



MERGERS, ACQUISITIONS, AND OTHER RESTRUCTURING ACTIVITIES

AN INTEGRATED APPROACH TO PROCESS,
TOOLS, CASES, AND SOLUTIONS

10TH EDITION

DONALD M. DEPAMPHILIS



MERGERS, ACQUISITIONS, AND OTHER RESTRUCTURING ACTIVITIES

TENTH EDITION

Praise for various editions

"Mergers, Acquisitions, and Other Restructuring Activities by Donald DePamphilis is an outstanding book. Simply put, it is the most comprehensive M&A book on the market and ideal for anyone wishing to have a global view of this important phenomenon. The book's value lies in drawing on multiple academic disciplines to inform the reader's understanding of M&A supported by foundational academic research to support key insights. The rigor of this approach, together with the liberal use of a wide variety of notable and up-to-date cases, makes the book an invaluable asset to anyone seeking to further their understanding of M&A."

Duncan Angwin, Lancaster University

"A comprehensive guide to corporate restructuring processes, with a focus on the strategic and financial considerations involved in M&A and other restructuring activity. A must read!"

Satu Teerikangas, University of Turku and University College London

"DePamphilis has masterfully covered in one book all relevant managerial, strategic, financial, accounting, legal and tax aspects of M&A in an easily understood roadmap for any M&A transaction, large or small. With totally up-to-date material, he provides the crucial information that is necessary in today's rapidly changing M&A world."

Lloyd Levitin, Professor of Clinical Finance and Business Economics, University of Southern California

"After teaching M&A for ten years, I was relieved when last semester I finally switched to DePamphilis' text. His single book replaced numerous other sources that I had to use before. His academic rigor is combined with his deep personal experience as a deal maker, and thus the textbook is highly valuable to both newcomers and those who have been involved in transactions for many years."

Viktoria Dalko, Global Professor of Finance, Harvard University Extension School

"Mergers, Acquisitions, and Other Restructuring Activities, Sixth Edition, delivers an essential understanding of the corporate restructuring processes by combining insights from many case studies with academic rigor. The book points out how M&A can create value as well as the ways it can lead to value destruction. In addition to the state-of-the-art valuation techniques, it also explains the regulatory corporate governance framework for both the United States and Europe. It's an excellent text, and I highly recommend it."

Luc Renneboog, Professor of Corporate Finance, Center, Tilburg University

"Great textbook that in a simple and straightforward manner combines the latest insights from academia with contemporary industry practices. It fits perfect in a class of MBA students or executives. I will for sure use it next time I teach M&A."

Karin Thorburn, DnB Nor Professor of Finance, Norwegian School of Economics and Business Administration

"Mergers, Acquisitions, and Other Restructuring Activities is quite simply an outstanding text. Don DePamphilis delivers a comprehensive guide to the M&A process from start to finish. . . . In sum, this book is a comprehensive, up-to-date, outstanding text."

Scott C. Linn, R.W. Moore Chair in Finance and Economic Development, The University of Oklahoma

"This is a truly comprehensive text and does a wonderful job at supplying the underlying motives and theory as well as the critical 'in practice' elements that many books lack. It spans all types of M&A and restructuring transactions and covers all the relevant knowledge from the academic research to the practical legal, accounting, and regulatory details. The book is up-to-date and teaches the state-of-the-art techniques used today. It contains numerous cases and spreadsheet support that enable the reader to put into practice everything that is covered. The combination of great writing and active case learning make this book the best I have seen in the M&A and restructuring arena."

Matthew T. Billett, Associate Professor of Finance, Henry B. Tippie Research Fellow, University of Iowa

"I am happy to recommend the Fifth Edition of Mergers, Acquisitions, and Other Restructuring Activities. Having used prior editions of Don DePamphilis' text, I can affirm that this edition builds on a firm foundation of coverage, real-world examples, and readability. My students have consistently responded favorably to prior editions of the book. In this edition, I was delighted to discover that Don is expanding his coverage of family-owned businesses, already a strength in his earlier editions that were distinguished by their coverage of the valuation of privately held businesses. Additional attention is paid to restructuring, bankruptcy, and liquidation as well as risk management, which are clearly topics of interest to every business person in today's economic climate."

Kent Hickman, Professor of Finance, Gonzaga University

"The fifth edition is one of the most comprehensive books on mergers and acquisitions. The text combines theories, valuation models, and real-life cases to give business students an overall insight into the M&A deal process. The up-to-date real-life examples and cases provide opportunities for readers to explore and to apply theories to a wide variety of scenarios such as cross-border transactions, highly levered deals, firms in financial distress, and family-owned businesses. The chapter on restructuring under bankruptcy and liquidation both inside and outside the protection of the bankruptcy court is timely and most useful in light of today's economic crisis. Overall, this is an excellent book on mergers, acquisitions, and corporate restructuring activities."

Tao-Hsien Dolly King, Rush S. Dickson Professor of Finance, Associate Professor, Department of Finance, The Belk College of Business, University of North Carolina at Charlotte

"Mergers, Acquisitions, and Other Restructuring Activities is an interesting and comprehensive look at the most important aspects of M&A and corporate restructuring—from strategic and regulatory considerations and M&A deal process, through several chapters on M&A valuation and deal structuring, to other types of restructuring activities. It not only provides a road map for the M&A and other corporate

restructuring transactions, but also highlights the key things to watch for. The book is clearly written with extensive but easy-to-follow case examples and empirical findings and cases to illustrate the points in the text. It is a book by an expert, and for M&A instructors and students as well as practitioners.”

Qiao Lui, Faculty of Business and Economics, The University of Hong Kong

“I am delighted with Don DePamphilis’ *Mergers, Acquisitions, and Other Restructuring Activities, Fifth Edition*. It is a clear, comprehensive, and thorough discussion of the issues involving all restructuring activities. The use of mini-cases throughout each chapter both highlights and clarifies key elements of aspects of the decision-making process. The end-of-chapter discussion questions are ideally complemented with the problem set questions to challenge readers’ understanding of the covered concepts. I am impressed with the current reflection of market conditions throughout the text and the extent of the recent changes to provide greater understanding for students. I expect to find that the students are also impressed with its the clarity and structure when I introduce this edition to my course. I recommend it to any professor covering mergers, acquisitions, bankruptcies, or other restructuring, to cover limited topics, or as a text for a complete course on restructuring.”

John F. Manley, Professor of Finance, Hagan School of Business, Iona College

“Mergers and acquisitions continue to be amongst the preferred competitive options available to the companies seeking to grow and prosper in the rapidly changing global business scenario. In the Fifth Edition of his path breaking book, the author and M&A expert Dr. DePamphilis illustrates how mergers, acquisitions, and other forms of restructuring can help a company grow and prosper in the highly complex and competitive corporate takeover marketplace. Interspersed with most relevant and up-to-date M&A case studies . . . , this book deals with the multifarious aspects of corporate restructuring in an integrated manner . . . a lucid style. . . . Every effort has been made to deal with the intricacies of the subject by offering comprehensive coverage of the latest methods and techniques . . . of both public and private companies.

The book provides practical ways of dealing with M&As even in an economic downturn with a chapter on corporate restructuring under bankruptcy and liquidation. With the greatly enlarged and up-to-date material on varied aspects of the subject, the book provides a plethora of real-world examples which will go a long way in making the subject easy, stimulating, and interesting to both academicians and practitioners alike.”

Donepudi Prasad, ICFAI Business School, Hyderabad, India

“Professor DePamphilis has made significant, important, and very timely updates in the Fifth Edition of his text. He incorporates contemporary events, such as the credit crunch and the latest accounting rules in the West, plus M&A issues in emerging markets including family businesses. He also readdresses corporate governance, a topic that will become increasingly important in Business Schools the world over in M&A. This text has become, and will increasingly become, the definitive comprehensive and thorough reference on the subject.”

Jeffrey V. Ramsbottom, Visiting Professor, China Europe International Business School, Shanghai

“I think the Fifth Edition of *Mergers, Acquisitions, and Other Restructuring Activities* does a comprehensive job of covering the M&A field. As in the previous edition, the structure is divided into five parts. These are logical and easy to follow, with a nice blend of theory, empirical research findings, and practical issues. I especially like two chapters—the chapter on bankruptcy and liquidation is extremely relevant in today’s economic conditions, and the chapter on private equity and hedge funds is interesting because M&A activities by these players are not well-documented in the literature. Overall, I believe that MBA students would find the book useful both as a textbook in class and as a reference book for later use.”

Raghavendra Rau, Purdue University and Barclays Global Investors

“This book is truly outstanding among the textbooks on takeovers, valuation, and corporate restructuring for several reasons: the DePamphilis book not only gives a very up-to-date overview of the recent research findings on takeovers around the world, but also offers nearly 100 recent business cases. The book treats all the valuation techniques in depth and also offers much institutional detail on M&A and LBO transactions. Not just takeover successes are analyzed, but also how financially distressed companies should be restructured. In short, the ideal textbook for any M&A graduate course.”

Luc Renneboog, Professor of Corporate Finance, Tilburg University, The Netherlands

“The Fifth Edition of *Mergers, Acquisitions, and Other Restructuring Activities* by Professor Donald DePamphilis is an excellent book. Among its many strengths, I could easily identify three features that stand out. First, it is up to date, covering the recent knowledge published in most of the academic journals. Second, it offers comprehensive coverage of the subject matter, including chapters on the U.S. institutional, legal, and accounting environment; on technical aspects; valuation techniques; and strategic issues. Third, it is practical by including Excel Spread Sheet Models and a large number of real cases. These three aspects along with the . . . end-of-chapter discussion and review questions, problems, and exercises make this book one of the best choices for the subject.”

Nickolaos G. Travlos, The Kitty Kyriacopoulos Chair in Finance, and Dean, ALBA Graduate Business School, Greece

“It is difficult to imagine that his fourth edition could be improved on, but Dr. DePamphilis has done just that. This edition is clearer, better organized, and contains a wealth of vitally important new material for these challenging times. I especially recommend the new chapter on liquidation for members of boards of directors who face extreme circumstances. This is a remarkably useful book for readers at any level—students, instructors, company executives, as well as board members. Bravo Don!”

Wesley B. Truitt, Adjunct Professor, School of Public Policy, Pepperdine University

“The book is an excellent source for both academicians and practitioners. In addition to detailed cases, it provides tools contributing to value creation in M&A. A must book for an M&A course.”

Vahap Uysal, Assistant Professor of Finance, Price College of Business, University of Oklahoma

"An impressive detailed overview of all aspects of mergers and acquisitions. Numerous recent case studies and examples convince the reader that all the material is very relevant in today's business environment."

Theo Vermaelen, Professor of Finance, Insead

"The DePamphilis text is an excellent textbook that provides a full end-to-end view of the process with the appropriate level of detail. I have reviewed many M&A texts, and this text provides an excellent process view rather than just a series of topics."

Stephen G. Morrisette, University of Chicago

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Dedication

I would like to express my gratitude for my wife, Cheryl, and my daughter, Cara, whose patience made the completion of this book possible; for my brother, Mel, who encouraged me to undertake this book; and for the blessings of my beautiful grandchildren Max and Hannah.

About the Author

Dr. Donald M. DePamphilis has managed through closing more than 30 transactions, including acquisitions, divestitures, joint ventures, minority investments, licensing, and supply agreements in a variety of different industries. These industries include financial services, software, metals manufacturing, business consulting, healthcare, automotive, communications, and real estate. He earned a B.A. in economics from the University of Pittsburgh and an M.A. and a Ph.D. in economics from Harvard University.

He is currently Emeritus Professor of Finance at Loyola Marymount University in Los Angeles, where he has taught mergers and acquisitions, corporate restructuring, deal making, financial analysis, financial modeling, micro- and macroeconomics (to both business and nonbusiness majors) to undergraduate, MBA, and Executive MBA students. In addition, he has taught corporate governance and executive leadership to Executive MBA students.

He has also served as an instructor in the Loyola Marymount University International Executive Education Program, teaching corporate restructuring tactics and strategies in a global context. He has served as chair of the Student Investment Fund at Loyola Marymount University's College of Business and has been a member of the graduate business program curriculum committee. He has also directed curriculum development and faculty recruitment efforts in specific teaching modules within the University's Executive MBA program.

He is the recipient of the Loyola Marymount University Executive MBA Leadership Achievement Award and has represented the University on the Los Angeles Council of Economic Advisors serving Mayor Eric Garcetti on matters relating to the economy.

He has lectured on M&A and corporate restructuring, financial analysis, and economics at the University of California, at Irvine, Chapman University, and Concordia University. As a visiting professor, he taught mergers and acquisitions and corporate restructuring strategies at the Antai School of Management, Shanghai Jiao Tong University, in Shanghai, China. He has also served as a Teaching Fellow in economics at Harvard University.

The author has more than 25 years of experience in businesses ranging in size from small privately owned firms to Fortune 100 companies in various industries and with varying degrees of responsibility. Previously, he served as vice president of Electronic Commerce for Experian Corporation, vice president of Business Development at TRW Information Systems and Services, senior vice president of Planning and Marketing at PUH Health Systems, director of Corporate Business Planning at TRW, and chief economist for National Steel Corporation (formerly a Fortune 100 company).

He also served as Director of Banking and Insurance Economics for Chase Econometric Associates providing consulting services to dozens of clients in private industry and the government and as an economic analyst for United California Bank. While at United California Bank, he developed a complex, interactive econometric forecasting and simulation model of the US economy, which was used in both internal and external bank forecasts and in conducting simulations of alternative economic outcomes based on differing assumptions. He has also spoken to numerous industry trade associations and customer groups and to Los Angeles community and business groups. He is a graduate of the TRW and National Steel Corporation Executive Management programs.

He has authored numerous articles, chapters in books, and books on M&A. He has published in the areas of business planning and development, marketing, and economics in peer-reviewed academic journals as well as business and trade publications. His books include the highly popular, award-winning *Mergers, Acquisitions, and Other Restructuring Activities*, now in its ninth edition; *Mergers and Acquisitions Basics: All You Need to Know*; and *Merger and Acquisition Basics: Negotiation and Deal Structuring*. *Mergers, Acquisitions, and Other Restructuring Activities* has been translated into Chinese (now in its second edition) and Russian and has been used in more than 120 universities worldwide. The seventh edition was voted the 2014 Textbook Excellence Award (Texty) in the business book category by the Text and Academic Authors Association. For more detail, see <http://www.taaonline.net/2014-taa-textbook-award-winners>.

He has served as a consultant in product and personal liability, patent infringement, and business valuation litigation, including but not limited to providing expert analysis and depositions in cases primarily related to mergers and acquisitions. He has also served in an advisory capacity on matters of acquisition target selection, negotiation support, and business valuation.

The author has been a board member of the National Council of Orange County (California), Economics Club of Pittsburgh, Economic Council of Western Pennsylvania, and the Hospital Council of Western Pennsylvania. He has also been active in the Rotary Club and Junior Achievement.

Please forward any comments you may have about this book to the author at dondepam@pacbell.net. Your suggestions about ways in which this text may be improved are welcome.

Preface to the Tenth Edition

TO THE READER

“Markets hate uncertainty” is the oft-stated mantra of pundits who frequently fret about the challenges of predicting trends in global financial markets and economies. The implication of this statement is that there were sustained periods of time in history during which there was little uncertainty (i.e., there was widespread consensus about the future). Even a cursory knowledge of history confirms that such periods were, are, and are likely to continue to be infrequent. And when such periods did exist, they were often followed by speculative bubbles that eventually burst such as in the tech boom in 1999 and the housing bubble in 2008. Uncertainty will always exist to varying degrees as markets price assets to reflect only known and measureable risks. Other risks are priced into assets only by happenstance.

What is different today that may contribute to a heightened sense of uncertainty is the pace at which things change, the speed at which information is disseminated, and the sheer size of financial markets in which small percentage changes lead to huge point swings. Consequently, the impact of “headline” news events magnifies short-term volatility. The key to managing in this type of environment is to be aware of short-term developments but to stay focused on achieving long-term goals.

Those who focus on the short-term are likely to believe that uncertainty is greater today than ever before. Those who focus on the longer-term are more likely to recognize the bigger picture and to identify significant emerging trends. While focus on the long-term does not ensure success it does increase the chances of realizing one’s goals. Jeff Bezos, founder and CEO of [Amazon.com](https://www.amazon.com), is perhaps the best example of one who was able to look beyond the daily noise and to remain committed to his world view. At the outset, few believed that this online bookseller would evolve into the global retailer that dominates so many markets and that has changed fundamentally the way people shop.

Ambiguity impacts the timing and magnitude of investment decisions which in turn affect mergers, acquisitions, and other corporate restructuring activities. While it does not promise easy answers to current challenges in business, this book does offer insight into ways in which the corporate restructuring process can be used to implement long-term business strategies. It does so by discussing the practical applications of all aspects of the corporate restructuring process from takeovers and joint ventures to divestitures and spin-offs and equity carve-outs and reorganizing businesses inside and outside the protection of the bankruptcy court.

This book is unique as the most current, comprehensive, and cutting-edge text on M&A and corporate restructuring available, offering conclusions and insights supported by the most recent peer reviewed academic research. It is *current* in that it includes many of the most up-to-date and notable deals, precedent setting judicial decisions, government policies and regulations, and trends affecting M&As, as well as strategies and tactics employed in takeovers. For example, the book discusses the implications of the US Tax Cuts and Jobs Act of 2017 for M&As in the context of valuation, deal structuring, and financing. This edition is *comprehensive* as nearly all aspects of M&As and corporate restructuring are explored from planning to target selection and valuation to negotiation and integration, illustrated by case studies involving deals announced or completed during the last several years. And it is *cutting edge* in that conclusions and insights are anchored by the most recent academic research, with references to more than **270 empirical studies** published in leading peer-reviewed journals just since **2017**.

The highlights of the new edition are listed here:

- **New Cases: Ninety percent** of the nearly 40 case studies are new and involve transactions announced or completed since **2017**. These cases represent friendly, hostile, highly leveraged, and cross-border deals in 10 different industries, involving public and private firms as well as firms experiencing financial distress. All end of chapter case studies begin with a “Key Objectives” section indicating what the student should learn from the case study and include discussion questions and solutions available in the online instructors’ manual to measure student comprehension.

- **Latest Research:** This edition focuses on the most recent and relevant academic studies, some of which contain surprising insights changing the way we view this subject matter. Recent research has significant implications for academicians, students, M&A practitioners, and government policy makers shedding new light on current developments and trends in the ever-changing mergers and acquisitions market.
- **New Content:** Each chapter contains fresh information and insights on the changing market for M&As. This new content is highlighted by chapter in the following discussion.

M&A ENVIRONMENT

Chapter 1 provides an overview of M&As and now discusses the growing body of academic research documenting that acquirers often realize positive financial returns for their shareholders (particularly in the context of a larger business strategy). New evidence showing significant positive abnormal acquirer returns for both cash and stock purchases of public companies since the economic recovery in 2009 is provided. The chapter also addresses how firm specific may outweigh deal specific factors in determining acquirer returns, the relevance of arbitrageur trading patterns to acquirer management, and how the relative growth opportunities between the acquirer and target impact announcement date returns. Other new topics include insights into domestic and cross-border merger waves, as well as how liquidity and institutional cross holdings influence M&As. The chapter also discusses diversification discount variability, the impact of investor attention around announcement dates on acquirer share prices, why financially constrained acquirers are more likely to use top-tier advisors, and the growing global role of “angel investors.” Finally, the chapter includes an expanded discussion of how M&As benefit society, with a focus on the implications of socially responsible investing.

Chapter 2 addresses M&A regulatory matters. New content includes the effects for M&A of revisions made to the Dodd-Frank Act in 2018, 2018 EU and California data privacy regulations, and a more detailed discussion of antitakeover laws and their impact on accounting practices and on resolving stakeholder conflicts. New analyses suggest when antitrust regulators are likely to intervene, how private antitrust civil suits are used to augment regulators' resources, and how regulators treat vertical mergers in the current regulatory environment. The unintended consequences of the Sarbanes-Oxley Act on corporate innovation and the role of politics in gaining regulatory approval are analyzed. Revisions to antitrust guidelines pertaining to intellectual property, guidelines for collaborative efforts, insider trading case law, and factors contributing to insider trading have been updated. The implications for M&As of international trade policies and national merger laws, as well as rescission of the “net neutrality” rules in late 2017, are explained. The chapter also explores how vertical integration can foster collusion, trends in industry concentration, the effectiveness of “say on pay” regulations, recent regulations dealing with private placements and crowdfunding, and the US Foreign Investment Risk Review Modernization Act of 2018. The chapter also includes a discussion of the regulatory implications of the use of social media as a tool for communicating with shareholders.

Chapter 3 deals with takeover tactics and defenses and has been expanded to include a much more detailed discussion of the roles and responsibilities of the board of directors in the context of promoting good corporate governance. CEO duality, behavioral and demographic characteristics of CEOs and board members, board diversity, outside directors, the value of board recommendations to shareholders, and vertical and horizontal stakeholder disputes are analyzed in terms of their impact on corporate governance. Trends in board composition, board performance, and shareholder activism on target firm bondholders also are documented. Other new material includes an analysis of how investor protections facilitate the transfer of control and how entrenched managers may improve long-term performance. The discussion of the impact of takeover defenses on firm value has been updated to include common board responses to activist investors and takeover proposals and when certain defenses should be employed. The impact of leveraged recapitalization on financial returns of both US and non-US targets also is explored. The chapter shows how political affiliation of CEOs can impact acquirer firm value and illustrates additional applications of the most commonly used defenses. Additional new content includes a discussion of management entrenchment in private firms, governance at dual class and single class shareholder firms, how the competition for targets has remained constant over time despite a reduction in hostile takeover attempts, and how long-term investors impact governance.

M&A PROCESS

Chapter 4 introduces the 10 steps of the M&A process with a focus on the role of business and acquisition plans and now contains illustrations of actual firm mission/vision statements and their strengths and weaknesses, as well as a more detailed review of actual corporate and business unit strategies. In addition, the chapter delves into how “platform” business strategies differ from supply chain driven businesses and how each approach can be used to

dominate industries. Also addressed is the importance of communicating strategies to stakeholders and the impact of predeal planning and management commitment on deal completion.

Chapter 5 speaks to M&A process implementation issues and now discusses how using common auditors for the acquirer and target reduces deal uncertainty, updates common sources of M&A information, and provides a more detailed discussion of key issues surrounding contract negotiation. Also discussed are the growing use of artificial intelligence to draft M&A agreements and the role of go-shop provisions in merger agreements. New content includes how information provided by failed bids can assist in target selection, acquirers learn from past deals, and value based management systems contribute to higher acquirer announcement date returns. Finally, additional content entails a discussion of how analyst coverage can be used to identify undervalued firms and how buyers in stock financed deals have an incentive to overstate their predeal earnings.

Chapter 6 addresses postmerger integration and includes new discussions of the interaction between organization and culture in implementing change, the characteristics of high performing cultures, and how the stage of the industry life cycle and the economic cycle can shape the postmerger organizational structure. In addition, this chapter addresses the role of formal and informal coordination mechanisms in postmerger integration, using accounting metrics in postmerger integration, and how to develop collaborative cultures. Also analyzed are strategies for determining the degree of integration by type of deal: transformational, consolidating, “bolt on,” or standalone. Other new content includes the importance of using social media to allay stakeholder fears during postclosing integration, how regulations can slow the pace of integration, and the challenges of cybercrime in integrating businesses.

M&A VALUATION AND MODELING

Chapter 7 focuses on discounted cash flow valuation. Updated content includes a discussion of the implications of the 2017 Tax Cuts and Jobs Act on valuation methods, adjustments to the weighted average cost of capital to reflect limitations on the tax deductibility of interest, and the impact of the new tax law on leasing.

Chapter 8 introduces the basics of relative valuation methods and documents how real options awareness can contribute to higher firm value. The chapter also addresses how to value initial public offerings using both quantitative and qualitative factors and how government policy uncertainty can impact the value of real options.

Chapter 9 covers the basics of M&A modeling and includes an expanded discussion of earnings manipulation and how discontinued operations may be projected for modeling purposes and recorded for financial reporting to shareholders. Also, this chapter describes how financial models can be modified to account for recent changes in US tax laws such as capping the tax deductibility of net interest expense, as well as the impact of the new tax law on the relationship between earnings and cash flow.

Chapter 10 describes the challenges of buying and selling private firms and now addresses differences between private and public company governance issues, as well as providing new evidence explaining private firms' valuation discounts. The chapter also discusses when to apply different capitalization multiples. Additional new content includes an examination of “early stage” investment in emerging companies, the significance of subsequent financing rounds, and the growing role of private market investors as an alternative to initial public offerings for small business owners to “cash out.” Also included is a discussion of control and shareholder protection issues in family owned firms, why such firms have a low propensity to engage in M&As, creative new ways to go public, and an expanded discussion of how private firms manipulate earnings.

DEAL STRUCTURING AND FINANCING STRATEGIES

Chapter 11 addresses legal and payment considerations and has been updated to include alternative payment structures such as the reverse earn-out and how acquirer stock as a form of payment can be used to align acquirer and target goals. Recent court cases illustrating how earn-out contracts should be written to minimize future litigation and how to use options and warrants as takeover strategies are also described. Moreover, questions about the possible uses of crypto currencies as a form of payment in M&As are explored.

Chapter 12 speaks to tax and accounting aspects of deals and now addresses the implications of the 2017 Tax Cuts and Jobs Act for M&A deal structuring, valuation, and financing, as well as the impact of tax cut expectations on firm values. New content includes a discussion of the significance of recent changes in FASB rules and their impact on business combinations. The chapter contains an updated discussion of net operating losses, the effects of differing corporate tax rates and their impact on corporate inversions, the personal tax implications of inversions, and how real estate investment trusts and “yield cos” can be used as investment vehicles. Also addressed are the recent

simplification of goodwill impairment estimation, interpreting IRS communications, uncertainty over government policies and the impact on M&As, and how taxes can impact due diligence, deal structure, and transaction value. The implications of the 2018 Supreme Court ruling (*Wayfair vs. South Dakota*) for state and local tax liabilities for M&As also is explained. The chapter concludes with a crisp summary of takeover strategies and the approaches to deal structuring discussed throughout this book.

Chapter 13 addresses M&A financing issues and includes an updated discussion of how the Tax Cuts and Jobs Act of 2017 impacts M&A financing and financial returns, how to estimate that portion of total borrowing costs that is tax deductible, the role of public and private markets in financing transactions, and the increasing role of private equity firms in cross-border deals and direct lending. The chapter also addresses the performance of listed versus unlisted hedge funds and hedge fund fee structures. Additional new content pertains to the role of covenants in M&A financing, tax shields, how capital structure theory applies to financing M&As, how deal financing can impact abnormal financial returns to acquirer shareholders, and the mechanics of issuing new shares. New insights about LBO financing include the changing role of recourse and nonrecourse lending and using collateralized loan obligations and credit default swaps to transfer risk from lenders to investors.

Chapter 14 illustrates the application of financial models to M&A deal structuring, valuation, and financing and now includes a discussion of how to estimate a firm's degree of financial risk, valuation in the face of information uncertainty, and how security analyst's target prices influence the selling firm's shareholder expectations. The chapter also discusses the use of models to estimate synergy and how "human capital relatedness" contributes to value creation. Various ways of valuing executive options, the importance of long-term target firm customer contracts, how employee incentive plans affect the timing of cash flows, and operating/asset-related synergy also are discussed.

ALTERNATIVE BUSINESS AND RESTRUCTURING STRATEGIES

Chapter 15 addresses alternatives to M&As and has been expanded to include a discussion of the implications for pass-through entities of the Tax Cuts and Jobs Act of 2017. Fresh content includes a detailed discussion of the challenges of cross-border joint ventures, the differences between bilateral versus multilateral alliances, value creation potential and the choice of ownership level, the role of experience in selecting the form of governance, and growing regulatory impediments to cross-border alliance growth. The spillover effects of R&D Joint Ventures, knowledge transfer as a motive for alliances, the impact of partners' alliance portfolios on individual alliance outcomes, and outcome versus behavioral controls to monitor alliance performance also are covered.

Chapter 16 deals with non-M&A related corporate restructuring and now describes direct listed IPOs and the predictive attributes of IPOs. Furthermore, the chapter addresses the target board's role in the selling process, CEO initiated company sales, and structuring spin-offs to avoid triggering tax liabilities.

Chapter 17 speaks to bankruptcy issues and has been updated to discuss such topics as how the source of financing can impact the risk of default, the difficulty of renegotiating publicly traded debt (unlike bank debt) outside the protection of bankruptcy court, the impact of financial distress on customer-supplier relationships, and recent developments in bankruptcy prediction models. The chapter also addresses continuing risks associated with systemically risky banks despite increased regulation and its potential for disrupting financial markets and M&A financing.

Chapter 18 focuses on cross-border M&A and includes a discussion of the implications of the Tax Cuts and Jobs Act of 2017 for earnings repatriation, tax inversions, and cross border deals. Additional new content includes differences in block holder preferences in cross-border deals, the impact of sovereign wealth fund investments on target and rival share prices, and the adoption of developed country target governance practices by emerging market acquirers. Moreover, this chapter now includes a discussion of the role of CEO overconfidence in the selection of market entry strategy; factors affecting deal completion rates, time to completion, and choice of ownership stake in the target firm; gaining access to scarce resources as a motive for international diversification; and the role of country culture on takeover performance.

UPDATED ANCILLARY MATERIALS

Both online student and instructor PowerPoint slide presentations have been updated to reflect recent research, trends, and new chapter content. Located below each slide, Instructor PowerPoint presentations also contain suggested topics and key points to be made by the instructor. The student PowerPoint slides are structured to serve as student study guides.

The textbook contains more than 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 enable students to find

their own solutions based on different sets of assumptions, using Excel-based spreadsheet models available on the companion site to this textbook. Solutions to all questions, problems, and exercises are available on the expanded Online Instructor’s Manual, available to instructors using this book (<https://textbooks.elsevier.com/web/Manuals.aspx?isbn=9780128150757>). The online manual contains more than 1600 true/false, multiple-choice, and short essay questions as well as numerical problems. In addition to Excel-based customizable M&A valuation and structuring software, PowerPoint presentations, and due diligence materials, the companion site (<https://www.elsevier.com/books-and-journals/book-companion/9780128150757>) also contains a Student Study Guide.

This book is intended for students in courses on mergers and acquisitions, corporate restructuring, business strategy, management, and entrepreneurship. This book works well at both the undergraduate and graduate levels. 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. Hence, 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 due to the diversity of applicable subject matter and the breadth of disciplines that must be applied 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’s not understanding how seemingly independent topics are integrated. Understanding M&A involves an understanding of a full range of topics, including management, finance, economics, business law, financial and tax accounting, organizational dynamics, and the role of leadership.

With this in mind, this book provides a new organizational paradigm for discussing the complex and dynamically changing world of M&A. The book is organized according to the context in which topics normally occur in the M&A process. As such, the book is divided into five parts: M&A environment, M&A process, M&A valuation and modeling, deal structuring and financing strategies, and alternative business and restructuring strategies. Topics that are highly integrated are discussed within these five groupings. See **Exhibit 1** for the organizational layout of the book.

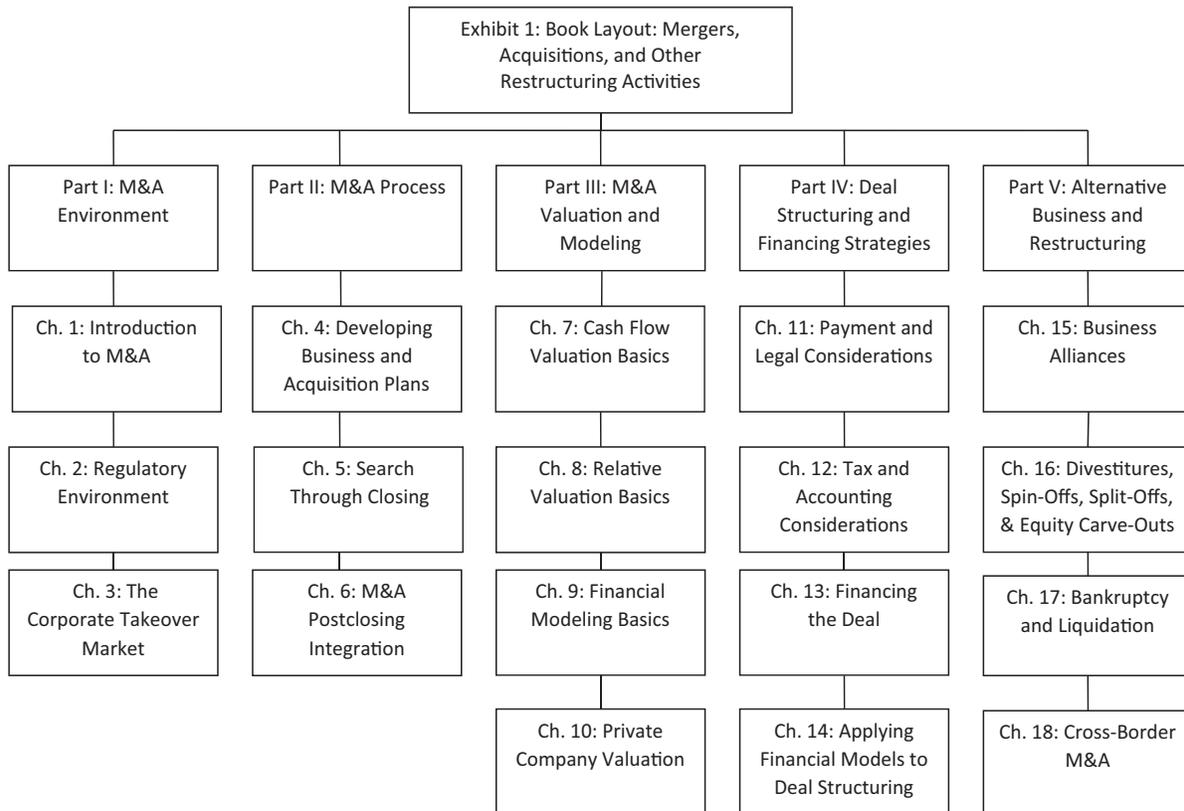


EXHIBIT 1 Book Layout: Mergers, Acquisitions, and Other Restructuring Activities.