

# Chapter 21

## Mergers, LBOs, Divestitures, and Holding Companies

### LEARNING OBJECTIVES

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After reading this chapter, students should be able to:

- Define the term merger, and list some motives for mergers.
- Characterize the different types of mergers.
- Identify the five major “merger waves” that have occurred in the United States.
- Differentiate between the merger process in hostile versus friendly takeovers.
- Briefly explain the need to regulate mergers, and whether states play a role in merger regulation.
- Determine the value of a target firm using discounted cash flow analysis and the appropriate discount rate.
- Identify alternative ways of structuring takeover bids.
- Explain the two different accounting treatments for mergers.
- Explain the steps for an analysis of a true “merger of equals.”
- Discuss the roles investment bankers play in merger transactions.
- Explain whether corporate acquisitions create value and how the value is shared between the parties.
- Differentiate between a merger and a corporate alliance.
- Explain what a leveraged buyout (LBO) is.
- Define the term divestiture, briefly discuss the major types of divestitures, and give some reasons for divestitures.
- Explain what a holding company is, and list some advantages and disadvantages of holding companies.