Marten Arts Gallery Inc.
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Synergies
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Early Closing of Positions
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Arbitrage Spread
Situation Background
Conclusion

Marten Arts Gallery Inc.
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Synergies
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• Expected to exceed $3bn
• The companies complement each other
• Avionics & Automated Control
• Economies of Scope & Scale
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Investment Effects
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• EC announcement -> Major risk
• Market reacts quickly
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Situation Background

General Electric Company

- $130 billion revenue (2001)
- Globally diversified
- Founded by Thomas Alva Edison 1876

Honeywell International Inc.

- Diversified Technology & Manufacturing Corporation
- $25 billion revenue (2001)
- Formed upon merger in 1999

Political Complications

- GE is highly reputable in the US M&A industry
    - No complications
- European Commission (EC) historically affirmative of mergers
- However, skepticism about GE's market power

Personalities Involved

- Jack Welch
  - Long-Time CEO of GE
  - Strong Interest in the merger
  - Initiator

Synergies

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Valuation Methods

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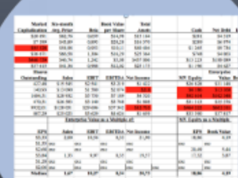
Relative Valuation

- Enterprise vs Equity Value
- EntV more appropriate for multiple calculations
- Identifying outliers and excluding them
- Precedent Transaction analysis
  - Multiples & Premiums paid

Intrinsic Valuation

- Discounted Cash Flow Analysis
  - Pros & Cons
- Perpetuity growth rate too high (5%)
  - Should be lower due to actual growth
- Net Debt calculations should refer to correct current date



Synergies vs Stand-Alone Valuation

- Multiples do not include potential synergies
- Acquisition vs Trading Difference gives Median
- Final price is similar to a demand/supply equilibrium

Late Closing of Positions

Investment Effects

- Interest $302.94 for 254 days holding period
- Return on Investment (ROI)
  - 40% for the holding period
  - 57% annualised
- Lower ROI than Early Closing of Positions
- However, constant share price is assumed