Mergers, Acquisitions and Divestments: Economic & Financial Aspects of Corporate Control

Course Instructor: Prof. Anirvan Pant/ Prof. Sushil Khanna

Course Objectives:
The objectives of this course are two-fold. First, the course is intended to provide a comprehensive background in the strategic, economic, financial and organizational aspects of mergers, acquisitions, and divestments. Secondly, the course will seek to provide a practical framework for managerial decision-making in the context of acquisition activities, for example the determination of exchange ratios between the common stocks of the acquired and acquiring companies. Being a seminar course it will feature inputs from the instructors, and readings and case study presentations by the students, and a project actually studying a recent merger.

Course Content:
The topics to be covered are theory and evidence on the economics effects of the different kinds of acquisition activities; with focus on the two main types, namely mergers and tender offers; basic evidence on inter-firm tender offers, divestitures and spin-offs, and proxy fights; antitrust, taxation and other legal issues in mergers and acquisitions; theory and evidence on the economic effects of anti-takeover activities; evidence on the value of corporate control; and theory and evidence on the effects of competition among acquiring companies for target firms.

Other topics to be covered include the valuation of target firm, determination of exchange ratios between the common stocks of the acquired and acquiring companies, issues in organizational control and post-merger performance etc. Strategic issues in diversification strategy based on acquisitions shall form an important part of the course. The growing trend of cross-border mergers will also be elucidated. The regulations on merger activity in India and other countries will also be discussed. Evidence from Indian experience in mergers and post-acquisition performance shall be provided, wherever possible.

The following is the list of topics to be covered:
1. Conceptual Framework
2. Mergers in Growth & Diversification Strategy
3. Merger Valuation and Corporate Strategy
4. Anti-takeover Defensive Tactics
5. Accounting and Taxation Issues
6. Inter-firm Tender Offers & Mergers: Basic Evidence
7. Wealth Effects of Merger Activity & Stock Price Reaction
8. Value of Corporate Control and competition for Corporate Control
9. Organisational Impact of Takeover Activities
10. Antitrust Issues and Mergers
11. Post-merger Performance
12. Strategic Issues in Cross Border Mergers

Text:
The reading material for the course will consist of selected articles published in Economics, Finance, and Strategy journals and a book “Mergers, Acquisitions and Corporate Restructurings” by Patrick A. Gaughan (Wiley India). A reading list will be provided along with photocopies of articles. Some books will be on available on the RESERVE basis for the duration of the course.

To complete the course successfully, the students will be required to satisfy the following four types of requirements:

1. Presentation of assigned reading material in class/class participation 30%
2. Class Quizzes and Tests: 30%
3. Report on an assigned project 40%

While presenting a specific reading, the student shall be expected to highlight, amongst other things, (a) The main objective or hypothesis, (b) review the empirical evidence, (c) conclusions drawn from the evidence, (d) theoretical or policy issues raised in the paper, (d) compare the results/conclusions to other papers presented before (or later) on the course (e) highlight the main learning and their relevance to India.

One or two students shall be asked to comment on the presentation and the class participation marks given on basis of their intervention. In other words, all the students are expected to read all the articles

All students will have to study a recent merger/takeover. The project will be carried out in two parts. The first part of the project will address issues of strategy, competition, industry structure and valuation of the target firm. Schedule of project submission and detailed lecture/discussion plan will be announced later
Indicative List Readings
(Will be modified and changed with recent papers/ case studies):

A: (1-4) are survey articles, describing research on reasons for mergers, market for control and corporate governance, evidence on stock price reaction and wealth effects of mergers, their division between target and bidding firm shareholders etc.)


B: 5-10, discuss the conflict between managers, directors and shareholders, the alternative hypothesis on the reasons for wealth effects of merger announcement (like market power or information effect) and their testing.


C: Readings 11 & 12 discuss defences and their impact on shareholders; while redaing 13 looks at diversification objectives and its wealth effect.


D: Readings 13-17 are on post merger analyses. They provide evidence on post merger performance and also on the process that seems to distinguish value creating mergers from those that destroy shareholder value.


E: The last three readings provide us with insights into the integration process and issues for making mergers a value creating activity.


F: (Cases/Readings 1-2 are important in demonstrating the method used to estimate merger gains using Event Study Method. The cases of Conoco and Cities Services also serve as a model for the project all students shall be expected to undertake by studying a contemporary merger.


23. Beatrice : A Study in the Creation and Destruction of Value.


Books:
Textbook (From Office): P A Gaughan “Mergers, Acquisitions and Corporate Restructurings” Fifth or Sixth Edition (Wiley India)

BOOKS FROM LIBRARY:
2. Auerbach, Alan J.(ed), Mergers and Acquisitions, University of Chicago Press, Chicago,
3. Peter O. Steiner, *Mergers Motives, Effects, Policies*, University of Michigan, Ann Arbor, 1975