

Vodafone



**ASSIGN
BUSTER**

Prepare a typed solution of no more than six pages Use the questions below as a guide to your answer. The solution must be a recommendation, not a mechanical list of answers On the first page of your solution state: o the names and student numbers of your group members in alphabetical order o the name of the course (Advanced Corporate Finance) and the case (Vodafone) Deadline: Wednesday, April 6th, 2011, 18. 55 Venue for delivery: E building, 4th floor, mailbox outside the secretarys' office (E 4. 26).

Structure your discussion around the following questions, and remember not to just answer them mechanically: 1. On November 19, 1999 Vodafone proposed that each Mannesmann share would receive 53. 7 Vodafone shares, so that in aggregate Mannesmann shareholders would own 47. 2% of the equity of the newly combined firm. 1 a. On December 17, 1999, based on the stock prices of the two firms, it seemed that the market estimated the probability of Vodafone successfully acquiring Mannesmann at around 60%.

Under the assumption that both firms would trade at prices prevailing at October 21 if the bid failed, what is the market's estimate of the synergies of the deal? Based on this estimate, should Vodafone shareholders support the deal? b. What is the present value of the expected synergies as shown in Exhibit 10? (Assume that the synergies related to revenues and costs grow at 4% annually past 2006, but savings from capital expenditures would not extend beyond 2006, and that the merger will not affect the firm's level of working capital.) Use the average exchange rate of EUR/GBP= 1. 5789, and the Goldman Sachs WACC estimate (notice that total operating profit impact is pre-tax). Based on these calculations, should Vodafone shareholders

support the deal? c. UK equities returned 7.7% over the UK risk-free rate for the period 191993.

This suggests that Goldman Sachs' WACC estimate might be too low.

Assuming a market risk premium of 7.7%, leverage of 5%, risk-free rate of 5.5%, and cost of debt of 7% derive a new estimate for the WACC and To see where the 47.2% comes from, notice that Mannesmann and Vodafone had 517.9m and 31105m shares outstanding, respectively. So Vodafone would have to issue $517.9 \times 53.7 = 27811.2$ m new shares and give them to the Mannesmann shareholders. Mannesmann shareholders consequently would hold $27811.2 / (27811.2 + 31105) = 47.2\%$ of the combined firm.