

Cooper Industries

Cooper Industries Harvard Case Solution & Analysis

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Price of Acquisition

Cooper Industries is a public company. The market value of the company is \$1.1 billion. The company has 10 million shares outstanding. The current price of the stock is \$110 per share.

Cooper Industries' Financial Performance

Cooper Industries has a strong financial performance. The company has a long history of growth and profitability. The company's revenue has increased steadily over the past several years.

Cooper Industries' Market Position

Cooper Industries is a leader in its market. The company has a strong reputation for quality and reliability. The company's products are used by a wide range of customers.

Cooper Industries' Strategic Initiatives

Cooper Industries is focused on several key strategic initiatives. The company is investing in research and development to develop new products. The company is also expanding its global presence.

Cooper Industries' Shareholders

Cooper Industries has a diverse group of shareholders. The company's shares are held by a large number of institutional investors. The company's shares are also held by a large number of individual investors.

Cooper Industries' Financial Data

| Year | Revenue | Profit | Assets | Liabilities | Equity |
|------|---------------|---------------|---------------|----------------|----------------|
| 2010 | \$1.1 billion | \$100 million | \$1.1 billion | \$0.5 billion | \$0.6 billion |
| 2011 | \$1.2 billion | \$110 million | \$1.2 billion | \$0.55 billion | \$0.65 billion |
| 2012 | \$1.3 billion | \$120 million | \$1.3 billion | \$0.6 billion | \$0.7 billion |
| 2013 | \$1.4 billion | \$130 million | \$1.4 billion | \$0.65 billion | \$0.75 billion |
| 2014 | \$1.5 billion | \$140 million | \$1.5 billion | \$0.7 billion | \$0.8 billion |

Concerns with Nicholson's Shareholders: Will you have to bargain with the stockholders to acquire their shares?

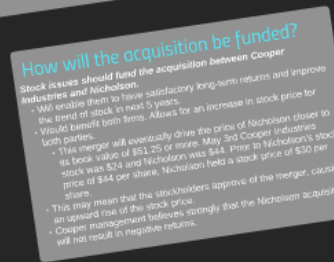
- In dealing with the premium offer from Nicholson, Cooper Industries has to focus on the book value per share.
- Because of the differences in the criteria Cooper Industries has set for its acquisitions, Nicholson may be worth the premium.
- Cooper Industries needs to offer H.K. Porter and the Nicholson management a tax-free transaction that is worth at least \$20 per share, and if H.K. Porter is able to back up Cooper, then only 85,000 of the 177,000 outstanding shares are needed for the majority control that Cooper desires.

How will the acquisition be funded?

Stock issues should fund the acquisition between Cooper Industries and Nicholson.

- Will enable them to have satisfactory long-term returns and improve the value of stock in market.
- Would benefit both firms. Allow for an increase in stock price for both parties.
- This merger will eventually drive the price of Nicholson down to its book value of \$21.25 or more. May 2004 Cooper Industries stock was \$24 and Nicholson was \$44. Prior to Nicholson's stock price of \$44 per share, Nicholson held a stock price of \$30 per share.
- This may mean that the stockholders seignior of the merger, causing share.
- An upward rise of the stock price.
- Cooper management believes strongly that the Nicholson acquisition will not result in negative impact.

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Is Cooper Industries paying a reasonable price for the acquisition?

- The **intrinsic value** of the firm's equity is \$65.91 million, on a per share bases yields a price of \$112.85.
 - Maximum amount Cooper should pay for the firm before it becomes economically infeasible to the shareholders.
- The current market value of equity is \$25.7 million, \$44 per share.
 - This constitutes the lower bound, the minimum takeover price before it becomes disadvantageous to the shareholders of Nicholson to merge.

Optimal price lies between these two bounds, and must take into account other factors presented by other players.

Price of Acquisition

Most viable price proposal= \$50 per share,

- This price is the lowest that will:
 - Coincide with Porter's stipulations
 - Attract the unaccounted and speculators
 - Offer a competitive advantage over VLN's proposal.
- Cooper already has the support of 206,000 shares, representing a 35% stake in the company; they merely require another 86,000 for a 50.1% majority stake in the company enabling them to merge per Rhode Island law.

Conclusively the Nicholson's is undervalued and Cooper should proceed to acquire them at a proposed price of \$50 per share, or \$4.3 million dollars.

Equity Over Cash

Ideally, Cooper will issue equity to fund the merger.

Benefits over Cash:

- *Tax advantage* to equity, as acquisition by cash is a taxable transaction.
- Mutual benefit when acquiring with equity, as it gives the shareholders of the acquiring company the capability to incur higher gains, or losses, depending on the performance of the company; a cash acquisition would result in a fixed price.

Concerns with Nickleson's Stockholders. Will you have to bargain with the stockholders to acquire their shares?

“What made Nicholson so attractive were its basic competitive strength, which the family dominated management had not translated into earnings.”

- Cooper Industries will have to maximize the attractiveness of their offer to compete with H.K Porter.
- Conflict of interest: Nicholson shareholders did want to maintain operating and management control.
- H.K Porters offer to the company was about 42 dollars per share, which represent a large premium over the most recent stock price.
- Because of the large premium, Cooper Industries was reluctant to provide an efficient offer and eventually was faced with a possible forfeit of their acquisition.
- Both companies could prosper from the deal, as the acquisition could lower selling, general, and administrative expenses by about 2%.

Concerns with Nickleson's Stockholders. Will you have to bargain with the stockholders to acquire their shares?

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Assuming a constant growth rate of about 6%, the cost of equity for the Nicholson can be computed using the average price for 1971:

Price: 27.5 $(23+32 / 2)$ because the price ranged from 23 to 32 in 1971

Dividends: 1.6

Cost of Equity = Dividend/Price+ constant growth rate=
 $(1.6/27.5) + 6\% = 11.82\%$

Cost of Debt = Interest Expense/ Debt = $(0.8/12) = 6.7\%$