



# Prudential Financial - General Motors Pension Risk Transfer: Back to the Future?

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**Synergies**  
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- Expected to exceed \$1bn
- The companies complement each other
- Avionics & Automated Control
- Economies of Scope & Scale

**Early Closing of Positions**

- Valuation: Accrual
- Valuation: Market

**Late Closing of Positions**  
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- Investment Effects

**Arbitrage Spread**

- EC (assumes) -> Market risk
- Market mispricing &ly
- Effective trading strategy associated with the highest of date

**Conclusion**

- Physical risk there EC
- Position in new firms
- Valuation & Synergies
- Early vs. Late closing & Arbitrage spread
- Late EC should close late positions on the 1st March 2008
- Separation of physical & financial risk (P+V+I)

**Situation Background**

- Avionics & Automated Control
- Economies of Scope & Scale

**Strategic Consideration**

- Public Capital
- Private Equity

**Valuation Methods**  
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- Market Valuation
- Accrual Valuation

# General Electric Company

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- \$130 billion revenue (2001)
- Globally diversified
- Founded by Thomas Alva Edison 1876

# Honeywell International Inc.

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- Diversified Technology & Manufacturing Corporation
- \$25 billion revenue (2001)
- Formed upon merger in 1999

# Political Complications

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- GE is highly reputable in the US M&A industry
- • No complications
- European Commission (EC) historically affirmative of mergers
- However, skepticism about GE's market power

# Personalities Involved

- Jack Welch
  - Long-Time CEO of GE
  - Strong Interest in the merger
  - Initiator

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# Synergies

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- Expected to exceed \$3bn
- The companies complement each other
- Avionics & Automated Control
- Economies of Scope & Scale

# Valuation Methods

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### Relative Valuation

- Enterprise vs Equity Value
- EntV more appropriate for multiple calculations
- Identifying outliers and excluding them
- Precedent Transaction analysis
  - Multiples & Premiums paid

### Intrinsic Valuation

- Discounted Cash Flow Analysis
  - Pros & Cons
- Perpetuity growth rate too high (5%)
  - Should be lower due to actual growth
- Net Debt calculations should refer to correct current date

Market	Revenue	EBITDA	EV
Company A	100	20	200
Company B	150	30	300
Company C	200	40	400
Company D	250	50	500
Company E	300	60	600
Company F	350	70	700
Company G	400	80	800
Company H	450	90	900
Company I	500	100	1000
Company J	550	110	1100
Company K	600	120	1200
Company L	650	130	1300
Company M	700	140	1400
Company N	750	150	1500
Company O	800	160	1600
Company P	850	170	1700
Company Q	900	180	1800
Company R	950	190	1900
Company S	1000	200	2000

### Synergies vs Stand-Alone Valuation

- Multiples do not include potential synergies
- Acquisition vs Trading Difference gives Median
- Final price is similar to a demand/supply equilibrium



# Late Closing of Positions

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## Investment Effects

- Interest \$302.94 for 254 days holding period
- Return on Investment (ROI)
  - 40% for the holding period
  - 57% annualised
- Lower ROI than Early Closing of Positions
- However, constant share price is assumed