



Mergers and Acquisitions 1238-3625

Prerequisites: Principles of Strategy; Introduction to Financial Accounting; Principles of Finance

Second Semester, module 4 (24/04/2022-16/06/2022)

| Module | Day | Hour | Class | Lecturer | Email |
|--------|---------|-------------|-------|-------------------|----------------------|
| 4 | Tuesday | 17:00-19:45 | TBD | Dr. Yair Friedman | yair@friedman.org.il |

We will divide our weekly encounters into sub-sessions, with occasional in-between YouTube clips and other medias that will enable self-learning and illustrate real world application of the discussed concepts.

Office Hours: By appointment

Course Units

1 course unit = 4 ECTS units

The ECTS (European Credit Transfer and Accumulation System) is a framework defined by the European Commission to allow for unified recognition of student academic achievements from different countries.

Course Description

The acquisition, possibly the most difficult strategic activity a firm can undertake, plays a major part of global business and can be viewed from many different perspectives. This course takes a strategic perspective, with a focus on how acquisitions can be used as a strategic tool by managers to facilitate growth. The course will provide a broad overview of the acquisition process, an understanding of the conceptual framework and a review of empirical evidence. The course builds on prior basic courses in Strategy, Corporate Finance and Accounting. The goal of the course is to cover key aspects of the acquisition business process from corporate strategy, to target evaluation, to deal negotiation, close, and integration. We will focus our study on current practices, especially in the Israeli high-tech (ranging from SW and cyber to pharma) context, including the key tools, techniques and trends embraced by the modern deal maker. Students will also get a chance to analyze and discuss recent transactions to understand how deals are identified, valued, structured, and closed.

Course Objectives

Upon completion of the course, the student will be able to:

1. Understand the conceptual framework of M&A
2. Analyze key aspects of the acquisition business process
3. Understand current practices, especially in the Israeli high-tech context,
4. Successfully analyze and discuss recent transactions to understand how deals are identified, valued, structured, and closed
5. The key aim of the course is to create an ability to think critically about M&A.

Student Evaluation and Grade Composition

| Percentage | Assignment | Due Date | Group Size/Comments |
|------------|---|----------|----------------------|
| 10% | Class Participation | - | Individual |
| 15% | Case Study: Roche's Acquisition of Genentech | 17.5.22 | Couples |
| 15% | Case study: "Mary Barra and the Lyft Investment" | 24.5.22 | Couples |
| 15% | Case study: "A sweet merger? The Strauss-Elite Transaction" | 31.5.22 | Couples |
| 35% | Deal Proposal Exercise | 14.6.22 | Groups of 4 students |
| 10% | Peer Review Evaluation | 14.6.22 | Individual |

* According to University regulations, participation in all classes of a course is mandatory (Article 5).

* Students who absent themselves from classes or do not actively participate in class may be removed from the course at the discretion of the lecturer.

Course Assignments

Case Studies (45% of evaluation grade)

Each two students will prepare three PPT formatted responses to the aforementioned case studies. The cases are designed to provide you with an opportunity to dig in and reflect on key issues and concepts in the field of M&A. The submission deadline for each case is appeared under each weekly session topic. Couples are required to submit an electronic copy (via e-mail) of the team's assignment. The assignment should be submitted as a PPT-file with no more than 1 slide per question. You may add a cover and one slide for sources and appendices.

Deal Proposal Exercise (35%)

Self-selected teams of 4 will prepare an oral presentation and supporting ppt proposing the combination of two actual firms (at least one of which must be Israeli or Israeli based). The analysis will cover the strategic motives for the deal, target selection and valuation, suggested deal design, and survey issues likely to be encountered in negotiation and integration of the firms.

Peer-Review Evaluation (10%)

During the last Week, I will distribute and post a peer-review evaluation which you will have to complete individually evaluating each member of your group. In addition, you may submit an attached hard-copy letter to the peer-review evaluation describing each team members' performance and contribution to the group, and an assessment of "how the process went." Please, remember to put your name on the letter. I recommend you hand me in the peer review evaluation and your letter in a sealed signed envelop in class on the last class of the course (if situation permits, off course... if not, send it by email).

Class Participation - Individual (10%)

This course will be highly interactive. Student minimal attendance and participation is a baseline requirement. In addition, each student is responsible to prepare for and participate in class sessions. Students may be randomly called on to ensure that materials have been read or to facilitate class discussion. Note that some of the sessions will entail the Flipped Classroom (FC) model, when students will engage with materials online followed by in-class activities that involve peer learning and small-group work.

Bonus Presentation

To encourage students to improve their presentation skills, a presentation bonus is available. Students who wish to improve their grade may present their case analysis as a short PPT slideshow to the class. Presentation will be approved and coordinated by the lecturer.

Students who are unable to complete an assignment or any course requirement must notify the Lecturer in advance via email!

Grading Policy

As of the 2008/9 academic year the Faculty has implemented a grading policy for all graduate level courses. This policy applies to all graduate courses in the Faculty and will be reflected in the final course grade. Accordingly, the final average of the class for this course (which is an elective course) will fall between 83-87. Additional information regarding this policy can be found on the Faculty website.

<https://coller.tau.ac.il/MBA-students/programs/2019-20/MBA/regulations/exams>

Evaluation of the Course by Students

Following completion of the course students will participate in a teaching survey to evaluate the instructor and the course, to provide feedback for the benefit of the students, the teachers and the university.

Course Site (Moodle)

The course site will be the primary tool to communicate messages and material to students. You should check the course site regularly for information on classes, assignments and exams, at the end of the course as well. Course material will be available on the course site. Please note that topics that are not covered in the course material but are discussed in class are considered integral to the course.

Course Outline*

| # | Topics | Readings | Objectives |
|----------------|---|---|---|
| (1) 26.4.22 | Course Introduction: M&A Basics | - Bruner Ch. 1,2,4 | - Why M&A? - Familiarize with M&A Process and Key Terms |
| (2) 26.4.22 | Acquisition Motives and Drivers | - Bruner Ch. 6 | - Review Acquisition motivation and reasoning |
| (3) 10.5.22 | Synergy | - Bruner Ch. 11 | - Valuing Synergies: students will use relevant deals to demonstrate and analyze synergies |
| (4) 10.5.22 | M&A as a part of Corporate Strategy | - Bruner Ch. 6, 17 | - Explore and understand Deal Strategy and Rationale - Define Variants and Alternatives to M&A (Buy-Build-Borrow, JV, Minority Investments, Etc.) - Understand buyer / seller interests & Motivations |
| (5) 17.5.22 | Case study: "Roche's Acquisition of Genentech" | - The "Roche's Acquisition of Genentech" case | - Review Roche's Acquisition motivation and reasoning. See detailed explanations below. |
| (6) 17.5.22 | Introduction to M&A Calculus: Preliminary Analysis, Target Valuation | - Bruner Ch. 7, 9 | - Understand M&A Valuation Metrics and Techniques - Discuss Deal Structure Alternatives |

| # | Topics | Readings | Objectives |
|-----------------|--|---|---|
| (7) 24.5.22 | Case study: “Mary Barra and the Lyft Investment” | - The “Mary Barra and the Lyft Investment” case | - Review GM and its CEO Mary Barra’s strategic dilemmas as car-sharing led by Uber has been forcing a change on the traditional model. See detailed explanations below. |
| (8) 24.5.22 | M&A Integration and Managing Employee Interests | - Bruner Ch. 24, 36 | - Understand key employee / management issues - Review integration Planning and discuss integration practices |
| (9) 31.5.22 | Case study: “A sweet merger? The Strauss-Elite Transaction” | - The “A sweet merger? The Strauss-Elite Transaction” case | - Review the Strauss-Elite “merger” and discuss the integration between the firms. See detailed explanations below. |
| (10) 31.5.22 | Advanced M&A Concepts: LBOs, Divestitures, and Private Equity | - "The Fine Art of Friendly Acquisition", Aiello & Watkins, HBR 2000 - Bruner Ch. 13, 34 | - What is Private Equity? - Understand the role of debt in M&A transactions - Define and discuss MBOs / Take-Private Transactions - Debate potential areas of conflicts of interest (Fairness Opinions etc.) |
| (11) 7.6.22 | The 3D analysis of M&A | - None | - Review model origination and deal analysis methodology and utilization |
| (12) 7.6.22 | Creating Value Through M&A and Restructuring | - Bruner Ch. 6, 17 | - Review potential ways to enhance value (spin-offs, split-ups, equity carve-outs) - Deal Success Criteria and Sources of Value |
| (13) 14.6.22 | Deal Proposal Presentations | - None | - Student presentations and discussions regarding strategic deal motives, valuation & deal design |

*Flipped Classroom (FC) session - students will engage with materials online beforehand while in-class activities will involve peer learning and small-group work.

** Note that May 3rd is a national holiday and there will be no class on this occasion.

Required Reading

Power-point presentations in PDF format that accompany the course will be available on Moodle. Please have your notes ready.

Case Studies:

Baldwin, Carliss Y., Bo Becker, and Vincent Marie Dessain. "Roche's Acquisition of Genentech". Harvard Business School Case 210-040, February 2010. <https://hbsp.harvard.edu/tu/9303fd6c>
Spreadsheet Supplement: <https://hbsp.harvard.edu/tu/aa776678>

Jelassi, T. and Cordon, C. "Mary Barra and the Lyft Investment: Leading GM into the Sharing Economy Through Acquisitions". Harvard Business School Case IMD966, November 2018. <https://hbsp.harvard.edu/tu/ca9e84d3>

Friedman, Y. "A sweet merger? The Strauss-Elite Transaction". Tel Aviv University case, October 2012. (is uploaded to the course moodle page).

Recommended Reading

Textbook: Applied Mergers & Acquisitions, Robert F. Bruner (2004). Wiley Finance

Burgess, B., Wuorinen, S. & Wright, P. (Forthcoming). "Managing mergers and acquisitions: Perspectives from Human Resources".

(https://sc.edu/study/colleges_schools/moore/documents/center_for_executive_succession/managing_mergers_and_acquisitions.pdf)

Bower, J. (2001). "Not All M&A's Are Alike - and That Matters", Harvard Business Review, 79(3): 92.

Kenneth C., Heron, R. & Saxton, T. (2004), "Do early birds get the returns? An empirical investigation of early-mover advantages in acquisitions", Strategic Management Journal 25 (6): 563.

Aiello, R.J. and Watkins, M.D. (2000), "The Fine Art of Friendly acquisition". Harvard Business Review, 78(6): 100.

A few noteworthy Remarks

- I have been engaged in M&A since 2002. I have worked in Private Equity as a Senior Analyst and an Executive as well as a Strategic Consultant for many years. Lastly, I have written my PhD dissertation on M&A in the context of SMEs and I have been teaching M&A courses since 2007-8. As such, I really like integrating theory and practice. Still, if you have any remarks, ideas or observations, don't hesitate - I am an enthusiastic learner.
- I plan to be prepared and I hope you will be as well. At times, I may call on individuals whose hands are not raised (or zoom cell blackened). Please let me know before the start of the class if some emergency has made it impossible for you to be prepared adequately for that class. This avoids embarrassment for us all.
- All materials will be uploaded to the courses moodle page, except for the solutions of the cases. If you are missing any materials, you should contact me via e-mail. I will be happy to assist.
- Please turn off cell phones etc. during sessions. External distractions disrupt class and lower the quality of discussions and interactions.
- I will be happy to discuss the course or any other issue of interest to you on an individual basis. Please approach me in class to set up an appointment. E-mail is the surest way to track me down - yair@friedman.org.il, and I will typically respond within 24 hours.

Case 1: "Roche's Acquisition of Genentech"

Case: "Roche's Acquisition of Genentech" By Carliss Y. Baldwin, Bo Becker, Vincent Dessain

The case study highlights the motivation for Roche-Genentech merger, managing differences, hostile moves, and decisions in times of difficulties.

Assignment questions:

1. Why did Roche seek to own 100% of Genentech?
2. What are Roche's responsibilities to the minority shareholders of Genentech?
3. Assess the value of synergies Roche was expecting from the merger with Genentech.
4. What was the response of Genentech's BOD to Roche's offer?
5. How did Roche respond? How would you advise its CEO and top management team to respond to Genentech's BOD decision?

Case 2: "Mary Barra and the Lyft Investment"

Case: "Mary Barra and the Lyft Investment: Leading GM into the Sharing Economy Through Acquisitions" by Jelassi, T. and Cordon, C.

The case presents the impact of the sharing economy from the perspective of American auto manufacturer General Motors (GM).

Assignment questions:

1. What are the underlying reasons determining the shift in customer preferences and why is the car-sharing and ride-hailing movement becoming increasingly important?
2. In Mary Barra's shoes, decide on the future strategy of GM in the direction of the sharing economy movement and in particular for addressing the question of Lyft and its role in securing (or not) the future of GM in this fast-changing world. Map the chosen scenario using the strategy diamond framework by Hambrick.
 - a) Which strategic options does Mary have with respect to Lyft?
 - b) Is Lyft still a serious opportunity to become an important revenues stream for GM in the future?
 - c) Does it make sense to invest so much only to collect customer data?
 - d) Can GM think to fully acquire Lyft, or should it continue with a new fully-owned solution and divest Lyft?
 - e) What is GM responding to? To traditional automakers making similar moves or the new-kid-on-the-block like Tesla, Google and Apple?

Case 3: "A sweet merger? The Strauss-Elite Transaction"

Case: "A sweet merger? The Strauss-Elite Transaction" by Yair Friedman

The Strauss-Elite deal is one of the most interesting mergers in the Israeli food and beverage industry and in the Israeli market in general.

Assignment questions:

1. Is the deal a merger or an acquisition? Try to validate your view.
2. Was the merger decision (in your view) in the best interest of the companies and their stakeholders? Why?
3. What are the actual synergies captured in this deal? Was there value created?