

Teaching Mergers and Acquisitions Through a Multi-Module Debate Format

H. Shelton Weeks
Florida Gulf Coast University

J. Howard Finch
Samford University

The topic of mergers and acquisitions is often slighted, if not totally omitted, in undergraduate finance curriculums. This paper details a multi-module model used in the capstone financial policy class to provide students with hands-on experience and industry feedback in the methodology, considerations, and objections to corporate merger proposals. The model incorporates required outside readings, extensive use of a Bloomberg terminal, student group assignments, industry coaches and judges that utilize a debate format to encourage students to promote and defend both sides of real-world merger proposals. Pedagogical benefits include integration of business professionals within the modules, enhancements of oral and written communication skill, increased understanding of the quantitative factors that motivate M&A activity, and development of content depth through required readings and the presentation of materials on the subject matter.

BACKGROUND AND INSTRUCTIONAL OBJECTIVE

A casual perusal of the table of contents of most financial management texts utilized at the undergraduate level indicates that, if covered explicitly at all, the chapter on mergers and acquisitions (M&A) typically is in the latter portion of the book (see, for example, Brigham and Houston (2022) or Block, Hirt and Danielson (2019)). Instructors are often confronted with the choice of covering this material versus other topics which students are more likely to encounter early in their professional careers. However, corporate mergers regularly appear in the financial press on topics of importance, both as attempts to create value for investors and for corporate management and strategy considerations. To encourage an in-depth treatment of the subject matter, this paper details a multi-module series of assignments designed for students to take ownership of an actual proposed corporate merger through research, executive coaching, formal debate, and feedback from industry professionals. The M&A module series has been tested in the capstone undergraduate financial policy course at a state university over several years, with considerable success.

THE MODULE FORMAT FOR TEACHING MERGERS AND ACQUISITIONS ACROSS MULTIPLE CLASSES

Rather than teaching mergers and acquisitions from a textbook chapter of material, the following exercise is broken into discrete modules that allow the topic to be examined through multiple requirements over a series of distinct class meetings. The module format allows instructors flexibility to enhance, or reduce, individual requirements while still maintaining an integrated approach that promotes student engagement with the subject matter.

MODULE 1: BACKGROUND RESEARCH REQUIREMENTS

The first requirement is for students to research the overall literature and history of corporate mergers and acquisitions. Students are assigned a series of outside readings from (mostly) practitioner periodicals designed to develop background understanding. Sources include periodicals such as the *Wall Street Journal* and *Harvard Business Review*, industry advisory services such as publications from McKinsey and Company and Merrill Corporation, and outlets that serve industry professionals such as CFA Institute articles. Pedagogical outcomes from the assigned readings include the development of student understanding on general topics associated with merger proposals, detailed in Table 1 below.

Table 1. Topics Covered in Background Readings from Module 1.

Assigned Reading Topic	Parties Impacted by Proposed Merger
Motivation for Merger	Investors, Managers, Employees
Form of Combined Corporation	Legal, investors, tax, and regulators
Regulatory and Anti-Trust Issues	Legal, investors, tax, and regulators
Impacts on Stakeholders	Customers, Employees, Competitors
Potential Synergies	Investors, Managers, Employees

The results of the student research can be evaluated in a variety of ways depending on the time constraints faced and preference of the instructor. Given the breadth of the M&A topic list above, it is likely best to have the students work on this assignment in teams of three to four students. One approach is to simply have each student team prepare a 5 to 7 page M&A primer that addresses each of the topics listed above. Alternatively, the student teams can be required to prepare an 8 to 10 minute presentation that addresses each of the same topics. A third alternative is to follow either of the preceding approaches but with the added feature of having the students prepare their submissions or presentations in the context of the specific deal currently under consideration.

While access to Bloomberg terminals is not a strict requirement for the first module, the student learning experience under the third alternative above can be greatly enhanced by requiring them to use the terminals to research the deal and conduct their analysis. If time permits, students can be engaged in the deal selection process. However, doing so will likely require the commitment of at least one full class meeting. This session can be conducted utilizing the Bloomberg mergers and acquisition “MA” function to search pending deals in Bloomberg. The identification of the current deals using the terminal can be used to facilitate a discussion of the merits of each and the ultimate selection of a deal to be the focus of the module. Since the volume of M&A activity tends to vary greatly across time, in periods with high levels of activity the instructor may need to steer the class toward the discussion of a select subset of current deals in order to complete the selection process in a single period.

Once a pending deal is selected, the terminals may be utilized to examine the acquiring firm’s history of M&A activity using the Buyer Profile “BUYP” function in Bloomberg. This analysis allows students to place the current deal in the context of the firm’s previous activity and, subsequently, better gauge the reasonableness of the terms and probability of success. Another excellent tool for students to utilize in their examination of the deal is the Bloomberg Merger Calculator which is available in the Excel template library. The merger calculator template is one of over 100 templates that are available for download through the Bloomberg terminal that can be downloaded at no additional cost to the user. The template requires students to enter some basic information from the deal and provides a structured approach for them to conduct a pro forma merger analysis, examine the premia at various prices, construct a pro forma balance sheet and pro forma income statement, examine the target & acquirer ownership structure and revenue mix, and conduct debt retirement analysis. Completion of the analysis using the Excel template will allow students to understand the key financial issues surrounding the deal more completely.

In addition to using the Bloomberg terminals to conduct analysis of the deal, students should be encouraged to utilize the Filtered Custom News for Mergers and Acquisitions “NSE MNA” function to monitor market commentary surrounding the deal. While there will be a tremendous amount of material regarding a proposed deal on the web pages of the firms, the instructor should point out the fact that students must go beyond the “party line” presented on the company’s web page in order to accurately assess the merits of a proposed deal. Students should be encouraged to monitor the current news related to the deal since issues such as anti-trust have the potential to kill a deal.

MODULE 2: TEAM AND COACH ASSIGNMENTS

Once the students have completed the assigned readings and the ensuing class discussion to insure broad-based conceptual understanding, the second module is used to introduce the specific M&A proposal under consideration. An actual recent or on-going merger proposal is selected, and industry executives are recruited to serve as “coaches” for each assigned student team. Ideally, coaches will have actual M&A experience, but if that isn’t feasible then the selection criteria should highlight corporate managerial experience. Each team is assigned one side to prepare for an in-class debate with the Pro team arguing in favor and the Con team arguing against the following resolution: *Resolved: The acquiring firm’s shareholders should vote to accept this deal because it will add long-term value to the firm.*

Even though the group will ultimately present the (assigned) side of support or rejection for the resolution, the process of preparing to debate forces all students to consider both sides of the argument in preparation for the debate. The coaches now assist the student teams in utilizing the concepts from the Module 1 assigned readings to this specific merger proposal under consideration. The topics in Table 1 provide focus, as well as an attempt at valuing the outcome from the perspective of the target firm investors, the acquisition firm investors, and the other stakeholders in the outcome. Students are forced to apply the background concepts from the literature, while benefitting from the experience and insights of the coach. As the students develop their ideas for support for or rejection of the resolution, they gather the deliverables required for Module 3. Coaches should encourage their teams to view the deal through the eyes of their opponent as they prepare for the debate. This requires the students to consider the likely stance of their opponents and issues they will raise in support of their position.

MODULE 3: FORMAL DEBATE PRESENTATIONS

To facilitate the debate, a second group of industry professionals are recruited to judge the competition. Each student team is required to prepare a formal presentation (alternatively a white paper) to be used in support of the actual debate and supplied to the debate judges. Table 2 details required components of the presentation.

Table 2. Module 3 Primer for Debate Presentation.

Topic
Is this a hostile or friendly takeover? How was the merger initiated? Is shareholder or board approval required?
What are the terms and conditions of the offer? How is the deal financed?
What is the motivation for the deal? Identify the main drivers of the merger.
What specifically is the acquiring firm targeting? Technology? Customers? Content?
Discuss the impacts on market access and the resulting change in market share of the acquiring firm.
What is the purchase price multiple? What valuation methodology is used?
Discuss the expected synergies from the merger. How much value is added?
Is the deal accretive or dilutive to EPS? Under what assumptions does the deal become more or less attractive to shareholders?
Does the deal make sense strategically? Are there integration risks? What does the firm’s track record say about the probability of successful integration? Are there potential cultural issues?
Discuss any regulatory hurdles the merger presents. What is the probability of it being blocked by the Federal Trade Commission “FTC” or Department of Justice “DOJ”?
What is the probability of other bidders? If it is highly accretive, could a bidding war result?
What effects will the merger have on the ESG impacts of the acquiring firm?
Estimate the pre-and-post capitalization of the acquiring firm.

The debate structure adds a competitive component to the coverage of the material that can have a significant positive impact on the learning outcomes. The instructor should inform the students that the outcome of

the debate will directly impact their grades for the module with the winning team receiving a higher grade for the group portion of the module. This has a significant impact on student motivation and can be reinforced by coaches who clearly express their desire to win the debate.

The instructor likely has some knowledge of the personalities and abilities of the students and should strive to divide the class into evenly matched teams. Table 3 presents the debate structure and student roles. The assignment of student roles should take place in the meeting with the team coaches. During this process the coaches should talk the students through the process of the debate and explain the task associated with each role during the debate. While it carries a title that often attracts students, the role of team captain is probably the least demanding. Team Captains are tasked with introducing the team members, describing the role each will play in the debate such as presenting constructive arguments, rebutting the opponent or making closing arguments. The team captain will also provide a brief opening statement. Following the opening statement, the team captain will assume the role of note taker/debate manager for their team, monitoring the statements made by the opponent and looking for opportunities to swing the debate in the favor of their team. The constructive arguments in which each side lays out their side’s justification for their positions follow the opening statements. While Table 3 only shows each side with 2 constructive arguments, the size of the teams and nature of the deal may dictate that 3 constructive arguments be used by each side. Following the constructive arguments, a five-minute break is taken during which the teams confer with their coaches and review the constructive arguments made by their opponents and determine their strategy for the rebuttal phase of the debate. Because neither side can be completely sure what the other will put forward in their constructive arguments, the students selected to do the rebuttals should be capable of thinking on their feet and addressing the raised issues in a manner that supports the team’s position. As with the constructive arguments, the rebuttal section can be expanded to include three speakers on each side if the size of the teams and nature of the deal dictates. Another 5-minute break follows the rebuttals during which the coaches and teams meet to formulate their strategy for closing arguments. The outcomes of many debates hinge on the strength of the closing arguments and there is a degree of ambiguity in what the students in these roles will need to say/emphasize. Consequently, it is best to have the team’s strongest member in this role. Following closing arguments, the judges will leave the room in order to confer and determine a winner.

Table 3. Debate Structure.

Student Roles & Breaks
Team Captains (Introduction of Team Members & roles, Opening Statement)
Constructive Argument 1 (3 minutes, Pro team goes first)
Constructive Argument 2 (3 minutes, Pro team goes first)
Break 1 (5 minutes, teams confer with coaches – strategy to address points from opponent’s CA)
Rebuttal 1 (2 minutes, Con team goes first)
Rebuttal 2 (2 minutes, Con team goes first)
Break 2 (5 minutes, teams confer with coaches – strategy for closing arguments)
Closing Argument (3 minutes, Pro team goes first)
Judging & Feedback (Judges confer to determine a winner, provide oral feedback to students)

The debates are held in front of the industry judges, who ultimately vote on the “winners.” Winners are judged based on a rubric (see Appendix 1) provided to the judges. Additionally, each group turns in a written report that summarizes the research and responses to the debate topics listed in Table 2, to be graded by the instructor. Students are then required to evaluate the contributions of other group members, as well as the value added of the coach assigned to the group. Ultimately, this series of modules focused on mergers and acquisitions accounts for 10-20% of the overall course grade.

LEARNING OUTCOMES AND CONCLUSIONS

While the topic of mergers and acquisitions is often slighted in terms of coverage in finance programs, it provides an opportunity for extremely beneficial engagement between students and industry professionals. The use of pending deals, as opposed to stale textbook cases, increases relevance for students and allows for the utilization of the technology of Bloomberg terminals in the analysis of the deals. In addition to providing a lens through which students can more fully understand the drivers of M&A activity, the debate structure of the module provides opportunities for students to work as teams while being guided by seasoned industry professionals. The format allows for a great deal of flexibility in implementation based on time constraints, class size and the complexity of the deal under consideration. Finally, the dynamic learning process also allows students to develop their written and oral communication skills.

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RESOURCE LIST

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