JAIPURIA INSTITUTE OF MANAGEMENT
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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

FIFTH TRIMESTER (Batch 2021-23)

END TERM EXAMINATIONS, FEBRUARY 2023

Course Name	Corporate Restructuring	Course Code	20240
Max. Time	2 Hours	Max. Marks	40 MM

INSTRUCTIONS:
a. Attempt all questions.
b. Be precise and focused while answering the questions.

Question 1: PeopleSoft, a maker of human resource and database software, announced on February 9, 2004 that an increased bid by Oracle, a maker of database software, of $26 per share made directly to the shareholders was inadequate. PeopleSoft's board and management rejected the bid even though it represented a 33% increase over Oracle's previous offer of $19.50 per share. The PeopleSoft board urged its shareholders to reject the bid in a mailing of its own to its shareholders. If successful, the takeover would be valued at $9.4 billion. After an initial jump to $23.72 a share, PeopleSoft shares had eased to $22.70 a share, well below Oracle's sweetened offer.

The rejection prolonged a highly contentious and public eight-month takeover battle that has pitted the two firms against each other. PeopleSoft was quick to rebuke publicly Oracle's original written offer made behind the scenes to PeopleSoft's management that included a requirement that PeopleSoft respond immediately. At about the same time, Oracle filed its intentions with respect to PeopleSoft with the SEC when its ownership of PeopleSoft stock rose above 5%. Since then, Oracle proposed replacing five of PeopleSoft's board members with its own nominees at the PeopleSoft annual meeting to be held on March 25, 2004, in addition to increasing the offer price. This meeting was held about two months earlier than its normally scheduled annual meetings. By moving up the schedule for the meeting, investors had less time to buy PeopleSoft shares in order to be able to vote at the meeting, where the two companies will present rival slates for the PeopleSoft board. Oracle seeks to gain a majority on the PeopleSoft board in order to lift the company's unique "customer assurance" anti-takeover defense. PeopleSoft advised its shareholders to vote no on the slate of potential board members proposed by Oracle. PeopleSoft also announced that it would buyback another $200 million of its shares, following the $350 million buyback program completed last year.

Oracle has said that it will take $9.8 billion (including transaction fees) to complete the deal. The cost of acquiring PeopleSoft could escalate under PeopleSoft's unusual customer assurance program in which its customers have been offered money-back guarantees if an acquirer reduces its support of PeopleSoft products. Oracle repeated its intention to continue support for PeopleSoft customers and products. The potential liability under the program increased to $1.55 billion. In addition, Oracle will have to pay PeopleSoft's CEO Craig Conway a substantial multiple of his current annual salary if he loses his job after a takeover. This could cost Oracle an additional $25 to $30 million. Meanwhile, the Federal Trade Commission is reviewing the proposed acquisition of PeopleSoft by Oracle and has expressed concern that it will leave to reduced competition in the software industry.

Questions:

I. Explain why PeopleSoft's management may have rejected Oracle's improved offer of $26 per share and why this rejection might have been in the best interests of the PeopleSoft shareholders? What may have PeopleSoft's management been expecting to happen? **(Marks: 4)**

II. Illustrate the takeover tactics being employed by Oracle in its attempt to acquire PeopleSoft. Explain how these takeover tactic(s) works. **(Marks: 4)**

III. Illustrate the takeover defense tactics that are in place or is being employed by PeopleSoft. Explain how these defense tactics are intended to discourage Oracle in its takeover effort. **(Marks: 4)**

IV. After initially jumping, PeopleSoft's share price dropped to about $22 per share, well below Oracle's sweetened offer. Explain the about investors' expectations from this information about the deal. Be specific. **(Marks: 4)**

Question 2: The following abbreviated financial statements of two firms Aryaman Pharmaceuticals Ltd. (APL) and Chirag Pharmaceuticals Ltd. (CPL) are presented. The firms are considering for the possible merger and the combined firm is expected to have COGS of 70% of the revenue.

	Aryaman Pharmaceutical Ltd. (Numbers in Million Rupees)	Chirag Pharmaceuticals Ltd. (Numbers in Million Rupees)
Revenues	1000	1200
COGS	80% of Revenue	80% of Revenue
Depreciation	100	110
Working capital	200	250
Capital expenditures	50	50
Market Value of Equity	500	550
Outstanding Debt	80	100
Beta	1.1	1.4

The working capital of previous year for APL and CPL are Rs. 150 Million Rs. 180 Million respectively and the firms marginal tax rate is 25% for both the years. For both the firms, the interest rate applicable on debt is 8% while the rate of treasury bond is 6.5%. The return of the market index is 14%. Both firms are in steady state and are expected to grow 6% a year in the long term. Considering the above-mentioned information, you are required to answer the following.

I. Analyse the value of APL, operating independently. **(Marks: 4)**
II. Analyse the value of CPL, operating independently. **(Marks: 4)**
III. Analyse the value of combined firm, without synergy. **(Marks: 2)**
IV. Analyse the value of combined firm, with synergy. **(Marks: 4)**
V. Compare the value of combined firm without synergy and with synergy **(Marks: 2)**

Question 3: In case of APL and CPL, if APL is having 1 Million outstanding shares while CPL is having 2 million outstanding shares. To acquire the APL, the CPL is willing to pay 30% premium on its existing market value of the share. Determine the SWAP ratio which the CPL need to pay to acquire the APL. **(Marks: 4)**

Question 4: If CPL want to acquire the APL using LBO. Defend the move of CPL to choose the LBO as financing method for this acquisition. Support your answer with suitable examples. **(Marks: 3+1)**