

PRINCETON UNIVERSITY

ECON 464/ FIN 519

“M&A and Corporate Restructuring”

Instructor A. Matray

Spring 2022

COURSE PRESENTATION AND GOALS

The goal of this course is to offer a broad view around the activity of merger and acquisition and the menu of restructuring possibilities available to firms.

This course will examine some of the most popular restructuring options available to corporate managers and will construct a framework to evaluate the implications they may have for shareholder value. The course may be particularly useful for students intending to pursue careers in the financial services industry.

The goal is to not only make sure students are equipped with the basic “toolbox” to value corporation, but also with a broader view of the economic forces that shape the success and failure of M&As as well as an understanding of the environment in which such transactions happened. In this respect, the course will regularly use external speakers who will present aspects of this process and will draw on recent large-scale empirical investigations into the economic effects of corporate takeovers. We will focus exclusively on empirical studies in financial economics (as opposed to in the areas of strategy or organizational behavior). The research papers address questions such as: how large stockholder gains from takeovers are and what are the sources of these gains; what optimal bid strategies are and does deal financing matter; do defensive tactics such as poison pills affect takeover premiums; how large institutional target shareholders affect deal outcomes; how do takeovers impact CEO and director careers; and how does merger arbitrage work.

TEACHING MATERIAL

Teaching material:

- Lecture notes (electronic copy)
- Case studies (electronic copy)
- There is no required textbook, however, two good textbooks that could be useful:
 - Berk, DeMarzo: Corporate Finance
 - “Mergers, Acquisitions, and Corporate Restructurings”, Patrick A. Gaughan, Seventh Edition, 2017

Additional articles will be available from my website

Two good surveys of the academic literature (non-technical) that you should all read (available by clicking on the title):

[“Corporate Takeovers.”](#) B. E. Eckbo (ed.), Handbook of Corporate Finance: Empirical Corporate Finance, Volume 2, Ch. 15, 291-430, 2008.

[“Corporate Restructurings.”](#) Eckbo, Handbook of Corporate Finance: Empirical Corporate Finance Volume 2, Ch. 16, 431-496, 2008.

One additional textbook covers a lot of the empirical literature produced by academics:

- Eckbo, B. Espen (ed.), 2010, Corporate Takeovers: Modern Empirical Developments. Volume 1: Valuation Estimates and Takeover Activity, (Elsevier/Academic Press).
- Eckbo, B. Espen (ed.), 2010, Corporate Takeovers: Modern Empirical Developments. Volume 2: Bidding Strategies, Financing, and Corporate Control, (Elsevier/Academic Press)

Again to be clear: none of the textbooks are mandatory.

PROGRAM

36 hours: 12 sessions of 3h a week

This is a tentative program. The real schedule might change based on guest speakers' availability during the semester.

Week 1 [January 25th]

- Introduction
- Refresher: balance sheet + PV

Some papers to read: is it hard to create values in M&A?

- Ahern, K. R., Daminelli, D., & Fracassi, C. (2015). Lost in translation? The effect of cultural values on mergers around the world. *Journal of Financial Economics*, 117(1), 165–189.
- Bao, J., & Edmans, A. (2011). [Do Investment Banks Matter for M&A Returns?](#) *Review of Financial Studies*, 24(7), 2286–2315.
- Custódio, C., & Metzger, D. (2013). [How Do CEOs Matter? The Effect of Industry Expertise on Acquisition Returns.](#) *Review of Financial Studies*, 26(8), 2008–2047.
- Golubov, A., Petmezas, D., & Travlos, N. (2012). [When It Pays to Pay Your Investment Banker: New Evidence on the Role of Financial Advisors in M&As.](#) *Journal of Finance*, 67(1), 271–311.
- Golubov, A., Yawson, A., & Zhang, H. (2015). [Extraordinary acquirers.](#) *Journal of Financial Economics*, 116(2), 314–330.

Week 2-3 Valuation + methods of payments [Feb 1st and 8th]

- FCF
- WACC
- Un / relevering and multiple

Guest speaker: Taylor Smith – Using financial statements to understand business

Taylor Smith '03 was an ORFE major who started his career working in M&A at Morgan Stanley and leveraged buyouts at the Carlyle Group. He is now a partner at Tucker Capital, an M&A and strategic advisory firm based in Princeton that focuses on the education market. He and his team help companies and non-profits make acquisitions (buy-side), sell themselves to acquirors or private equity firms (sell-side), and form strategic partnerships (revenue sharing joint ventures). After 15 years in the New York area, he and his wife live in the foothills of Santa Barbara, California with their three half-wolf daughters and part-dingo Bandit.

Some papers to read:

- Malmendier, U., Opp, M. M., & Saidi, F. (2016). [Target revaluation after failed takeover attempts: Cash versus stock](#). *Journal of Financial Economics*, 119(1), 92–106

Related: Capitalism't podcast episode: [are stock buyback evil?](#)

Week 4: cases [Feb 15th]

- Pacific
- Penrose

Week 5: Mistakes and biases [Feb 22nd]

- Wacc fallacy
- Overconfidence, saliency (52 week high)
- Winner's curse game

Some papers to read:

- Baker, Malcolm, Xin Pan, and Jeffrey Wurgler. "[The Effect of Reference Point Prices on Mergers and Acquisitions](#)." *Journal of Financial Economics* 106, no. 1 (October 2012): 49–71
- Krueger, P., Landier, A., & Thesmar, D. (2015). [The WACC Fallacy: The Real Effects of Using a Unique Discount Rate](#). *Journal of Finance*, 70(3), 1253–1285.
- Malmendier, U., & Tate, G. (2008). [Who makes acquisitions? CEO overconfidence and the market's reaction](#). *Journal of Financial Economics*, 89(1), 20–43.
- Malmendier, U., & Lee, Y. H. (2011). [The Bidder's Curse](#). *American Economic Review*, 101(2), 749–787.
- Malmendier, U., Moretti, E., & Peters, F. S. (2018). [Winning by Losing: Evidence on the Long-run Effects of Mergers](#). *Review of Financial Studies*, 31(8), 3212–3264.

Some podcasts: [Nudge, Nudge, Nobel \(planet money\)](#),

Week 6: Wrap up and mid-term exam [March 1st]

March 5-13, Saturday-Sunday. Spring recess.

Week 7: LBOs, Mezzanine [March 15th]

- Framework

Guest speaker Julia Adam

Julia is a founding team member and Principal at Exeter Capital, a Boston-based private equity firm focused on investing in consumer-facing businesses.

Prior to co-founding Exeter, Julia was a Vice President at Advent International in the firm's opportunistic public fund, Sunley House. During her time at Sunley House, Julia led the fund's investments in the North American retail & consumer vertical. She also worked on Advent's retail & consumer private equity team during her MBA summer

with the rest of the Exeter team. Prior to earning her MBA, Julia worked on US buyout opportunities at The Carlyle Group in the Media & Telecommunications group. Prior to joining Carlyle, she was in the Private Equity Group and in Technology, Media & Telecommunications Investment Banking at Goldman Sachs.

Julia earned a BS in Economics, summa cum laude, from the Wharton School at the University of Pennsylvania with a minor in French. She also earned an MBA from Harvard Business School.

Week 8: Competition and anti-trust [March 22nd]

- Theoretical framework

Guest speaker: Aniko Adams

Senior Associate in Clifford Chance's Antitrust practice in London. I studied economics and international relations at the University of British Columbia in Vancouver, Canada and obtained my law degree from the University of Cambridge in the UK. I joined Clifford Chance in 2019 and previously spent more than eight years as a competition lawyer at Hogan Lovells in London which included secondments to Vodafone and the European Court of Justice in Luxembourg. I advise companies on the merger control aspects of M&A transactions (including joint ventures and minority investments), behavioural antitrust investigations, commercial arrangements, competition law compliance, and the application of foreign investment regimes. I am particularly interested in the current regulatory reforms across Europe affecting technology companies.

Some papers to read

- Blonigen, B. A., & Pierce, J. R. (2016). [Evidence for the Effects of Mergers on Market Power and Efficiency](#). *NBER Working Paper*, 22750.
- Cunningham, C., Ederer, F., & Ma, S. (2020). [Killer Acquisitions](#). *Journal of Political Economy*.
- Eliason, P. J., Heebsh, B., McDevitt, R. C., & Roberts, J. W. (2019). [How Acquisitions Affect Firm Behavior and Performance: Evidence from the Dialysis Industry](#). *Quarterly Journal of Economics*, 135(1), 221–267.

Some podcasts

Capitalism't: antritrust [part 1](#), [part 2](#), [part 3](#), [global antitrust](#)

Planet money: [Antitrust 1: Standard Oil](#), [Antitrust 2: The Paradox](#), [Antitrust 3: Big Tech, Is the NCAA An Illegal Cartel?](#)

Week 9: special case-Using M&A to Transform Corporate America [March 29th]

We will focus on the broad determinants behind value creation. How firms should allocate capital? Investing organically? Paying dividends? Buying other firms? Divesting?

How to create value? What is a synergy? What are the offensive and defensive motives behind M&A?

Guest speaker: TBD

Week 10: firm to firm acquisition [April 5th]

- Theoretical framework: killing competition, acquiring tech / labor
- “Frienemies”: the special case of tech (intervention)

Guest speaker: Dylan Hogarty Princeton (06)

Managing Director in the Investment Banking Group of Goldman Sachs.

Some podcasts:

Capitalism't: [Hail to the Chief of Facebook](#), [Regulating facebook and google](#).

Week 11 [April 12th] What is a fair price?

What are the fiduciary duties of managers? Should they only think about shareholders or also about stakeholders?

What are fairness opinions? Why investment banks do them?

How firms can defend themselves against hostile takeovers and what are the legal risks acquirers have to consider?

Guest speaker: G.J. Ligelis, Princeton (06)

Partner at Cravath, Swaine & Moore. He advises on public and private M&A, corporate governance and general corporate matters

Some papers to read

Derrien and Dessaint, [The Effects of Investment Bank Rankings: Evidence from M&A League Tables](#), *Review of Finance*, Volume 22, Issue 4, July 2018, Pages 1375–1411

Bonnefon, Landier, Sastry and Thesmar (2020) "[Do Investors Care About Corporate Externalities? Experimental Evidence](#)", working paper

Cheng, Hong and Shue (2013) "[Do Managers Do Good With Other Peoples' Money?](#)" working paper

Edmans (2020) [Grow the Pie: How Great Companies Deliver Both Purpose and Profit](#)

Some podcasts

[What Is The Alternative To Friedman's Capitalism?](#)

[Shareholder Vote Suppression With SEC Commissioner Rob Jackson](#)

[Shareholders vs. Stakeholders](#)

Week 12 [April 19th]: Do merger increase welfare? Should we regulate them more? Less?

Guest speaker: Nathan Wilson, Compass Lexecon

Dr. Nathan Wilson is an Executive Vice President with Compass Lexecon based in Washington, DC. Prior to joining Compass Lexecon, he worked at the Federal Trade Commission for 11 years. During his time at the FTC, Dr. Wilson served as a Deputy Assistant Director in the Bureau of Economics, Commissioner Terrell McSweeney's economic advisor, and a staff economist. Dr. Wilson managed or led merger and conduct investigations in a wide variety of industries, including industrial chemicals, oil and gas, health care, internet platforms, computer hardware, and aerospace. While a staff economist, Dr. Wilson testified on behalf of the FTC in the successful challenge of the proposed merger of PinnacleHealth and Hershey Medical Center.

Dr. Wilson has taught economics at the University of Michigan, the Johns Hopkins University, and the University of Maryland, and his research on various topics in industrial organization has been accepted by leading outlets, including the Review of Economics and Statistics, the RAND Journal of Economics, and the Journal of Industrial Economics. Dr. Wilson received his PhD from the Ross School of Business at the University of Michigan.

GRADING

- Midterm exams: 30%
- Participation: 25%
- Note on academic research: 15%
- Final exam: 30%