

MERGER ANTITRUST LAW

LAWJ/G-1469-05
Georgetown University Law Center
Fall 2021

Tuesdays and Thursdays, 3:00-5:00 pm
Dale Collins
wdc30@georgetown.edu
www.appliedantitrust.com

CLASS 7 WRITTEN ASSIGNMENT

Instructions

Submit by email by 3:00 pm on Tuesday, September 21
Send to wdc30@georgetown.edu
Subject line: Merger Antitrust Law: Assignment for Class 7

Assignment

A. *Financial questions*: Calls for short answers in short paragraphs that the average person can understand. Math is neither required nor desired.

Company A wants to acquire 100% of Company B through a negotiated merger. The proposed plan of merger calls for Company A to pay cash to the Company B shareholders as consideration for their interests in Company B. Company B is a widely held Delaware corporation that only issues common stock. Company B's stock is traded on the New York Stock Exchange.

1. Explain what is meant by Company B's "market capitalization."
2. Explain why Company A will have to pay a premium above Company B's market capitalization in order to acquire Company B. (There are two reasons.)
3. Explain how Company A will determine the maximum price per share it would be willing to pay for Company B's stock.
4. Explain how Company B might try to bargain with Company A for a high purchase price.
5. Once the two companies have reached an agreement on price and signed a definitive merger agreement, explain how another company can make a bid for Company B that Company B's board of directors must consider.

B. *Aon/WTW*:¹ Calls for a prediction supported by a financial analysis. *The date is July 15, 2021.*

I encourage you to work in groups on this problem

On March 9, 2020, Aon and Willis Towers Watson (WTW), the second and third largest of the "Big Three" insurance brokers, announced their intention to combine in an all-stock transaction, creating a company with a pro forma combined equity value of approximately \$80 billion. Under the merger agreement, WTW shareholders will receive 1.08 Aon shares for each Willis Towers Watson share, which represents a 16.2% premium to Willis Towers Watson's closing share price

¹ This is a real matter and I have taken the facts in this problem from company reports and court documents. If you are interested in more on this case, see [Aon/Willis Tower Watson](http://www.appliedantitrust.com) in Unit 14 on AppliedAntitrust.com for additional materials.

on March 6, 2020, and will result in the WTW shareholders holding 37% of the stock in the combined company.

The companies expect that the transaction will yield annual synergies of \$267 million in the first year, \$600 million in the second year, and \$800 million thereafter. They also anticipate that the transitional cost to achieve these expected synergies will be \$1.4 billion split equally in the first two years. The companies also expect transaction costs of approximately \$200 million and retention costs of up to \$400 million, both payable in the first year. In its investor presentation at the time of the announcement of the deal, Aon stated that it anticipates “over \$10 billion of expected shareholder value, from the capitalized value of expected pre-tax synergies and net of expected one time transaction, retention and integration costs.”²

The dropdead date for the deal is September 9, 2021. If the deal does not close for antitrust reasons, Aon is obligated to pay WTW an antitrust reverse termination fee of \$1 billion.

The transaction is subject to review by the United States and the European Commission.³ The European Commission approved the deal with conditions (divestitures) on July 9, 2021. Given that the EC review is suspensory, the deal could not have closed before receiving EU approval. In setting their strategy, the parties assumed that the EC-required divestitures, perhaps with some additional divestitures to satisfy the DOJ that would be acceptable to the parties, would be sufficient to satisfy the Department of Justice and enable the parties to close under a consent decree.

The parties were wrong. The DOJ refused to accept the additional divestitures offered by the parties to settle the investigation. On June 16, 2021, the Department of Justice filed a Section 7 complaint in the United States District Court for the District of Columbia. The parties say that the divestitures required by the European Commission plus additional divestiture they offered negates all Section 7 concerns about the deal and that they intend to litigate the fix.

The case was assigned to Judge Reggie Walton. Citing the dropdead date of September 9, the merging parties asked Judge Walton to begin the trial on August 23 or as soon thereafter as possible (suggesting implicitly that the parties would extend the dropdead date for at least a short period of time beyond September 9). The DOJ responded with a proposed trial date of February 28, 2022, 5.5 months later than the date proposed by the merging parties and a little more than eight months after the filing of the complaint. On July 9, Judge Walton set the trial dates for November 18, 2021, to November 23, 2021, and from December 20, 2021, to December 22, 2021, for a total of seven trial days. Judge Walton, presumably recognizing that a trial starting eight months after the filing of the complaint was unusually long in these types of cases, explained that these were the earliest times he had available given the criminal trials already scheduled involving prosecutions in connection with the January 6 insurrection.

The date is July 15, 2021. You are advising an arbitrator. The arb wants to know whether you think WTW will exercise its unilateral right to terminate the merger agreement on the

² Aon plc & Willis Towers Watson, [Investor Presentation: Combination of Aon and Willis Towers Watson: Creating a Next Generation Global Professional Services Firm](#) 6 (Mar. 9, 2020).

³ It is also subject to review in a variety of other jurisdictions, including Australia, Canada, New Zealand, Singapore, and South Africa. The merging parties claim, and you should assume here, that these other jurisdictions will clear the deal by September 9 either finding no competitive concerns with the deal or accepting a fix offered by the companies.

September 9 dropdead date and take the \$1 billion reverse breakup fee, or agree to extend the termination date until the trial court issues a decision (most likely in February 2022). Assume that it will cost WTW \$10 million in out-of-pocket expenses for its part in the litigation beyond the dropdead date. The companies have not announced how the divestitures required by the EC or offered to the United States will affect the synergies expected from the transaction.

GuruFocus.com reported that on July 15, 2021, WTW's weighted average cost of capital (WACC) was 5.16% and its return on invested capital (ROIC) was 3.19%.

Bonus question: Should Aon agree to extend the dropdead date in order to litigate, or should it terminate the deal on September 9 and pay WTW the \$1 billion breakup fee? Assume that Aon will pay \$15 million in out-of-pocket expenses for its part in the litigation. GuruFocus.com reported that on July 15, 2021, Aon's weighted average cost of capital (WACC) was 5.8% and its return on invested capital (ROIC) was 8.47%.

Send me an email if you have any questions. See you in class.