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BOW Finance Newsletter

2019-2020 Issue 2

Investment Banking: Signify to acquire Cooper Lighting Solutions



Type of deal: M&A
Industry: Energy
Acquirer: Signify (LIGHT, €24.56; advisor: Lazard)

- Acquirer description: Signify is a Dutch-based lighting company. This is Signify's largest deal since the company's spin-off from Philips Lighting in 2016.

Target: Cooper Lighting Solutions from Eaton Corp. (ETN, \$81.41; advisor: Goldman Sachs)

- Target description: Cooper Lighting Solutions is a U.S. firm based in Peachtree City, GA. They sell professional lighting under several brands, such as Corelite, Halo, McGraw-Edison, and Metalux.

Time announced: October 15th, 2019
Time closed: the First quarter of 2020
Purchase price: USD \$1.4 billion in cash

Acquisition Rationale:

- Strengthen North American presence:** Signify acquired Cooper Lighting Solutions in order to increase its presence in North America. Signify is known as the No. 2 player in the global professional lighting market, so acquiring Cooper will help the company boost its position internationally. Acquiring Cooper will also allow Signify to better compete with North American rivals. According to Signify's CFO Stephane Rougeot, the goal of the deal was to "get a much stronger market position in North America." While Cooper will not add any new capabilities to Signify's portfolio, the deal will likely accomplish Signify's goal of increasing its access to North American markets.
- Cost savings:** Signify's acquisition of Cooper was likely influenced by the potential for cost savings in the years after the deal. The company recently announced that the deal will lead to cost savings of over \$60mm annually within the next three years. Signify also stated that the acquisition will add to earnings per share in the first year for stock-holders. After this announcement, Signify shares rose 4.6% to 25 EUR.
- Increase potential for success:** By acquiring Cooper, Signify will benefit from a larger pool of employees with innovative ideas for the future. As a result of North America's growing conversion to LED lighting, the demand for the lighting systems that Signify and Cooper produce is increasing. Signify owning Cooper while allowing the two front offices to function separately will produce more revenue than if Signify was attempting to capture the North American market on its own. Acquiring Cooper gave Signify access to another successful company; thus, Signify's manpower and brainpower multiplied, and their ability to offer North American consumers competitive goods increased.

Investment Banking: Melrose Industries Acquired GKN



Type of deal: M&A
Industry: Industrials (Aerospace & Automotive)
Acquirer: Melrose Industries Plc (MLSPF, \$2.63; advisor: Rothschild, RBC [visiting Duke 10/24] and Investec)
Target: GKN Plc (advisors: Gleacher Shacklock, J.P. Morgan Cazenove, and UBS)
Time announced: February 1st, 2018
Time closed: April 2018
Purchase price: USD \$11billion (£8.8bn) - hostile takeover

Acquisition Rationale:

- Cost savings:** Melrose Industries said it would reduce £200mm in costs by offloading one of GKN's businesses that supply gearboxes for agricultural and mining vehicles, as well as by selling its minority stake in a Belgian aerospace supplier. Ten percent of the net £200mm proceeds from the disposals will go towards plugging a deficit in the GKN pension scheme. The rest will be used to pay down some of Melrose's debt.
- Synergies:** Historically, Melrose has specialized in buying underperforming engineering or manufacturing businesses with the goal of increasing profitability before selling them on. For GKN, both divisions had already been designated as not core and earmarked for sale under GKN's failed takeover defense strategy.
- Background on defense spending and aerospace:** The turning point for global defense spending is expected soon, as many governments seek to increase purchases in response to strong geopolitical tensions. Despite a stagnation across the US, UK, and Eurozone market in the recent past, the output measured by net production value in the aerospace industry is projected to experience an expansion of 3% this year according to the research firm Oxford Economics. Drivers of such expansion are to be recognized in increased order backlogs, low fuel costs, passenger growth and strong momentum in world trade. Therefore, this acquisition proves valuable to Melrose as we are noticing an uptick in the demand for its products.

This deal's impact on RBC (visiting Duke 10/24):

The Melrose deal marked a milestone in RBCCM's journey from niche bit-part player in European investment banking to a mainstream adviser. This deal serves as a case study in how a relatively unknown bank patiently built a reputation with a client which ultimately trusted it with its biggest-ever deal.

Markets

Market Updates:

While U.S. bonds decline, U.S. stocks approach record highs alongside this week's generally positive earnings reports and increased optimism surrounding a potential Brexit deal. However, a Commerce Department report announcing a **drop in September U.S. retail sales** for the first time in seven months indicates a broader economic warning sign potentially caused by a weak manufacturing sector. This news increases the likelihood of an October Fed rate cut and contributed to a decline in the U.S. dollar that has been driven by strong consumer spending. Prior to Thursday, the strength of the dollar has helped to halt the rally of gold and silver and to keep energy prices lower. At the moment, the weaker currency helps commodities as assets priced in dollars are cheaper to overseas buyers.

General Motors Strike:

Summary:

United Auto Workers (UAW) began a **strike against General Motors** on September 16th which has since involved over 50,000 workers and shut down over 30 U.S. factories. The union is seeking to raise pay for entry-level workers, preserve affordable healthcare, introduce profit sharing, and maintain job security. Since the beginning of the strike, GM stock has dropped about 5%, while strike-related costs total to around \$1.5 billion, 575,000 workers in the industry and related industries have been affected, and \$222 million in tax revenue has been lost. The conflict has drawn further attention due to a corruption scandal that has implicated UAW President Gary Jones related to luxurious spending by senior union officials. The strike may finally be reaching its end as GM and the UAW reached a tentative agreement on Wednesday, October 16 to be voted upon and ratified, though the strike will continue until then. It seems that the agreement will include the protection of healthcare at no higher cost for GM workers and bonuses of \$9,000 when the deal is approved. GM has also, in the lead up to this potential agreement, pledged to invest some \$7 billion in 8 U.S. plants and 5,400 manufacturing jobs.

Economic & Market Implications:

Since the beginning of the strike, General Motors has endured losses of about \$90 million a day, a \$4 billion decline in market cap, and an almost continuous fall in stock price until news of a potential resolution prompted the stock to rebound. However, the story of the GM strike, the first in 12 years, suggests broader implications for the economy. Not only has the strike skewed future reports on the health of the economy with an influx of lower payroll figures, higher unemployment, and more benefits filings, the effects of the strike are exacerbated by indicators of an economic slowdown. Manufacturing has officially plunged into recession, accounting for only 10% of economic activity, as factories are shrinking and layoffs are surging. President Trump's trade war with China, which has led to excessive tariffs and a devalued Chinese RMB (that lowers the price of Chinese exports and therefore increases the price of other exports), only accelerates this decline in American industry. More alarmingly, these struggles in manufacturing have spilled over to affect the transportation, warehousing, and, most recently, the retail sectors as the September decline in retail sales took a hit (which also drove the latest decline in the strength of the U.S. dollar). This group of indicators for an impending recession will likely prompt the Fed to cut interest rates yet again at the end of the month in an attempt to bolster spending.

Upcoming Campus Events and Deadlines

Upcoming Events:

- Oct 24, 6:30PM - RBC Capital Markets **Info Session**
- Oct 23, 6:30PM - Walmart eCommerce **Info Session**

Upcoming Deadlines:

- Oct 31 - Point72 Future of Finance Mentorship Series; apply **here**
- Nov 15 - Girls Who Invest; apply **here**

Rolling deadline:

- Ares Management (Product Management & Investor Relations teams in Private Equity, Credit, and Real Estate and public IR teams); apply **here**
- Evercore (Healthcare IBD intern in SF); contact Pranav Ganapathy (pg113@duke.edu)
- PIMCO (Account Analyst intern); apply **here**
- Principal Financial (Growth; apply **here**)
- Summit Partners (Growth Equity & Venture Capital intern); apply on Career Connections
- DUMAC (senior full-time position)

*Please check CareerConnections for more information

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