CCL Simulation: Grading Considerations

Question One: Acquisition of West Dominion

- Does the competitor identify whether the transaction is appropriate from a strategic perspective?
- Does the competitor indicate whether CCL should be confident it could pay a premium that would be attractive to West Dominion's shareholders?
- Does the competitor suggest the concept of other bidders or interlopers in an M&A process?
- Does the competitor identify the concept of accretion, and are their results within the realm of reasonability?
- Does the competitor compare and contrast using cash vs. stock as consideration in the deal? Does the competitor identify how Canadian stock might be viewed to a US shareholder?
- Does the competitor identify the concept of synergies, and is their assessment of realizable synergies within the realm of reasonability?
- Does the competitor identify any other execution considerations that might be relevant? (i.e. shareholder vote for the target, shareholder vote for CCL if issuing a large amount of stock, regulatory considerations, legal and antitrust considerations, etc.)
- Does the competitor give weight to the fact that the management of CCL has identified this transaction as opportunity on its own prior to meeting with its advisors?

Question Two: Rival Bid from KKR

- Does the competitor distinguish the strategic difference of making a bid for CCL vs. KKR who already has a toehold position in West Dominion?
- Does the competitor recognize that an unsolicited offer from KKR might be viewed as hostile and that it may present an opportunity for CCL to act as a white knight?
- Does the competitor identify the drivers behind KKR's ability and willingness to pay a premium for CCL (i.e. deemed valuation, expected rate of return, etc.)
- Does the competitor suggest why CCL may be able to pay more for West Dominion as a strategic buyer that could realize synergies vs. a financial buyer?
- Does the competitor suggest any tactical approaches to dealing with a competing bidder (i.e. launching a pre-emptive hostile bid, approaching West Dominion and negotiating a friendly deal, waiting until KKR makes a bid or speculation surrounding a bid subsides, etc.)

Base Case Outputs from M&A Model

The model output below summarizes a possible base case scenario with relatively aggressive assumptions which may provide a useful reference point. The transaction is funded with 40% shares; the premium offered is modest at 25% but offset by a healthy transaction fee of 4%; 50% of Revenues, 100% of SG&A, 150% of Capex, and 100% of Working Capital Synergies are expected to be realized over the 5-year period; and the combined minimum cash balance required is reduced by around 25% from $160m to $120m.

The outcome is that EPS increases by 6.7% in the first year and ramps up to 12.2% over the 5-year period. Transaction debt drawn to fund the acquisition is somewhat mitigated by cash from Capex and Working Capital Synergies used to pay down debt, nonetheless pushing up the pro-forma debt to assets ratio to 44.3% at the end of the 5-year period which is just below the stated CCL maximum comfort level of 45%.

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Accretion Dilution Analysis

	Projected Fiscal Years Ending Dec 31				
	2009	2010	2011	2012	2013
CCL Standalone Diluted EPS	1.93	1.87	2.09	2.25	2.36
West Dominion Standalone Diluted EPS	0.93	0.94	1.06	1.18	1.26
CCL Proforma Diluted EPS (combined incl. synergies)	2.1	2.0	2.3	2.5	2.6
Diluted EPS Impact	0.13	0.11	0.21	0.24	0.29
EPS Accretion / (Dilution) %	6.7%	6.1%	10.1%	10.6%	12.2%

CCL Proforma Valuation Model - Financials

Operating Synergy Assumptions

	Switch (1=On, 0=Off)	Synergies (Target)	2009	2010	2011	2012	2013
Revenue	Yes	25.0	0.0	0.0	6.3	7.5	12.5
% Realized at each year			0.0%	0.0%	25.0%	30.0%	50.0%
S,G&A Exp.	Yes	10.0	2.5	7.5	10.0	10.0	10.0
% Realized at each year			25.0%	75.0%	100.0%	100.0%	100.0%
Capex	Yes	5.0	0.0	1.3	2.5	6.3	7.5
% Realized at each year			0.0%	25.0%	50.0%	125.0%	150.0%
Working Capital	Yes	5.0	1.00	1.0	2.0	4.0	5.0
% Realized at each year			20%	20%	40%	80%	100%

Projected Fiscal Years Ending Dec 31 (2009–2013)

Note: Capex and Working Capital synergies reduce cash outflows in the year realized. The exccess cash is used to pay down debt as indicated below in the model.

CCL Proforma Valuation Model - Financials

Credit Metrics

	Projected Fiscal Years Ending Dec 31				
	2009	2010	2011	2012	2013
Proforma Debt-to-Asset Ratio	46.51%	46.43%	46.03%	45.26%	44.32%

CCL Proforma Valuation Model - Financials

Key Transaction Variables

% of Target Purchased		100%
Percent Stock Consideration	[%]	40%
Premium Paid to Market	[%]	25%
Transaction Fee	[%]	4%
Proforma Minimum Cash Balance	[%]	120

CCL Proforma Valuation Model - Financials

Proforma Calculations

SUMMARY: SOURCES OF FUNDS			USES OF FUNDS		
Issuance of CCl Shares	150.8	36.3%	Target Equity Purchased	400.1	96.2%
Proforma Ecess Cash Balance	39.0	9.4%	Transaction Fees	16.0	3.8%
Transaction Debt	226.3	54.4%			-
Total	416.1	100.0%		416.1	100.0%