Case Interview Workshops

#4- Merger & Acquisition

The Johns Hopkins Business & Consulting Club
The JHBCC Timeline of Events: Stay tuned!

1. Bi-weekly Case Study Workshops (Fall & Spring)
2. Fall Mini-Case Competition (November 7, 2014)
4. Spring Biotech Case Competition (April 2015)
5. Recruiting Info-sessions (Fall & Spring)
Deloitte Consulting Case Competition

Date: Tuesday, October 28th (6:00 – 8:45pm)

Venue: Mason Hall Auditorium

Format: Work in teams to develop a solution for a simulated project engagement.

Judging: At the end, each group will present to a judging panel of senior Deloitte practitioners with prizes for the winning team.
The JHBCC Timeline of Events: Stay tuned!

1. Case Study Workshops (Fall & Spring)

<table>
<thead>
<tr>
<th>Date</th>
<th>Style</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Sept. 10th, 2014</td>
<td>Tutorial</td>
<td>General/Fit &amp; Profitability</td>
<td>SPH W2008</td>
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<tr>
<td>Nov. 5th, 2014</td>
<td>Demonstration</td>
<td>Profitability</td>
<td>SPH E9519</td>
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<td>Nov. 19th, 2014</td>
<td>Demonstration</td>
<td>Business Situation</td>
<td>SPH E9519</td>
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<tr>
<td>Dec. 3rd, 2014</td>
<td>Demonstration</td>
<td>M&amp;A</td>
<td>SPH E9519</td>
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Previous slides and additional resources:
What is Merger & Acquisition (M&A)?

**Merger:** a consolidation of two companies into one entity

a. *Thermo* merged with *Fisher Scientific* to form *Thermo Fisher Scientific*

b. *Glaxo Wellcome* merged with *SmithKline Beecham* to form *GlaxoSmithKline*

**Acquisition (Buyout, Takeover):** occurs when one company takes over another and completely establishes itself as the new owner

a. *Thermo Fisher Scientific* acquired *Life Technologies*

b. *Facebook* acquired *Whatsapp*
M&A Scenarios in the Case Context

Merger (more often partnership, joint venture):

a. Should Comcast accept a partnership with Netflix in which Netflix will pay Comcast for faster and more reliable access to Comcast’s subscribers.

b. Should Toyota accept a proposal by Tesla to jointly develop a new SUV model of electronic vehicle (RAV4 EV).

Acquisition (investment, buyout):

a. Should Pfizer buy InnoPharm to expand their pipeline and boost their sales?

b. Should Alibaba acquire Snapchat considering its interests in entering the US tech market?
How to approach an M&A case?

**Motivation**
- What does the client want?
  - Financial goals: increase profits, increase market share
  - Strategic goals: enter a new growing market, upstream/downstream integration

**Target Co.**
- What is the standalone value of the target firm? (Especially for private equity deals)
  - External: market potential, competition
  - Internal: core competencies (product, brand, etc.), profitability

**Synergies**
- What additional benefits the client can gain post M&A?
  - Financial: sales synergies, cost consolidations; financial projections
  - Strategic: diversify brands, obtaining core resources

**Risks**
- What are the potential risks?
  - Overpay: price > projected gains; affordability; alternative targets
  - Difficulty to implement: lack of experience, organizational conflicts
  - External uncertainties: competitors’ reactions
Example M&A Case: Great Burger
Establishing Background: Case Information

Our client is Great Burger (GB) a fast food chain that competes head-to-head with McDonald's, Wendy's, Burger King, KFC, etc.

GB is the fourth largest fast food chain worldwide, measured by the number of stores in operation. As most of its competitors do, GB offers food and "combos" for the three largest meal occasions: breakfast, lunch, and dinner. Even though GB owns some of its stores, it operates under the franchising business model with 85 percent of its stores owned by franchisees.

As part of its growth strategy GB has analyzed some potential acquisition targets including Heavenly Donuts (HD), a growing doughnut producer with both a U.S. and international store presence. HD operates under the franchising business model too, though a little bit differently than GB. While GB franchises restaurants, HD franchises areas or regions in which the franchisee is required to open a certain number of stores.

GB's CEO has hired McKinsey to advise him on whether they should acquire HD or not.
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Client’s question:
- Acquire HD or not?

Motivation:
- Growth Strategy (Profit or Sales?)

Main interest(s):
- HD’s doughnut

Other issues:
- Franchising models
- Doughnut vs. Conventional fast food
Establishing Background: Clarifying questions

A. Clarify terminology
   What is a franchise business model?

   A: Individuals own and manage stores and pay franchise fee to the franchising company; but major business decisions (e.g., menu, look of store) are controlled by the franchising company.

B. Clarify objectives
   In terms of growth, are there any specific financial goals on this acquisition?

   A: While financial measures such as sales and profits are important, the client does not have a specific goal in mind.
# Structuring Your Approach

**Question 1.** What areas would you want to explore to determine whether GB should acquire HD?

<table>
<thead>
<tr>
<th>HD’s own growth</th>
<th>Synergistic growth</th>
<th>Risks</th>
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</thead>
</table>
| • Doughnut market  
  • Size and growth  
  • Consumer trend  
  • Competition  
| • Financial  
  • Rev growth  
  • # of stores  
  • Same store sales  
| • Deal price  
  • Price vs. other targets  
| • HD’s performance  
  • Core competency  
  • Brand  
  • Doughnuts  
| • Cost saving  
  • Variable cost  
  • Supplies (food, equipment)  
| • Implementation  
  • Franchising model  
| • Financial growth  
| • Fixed cost  
  • SG&A  
| • Cultural conflicts  
| • Non-financial  
| • External uncertainties  
| • Consumer misperception  

Identify Synergies

Question 2. The team started thinking about potential synergies that could be achieved by acquiring HD. Here (table next page) are some key facts on GB and HD. **What potential synergies can you think of between GB and HD?**

Exhibit/Graph Analysis:

- Observations
- Implications
- Links to Client’s Que
<table>
<thead>
<tr>
<th>Stores</th>
<th>GB</th>
<th>HD</th>
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</thead>
<tbody>
<tr>
<td>• Total</td>
<td>5,000</td>
<td>1,020</td>
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<tr>
<td>• North America</td>
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<td>1,000</td>
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<td>• Asia</td>
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<tr>
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<td>• Total store sales</td>
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</tr>
<tr>
<td>• Key expenses (% sales)</td>
<td></td>
<td></td>
</tr>
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## Sales Synergies

### Observations

- HD has fewer stores in NA but faster growth
- HD has few stores outside of NA
- HD’s rev/store (SSS) is lower than industry
- HD & GB sell different meals

### Implications

- Doughnut market grows fast?
- Can HD grow even faster?
- High potential for intl. expansion?
- Room for HD to improve SSS?
- HD and GB can share their menus?

### Links to Que

- Leverage GB’s resources to accelerate HD’s NA growth
- Leverage GB’s Intl. presence to help HD’s Intl. growth
- Leverage GB experience to boost HD’s SSS
- Pilot programs to test economics of sharing menus
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### Cost Synergies

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<tr>
<td><strong>Cost of sales</strong> is the largest cost segment</td>
<td>Supply like Food and beverage can consolidate?</td>
<td>Combine purchases to negotiate better deals</td>
</tr>
<tr>
<td>GB has 2x lower (% sales) property/equipment costs</td>
<td>GB has more stores and is likely better at managing properties?</td>
<td>Leverage GB’s experiences to reduce HD’s property/equipment costs</td>
</tr>
<tr>
<td>GB has 2x lower (% sales) G&amp;A cost</td>
<td>G&amp;A can be consolidated?</td>
<td>Consolidate G&amp;A functions to cut cost.</td>
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Identify Synergies

Question 2. The team started thinking about potential synergies that could be achieved by acquiring HD. Here (table next page) are some key facts on GB and HD. What potential synergies can you think of between GB and HD?

Minisynthesis:

Based on the analysis, we identified multiple potential synergies for increasing # of stores, same store sales, and reducing costs. It suggests great values for GB to acquire HD.

Next, I would like to analyze each area for synergy to quantify the financial and non-financial impacts, and further analyze associated risks.
Quantitative Analysis on Synergies

Question 3. The team thinks that with synergies, it should be possible to double HD’s U.S. market share in the next 5 years, and that GB’s access to capital will allow it to expand the number of HD stores by 2.5 times. **What sales per store will HD require in 5 years in order for GB to achieve these goals?**

First, layout your overall approach in a verbal formula

\[
\text{HD sales per store in 5y} = \frac{\text{Market size in 5y} \times \text{HD share in 5y}}{\# \text{ of HD stores in 5y}}
\]

\[
= \frac{\text{Current Market Size} \times (1 + \text{Market Growth}) \times 2 \times \text{Current HD Share}}{\text{Current}\# \text{ of HD stores} \times 2.5}
\]

\[
= \frac{\text{Current HD Total Sales} \times (1 + \text{Market Growth}) \times 2}{\text{Current}\# \text{ of HD stores} \times 2.5}
\]

*Ask for the data you need*
Quantitative Analysis on Synergies

**Question 3.** What sales per store will HD require in 5 years in order for GB to achieve these goals (double HD’s market share)?

**Assume:**
- Doughnut consumption/capita in the U.S. is $10/year today, and is projected to grow to $20/year in 5 years.

Also, use any data from the previous exhibit you need (assume all HD’s NA stores are in US).

\[
\text{HD sales per store in 5 y} = \frac{\text{Current HD Total Sales} \times (1 + \text{Market Growth}) \times 2}{\text{Current # of HD stores} \times 2.5}
\]

\[
= \frac{700M \times (1+100\%) \times 2}{1020 \times 2.5} = $1.1M
\]

**So what?**
Quantitative Analysis on Synergies

Question 3. What sales per store will HD require in 5 years in order for GB to achieve these goals (double HD’s market share)?

\[ \text{HD sales per store in 5 y} = \$1.1M \]

Benchmark:
• Current sales per store: $0.7M
• ~ 60% increase in 5 y

Feasibility:
• Market growth ~ 100% in 5y
• Likely feasible, especially given GB’s support.

Mini-synthesis:
• GB should be able to double HD’s market share via improving the same store sales by 60% and expand # of HD stores by 2.5-fold.
• GB should acquire HD to capture this growth opportunity.
Recommendation

Question 4. You run into the CEO of GB in the hall. He asks you to summarize McKinsey’s perspective so far on whether GB should acquire HD. What would you say?

Example:

Mr. CEO, based on early findings, we recommend GB to acquire HD:

- We believe that HD can double its US market share and reach a 4-fold higher total revenue of $2.8 billion in 5y with GB’s support.
- Other potential synergies such as sharing menus and consolidating costs should also create significant values for GB.

Once we finish financial projections on other synergies, we will recommend you an acquisition price. With more time, we will develop implementation plans to ensure maximal synergies and mitigate potential frictions due to the firms’ differences in franchise structures and cultures.
How to Prepare for Interviews?

Resources available:

• Case practice bibles: *Case in Point* by Marc Cosentino & *Case Interview Secrets* by Victor Cheng
• Casebooks: masterthecase.com
• Companies’ website
• JHBCC newsletter, website, and events (business bootcamp)
• Business courses: Carey, Coursera

Case practice:

• Really spend efforts
• Practice partner: JHBCC, LinkedIn, Recruiting events
• Case competitions

Don’t forget about the *FIT* part
Additional Advice

Read business news/magazines:
• *Bloomberg, Businessweek, The Economist, …*

Think through real scenarios:
• Johns Hopkins aims to become more competitive in undergraduate education. How would you think through this problem?