Phil Bauch

Cash Out Arbitrage

Buffett's Rules

1. All cash deal. (We want the acquiring company to pay cash, not exchange stock for the acquired company.)
2. No regulatory hurdles. (We want the government to be O.K. with the company buying out the other. No antitrust issues.)
3. Must be a friendly buyout. (We want management of both companies to be happy. No hostile takeover.)
4. Significant market price discount to cash out price. (There must be a spread between the market price and the agreed buyout price for us to make money.)
5. Financing behind the buyout. (Make sure financing has already been secured and there are commitments in place from banks.)***

Apollo Tyres is buying out Cooper Tire & Rubber

- June 12, 2013 – Cooper Tire & Rubber entered into an agreement to be bought for $35.00/share.
- August 2, 2013 – Regulatory approval to merge.
- August 30, 2013 – Chinese factory workers have "locked out" American bosses, by denying them access to a tyre plant in Shangdong province in China. "Neither the strike nor the plant slowdown are expected to have an effect on the consummation of the merger" Cooper T&R says.
- September 30, 2013 – Shareholders will vote on the buyout offer.
- September 11, 2013 – Buyout price less Market Price = $35 - $33 = $2 spread. Deal is expected by year end. ROR of 6.06% or a little better than 18% ann. ROR.

Financing (Found in Form 8-K, 6/12/2013)

- The Apollo Parties have obtained committed debt financing from Standard Chartered Bank for $450.0 million and committed debt financing from Morgan Stanley Senior Funding, Inc., Deutsche Bank AG New York Branch, Deutsche Bank AG Cayman Islands Branch, Deutsche Bank Securities Inc., Goldman Sachs Bank USA and Standard Chartered Bank for $2.375 billion, consisting of a $1.875 billion bridge facility and a $500.0 revolving credit facility. The aggregate proceeds of the debt financing, certain additional equity contributions made to the Apollo Parties and the Company's cash on hand, will be sufficient for the Apollo Parties to pay the aggregate Merger Consideration and all related fees and expenses.

Financing

- In B.I.C., we prefer that the company buying out the other company, in this case Apollo buying Cooper, has the cash on its balance sheet to buy them out without going to Wall Street and raising capital.
- In this case, Apollo went to Wall St. to obtain financing, and the banks committed the appropriate financing. Although this is not the most favorable terms for us, it is acceptable since the banks "committed" a portion of the financing.