

ROBERT F. BRUNER

WILEY

John Wiley & Sons, Inc.

# Contents

Foreword	xv
Preface	xvii
PJIBT OWE	
Introduction and Key Themes	1
CHAPTER 1	
Introduction and Executive Summary	3
<i>"How Can My Team Do Better Than the Averages?"</i>	
<i>A Framework for M&amp;A Success. Seven New Big Ideas</i>	
<i>Worthy of the Best Practitioners.</i>	
CHAPTER 2	
Ethics in M&A	13
<i>Why Should One Care? In Whose Interests? What Is Good?—</i>	
<i>Consequences, Duties, Virtues. Promoting Ethical Behavior.</i>	
<i>Greenmail Case: Walt Disney, 1984.</i>	
CHAPTER 3	
Does M&A Pay?	30
<i>The Measurement of M&amp;A Profitability: Better Than What?</i>	
<i>Findings Based on the Analysis of Returns to Shareholders. Findings</i>	
<i>Based on the Analysis of Reported Financial Performance.</i>	
<i>Findings about the Drivers of Profitability. Findings from</i>	
<i>Surveys of Executives. Findings from Clinical Studies.</i>	
PART TWO	
Strategy and the Origination of Transaction Proposals	67
CHAPTER 4	
M&A Activity	69
<i>M&amp;A Activity Appears in Waves. Explanations of M&amp;A Activity.</i>	
<i>"Creative Destruction" as the Driver of M&amp;A Activity. The Many</i>	
<i>Forms of Economic Turbulence, and Where to Look for It.</i>	
<i>Turbulence Drives M&amp;A Activities and Opportunities.</i>	
CHAPTER 5	
Cross-border M&A	98
<i>Cross-Border M&amp;A Activity. M&amp;A within Regions and Trading</i>	
<i>Blocs. Drivers of and Returns from Cross-Border M&amp;A. Strategic</i>	
<i>Analysis of Countries: Getting a "View."</i>	

**CHAPTER 6**

- Strategy and the Uses of M&A to Grow or Restructure the Firm 123  
*Setting Strategy. Expansion by Inorganic Growth. Restructuring, Redeployment, and Sale. Choosing a Path. Does It Pay to Diversify or Focus the Firm?*

**CHAPTER 7**

- Acquisition Search and Deal Origination: Some Guiding Principles 183  
*Eight Principles of Acquisition Search. Case Study: Kestrel Ventures LLC.*

- Diligence, Valuation, and Accounting 205

**CHAPTER 8**

- Due Diligence 207  
*The Concept of Due Diligence. Principles and Strategies. Timing, Team, and Outputs. The Target's View: The Data Room and Its Pressures. Focus on Knowledge. Excellence in Due Diligence.*

**CHAPTER 9**

- Valuing Firms 247  
*Rule #1: Think Like an Investor. Rule #2: Intrinsic Value Is Unobservable; We Can Only Estimate It. Rule #3: An Opportunity to Create Value Exists Where Price and Intrinsic Value Differ. Rule #4: So Many Estimators, So Little Time—It Helps to "Have a View." Rule #5: Exercise Estimators of Intrinsic Value to Find Key Value Drivers and Bets. Rule #6: Think Critically; Triangulate Carefully. Rule #7: Focus on Process, Not Product. Rule #8: When in Doubt, see Rule #1. Valuation Case: Chrysler Corporation, March 1998.*

**CHAPTER 10**

- Valuing Options 290  
*Option Basics. Option Theory. Option Applications. A Practical Guide to Financial Option Valuation, with Some Important Caveats.*

**CHAPTER 11**

- Valuing Synergies 325  
*The Concept of Synergy. Synergy Estimates Must Be a Central Focus of M&A Analysis. A Framework for Synergy Analysis. Estimating Synergy Value, with Examples. Synergies in the Daimler/Chrysler Merger. Rules of Thumb.*

**CHAPTER 12**

## Valuing the Firm across Borders 348

*How Borders Affect M&A Valuation. Strategy for DCF Approach: Home versus Foreign Valuation. Adjusting Cash Flows. Estimating the Discount Rate. Recapitulation: Valuation Process with Adjusted CAPM. Valuation Cases across Borders.*

**CHAPTER 13**

## Valuing the Highly Levered Firm, Assessing the Highly Levered Transaction 393

*The World of Highly Levered Firms. The Effect of Leverage on Firm Value. The "Whole Deal" Approach. A Case in Leveraged Recapitalization: Koppers Company. LBO Case: MediMedia International, Ltd. LBO Case #2: Revco Drug Stores.*

**CHAPTER 14**

## Real Options and Their Impact on M&amp;A 424

*Types of Real Options. Where Real Options Appear in M&A. Why Not Value Everything as an Option? How to Assess the Impact of Real Options. Four Mini-Cases in the Analysis of Real Options.*

**CHAPTER 15**

## Valuing Liquidity and Control 455

*Adjusting Values for Discounts and Premiums. Where Do Illiquidity Discounts Come From? Where Do Control Premiums Come From? Interaction of Liquidity and Control. Case Study: Volvo/Renault, 1993.*

**CHAPTER 16**

## Financial Accounting for Mergers and Acquisitions 478

*Overview of Purchase Accounting. How to Interpret Reported Financial Results from a Business Combination. Linkage among Accounting Choices, Form of Payment, Financing, and Price. Dangers of Earnings Management.*

**CHAPTER 17**

## Momentum Acquisition Strategies: An Illustration of Why Value Creation Is the Best Financial Criterion 511

*Four Cautionary Tales. Momentum Acquisition Strategies. The Arguments for and against Momentum Acquiring. Value Creation Is the Best Criterion for Evaluating Acquisition Strategies. Momentum versus Value Strategies.*

**PART FOUR**

Design of Detailed Transaction Terms	529
--------------------------------------	-----

**CHAPTER 18**

An Introduction to Deal Design in M & A	531
<i>Deal Structures Are Solutions to Economic Problems. Possible Desirables in Designing a Deal. Design Leads to Results. Each Deal Is a System: The "Whole Deal" Perspective. Some Implications for the Deal Designer.</i>	

**CHAPTER 19**

Choosing the Form of Acquisitive Reorganization	547
<i>Five Key Concerns for the Deal Designer. Deals That Are Immediately Taxable to the Selling Shareholders. Deals That Defer Tax to the Selling Shareholders.</i>	

**CHAPTER 20**

Choosing the Form of Payment and Financing	564
<i>Patterns and Trends in Form of Payment. Does Form of Payment Matter? Considerations in Selecting the Form of Payment. Assessing the Financing Aspects of a Deal.</i>	

**CHAPTER 21**

Framework for Structuring the Terms of Exchange: Finding the "Win-Win" Deal	589
<i>A Model for Critically Assessing Exchange Ratios. Uses and Illustration of the Model. Extension to Cash-for-Stock Deals. Choosing Exchange Ratio Targets in the "Win-Win" Zone.</i>	

**CHAPTER 22**

Structuring and Valuing Contingent Payments in M&A	609
<i>Contingent Payments in M&amp;A. Earnouts Can Be Useful; But If So, Why Aren't They Ubiquitous? Earnouts Are Options on Future Performance. Structuring an Earnout. Tax and Accounting Considerations. A Generic Approach to Valuing Earnout Instruments. The Eli Lilly Case. Proposing and Negotiating an Earnout and Other Contingent Payments.</i>	

**CHAPTER 23**

Risk Management in M&A	636
<i>Value at Risk When a Deal Fails. Transaction Risk: Types and Sources. Types of Risk Management. Collars and Their Analysis. Contingent Value Rights Case. Staged Acquiring Case. Where and When to Manage Risk.</i>	

<b>CHAPTER 24</b>	
Social Issues	668
<i>The Importance of Social Issues in M&amp;A. Survey of Social Issues. Impact of Social Issues on Attractiveness of the Deal. Case Studies in the Role of Social Issues.</i>	
 <b>PART FIVE</b>	
Rules of the Road: Governance, Laws, and Regulations	683
 <b>CHAPTER 25</b>	
How a Negotiated Deal Takes Place	685
<i>The Deal Shaping Process. Risks: How the Process Can Get Derailed. Transaction Planning and Preparation. Initiating Discussions. First-Round Documents. The Definitive Agreement. Disclosures to Investors and Regulators. Gaining Approval. Case Study: Daimler-Benz and Chrysler.</i>	
 <b>CHAPTER 26</b>	
Governance in M&A: The Board of Directors and Shareholder Voting	703
<i>Governing Well Is Hard to Do. Good Governance Pays. How Shareholders Rule. Fiduciary Duties of Target Directors in Considering M&amp;A. Preparing for the Board's Review of a Deal. How Can Firms Be Governed Better?</i>	
 <b>CHAPTER 27</b>	
Rules of the Road: Securities Law, Issuance Process, Disclosure, and Insider Trading	725
<i>Overview of Key Securities Laws and Rules. International Law Comparison. Disclosures. Insider Trading. Observance of Deal Process.</i>	
 <b>CHAPTER 28</b>	
Rules of the Road: Antitrust Law	742
<i>Antitrust Law: History and Motives. How Antitrust Regulators and Laws Affect M&amp;A. U.S. Antitrust Merger Guidelines. Premerger Review Process in the United States. Antitrust Regulation of M&amp;A in the European Union. Critical Perspectives on Antitrust Policy.</i>	
 <b>CHAPTER 29</b>	
Documenting the M&A Deal	766
<i>First-Round Documents. Definitive Agreement. Merger Proxy Statement and Prospectus.</i>	

<b>PART gnr</b>	
Competition, Hostility, and Behavioral Effects in M&A	771
<b>CHAPTER 30</b>	
Negotiating the Deal	773
<i>The Relevance of Negotiation Process. Behavioral Finance. Influencing Bargaining Outcomes: An Overview of the Challenge. How to Prepare for a Negotiation. Managing the Negotiation Process Proactively.</i>	
<b>CHAPTER 31</b>	
Auctions in M&A	790
<i>Auction Structures and Motives. Advantages and Disadvantages of Auctions. Auctions in Practice: The Case of RJR Nabisco. The "Winner's Curse" in M&amp;A: Is It Real? Some Practical Advice to Sellers in Auctions.</i>	
<b>CHAPTER 32</b>	
Hostile Takeovers: Preparing a Bid in Light of Competition and Arbitrage	804
<i>Takeovers Are Games. A Profile of Hostile Takeovers. Beware of the Players, Both on the Field and Off. The Arb Is the Consummate Economic Actor. Interpreting Arbitrage Spreads. The Arb Assesses a Recapitalization Proposal in Terms of Blended Value. Government Constraints on the Game. Selling Shareholders Face a Prisoner's Dilemma. To Set a Bid Price: Think Like an Investor. The Game Has Implications for Design and Defense of Takeovers.</i>	
<b>CHAPTER 33</b>	
Takeover Attack and Defense	824
<i>The Prevalence of Antitakeover Defenses. Profile of the Target of a Hostile Bid. Optionality in Takeover Attack and Defense. Tactics of Takeover Attack. Tactics of Takeover Defense. Implications for the Practitioner.</i>	
<b>CHAPTER 34</b>	
The Leveraged Hestructuring as a Takeover Defense: The Case of American Standard	850
<i>The American Standard Case. The Response. Of Parachutes, Pills, and Litigation. Restructuring Defenses. When Does a Restructuring Make Sensef</i>	

**PART SEVEN**

Communication, Integration, and Best Practice	877
---	-----

**CHAPTER 35**

Communicating the Deal: Gaining Mandates, Approvals, and Support	879
<i>Core Challenges to Effective Communication. Some Guiding Principles for Communicating the Deal. Presenting the "Concept Proposal." Communicating the Deal to the Board for Approval. Communicating with Employees. Announcing the Deal to the Public.</i>	

**CHAPTER 36**

Framework for Postmerger Integration	891
<i>Integration Strategy. Implementation of Integration Strategy. The Case of Union Bank of Switzerland and Swiss Bank Corporation. Integration as Transformation.</i>	

**CHAPTER 37**

Corporate Development as a Strategic Capability: The Approach of GE Power Systems	914
<i>Business Development at GE Power Systems. Deal Process at GE Power Systems. The M&amp;A "Factory": Operationalizing Business Development. Implications for Best Practice.</i>	

**CHAPTER 38**

M&A "Best Practices": Some Lessons and Next Steps	926
<i>Some Elements of M&amp;A Best Practice. Where the Sidewalk Ends. Developing Best Practitioners. The End of It All.</i>	

About the CD-ROM	989
------------------	-----

References and Suggestions for Further Reading	945
--	-----

Index	1001
-------	------