

Due Diligence: *Preparation for public and private equity transactions*

Instructor

Clinical Professor of Finance Joseph A. Swanson

Business: President, Jos. Swanson & Co.

E-mail: joes@kellogg.northwestern.edu

Telephone: (847) 467-0735

Mobile: (262) 909-5399

Facsimile: (847) 491-5719

Reading Materials

A. R. Lajoux and C. M. Elson. *The Art of M&A Due Diligence*. (McGraw-Hill, 2000; ISBN 0-7863-1150-9). {Hence forth noted as *L-E*.}

R.F. Bruner. *Applied Mergers and Acquisitions*. (John Wiley & Sons, 2004; ISBN: 0-471-39505-6). {Hence forth noted as *RFB*.}

10 copies of the above two texts will be on the reserve list at Northwestern University Library.

R.A. Brealy, S.C. Myers & F. Allen. *Principles of Corporate Finance, 8th Ed.* (McGraw-Hill, 2006; ISBN 0070074178). {Hence forth noted as *B-M-A*.}

This is the primary text for FINC 430, FINC 431, and FINC 440. It follows that all class participants will have a copy of this text available to them.

FINC 938A Case Packet

Course Outline & Assigned Readings and Cases

Session 1a. 6-Jan-09

Motivation: Mergers and Acquisitions occur in poorly-understood waves. Further, most M&A results prove unsuccessful; what do we know about this?

READING:

Review *B-M-A*, Chaps. 5-7, 10-12, 20-21, 33-35.

Case Packet #1: **Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave.** S. B. Moeller, F.P Schlingemann & R.M. Stulz. *The Journal of Finance*, 60(2): 757-782 [April 2005].

Case Packet #2: **Do Long-Term Shareholders Benefit From Corporate Acquisitions?** T. Loughran & A.M. Vijh. *The Journal of Finance*. 52(5): 1765-1790 [December 1997].

Case Packet #3: **Meta-analyses of post-acquisition performance: indications of unidentified moderators.** D. R. King, D. R. Dalton, C.M. Daily & J.G. Covin. *Strategic Management Journal*, 25(2): 187-200 [February 2004].

Well, understand this: as exciting as the popular press reports on M&A appear, there is much to be learned—for the effective results fail to measure up to prospective reporting. We will discuss these topics: [a] the recent history of “waves” in M&A activity, [b] recent, and longer-term results in M&A performance. These discussions will be focused on a better understanding of how to construct joining firms (or subsets of them).

Session 1b. 6-Jan-09

Introduction: Due Diligence — practice, participants & principles

READING:

L-E, Chaps. 1-4

Case Packet #4: **Foundations of the Net Present Value Rule** (Excerpt from *B-M-A*, 8th Ed.)

Cf.: <http://www.mhhe.com/business/finance/bm/npv.mhtml>.

Case Packet #5: **Making the Deal Real: How GE Capital Integrates Acquisitions.** R.N. Ashkenas, L.J. DeManaco & S.C. Francis. *Harvard Business Review*. [Jan-Feb 1998, reprint #98101]. *This reading is anticipatory of our Session 5.*

Case Packet #6: **From Competitive Advantage to Corporate Strategy.** M.E. Porter. *Harvard Business Review*. [May-June 1987, reprint #87307]. *Do not be fooled by the title. This classic "strategy piece" provides a comprehensive framework for identifying risk elements in due diligence.*

Understanding how the process works, and distinguishing corporate mergers and acquisitions from private equity purchases. This provides an overview that states the signal elements of the work, and places special efforts on leverage elements and cost of capital in these transactions. This discussion will be squarely linked to prior Kellogg instruction in the FINC 430 & 441, or 440 courses.

Session 2a. 13-Jan-09

Avoiding Failure: Some theoretical and practical notes

Case Packet #7: **Anomalies: The Winner's Curse.** Richard H. Thaler. *Journal of Economic Perspectives*, Vol. 2, No. 1 (Winter, 1988), pp. 191-202

Case Packet #8: **Where Mergers Go Wrong.** S.A. Christofferson, R.S. McNish, and D.L. Sias. *McKinsey Quarterly*. [2004, No. 2], pp. 92-99.

Case Packet #9: **Reducing the Risks of Early M&A Discussions.** S. De Smedt, V. Totorici, and E. van Ockenburg. *McKinsey on Finance*. [2005, Autumn], pp. 5-10.

Case Packet #10: **Habits of the Busiest Acquirers.** S.A. Christofferson, R.S. McNish, and D.L. Sias. *McKinsey on Finance*. [2006, Summer], pp. 8-13.

Case Packet #11: **Human Due Diligence.** David Harding & Ted Rouse. *Harvard Business Review*. [Apr-2007, reprint R0704].

Session 2b. 13-Jan-09

M & A Integration Designs

Presenter: Kristin Ficery, Partner in M&A Integration Practice, Accenture

CASE: **U.S. Telecom Company** [2007, Accenture]

