Contents

Preface xi

Chapter 1 Introduction to Mergers and Acquisitions 1
  Background and Terminology 3
  Merger Process 3
  Economic Classifications of Mergers and Acquisitions 4
  Regulatory Framework of Mergers and Acquisitions 7
  Antitrust Laws 11
  State Corporation Laws 12
  Hostile Takeovers 14
  Takeover Defense 16
  Leveraged Transactions 20
  Restructurings 23
  Reasoning for Mergers and Acquisitions 25
  Trends in Mergers 26
  Conclusion 29
  Case Study: Lessons from the Failures of the Fourth Merger Wave 33

Chapter 2 Merger Strategy: Why Do Firms Merge? 41
  Growth 42
  Examples of Growth as an Inappropriate Goal 44
  Using M&As to Achieve Growth 45
M&As in a Slow-Growth Industry as a Way to Achieve Growth 45
Synergy 56
Merger Gains: Operating Synergy or Revenue Enhancements—Case of Banking Industry 65
Industry Clustering 69
Deregulation 71
Improved Management Hypothesis 72
Hubris Hypothesis of Takeovers 75
Winner’s Curse and the Hubris Hypothesis 79
Cross-Industry Deals and Hubris 82
Diversification and CEO Compensation 91
Diversification that Does Seem to Work Better: Related Diversification 92
Merging to Achieve Greater Market Power 95
Do Firms Really Merge to Achieve Market Power? 97
Merging to Achieve the Benefits of Vertical Integration 100
Special Cases of Mergers Motivated by Specific Needs 102
Conclusion 105
Case Study: Vivendi 111

Chapter 3  Merger Success Research 123
Criteria for Defining Merger Success Using Research Studies 124
Takeover Premiums and Control 125
Initial Comment on Merger Research Studies 125
Research Studies 128
Mergers of Equals: Acquirers versus Target Gains 138
Firm Size and Acquisition Gains 139
Long-Term Research Studies 140
Long- versus Short-Term Performance and Method of Payment 142
Bidder Long-Term Effects: Methods of Payment 144
Bidder’s Performance Over the Fifth Merger Wave 144
Conclusion 146
Case Study: Montana Power—Moving into Unfamiliar Areas 150

Chapter 4 Valuation and Overpaying 159
Valuation: Part Science and Part Art 160
Valuation: Buyer versus Seller’s Perspective 161
Synergy, Valuation, and the Discount Rate 169
Financial Synergies and the Discount Rate 170
Toe Holds and Bidding Contests 187
Bidding Contest Protections 188
Overpaying and Fraudulent Seller Financials 191
Valuation and Hidden Costs 193
Postmerger Integration Costs—Hard Costs to Measure 194
Conclusion 197
Case Study: AOL Time Warner 200

Chapter 5 Corporate Governance: Part of the Solution 209
Governance Failure 210
Regulatory Changes 211
Corporate Governance 213
Managerial Compensation and Firm Size 228
Managerial Compensation, Mergers, and Takeovers 230
Disciplinary Takeovers, Company Performance, and CEOs and Boards 232
Managerial and Director Voting Power and Takeovers 233
Shareholder Wealth Effects of Mergers and Acquisitions and Corporation Acquisition Decisions 234
Post-Acquisitions Performance and Executive Compensation 235
Lessons from the Hewlett-Packard–Compaq Merger: Shareholders Lose, CEOs Gain 236
CEO Power and Compensation 240
Do Boards Reward CEOs for Initiating Acquisitions and Mergers? 241
<table>
<thead>
<tr>
<th>Chapter 6</th>
<th>Reversing the Error: Sell-Offs and Other Restructurings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Divestitures</td>
</tr>
<tr>
<td></td>
<td>Decision: Retain or Sell Off</td>
</tr>
<tr>
<td></td>
<td>Spin-Offs</td>
</tr>
<tr>
<td></td>
<td>Involuntary Spin-Offs</td>
</tr>
<tr>
<td></td>
<td>Defensive Spin-Offs</td>
</tr>
<tr>
<td></td>
<td>Tax Benefits of Spin-Offs</td>
</tr>
<tr>
<td></td>
<td>Shareholder Wealth Effects of Sell-Offs</td>
</tr>
<tr>
<td></td>
<td>Rationale for a Positive Stock</td>
</tr>
<tr>
<td></td>
<td>Price Reaction to Sell-Off</td>
</tr>
<tr>
<td></td>
<td>Wealth Effects of Voluntary Defensive Sell-Offs</td>
</tr>
<tr>
<td></td>
<td>Wealth Effects of Involuntary Sell-Offs</td>
</tr>
<tr>
<td></td>
<td>Financial Benefits for Buyers of Sold-Off Entities</td>
</tr>
<tr>
<td></td>
<td>Shareholder Wealth Effects of Spin-Offs</td>
</tr>
<tr>
<td></td>
<td>Corporate Focus and Spin-Offs</td>
</tr>
<tr>
<td></td>
<td>Equity Carve-Outs</td>
</tr>
<tr>
<td></td>
<td>Benefits of Equity Carve-Outs</td>
</tr>
<tr>
<td></td>
<td>Equity Carve-Outs Are Different from Other Public Offerings</td>
</tr>
<tr>
<td></td>
<td>Shareholder Wealth Effects of Equity Carve-Outs</td>
</tr>
<tr>
<td></td>
<td>Under Which Situations Should a Company Do a Spin-Off versus an Equity Carve-Out?</td>
</tr>
<tr>
<td></td>
<td>Shareholder Wealth Effects of Tracking Stock Issuances</td>
</tr>
<tr>
<td></td>
<td>Conclusion</td>
</tr>
<tr>
<td></td>
<td>Case Study: DaimlerChrysler</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 7</th>
<th>Joint Ventures and Strategic Alliances: Alternatives to Mergers and Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contractual Agreements</td>
</tr>
<tr>
<td></td>
<td>Comparing Strategic Alliances and Joint Ventures with Mergers and Acquisitions</td>
</tr>
</tbody>
</table>