**Term Project**

A merger is a legal agreement between two companies to begin a process during which their operations, assets, liabilities, and equity will be combined. After a merger, the identities of the two companies will be eliminated, and the emerging brand will have a new name. However, previous long-term agreements and contracts will be included in this transition except decided otherwise. For a merger to occur there needs to be a voting process during which attaining the required votes will be construed as an approval from the two sets of shareholders of the companies involved in the merger. The majority vote determines the final decision.

The rate of global mergers and acquisitions has increased at an exponential rate over the years. The reports indicate that after mergers, about 7% of the emerging firms are reported to perform below expectations within the first year. Another feature that characterizes mergers is the low value of the firm’s profit after tax (PAT) which is usually lower than the value of the entire PATs from the past year records. In addition, after mergers, the new firm may need to function optimally for as long as five years before the average margins which match up to the industry’s average are realized.

Mergers occur due to a number of reasons such as:

1. The occurrence of regulatory and technological changes which influence the industry’s economy.
2. The need for synergies to boost production and distribution, economies of scale, procurement, and reduction in SG&A.
3. The need for financial synergies in view of achieving cheaper financing costs and financial security.
4. To enable value transfers in areas such as tax, monopoly rent-seeking, union busting, etc. which are required in companies that are highly leveraged.
5. Market timing to achieve lower stock prices.
6. Hubris.

The objective of this term project is to develop a theoretical structure that will aid the comprehension of acquisitions regarding the following aspects:

1. Accounting
2. Valuation
3. Legal and tax

**The first part of this project (due before June class starts)**

1. Identify the 10Q of the two firms to be analyzed, and carry out a ratio analysis to determine the financial status of both firms.
2. Retrieve the values for the stock prices for both firms and calculate the monthly stock returns over the past five years. Analyze the stock performance of both firms.
3. Study the management teams, board structure, ownership composition, and anti-takeover measures such as a staggered board. In your opinion, will you say the two firms have the capacity to resist a hostile takeover attempt?
4. Considering the analysis above, do you observe signs of weakness in the target firm that can expose it to being bought out in the future?
5. Identify the filings with SEC regarding the M&A deal.
6. What have been done on the buy side before the merger agreement is signed?
7. What have been done on the sell-side before the merger agreement is signed?
8. Are any of the companies battling ongoing lawsuits before and after the merger?

You may refer to the following website for information.

* + [Federal Trade Commission: Bureau of Competition](http://www.ftc.gov/about-ftc/bureaus-offices/bureau-competition). [http://www.ftc.gov/about-ftc/bureaus-offices/bureau-competitionThe](file:///C:\Users\Maggie\Downloads\The) FTC’s antitrust department is primarily aimed at preventing the business practices that limit competition, such as monopolistic practices, attempts to implement restraint of trade, attempts to monopolize the markets, disruption of mergers and competitions that could potentially hinder competition.

http://www.ftc.gov/about-ftc/bureaus-offices/bureau-competition

* + [Statistics on Mergers & Acquisitions (M&A)](http://www.imaa-institute.org/statistics-mergers-acquisitions.html). Courtesy of the Institute of Mergers, Acquisitions, and Alliances.  
    http://www.imaa-institute.org/statistics-mergers-acquisitions.html
  + [U.S. Department of Justice: Antitrust Division](http://www.usdoj.gov/atr/). A source of digitized documents related to the enforcement of antitrust laws, such as policies, guidelines, case filings, speeches, testimony, and press releases.  
    <http://www.usdoj.gov/atr/>
* [A Plain English Guide to Antitrust Laws](http://www.ftc.gov/bc/compguide/index.htm). Full text of *Promoting Competition, Protecting Consumers* booklet from the U.S. Federal Trade Commission (FTC). Visit the [FTC](http://www.ftc.gov/)  to view the guidelines for mergers and acquisitions, business guidance, etc.  
  http://www.ftc.gov/bc/compguide/index.htm

1. Are there any tax benefits to the acquiring firm from the acquisition?
2. Write a synopsis of the merger and acquisition case.

**The second part of this project: valuation (due by the end of the semester)**

By using the WSP (chapters 4 and 5) as a guideline, complete the blanks in the accretion\_dilution\_empty\_form.xls to finalize the accretion/dilution table. If you need to make assumptions, please include the relevant clarifications.

The excel file is available under the course introduction stated on the blackboard.