Contents

Preface	Xiii
CHAPTER 1 Merger Growth Strategy	1
Strategy and M&A	2
Introduction to M&A	4
Background and Terminology	5 5
Hostile Takeovers	
Takeover Defense	8
Leveraged Transactions	10
Restructurings	12
Trends in Mergers	14
Notes	20
QUARTER O	
CHAPTER 2	01
Growth through Mergers and Acquisitions	21
Is Growth or Increased Return the More Appropriate Goal?	
The Case of Hewlett-Packard	21
M&A Must Fit the Strategy—Not the Other Way Around	24
Strategy Should Not Be Just M&A	25
Organic Crewth or Growth through M&A	25
Acquisition and Development versus Research and Development	26
Can M&A Be Effectively Used to Buy Growth?	30
Success in Core Business Does Not Always Translate to Success	
with M&A Strategy: Focus on Microsoft	31
Growth through Bolt-On Acquisitions	31
Knowing When to Exit a Business	35
From Growth through M&A to Growth through Organic	
Expansion	36
Controlling the Runaway Dealmaker CEO	38
Using M&A to Achieve Growth in a Slow-Growth Industry	40
Squeezing Out Growth in a Slow-Growth Industry Using	4.0
Multiple Options	40

<u>vi</u>	CONT	ENTS
	Dealing with a Slow-Growth Business and Industry	42
	Geographical Expansion through M&A	46
	International Growth and Cross-Border Acquisitions Taking Advantage of Currency Fluctuations to Pursue	47
	High-Growth M&A	47
	Finding Growth in High-Growth Markets	49
	Cyclical Companies Achieving Growth in Recessed Markets	50
	Notes	52
	PTER 3	EO
	Synergy	53
	What Is Synergy in the Context of M&A?	53
	Achievement of Synergy: A Probabilistic Event	55
	Achievement of Synergy: A Probabilistic Event Types of Synergy Industries' Pursuit of Cost Economies	58
	Industries' Pursuit of Cost Economies	65
	Research on Operating Economies in M&A	69
	Economies of Scope	70
	Scope Economies and the One-Stop Shop	72 74
	Copycat Following of Another Firm's Foolish M&A Strategy Cost Economies in Banking Mergers: United States versus Europe	75
	Internationalization Theory of Synergy and Information-Based	
	Assets	79
	Assets Notes PTER 4 Diversification	89
CHA	PTER 4	
	Diversification	91
	Diversifying M&A in the Conglomerate Era	91
	Modern-Day U.S. Conglomerates	92
	Portfolios of Companies	95
	Theoretical Basis for Diversification	98
	Applying Portfolio Theory to Conglomerates?	99
	Diversification and the Acquisition of Leading Industry Positions	100
	Achieving a Number One or Two Ranking Is Not a Panacea	102
	Diversification to Enter More Profitable Industries	102
	Empirical Evidence on Diversification	103
	Empirical Evidence on the Acquisition Programs of the 1960s How Likely Is It That Diversifying Acquisitions Will End Up	103
	Being Sold Off?	104
	Is There a Diversification Discount?	105
	Focus Hypothesis	106

Contents	vii
Types of Ferry Ingresses	106
Types of Focus Increases Focus-Increasing Asset Sales Raise Value	107
Explanation for the Diversification Discount	107
1	107
Related versus Unrelated Diversification Why Are <i>Very</i> Diversified Companies Allowed to Form?	108
Beware of the Empire Builders	111
Do Managerial Agendas Drive M&A?	113
Notes	114
CHAPTER 5	
Horizontal Integration and M&A	117
Advantages of Holding the One and Two Position in the Industry Benefits of Size: Spotlight on the Mobile Telecommunications	117
Industry	119
Motivation to Increase Size	122
Competitive Pressures of Competitors' M&A Program	122
Horizontal Deals: Acquisitions of Competitors and	
Their Competing Brands	124
Sprint-Nextel Horizontal Deal: One of the Worst in M&A	
History	125
Declining Industry Demand Necessitating Industry	
Consolidation	128
Synergistic Gains and Horizontai M&A	129
Net Benefits of Horizontal Deals = Synergistic Gains – (Easy to	
Measure Costs + Hard to Measure Costs)	133
Horizontal Merger Success, Target's Size, and Post-M&A	
Integration Costs	134
Mergers of Equals	136
Mergers of Equals and Challenges of Integration	137
Mergers-of-Equals Research: Acquirers versus Target Gains	139
Competitive Advantages of Horizontal Deals:	
Case Study—InBev and Anheuser-Busch	139
Regulatory Concerns on Merger Integration	141
Horizontal M&A and Market Power: An Economic Perspective	143
Empirical Evidence on Whether Firms Pursue M&A to Achieve	
Market Power	145
Countervailing Power, Industry Concentration, and M&A Horizontal Integration, Consolidation, and Roll-Up	147
Acquisition Programs	155
Notes	156

3GFTOC 03/14/2013 11:10:33 Page 8

viii	CONTENTS
CHAPTER 6	
Vertical Integration	159
Benefits of Vertical Integration	159
Risk and Vertical Integration	159
Vertical Integration as a Path to Global Growth	160
How Owning Your Own Supplier Can Be a Competitive	
Disadvantage	163
Vertical Integration as a Natural Outgrowth of a Business	165
Vertical Integration: A Growth Strategy?	168
Continually Reevaluating a Vertical Integration Strategy	173
Regulation of Vertical Integration	176
Copycat Vertical Integration	177
Note	178
Note CHAPTER 7 Chapter through Empreion Monket MAA	170
Growth through Emerging Market M&A	179
GI-OWEII FIII-OUGH EHIGI-GHIG IVIGIA	1/0
Economic Condition of Major Economies in the Postsubprim	ne
World	180
Low-Growth Markets' Diminishing Returns	181
Role of Demographics	182
The Next 11	183
M&A Is Not Always the Best Way of Accessing	
High-Growth Markets	184
High-Growth Regions and Countries	185
Risks of Emerging Markets	208
Entering Large Slow-Growth Markets Instead of Fast-Growt	h
Emerging Markets	210
Reducing Country M&A Risk: Investing in Local Companies	S
That Engage in Substantial Emerging Market M&A	211
Finding Growth in High-Growth Markets	213
Emerging Market Acquirer	216
China and Its Emerging Market Acquirers	218
Notes	220
CHAPTER 8	
Joint Ventures and Strategic Alliances as M&A Alternatives	221
Contracts versus Joint Ventures	222
Potential Problems with Joint Ventures and Strategic Alliance	
Shareholder Wealth Effects of Joint Ventures	224
Shareholder Wealth Effects by Type of Venture	225

Contents	<u>ix</u>
Relatedness and Size	226
Market's Assessment of Risk of Joint Ventures	227
Strategic Alliances	227
Strategic Alliance Process	228
Shareholder Wealth Effects of Strategic Alliances	229
Shareholder Wealth Effects by Type of Alliance	229
Notes	230
CHAPTER 9 Role of Corporate Governance in M&A	233
Agency Cost Problem	233
CEO Compensation and Agency Costs	235
Do Shareholders Get Value for the High Compensation Paid to	233
U.S. CEOs?	237
Board Characteristics and CEO Compensation	238
Benchmarking and How Boards Determine CFO Compensation	239
Are the High Paid Superstar CEOs Simply Worth the	237
Money? Not	240
Are CEOs Paid for Luck?	241
CEO Compensation and M&A Programs	241
Do Boards Pay CEOs for Doing M&A?	241
Do Boards Punish CEOs for Doing Bad M&As? Case	
of Rio Tinto	242
Golden Parachutes and M&A	243
CEO Severance Payments	243
Are CEOs Evaluating M&A by Thinking,	
"What's in It for Me?"	244
CEO Overconfidence and M&A	244
Are Overconfident CEOs Good for Anything?	245
Management Compensation and Post-Acquisition Performance	245
Role of the Board of Directors	246
CEO Tenure, Board Composition, and the Disciplinary	
Effects of Takeovers	257
Antitakeover Measures	257
Corporate Governance and the Divestiture Decision	259
Notes	259
CHAPTER 10	900
Downsizing: Reversing the Error	263
Analyzing the Strategic Fit of a Business Unit	266
Market Conditions	267

CONTENTS X Regulatory Concerns 267 Divestiture Likelihood and Prior Acquisitions 267 Another Option: Equity Carve Out 268 269 Another Option: Spinoff Spinoff or Equity Carve Out: Which Option Is Better? 270 Another Option: Split-Off 272 Tax Effects 272 Shareholder Wealth Effects of Selloffs 2.72 Round Trip Wealth Effects 274 Spinoffs as a Means of Increasing Focus 274 275 Differences in Types of Focus Increases Shareholder Wealth Effects of Spinoffs: United States versus Europe 278 Corporate Governance and Selloffs 279 Managerial Ownership and Selloff Gains 280 Activists and Selloffs 280 Market Liquidity and the Decision to Sell a Unit 280 **Involuntary Selloffs** 281 Voluntary/Involuntary Selloffs 281 Voluntary Defensive Selloffs 282 **Tracking Stocks** 283 More Drastic Solutions: Voluntary Bust-Ups 285 Recent Major Exceptions to Positive Shareholder Wealth Effects of Selloffs 286 289 Notes **CHAPTER 11 Valuation and Merger Strategy** 291 Financial versus Nonfinancial Buyers 291 Target and Bidder Valuation Effects 293 What Types of Acquiring Firms Tend to Perform the Poorest? 295 295 Premiums Historical Trends in Merger Premiums 296 Stock Market Activity and Merger Premiums 297 Stock Market–Driven Acquisitions 298 **Determinants of Acquisition Premiums** 298 298 Premiums from Strategic Mergers **Hubris and Merger Premiums** 299 Early Research 300 Later Research 300 Winner's Curse Hypothesis of Takeovers 301

Contents	
Campeau's Mega-Bust	302
Research on Winner's Curse of Takeover Contests	304
Market Performance, Valuation, and Takeover Probability	304
Deal Size and Shareholder Wealth	305
Valuation Analysis and Source of the Flaws in Bad Deals	306
Comments of the Residual Value	308
Free Cash Flows	308
Cost Cutting and Historical Free Cash Flows	309
Growth Rate for Projection	310
Capitalization Rates and the Exit Multiple	310
Discount Rate	311
Whose Capital Costs Are We Measuring?	313
Using the Build-Up Method	313
Short-Term Interest Rate Trends	315
Using Comparables	316
Public versus Private Acquirers	316
Public versus Private Sellers	318
Notes	321
About the Author	325
Index	327
Whose Capital Costs Are We Measuring? Using the Build-Up Method Short-Term Interest Rate Trends Using Comparables Public versus Private Acquirers Public versus Private Sellers Notes About the Author Index	
Dr.	

3GFTOC 03/14/2013 11:10:34 Page 12

Atth. I www. 3bookshop.com