Assignment

FIN 535: Mergers and Acquisitions

Peking University HSBC Business School

Due on: May 29

1. The NFF Corporation has announced plans to acquire LE Corporation. NFF is trading for $35 per share and LE is trading for $25 per share, implying a premerger value of LE of approximately $4 billion. If the projected synergies are $1 billion, what is the maximum exchange ratio NFF could offer in a stock swap and still generate a positive NPV?

2. Rearden Metal has earnings per share of $2. It has 10 million shares outstanding and is trading at $20 per share. Rearden Metal is thinking of buying Associated Steel, which has earnings per share of $1.25, 4 million shares outstanding, and a price per share of $15. Rearden Metal will pay for Associated Steel by issuing new shares. There are no expected synergies from the transaction. If Rearden offers an exchange ratio such that, at current pre-announcement share prices for both firms, the offer represents a 20% premium to buy Associated Steel, then what will be the price per share of the Associated Steel immediately after the announcement? What will be the actual premium Rearden will pay?

3. You work for a levered buyout firm and are evaluating a potential buyout of Boogle Inc. Boogle's stock price is $18, and it has 3 million shares outstanding. You believe that if you buy the company and replace its dismal management team, its value will increase by 50%. You are planning on doing a levered buyout of Boogle and will offer $25 per share for control of the company.

a) Assuming you get 50% control, what will happen to the price of non-tendered shares?

b) Assuming you get 100% control, what will your gain from the transaction be?

4. You are trying to estimate the free cash flow to the firm for Wadhwa Inc. and are looking at its most recent financial filings: the annual report for the last fiscal year and its most recent quarterly report for the first three quarters of the current year.

	Last fiscal Year (2013)	3rd Qtr, 2014	3rd Qtr, 2013	First 3 Qtrs, 2014	First 3 Qtrs, 2013
Revenues	$1,200	$400	$325	$1,100	$850
EBITDA	$400	$120	$95	$350	$300
Depr & Amort	$100	$30	$25	$90	$75
EBIT	$300	$90	$70	$260	$225
Interest expenses	$75	$25	$15	$70	$55
Taxable Income	$225	$65	$55	$190	$170
Taxes	$68	$26	$22	$57	$51
Net Income	$158	$39	$33	$133	$119
Cap Ex	$150	$45	$35	$130	$110
Non-cash WC (End of period)	$70	$80	$100	$80	$100

Estimate the free cash flow to the firm over the most recent twelve months.

FCF=EBIT(1-t)+D-CapEx-dWC

=(300 + 260 - 225)(1-(68+57-51)/(225+190-170))+(100+90-75)-(150+130-110)-(80-100)