

Mercury athletic essay sample

[Finance](#)



RE: Mercury Athletic valuation and acquisition recommendations

We believe that Mercury is an appropriate target for AGI since an acquisition can be an excellent growth opportunity. First, through the acquisition AGI can take the advantages of some existing synergies. Acquiring Mercury would expand AGI's business size and consequently produce the "one plus one is greater than two" effect. This acquisition would double AGI's revenues, increase its leverage with contract manufacturers, and also help to expand its presence with key retailers and distributors. Moreover, if negotiated well, AGI could acquire Mercury for a lower price than the actual price of Mercury; earning more than what they've paid. This will be discussed further in the recommendation.

Secondly, acquiring Mercury is a lower risk way for AGI to increase their growth rate. Mercury has a high growth rate of revenue, which may compensate for the low growth rate of revenue for AGI. Further, since the women's casual line is going to be closed or consolidated, the rest of the three segments of Mercury show prosperous future prediction in margins and growth. This reflects a good acquisition opportunity.

Finally, acquainting Mercury is ease of integration. This is because Mercury and AGI both are the footwear industry. And the main products of Mercury are athletic and casual footwear that are similar with AGI's products. Both of the companies' manufacturers are located in China, so they can enjoy the geographical advantage of sharing resources and infrastructure with each other.

After reviewing Liedtke's projections, we determined that they seem reasonable overall. One area we may consider altering is the revenue projections. The Revenue growth for each firm seems a bit aggressive. The growth rate of Men' Athletic Footwear continue decline from 15. 39% in 2007 to 5% in 2011 while it was 15. 39% and 44. 24% in 2005 and 2006. The growth rate of Men's Casual Footwear remain stable around 2%-3% while historical number is negative. Some of these projections for revenue could be tweaked down, however, they still appear to be projected within reason.

One approach to determine the value of Mercury was to use the discounted cash flow model. After the free cash flows were determined for 2007-2011, we then obtained a terminal value. Summing these value up and then taking the present value gives us a reasonable estimate of the value of Mercury Athletic. The calculations are presented in the exhibits and the table below:

The value we concluded to can be considered a conservative estimate. First, the equity market risk premium is a conservative estimate given that we used a higher risk free rate obtained from 20-yr treasury rates. Second, our terminal value is based on the quoted GDP growth rate given from the Presidential 2014 Budget projections. This can be viewed as a conservative growth rate as the growth in the footwear industry may not mirror actual GDP growth. Finally, we looked at EBITDA multiples of comparable companies to check the reasonableness of our valuation. The comparables and their corresponding EBITDA multiples are present below:

On average, the comparables are valued at 9 times their EBITDA. Using Mercury's EBITDA, the corresponding value would be \$405, 716. This is

considerably higher than our discounted cash flow conclusion of \$298, 071. Therefore, we can say that our cash flow model is a conservative valuation.

The projected cash flows don't take into consideration that if Mercury Athletic Footwear is sold to Active Gear they will be able to have access to Active Gear's 5700 accounts that they currently have. This could increase their annual revenues substantially. Additionally, since Active Gear is looking to consolidate their Chinese contract manufacturers in order to increase the profit margins of their product, by purchasing Mercury Athletic Footwear they will increase their negotiating position. At last Active Gear will be able to utilize all the resources that they have such as their marketing expertise and their better inventory management system in order to better promote the Mercury Athletic Footwear brand and maximize profit. These synergies could not only lead to higher revenues, but lower costs. Therefore, the projected operating expenses could be altered to reflect a less drastic increase over time; therefore, resulting in a higher valuation.

Overall, we feel that the valuation was examined on a conservative approach and would be a good starting point for negotiations in acquiring Mercury. It is clear that Mercury adds value to AGI is acquired for a fair price.