

BOW Finance Newsletter

2019-2020 Issue 7

Intuit to acquire Credit Karma



Type of Deal: M&A

Industry: Technology (Financial Technology)

Acquirer: Intuit (Ticker: INTU) (Stock Price of INTU as of 03/04/20: \$285.55)

Target: Credit Karma

Time announced: 24th February 2020

Time closed: N/A

Purchase Price: \$7.1 Billion

Background: Intuit, valued at more than \$77 billion, has a long history of helping both businesses and consumers manage their financial data. Historically, its business model has been charging its consumers for its software, such as QuickBooks and TurboTax. However, it has had trouble adapting to a new era in which software is free and instead paid for in deals using consumer data.

Credit Karma was created in 2007 by Kenneth Lin. It offers its customers free access to their credit scores and, after building their credit profiles, sells them credit card offers and online loans, based on their credit scores. Additionally, it offers advice to its consumers as to how to improve their credit scores. Credit Karma says that its customers include a third of all Americans who have a credit profile. Based in San Francisco, it has over 1,100 employees and was expected to pursue an IPO but following Uber's disappointing IPO and WeWork's failed one, it underwent a sale instead.

Acquisition Rationale:

- Growth of customer data:** Intuit could work towards matching the tax data provided by customers of its TurboTax software with the credit-scoring data held by Credit Karma. As a result, Intuit could offer improved customer information to credit card issuers and therefore charge lenders more for access to its data. Sheel Mohnot, a venture capitalist who focuses on fintech start-ups, said "they would have all of this rich information, and they would basically be an ad network. You're almost forced to advertise with them." Ultimately, by combining the (huge) data sets of Credit Karma and Intuit, Intuit will be able to build significantly more detailed reports of the financial backgrounds of its consumers. This will increase the efficiency with which lenders can target their offers.
- Increased market share:** One of Intuit's key products, Turbo Tax, is a tax preparation software that allows its consumers to file their taxes online. Recently, Credit Karma introduced a new product - a free tax return offering - which placed it into direct competition with Intuit. By acquiring Credit Karma, Intuit would eliminate this competition and gain a larger share of this market.

United Technologies to acquire Raytheon Corporation



Type of Deal: M&A

Industry: Industrials

Acquirer: United Technologies Corporation (Ticker: UTX) (Stock price as of 3/20: \$82.74) (Advisors: Morgan Stanley, Evercore, Goldman Sachs)

Acquirer Description: United Technologies, headquartered in Connecticut, provides commercial plane makers with electronics, communications and other equipment. It consists of several subsidiaries including Collins Aerospace, Pratt & Whitney, Otis Elevators, and Carrier Corporation.

Target: Raytheon Corporation (Ticker: RTN) (Stock price as of 3/20: \$124.14) (Advisors: Citigroup, RBC Capital Markets)

Target Description: Raytheon, a military contractor company, supplies the U.S. government with military aircraft and missile equipment.

Time announced: June 9, 2019

Time closed: Expected second half of 2020

Background: United Technologies (UTC) will combine its aerospace business (Pratt & Whitney, Collins Aerospace) with Raytheon, a leading defense contractor, to form the new Raytheon Technologies, estimated to have a market value of about \$125 billion. The merger is 100% stock, meaning that shareholders of both companies receive the same value of shares in the new company that they owned in one of the pre-merger companies. The deal is expected to close after UTC spins off its Otis elevator and Carrier building-systems businesses by early 2020.

Acquisition Rationale:

- Diversifying Revenue Sources:** The new company is expected to return between \$18-20 billion of capital to shareholders in the first three years. Although there is strong global demand for defense spending, Pentagon spending is projected to slow down in the fiscal year 2020, which would harm Raytheon as a military contractor company. Merging with United Technologies (UTC) would allow Raytheon to reposition and expand into commercial aviation.
- Cost Synergies:** The combination of the two companies, the Raytheon Technologies Corporation, is expected to result in more than \$1 billion in cost synergies by the end of the fourth year after the deal's completion. This results from the synergies between aerospace and defense in the supply chain, as the resulting company would become the world's second-largest aerospace and defense company behind Boeing Co. Additionally, the resulting company's size would reduce costs through economies of scale. As investors are pressuring traditional conglomerates to become more focused, UTC is streamlining its businesses by planning to spin off its non-aerospace businesses into separate companies.

Research & Development: Due to its combined resources, the resulting company will be better equipped to invest more of its own money in new technologies such as space systems and cybersecurity. For example, the two merging companies will combine two existing intelligence, information and services units with Raytheon's commercial cybersecurity unit, Forcepoint. Together, the companies will combine resources to develop electronic communications systems, cyber analytics, air traffic control technologies and world-class airborne and space sensors.

Markets

- Equities:** US stocks' roller coaster ride continued this week amid coronavirus fears. The selloff driven by coronavirus worries has ended the longest-ever US bull market, triggered multiple "circuit breakers," and erased nearly all Dow gains made during Trump's presidency. After a volatile session yesterday, stocks ended with a small gain due to efforts by central banks to offset the damages caused by the pandemic. [Read more.](#)
- Bonds and Rates:** The Federal Reserve cut interest rates to near zero earlier this week, the second emergency rate cut in the past few weeks. The Fed also launched a \$700 billion quantitative easing program to help the economy. [Read more.](#)
- Currencies:** US dollar rose sharply against other major currencies due to a surge in demand for the greenback, the reserve currency of the world. The Fed opened new swaps lines to foreign central banks yesterday to help their funding needs, but the dollar seems to still be making big rallies. [Read more.](#)
- Commodities:** Oil fell to an 18-year low on Wednesday, in part due to the global price war between Saudi Arabia and Russia as well as weakening demand for the commodity amid the coronavirus pandemic. However, it rose 24% yesterday, after the US Energy Department requested to buy 30 million barrels for the Strategic Petroleum Reserve and reports that the US is considering intervening in the standoff between the two countries. [Read more.](#)

What are Circuit Breakers?

On Monday morning, a market circuit breaker was triggered for the third time in a week as the S&P fell 8% almost immediately after opening bell. Circuit breakers are temporary measures that suspend trading as a way of preventing panic-selling. Circuit breakers were first implemented after the 1987 stock market crash and are measured by a single-day decrease in the S&P 500. According to the New York Stock Exchange, there are 3 circuit breaker thresholds: Level 1 (if the stock market drops 7%, trading is halted for 15 minutes*), Level 2 (if stock market drops 13%, trading is again halted for 15 minutes*), Level 3 (if the stock market drops 20%, trading is halted for the day). These circuit breakers in their modern form were triggered for the first time in 20 years.

"The market circuit breakers are designed to slow trading down for a few minutes, give investors the ability to understand what's happening in the market, consume the information and make decisions based on market conditions," said New York Stock Exchange President Steacey Cunningham. "This is operating as it's supposed to." So, amid all the fears and uncertainty in the world right now, one thing we do know is that circuit breakers are doing their job ([Watch video](#)).

*if the drop happens after 3:25 pm, trading continues.



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