Investment Banking

EXAMEN 2019

Question 1 (4 points)

In a recent paper, Barbopoulos, Paudyal &Sudarsanam (European Financial Management, 2017) examine the impact of the payment method chosen on acquirers' gains.

a) Describe the impact of using cash or stock as a payment method on the acquirers' gains. Also explain why the market reaction will differ dependent on the payment method chosen.

b) In their paper, Barbopoulos et al. (2017), examine the impact of the payment method chosen in earnout deals. In this type of deals, there is an initial payment at the time of the deal and another tranche of payment contingent upon the target's post-merger performance. Why and in which case would an acquirer prefer this type of deal? Explain your answer.

c) Hypothesize which type of payment method will generate the highest acquirer's returns: a cash (closing of the deal) -cash (second stage) payment or a stock-stock deal. Relate your answer to the theories discussed in class.

d) In their regressions, they control for other factors that have an impact on the acquirer's announcement returns. Suggest 1 variable and explain why you would include it.

Question 2 (4 points)

As an investment banker, the CEO of Sara Lee comes to you and asks for your advice. As you know, Sara Lee went through a lot of restructuring activities, including a spin-off, in the previous years. However, further restructuring seems necessary, given the low stock price performance. The company consists of mainly two activities: meat products (mainly in the US) and tea and coffee activities.

a) What kind of further restructuring activity would you suggest? Be specific and motivate your answer.

b) After the restructuring, a tender offer was received on the shares of the new Sara Lee. Give 2 examples of takeover defenses the firm could use and explain them briefly.

c) The tender offer was initiated by a private equity firm. Give 2 ways in which the PE firm will stimulate Sara Lee's management to perform well if the takeover would be successful.

d) The manager of Sara Lee was also considering a takeover of a competitor. The potential target had lease obligations of 150,000 for the next 4 years and the interest rate of the lease obligations was 5%. The average lifetime of its lease contracts is also 4 years. Show, using numbers, how you would adjust the target firm's financial elements to take these lease obligations into account.

<u>Question 3: Case Study:</u> Exxon Mobil's (Exxon) Unrelenting Pursuit of Natural Gas <u>(5 points)</u>

a) Why did Exxon Mobil's shares decline and XTO Energy's shares rise substantially immediately following the announcement of the takeover? Which theory (is consistent with these findings?

b) What do you think Exxon Mobil believes are its core skills? Based on your answer to this question, would you characterize this transaction as a related or unrelated acquisition? Explain your answer.

c) How would you describe Exxon Mobil's long-term objectives, business strategy, and implementation strategy?

d) What alternative implementation strategies could Exxon have pursued? Why do you believe it chose an acquisition strategy?

e) What are the key risks involved in ExxonMobil's takeover of XTO Energy?

EXAMEN 2020 - MBA

Question One

1. What are outside directors and why are they important? Refer to a theory discussed in class
2. What is the effect of having outside directors on the acquirer as a listed or private company? Hint: investment bankers in EU
3. diversification variable in the regression, make 2 predictions of its effect

Question Two

1. What are minority discounts and control premiums and how do they relate?
2. How does a PE firm create value through an LBO?
3. Choose between equity carve out and spin off and discuss 2 reasons why you would do the one or the other
4. Give an example of a business alliance and explain the advantages

Case study on P&G acquiring Gillette

1. Why is it important to quickly integrate a target? Refer to the guest lecture of Ontex
2. Given the complexity of both companies do you think P&G's acquisition was a good idea?
3. Why do they rely heavily on personnel of both firms
4. Why do you think almost all of Gillette's management left?

Assessing Procter & Gamble's Acquisition of Gillette

The potential seemed almost limitless, as Procter & Gamble Company (P&G) announced that it had completed its purchase of Gillette Company (Gillette) in late 2005. P&G's chairman and CEO, A.G. Lafley, predicted that the acquisition of Gillette would add one percentage point to the firm's annual revenue growth rate, while Gillette's chairman and CEO, Jim Kilts, opined that the successful integration of the two best companies in consumer products would be studied in business schools for years to come.

Five years after closing, things have not turned out as expected. While cost savings targets were achieved, operating margins faltered due to lagging sales. Gillette's businesses, such as its pricey razors, have been buffeted by the 2008–2009 recession and have been a drag on P&G's top line rather than a boost. Moreover, most of Gillette's top managers have left. P&G's stock price at the end of 2010 stood about 12 percent above its level on the acquisition announcement date, less than one-fourth the appreciation of the share prices of such competitors as Unilever and Colgate-Palmolive Company during the same period.

On January 28, 2005, P&G enthusiastically announced that it had reached an agreement to buy Gillette in a share-for-share exchange valued at $55.6 billion. This represented an 18 percent premium over Gillette's preannouncement share price. P&G also announced a stock buyback of $18 billion to $22 billion, funded largely by issuing new debt. The combined companies would retain the P&G name and have annual 2005 revenue of more than $60 billion. Half of the new firm's product portfolio would consist of personal care, healthcare, and beauty products, with the remainder consisting of razors and blades, and batteries. The deal was expected to dilute P&G's 2006 earnings by about 15 cents per share. To gain regulatory approval, the two firms would have to divest overlapping operations, such as deodorants and oral care.

P&G had long been viewed as a premier marketing and product innovator. Consequently, P&G assumed that its R&D and marketing skills in developing and promoting women's personal care products could be used to enhance and promote Gillette's women's razors. Gillette was best known for its ability to sell an inexpensive product (e.g., razors) and hook customers to a lifetime of refills (e.g., razor blades). Although Gillette was the number 1 and number 2 supplier in the lucrative toothbrush and men's deodorant markets, respectively, it has been much less successful in improving the profitability of its Duracell battery brand. Despite its number 1 market share position, it had been beset by intense price competition from Energizer and Rayovac Corp., which generally sell for less than Duracell batteries.

Suppliers such as P&G and Gillette had been under considerable pressure from the continuing consolidation in the retail industry due to the ongoing growth of Wal-Mart and industry mergers at that time, such as Sears and Kmart. About 17 percent of P&G's $51 billion in 2005 revenues and 13 percent of Gillette's $9 billion annual revenue came from sales to Wal-Mart. Moreover, the sales of both Gillette and P&G to Wal-Mart had grown much faster than sales to other retailers. The new company, P&G believed, would have more negotiating leverage with retailers for shelf space and in determining selling prices, as well as with its own suppliers, such as advertisers and media companies. The broad geographic presence of P&G was expected to facilitate the marketing of such products as razors and batteries in huge developing markets, such as China and India. Cumulative cost cutting was expected to reach $16 billion, including layoffs of about 4 percent of the new company's workforce of 140,000. Such cost reductions were to be realized by integrating Gillette's deodorant products into P&G's structure as quickly as possible. Other Gillette product lines, such as the razor and battery businesses, were to remain intact.

P&G's corporate culture was often described as conservative, with a "promote-from-within" philosophy. While Gillette's CEO was to become vice chairman of the new company, the role of other senior Gillette managers was less clear in view of the perception that P&G is laden with highly talented top management. To obtain regulatory approval, Gillette agreed to divest its Rembrandt toothpaste and its Right Guard deodorant businesses, while P&G agreed to divest its Crest toothbrush business.

The Gillette acquisition illustrates the difficulty in evaluating the success or failure of mergers and acquisitions for acquiring company shareholders. Assessing the true impact of the Gillette acquisition remains elusive, even after five years. Though the acquisition represented a substantial expansion of P&G's product offering and geographic presence, the ability to isolate the specific impact of a single event (i.e., an acquisition) becomes clouded by the introduction of other major and often uncontrollable events (e.g., the 2008–2009 recession) and their lingering effects. While revenue and margin improvement have been below expectations, Gillette has bolstered P&G's competitive position in the fast-growing Brazilian and Indian markets, thereby boosting the firm's longer-term growth potential, and has strengthened its operations in Europe and the United es. Thus, in this ever-changing world, it will become increasingly difficult with each passing year to identify the portion of revenue growth and margin improvement attributable to the Gillette acquisition and that due to other factors.

EXAMEN 23/01/2023

1) Is there going to be a different market reaction between a bidder divesting after acquisition and a bidder not divesting after acquisition. Explain why?
2) Give 3 reasons why divestitures can create positive value?
3) Berger and ofek find that diversification destroys value. Explain methodology and why it is value destroying.
4) How can EP create value for 2 reasons?And why didn't it work for Ontex?
5) Give 2 takeover defense mechanisms if a company has already received a hostile takeover bid?
6) In the guest lecture from bekaert and ontex, earn out deals were discussed. What is this and what is a common problem with this?
7) Case: Pepsico does acquisition of quaker oats
    a) What type of merger/acquisition is it
    b) What theory is consistent with the merger
    c) Why did the seller want to sell all 3 departments to one bidder and not separately?
    d) Under what circumstances would it have been better for shareholders to sell the departments separately anyway?