

OxWIB Legal Case Study Drop-In

Situation

You are a lawyer acting on behalf of Automobile Holdings (hereafter known as "The Buyer"), a private equity firm specialising in the automotive industry. The Buyer would like to acquire Enterprise Car Solutions "The Company", a company specialising in driverless cars.

Patricia Depp is overseeing the acquisition on behalf of the Buyer. She would like you to evaluate whether the Company would be a good acquisition for the Buyer, and for you to provide an overall opinion as well as a summary of positives and negatives of the potential acquisition.

Email from Buyer

Dear Ms OxWIB Member,

Automobile Holdings would like to acquire Enterprise Car Solutions. We are interested in the potential of driverless car technology, and would like to integrate it into our portfolio.

The Company will be sold publicly later this year. The Company has valued itself at £800m. It is anticipated that there will be several other businesses interested in buying the Company. The Buyer has valued the stock and would like to buy at 1.3 times the current share value, which is £28 per share, of which there are 20m.

Please could you evaluate the acquisition, and point out any issues.

Yours sincerely,

Patricia Depp

Financial Arrangements

A letter from the Buyer's bank, dated 10th January 2019

Dear Sir/Madam,

This letter pertains to the acquisition of Enterprise Car Solutions "The Company" by Automobile Holdings "The Buyer". Silverman Bags "The Bank" agrees to finance the acquisition.

The Bank will provide £600m to finance the acquisition of the Company, with terms set out in Appendix A.

The loan is offered on the basis of current information about the Company. Any further information about the company must be shared with the Bank, and may invalidate the agreement.

Yours faithfully,

Associate
Silverman Bags

Situation

Private equity firm = candidates should understand that this means the company will seek to make a profit from the investment, by selling it in the future.

Specialising in the automotive industry = the private equity firm has expertise in this area. The purchase would complement their current portfolio, whilst expanding into an emerging market.

Provide an overall opinion = it is important for the candidate to ultimately come down on one side or the other (i.e. to acquire or not to acquire).

Emails from Buyer

Sold publicly later this year = negotiations on price cannot take place.

Several other businesses interested = this suggests that companies may engage in a bidding war (i.e. above the self-valuation of £800m) and that it will go higher.

Buy at 1.3 times the current share value, £28 per share (20m) = £28 x 1.3 = £36.4 per share. £36.4 x 20m = £728,000,000

>> the key issue here is that the company values itself at £800m; the Buyer is only willing to pay £728m. Moreover, the bidding process may elevate the price even more.

Financial Arrangements

Dated 10th Jan 2019 = see the date of the Company research.

The Bank will provide £600m = short of £723m. The rest to be financed from company assets >> therefore riskier.

On the basis of current information about the company = Company research contains several worrying indications, which may invalidate the bank loan.

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Profit & Loss Statement

Revenues & costs before tax, in £1000s.

Revenues	2016	2017	2018
Model A	40,000	43,000	44,000
Model B	32,000	28,000	26,000
Model C	35,000	32,000	33,000
Model D	26,000	26,000	22,000
Total Revenue	133,000	129,000	125,000

Costs	2016	2017	2018
Cost of goods sold	50,000	46,000	44,000
Direct labour	30,000	32,000	33,000
Other	15,000	19,000	26,000
Total Cost	95,000	97,000	103,000

Company Research

Research on the Company, dated 20th January 2019

Real Estate

The Company has several factories across the United Kingdom. There are three located in the greater Manchester area, and two located in Birmingham.

In Manchester, the leases expire in 2021, 2023, and 2030.

In Birmingham, the leases expire in 2040. The Birmingham factories produce Models B and D cars.

Negotiations on the Manchester leases have begun, but are ongoing.

Senior Management

There are four members of the senior management team.

David Churchward, 65, has years of experience in the car industry, particularly in developing new technologies. He received the Financial Times' Executive of the Year' Award in 2016.

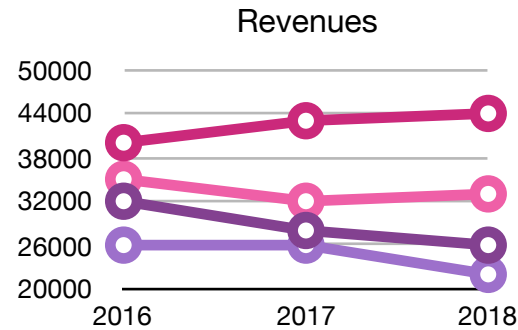
Charlie Zhang, 42, has driven the Company's technical development. He is a global expert in driverless technology.

Karen Walker, 48, has spent 10 years with the Company. Her son Callum is a Green Rights Activist, who campaigns against car production and advocates for the 'Walkable Living' group.

Justin Blackwood, 35, is an expert in digital media, with a background in consumer technologies.

Profit & Loss Statement

Model A Model B Model C Model D



As indicated by Revenues chart, Model A is the only one growing consistently. Models B & C are losing money year on year.

Significantly, total revenue is decreasing; total costs are increasing. This means that the company is becoming less profitable over time. If this is

read forwards, it indicates a poor investment.

NB: Candidates do not have the revenue & cost figures, and must calculate these themselves.

Company research

Manchester & Birmingham factory locations: It may be more cost efficient to reduce to one factory location and centralise production.

Lease expiration = these occur very soon. The Manchester factory locations are therefore very uncertain. Moreover, the Manchester location manufactures the highest revenue cars, and therefore its uncertainty jeopardises the overall revenue.

Senior Management

FT Exec of the year = David is near retirement age, and is therefore likely to leave soon. His leadership skills have not translated into company profitability.

Global expert in driverless technology = Zhang is a good exec, but does not seem to be linked to the licensing agreement with the parent company.

Callum, Green Rights Activist = Callum's advocacy may hinder public relations campaigns related to driverless cars.

Background in consumer technologies = not a driverless car expert.

NB: there is no agreement for them to stay on.

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Litigation

The Company is currently under **litigation from an incident occurring April 2018**, where a female pedestrian was injured by a driverless vehicle. The outcome of the litigation is yet to be determined.

A further **incident involving two young children occurred** in November 2018, but there is no litigation as yet.

Licensing & Parent Company Arrangement

The name "**Enterprise Car Solutions**" is **not trademarked** by the Company. Applications to trademark have so far been denied.

The software employed in the Company's cars is **under license from its current parent company, CarDrive**. The parent company has agreed to a transition period where the Company can continue to use its software, which propels the driverless cars.

The Company has **£80m of debt**, currently held by CarDrive, which will transfer immediately to the purchaser.

Media Coverage

Daimler speeds up self-driving trucking technology

'Mercedes-Benz parent Daimler, the **world's biggest maker of commercial vehicles**, will spend €500m and create 200 new jobs to **accelerate autonomous technology for trucking**. The group announced the investment as it unveiled the Freightliner Cascadia, which will go on sale in 2019 and be the first truck in North America to feature partially-automated assistance, at the Consumer Electronics Show in Las Vegas. Daimler Trucks chief executive Martin Daum pledged to take the lead in autonomous vehicles with a goal of deploying "highly automated driving" within a decade.

Traditional carmakers such as Daimler **are responding to challenges from new entrants** led by Waymo, Alphabet's driverless car unit, which has been testing autonomous technology on rival trucks from manufacturer Peterbilt. Analysts at Morgan Stanley estimate the size of the US freight transport market at \$900bn and think Waymo could disrupt the sector by offering long-haul transport at 30-50 per cent of current costs. - *Financial Times*, 7 Jan 2019

Uber given go-ahead to resume self-driving testing in Pennsylvania

'Uber has won **approval from Pennsylvania regulators** to resume testing self-driving cars on the state's public roads nine months after a fatal crash in Arizona halted its autonomous programme.

Uber suspended public testing in March after **a self-driving vehicle struck and killed a pedestrian in Tempe**, Arizona. Since then, the company has promised a number of changes to its autonomous technology programme, many of which address shortcomings found by investigations into the Tempe crash.' - *Financial Times*, 18 December 2018 (Adapted)

Litigation

Under litigation from April 2018 = potential damages to be paid, and ensuing bad publicity.

Incident with young children = more bad publicity.

General problem of lack of litigation around driverless cars.

Licensing & Parent Company Arrangement

Enterprise Car Solutions = the issue of loss of brand recognition, since the Company do not own their name.

Licensing agreement = the software which propels the driverless cars is actually owned by the parent company. It is ambiguous whether this will continue to be licensed, and the extent of the cost.

£80m = debt will transfer immediately; revise cost estimation to £880m+

Media Coverage

Large car manufacturers = are increasing their spending on autonomous vehicles.

Suggests that the commercial demand is high, and that this is an exciting market.

Trucking = potential commercial, rather than just consumer, application.

Approval from Pennsylvania legislators = government endorsement for autonomous vehicles.

Self-driving vehicle killed a pedestrian = bad consumer perception, lack of technology development. There is the potential that self-driving vehicles never develop enough to be widespread and return on the investment.