M&A processes from conception to execution to full integration. While more emphasis is given to large, established firms, the course also deals with entrepreneurial ventures to the extent that they face M&A decisions. Students enrolling in the course will benefit from various sources of knowledge about M&As --- real-world experience and academic research--- and will participate in case discussions illustrating the principles behind strategic decisions. As a more direct way to learn, students will also conduct an M&A project with the guidance of the instructor to be presented at the end of the semester. This MBA course is meant to be more technical than the core Strategy course and requires Finance as a working tool. By examining the modes of growth and restructuring of the firm from a corporate strategy perspective, the course reinforces other offerings in the Strategy specialization; moreover, by focusing on the strategy aspects of M&As, the course also complements courses in Finance such as Restructuring Firms and Industries or Mergers & Acquisitions.

There are three modules in this semester-long course. The first module ("Tools") focuses on the techniques typically employed in the strategic analysis of a wide range of M&A deals; for example, where does strategy appear in the valuation figures? The second module ("Phases") emphasizes different problems related to M&As evolving over the life cycle of industries and firms; for instance, why are turnarounds pursued by an acquirer and not by the target before the deal? The third module covers more specialized issues (e.g., network effects motivating M&A analysis) affecting some prominent sectors of the economy.

COURSE ORGANIZATION, MATERIALS, AND LEARNING

Our course consists of different components that will help us make progress with regard to the two objectives of assessing M&As and succeeding in M&As.
**Cases:** The essential material for this course. The genuine case discussion is not a repetition of facts but an in-depth analysis of a strategic problem and its potential solution. If you do not prepare carefully the facts, however, it would take us too long to get to the core problem, thereby diminishing your learning. The preparation questions are in this document. I may ask you to write down your solution as participation. Purchase the coursepack here:

https://cb.hbsp.harvard.edu/cbmp/access/23396785

**Background Readings:** There is no required textbook for this course. However, the following are three books you will find useful. I assume you will probably obtain one or more of these three depending on what your outside research finds about them.


In addition, in our first class I will select some chapters of Ivo Welch’s *Corporate Finance* book as key quantitative background for the course (http://book.ivo-welch.info/ed3/toc.html).

**Lectures:** The lectures will provide you with a common thread, tying frameworks and examples to effectively address strategic problems of mergers and acquisitions. The slides will be posted before the lectures to allow you to take handwritten notes.

The basic framework of corporate strategy to be employed in the course is:

- **Scope:** Vertical integration, diversification, and geographical expansion constitute the core of scope strategies.

- **Modes:** M&As, internal developments, and inter-firm collaboration. The first two are “pure,” the latter are hybrid because they admit many gradations between the pure ones.

- **Levers:** Resource allocation and organizational design. They are called “levers” because they help strategic managers exert power much beyond their numerical presence in the firm.
• **Logic:** Why (a combination of some of) the above components make sense. The Strategy “kernel,” managing interdependence, enhancing SBU value, and others.

**COURSE GRADING**

1. Participation 40%
2. Homework 20%
3. M&A project idea (group) 5%
4. M&A project presentation (group) 5%
5. M&A project document (group) 30%

**Participation.** Your contribution in case discussions, lectures, in-class exercises, and other voluntary submissions will determine your participation score. Please bring your name card to the classroom.

- **Preparing for case studies:** You are encouraged to form study groups.
- **A note for quiet students.** I can understand two reasons for your being quiet in class. One is that you did not prepare the case; please let me know this at the beginning of class so that I don’t call on you then. Second, you have a preferred tendency not to speak in class; please participate through email or hard-copy write-ups before class.
- **Attendance:** If possible, let me know in advance if you will be missing class.

**Homework.** You will submit through Turn-it-In your solution to two or three exercises between Week 1 and Week 6 of class. The total weight of exercises is 20% of the final grade.

One of these exercises will be a group solution to a valuation exercise due at the beginning of our discussion of HP-Compaq on Tuesday, 2/25. The group you will form for this assignment may or may not be the one you’ll eventually form for the M&A group project. The maximum number of team members is three. All other exercises will be individual.

**M&A project (group).** You will form teams of up to three members to apply ideas from the course to a specific M&A deal of your own choosing (as long as no other group has chosen that firm in class). Your company of choice can be any firm that interests you outside the ones covered in the course cases—an established firm or entrepreneurial startup. If the firm or business unit has a significant history, your job is to critique its M&A decisions (or lack thereof), based on the concepts learned in this course; you can also propose an M&A deal that has not yet happened and justify your proposal. If the firm of your choice is still in its startup phase, your job is to lay out a plan of whether and why it should pursue an M&A or not. With respect to the M&A project, there will be four steps to completion:

- **M&A company selection.** Send me an email so that I pre-approve your company of choice on a first-come, first-serve basis. Alert: try to select your company early.

- **M&A project idea: submission and meeting.** One team member will submit through Turn-it-In a one-page description of the project idea; you and your group will visit me to discuss.

- **M&A project presentation.** During Weeks 9 and 10, you will give a short presentation in class and take questions from the audience.

- **M&A project document.** The length of the final paper should be 12 to 20 pages of text, single-spaced. Any additional exhibits do not enter this page count.

**COURSE COMMUNICATION**
The course syllabus, class objectives, materials, announcements, and surveys will be posted on the NYU Classes site. I also encourage other channels of communication: office hours, email, phone calls, conversations before or after class. I respond promptly to email messages six days a week.

OTHER ISSUES

- *Laptops shall not be used in the classroom.*
- **Honor Code:** Please remember that you are governed the MBA Honor Code. Moreover, every student is obligated to report any suspected violation of that code. You can find more information on the MBA Honor Code at [http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con_032511.pdf](http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con_032511.pdf)
- **Students with Disabilities:** If you are having trouble in class, I want to know about it as soon as possible. I will do my best to help students who, despite a sincere and solid effort, are experiencing difficulty. If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter outlining recommended accommodations by the end of our first class meeting.
- We will follow all other *default policies for Stern courses.*

KEY DATES

- Students doing international travel during Spring Break (all of which is unrelated to my course): the course deadlines give you plenty of flexibility to complete assignments and will be respected by all; please plan in advance.
- Homework due dates on NYU Classes > Assignments. Submission always online, before class.
- M&A project company selection: by Monday, 3/10 at 11.59pm, subject to my email response.
- M&A project idea (both one-page idea submission and meeting with instructor to discuss it some time after submitting it): between Mon. 3/10 and Tue. 3/25.
- M&A project final document: Tuesday, 5/6 at 11.55pm through NYU Classes website.

INSTRUCTOR'S BIO

Professor Gabriel Natividad joined NYU Stern in July 2008 after obtaining his Ph.D. from UCLA Anderson. His research has been published in the *Journal of Finance*, the *Review of Financial Studies*, and *Management Science*, among other journals. He has served as a strategy consultant for publicly traded and privately held companies in textile manufacturing, fishing, agriculture, food and financial services. Mergers and acquisitions have occupied a central role in Professor Natividad’s research and consulting experience.
## 2014 Schedule, Daytime Section (Details for each session available below)

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<th>Module</th>
<th>Week Number and Lecture Topics</th>
<th>Case Study</th>
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<td><strong>M&amp;A Tools</strong></td>
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<td></td>
<td>1. M&amp;A-centered firms: private equity</td>
<td>Berkshire Partners</td>
<td>Tue, 2/11</td>
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<td>2. M&amp;As at the core of corporate strategy</td>
<td>Danaher</td>
<td>Tue, 2/18</td>
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<td>3. Valuation and strategy</td>
<td>HP-Compaq</td>
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<td>4. Due diligence processes</td>
<td>CadburySchweppes</td>
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<td><strong>II</strong></td>
<td><strong>M&amp;A Phases</strong></td>
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<td>5. Initial M&amp;A activity: entry and growth</td>
<td>Bharti Telecom</td>
<td>Tue, 3/11</td>
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<td>6. Synergy-seeking acquisitions</td>
<td>(a) Wells Fargo (b) Disney+Marvel</td>
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<td>7. Turnarounds and restructuring</td>
<td>Newell</td>
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<td>8. Acquiring without integrating</td>
<td>Microsoft Vermeer</td>
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<td><strong>III</strong></td>
<td><strong>M&amp;As Topics</strong></td>
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<td>10. M&amp;As in information and media markets</td>
<td>News Corp.</td>
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<td>12. The scope of the new global corporation</td>
<td>Cisco and Foxconn</td>
<td>Tue, 5/06</td>
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***This schedule is a guideline only. The instructor reserves the right to change the schedule.***
PREPARATION QUESTIONS FOR CASE STUDIES (see schedule above for sequence)

0. Beatrice: A Study in the Creation and Destruction of Value (link on NYU Classes site)

Synopsis: We will introduce a number of issues in mergers and acquisitions strategies using the history of the Beatrice company from its founding in 1891 as a small creamery through its growth into a diversified consumer and industrial products firm and its subsequent leveraged buyout and sell-of in 1990.

Questions:
i) What is Beatrice's corporate strategy in each of the Phases of its history? Does strategy matter for performance?
ii) How does Beatrice’s process to analyze M&A deals evolve over time?
iii) How can the acquisition and the divestiture of the same operating unit lead both to value creation in the stock-price sense?

1. Berkshire Partners

Synopsis: One of the largest leveraged buyout partnerships in the early nineties has invested about $1.5 billion in companies ranging from beer distribution and footwear stores to underground storage tanks and polyethylene pipe products. While BP has been greatly successful, many other firms with similar capabilities have joined the contest for good targets.

Questions:
i) How attractive is the leveraged buy-out market in the early 1990s?
ii) What is BP’s business model? Does BP add value to its target companies? What does it know about light bulbs, wheelbarrows, or bakery?
iii) What is BP’s strategy? Has it been successful?
iv) What are the main problems of the firm as of 31 December 1992?
v) What changes in BP's strategy would you suggest?

2. Danaher Corporation

Synopsis: A Washington DC-based conglomerate with sales over $13 billion and operations in Europe, Asia, Latin America, and the Middle East has consummated over 50 acquisitions, and between 1987 and 2007, the compound annual growth rate of its share price was 23%. Going forward, there are concerns about growth and how it will fit its corporate strategy.

Questions:
i) What is Danaher's corporate strategy? And performance? (Review all exhibits to draw inference).
ii) What is the role of DBS in Danaher's logic for corporate advantage?
iii) Should Danaher continue growing with M&As? Or instead with Internal Developments?

Synopsis: In 2001, HP announced an agreement to merge with Compaq Corporation. The merger was contested by one of HP's own directors who was also a son of one of the firm's founders. From the perspective of a manager of an institutional equity portfolio a few days before the shareholder meeting on March 19, 2002, the main task is to determine how to vote.

Questions [ANSWER ASSIGNMENT IN AS MANY PAGES AS YOU WANT; INCLUDE DETAILS ON VALUATION]  
  i) Regarding HP as of June 2001: What was its corporate strategy? What were the opportunities and threats? What was the guiding policy for management's strategic actions? 
  ii) Estimate the synergy value using HP's methodology. (You can assume that the number of shares of the merged company will be 3,042 million). 
  iii) Estimate the value of synergy using a DCF analysis. (You can assume that the number of shares of the merged company will be 3,042 million). 
  iv) Does the merger make sense?

4. Cadbury Schweppes: Capturing Confectionery (A)

Synopsis: The global beverage and confectionery firm is considering a bid for Adams, the number two player in the worldwide gum business; after researching the acquisition for many months, it is not clear whether the acquiring team would be able to create enough value to justify an all-debt deal, thus endangering its original positioning.

Questions: 
  ii) What is strategically significant about the failed sale of Hershey in 2002? 
  iii) Is Adams a good fit for Cadbury Schweppes? Is Cadbury Schweppes a good fit for Adams? 
  iv) Was the process leading to the bid efficient? 
  v) Given the details of the deal (e.g., price multiples, debt financing, credit ratings, term to break even), is it a good idea for Cadbury Schweppes to acquire Adams?

5. Bharti Tele-Ventures

Synopsis: An entrepreneurial company emerging as a leader in India’s fast-growing mobile telephony market and becoming the 12th most valuable firm in market capitalization has grown largely through acquisitions, spurred by international partners. Despite having a first-mover advantage, the firm faces the threat from major business groups (Tata and Reliance).

Questions: 
  ii) What is Bharti’s strategy? What are Bharti’s guiding policies? How do these policies enhance Bharti’s competitive position? 
  iii) Is Bharti successful despite regulation or thanks to regulation? 
  iv) Are there synergies between Warburg Pincus and Bharti as of 2003? Are these synergies specific to Warburg Pincus, or can Bharti get them from any other fund provider? 
  v) Given Reliance’s interest in the mobile phone market in India, should Bharti accelerate investment in M&As and compete on capacity and price? If not, what should Bharti do to succeed?
6.a. Wells Fargo (link on NYU Classes site)
Synopsis: In October of 2008, Wells Fargo gained visibility amid the worldwide financial crisis by outbidding Citigroup for Wachovia by more than 600% and proposing to acquire the company without government assistance.
Questions: Did the acquisition make strategic sense for Wells Fargo? What was it buying?

6.b. Disney + Marvel (link on NYU Classes site)
Synopsis: The Walt Disney Co. surprised financial markets by announcing the acquisition of Marvel Comics on August 31, 2009. In a year of scant M&A activity mostly motivated by necessity rather than by value creation opportunities, the unexpected deal was considered brilliant by many industry observers.
Questions: How do prior contractual arrangements affect Disney and Marvel potential to capture synergies? What is the upside of this deal in light of Disney’s Pixar acquisition?

7. Newell Company – Corporate Strategy
Synopsis: A diversified manufacturer and marketer with $3.2 billion in sales seeks to achieve more growth through two corporate acquisitions that would give it a more attractive brand name but may also jeopardize its strategic and financial position.
Questions:
i) How does Newell’s acquisition strategy through 1997 match its corporate strategy?
ii) Has Newell’s focus on the large mass retailer been good or bad? Why?
iii) What is the role of organizational structure in Newell’s success in acquisitions so far?
iv) Based on Exhibits 2, 4, 11, and 13, are Calphalon and Rubbermaid a good fit for Newell?

8. Vermeer Technologies (D) and Vermeer Technologies (E)
Synopsis: The small high-tech startup that brought about FrontPage is acquired by Microsoft. Can the giant absorb the small, agile start-up successfully?
Questions:
i) Compare the organization and culture of Vermeer and Microsoft. Were Vermeer’s fears warranted?
ii) What did Microsoft hope to get from acquiring Vermeer? What role did M&As play in its strategy?
iii) Evaluate Peters’ post-acquisition integration strategy. Was full integration desirable?
iv) What was the importance of PMs in the strategic management of innovation?

Synopsis: Mellon Financial and the Bank of New York closed their merger in July 2007 having a detailed plan for integration. A key component in their plan to reduce costs was the consolidation of the two companies’ information technology systems.
Questions:
i) How does the merged company intend to create and capture value?
ii) Assess BNY Mellon’s integration plan and process. What are the unsuspected dangers of integrating?
iii) How did Asset Servicing end up in the position of seriously questioning the viability of the “hybrid plan”? How does this contrast with the merged entity’s guiding policies?
iv) What should Keaney and Palermo do now?
10. News Corporation

**Synopsis:** The successful media conglomerate is considering to acquire DirecTV at the same time when other conglomerates are looking to retrench in the face of internal difficulties and externally unfavorable conditions.

**Questions:**

i) What was Rupert Murdoch’s merger and acquisition pattern through 1999? What does it reveal about News Corp.’s strategy?

ii) What is the strategic logic of the DirecTV deal?

iii) What are the common attributes among the ongoing individual businesses of News Corp.?

iv) What are the main internal and external risks facing News Corp. after 2001? How is the firm prepared to address them?


**Synopsis:** In October 2000, General Electric agreed to a $45 billion acquisition of Honeywell, a diversified technology and manufacturing company with 120,000 employees in nearly 100 countries. Yet the European Competition Commissioner puzzled over the conditional approval by the U.S. Department of Justice of the merger of these two American companies.

**Synopsis:** The successful media conglomerate is considering to acquire DirecTV at the same time when other conglomerates are looking to retrench in the face of internal difficulties and externally unfavorable conditions.

**Questions:** To be assigned in class.


**Synopsis:** In order to launch to the market a sophisticated technology product, Cisco strengthens its vertical relation with Foxconn, a contract manufacturer in China, facing considerable risk.

i) What are the challenges and risks faced by technology companies in new product introduction?

ii) What were the risks and benefits of using Chinese contract manufacturing from the start?

iii) In selecting Foxconn and expanding its role in the supply chain, what were the potential risks and values to Cisco?

iv) What should Cisco do to mitigate these risks and ensure successful development and launch of the Viking router?