**Assignment**

FIN 535: Mergers and Acquisitions

Peking University HSBC Business School

**Due on: May 29**

***Question 1.***

***Answer:*** Assume that the exchange ratio NFF could offer is , i.e., one share of LE stock can be swapped for shares of NFF stock. Then, for NFF to still generate a positive NPV, there must be:

,

.

So, the maximum exchange ratio NFF could offer is **0.89**.

***Question 2.***

***Answer:*** Based on the question title, we can get

* Acquire (Rearden Metal):
* Target (Associated Steel):

Because the offer represents a 20% premium to the price of Associated Steel

.

Then the exchange ratio should be .

Therefore, the total value of the firm available after the merger is

.

And the total shares outstanding is

.

Then, the price per share of Rearden Metal after the announcement should be

.

And the price per share of Associated Steel should be

*.*

The actual premium Rearden will pay is .

***Question 3.***

***Answer:*** Based on the question title, we can get: for the target (Boogle Inc)

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The total value of the target before the merger is

.

a) After the 50% control leveraged buyout

.

The cost of this operation is

.

The cost is debt, so the total equity is

.

The price of non-tendered shares will change to be

.

b) After the 100% control leveraged buyout, the cost of this operation is

.

The gain from the transaction will be

.

***Question 4.***

***Answer:*** The most recent twelve months are 4Q, 2013 to 3Q, 2014.

According to the table, for the 4Q of 2013:

* Taxable Income = 225 - 170 = 55$
* Taxes = 68 - 51 = 17$
* EBIT = 300 - 225 = 75$
* Depr & Amort = 100 - 75 = 25$
* Cap Ex = 150 - 110 = 40$
* Non-cash WC (Beginning of period) = 100$

The information for the first 3Q, 2014 is in the table. Based on that, for the most recent twelve months:

* EBIT = 260 + 75 = 335$
* Tax Rate = (17 + 57) / (55 + 190) = 30.20%
* Depr & Amort = 25 + 90 = 115$
* Cap Ex = 40 + 130 = 170$
* WC = 80 - 100 = -20$

Then we can estimate the:

FCFF = EBIT(1- Tax Rate) + Depr & Amort - Cap Ex - WC = 198.83$