This document is comprised of SIX (6) pages.

<u>*ASSIGNMENT SHEET:*</u>
MSIN3004 MERGERS & VALUATION ("M&V") / AY 2016-2017   *Term 2*
COURSEWORK *("CW": 25% of your overall mark)*

Confirming Best Practice Merger Valuation ("MergVal") Methodology: Examination of *At Least* 35 Specific Transactions *NOT* Noted in Your C&M Course Text

This maximum 1,500 word[1] CW is assigned to ALL students on the MSIN3004 M&V register for this term (no exceptions) as of Friday 20[h] January 2017, 1600 London Time. Submission deadline for ALL students (no exceptions) is Thursday 2nd March 2017, 1330 London time[2].

> **MINIMUM REQUIREMENTS:**
>
> **- Synergy v premium financial amounts analyses of *at least* 35 qualifying, historical mergers NOT mentioned or described anywhere in the *Masterminding the Deal* text;**
>
> **- Develop <u>your own, original</u> Value Gap (C&M pp. 92-102) analyses of those 35+ historical deals based on multiple informed sources from your individual research, but also reflecting your own adaptations and supplementary related analyses, as you deem necessary;**
>
> **- Both on a deal-by-deal basis & overall, confirm that your analysed VG predictive results were correct, by comparison to subsequent postmerger indications of deal consequences (e.g., write-downs, as one example).**

---

[1] For purposes of this Assignment, your word count (W/C) calculation is NOT as TurnItIn calculates, but rather, that number MINUS all of the following: cover page and optional abstract at the beginning of your document (abstract up to maximum of 40 words), all references (both in-text *and* bibliographic) appendices. You are to show W/C on this basis on your cover page. *Minimum* acceptable word count as measured by TurnItIn method: 900. Note that the following provisions regarding excess word count per UCL School of Management (SoM) administration note of 3.11.16 apply: "Exceeding the word count… will result in a deduction of 10 percentage points- that is 10 marks, thus a score of 65 would be reduced to 55."

[2] Submission of full documents are accepted only (a) via the TurnItIn drop box as provided for this assignment on the MSIN3004 Mergers & Valuation Moodle site, which will be opened starting a few days before the deadline date, (b) in pdf form, (c) for documents exhibiting TurnItIn Similarities score of less than 40%. For purposes of this CW, whether a submission is late or not is determined solely by the submitted date and time as recorded in the TurnItIn drop box. Be aware that even slight lateness is subject to potentially substantial penalties per the current version of the *UCL SoM Guidelines for Students.* You are responsible for obtaining that document and understanding its terms, including regarding lateness and extensions, which are rare. In the event of any questions regarding these last two issues, your sole contact is the administrator for this course, Ms Sadia Begum (s.begum@ucl.ac.uk).

This document is comprised of SIX (6) pages.

CAPSULE DESCRIPTION

This individual[3] CW Assignment calls on you to apply today's prevailing merger valuation ("MergVal") methodology or methodologies for acquirers (with secondary method back-up, when and as necessary) per Ch. 3 of your *Masterminding the Deal* ("C&M") course text to at a *minimum* of 35 qualifying transactions *not* included or noted anywhere in the C&M text.[4]

Your essay will correlate a series of convincing and unambiguous indications of *post*-transaction collapse (one possibility, out of many: double digit percentage write-down of the target's recorded carrying value by buyer) to a wide and representative range of qualifying historical mergers not already included or mentioned anywhere in *Masterminding the Deal.*

Your objective: to affirm the anecdotal evidence (C&M, Chs 3, 4) plus overall evidence (C&M, pp.169-175) that "MergVal" works— that is, that accurate premium-synergy component-detailed diagnoses made at the time of merger announcement is a highly accurate indicator of future M&A consequences.

BACKGROUND

Premium-synergy methods for assessing acquirers' merger performance were first identified in 1974 (Stern, *Earnings Per Share Don't Count*). In 1991, such techniques were noted as one of the primary bases for distinguishing financially-viable deals from non-viable transactions (Clark, *Beyond the Deal*). Premium-synergy has arguably been dominant in Western financial markets since around the mid-'00s; not coincidentally that was the same time that qualitative criteria of the Bruner/Brouthers/Epstein type became widely debunked.

Premium-synergy's ascendancy corresponds with widespread displacement of deal closure-based interpretations of merger "success" with perspectives that instead emphasise financial interests of acquiring firms' continuing shareholders (C&M pp. 70-71). By definition according to Rational Market Theory, even modest purchase premiums represent potential value destructive overpayments as those amounts exceed the full and complete worth of the company as of the Expression of Interest (EoI) analysed date, before the would-be acquirer's bid. Unless the analysed present value of a diverse range of potential synergies (See C&M, p. 222) convincingly meet or exceed the correctly analysed Acquisition Purchase Premium (APP) *amount*[5], MergVal indicates deal failure.

---

[3] Groupwork includes any and all collaboration with any other student or other party, including but not limited to: discussions about approach, collaboration on sources, sharing of either VG or postmerger consequence data, etc. Groupwork is the same as plagiarism for purposes of this CW.

[4] Both acquirers and acquirees (targets) must already be publicly traded companies at the time that merger terms were agreed in the past. Qualifying countries of acquirers and targets: United States, United Kingdom, France, Germany, Canada, Netherlands, Switzerland ONLY. At least 10 percent of your examined transactions or 4 deals (whichever is greater) must be transactions in which the merger is deemed to be "successful" according to your VG analysis. Your deals considered must involve at least two distinct and separate merger cycles. Care should be taken to avoid possible selection biases and distortions caused by limiting your choices to just one or two of the phases in a 4 phase merger cycle. You are cautioned to first consider whether or not there are postmerger developments which confirm the original VG diagnosis, as without that, your document is only partially complete. Thirty-five is the absolute minimum number of historical mergers; larger qualifying sample sizes are often viewed by evaluators as more reliable. Earliest transaction date for mergers considered: 1.1.80. It is strongly advised that you do **not** submit any mergers for which you do not have more than one source of reliable insight into premium and synergy amounts, along with components comprising each VG element. You are expected to anticipate and adjust for commonplace errors in calculating premium and synergies (e.g., as described in C&M p. 222 regarding Net Realisable Synergies, NRS). Neither bottom-trawler (C&M pp. 151-152) or Mergers of Equals (MoEs)-type transactions are to be included in your transactions list

[5] The italics are deliberate. Whilst APP *percentages* may be useful as a reference point for bid ceilings (C&M, pp. 96-97), (a) ever-rising target company share prices during the merger cycle and (b) anticipatory APP, may cause distortions especially in the second half of thel M&A wave. You are strongly advised to take this into account in your analyses in this CW.

SOME *ILLUSTRATIVE*[6] EXAMPLES OF CHARACTERISTICS OF SUPERIOR AND INFERIOR CWs

'Non-creditable'

- Hurried CW effort developed over the final two weeks before deadline, and it shows: slight re-phrasing of online media pieces from 1-2 Net web-cruising sources for many/most merger VG analyses. Those unimpressive sources may be rendered even less credible because of summary-level premium-synergy guesses providing little or nothing in terms of essential components of premium and synergy.

- Submitter is unable/unwilling to distinguish between (only) slightly disguised pop-biz media pieces developed by biased prosletisers of the deal, and far more credible analysis and insight from upper echelon investigatory sources[7] (some advance indicators of the former: non-existent premium-synergy analysis altogether, arguing non-financial motivations/rationales as justification for questionable deals, pretending that a statistically highly remote possibility of synergies exceeding premium justifies proceeding with the transaction);

- Besides double-digit write-downs (as already suggested to you in this document, in one form), there is little or no further development by the student of any other primary POST-merger events or indications which affirm that the transaction's original VG analysed judgment was correct;

- Reliance on simplistic analysis formulas which sometimes mislead: for example, one organisation's penchant for 'capitalising' imagined after tax synergies on a 10x boilerplate multiple basis. While easy to calculate, that particular formula implies that synergies have ongoing effect, in sharp contrast to the fact that most types endure less than one business cycle;

- On a transaction-by-transaction basis, analysis does not take safeguards to protect against commonplace errors in APP calculation (e.g., subjective determination of 'undisturbed price' instead compared to systemic EoI analysis) or/and errors caused by incomplete NRS calculation (C&M, p. 222);

- Absence of an easily comprehended concluding section that pulls together key parts of your two-part (VG analysis versus postmerger confirmation) research investigation. Stated another way, conclusion fails to show *how* and *on what basis* your detailed diagnosis of postmerger indicators affirms the earlier "MergVal' adapted VG analysis by you;

- Specifics of qualifying transactions as clearly specified in this document (FN 4) are disregarded. Concentrations of transactions in phases of the M&A cycle raise concerns about distorted analyses. There is insufficient use of back-up confirming analysis approaches to premium-synergy when late phase deals and/or target company share price movements mandate such supplementary analyses;

- 35 sample size treated as a goal, rather than a minimum. As the connection between VG diagnosis and postmerger confirmation is sometimes imprecise, pursuing just the minimum acceptable sample set number (n) raises the risk of an inconclusive overall analysis;

- Confusing mere merger motivations (or excuses, as 2/3 of all deals fail), with exacting premium-synergy merger success diagnosis. Stated another way, the student disregards

---

[6] For purposes here, "illustrative" means indicative but not definitive—Do NOT use this as a 'checklist', but rather, as directional. Seek to exceed the "praiseworthy", ensure that you far exceed *all* of the "non-creditable" characteristics.

[7] The publications recommended for students' ongoing reading during term gives some explicit hints at some the more highly regarded (as assessed by the financial community at large) intelligence sources. Do NOT presume that any one source has addressed this challenge in full or even close; they have not, and your mistaken reliance on that one source will work against you, as indication of inadequate research effort and result (evaluative criteria A).

"success" per C&M Ch. 3 and instead merely parrots what often under-knowledgeable pop-biz stringers assert in online or print media;

- Meandering exposition: this means avoiding the CW's required work and instead substituting broad overview bromides about the issue at hand (in this case merger success). Make no mistake: merely restating the background information slightly related to this CW topic merits *zero* credit, as the essence of the assignment remains undone;

- Reliance on *Investopedia* and/or blogs. Your document is poorly organised, imprecise and employs confusing language, typographical errors 'references[8] padding': loading up your bibliography with numerous sources gleaned from papers you encounter but which in reality have little to do with the core document (thus often causing the opposite of intended impression).

'Praiseworthy'

- Reflects your early, in-depth understanding (from C&M Ch. 3) of both key components in MergVal-based analysis overall, as well as the issues and calculation nuances related to all of the key elements comprising both "premium" and "synergy".

- You treat the 35 transactions as a beginning; as necessary, you proceed with additional analyses as necessary to advance the completeness of the two dimensions of your investigation (original financial VG analysis, subsequent postmerger event or development confirming that analysis);

- Understanding that reliable, suitably detailed premium and synergy diagnoses is at times challenging to obtain, you stick to major transactions covered by the more credible M&A diagnosis sources, and then seek confirmation or disagreement from differing perspectives. You augment this with your own analyses, using published insight and guesses as possible component information for your consideration (Note: this is deliberately the *opposite* of merely repeating the guesses of 1-2 under-knowledgeable sources as described above in 'Non-creditable');

- Your perspective on POST-transaction evidence of 'merger failure' is extensive and well analysed, going far beyond the one possibility mentioned in this document. Your analysis of this range of multiple post-merger partial or full fail indicators are well-organised and carefully calibrated to the >35 sample set of VG diagnoses pertaining to the date the deal was originally announced;

- An abstract of less than 40 words summarises key points and findings, as shown the beginning of your CW submission;

- Appendices are never misused as either (a) a mechanism for overly verbose points of analysis and conclusions that are instead reasonably considered as "central to the core thrust of the coursework" (per SoM 3.11.16 guidance) as you receive no credit in those instances, or (b) as a 'data-dump' for quantities of non- or under-analyses data from accessed sources:

- Conclusions are succinct, directly related to the information[9] developed by you, and aligned with your key information sources as identified in your references list (bibliography);

-In especially well-designed and executed CWs, the analysis and supporting data extend beyond the basic pre- post- correlation issue to more detailed analysis on relevant variables of your choosing. Possible examples amongst include but are not limited to industry of

---

[8] Referencing is per Harvard Citations only—use the Power Point found on the M&V course home page. Addition: In-text references are to include the page or pages from which you accessed that insight or fact; this in an additional requirement, for this CW only.

[9] All sources including access are wholly responsibility of the student, so please do enquire about that. Repeat of a previous warning: by deliberate design, this is NOT a paper topic directly addressed in general media sources, so deal-by-deal diagnosis starting early after the assignment is made on 20.1.17 is important to your success.

acquiring firm, amount of negative Value Gap, or variations by time either *inter*-cycle (2002-2007/8 period compared to present wave), or intra- (C&M Ch. 1, also Keys to Merger Success No. 2, C&M Ch. 8).

APPROXIMATE BASIS FOR EVALUATION

As this CW is a **research-based, analysis-honed assignment**, the marker/evaluator's overall first assessment will be significantly influenced by the following overriding question:

> *Has this student merely hurriedly compiled and arranged various random information in a manner that demonstrates (late) effort but little more, OR is this is a substantial piece of interpretative research and analysis confirming this student's firm command of the key messages in C&M Ch. 3 and related issues?*

A. Adaptive Analysis Database Development : ~45%

The critical differences between superior and inferior source premium-synergy analysis should be clear to you from the preceding section. Do you simply quote some newspaper stringer's flippant M&A quips made on whatever excuse is spouted by the facilitating banker's PR office? OR, do you logically pursue the analysis of luminaries in the MergVal field who have demonstrated deep comprehension and application of premium-synergy analysis? Having obtained those insights as a start point, do you then develop and improve upon them with your own further diagnosis and as necessary, adaptations?

B. Aligning MergVal Merger Success/Failure Indications With Post-Merger Confirmation ~35%

Even a highly developed base of example transactions is of limited use for purposes of this CW until and unless affirmed by later tangible evidence of the deal's collapse.[10] Issues relating to that required aspect of this CW are noted in the part preceding. The evaluator/market will ask herself/himself whether or not the post-merger indicators you designate (individually or collectively) are sufficient to making a convincing case of merger success or failure as indicated by the VG analysis corresponding to the deal announcement date.

C. Aligning MergVal Merger Success/Failure Indications With Post-Merger Confirmation ~12%

Is the document 'brought together' in a manner that clearly and explicitly addresses the stated objectives for this coursework? Or conversely, is it disaggregated, and confusing to the reader, lacking substantiation for major and minor conclusion statements?

D. Readability and 'Presentability': 8%

Is the document readable and easily understandable? Fully and properly referenced? Is appropriate grammar, syntax and spelling used throughout the submission? Are cut-and-paste exhibits avoided and only newly constructed (by the student) exhibits presented, instead?

FINAL CAUTIONARY REMARKS- *READ AND HEED!*

1) The very extensive time available to do this assignment means that an especially high quality of work is expected.

You have almost six full weeks to complete this assignment. CWs of this type which are started with only 1-2 weeks until deadline are easily spotted by evaluators using a number of

---

[10] Except possibly in instances of 'blown up on the launch pad' mergers (consensus or near-consensus of informed MergVal commentary simultaneously condemning the deal as decisively non-viable), this suggests the requirement to build in a pre-post time gap, for sample transaction selection purposes.

standard indicators and are almost always found to be deficient. Such last minute, slipshod efforts will compare starkly (and adversely) with some top students' efforts, so e*nsure you are part of that second group!*

2) Be especially wary of acquirers' self-serving, often grossly inaccurate propaganda about achievable synergies as reported in media. Do not be duped; often these are throwaway statements intended merely to slightly reduce financial community uproar about a bad deal.

NO acquirer openly admits that his/her deal is a flop at the time the transaction is announced-that would in effect be an admission of gross mismanagement and incompetence. Nonetheless, two-thirds of all deals fail and thus much of what is reported by media is throwaway propaganda originating from the buyer or his bankers. Precedent suggests that the only instance when such bombast has minimum credibility is when BOTH of the following conditions exist: (a), the acquirer has a well-established reputation for conservatism in its premium-synergy calculations and statements, and (b), other credible analysts-commenters with no alignment to (and not influenced by) that deal's protagonists confirm some or all of the buying group's often overly-optimistic assertions.

3) Ensure that you have made advance arrangements for transmission of your document well before the deadline date and time

Especially for a coursework assignment with this extremely extensive period available for Assignment completion, you are advised to assume that there are absolutely NO excuses for asking for extensions based on transmission difficulties occurring near the deadline date (2.3.17) and time (1330, London Time). Plan in advance.

OTHER

Neither the Course Leader nor the Post Graduate Teaching Assistant (PGTA) will be drawn on any queries (via email, only: peter.clark@ucl.ac.uk) pertaining to the following *so kindly do not ask* about*:* analytical methodologies, identification of and/or access to possible research information sources, maximum sample sizes (n), postmerger success/failure indicators (besides those indicated already in this AS).

To help ensure that you get off to a fast start on this assignment (students in past years have learned that they require the FULL time allowed), it is customary to impose a query moratorium. At a minimum, this encourages you to read this entire AS soon after this coursework is assigned on 20.1.17. The moratorium date for this CW on the last day of January, 2017. There are no 'example papers' available to you about this original topic, so please do not request: they don't exist. Advance readings of draft documents prior to submissions is never possible, either by the Course Leader or PGTA, so kindly do not enquire about that either.

As is customary for UCL School of Management (SoM) Assignments of this type, final marks are subject to multiple possible evaluators-markers and also to review by an internal examiner. 'Re-reads' or re-evaluations are never possible, so kindly do not request either of these or comparable after grading. The basis for evaluation for this Assignment is considered to already be fully complete and accurate, and academic judgment applied in marking is *not* a matter for deliberation or discussion with the student.

As this CW has a 25% weight in the course assessment overall, you need not necessarily receive a passing mark in this assignment in order to pass the M&V course overall, depending of course also on your final exam mark (75% of overall M&V course mark). However, students who fail to either (a) submit this CW on a timely basis by the deadline specified herein, or (b) submit a paper deemed to not represent an earnest effort to meet the requirements and parameters as outlined in this Assignment Sheet, might possibly find that they are denied the right to sit for this course's final unseen exam.

Best of luck! *pjc*

This document is comprised of SIX (6) pages.