

Module 3 - Introduction

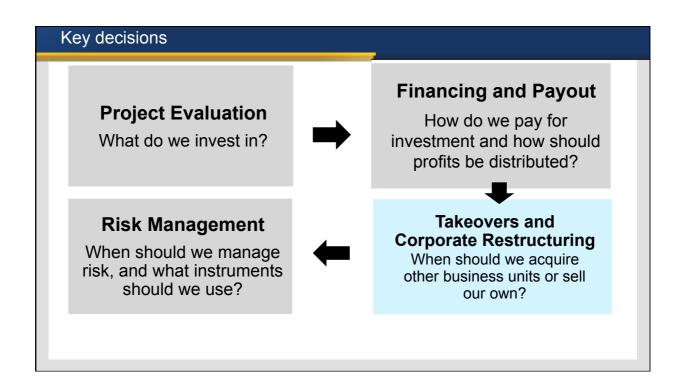
Corporate Financial Decision-Making for Value Creation

Welcome and Introduction (Getting organized)

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Motivation: Why are we interested in takeovers and corporate restructuring?

From a global perspective reasons include:

- 1. Assets involved are significant
 - Global M&A in 2014 : US\$3,100,000,000
- 2. Implications for competition
 - Possible formation of monopolies
- 3. Implications for transfer of wealth
 - Bidder → Target shareholders
 - Minority → Majority shareholders
- 4. Implications for governments
 - Cross-border M&A activity = 37% of all M&A.

Motivation: Takeovers and mergers

Your coffee business in NY is a huge success! You decide to expand your business into Chicago. There are two options that are available to you:



Grow organically by starting up your own operations in Chicago:

Project evaluation techniques (covered in course 1 already!)

Grow through external investment – acquire a firm that is already operating in Chicago:

- · Should we invest?
- What should we pay?
- How should we pay?
- How should we fund what we pay?

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Motivation: Takeovers and mergers

The central question to be answered is:

Does the takeover create value for the acquiring company's shareholders?

Value isn't created by paying \$1m for an asset that is worth \$1m to us!

Basic finance identity:

MV Assets = MV Debt + MV Equity





Cash New fixed assets

Motivation: Corporate restructuring

5 years later you find that the "Chicago" experiment has not gone as well as expected – and further investment is required.

Your CFO comes to you with three possible options:

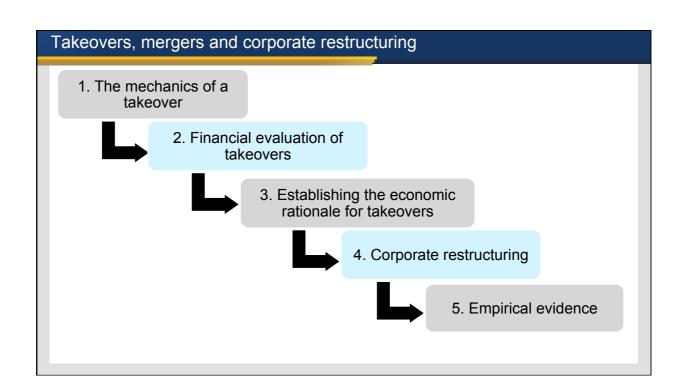
- 1. Sell off the Chicago operations DIVESTITURE
- 2. Separate Chicago from the NY operations and establish as a separate listed entity SPIN-OFF
- 3. Invite another owner to take significant stake in Chicago operations.

EQUITY CARVE-OUT

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As with M&A, the question to be answered is: Does the restructuring create value for the acquiring company's shareholders? Value isn't created by receiving \$800k for an asset that is worth \$800k to us! Basic finance identity: MV Assets = MV Debt + MV Equity Fixed assets sold Cash



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Source list

Slide 3:

Data source: *Mergers and Acquisitions Review – Full year 2014, Thomson Reuters.* Accessed at http://dmi.thomsonreuters.com/Content/Files/4Q2014_Global_MandA_Financial_Advisory_Review.pdf

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