

# Saginaw Parts Co. and the General Motors Corp. Credit Default Swap, Spanish Version

TheCasesolutions.com

**Synergies**

TheCasesolutions.com

- Expected to exceed \$1bn
- The companies complement each other
- Avionics & Automated Control
- Economies of Scope & Scale

**Early Closing of Positions**

TheCasesolutions.com

- Valuation: Accruals
- Valuation: SPINs

**Late Closing of Positions**

TheCasesolutions.com

- Investment Effects

**Arbitrage Spread**

TheCasesolutions.com

- EC (arbitrage) -> Major risk
- Market mispricing &ly
- Excessive trading short positions valued with the highest of debt

**Conclusion**

TheCasesolutions.com

- Physical risk there EC
- Position as to non-trading
- Valuation & Synergies
- Early vs. Late closing & Arbitrage spread
- EC/BAFF should close late positions on the 1st March 2002
- Separation of higher rated bonds from EC/BAFF

**Situation Background**

TheCasesolutions.com

- Avionics & Automated Control
- Economies of Scope & Scale

**Strategic Considerations**

TheCasesolutions.com

- Public Considerations
- Private Considerations

**Valuation Methods**

TheCasesolutions.com

- Valuation: Accruals
- Valuation: SPINs

# General Electric Company

**TheCasesolutions.com**

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

# Honeywell International Inc.

## **TheCasesolutions.com**

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

# Political Complications

## TheCasesolutions.com

- 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

**TheCasesolutions.com**



# Synergies

## **TheCasesolutions.com**

- Expected to exceed \$3bn
- The companies complement each other
- Avionics & Automated Control
- Economies of Scope & Scale

# Valuation Methods

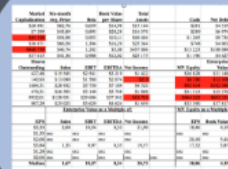
## TheCasesolutions.com

### 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



Market	Revenue	Market Value	EV	EV/Revenue	EV/Market Value
Company A	100	1000	800	8.0	0.8
Company B	200	2000	1500	7.5	0.75
Company C	150	1500	1100	7.3	0.73
Company D	120	1200	900	7.5	0.75
Company E	180	1800	1300	7.2	0.72

### 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

**TheCasesolutions.com**

### 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