

SOLUTIONS MANUAL



Mergers and Acquisitions Basics

Negotiation and Deal Structuring

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Chapter 2

Case Study: Vivendi Universal and GE Combine Entertainment Assets

1. From a legal standpoint, identify the acquirer and the target firms?

Answer: The acquirer is GE's wholly owned NBC subsidiary, while the target firm is Vivendi's wholly owned Vivendi Universal Entertainment subsidiary.

2. What is the form of acquisition? Why might the parties involved in the transaction have agreed to this form?

Answer: Purchase of assets. The purchase of assets allows GE/NBC to acquire only assets, both tangible and intangible such as logos, it finds most attractive. By selling assets, Vivendi retains the rights to any tangible or intangible assets owned by VUE but not sold to NBC. However, by buying only assets, NBC must pay transfer taxes as asset ownership is transferred.

3. What is the form of acquisition vehicle and the post-closing organization? Why do you think the legal entities you have identified were selected?

Answer: Form of acquisition vehicle is a C-Corporation (NBC) and the post-closing organization is a joint venture corporation. A parent in a holding company framework

owns both. GE may have wanted to defer a portion of the purchase price and Vivendi wanted to share in the long-term upside growth potential of the JV.

4. What is the form of payment or total consideration? Why do you believe the parties to this transaction agreed to this form of payment?

Answer: A combination of GE stock and NBC Universal stock plus \$1.6 billion in assumed debt plus the present value of the future sale of Vivendi's remaining 20 percent ownership in NBC Universal. Vivendi wanted to share in the upside potential of the JV, and GE wanted to defer a portion of the purchase price.

5. Based on a total valuation of \$42 billion, Vivendi's assets contributed one-third and GE's two-thirds of the total value of NBC Universal. However, after the closing, Vivendi would only own a 20 percent equity position in the combined business. Why?

Answer: Vivendi's contribution to the \$42 billion was estimated to be \$14 billion or approximately one-third of the total value. However, Vivendi choose to receive a liquidity infusion at closing totaling \$5.4 billion, while deferring the remaining \$8.6 billion (i.e., \$14 billion - \$5.4 billion) until it had a right to sell its remaining interest in NBC Universal after 2006. Consequently, its percentage ownership in NBC Universal was reduced to 20 percent ($\$8.6 / \42) from 33 percent ($\$14 / \42).