

Tender offers

Strategic investment criteria

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1. Introduction to strategic investment decisions

- **The NPV is one of the drivers of the decision as the valuation of the target generally relies on the Discounted Cash Flows approach**

- **But the investment decision relies on other criteria:**
 - **It must be EPS accretive in order to create shareholders value**
 - **It must be acceptable from a banking point of view**

- **These criteria enable to define the modality of the transaction:**
 - **Cash offer**
 - **Share offer**
 - **Mix offer**

- **Beyond industrial considerations, the decision is eventually based on a sensitivity analysis**

2. Purchaser 's EPS accretion / dilution in a cash offer

□ **PER = Price/EPS. ie: Price = PER x EPS . Hence, if the PER is stable (no change in the market status of the share):**

⇒ **$\Delta \text{Price} = \text{PER} \times \Delta \text{EPS}$**

□ **Taking into account that, under IRFS, the goodwill is no more amortized:**

Share of the target's net profit

(Post tax interest expenses)

Impact of the acquisition on the acquirer's net profit= ΔRN_A

□ **Accretive cash tender offer if, for a 100% acquisition of the target's capital: $\text{NP}_T > i.V$ where:**

□ NP_T = target's net profit

□ i = post tax cost of debt [ie: pretax cost of debt x (1 – corporate tax rate)]

□ V = target value (ie: market cap. + premium)

Then: $V/\text{NP}_T < 1/i = \text{Cash PER}$

Hence: Accretive Cash tender if: Target PER < Cash PER

□ **EPS accretion= (EPS after– EPS before) / EPS before**

The number of the acquirer's shares is unchanged. Then, with NP_A = acquirer's net profit

EPS accretion= $(\text{NP}_A \text{ after} - \text{NP}_A \text{ before}) / \text{NP}_A \text{ before} = \Delta \text{NP}_A / \text{NP}_A \text{ before}$

3. Purchaser 's EPS accretion / dilution in a share offer

- **A share tender offer consists in proposing to the target's shareholders to swap their (listed) shares for the bidder's listed securities.**
 - These securities generally correspond to new shares issued by the bidder
- **The exchange parity generally includes a 20%-30% premium on the target share price**
- **The goodwill corresponds to the difference between:**
 - the valuation of the target (ie the number of shares issued by the bidder x the last price of the bidder share)
 - the equity group share of the target x % purchased (ie 100% if the bidder had no interest in the target's capital before the tender offer)

NP_A : Net profit of the acquirer (A)
 NP_B : Net profit of the target (B)
 n_A : Number of A shares before the tender offer
 n_B : Number of B shares
 C_A : Price per A share
 C_B : Price per B share

The share offer is accretive if : EPS_A after the transaction $>$ EPS_A before the transaction

$$\frac{NP_A + NP_B}{n_A + \left(\frac{C_B}{C_A} \cdot n_B\right)} > \frac{NP_A}{n_A}$$

$$\frac{NP_A + NP_B}{\frac{n_A C_A + n_B C_B}{C_A}} > \frac{NP_A}{n_A}$$

$$\frac{NP_A + NP_B}{n_A C_A + n_B C_B} > \frac{NP_A}{n_A C_A}$$

$$(NP_A + NP_B) n_A C_A > NP_A (n_A C_A + n_B C_B)$$

$$n_A C_A NP_B > n_B C_B NP_A$$

$$\frac{n_A C_A}{NP_A} > \frac{n_B C_B}{NP_B}$$

$$\frac{C_A}{NP_A} > \frac{C_B}{NP_B}$$

$$\frac{n_A}{C_A} > \frac{n_B}{C_B}$$

$$\frac{C_A}{EPS_A} > \frac{C_B}{EPS_B} \quad \text{ie } PER_A > PER_B$$

4. Banks' constraints / main covenants

- **Gearing:**

Net debt / Equity < 1

- **Debt coverage:**

Net debt / EBITDA < 3

- **Interest coverage:**

EBIT / net financial expenses > 4