determine whether there are other potential bidders, whether target management is entrenched and likely to oppose a bidder's offer, or whether the deal could fail due to antitrust or security concerns.

DISCUSSION QUESTIONS

1. Since the year 2000, there has been a noticeable increase in mergers and acquisitions among firms in different countries (termed cross-border acquisitions). What factors could explain this increase? What special issues can arise in executing a cross-border acquisition and in ultimately meeting one's objectives for a successful combination?
2. Private equity firms have become an important player in the acquisition market. These private investment groups offer to buy a target firm, often with the cooperation of management, and then take the firm private. Private equity buyouts rose from just 2 percent of U.S. merger and acquisition activity in 2000 to 15 percent as of December 2005. Private equity buyers tend to finance a significant portion of the acquisition with debt.
   a. What types of firms would make ideal candidates for a private equity buyout? Why?
   b. How might the buyout firm add sufficient value to the target to justify a high buyout premium?
3. Kim Silverman, CFO of the First Public Bank Company, notes, "We are fortunate to have a cost of capital of only 7 percent. We want to leverage this advantage by acquiring other banks that have a higher cost of funds. I believe that we can add significant value to these banks by using our lower cost financing." Do you agree with Silverman's analysis? Why or why not?
4. The Boston Tea Company plans to acquire Hi Flavor Soda Co. for $60 per share, a 50 percent premium over current market price. John E. Grey, the CFO of Boston Tea, argues that this valuation can easily be justified using a price-earnings analysis: "Boston Tea has a price-earnings ratio of 15, and we expect that we will be able to generate long-term earnings for Hi Flavor Soda of $5 per share. This implies that Hi Flavor is worth $75 to us, well below our $60 offer price." Do you agree with this analysis? What are Grey's key assumptions?
5. You have been hired by GT Investment Bank to work in the merger department. The analysis required for all potential acquisitions includes an examination of the target for any off-balance-sheet assets or liabilities that have to be factored into the valuation. Prepare a checklist for your examination.
6. A target company is currently valued at $50 in the market. A potential acquirer believes that it can add value in two ways: $15 of value can be added through better working capital management, and an additional $10 of value can be generated by making available a unique technology to expand the target's new product offerings. In a competitive bidding contest, how much of this additional value will the acquirer have to pay out to the target's shareholders to emerge as the winner?
7. In 2011 Comcast acquired a majority stake in NBC Universal in a deal that valued the company at more than $30 billion. Analysts at the time tended to define the rationale for the acquisition as being one of "conduit" acquiring "content". Evaluate the potential strategic merits of this rationale.
8. A leading oil exploration company decides to acquire an Internet company at a 50 percent premium. The acquirer argues that this move creates value for its own stockholders because it can use its excess cash flows from the oil business to help