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BOW Finance Newsletter

2019-2020 Issue 1

This is our first issue for the school year. Thank you so much for reading our newsletters this semester!

Investment Banking: Stryker to acquire Mobius Imaging & Cardan Robotics



Type of deal: M&A
Industry: Healthcare
Acquirer: Stryker (SYK, \$212.27)
Target: Mobius Imaging, LLC (MMIT.L, \$83.50) and its private sister company, GYS Tech, LLC (DBA Cardan Robotics)
Time announced: September 4th, 2019
Time closed: Expected fourth quarter of 2019
Purchase price: \$370 million upfront and up to \$130 million of contingent payments

Acquisition Rationale:

- 1. Market entry: This acquisition will allow Stryker to immediately enter the intra-operative imaging segment of the medical technology industry. Mobius Imaging specializes in integrating advanced imaging technologies into medical practices. Cardan Robotics develops robotics and technology for use in surgical and interventional radiology procedures.
2. Increased expertise: The acquisition will allow Stryker's spine division to gain expertise and a product pipeline that could enable it to "accelerate our pursuit of category leadership in Neurotechnology, Orthopaedics, and Spine," according to Spencer Stiles, Stryker's Group President, Orthopaedics and Spine.

Investment Banking: U.S. Department of Justice Approves T-Mobile/Sprint Merger



Type of deal: M&A
Industry: Telecommunications
Company #1: T-Mobile (TMUS; advisors: PJT Partners, Goldman Sachs)
Company #2: Sprint (S; advisors: J.P. Morgan, The Raine Group LLC)
Time announced: June 17, 2018
Time closed: Expected 2020
Purchase price: US\$26 billion

Acquisition Rationale:

- 1. Deal logistics: The combined companies are estimated to have a value of \$146 billion. The company's ownership will be split three ways: Deutsche Telekom will own 42%, SoftBank Group will own 27%, and the remaining 31% will be publicly owned.
2. Increased market share: T-Mobile and Sprint are the third- and fourth- largest network carriers in the United States, respectively. The combined company following the merger would have in excess of 126 million customers. This would allow them to better compete against the first- and second-largest network carriers, Verizon and AT&T, which have 150 million and 141 million subscribers, respectively.
3. Development of new services: Together, T-Mobile and Sprint could provide a stronger and more widespread 5G network to its customers. In fact, the new entity has committed to invest up to \$40 billion in its new network. They plan to develop a 5G network that would include 97% of the US within three years of the merger and 99% within six years. The merger would also benefit rural Americans in particular, with the combined company aiming to cover 85% of rural Americans within three years and 90% within six years.
4. Employment opportunities: This new and improved 5G network could not only bring down prices for consumers but could be a source of new employment opportunities. It has the potential to bring in funds that could be invested in developing new services and/or products.

Investment Banking: IBM Acquires Red Hat



Type of deal: M&A
Industry: Technology
Acquirer: IBM Corporation (IBM, \$142.34; advisor: Goldman Sachs, J.P. Morgan & Lazard)

- Acquirer Description: IBM, headquartered in Armonk, NY, is a global information technology and services company that provides hardware, software, cognitive solutions, and cloud-based services.

Target: Red Hat, Inc. (RHT; advisor: Morgan Stanley and Guggenheim)

- Target Description: Red Hat, headquartered in Raleigh, is known for its open-source software tools, cloud computing products, and Red Hat Enterprise Linux (RHEL), a Linux-based operating system designed for businesses. Red hat helped bring open source into the mainstream and is one of the most important software companies in the industry.

Time announced: October 28, 2018
Time closed: July 9, 2019
Purchase price: \$34 Billion

Deal points: The acquisition of Red Hat is IBM's largest deal ever and one of the largest tech deals in history. According to the original announcement, Red Hat will operate as a unit of IBM's hybrid cloud division and maintain its current management team.

Acquisition Rationale:

- 1. Opportunity in the hybrid cloud market: As enterprises strive to stay competitive through innovation, they are expected to invest heavily in open hybrid and multi-cloud environments. Ginni Rometty, IBM chairman, president and CEO, believes that businesses "need open, flexible technology to manage these hybrid multi-cloud environments. And they need partners they can trust to manage and secure these systems". The pairing of Red Hat's open hybrid cloud technology with IBM's innovation and industry expertise will allow businesses to run and manage data on private and multiple public clouds securely, effectively tapping into the 80% of businesses that have yet to move to the cloud. Jim Whitehurst, President and CEO of Red Hat, sees joining IBM as an opportunity for "a greater level of scale, resources, and capabilities to accelerate the impact of open source as the basis for digital transformation". Read more here.
2. Potential for revenue synergy: IBM has struggled to compete with younger technology companies and lags behind Amazon and Microsoft in the cloud infrastructure business. It has seen three consecutive quarters of declining year-over-year revenue. IBM will achieve revenue growth by cross selling its products to Red Hat's current customer base. Likewise, Red Hat would benefit from access to IBM's list of clients and cross-segment revenue synergies.

Markets

Market Updates:

The Fed cut interest rates by a quarter point last month and is currently still considering another cut this month to sustain expansion. Coupled with a strong September jobs report and low unemployment, investors are selling traditionally safe assets and commodities like gold in favor of the equity markets as stock prices rise. US government bond yields recently climbed, and the US dollar is strong, posing risks for trade as US exports become more expensive.

Hong Kong, a financial hub linking Asia and the U.S., has experienced a deceleration of growth and volatile markets after weeks of protests and political unrest but seems to have stabilized recently after several companies have put listing plans in place. Read more here.

Brexit Updates:

Brexit, the "British exit", refers to the potential departure of the United Kingdom from the European Union. On June 23rd, 2016, a referendum was held on whether the UK should stay in the EU, and a majority 52% of voters chose to leave. Originally, then-Prime Minister Theresa May wrote a Brexit deal and withdrew agreement set to happen in March 2019, but Parliament rejected that deal due to the backstop, which ensures that the UK would stay in the EU's customs union, preventing the UK from striking trade deals with other countries. Current Prime Minister Boris Johnson plans to remove the backstop from the deal so that Northern Ireland will leave the EU customs union and an electronic customs check system that give the UK trading freedom. However, if this deal is rejected as well, Johnson declares that the UK will leave on October 31st anyway in a no-deal Brexit. Read more here.

A law was recently passed by Parliament forcing Johnson to protect the US economy. Last month from the EU by October 19th, and in the two weeks between now and then, the only other possibilities barring an extension are voting through a Brexit deal or voting for a no-deal Brexit. The latter scenario is unlikely because politicians are divided between staunch supporters of no-deal (those touting a faster exit and potentially no 'divorce fee' paid to the EU) and opponents of no-deal (those in support of a slower transition and no border posts). The former scenario is even more unlikely because along with the political divide in voting for Johnson's deal, his proposed electronic customs check on the Irish border appears difficult to implement and full of holes regarding security and smuggling.

Market Implications:

A no-deal Brexit's implications of raised tariffs and delayed ports should cause a lowered sterling and FTSE, as the country struggles to negotiate its way around leaving the EU customs union. As for the fixed income market, the UK 10-Year Bond Yield will likely also drop in the event of a no-deal as the economy takes on more risk and investors flee to safer assets. The Euro should also weaken as Brexit threatens the political and economic stability of the whole EU. A no-deal Brexit threatens the highest volatility in the global market due to the lack of clear agreements and regulations on all sides.

As the UK's largest single-country trading partner, the US should take steps to anticipate the potential problems caused by Brexit to protect the US economy. Last month, the Fed cut interest rates by a quarter point amidst Brexit concerns. Higher volatility in the global stock markets could cause American businesses and consumers to lose confidence and slow economic growth, which means the Fed should keep the interest rate target low so as to not discourage spending (despite concerns that corporate debts are becoming increasingly high due to low rates). Dropping the rate lower could be risky - it decreases banks' incentive to loan money, making credit tighter for companies that desire capital to grow, and reflects lowered investor confidence in the overall US market; however, a strong September jobs report alleviated some of these concerns. Additionally, a stronger dollar against the pound and euro makes US products more expensive, lowering exports further amidst US-China trade tensions. Read more here.

Upcoming Campus Events and Deadlines

Upcoming Events:

- Oct 10, 6PM - Procter & Gamble corporate finance case study (Soc Sci 139)
Oct 10, 5PM - Mellon Global Equity Virtual Info Session
Oct 10, 8PM - PwC Virtual Info Session
Oct 23, 6:30PM - Walmart eCommerce Info Session

Upcoming Deadlines:

- Oct 9 - Altamont Capital Partners Summer Strategy Analyst/Analyst Intern; apply on CareerConnections
October 15 - RBC LGBT+ Sophomore Insights Program; apply here
October 31 - Point72 Future of Finance Mentorship Series; apply here

*Please check CareerConnections for more information

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