

Merger & Acquisitions


Date :
MON TUE WED THU FRI SAT SUN
☐ ☒ ☐ ☐ ☐ ☐ ☐

Problem: John Pox CEO of Pox Industries, a massively successful manufacturing company, through this & other ventures. John has accumulated more than 10 Bn. as personal wealth. In last few years John has been branching out from manufacturing specifically he has founded a new Media Company and he has also purchased a shipping company. & has been heavily active on social media platform named Birdshot using it to launch his consumer retail brand as well as his contentious perspective on business and social issues.

Birdshot owners are potentially looking to exit & have begun shopping around for buyers. The rumor has it they don't want to sell for < 3 Billion. John is excited by the idea of his favourite social media company. He has contacted your firm to help evaluate the possibility of him buying Birdshot to add to his growing portfolio of company.

John:
How would you help evaluate the acquisition & should he buy Birdshot or Not?

① Follow up 1:- What is John's primary objective with this purchase.

Ans:  Primarily to make money; and also to expand its identity & brand as a successful business person. & believes that owning an exit or exiting portfolio of companies is a key to his fortune & fame.

Take some time \rightarrow Come up with a Structure to solve given problem
 \rightarrow Candidate presenting the structure effectively \rightarrow ~~Back~~
By Basketing this into 3 Buckets.

MON TUE WED THU FRI SAT SUN
☐ ☐ ☐ ☐ ☐ ☐ ☐

- (1) Financials of the acquisitions.
- (2) Strategic Assessment.
- (3) Key Risks.

The structure is MECE, helps answer the case questions.
& the candidate uses it to drive case forward.

\Rightarrow Financials of Acquisition :- (1) Take a look at what the Market share of Birdshot is compared to Rest of Social

Media companies

(2) Revenue of Birdshot \rightarrow Is company profitable? \rightarrow If yes, what are the profits percentage.

Using this data we should ideally value the company, and compare it ~~with~~ to the (3 Bn) ask that they have.

(2) Strategic Assessment :- (1) How the company fits in with John's current Business portfolio.

(2) ~~Ass~~ Assessing the company's reputation in Today's Market as of today

(3) Analyzing the demographics of the User Base \rightarrow Certain types of users are more monetizable than other users.

(4) Finally assessing the technology of the platform to see whether they comply with industry standards & they are upto the industry standards of peer competitors.

(5)

③ Risks : ① Regulations Risks \rightarrow as there are ~~more~~^{a lot} of new laws that came into play that might affect the social media company.

② Analyzing the competition in the market \rightarrow changes/updates in the environment \rightarrow What new products they are targeting. \rightarrow How are they evolving.

Ask the Interviewer if he/she has some data around the 3 buckets. \rightarrow We can work on it & analyze the same. \rightarrow for further insights.

Valuation Methods to analyze companies.

1) FCF \rightarrow Future cash flows. to try identify what the company's value would be.

2) Multiple methods \rightarrow Multiple of Revenues, Multiple of Profits/Margins

Date :

MON TUE WED THU FRI SAT SUN

☐ ☐ ☒ ☐ ☐ ☐ ☐

Birdshot

Company →	A	B	C		
Years of Operation.	3	6	11	9	
Users	30,000,000	100,000,000	1,800,000,000	650,000,000	150,000,000
Annual User Growth.	75%	35%	6%	12%	10%
Revenue	\$11,000,000	\$200,000,000	\$3,500,000,000	\$4,500,000,000	\$900,000,000
Annual Revenue Growth.	25%	16%	6%	12%	3%
Revenue/User	\$0.37	\$2.00	\$1.94	\$6.92	\$6.00
Operation Margin.	-\$6,600,000	\$-4,000,000	\$770,000,000	\$120,000,000	-\$12,000,000
Operation Margin %	-60%	-2%	22%	16%	-8%
Valuation Method.	Revenue	Revenue	Margin	Margin	Revenue
Multiple	50X	5X	8X	9X	4X → Avg
Valuation	\$550,000,000	\$1,000,000,000	\$6,160,000,000	\$6,480,000,000	
Valuation/User	\$18.33	\$10.00	\$3.42	\$9.97	

- Here there are 2 main valuations method Revenue & Margin for company A, B, C & D
- Also another dimension → Valuation/User.
- Here we choose Revenue based method to evaluate Birdshot because Birdshot Operating Margin is at (loss) → So we choose Revenue.
- Comparing Birdshot with company A & B. → here we have low Annual User Growth. But Higher Users → over 30 Mills

- Here we choose Revenue Multiple of 4x for Birdshot

$$\text{Valuation} = \text{Revenue} \times \text{Revenue Multiple}$$

$$= \$900,000,000 \times 4$$

$$\text{Valuation} = \cancel{\$360,000,000} \cdot \$3,600,000,000 \Rightarrow \underline{\underline{\$3.6 \text{ Bn.}}}$$

- We need to verify this Valuation of \$3.6 Bn. with Valuation/User. \rightarrow By taking an estimation of Valuation/User & then see if it's tally with above valuation

- So in terms of Valuation/User it would be quite similar to Company B \rightarrow Maybe we can use the same Valuation/User.

Ratio \rightarrow because Birdshot sits closely with Company B in value terms of Users & Annual Users.

& also the Average

- of ~~the~~ Valuation/Users of all the company comes out to be \$10.

150 Millions Users with Valuation/User = \$10.

$$\text{Valuation} = 150,000,000 \times 10.$$

$$= 1,500,000,000 \Rightarrow \$1.5 \text{ Billions.}$$

$$\therefore \$3.6 \text{ Bn} \neq \$1.5 \text{ Bn.}$$

The verified valuation is more than $1/2$ of \$3.6 Billions.

At this point it's not a great buy for John Fox.

But we may need to look at some other strategic perspective whether there some additional factor that comes into play.

Date:
MON TUE WED THU FRI SAT SUN
☐ ☐ ☐ ☐ ☐ ☐ ☐

Q:- The acquisition of Birdshot by Fox Industries is being evaluated by like a traditional Private Equity deal there would be no real interactions between any of his existing companies. & Birdshot

However John believes that there could be opportunities for new Revenue growth. & potential cost savings in his combined portfolio → Asking you to identify any synergies in Revenues Cost that could potentially impact valuations.

→ • Potential Synergies b/w John's Current Company & Birdshot

↳ Revenue synergy → a) Integrating 2 companies → Combining by integrating Cloud services → for better cost saving & also ~~used~~ using cross advertising for better marketing → Drives Revenue

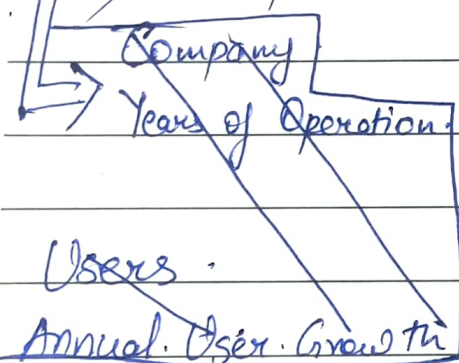
• Cross use of data b/w these 2 companies → Using Birdshot data to understand Consumer preferences. & Consumer trends. & pushing media contents to specific users.

→ • Cost Synergies → Integration of Cloud services for reducing cost.

• Integrating similar departments within 2 companies → Cost cutting. → Automating manual process → Using same/Adjacent office spaces for 2 companies → Cost saving measure

→ Risks :- Potential Risk involved with acquisitions → Company Level Risk. → Macro Level Risk.

Company level Risk → Financial Risk involved, firstly Birdshot is losing money as of now & Secondly it is valued more than verified valuation making it overvalued at \$3 Billion.



Company level Risk :- (2) Looking at Non-Financial risks involved \rightarrow John doesn't have ~~expertise~~ ^{to} run this new company \rightarrow Integration of 2 companies could be tedious \rightarrow Involve Extra Cost

Macro level Risk :- The Regulatory landscape is constantly evolving. \nexists ~~Some~~ emerging new regulations could make an impact.

Users might shift their focus quite frequently to other social media apps \rightarrow User loyalty could also impact.