Preface to the Fifth Edition xxix
Acknowledgments xxxiii
About the Author xxxv

Part I. The Mergers and Acquisitions Environment

1. Introduction to Mergers and Acquisitions (M&As)
   Inside M&A: Mars Buys Wrigley in One Sweet Deal 3
   Chapter Overview 4
   Mergers and Acquisitions as Change Agents 5
   Common Motivations for Mergers and Acquisitions 6
   Merger and Acquisition Waves 13
   Alternative Forms of Corporate Restructuring 18
   Friendly versus Hostile Takeovers 21
   The Role of Holding Companies in Mergers and Acquisitions 22
   The Role of Employee Stock Ownership Plans in Mergers and Acquisitions 22
   Business Alliances as Alternatives to Mergers and Acquisitions 23
   Participants in the Mergers and Acquisitions Process 24
   Do Mergers and Acquisitions Pay Off for Shareholders? 30
   Do Mergers and Acquisitions Pay Off for Bondholders? 38
   Do Mergers and Acquisitions Pay Off for Society? 38
   Commonly Cited Reasons Why Some Mergers and Acquisitions Fail to Meet Expectations 39
   Long-Term Performance Similar for Mergers and Acquisitions, Business Alliances, and Solo Ventures 39
   Things to Remember 40
   Chapter Discussion Questions 41
Chapter Business Cases

Procter & Gamble Acquires Competitor

The Free Market Process of Creative Destruction: Consolidation in the Telecommunications Industry

2. Regulatory Considerations

Inside M&A: Justice Department Approves Maytag/Whirlpool Combination Despite Resulting Increase in Concentration

Chapter Overview

Federal Securities Laws

Antitrust Laws

State Regulations Affecting Mergers and Acquisitions

National Security–Related Restrictions on Direct Foreign Investment in the United States

Foreign Corrupt Practices Act

Regulated Industries

Environmental Laws

Labor and Benefit Laws

Cross-Border Transactions

Things to Remember

Chapter Discussion Questions

Chapter Business Cases

Global Financial Exchanges Pose Regulatory Challenges

GE’s Aborted Attempt to Merge with Honeywell

3. The Corporate Takeover Market: Common Takeover Tactics, Antitakeover Defenses, and Corporate Governance

Inside M&A: InBev Buys an American Icon for $52 Billion

Chapter Overview

Factors Affecting Corporate Governance

Alternative Takeover Tactics in the Corporate Takeover Market

Developing a Bidding or Takeover Strategy Decision Tree

Alternative Takeover Defenses in the Corporate Takeover Market

Things to Remember
Part II. The Mergers and Acquisitions Process: Phases 1–10

4. Planning: Developing Business and Acquisition Plans—Phases 1 and 2 of the Acquisition Process

Inside M&A: Nokia Moves to Establish Industry Standards 131
Chapter Overview 132
A Planning-Based Approach to Mergers and Acquisitions 133
Phase 1. Building the Business Plan 135
The Business Plan as a Communication Document 152
Phase 2. Building the Merger–Acquisition Implementation Plan 153
Things to Remember 158
Chapter Discussion Questions 160
Chapter Business Cases 161
BofA Acquires Countrywide Financial Corporation 161
Oracle Continues Its Efforts to Consolidate the Software Industry 162
Appendix: Common Sources of Economic, Industry, and Market Data 163

5. Implementation: Search through Closing—Phases 3–10

Inside M&A: Bank of America Acquires Merrill Lynch 165
Chapter Overview 166
Phase 3. The Search Process 167
Phase 4. The Screening Process 170
Phase 5. First Contact 172
Phase 6. Negotiation 175
Phase 7. Developing the Integration Plan 186
Phase 8. Closing 187
Phase 9. Implementing Postclosing Integration 191
Phase 10. Conducting Postclosing Evaluation 193
Things to Remember 194
Chapter Discussion Questions 195
Chapter Business Cases 196
  The Anatomy of a Transaction: K2 Incorporated Acquires Fotoball USA 196
  Cingular Acquires AT&T Wireless in a Record-Setting Cash Transaction 202
Appendix: Legal Due Diligence Preliminary Information Request 203

6. Integration Mergers, Acquisitions, and Business Alliances
   Inside M&A: GE’s Water Business Fails to Meet Expectations 205
   Chapter Overview 206
   The Role of Integration in Successful Mergers and Acquisitions 207
   Viewing Integration as a Process 208
   Integrating Business Alliances 231
   Things to Remember 232
   Chapter Discussion Questions 233
   Chapter Business Cases 234
     The Challenges of Integrating Steel Giants Arcelor and Mittal 234
     Alcatel Merges with Lucent Highlighting Cross-Cultural Issues 236

Part III. Merger and Acquisition Valuation and Modeling

7. A Primer on Merger and Acquisition Cash-Flow Valuation
   Inside M&A: The Importance of Distinguishing between Operating and Nonoperating Assets 241
   Chapter Overview 241
8. Applying Relative, Asset-Oriented, and Real-Option Valuation Methods to Mergers and Acquisitions

Inside M&A: A Real Options’ Perspective on Microsoft’s Takeover Attempt of Yahoo 281

Chapter Overview 282

Applying Relative-Valuation (Market-Based) Methods 284

Applying Asset-Oriented Methods 294

Replacement-Cost Method 298

Valuing the Firm Using the Weighted-Average (Expected-Value) Method 298

Analyzing Mergers and Acquisitions in Terms of Real Options 299

Determining When to Use the Different Approaches to Valuation 312

Things to Remember 313

Chapter Discussion Questions 313

Chapter Practice Problems and Answers 314

Chapter Business Cases 317
| Google Buys YouTube—Brilliant or Misguided? | 317 |
| Merrill Lynch and BlackRock Agree to Swap Assets | 319 |

9. **Applying Financial Modeling Techniques to Value, Structure, and Negotiate Mergers and Acquisitions**

Inside M&A: HP Buys EDS—The Role of Financial Models in Decision Making | 321 |

Chapter Overview | 321 |
Limitations of Financial Data | 323 |
Model-Building Process | 325 |
Adjusting the Target's Offer Price for the Effects of Options and Convertible Securities | 338 |
Factors Affecting Postmerger Share Price | 338 |
Key M&A Model Formulas | 342 |
M&A Model Balance-Sheet Adjustment Mechanisms | 344 |
Applying Offer Price-Simulation Models in the Context of M&A Negotiations | 345 |
Alternative Applications of M&A Financial Models | 346 |
Things to Remember | 349 |
Chapter Discussion Questions | 349 |
Chapter Practice Problems and Answers | 350 |
Chapter Business Cases | 351 |
Cleveland Cliffs Fails to Complete Takeover of Alpha Natural Resources in a Commodity Play | 351 |
Appendix: Utilizing the M&A Model on CD-ROM Accompanying This Book | 366 |

10. **Analysis and Valuation of Privately Held Companies**

Inside M&A: Cashing Out of a Privately Owned Enterprise | 369 |
Chapter Overview | 370 |
Demographics of Privately Owned Businesses | 371 |
Challenges of Valuing Privately Held Companies | 374 |
Process for Valuing Privately Held Businesses | 376 |
Chapter Discussion Questions 446
Chapter Business Cases 447

Vivendi Universal Entertainment and GE Combine Entertainment Assets to Form NBC Universal 447

Using Form of Payment as a Takeover Strategy: Chevron’s Acquisition of Unocal 448

12. Structuring the Deal: Tax and Accounting Considerations

Inside M&A: Teva Pharmaceuticals Acquires Ivax Corp 453
Chapter Overview 453
General Tax Considerations 454
Taxable Transactions 455
Tax-Free Transactions 458
Other Tax Considerations Affecting Corporate Restructuring Activities 466

Financial Reporting of Business Combinations 470
Impact of Purchase Accounting on Financial Statements 474
International Accounting Standards 479
Recapitalization Accounting 479
Things to Remember 480
Chapter Discussion Questions 480
Chapter Practice Problems and Answers 481
Chapter Business Cases 482

Boston Scientific Overcomes Johnson & Johnson to Acquire Guidant—A Lesson in Bidding Strategy 482

“Grave Dancer” Takes Tribune Corporation Private in an Ill-Fated Transaction 485

13. Financing Transactions: Private Equity, Hedge Funds, and Leveraged Buyout Structures and Valuation

Inside M&A: HCA’s LBO Represents a High-Risk Bet on Growth 489
Chapter Overview 490
Characterizing Leveraged Buyouts 491
When Do Firms Go Private? 498
## Part V. Alternative Business and Restructuring Strategies

### 14. Joint Ventures, Partnerships, Strategic Alliances, and Licensing

- Inside M&A: Garmin Utilizes Supply Agreement as Alternative to Acquiring Tele Atlas 545
- Chapter Overview 546
- Motivations for Business Alliances 547
- Critical Success Factors for Business Alliances 552
- Alternative Legal Forms of Business Alliances 554
- Strategic and Operational Plans 560
- Resolving Business Alliance Deal-Structuring Issues 561
- Empirical Findings 572
- Things to Remember 573
- Chapter Discussion Questions 574
- Chapter Business Cases 575
  - SABMiller in Joint Venture with Molson Coors 575
  - Coca-Cola and Procter & Gamble's Aborted Effort to Create a Global Joint Venture Company 576

Inside M&A: Financial Services Firms Streamline their Operations 579

Chapter Overview 580

Commonly Stated Motives for Exiting Businesses 581

Divestitures 584

Spin-Offs and Split-Ups 587

Equity Carve-Outs 590

Split-Offs 592

Voluntary Liquidations (Bust-Ups) 595

Tracking, Targeted, and Letter Stocks 595

Comparing Alternative Exit and Restructuring Strategies 597

Choosing among Divestiture, Carve-Out, and Spin-Off Restructuring Strategies 598

Determinants of Returns to Shareholders Resulting from Restructuring Strategies 600

Things to Remember 606

Chapter Discussion Questions 607

Chapter Business Cases 608

Hughes Corporation’s Dramatic Transformation 608

AT&T (1984–2005)—A Poster Child for Restructuring Gone Awry 609


Inside M&A: Calpine Emerges from the Protection of Bankruptcy Court 615

Chapter Overview 616

Business Failure 616

Voluntary Settlements with Creditors outside of Bankruptcy 618

Reorganization and Liquidation in Bankruptcy 621

Analyzing Strategic Options for Failing Firms 634

Predicting Corporate Default and Bankruptcy 638
17. Cross-Border Mergers and Acquisitions: Analysis and Valuation

Inside M&A: Arcelor Outbids ThyssenKrupp for Canada’s Dofasco Steelmaking Operations

Chapter Overview

Distinguishing between Developed and Emerging Economies
Globally Integrated versus Segmented Capital Markets
Motives for International Expansion
Common International Market Entry Strategies
Structuring Cross-Border Transactions
Financing Cross-Border Transactions
Planning and Implementing Cross-Border Transactions in Emerging Countries
Valuing Cross-Border Transactions
Empirical Studies of Financial Returns to International Diversification

Things to Remember

Chapter Discussion Questions

Chapter Business Cases

Political Risk of Cross-Border Transactions—CNOOC’s Aborted Attempt to Acquire Unocal
Vodafone AirTouch Acquires Mannesmann in a Record-Setting Deal

References

Glossary

Index