

**SLOAN SCHOOL OF MANAGEMENT
MASSACHUSETTS INSTITUTE OF TECHNOLOGY**

Jonathan Lewellen
15.414

Financial Management
Summer 2003

Assignment 3 – Due Friday, Aug. 1

Read ‘Cooper Industries, Inc.’ and answer the following questions.

1. Based on Nicholson’s financial performance, how much is Nicholson worth under current management (assume recent performance is a guide to future performance). Why might its stock price be higher or lower than this value?
2. The case describes competing tender offers by H.K. Porter and VLN Corporation. Which offer is more valuable to Nicholson’s shareholders? Why?
3. What is the maximum price Cooper should be willing to pay for all of Nicholson’s common stock if:
 - (a) The anticipated margin improvements (4% improvement in cost of good sold and 3% improvement in selling, general, and administrative expense) can be realized immediately?,
 - (b) The margin improvements can be realized immediately *and* Nicholson’s inventories can be reduced by 25% from current levels?
4. Bottom line: What should Cooper do?

Notes (no written analysis is necessary)

- You may assume that Nicholson’s cost of capital is 11%, the tax rate is 40%, and cashflows occur at the end of the year.
- Why is Nicholson a good takeover target? Why is Cooper interested in Nicholson?
- VLN Corp. and Porter give wildly different appraisals of VLN’s acquisition offer. Which do you believe? Are their arguments valid? What would you do if you owned Nicholson stock? How much would Cooper need to offer to convince you to accept its acquisition rather than VLN’s?
- Who benefits and who is harmed by the takeover?

Guidelines

- You may work on the case in groups of 3 or 4 students. Please hand-in one write-up per group. All members of the group should be prepared to discuss the case in class.
- State clearly any assumptions you make and provide enough information so that a reader can follow your analysis. I would expect the case write-up to be one or two pages plus supporting tables.
- The case is included in the course reading packet.