Important notes for candidates regarding the pre-issued case study

The case study is designed to assess knowledge and understanding of the Management of Change syllabus in the context of the relevant case study. The examiners will be marking candidates’ scripts only on the basis of the questions that have been set. Candidates are advised to pay particular attention to the mark allocation on the examination paper and to plan their time accordingly.

Candidates should acquaint themselves thoroughly with the case study and be prepared to follow closely the instructions given to them on the examination day. Candidates are advised not to waste valuable time collecting unnecessary data. The cases are based upon real-life situations and all the information about the chosen organisation is contained within the case study.

As this case represents real-life situations, anomalies may be found in the information you have before you. Therefore, please state any assumptions you make that are reasonable when answering the question. Remember you are going to be tested on your overall understanding of the case issues and your ability to answer the questions that are set in the examination.

In order to prepare for the examination, candidates will need to carry out a detailed analysis of the case material ahead of the examination. Candidates have sufficient time during the examination to answer all the questions, but this means that detailed analysis has taken place before commencing the examination. The examiners are looking for clear evidence that candidates have a good understanding of the case and can use the relevant course ideas from the syllabus to answer the questions.

The copying of pre-prepared ‘group’ answers, including those written by other third parties, is strictly forbidden and will be penalised. Thus, questions will demand analysis in the examination itself and individually composed answers are required in order to pass.

Candidates are only allowed to take up to two pages (four sides) of A4 notes into the examination room. These notes should be attached to the script at the end of the examination and returned.

A copy of the pre-issued case study material will be available in the examination. Candidates are NOT permitted to take into the exam the downloaded case study or any other notes. Candidates should not attach any other additional information in any format to their answer book. Any attempt to introduce such additional material will result in the candidate’s paper being declared null and void.

The examination will be for THREE HOURS and will consist of TWO parts.

Part A comprises FOUR compulsory short answer questions and is worth 40% of the final mark. These questions are not specifically related to the case study. It is recommended that you spend approximately ONE HOUR on Part A.

Part B comprises THREE compulsory questions related to the pre-issued case study that you will have analysed before entering the examination room. This part is worth 60% of the final mark. It is recommended that you spend approximately TWO HOURS on Part B, which includes planning and checking your answers.
The increase in global mergers in 2014 reported by mergermarket.com has seen a rise on the previous year’s figures. Goldman Sachs remained the lead financial advisor league table by value with 378 deals worth US$939.9 billion, increasing from 57.4% from 2013.

Global deal activity jumped 47% between 2013 and 2014, highlighted by large deals.

Global merger and acquisition activity hit $3.5 trillion in 2014, which is up 47% from the year before. That’s the word from Thomson Reuters, whose data suggests that large deals in 2014 – 95 valued at $5 billion or more – were a key driver, given that the overall number of global M&A transactions only climbed by 6%. This includes the year’s three largest announced deals, each of which is still pending: Comcast Corp.’s $70.67 billion deal for Time Warner Cable, AT&T’s $67 billion purchase of DirecTV and Activis paying $66 billion for Allergan. Ten of the year’s 15 largest acquisitions were for companies based in the United States, where volume climbed by 51.4% to $1.53 trillion. European M&A activity was up 55%, while Asia-Pacific hit its largest ever total at $716 billion. Geographic regions with year-over-year decreases included Eastern Europe (-0.53%), Central America (-30.1%) and the Africa/Middle East (-16.9%). The largest large country increase was for France (up 239% to $165 billion), while Germany was on the flipside (-21.6% to $73 billion).

Thomson Reuters also reported that there was nearly $562 billion of global private equity activity in 2014. That’s the industry’s highest mark since 2007, and a 43% bump over 2013. Perhaps more importantly, it represented 21.9% of total global M&A activity, which appears to be an all-time high (previous leader 2006 was at 21.3%). Pretty remarkable given the relative dearth of mega-LBOs last year, this was perhaps offset by a growing number of firms willing and able to play in the $1b–$3b space. PitchBook also released a bunch of private equity data, showing that 60% of 2014 buyout activity was for add-on investments. It also reports that global private equity exit activity totalled $445.7 billion, which is a record high. For private equity fundraising, PitchBook shows a drop from $353 billion raised in 2013 to $291 billion raised in 2014.

When giant deals fail, life rarely goes back to normal

QUEEN VICTORIA sniffed that, “We are not interested in the possibilities of defeat.” For empire-builders in the corporate world, failure is all too common. On August 5th the octogenarian Antipodean Rupert Murdoch withdrew 21st Century Fox’s unrequited pursuit of Time Warner. The deal would have been worth at least $70 billion and would have created a media monolith. Hours later Softbank, a Japanese conglomerate which owns Sprint, an American telecoms firm, abandoned its effort to buy control of T-Mobile US, another operator in America, with an enterprise value of more than $30 billion.

In 2014 there have already been two other big deal makings – Pfizer’s abortive bid for a fellow drug maker, AstraZeneca, worth $125 billion, and the union of Publicis and Omnicom. The two advertising firms were supposedly engaged in a logical impossibility: an amicable Franco-American merger of equals. In fact their executives were fighting like rats in a sack.

In all, bids worth $390 billion have been terminated or withdrawn so far in 2014 (see chart). That is huge in absolute terms, though it mirrors the surge in mergers and acquisitions (M&A) this year. Typically 10-20% of proposed deals end in tears, and this year has been no exception.
Companies usually overstretch in two ways. They propose combinations that annoy regulators – despite the passionate appeals of Masayoshi Son, Softbank’s founder, American regulators were unimpressed by his plans to shrink the number of big mobile operators from four to three. Or they propose deals that test the limits of their balance sheets and the patience of their investors. Mr Murdoch was offering a takeover premium of about $20 billion, more than the capitalised value of the cost savings that could have been achieved, suggesting the deal would have destroyed value for his shareholders. Reflecting this, his own share price had steadily fallen, reducing the value of the stock being offered to Time Warner. If Mr Murdoch chooses to bid again, he would have to find deeper cost savings. After Astra’s board dismissed an offer on May 26th, Pfizer’s shareholders had limited appetite for a dearer bid — although the American firm has not ruled that out.

By tradition, when deals flop, everyone pretends nothing has really changed. Thus Mr Murdoch declared that, “21st Century Fox’s future has never been brighter”, while Mr Son said, “Our focus moving forward will be on making Sprint the most successful carrier.”

In fact failed transactions often have lasting consequences. Target firms that cook up ambitious forecasts as part of their defence face the hard task of meeting them. Astra said it expected sales to almost double by 2023 despite their being stagnant today. Share buy-backs are one way to rent some loyalty. Time Warner’s shares fell by 13% the day after Mr Murdoch’s exit. It plans to repurchase $5 billion of its shares, equivalent to 8% of its total.

On the other side of the table, the thwarted acquirer may occasionally find it has dodged a bullet. Had Barclays, a British bank, succeeded in buying a Dutch rival, ABN AMRO, in 2007 for $92 billion it would have committed corporate hara-kiri. Royal Bank of Scotland, the ultimate victor in the tussle, ended up nationalised.

But usually a failed giant deal damages the credibility of the acquirer’s managers and the coherence of its strategy. On August 6th Sprint said it would remove its chief executive, Daniel Hesse. Botched takeovers have tarnished other careers. Jack Welch, of General Electric, sullied his reputation by failing to buy Honeywell as a last hurrah before he retired in 2001. European regulators blocked the deal. Marius Kloppers, a young star who became chief executive of the world’s biggest mining company, BHP Billiton, in 2007, lost his way after trying to buy its archrival, Rio Tinto, for $115 billion in 2008 and then in 2010 the obscure Potash Corp of Saskatchewan for a very unobscure $43 billion. By 2013 he had left BHP.

The recent rash of failed deals may encourage other firms to be more cautious. The takeover announced on August 6th of Alliance Boots, a British pharmacy chain, by Walgreens, an American counterpart, was a downbeat affair. Walgreens lowered its earnings forecast; and in response to growing American disquiet about firms using takeovers to shift their tax bases abroad (“tax inversions”, as they are known), it also dropped a plan to use the deal to move its domicile to Europe.

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For failed predators and escaped prey alike the key to re-establishing momentum is to demonstrate strong operating performance. If earnings are rising, investors, staff and clients will forgive almost anything. In 2010 Prudential plc, a British insurer active in Asia, suffered a humiliating defeat when its own shareholders rebelled against its $36 billion takeover bid for AIA, a Hong Kong-based rival. Since then Prudential's boss, Tidjane Thiam, has rebuilt his reputation in spectacular style by doubling operating profits.

By this test, the outlook is queasy for some recent failed dealmakers. Pfizer's underlying pre-tax profits fell by 25% last quarter. Softbank’s American mobile arm lost money last year and is losing customers. Publicis said in July that its profits would be lower than expected. Its boss, Maurice Lévy admitted it had been “distracted”.

For chief executives, the slog of day-to-day operations is miserable compared with the glamour and gratification of the world of M&A. But they can be assured that if they fail both at dealmaking and the mundane task of boosting earnings, their shareholders, like Queen Victoria, will not be amused.

Given the recent increase in mergers and acquisitions globally, why is it that 70-90% fail to achieve their objectives?