

# BOW Finance Newsletter

September 21st, 2020

Issue I

## M&A: Uber to acquire Postmates



Type of deal: M&A

Industry: Consumer and retail

Acquirer: Uber (Ticker: UBER) (Stock Price of UBER as of 9/8/20: US \$34.42) (Legal Counsel: Wachtell, Lipton, Rosen & Katz)

Target: Postmates (Advisor: J.P. Morgan Securities LLC) (Legal Counsel: Latham & Watkins LLP)

Time Announced: July 6th, 2020

Time closed: Expected Q1 2021

Purchase price: US \$2.65 billion (all-stock transaction)

An all-stock transaction is when shareholders of the target company receive shares instead of cash when acquiring a company. Uber plans to issue 84 million shares of common stock for 100% of the fully diluted equity of Postmates.

### Acquisition Rationale:

1. **Postmates was not Uber's first choice:** The deal sprung up after Uber's failure to acquire Grubhub, another competitor. Instead, Grubhub was acquired by Just Eat Takeaway for \$7.3 billion. Still, Postmates is a very attractive target company due to its size and prominence in over 4,000 cities.

2. **Complementary:** Postmates was an early company in the food delivery space, which complements UberEats' growing efforts. Postmates has strong relationships with small and medium-sized restaurants in addition to some businesses who are loyal to Postmates. This will give Uber Eats the ability to connect with a bigger consumer base. With more restaurants and merchants, consumers will have more options and increased demand.

3. **Increased Efficiency:** A higher number of orders will result in delivery drivers being busier and making better use of their time. Uber plans to keep the Postmates app running separately, but adding a more efficient, combined merchant and delivery network. Despite using different app platforms, the drivers will deliver orders for both businesses, for example. This increased efficiency will ideally increase revenue for Postmates and Uber.

4. **Increasing Market Share:** The acquisition of Postmates increases Uber's market share and increases the gap between Postmates and Grubhub, one of their closest competitors. However, the acquisition still does not allow Uber to overcome DoorDash Inc., the nationwide leader in the food delivery market.

5. **Uber is losing money (and so is Postmates):** Uber lost \$3 billion last quarter due to Coronavirus effects. The trend of declining numbers likely influenced Uber's decision to expand its food delivery business. Postmates is also in the red, due to a possible combination of Coronavirus and delivery being a low margin business to begin with. Will two negatives make a positive? We'll see.

## SPAC: Nikola and the rise of SPACs



Type of deal: IPO/M&A

Industry: Electric Vehicle (EV)

Acquirer: VectoIQ Acquisition Corporation (Ticker: VTIQ)

Target: Nikola Motor (Ticker: NKLA) (Stock price as of 9/18/20: \$33.52)

Time Announced: March 2020

Time closed: June 2020

Purchase price: \$3.3 billion, including \$525 million in fully committed common stock anchored by institutional investors such as Fidelity Investments, ValueAct Spring Fund, and P. Schoenfeld Asset Management LP

About VectoIQ: VectoIQ was formed for the purpose of effecting a merger, share exchange, asset acquisition, stock purchase, recapitalization or other similar business combination with one or more businesses. It is a blank check company, also known as a special purpose acquisition company (SPAC), run by former General Motors Co. executive Steve Girsky. Cowen served as VectoIQ's financial and capital markets advisor while Greenberg Traurig, LLP served as its legal advisor.

About Nikola: Nikola Motor is an American company based in Phoenix, Arizona that manufactures electric heavy-duty vehicles, energy storage systems, and hydrogen fueling infrastructure. In March 2020, Nikola announced its plans to merge with VectoIQ. The combined company is listed on the NASDAQ exchange with the NKLA ticker symbol. Morgan Stanley served as Nikola's financial advisor, and Pillsbury Winthrop Shaw Pittman LLP its legal advisor.

### Rationale/Discussion:

1. **What is a SPAC?:** A SPAC, also known as a blank check company, is essentially a shell company listed on a public exchange that uses the funds it raises from selling shares to acquire a private company or startup. Nikola's IPO highlights the rise of SPACs in the EV industry. Besides Nikola, several other EV startups such as Canoo, Lordstown Motors and Fisker have all announced mergers with SPACs in recent weeks.

2. **SPAC rationale:** When going public via a traditional IPO, a company has to deal with underwriters, investors, and a volatile market before it knows how much capital it will raise. In a blank check acquisition, negotiations are simpler, involving only the company and the SPAC. By choosing the SPAC route, Nikola was able to circumvent the high level of uncertainty in the market caused by the coronavirus pandemic.

3. **Quick capital gains:** The transaction proceeds will allow Nikola to accelerate its portfolio of battery-electric and hydrogen fuel-cell electric vehicles targeting zero emissions globally, and hopefully turn profitable by 2021.

4. **Some risk involved:** The recent explosion in SPACs deals provided a safer, faster and cheaper way for many innovative and big-idea start-ups to go public, especially for capital-intensive companies like Nikola. However, investors should still be cautious about the structure because more than half of blank-check companies that went public in 2015 and 2016 were trading below their IPO price 3 years later, so the returns might not be all that promising.

## Market Updates

### Brief Updates:

- As a result of the recent Chinese boost in retail sales, the Yuan recently rose against the dollar. US goods are relatively cheap and oil is denominated in dollars, so the Chinese have pushed oil prices to recent highs. Additionally, in anticipation of hurricane Sally, oil producers have reduced their outputs, thereby decreasing supply and further driving up prices.
- Despite a temporary decline, the equities market has rebounded as volatility declines and investor optimism strengthens. Such positivity can be attributed to the Fed's commitment to maintaining low interest rates (see below for details). The resulting inflation could devalue the dollar and thereby incentivize foreign purchases of US goods. Many investors expect positive repercussions in the stock market because of anticipated revenue increases.

For more visit <https://www.wsj.com/market-data>

### Significant Market Event: Fed's decision to maintain low interest rates

- Jerome Powell has declared that the Fed will let inflation rise above 2% before raising interest rates. The Fed's stance may have significant, long-term consequences, for individuals, businesses, and the nation as a whole.
- By maintaining low rates, the Fed is encouraging debt financing. With effectively cheap borrowing, this policy fosters the development of "zombie" companies. Such companies, on the brink of bankruptcy, would otherwise lack the credibility to obtain necessary funding. In delaying their inevitable deaths, these struggling entities swallow up valuable economic resources, thereby limiting long run productivity. A silver lining to this policy, however, lies in startup opportunities. Though incredibly rare, a financially weak, emerging company may capitalize on the low interest rates.
- In a stark contrast, the low interest rates discourage saving. Typically, low interest rates correlate with higher levels of inflation. As inflationary pressures take hold, the saved money will devalue. Such depreciation will incentivize gold purchases because investors perceive its value to be relatively stable.
- With consistently low interest rates and inflation on the rise, the value of the dollar is weakening against its foreign counterparts. The implications of this shift in the currency markets are twofold. On the one hand, it may boost the US export market because goods priced in dollars are relatively cheaper for foreigners. Increased revenue may foster optimistic market sentiment which could drive up stock indices such as the S&P 500. At the same time though, as debt accumulates and the dollar depreciates, foreign investors will begin to associate US assets with significant risk. Eventually, the US dollar may lose its credibility as a global safe haven.
- Though the Fed's lenience may provide short term relief, the impacts likely won't end there. In fact, Americans may continue to experience repercussions of the Fed's strategy for many years down the road.

## Advice Column: What I Wish I Knew

Advice from upperclassmen who have been through the finance recruitment process

- For investment banking, I would say that having a really solid understanding of accounting and the valuation methodologies is most important. It's also good to have a M&A deal that you know inside-and-out and can talk about the strategic rationale for (such as the writers have done above).
- Some resources that we recommend are:
  - Mergers and Inquisitions 400
  - Technical Interview Guide on Wall Street Oasis
  - Wall Street Prep Guides



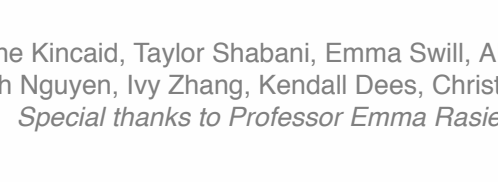
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