

Coronavirus Pandemic's Impact on Stock Swap Valuations

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Given the market dislocation and significant stock price declines caused by the coronavirus pandemic, much discussion has been focused on whether acquirers who are involved in pending all cash acquisitions are potentially overpaying given the target's stock in some cases is trading significantly below the agreed per share acquisition price. One example that highlights this issue and has received a lot of attention is LVMH's pending \$135.00 per share acquisition of Tiffany & Co. Although Tiffany's stock price has recovered somewhat in the last couple of days, as recently as last week Tiffany's stock was trading more than \$20.00 below LVMH's \$135.00 purchase price.

What has not gotten nearly the same level of attention is the opposite side of that same coin, which are stock swap deals where the acquirer is potentially underpaying given the decrease in their stock price. The value that target shareholders are going to receive upon completion of a deal with a fixed stock swap exchange ratio always fluctuates during the pendency of the deal due to the movement of the acquirer's stock price over that time period. However, due to the recent stock market declines, targets that agreed to fixed exchange ratio stock swaps may potentially see their shareholders receive significantly less value than they expected to receive when the deal was agreed to.

As an example, let's review the Hexcel Corporation / Woodward, Inc. transaction announced on January 12, 2020. When the deal was announced the parties agreed that Hexcel shareholders would receive 0.6250 Woodward shares per Hexcel share, which valued each Hexcel share at \$76.23 based on Woodward's closing stock price of \$121.96 for a total equity value of more than \$6.4 bil. By way of comparison using Woodward's closing stock price on March 20, 2020 of \$53.18, each Hexcel share is currently valued at \$33.24 for a total equity value of just over \$2.8 bil. Hexcel shareholders thought they were receiving more than \$76.00 per share when the deal was announced but would instead be facing the prospect of receiving around \$33.00 per share if the deal was to complete today, a decline of more than 56%.

We have therefore reviewed 26 pending stock swap transactions to see how the value of the acquirer's stock the target's shareholders are to receive in the transaction has changed between the deal's announcement and today based on the acquirer's closing stock price on March 20, 2020. Some observations (the full list of transactions we reviewed is below):

- 25 of the 26 transactions reviewed saw a decrease in value
- The only deal that saw an increase in value was the Sprint / T-Mobile deal, which is expected to complete in early April, has seen a 14% increase in value
- Average decrease in value was 44%
- Median decrease in value was 46%
- 7 of the deals have decreased in valued more than 50%
- The deal with the largest decrease in value is Apergy Corporation's reverse morris trust with the upstream energy business of Ecolab, which has fallen 88%

Some target companies have negotiated to include a walkaway provision in their definitive agreement that gives them the right to terminate the transaction if the acquirer's stock price falls below a specified price. Each of the deals that included a walkaway provision were banking deals, which is the only segment of the M&A market where we still occasionally see walkaway provisions. Not surprisingly, none of the transactions we

reviewed included a collar provision, which are rarely included in stock swap deals these days. The target shareholders in three of the 25 deals with decreased values have already voted to approve the transaction, so they don't have the option of voting against the transaction at their shareholder meeting like the shareholders of the remaining 22 target companies do.

Of course, between now and when these transactions actually complete the value of the acquirer's stock price may rebound substantially, but as of right now acquirers in stock swap transactions are paying significantly less to make the acquisition than when the deal was originally agreed to.

Announced Date	Target Name	Acquirer Name	Equity Value (\$m) at Announcement	Price Per Share (\$) at Announcement	% Decrease in Value based on Acquirer's 3/20/2020 Closing Price
03/12/2020	SB One Bancorp	Provident Financial Services, Inc.	208	22.09	36
03/09/2020	Willis Towers Watson Public Limited Company	Aon plc	29,862	231.99	30
03/02/2020	Mobile Mini, Inc.	WillScot Corporation	1,863	42.18	55
02/27/2020	EQM Midstream Partners, LP	Equitrans Midstream Corporation	1,762	21.18	37
02/20/2020	E*TRADE Financial Corporation	Morgan Stanley	13,026	58.74	47
02/03/2020	Opus Bank	Pacific Premier Bancorp, Inc.	1,008	26.82	47
01/28/2020	Delphi Technologies PLC	BorgWarner Inc.	1,497	17.39	47
01/27/2020	CenterState Bank Corporation	South State Corporation	3,211	25.66	32
01/13/2020	TerraForm Power, Inc.	Brookfield Renewable Partners L.P.	1,255	14.36	5
01/12/2020	Hexcel Corporation	Woodward, Inc.	6,432	76.23	56
12/19/2019	Telaria, Inc.	The Rubicon Project, Inc.	364	7.81	31
12/19/2019	Ecolab Upstream Energy Business	Apergy Corporation	3,895		88
12/19/2019	TiVo Corporation	Xperi Corporation	1,207	9.53	46
12/18/2019	Peugeot S.A.	Fiat Chrysler Automobiles N.V.	24,159	26.70	59
12/15/2019	DuPont de Nemours Nutrition and Biosciences Bus.	International Flavors & Fragrances Inc.	26,200		24
12/09/2019	Texas Capital Bancshares, Inc.	Independent Bank Group, Inc.	3,075	61.10	59
12/09/2019	Goldman Sachs Middle Market Lending Corp.	Goldman Sachs BDC, Inc.	1,027	20.76	50
12/05/2019	Wellesley Bancorp, Inc.	Cambridge Bancorp	114	44.29	35
11/25/2019	TD Ameritrade Holding Corporation	The Charles Schwab Corporation	28,290	52.23	36
11/18/2019	Carolina Financial Corporation	United Bankshares, Inc.	993	44.65	48
11/04/2019	IBERIABANK Corporation	First Horizon National Corporation	3,937	74.77	53
10/29/2019	MutualFirst Financial, Inc.	Northwest Bancshares, Inc.	352	41.28	38
09/24/2019	Revere Bank	Sandy Spring Bancorp, Inc.	450	37.10	44
07/29/2019	Pfizer Inc. Off-Patent Business	Mylan N.V.	12,316		17
03/11/2019	Yatra Online, Inc.	Ebix, Inc.	219	4.81	72
04/29/2018	Sprint Corporation	T-Mobile US, Inc.	26,500	6.62	14