Enrolment No. _____

AHMEDABAD UNIVERSITY

AMRUT MODY SCHOOL OF MANAGEMENT

UNDERGRADUATE / GRADUATE PROGRAMMES

2025-2026 WINTER SEMESTER

MID-SEMESTER EXAMINATION

FAC632 SCORPORATE RESTRUCTURING, MERGERS, & ACQUISITIONS

Date: 25-02-2026
Time: 02.00 pm – 04.30 pm

Total Marks: 30
No. of printed pages: 06

Duration- 2.30 hours

All questions are compulsory.

Students are allowed to use scientific calculators and computers.
They can use FAC632 coursepack (provided by the programme office). They are not allowed to carry photocopies of presentations or other materials. Violation of any rule will be punishable.

Question 1:

Omega Industries and the Delta Systems Decision

25th February 2026

A Strategic Crossroads

In late February, the boardroom at Omega Industries was unusually tense. For nearly eighteen months, CEO Michael Harrington had pursued a disciplined expansion strategy. Omega, a mid-sized industrial components manufacturer with annual revenues approaching $900 million, had grown steadily but faced margin pressure from overseas competitors. The firm's stock traded at $46 per share, with 8,300 shares outstanding, implying a market capitalization of $381,800. Omega had no debt and had historically maintained a conservative balance sheet.

Across town, Delta Systems—smaller but technologically nimble—had become an attractive target. Delta specialized in automation modules that complemented Omega's core production lines. Analysts believed integration of Delta's modules into Omega's product ecosystem could improve operating efficiency and reduce supply chain redundancy.

Delta had 3,400 shares outstanding, trading at $21 per share, implying a market capitalization of $71,400. Like Omega, Delta was entirely equity-financed.

After months of operational modeling, Omega's finance team estimated that combining the firms would generate synergistic benefits with a present value of approximately $12,600. Most of the gains were expected from procurement savings, elimination of overlapping SG&A functions, and improved production utilization. The estimate was considered conservative but credible.

The board now faced a crucial question: **How should Omega structure the offer?**

The Cash Offer Proposal

Omega's CFO, Anita Deshmukh, outlined the first alternative: an all-cash acquisition at $24 per share. The offer represented a 14% premium over Delta's current market price.

"Paying cash," Anita explained, "provides certainty to Delta shareholders. They receive immediate value and exit the firm entirely. From our perspective, the key question is whether we're overpaying relative to the synergy."

At $24 per share, Omega would pay $81,600 to acquire Delta. Compared to Delta's pre-merger equity value of $71,400, Omega would effectively pay a premium of $10,200.

Board member Carl Jensen leaned forward. "And our synergy estimate is $12,600."

"Yes," Anita replied. "So on a net basis, we retain roughly $2,400 in value."

Because Omega would issue no new shares in a cash deal, the entire synergy surplus—net of premium—would accrue to Omega shareholders. The expected post-merger equity value of the combined firm would be $465,800. After deducting the $81,600 cash outlay, Omega's equity would effectively be worth $384,200, raising its share price modestly.

"The market reaction should be positive," Anita concluded, "assuming our synergy estimate is credible."

The Stock Exchange Alternative

The second alternative was structurally different. Rather than paying cash, Omega could offer one of its shares for every two Delta shares. This implied an exchange ratio of 0.5.

Under this structure, Omega would issue new shares, increasing total shares outstanding.

"Notice," Anita said, pointing to the projected numbers, "that the post-merger share price is actually higher than under the cash deal."

"Why?" asked another director.

"Because we are implicitly paying a smaller premium."

"From our standpoint," Carl observed, "this structure creates more value for our shareholders."

Anita nodded. "Yes."

The Target's Perspective

While Omega's board focused on value capture, Delta's management had its own priorities. CEO Laura Kim had to evaluate which offer maximized value for her shareholders.

The cash offer provided certainty: $24 per share, immediately. The stock offer provided participation in future upside, but at an implied value below the cash offer.

Laura's advisors calculated that Delta shareholders would be indifferent between cash and stock at an exchange ratio of approximately x Omega shares per Delta share. It seemed that the proposed exchange ratio would fall short of that threshold.

"In simple terms," one advisor told Laura, "the stock offer undercompensates your shareholders relative to the cash proposal."

But there was another dimension. If Omega's synergy projections were understated—or if Omega stock was undervalued—then accepting stock might prove advantageous over time.

Strategic and Financial Trade-Offs

The debate inside Omega's boardroom shifted from arithmetic to strategy.

The Core Economic Question

Ultimately, the merger created a fixed total surplus. The key issue was **how that surplus would be divided**.

EPS: The Hidden Battleground

Just as the boards were grappling with valuation mechanics, another issue surfaced—one that could shape market reaction: **earnings per share**.

Omega's trailing net income was $38,180. With 8,300 shares outstanding, its current EPS reflected that base.

Delta's trailing net income was $6,120.

The finance team projected that synergies would phase in gradually:

- 40% realization in Year 1
- 75% by Year 2
- Full realization by Year 3

Anita presented a sensitivity analysis showing projected EPS under:

- A cash transaction
- A stock transaction at the 0.50 exchange ratio

The implications were subtle.

Under cash, shares outstanding remained unchanged, but Omega's cash reserves declined.

Under stock, total earnings increased by Delta's net income and partial synergies, but shares outstanding increased to 10,000.

The board debated:

Would the deal be **EPS accretive or dilutive in Year 1?**

How would the answer change once full synergies materialized?

One director cautioned: "Markets may reward EPS accretion even if long-term value is identical."

Another countered: "We shouldn't structure capital allocation around short-term optics."

Carl added, "But optics matter. If analysts view the deal as dilutive, we could face downward pressure on our stock."

The EPS subplot introduced another layer of complexity. The payment structure affected not just surplus division but also per-share earnings dynamics over time.

Strategic Signaling

Beyond arithmetic lay signaling.

Issuing equity could be interpreted as a signal that Omega believed its stock was fairly valued—or even overvalued. Conversely, paying cash could signal confidence in the realization of synergies and in the undervaluation of Omega's shares.

Delta's advisors recognized this dynamic as well.

"If Omega insists on stock," one banker told Laura, "we should ask whether they're signaling something about their own valuation."

At the same time, Omega's directors considered financial flexibility.

Preserving cash through a stock deal maintained optionality for future investments and buffered against cyclical downturns.

The question was not simply financial—it was strategic.

Decision Point

As the meeting adjourned, CEO Harrington summarized:

"The economics favor stock from our perspective. But Delta prefers cash. The real question is how much of the synergy we are willing to concede to close the deal."

The board would reconvene in two weeks with a final recommendation.

Based on the case answer the following questions:

a. If Delta Systems is willing to be acquired for $24 per share in cash, what is the NPV of the merger? What will the price per share of the merged firm be? What is the merger premium?

b. Suppose Delta Systems is agreeable to a merger by an exchange of stock. If Omega Industries offers one of its shares for every two of the *Target*'s shares, what will the price per share of the merged firm? What is the NPV of the merger in this case?

c. Are the shareholders of Delta Systems better off with the cash offer or the stock offer?

d. At what exchange ratio of Omega Industries shares to Delta Systems shares would the shareholders in Delta Systems be indifferent between the two offers?

e. How would each structure affect EPS? Comment on the short-term versus long-term EPS dynamic.

(18 Marks)

For each question below, don't exeed the word limit by more than 20%.

Question 2:

***Analyze in approximately 200 words**, not less.*

In the merger between Mellon Financial and The Bank of New York, Mellon's CEO secures the combined firm's CEO position. Yet he remains uneasy about the negotiated exchange ratio. Discuss why the CEO faces a governance and reputational dilemma.

(04 Marks)

Question 3:

***Analyze, in approximately 200 words,** not less:*

- Whether Allergan's board actions reflect managerial entrenchment or long-term value protection
- Whether Valeant's model introduces a different type of agency problem (e.g., debt holders vs. equity holders, short-term vs. long-term investors)
- How shareholder heterogeneity complicates traditional agency models.

(04 Marks)

Question 4:

Discuss briefly in 100 words, not less.

Evaluate the economic and governance implications of the break-up fee, lock-up option, and poison pill clause in the CSX–Conrail merger agreement. Were these mechanisms value-enhancing or anticompetitive? **(02 Marks)**

Question 5:

Discuss briefly in 100 words, not less.

Why Must Comparable Betas Be Unlevered and Relevered? **(02 Marks)**