Corporate Finance 15.402
Case 11: Cooper Industries, Inc.

Your team is to advise Cooper's top management on the possible acquisition of Nicholson File. In order to make your recommendation, you need to assess the value of Nicholson following the acquisition, as well as the implied stock price, under a number of scenarios.

1) Why is Cooper Industries interested in acquiring Nicholson File?

2) What is the maximum price Cooper should be willing to pay for all of Nicholson's common stock assuming an 11% cost of capital, 6% per year growth in future sales, no improvements in managing working capital, and

   a. no margin improvements.

   b. if the forecasted margin improvements are realized by 1973 only in cost of goods sold such that cost of goods sold is 67% of sales in 1972 and 65% thereafter.

   c. if the forecasted margin improvements are realized from both cost of goods sold as indicated in (b) above, and SG&A is reduced to 21% of sales in 1973, 20% in 1974, and 19% thereafter.

3) Consider the most optimistic scenario of question 2(c) above. How much of an improvement in the net working capital/sales ratio must Cooper achieve at Nicholson to justify paying $50/share for Nicholson? In your view, is such a ratio a reasonable target for Cooper? Explain briefly.

4) Time to make your recommendation. What should Mr. Cizik do? Should he acquire Nicholson File? If yes, how and on what terms? If not, explain why.