

M&A Outcomes and Theories

Factors leading to decreased value

- Winner's curse
- Agency problems
 - Prestige
 - Compensation

Evidence of M&A Performance

- Event returns are positive
- Long-run performance is positive
- Mergers occur in underperforming industries
- Cash-offers outperform stock-offers
- Takeover threat can lead to better overall performance for all companies

Takeover Defenses

- Defensive restructuring
- Poison pills
- Poison puts
- Antitakeover amendments

- Golden parachutes

Rational Expectations?



Homework for Chapter 6

- BD Chapter 29, CWS Chapter 18, Sections M and N.
- Comparison of Sarbanes-Oxley Act and Austrian Code of Corporate Governance
- Q&A, Articles, etc.
- Reader-Articles

Chapter 6

Corporate Governance

- Contractual Theory of the Firm
- Power Distribution Among Stakeholders
- Sarbanes-Oxley Act

Chapter Literature

- Austrian Working Group for Corporate Governance, “Austrian Code of Corporate Governance”, http://www.wienerbourse.at/corporate/pdf/CG_Code_engl_2009draft_tr_fin.pdf, January 2009, accessed: 20.05.2009.
- OECD, “OECD Principles of Corporate Governance”, <http://www.oecd.org/dataoecd/32/18/31557724.pdf>, 2004, accessed: 29.05.2007.
- Tirole, J., *The Theory of Corporate Finance*, Princeton University Press, 2006.
- Weston, J. F./Siu, J. A./Johnson, B. A., *Takeovers, Restructuring, & Corporate Governance*, Prentice Hall, 2001.
- Wikipedia, “Corporate governance”, http://en.wikipedia.org/wiki/Corporate_governance, 08.11.2007, accessed: 28.11.2007.

Chapter Literature

- Wikipedia, “Sarbanes Oxley”, http://en.wikipedia.org/wiki/Sarbanes_oxley, 27.11.2007, accessed: 28.11.2007.

What is Corporate Governance?

- Internal rules
- Compliance with voluntary and binding rules and regulations
- Transparency and disclosure
- Corporate charter
- Treatment of stakeholders

Contractual Theory of the Firm

- Stockholders own the firm and hold claim on residual income
- Management manages and holds claim on promised compensation
- Bondholders hold claim on principal and interest
- Government holds claim on taxes
- Various other stake- and claimholders
 - Suppliers, customers, employees, society, NGOs, etc.

Differing Power of Stakeholders

- Shareholders
 - Formal Power
 - Information asymmetry
- Management
 - Formal power
 - Information asymmetry
- Bondholders
 - Before vs. after contracting
- Government
- Employees
 - Contractual
 - Union power
- Customers
- Suppliers
- Activists/NGOs
 - Business disruption
 - Public relations
- Society
 - Impact on other groups

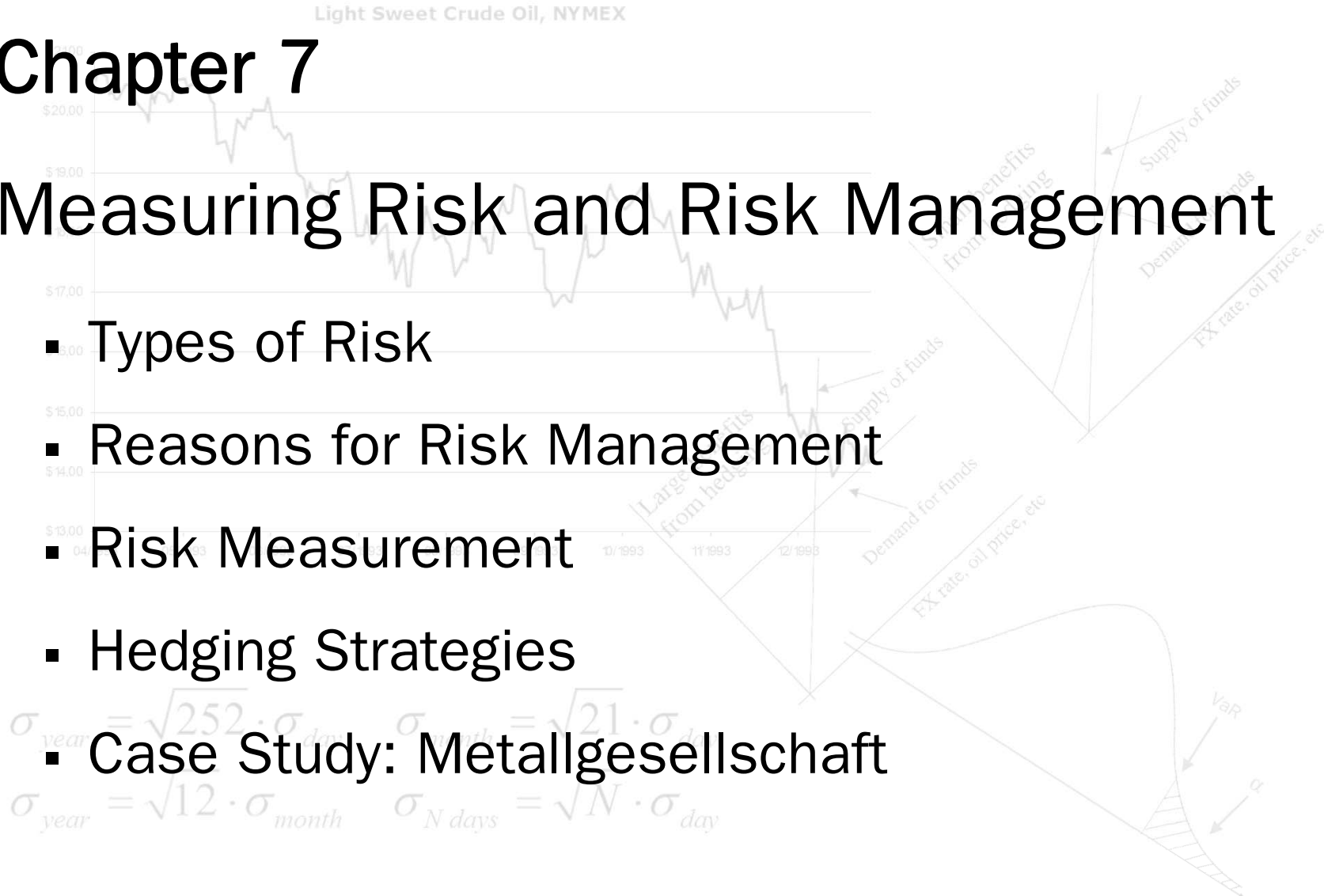
Homework for Chapter 7

- RWJ (2005), Chapter 25.
- Case Study: Metallgesellschaft (MGRM).
- Q&A, Articles, etc.
- Reader-Articles

Chapter 7

Measuring Risk and Risk Management

- Types of Risk
- Reasons for Risk Management
- Risk Measurement
- Hedging Strategies
- Case Study: Metallgesellschaft



$\sigma_{year} = \sqrt{252} \cdot \sigma_{month}$ $\sigma_{month} = \sqrt{21} \cdot \sigma_{week}$
 $\sigma_{year} = \sqrt{12} \cdot \sigma_{month}$ $\sigma_{N\ days} = \sqrt{N} \cdot \sigma_{day}$

Chapter Literature

- Albrecht, P./Maurer, R., *Investment- und Risikomanagement*, 2. Aufl., Schäffer Poeschel, 2005.
- Digenan, J./Felson, D./Kelly, R./Wiemert, A., “Metallgesellschaft AG: A Case Study”, *Business Weekly 541*, http://www.prmia.org/pdf/Case_Studies/MG_IIT.pdf, 2004, accessed: 21.05.2008.

Types of Risk

Credit Risk

- The potential loss arising from the inability of a counter-party to meet its obligations

Operational Risk

- The risk from system failures, human errors, natural events

Liquidity Risk

- The inability of a firm to fund its illiquid assets

Market Risk

- The uncertainty of future earnings due to changes in market conditions (e.g. asset prices, interest rates, etc.)

Legal Risk

- The uncertainty of changes in the legal environment