

Vodafone airtouch's bid for mannesmann

[Business](#), [Company](#)



First of all, one has to mention that it is always difficult to evaluate a company. There is no single measure/calculation who can give you the valuation of a company. The value of a company can be different for every single human being. For instance, Vodafone Air Touch will try to calculate a very low valuation of the company because it wants to pay as less as possible, and Mannesmann a very high valuation, because it wants to get as much money as possible. As a result, it often depends on the interest of the different persons who evaluate a company. In October 1999, Mannesmann offered shares around 157. € . This was before the acquisition of Orange PLC, a competitor of Vodafone Air Touch in the UK market. After the acquisition, Vodafone offered 266€ per share, 68% more than the 157. 8€ per share Mannesmann offered few weeks before. Despite, this very high premium, Mannesmann's CEO evaluated his company 350€ per share.

Here in this case, I think that the main reason for this high price differences is that with time, Mannesmann's bargaining position changed. In the beginning, their position was not as strong as in the end when they achieved to acquire Orange Plc, a telecommunication company in the U. K. which was growing faster than Vodafone. As a result, Mannesmann became a stronger competitor for Vodafone and Mannesmann's CEO knew that. As a consequence, he increased the valuation of his company. The reason why for instance an analyst from Julius Baar valued Mannesmann between 250€ and 350€ per share and many other analysts between 174€ and 250€ per share may have some reasons. The main reason is that, as anticipated before, it is very difficult to evaluate a company. Furthermore, it is even

more difficult to evaluate how many synergies Vodafone Air Touch would benefit from this takeover.

So it is very difficult to evaluate how much this Mannesmann takeover could be worth for Vodafone Air Touch. Moreover, one has to check which analysts own stocks of Mannesmann or Vodafone because this may also influence the different evaluations. (2) In your opinion, in general, when a company is the target of a hostile takeover bid, who should decide whether the terms and conditions of this bid are acceptable? The Chief Executive Officer (or the equivalent) of the target company? Or its Chairperson (if another person than the CEO)? Its board of directors? Its shareholders ?

If the shareholders, how practically should they make their decision? In my opinion, only the shareholders should take this type of decision. They are the one who own the company, and they should decide if they accept the takeover bid or not. If 50 % + X agree with the bid price, then the takeover should take place. Of course, before taking the decision, they should listen to the opinion of the CEO, the Chairperson, some analysts, as well as the Board of Directors. However, in my opinion, none of these key persons should take part of the decision making process.

In my opinion, the shareholders are the one who own the company, and they should decide what should happen with their investment. For instance, let us assume the employees would take part of decision making process. Then, in most of the cases, the employees would vote against a take over, because they fear about their jobs. They would never take a neutral decision, but a decision which is the best for them, not caring about the fact that the

shareholders lose a high premium. They, as well as the trade unions, would vote against an takeover because they fear for the jobs.

However, they never think about the fact, that if the company is not taken over, the company who made a bid remains a competitor. And this competitor could increase its market share in spite of the smaller company that did not accept the takeover. And in this case, the employees of the smaller company would even risk to lose more jobs. The CEO and the Chairperson should never take this type of decisions. Because, they are only in charge of the operations of the company, but they do not own the company. As a result, they should not decide about the matter. 3) In the case of the Vodafone AirTouch bid for Mannesmann, who should have made the decision? (Please take into account the fact that Mannesmann had two boards, the supervisory board, and the management board) What do you think of the sentence in the fourth paragraph of page 5 of the case: "Esser rejected the offer on the grounds that it was inadequate"? As stated before the shareholders should have taken this decision. They own the company and if 50% + X is in favour of Vodafone AirTouch's bid, then the company should accept the bid.

Let's assume that you invested 50 000 € in Mannesmann's shares and now somebody is offering you 80 000 € for the shares. Then you should decide if you accept this money, or if you think that your shares are much worthier in some months/years. In that case you vote against the hostile takeover. I think that this system makes the decision making also very rapid and

efficient. In fact, if one would also ask the employees, some analysts and so on, then the decision making process would be much longer.

As a result, I think that the shareholders should take the decision, after having listened to the different opinions of the CEO, employees, analysts,.. However, I think it unacceptable that Esser as the CEO of the company, who does not own many shares, rejects the offer in the name of all the investors. This cannot be tolerated. In fact, he is like an employee of Meeresmann, he does not own the company, and he should take the best decisions for his shareholders who in some way gave him this job as CEO.

As a result, I think that he cannot take the decision to refuse a bid without having spoken with any shareholder of the company. This is not a personal decision, but a decision which influences all the stakeholders of the company. It is unacceptable that he takes the decision on behalf of all the share- and stakeholders. (4) If you had been a shareholder of Mannesmann on December 17, 1999, what would you have liked to say to Klaus Esser ? What would you have like to say to Chris Gent ?

If you had had the opportunity to vote to accept or not Vodafone's bid, how would you have voted (please ignore the subsequent events not described in the case) ? As a shareholder of Mannesmann, I would liked to ask him why he refused an offer of 266€ per share, which is a premium of 72. 2 % compared to Mannesmann's closing price on October 18th. I would blame him for not having asked the shareholder what they thought about the offer. He took a decision about something which did not own him, but where I owned a fraction.

Finally, I would ask him if he could guarantee me that the share price of Meeresmann would be as high as the Vodafone AirTouch's offer in the future. Only if this is the case, the Esser would be partly excused. I mention only partly, because even if he thinks that the share price of Meeresmann will be higher in the near future, then he should have explained that to the shareholders. And then, if the majority of the shareholders would agree, then he could refuse the offer. As a shareholder of Mannesmann, I would ask him what would be the strategy of Vodafone AirTouch after the acquisition of Meeresmann.

This is important to me, because I will have to make an important decision if the hostile takeover is agreed: either I keep the Vodafone shares or I sell all the shares the day of the take over. In that way, I would gild the premium. I would definitely have accepted the deal. During that time, it was quite sure that a consolidation of the telecommunication market would happen. As a result, I think that it would have been very difficult for Meeresmann, as one of the smaller companies, to survive in that marketenvironment.

Furthermore, the offered premium was so high, that I could not deny this offer.