Case Questions “Mercury Athletic Footwear”

Please answer the following questions. The first three questions should be covered in the case report. For questions 4 and 5, please prepare a short presentation and be ready to present it.

1. Compute the annual Free Cash Flows associated with the base case projections prepared by John Liedtke for the years 2007 to 2011.

2. Compute the weighted average cost of capital (WACC) given John Liedtke’s plan of financing Mercury with a 30% debt-to-value ratio.

You can make the following assumptions:

- The risk-free rate is 4.93% (cf. Footnote 4) and the market risk premium is 5%.
- The public footwear companies shown in Exhibit 3 have a target, i.e., constant, debt-equity ratio.
- The beta of debt is zero.

3. What is the value of Mercury Athletic based on a DCF analysis and Relative Valuation?
   - We are at Jan 1st 2007 and all cash flows occur at the end of a specific year.
   - Use a terminal value in 2011 based on a growing perpetuity with a 3% growth rate.
   - Ignore pension obligations and other elements that we have not covered in class.
   - Use different multiples to estimate the value of mercury

4. Describe the business case (strategic rationale) for an acquisition of Mercury Athletic by Active Gear. Is Mercury an appropriate target?

5. What would you be willing to pay for Mercury? Decide whether you want to prepare

   - A pitch in favor of the acquisition, e.g., in person of Active Gear’s bankers.
   - A pitch that is rather skeptic about the acquisition, e.g., in person of a risk-averse internal top manager.

Feel free to relax some of the assumptions from John Liedtke’s base case as well as the assumptions that I put up for questions 1-4, but be prepared to defend the additional assumptions you make.

For the quantitative analysis you can make use of the Excel file “S13_FMV_MercuryAthleticFootware_Exhibits.xls” that contains the data from the Exhibits and is available on the course website.