



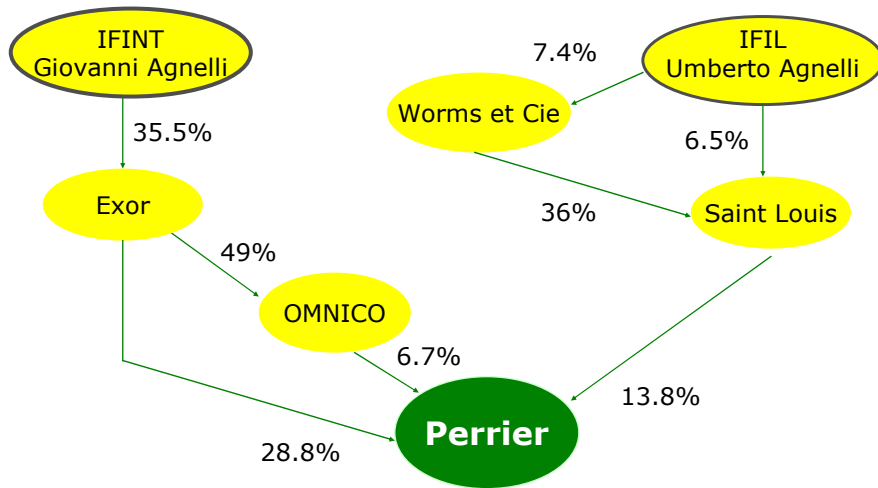


Roadmap



- ❖ Ownership Structure
- ❖ Agnellis' Problems
- ❖ Nestle and Its Alliances
- ❖ Insiders and Outsiders
- ❖ Bid for Perrier
- ❖ In the Battle of Lawsuits
- ❖ Takeover Laws in UK, USA and France

Agnellis' Ownership of Perrier



(01/21/1992)

Agnellis' Capital in Perrier



□ IFINT:

$$\blacksquare 35\% \times (49\% \times 6.7\% + 28.8\%) = 11.23\%$$

Ifint-Exor Exor-Omnico Omnico-Perrier Exor-Perrier

□ IFIL:

$$\blacksquare (6.5\% + 7.4\% \times 36\%) \times 13.8\% = 1.26\%$$

Ifil-St.Louis Ifil-Worms Worms-St. Louis St. Louis-Perrier

□ Total:

$$\blacksquare 11.23\% + 1.26\% = 12.49\%$$

Therefore, 12.49 % of Perrier capital belongs to the Agnellis.

Total Assets: 13,154,538 (FF' 000)

Agnellis' capital:

$$\mathbf{13,154,538 \times 12.49\% = 1,643,001.80 \text{ (FF' 000)}}$$

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Agnellis Face Problems in Controlling Perrier

- ❑ COB investigation on Ifint's investment in Perrier (12/12/1991)
 - COB discovered that Exor had acted in concert with Societe Generale to acquire Perrier shares and they controlled 35% as of May 1990.
 - Under French takeover law, failure to disclose a stake exceeding 1/3 could result in loss of voting rights for 2 years or more.
 - Therefore, Exor's failure to disclose its 35% in Perrier in 1990 could lead to a loss of voting rights on the excess over the original share they owned.

Agnellis Face Problems in Controlling Perrier



- ❑ COB investigation on the Saint Louis Deal (01/16/1002)
 - Pierre sold treasury stock representing a 13.8% stake to Saint Louis, supposedly on 01/03/1992, which meant that Exor and its allies controlled 49.3% of Perrier.
 - Nestle announced its interest in buying Perrier 10 days later.
 - Perrier and Exor were suspected of forging the date on the sales order and it was believed that the sale may have actually taken place after Nestle's announcement.

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Agnellis Face Problems in Controlling Perrier



- ❑ 2 lawsuits launched by Nestle:
 - To challenge and freeze Exor's 35.5% voting power with 28.8% ownership.
 - To annul Saint Louis's purchase of 13.8% of Perrier's treasury stocks.



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Agnellis Face Problems in Controlling Perrier



- Exor's forced unconditional full bid for Perrier (02/27/1992)
 - CBV ruled that Exor must bid for 2/3 of Perrier or request an exemption on 12/19/1991.
 - Exor's exemption was turned down by CBV on 01/16/1992.
 - Exor's appeal was again rejected by the appellate court on 02/26/2002. Exor was forced to either launch a full bid for Perrier or a 2/3 bid at 2% premium over Nestle's offer.
 - BSN's hostile bid for Exor was rejected by Exor and CBV approved BSN's bid on 02/26/1992.

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Nestlé and Its Alliances



Nestle's Well-planned Strategies



- Nestle's goal is to double its sales worldwide within the next decade and it does not shy away from hostile bid for strategically important targets.
- A timely announcement to buy Perrier (01/13/1992):
 - Perrier's stock price was still weak for its benzene scandal in December, 1991.
 - The Agnellis are being investigated by COB and CBV.
 - The Agnellis' actions have alienated and angered its partners such as Suez, Lazard Freres, BSN (formidable network of government and business contacts). And Nestle managed to win them over.
 - Nestle filed 2 lawsuits against Exor and Saint Louis (01/21/1992) soon after the announcement.

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Nestle's Alliance to Obtain Control of Perrier



- **Indosuez, Suez Group** (Financial firm, Merchant bank)
 - Suez is a 10% shareholder in Exor and Exor owns 2.4% of Suez stock.
 - Suez's 10% had substantial influence, if the other shares were widely distributed.
 - If the Agnellis owned 2/3 of Exor, Suez's shares would carry less effective voting power.
- Decision and Action
 - Turn against the Agnellis and team up with Nestle.
 - Buy Exor and Perrier share in the open market.
 - Jointly launch a full takeover bid through their takeover vehicle, Demilac. (02/20/1992)
- Motivation
 - Retain its own voting **power**.

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Nestle's Alliance to Obtain Control of Perrier



- ❑ **Lazard Freres** (Investment Bank)
 - Historically close with the Agnellis.
 - Even closer with BSN.
 - Was not informed by the Agnellis of their Exor intentions.
 - Was hinted that even BSN itself might be an eventual takeover target of the Agnellis.

- ❑ Decision and Action
 - Turn against the Agnellis and team up with Nestle and Indosuez.

- ❑ Motivation
 - **Ties** with BSN spurned by the Agnellis. Had to support BSN so that it would not be taken over by the Agnellis.

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Nestle's Alliance to Obtain Control of Perrier



- ❑ **BSN** (Packaged Food Concern)
 - Strong market position in dairy products and mineral water.
 - Umberto Agnelli is a director of BSN.
 - The Agnellis helped BSN expand in Italy.
 - BSN helped the Agnellis diversify into the food business.

- ❑ Decision and Action
 - Agree to buy Perrier's Volvic brand from Nestle, should Nestle's bid succeed.

- ❑ Motivation
 - To prevent the Agnellis from challenging BSN's **position** in mineral water in France, after the Agnelli's ambitions became obvious.

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Nestle's Alliance to Obtain Control of Perrier



- **Credit Agricole** (Large French Bank)
 - Owned 5% of Exor.
 - Owned 8.5% of Perrier.
- **Decision and Action**
 - Support Nestle's bid.



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INSIDERS



OUTSIDERS





Insiders Vs Outsiders

□ Insiders:

Corporate elites with cross-holdings in and close ties with each other...

Those with "The French Connection"...

□ Outsiders:

Corporate establishment without cross-holdings in and/or close ties with each other...

Those without "The French Connection"...



French Corporate System



Insiders	Why?
The Agnelli Family (IFIL, IFINT)	They have cross-holdings in most of the related parties in this case. The Agnellis have been the largest foreign investor in France controlling enterprises with estimated sales of FF44 bn.
BSN	Umberto Agnelli is a director of BSN. A company that has strong market positions with its sales concentrated in France and Europe.
Credit Agricole	A French bank with \$303 bn in assets. It owns 5% of Exor and 8.5% of Perrier.
Exor	Exor owns 28.8% of Perrier and another 6.7% jointly with Societe Generale via OMNICO. The chairman Jaques Vincent is a corporate maverick who does not go on too well with business leaders in France .
Lazard Freres	The CEO Michel David-Weill has elite school academic background, extensive networking and strong dose of political patronage. An international investment bank that is influential in France .
Saint Louis	Controlled by Worms et Cie, a French family-controlled bank. The Agnellis have a 6.5% stake in Saint Louis and 7.4% in the Worms.
Societe Generale	Exor and Societe Generale jointly owned the investment vehicle OMNICO that had a 6.7% stake in Perrier. A French Bank.
Suez Group	Suez has 10% shares in Exor and Exor owns 2.4% of Suez stock. A French merchant bank and part of the Suez group of France , a financial firm with FF800bn in assets.

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French Corporate System

Outsiders	Why?
Nestle	So far it has no cross-holdings with the related parties.
Mentzelopoulos Family	The Franco-Greek family controlled 16% share of Exor, but it was considered by many to be outside the corporate establishment in France.



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Is Bid for Perrier



Too High?



Is Bid for Perrier Too High?

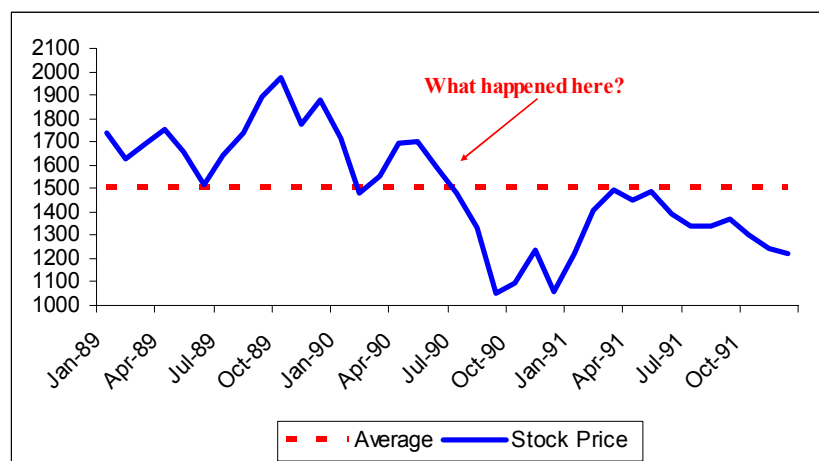
- ❑ Bid for Perrier can be evaluated based on
 - Historical performance of Perrier stock
 - Discounted Cash Flow Analysis
- ❑ Bid for Perrier needs also to address the free rider problem



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Share Price for Perrier (1989-1991)



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Perrier Stock is Undervalued

- ❑ Perrier share price averaged at FF1504 from 1989 to 1991
- ❑ It took a hammering in the market from the 1989 peak as a result of the benzene affair
- ❑ Earnings per share, however, remained stable
- ❑ Perrier was trading at a lower P/E ratio

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Valuing Perrier Cash Flows

- ❑ There are three ways to value FC cash flows
 - Method 1:
 - ❑ Calculate FC cash flows and discount at FC discount rate
 - ❑ Translate FC value into HC at the current spot rate
 - Method 2:
 - ❑ Convert FC cash flows into HC at the expected value of future spot rate
 - ❑ Discount at HC discount rate
 - Method 3:
 - ❑ Express cash flows in HC using forward rate
 - ❑ Discount using HC discount rate

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Valuing Perrier Cash Flows (Cont'd)

- ❑ The choice of methods does not matter if capital markets are integrated
 - Investors face the same cost of capital in both countries
 - Investors in both countries fully agree about the project's value
- ❑ Capital markets are assumed to be integrated in valuing Perrier cash flows
- ❑ Perrier cash flows are discounted at FF discount rate

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Valuation Assumptions

(FF in millions)

	Historical FY Ended Dec. 31,		Projected Fiscal Year Ended December 31,										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TV
Revenues	14,493	13,647	14,070	15,196	16,411	17,724	19,142	20,673	22,327	24,113	26,042	28,126	
Operation Income	1,114	1,078	848	1,583	1,768	1,968	2,184	2,417	2,669	2,941	3,235	3,552	
Less: Taxes	468	453	356	665	743	826	917	1,015	1,121	1,235	1,359	1,492	
NOPAT	646	625	492	1,246	1,696	2,171	2,672	3,200	3,758	4,346	4,967	5,622	
Plus: Depreciation			718	753	755	757	759	762	764	767	769	772	
Less: CapEx			268	283	299	315	332	351	370	390	412	434	
Less: Changes In WC			26	89	93	99	104	110	116	122	129	136	
Free Cash Flow			711	1,267	1,353	1,447	1,548	1,658	1,778	1,908	2,048	2,201	38,533

Assumptions:

1. Sales Growth Rate	5.5%
2. Additional Revenue Growth Rate	2.5%
3. Non-depreciation Expenses/Revenues (current levels)	85%
4. Net Working Capital/Sales	12%
5. New Capital Expenditure/Sales	2%
6. Tax Rate	42%
7. Terminal Growth Rate	5%

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Summary of Valuation

(FF in millions, except equity per share)

		Enterprise Value	Equity Value	Equity per Share Value	Volvic Value ¹
Discount Rate	11.7%	19,797	13,080	1,456	2,574
	10.7%	23,478	16,761	1,866	3,052
	9.7%	28,738	22,022	2,452	3,736

Cost of Capital

Cost of debt	11%
Risk-free rate	8%
Market risk Premier	7%
Target D/E ratio	0.58
Beta	0.52
WACC (FF)	10%

¹ Volvic value is assumed to be 13% of the total enterprise value

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Bid for Perrier Needs to Address Free Rider Problem

- ❑ Shareholders are reluctant to tender shares unless a very high price is paid
- ❑ The Leven family who owned 18% of Perrier would have sold to the highest bidder.
- ❑ Tender offer bid premiums in most cases need to be over 20% to make the takeover successful.
- ❑ Normally, the acquirer would make zero to slightly negative returns upon acquisition while the target makes positive returns.

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The Battle for Perrier



Helmut Maucher,
CEO of Nestle



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Shareholdings of Agnellis and its Allies



- Exor's loss of voting rights ($35.5\% - 28.8\% = 6.7\%$)
 - Under the French takeover legislation, failure to disclose a stake exceeding $1/3$ could result in loss of voting rights for two years or more.
- St Louis's loss of Perrier's treasury stock (13.8%)
 - Forging the date of the sales order is illegal.

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The Battle is not over yet...

If Nestle wins the bid...

Nestle and BSN would control 82% of the mineral water market in France!

Go against the basic purpose of Article 86 of the law, is to prevent "abuse of dominant position"...where a dominant position is said to arise when a company has a market share of **40%** or more.

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Possible Outcomes

To reduce the market share to 40%:

- ❑ Nestle had to sell Volvic to BSN. If the 40% requirement is not met, they could divest themselves of more assets.
- ❑ After the bid and sale of Volvic, Nestle and BSN should make it clear that they have no ally relationship.
- ❑ Nestle could sell some of the business to countries outside EU to circumvent the antitrust laws.

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Possible Outcomes



If Nestle loses the bid...

Nestle may launch other attempts to expand mineral water markets!!!!

Nestle may source for other potential targets for takeover.



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What Happened to Nestle's Mineral Water Business??



Perrier became a part of the Nestlé Company in 1992.



One of the more recent additions to the Nestlé Company, Perrier Vittel S.A., yields one of mankind's most ancient products.

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Takeover Laws



UK, USA and France



Takeover Law Similarities



	USA	UK	France
Disclosure of Acquisitions	Public disclosure of all acquisitions when there is a material change ($\geq 1\%$)	At 3% within 2 days and each 1% change thereafter.	Disclosure is required when thresholds (5%, 10%, 20%, 33 ^{1/3} %, 50%, 66 ^{2/3} %) reached.
Price Integration	The highest price paid to any offeree must be paid to all tendering shareholders.	The highest price must be paid.	The same price must be paid to all shareholders. Lower price may be paid to minority acceptors in controlling interest.
Poison Pills	The issuance or other matters related to poison pills are governed by the law.	Poison pill may be challenged under common law duty of directors to act <i>bona fide</i> in the interests of the company.	Various obstacles prevent poison pills as now used in the US. Some defenses require shareholders approval with 2/3 majority.
Dilution Defenses	NYSE rules require shareholder approval for the issuance of a number of shares exceeding 20% of the number outstanding prior to the issuance except in the case of public offering for cash.	Code requires shareholder approval to issue new shares during the course of an offer.	During the offer period, the target may not increase its share capital except if BOD has been authorized to do so by a shareholder general meeting held less than 1 year before.
Investment Nationality Restrictions	No nationality restriction.	No nationality restriction.	No nationality restriction.



Takeover Law Differences

	USA	UK	France
Mandatory offers	No federal requirements	Full public bid, 30% threshold or 2% increments when bidder holds from 30% to 50%	Mandatory offer 66 ^{2/3} %, 33 ^{1/3} % or 50% threshold or 2% increments over 1 year period when bidder holds from 33 ^{1/3} % to 50%
Force of Law	Tender offers are regulated by federal and state statutes.	Code has no force of law. Practical sanctions are very strong.	Takeover bids are regulated by laws and regulations.
Approval by Bidder's Own Shareholders	No requirement.	Shareholder approval required where value of target is 25% or more of value of bidder.	No requirement.
Board Structure Rules	US corporations have a single board of directors elected by the shareholders.		SAs may have a BOD or a Board of Mgmt. controlled by a Supervisory Board. Or in the form of limited partnerships.
Consultation with Employees	There are no federal or state requirements.		The bidder and target must inform and consult with their unions.
Litigation Defenses	Litigation often accompanies takeovers.	Litigation is not a standard defense tactic.	Useful only stalling tactics. Contesting the legality of bids is generally not likely.

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Thank You!

謝謝！