

# The Total Fina / Elf Aquitaine case

*If you wish to ask questions (and get answers from the author of this case study), please do not hesitate to use the e-mail of the web site [www.vernimmen.dalloz.fr](http://www.vernimmen.dalloz.fr)*

**Pascal Quiry**

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## Questions

In June 1999, Total Fina and its advisors asked themselves a number of questions about the offer to exchange Total Fina shares for Elf Aquitaine shares that was due to be presented to Elf Aquitaine shareholders.

### *Synergies – Control Premium*

1. What impact did the size of the expected synergies from combining the two groups have on the amount of the control premium Total Fina could pay to Elf Aquitaine shareholders?

2. Total Fina forecast pre-tax synergies of € 1.2 bn in three year time. In your opinion, how was the market going to value these synergies ? Based on Total Fina's P/E ? On Elf Aquitaine's P/E ? Or on a lower multiple ? Why ?

3. Assuming the market would value the synergies at € 10 bn, what would be the maximum premium per Elf Aquitaine share, in euros and as a percentage, that Total Fina would pay ? Why ?

4. Given that Total Fina chose to make a share exchange offer for Elf Aquitaine and not launch a cash takeover bid, why was it essential that Total Fina's share price not fall immediately after the deal's announcement or during the following few days ?

### **Contingency Plans**

Total Fina's offer for Elf Aquitaine could have consisted entirely of stock or a majority of stock and a very small cash component.

Considering the financial, accounting, tax and stock market implications, and taking into account both Total Fina's and the Elf Aquitaine shareholder's points of view, list the pros and cons of having a cash component in a takeover paid mainly with share. What is your opinion ?

5. Could Total Fina take the risk of including a Contingency Value Right ( CVG in French) in its offer ? Why ?

### **Analysis of the Deal**

6. Calculate EPS for the next three years for both Total Fina and Elf Aquitaine if the exchange parity is set at four Total Fina shares for three Elf Aquitaine shares. Compare that with the situation before Total Fina's offer.

You can assume that the offer is 100% successful, that the takeover takes effect on 1 January 2000 and that pre-tax synergies amount to € 0.4 bn in 2000, € 0.8 bn in 2001 and € 1.2 bn in 2002. The corporate tax rate is estimated at 36% and the market value synergies at € 10 bn.



What do you think of these calculations ? What premium is Total Fina paying ? Will the deal appear attractive to Elf Aquitaine shareholders ? To Total Fina shareholders ? After the transaction's announcement, will Total Fina's share price rise or fall ? By how much ? Why ? Does Total Fina have a safety margin to raise the bid if that should prove necessary ?

### **Elf Aquitaine's Counteroffer**

Following the announcement of Total Fina's bid on 5 July 1999, Elf Aquitaine launched a counterbid by proposing three Aquitaine shares plus € 190 for five Total Fina shares. Moreover, Elf Aquitaine also announced that if the counterbid for Total Fina were successful, the company would spin off the two groups' chemical activities and shares in the new business would be distributed to shareholders of the new Elf Aquitaine-Total Fina group.

This offer was announced on 18 July 1999 when the latest quoted prices were € 130 for Total Fina and € 176 for Elf Aquitaine. This type of counteroffensive is called a "Pacman" bid, with reference to the video game where the aim is to eat the other figure before it eats you.

7. What is the apparent premium offered to Total Fina shareholders in Elf Aquitaine's 18 July 1999 bid? What does it consist of? To answer this question, consider the movement in Elf Aquitaine's share price since 2 July 1999?



10. Using admittedly different pre-tax synergy assumptions of € 2.5 bn per year on average by the end of year 3, Elf Aquitaine has said that its offer is better because it creates more shareholder value. It gives the new group (after the spin off of the chemical activities) a higher return on equity and a lower cost of capital. What are your opinion and your explanation of this reasoning ?

For information, the beta for oil assets is not substantially different from the beta for chemical assets.

11. If the market believed Elf Aquitaine's counterbid for Total Fina would be a success, what should have happened to Elf Aquitaine's share price after the announcement of the offer ? What should have happened to Total Fina's ? Why ?

### **Conclusion**

12. In early September 1999, share prices were as follows :

- Elf Aquitaine : € 167
- Total Fina : € 125

Did the market expect Total Fina's or Elf Aquitaine's offer to be successful ? Why ?

## **APPENDICES**

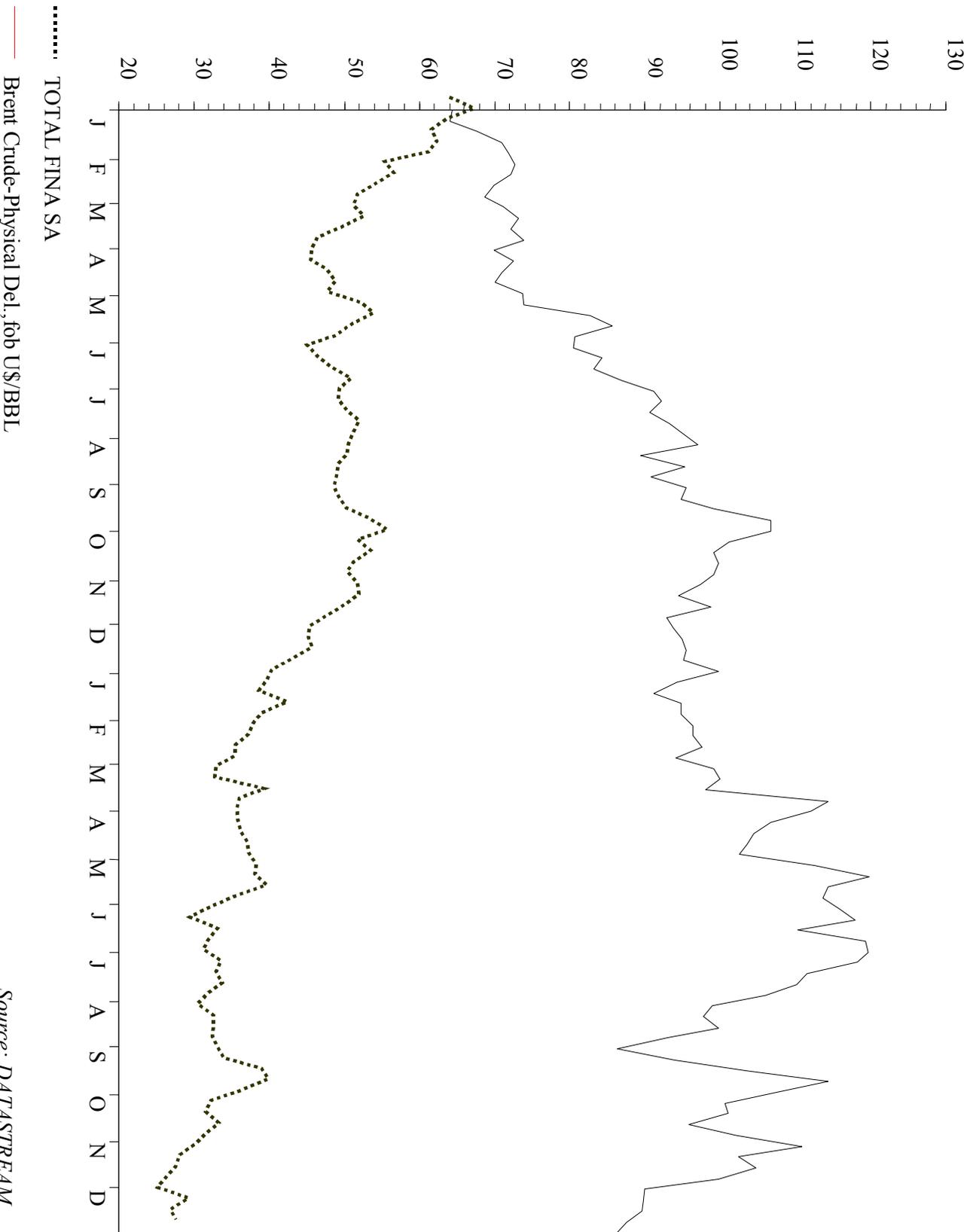
- Financial figures and stock market multiples for Elf Aquitaine and Total Fina.
- Correlation between Total Fina's share price and the price of crude oil

**Appendix 1 : Financial figures and stock market multiples for Elf Aquitaine and Total Fina (pre-merger)**

	<b>ELF AQUITAINE</b>	<b>TOTAL FINA</b>
<b>Number of shares (m)</b>	252	356
<b>Share price on 2 July 1999 (€)</b>	146	126
<b>Market capitalisation (€m)</b>	36,792	44,856
<b>EPS 1999 (€)</b>	5.3	4.1
<b>EPS 2000 (€)</b>	6.8	6.1
<b>EPS 2001 (€)</b>	8.7	7.7
<b>EPS 2002 (€)</b>	9.3	8.6
<b>P/E 1999 (x)</b>	27.5	30.7
<b>P/E 2000 (x)</b>	21.5	20.7
<b>P/E 2001 (x)</b>	16.8	16.4
<b>P/E 2002 (x)</b>	15.7	14.5
<b>Net profit 1999 (€m)</b>	1,335	1,460
<b>Net profit 2000 (€m)</b>	1,714	2,172
<b>Net profit 2001 (€m)</b>	2,192	2,742
<b>Net profit 2002 (€m)</b>	2,344	3,062
<b>Net borrowings (€bn)</b>	5.1	4.9

TOTAL FINA'S SHARE PRICE COMPARED TO THE PRICE OF BRENT CRUDE (1997 - 1998)

7/12/99



Source: DATASTREAM