

# Preface

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## To the Reader

Mergers, acquisitions, business alliances, and corporate restructuring activities are increasingly commonplace in both developed and emerging countries. Given the frequency with which such activities occur, it is critical for businesspeople and officials at all levels of government to have a basic understanding of why and how such activities take place. The objective of *Mergers, Acquisitions, and Other Restructuring Activities* is to bring clarity to what can be an exciting, complex, and sometimes frustrating subject. It is intended to help the reader think of the activities involved in mergers, acquisitions, business alliances, and corporate restructuring in an integrated way.

While all of the chapters in the book contain new content and have been revised and updated, 14 of them have undergone pervasive changes. Many of the finer details in each chapter have been moved to footnotes, resulting in a more streamlined, shorter, and less complex text. The chapters contain the latest academic research, with increased focus on recent empirical findings. Additional numerical examples have been included in more chapters to illustrate the application of important concepts.

About one-fourth of the book is devoted to business valuation and financial modeling. Chapters 7 and 8 are totally focused on commonly used alternative valuation methods. Chapter 9 addresses important modeling issues not covered in prior editions.

Chapters 10, 13, 16, and 17 deal with specialized valuation applications, including

valuation of private firms, leveraged buyouts, distressed companies, and cross-border transactions. These chapters describe in detail the context in which these specialized situations occur.

Chapter 1 now includes examples that illustrate the important function that economies of scale and scope often play in mergers and acquisitions. Additional details on the roles of key participants in the M&A process are also provided.

Chapter 2 has been revised extensively to reflect the implications of the far-reaching Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) for governance; for the environment in which mergers, acquisitions, and other corporate restructuring activities occur; and for participants in the M&A and restructuring process. The chapter also contains recent U.S. Supreme Court rulings affecting the Sarbanes-Oxley Act, the impact of Regulation FD on announcement date financial returns, and the 2010 issuance by the U.S. Department of Justice and the Federal Trade Commission of updated guidelines for approving horizontal mergers.

The implications of the “say on pay” and “clawback” provisions of the Dodd-Frank Act are explored in Chapter 3, as well as changes in Securities and Exchange Commission regulations that have made it easier for shareholders to place their candidates for the board of directors on corporate ballots.

Chapter 5 contains a more in-depth discussion of the negotiation process and how to develop effective negotiating strategies. Chapter 7 provides a more detailed

discussion of the impact of risk on financial returns, the treatment of taxes in valuation, and the calculation of the market value of a firm's debt under different scenarios, as well as alternative valuation methods and how to adjust enterprise cash flow to estimate a firm's equity value per share. Chapter 8 now contains a discussion of studies documenting the valuation methods that are most commonly used in practice.

Chapter 9 includes a more rigorous discussion and illustration of how M&A Excel-based simulation models can be useful tools in the negotiation process. It also offers streamlined examples of estimating synergy and other aspects of the model-building process. The academic studies summarized in Chapter 10 that illustrate when and how to apply control premiums, liquidity, and minority discounts as part of the valuation process have been updated. The section in Chapter 11 on using collar arrangements to manage risk has been expanded, with more examples describing how to construct those based on fixed share exchange ratios and fixed value arrangements.

Chapter 12 has been updated to include a discussion of the implications of recent changes to accounting rules that apply to business combinations, additional examples, and the status of the pending convergence of GAAP with international accounting standards.

The discussion of tax structures and strategies also has been updated and streamlined. Chapter 13 has a more detailed discussion (including illustrations) of how LBOs create value and how such transactions are financed. Chapter 14 illustrates how joint ventures often are valued and how the distribution of ownership is determined. Chapter 15 includes a more detailed discussion of the divestiture process and how selling firms choose the appropriate

selling process, as well as a discussion of those factors that have an impact on purchase price premiums

Finally, Chapter 16 discusses a methodology for valuing firms that are experiencing financial distress and the Orderly Liquidation Authority created under the Dodd-Frank Act. All of the chapters reflect the latest academic research.

Three-fourths of the 72 case studies are new or have been updated from the previous edition, with most of the transactions discussed having taken place within the last four years. Eleven case studies involve cross-border or foreign transactions, four involve hostile takeovers, four deal with highly leveraged transactions, four involve private or family-owned businesses, eight address various aspects of deal structuring, and five involve firms experiencing financial distress. All of the case studies include discussion questions, with answers for all end-of-chapter and many "in-chapter" case study questions available in the Online Instructor's Manual. Finally, the case studies involve transactions in a dozen different industries.

This sixth edition contains nearly 300 end-of-chapter discussion and review questions, problems, and exercises that give readers the opportunity to test their knowledge of the material. Many of the exercises will enable students to find their own solutions based on different sets of assumptions, using Excel-based spreadsheet models that are available on the book's companion site. Solutions to all questions, problems, and exercises are available on the expanded Online Instructor's Manual. The online manual now contains more than 1,600 true/false, multiple-choice, and short essay questions, as well as numerical problems

In addition to Excel-based customizable M&A and LBO valuation and structuring software, PowerPoint presentations, and due

diligence materials, the companion website provides access to an interactive learning library. The learning library enables readers to test their knowledge by having their answers to specific questions scored immediately.

The site also contains a Student Study Guide and models for estimating a firm's borrowing capacity and for adjusting a firm's financial statements, as well as numerous illustrations of concepts discussed.

*Mergers, Acquisitions, and Other Restructuring Activities* is intended for students in mergers and acquisitions, corporate restructuring, business strategy, management, and entrepreneurship courses. It works well at both the undergraduate and the graduate level. The text also should interest financial analysts, chief financial officers, operating managers, investment bankers, and portfolio managers. Others who may have an interest include bank lending officers, venture capitalists, government regulators, human resource managers, entrepreneurs, and board members.

From the classroom to the boardroom, this text offers something for anyone with an interest in mergers and acquisitions, business alliances, and other forms of corporate restructuring.

## To the Instructor

This text is an attempt to provide organization to a topic that is inherently complex because of the diversity of applicable subject matter and the breadth of disciplines that must be involved to complete most transactions. Consequently, the discussion of M&A is not easily divisible into highly focused chapters. Efforts to compartmentalize the topic often result in the reader not understanding how seemingly independent topics are integrated. Understanding M&A involves an understanding of a full range

of concepts, including management, finance, economics, business law, financial and tax accounting, organizational dynamics, and the role of leadership.

With this in mind, *Mergers and Acquisitions* provides a new organizational paradigm for discussing the complex and dynamically changing world of M&A. It is organized according to the context in which events normally occur during mergers and acquisitions and so is divided into five parts: environment, process, valuation and modeling, deal structuring and financing, and alternative business and restructuring strategies. Topics that are highly integrated are discussed within these five groupings. (See [Figure P.1](#) for the organizational layout of the book.)

*Mergers, Acquisitions, and Other Restructuring Activities* equips the instructor with the information needed to communicate effectively with students who have different levels of preparation. The generous use of examples and the contemporary business cases makes the text suitable for distance-learning and self-study programs, as well as large, lecture-focused courses.

The extensive use of the end-of-chapter discussion questions, problems, and exercises (with answers available in the Online Instructor's Manual) offers the opportunity to test students' progress in mastering the material. Prerequisites for this text include familiarity with basic accounting, finance, economics, and management concepts.

## **Online Instructor's Manual**

The Online Instructor's Manual contains PowerPoint presentations for each chapter (completely consistent with those found on the companion website), suggested learning objectives, recommended ways to teach the materials, detailed syllabi for both undergraduate- and graduate-level classes, examples of excellent papers submitted by the

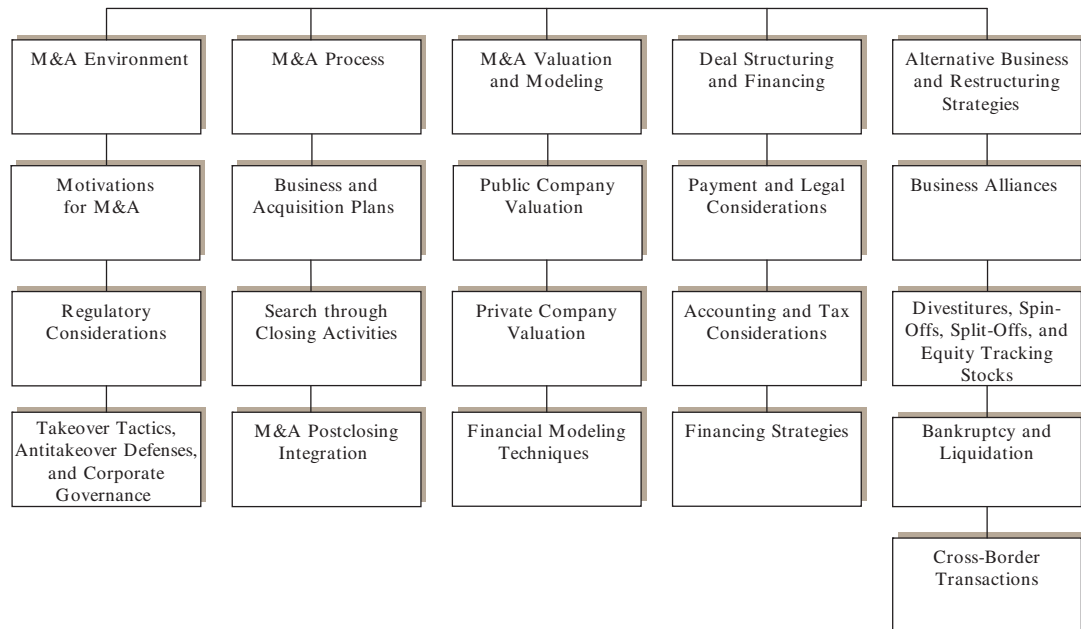


FIGURE P.1 Course layout for the use of *Mergers, Acquisitions, and Other Restructuring Activities*.

author's students, and an exhaustive test bank. It contains more than 1,600 test questions and answers (including true/false, multiple choice, short essay, case studies, and computational problems) and solutions to end-of-chapter discussion questions and case study questions.

The online manual also contains, in a file folder entitled "Preface to the Online Instructor's Manual and Table of Contents," suggestions on how to teach the course to both undergraduate and graduate classes.

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### Student Study Guide

The Student Study Guide on the companion website includes chapter summaries that highlight key learning objectives for each chapter, as well as true/false, multiple-choice, and numerical questions and answers to enhance the student's learning experience.

### **Practical, Timely, and Diverse Examples and Current Business Cases**

Each chapter begins with a vignette that is intended to illustrate a key point or points described in more detail as the chapter unfolds. Hundreds of examples, business cases, tables, and figures illustrate the application of key concepts. Many exhibits and diagrams summarize otherwise diffuse information and the results of numerous empirical studies substantiating key points made in each chapter.

Each chapter concludes with a series of 15 discussion questions and two integrative end-of-chapter case studies intended to stimulate critical thinking and test the reader's understanding of the material. Six chapters include a series of practice problems and exercises to facilitate learning the chapter's content.

### **Comprehensive Yet Flexible Organization**

Although the text is sequential, each chapter was developed as a self-contained unit to enable adaptation to various teaching strategies and students with diverse backgrounds. The flexibility of the book's organization also makes the material suitable for courses of various lengths, from one quarter to two full semesters. The amount of time required depends on the student's level of sophistication and the instructor's desired focus.

Undergraduates have consistently demonstrated the ability to master 8 or 9 chapters during a typical semester, whereas graduate-level students are able to cover effectively 12 to 14 chapters of the book during the same period.