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APPLIED  
MERGERS  
& ACQUISITIONS  
UNIVERSITY EDITION

ROBERT F. BRUNER

FOREWORD BY JOSEPH R. PERELLA





Applied Mergers  
**and Acquisitions**

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# Applied Mergers **and Acquisitions**

ROBERT F. BRUNER



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To  
*Jonathan E. Bruner*  
and  
*Alexander W. Bruner*

- 1221 Hafast þū gefēred, pæt ðē feor ond nēah  
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Efne swā sīde swā sæ bebūgeð  
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- 1841 þē þā word-cwydas wigtig Drihten  
On sefan sende;

*Bēowulf*

## About the Author

**R**obert F. Bruner is Distinguished Professor of Business Administration and Executive Director of the Batten Institute at the Darden Graduate School of Business Administration, University of Virginia. He teaches the course “Mergers and Acquisition” in Darden’s MBA program, and is the faculty director of Darden’s executive education program, “Mergers and Acquisitions.” He has received numerous awards for teaching and casewriting in the United States and Europe. *BusinessWeek* magazine cited him as one of the “masters of the MBA classroom.” He is the author or co-author of over 400 case studies and notes, and of *Case Studies in Finance: Managing for Corporate Value Creation*, now in its fourth edition. His research has been published in journals such as *Financial Management*, *Journal of Accounting and Economics*, *Journal of Applied Corporate Finance*, *Journal of Financial Economics*, *Journal of Financial and Quantitative Analysis*, and *Journal of Money, Credit, and Banking*. Industrial corporations, financial institutions, and government agencies have retained him for counsel and training. He has served the Darden School, professional groups, and community organizations in various positions of leadership. Copies of his papers and essays may be obtained via his web site, <http://faculty.darden.edu/brunerb/>. He may be reached by e-mail at [brunerr@virginia.edu](mailto:brunerr@virginia.edu).



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# Foreword

Joseph R. Perella  
*Chairman of Institutional  
Securities Group  
Morgan Stanley*

**T**he Chinese expression for crisis—*wei ji*—combines the character “risk” with the character “opportunity.” Mergers and acquisitions (M&A) transactions are opportunities that bear some considerable risk. For more than 30 years as an M&A professional, I have encountered many opportunities and risks; but I am still as excited about my work as when I started in this business in 1972. Nonetheless, things have changed since then.

The M&A environment has always been a fast-paced, highly complex world where transactions can be arranged in a matter of days and where the values involved often exceed billions of dollars. For more than two decades, M&A activities have captured the general attention of the public and motivated many young, intelligent, and ambitious people to pursue careers as M&A professionals at investment banks, consulting companies, and law firms across the world. In fact, the flow of M&A business reached unprecedented levels in the late 1990s. In 2000, the dollar volume of worldwide M&A activities reached approximately \$3.2 trillion through over 3,000 transactions. Of these, approximately half involved U.S. parties and seven transactions had values of \$10 billion or more, including the Time Warner/America Online transaction valued at \$182 billion. Two years later, the dollar volume of worldwide M&A activity was one-third of the 2000 peak, at approximately \$1.0 trillion.<sup>1</sup> It is uncertain if we will revisit the levels attained in 2000 again, but no one doubts that M&A activity is an integral part of corporate strategy.

It is important to realize that popular images are often mistaken. The M&A world is not full of Gordon Gecko types expounding that “greed is good.” The real M&A world is built upon hard analysis and research, continuous dialogue among corporate officers, board members, and in many cases external advisers. It is also a world of excitement and innovation, based on transforming transactions that have a major impact on both domestic and global economies.

I prefer to take a more holistic view of molding two organizations together. In many respects, a merger is like a marriage between two companies. It cannot be a surrender followed by constant surveillance; but rather it must result in gains for both sides. Companies unite to forge strengths without necessarily losing individuality, while creating a new and better organization. A merger always involves imperfections, but these imperfections are offset by the potential that the new organization can achieve. Even though we tend to focus on the decision to merge and its prerequisite analysis, it is often the integration and execution

processes afterward that matter the most. A successful merger is not the result of the contracts and documents binding organizations together; rather, it is a function of the implicit agreements governing the conduct of all individuals involved and the effects the new organization will have on these individuals. And never fear a tough transaction or a difficult negotiation. To prevail in an M&A negotiation is to see the future value of the possibilities created, not the immediate price paid or initial valuation.

That is what excites me most about such a well written and comprehensive journey into M&A. *Applied Mergers and Acquisitions* by Robert Bruner will surely become an essential reference for any M&A practitioner. Throughout the book, you will find a practical overview of the M&A world and a summary of the theoretical and academic work done on a variety of topics, as well as further questions not yet answered. But this isn't just a book about great thoughts and process, but rather how to turn insight into deals, and deals into lasting value. Read it, absorb its concepts and ideas, question its conclusions, and develop your own way of thinking. Bruner has provided you with the framework and the freedom to forge your own point of view. As W. H. Auden more eloquently put it in "The Managers":

*The last word on how we may live or die  
Rests today with such quiet  
Men, working too hard in rooms that are too big,  
Reducing to figures  
What is the matter, what is to be done.*<sup>2</sup>

## NOTES

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1. Thompson Financial. Includes announced transactions each with an aggregate value of US\$100 MM or more. Includes transactions with estimated values. Excludes terminated transactions.
2. W. H. Auden, *Collected Shorter Poems 1927–1957*, New York: Random House, 1966, page 301.

# Preface

*Mark Twain barely contained his use of profanity, a problem his wife abhorred and sought to cure. One evening, he and she were dressing for a formal dinner when a button popped off his shirt. He launched a tirade against buttons, formal shirts, and evening wear. After a few minutes, the profanity subsided. Twain's wife decided to use the moment to remind her husband to govern his language. Calmly, and in a flat voice, she repeated, word for word, the entire tirade. Twain replied, "It would pain me to think that when I swear it sounds like that. You got the words right, Livy, but you don't know the tune."<sup>1</sup>*

Thus it is in conversations about mergers and acquisitions (M&A) between scholars and practitioners. Each thinks the other has, at best, the words but not the tune. I wrote this book to blend both views. It all began when I needed written notes with which to teach MBA students and practitioners about the analysis and design of M&A deals. I had studied M&A for my entire career, producing a number of research articles and monographs, and numerous case studies. Over the years, so many students and practitioners had shared with me their struggles to learn M&A that I gained a clear sense of the development challenge. And early in my career, I worked briefly as an analyst for a large financial institution, assessing, implementing, and financing M&A deals. Based on this, I thought I had something to say. Plus, I cared enough to want to say it. Motivated by the astonishing M&A boom of the 1990s and the subsequent bust spangled with some prominent M&A-related corporate collapses, I wanted to help practitioners redefine *best practice* in the field of M&A and to highlight how one might actually apply it. I sought to remind the many critics of M&A that it is a vital instrument of industrial renewal and that we stifle the disruptions of M&A only at our peril. I aimed to caution the optimists in M&A to take very great care because M&A is no simple road to success. And I hoped that my writing might nudge my scholarly colleagues toward greater insights.

Therefore, I started to write and to use these notes in my teaching. I tried to blend the conceptual world of the scholar and the "how to do it" view of the practitioner. I gave greater attention to research where the issues were important and when I thought it had something important to say. The chapters present ideas refined in my work with practitioners and MBA students at Darden, INSEAD, and IESE. As the chapters developed, more questions appeared. The interdependent nature of M&A deals meant that a narrow focus would not be appropriate—simply to discuss valuation and value creation without covering the management processes and practices on which they rely would be to tell only part of the story. Thus, I became convinced that the subject had to be presented *comprehensively* or not at all. Also, I found that *learning by doing* was the best way to absorb the tools and concepts of best practice. Therefore, I determined to give the reader software in the form of Excel spreadsheet programs that would enable hands-on

experimentation with the ideas and tools presented in the chapters. The CD-ROM, which may be purchased as a bundle with this book or separately at a later date for those who want that option, contains that software. Also, the CD-ROM has prepared questions and problems that can help cement ideas from the chapters for those who want the self-study challenge of answering them, and some M&A deal documentation and reading materials that should aid the *learning by doing* process. And, finally, the companion workbook contains summaries and more self-training questions and problems, a few of which will require the CD-ROM, for highly motivated students of M&A best practices. What started as a small project has now, thousands of manuscript pages later, become the item in front of you.

Through a focus on ideas and their application, this book aims to help the practitioner improve his or her practice of M&A. Thus, the idea-based approach preempts a number of attributes common to the professional literature. This is not a handbook in the sense of providing recipes, wiring diagrams, or assembly instructions. Wherever possible, I have tried to offer examples that can be carried over to other cases and some guidance on how to translate analysis to other situations. Exhibit P.1 gives a list of the actual mergers and acquisitions presented as case studies; these illustrate tools, concepts, and processes discussed in the book. “About the CD-ROM” on page 939 lists the template spreadsheet files on the CD-ROM—you can use these to start exercising your intuition and apply the ideas to your own deals. The field of M&A is too complicated to distill into a simple “to do” list. Rather, I hope to arm the thoughtful practitioner with a wide range of powerful tools and concepts (along with suitable warnings about their use and limitations) and trust that one will adapt them to the specifics of one’s circumstances. This book outlines responses to the four classic questions:

1. ***How should I understand M&A activity?*** Broadly stated, what you see happening around you is the result of economic forces at work. But economics is only a necessary (but not sufficient) explanation for what you see. Psychology plays a significant role as well. This book will illustrate how psychology intervenes through conduct.
2. ***What drives success in M&A?*** Lucky structure of the environment combined with good conduct. The book will also offer details about how to measure success.
3. ***What do I need to know?*** The executive and M&A professional should have a competent foundation in all areas of M&A practice. This includes being able to assess the structure of the environment as well as the ability to shape the right conduct on your side (and anticipate the varieties of conduct on the other side).
4. ***What is best practice in M&A?*** Best practices enhance the probability that you will deliver successful outcomes. The book will highlight good approaches in each of the areas of structural analysis and conduct. Ultimately, the secret to best practice is the development of *good processes*. This book highlights process management considerations that might enhance the performance of your organization.

In answering these classic questions, this book insists that the reader should “get a view.” On some issues, the research findings and conventional wisdom are in alignment—there, getting a view is not so hard. But on other issues they are in flux or wide disagreement and the reader will need to work to get a view. I’ll sketch my

**EXHIBIT P.1** Merger and Acquisition Cases Illustrating Practical Ideas in This Book

Chapter	Case
2	Walt Disney Company (ethics of greenmail)
6, 9, 11, 24, 25	Daimler-Benz A.G. and Chrysler Corporation (strategic analysis, valuation, analysis of synergies, social issues, and deal process)
7, 29	Kestrel Ventures (acquisition search)
12	Westmoreland Energy (cross-border joint venture)
12	Continental Cablevision (cross-border joint venture)
13	MediMedia International (leveraged buyout)
13	Revco Drug Stores (leveraged buyout)
13	Koppers Company (leveraged recapitalization)
14	Lucent (spin-off, real options)
14	Agouron Pharmaceuticals (valuing a biotech firm with real options)
14	NCNB/First Republic (staged investing, real options)
14	EM.TV/SLEC (setting acquisition terms, real options)
15	Volvo/Renault (valuing liquidity and control)
17	“Automatic” Sprinkler (momentum acquiring)
17	Ling-Temco-Vought (conglomerate strategy, momentum acquiring)
17	U.S. Office Products (industry roll-up, momentum acquiring)
17	Tyco International (conglomerate strategy, momentum acquiring)
22	Lilly/Hybritech (contingent payment unit)
23	AT&T/MediaOne (collar)
23	Rhône-Poulenc/Rorer (contingent value right)
23	Genzyme/GelTex (staged investing)
24	First Union/Wachovia (social issues)
24	Hewlett-Packard/Compaq (social issues)
24	Fleet Bank/BankBoston (social issues)
31	RJR Nabisco (leveraged buyout, auction)
34	American Standard (leveraged recapitalization)
36	Union Bank of Switzerland/Swiss Banking Corp. (postmerger integration)
37	GE Power Systems (business development process management)

own positions when doing so is instructive. But at the end of the day, you learn best that which you teach yourself.

How can you use this book to best advantage? The following points lend some practical guidance to these and other questions:

- **Read.** It is hard to get the gist of the ideas presented here without some concentration and dedicated effort. To get the maximum benefit, it makes sense to follow the advice of Lewis Carroll’s Mad Hatter: “Start at the beginning and when you come to the end, stop.”
- **Test your knowledge.** There are some questions and problems for each chapter on the CD-ROM. One could work through these and then examine the suggested solutions given for each on the CD-ROM. A companion, *Applied Mergers and Acquisitions Workbook*, gives summaries of each chapter and worked-through problems available on the CD-ROM.
- **Exercise your skills.** The spreadsheet programs in the software pack enable the reader to use the tools and concepts discussed in the text—this is a good way to

strengthen one's intuition. Also, the models can be applied to cases or problems with which one is familiar.

- ***Browse intentionally.*** The use of bullet points facilitates a quick survey of topics so that one can focus in on areas of special interest. Corporate executives will find the sections on strategy, laws, communication, integration, and process management to be meaningful. Front-line analysts will find the chapters on valuation and research to offer direct guidance. The manager who is parachuting into a business development assignment will find the chapters on deal development and process management to offer a kick start to one's thinking.
- ***Revisit and refer.*** This book affords a ready reference on specific questions one might have. One could keep this on the shelf as an ongoing resource for questions about terms, tools, concepts, and processes.
- ***Springboard to further study.*** One could use this book as an embarkation for other readings about M&A. Chapter 38 gives my list of "best bet" readings for continued study in M&A. In chapter endnotes throughout and in the extensive list of references at the end of the book, I have offered suggestions of other readings.

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## NOTES

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1. Quoted from Albert Bigelow Paine's authorized biography, *Mark Twain*, 1912, page 559.
2. *How to Resist Hostile Takeovers*, edited by Joseph O'Donoghue and Donald Grunewald (International University Press, 1991).
3. Darren Berry, Anne Campbell, David Eichler, Dennis Hall, Jerry Halpin, Peter Hennessy, Brian Kannry, Doug Leslie, Andrew Meiman, Reed Menefee, Casey Opitz, Katarina Paddack, Thien Pham, Chad Rynbrandt, Michael Schill, John Sherwood, Jane Sommers-Kelly, Carla Stiassni, Sanjay Vakharia, Larry Weatherford, and Steve Wilus.

PART

# One

## Introduction and Key Themes

