

# Eskimo pie case study essay



**ASSIGN  
BUSTER**

Dilemma: How will Reynolds Metals extract the maximum financial value from their ownership stake in Eskimo Pie Corporation?

Alternatives:

1) Follow through negotiating with Nestle Corp. to sell Eskimo Pie in private transaction

2) Initiate Initial Public Offering (IPO) process to gain proceeds from the public markets

Criteria:

1) Maximizes cash flows for Reynolds Metals, majority stakeholder in Eskimo Pie Corporation

2) Provides fastest conversion in terms of time of ownership in Eskimo Pie to cash

3) Transaction involves least risk and liability ) Probability of transaction closure

Analysis:

1) PRIVATE SALE In this scenario, Reynolds Metals would sell Eskimo Pie Corporation outright to the highest bidder – in this case Nestle Corp for \$61M. This outright buyout scenario seems farthest along (most mature) in terms of negotiations, given that Goldman Sachs has already filtered the highest bidder through an organized auction for sale on behalf of Reynolds Metals, but final specific complications mustn't be overlooked.

Two primary concerns inhibiting the deal closure exist for the buyer (Nestle): tax structure – maximizing tax savings given Nestle’s headquarters are in Switzerland – and possible environmental cost estimated for contaminants from one of Eskimo’s manufacturing plants (est. liability of \$300k).

Significant risks in terms of deal closure and contract specifics still exist.

Obvious benefits of this deal would be a contractually guaranteed amount, of which Reynolds Metals would obtain 84% of \$61M bid from Nestle.

If negotiation momentum can be reignited, this case may prove most attractive in terms of deal closure time and ability to convert Eskimo Pie shares to cash, but further with further assessment Eskimo Pie seems undervalued. Though relatively insignificant to Reynolds Metals, if this transaction were to be finalized, synergies between the company operations would inevitably lead to significant management and employee personnel downsizing (at least one stakeholder is negatively affected).

2) IPO The IPO analysis per case study was undervalued based on our projections. Through our comparable analysis (Exhibit 3) we have determined the proceeds that would be received by Reynolds is \$77, 065, 153. Our calculation is based on using the average multiple of PE, MV/BV, MV/S to arrive at our price per share of \$23. 14 (Exhibit 4). The IPO process would be sensitive to market sentiment but even with these changes, our analysis provided a window of 50% downside protection which would be above the proceeds in a private sale transaction. The IPO process is also dependent upon Wheat First’s ability to execute roadshows and attract enough investors. The “ Green Shoe” clause would allow Reynolds the ability to gain further upside if the public market receives the IPO well. Our analysis

is based on the option of 10-15% more shares which will secure additional proceeds for Reynolds.

Decision: After evaluating each alternative we ultimately believe that Reynolds should begin the IPO process. If IPO market conditions can remain hot long enough for the IPO filing to get through we believe Reynolds Metals will receive the highest influx of cash for their current ownership stake in Eskimo Pie Corporation.

Though significant risk exists in terms of generating a favorable offer price per share, we believe based on our analysis, the market will value Eskimo Pie to be near \$23.14 per share, well above the previous projections made by Wheat First Investment Bank. The IPO process will provide much higher aggregate proceeds for Reynolds above a private sale to Nestle or continuing current operations.

Plan of Action: Reynolds Metals ought to begin firm negotiations with Wheat First Investment Bank in order to complete this deal as quickly as possible. Reynolds should also work diligently to ensure all filings are done in a timely manner to capture a favorable market and yield the highest economic value for their ownership stake. The timing of the process is extremely important to the success of the IPO in order to maximize the benefits. Exhibit 1 Exhibit 2 (Projected Income Statement) Exhibit 3 (IPO Analysis) Exhibit 4 (PE= Price/Earnings, MV= Market Value, BV= Book Value, S= Sales)[ 1 ]. Reynolds would secure 84% of the \$61M, totaling: \$51.24M