

# High-Tech Mergers and Acquisitions

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## Overview

The course presents the opportunity to study in detail the process of high-technology mergers & acquisitions (M&A), by focusing on acquisitions of small, technology-based entrepreneurial firms, by established, large technology firms. Students will study the sources of value creation in this type of acquisitions, and compare them against those of alternative strategies, such as alliances and internal development. Students will also gain insight into the various stages of the acquisition management process, building on the relevant strategic, financial and organizational aspects. The course will cover the different perspectives of both the acquiring and the acquired parties, as well as those of their various stakeholders (founders, employees, venture capital investors, and others). Additionally, attention will be focused on the difference between value creation and its capture by the various parties in M&A transactions. The course will also deepen the participants' understanding of high technology industries, their characteristics, and strategies for gaining and sustaining competitive advantage in such industries.

## Course structure

The course will be taught using lectures, class discussions, reading material, case studies and a final project.

## Course Texts

The course is based on the following textbooks:

- Course Pack - a compilation of articles, book chapters and case studies.
- Capron L, Mitchell W. 2012. *Build, Borrow, or Buy*. Harvard Business review Press, Boston, MA.
- Optional - Haspeslagh P, Jemison D. 1991. *Managing Acquisitions*. The Free Press, New York.

## Grading

All students are required to read the relevant reading materials and case-studies for each class, hand in **all** case study analyses, and submit a final group project. Your grade is established as follows:

Participation/contribution	10%
Case write ups (groups of four)	30%
Final group project (groups of four)	60%

## Class Participation

Students are expected not only to attend all classes, but also to actively participate by significantly contributing to in-class analysis of cases, as well as any other type of class discussion. The evaluation of participation will be based on the extent to which it is relevant to the discussion, insightful, and progressive (e.g. helps move the discussion along, rather than restate what has already been said). To increase opportunities for effective participation, I will cold call a student either to open the class discussion or during one. Roll is taken at the beginning of each class.

## Case Study Preparation

- Case write-ups should be sent via email to the Teaching Assistant and to me no later than **8 pm on Tuesday, the evening before class** in which the case is discussed.
- The case write-ups should address the specific questions posted on the web. Analysis of financial and other data should be presented in appendices.
- The case write-up should not exceed 3 pages (font size 12, 1 inch margins on all sides, not including appendices). Short, accurate case write-ups are expected and papers longer than required will lose points.
- References should be given accurately whenever someone else's work is quoted. Proper referencing includes the source next to every piece of data, even with page number, if applicable.

## Final Project

- The final project is, as mentioned, a group assignment.
- The group project is intended to be a hands-on experience of dealing with the managerial challenges involved in the various stages of the acquisition process. Students will choose two publicly-traded firms in high-tech industries; an acquirer and an acquisition target, and serve as consultants to the acquirer. They will be required to propose a **novel acquisition initiative**. Students are required to analyze the following aspects:
  - a. Business and corporate strategy. What is the acquirer's strategy? Is it sustainable? Will the acquirer be able to capture a dominant position and enjoy a competitive advantage in the new space as well?
  - b. Rationale of the acquisition. What strategic resource does the firm intend to leverage? Has the firm leveraged this resource before? How successful has it been? What is the firm's roadmap (Where? How? Why?). Use these guiding questions to get a comprehensive view of the strategy behind the move. Is acquisition the proper strategic tool (compared to alliance, internal development)? Where will the synergy come from? What is the source of value creation in the move?
  - c. Implementation from deal making (structure, process, price) to PMI (post-merger integration). Valuation of the stand-alone value as well as the value of synergy. Does the expected synergy justify the required premium? Level of competition between the incumbents over the target. Uniqueness of the target. Analysis of the bargaining power of the parties. The focus of the acquisition (R&D, product, market share, entry into new industry) and subsequent integration. Which integration approach is appropriate (possibly different integration approaches to each part of the organization)? Fit with the acquirer's organizational structure.
- Students are required to submit the proposed project by email before the second class for approval.
- Students are required to send a short abstract containing the highlights of the presentation a week before the project presentation session.
- Participation in the last class, devoted to project presentations, is **mandatory**. Each group will make a short presentation (6 minutes) in which all group members will play the role of consultants, invited by the firm to present their acquisition proposal. During the presentations the class will play the role of the board of directors of the acquirer, evaluating the consultants' proposal, asking questions, and filling feedback forms, to be collected and serve for grading.

- The last class will be devoted to project presentations. Each group will make a short presentation (6 minutes, instructions will be provided in class) in which all group members will participate in describing the strategic rationale of the acquisition, the proposed price, and the planned post-merger integration. During that time the audience will serve as the top management team of the acquirer, evaluate the proposal and ask questions.
- After the last class you will be required to submit a memorandum/report. Again, this document should take the perspective of advisors to the acquirer, and have two main parts:
  1. A detailed proposal prepared for the management of the potential acquirer, presenting the proposed acquisition, the strategic rationale for the selected opportunity, and the price range for this acquisition.
  2. Assuming the management of the acquirer has approved going forward with the merger, a proposal for the implementation phase, and prepare a detailed integration plan.
- To explain the (real-world) importance this memorandum, it is interesting to quote Bruce Nolop, the CFO of Pitney Bowes, a prominent acquirer: “It would be hard to overstate how important this memorandum is to our process. Far from being a perfunctory exercise, it is essential to disciplining our decision making. I’ve been amazed at how many elements of a deal that seemed clear in PowerPoint can fall apart when they’re subjected to prose. In bullet-point format, the rationale for a deal might be summed up in a phrase, such as “cross-selling.” But a memorandum demands clarity about exactly who is cross-selling what to whom – and how and why. What specific sales force are we talking about? Which customers would this apply to? Why would a customer want us to cross-sell?” (Harvard Business Review, September 2007, p. 139).

## Class Schedule (changes possible)

No.	Date	Subject	Readings
1	19.02.14 8:15-11:00	Introduction to M&A rationale.	<ol style="list-style-type: none"> <li>1. Bower JL. 2001. Not all M&amp;As are alike – and that matters. <i>Harvard Business Review</i>, 79(3): 92-101.</li> <li>2. BBB (Build, Borrow, or Buy), ch. 1, 2 and 3.</li> </ol>
2	26.02.14 8:15-11:00	From single- to multi-business.	<ol style="list-style-type: none"> <li>1. Porter M. 1987. From Competitive Advantage to Corporate Strategy. <i>Harvard Business Review</i>, May–June.</li> <li>2. BBB, ch. 4 and 5.</li> </ol>
3	05.03.14 8:15-11:00	Target valuation.  Value creation and value capture.  Choice of governance mode. Microsoft-Sendit (A+B)	<ol style="list-style-type: none"> <li>1. A note on “Valuation Techniques” (Stanford University Note, S-E-53).</li> <li>2. Optional: Barney JB. 1988. Returns to value creation in acquisitions: a re-examination of performance issues. <i>Strategic Management Journal</i> 9: 71-78.</li> <li>3. Reuer J. 2000. Collaborative strategy: the logic of alliances. <i>Mastering Strategy</i>, FT Prentice Hall.</li> <li>4. Case Preparation* (Write-up required. Questions are posted on Virtual)</li> </ol>
4	12.03.14 8:15-11:00	Post-merger Integration in Technology Acquisitions  Microsoft and Sendit (C)	<ol style="list-style-type: none"> <li>1. Haspeslagh P, Jemison D. 1991. <i>Managing Acquisitions</i>. Chapter 8. The Free Press, New York.</li> <li>2. Kanter RM. 2009. Mergers that stick. <i>Harvard Business Review</i> (October): 121-125.</li> <li>3. Case Preparation* (No write-up required)</li> </ol>
5	19.03.14 8:15-11:00	Becoming a serial acquirer.  Cisco	<ol style="list-style-type: none"> <li>1. Chaudhuri S, Tabrizi B. 1999. Capturing the real value in high-tech acquisitions. <i>Harvard Business Review</i>, September-October: 123-130.</li> <li>2. Case Preparation* (Write-up required. Questions are posted on Virtual)</li> </ol>
6	26.03.14 8:15-11:00	Commercialization of Technological Innovations and the Entrepreneur's and VC's Angles.  IronPort	<ol style="list-style-type: none"> <li>3. Teece DJ. 1986. Profiting from technological innovation: Implications for integration, collaboration, licensing, and public policy. <i>Research Policy</i> 15: 285-305. <a href="http://www.mbs.edu/home/jgans/tech/Teece-1986.pdf">http://www.mbs.edu/home/jgans/tech/Teece-1986.pdf</a></li> <li>4. Case Preparation* (No write-up required)</li> </ol>
7+8	03.04.14 17:00-21:30	Double Session - Project Presentations	Presentation Abstracts