

# Vodafone mannesman case



1a. Value Vodafone 17 dec = sharesVodafone\*priceVodafone = 154186, 4042 Value Mannesmann 17 dec = sharesMannesmann\*price Mannesman = 121188, 6 Value combo 17 dec = 275375, 0042 Value Vodafone 21 oct = sharesVodafone\*priceVodafone = 130206, 9767 Value Mannesmann 21 oct = sharesMannesmann\*price Mannesman = 75276, 765 Value combo 21 oct = 205483, 7417 Indicated synergies = (275375, 0042 - 205483, 7417) / 0. 6 = 116485, 4374 We divided the difference in combined shareprices by 0. 6, as the shareprices only reflect 60% of the synergies. That means the indicated synergies are 116 billion.

b. 2000E2001E2002E2003E2004E2005E2006ETerminal Value Operating profit AfterTax (I)058, 5159, 9447, 2639, 6793, 65967, 85 (II)26884, 72 Savings 060147360420469506 Total Synergies AfterTax0118, 5306, 9807, 21059, 61262, 651473, 85 PV Total Synergies (III) 110, 1301265, 0772647, 9542790, 4836875, 4304949, 6852(IV) 17323, 35 Total Synergies 20962, 11 Total Synergies in €33097, 08 I. Operating profit x (1-0, 35) II. Terminal value operating profit AT: 967, 85/(0, 076-0, 04) III. PV of total Synergies AT assuming WACC is 7, 6%, for example for 2001: 118, 5/1, 076^1= 110, 10301 IV. PV terminal value: 26884, 72/1, 076^6 1c.

Cost of debt = 7% Cost of equity= 5, 5 % + 1, 1 \* 7, 7% = 13, 97% New WACC: 0, 05 \* 7% + 0, 95 \* 13, 97% = 13, 62% Calculations according a new WACC of 13, 62% 2000E2001E2002E2003E2004E2005E2006E2004c Operating profit AT058, 5159, 9447, 2639, 6793, 65967, 8510060, 81 Savings060147360420469506 Total Synergies AT0118, 5306, 9807, 21059, 61262, 651473, 85 PV Total Synergies104, 295237, 7318550, 3219635, 8033666, 8207685, 05364676, 321 Total Synergies in P8219, 841 Total

Synergies in €12978, 31 2. What potential hurdles is Vodafone going to face to complete its acquisition of Mannesmann? Vodafone's bid for Mannesmann could be hindered by a number of parties. First off, corporate governance is arranged differently in Germany from the UK. Mannesmann have a supervisory board which is made up of shareholders (50%) as well as employee representatives (35%) and trade unions (15%, metal worker unions in this case). Also, law regarding control & transparency in business enterprises is different in Germany. A proxy fight would take quite long if management continued its resistance.

In that case the German government might step in, which doesn't seem too unlikely in light of (then) Chancellor Schroeder's remarks (See Case p. 8) Hurdles which might be unforeseen and have a more remote possibility of coming into play would include Oranges management to try and block the deal (by pressuring the government or otherwise). Orange may like their prospects as part of Mannesmann better than some other corporate parent. (Which turned out to be France Telecom eventually) Who is going to be its most likely supporter? Vodafone management itself of course. Vodafone shareholders, as indicated by Vodafone's share price, should be supportive too. A (seemingly unlikely) supporter in our opinion would be the Tube manufacturing department of Mannesmann.

In the event the Vodafone deal goes through, they'll likely be spun off faster. Or at least have certainty about the spin off. Whether all workers in the manufacturing department see the benefits of going solo is debatable however. Another supporter, albeit only with political strength, is Tony Blair. If the deal is seen as a European matter his comments might carry some

weight. In any case, the lobbying he could do for the deal could prove valuable.

Who is going to resist? Why? Esser resisted the offer as he believed it to be too low. He also has to take all the stakeholders' considerations into account. And maybe most importantly, the board of Mannesmann had just done the Orange deal. They might have an emotional attachment to it, and might lose face if they're taken over by Vodafone instead (which would nix the deal with Orange of course). If the telecom workers at Mannesmann are unionised too, their unions are likely to be concerned about job losses. They and the workers themselves are likely to resist.

3. Potential explanation for why Esser was resisting the deal and fought so hard: First off, Esser might simply believe the offer to be too low and his comments are just ploys to induce Vodafone to pay more. Also, as indicated earlier, Germany has a different corporate governance structure. The principal of codetermination means that the board should maximize the value for all stakeholders, whereas the UK focuses on the maximization of Shareholder's value.

Because of the difference in executive compensation in Germany, Esser owned no options and little shares. This means he had little incentive incentives to support Vodafone's bid, certainly at this price. Esser also claimed that 90% of shareholders believed that Mannesmann had better long term prospects as an independent company (source: BBC). Sources "Mannesmann: a culture shock", BBC news, 4 February 2000, <http://news.bbc.co.uk/1/hi/business/631413.stm> (6 May 2008)

<https://assignbuster.com/vodafone-mannesman-case/>