CHAPTER I

INTRODUCTION

1.1 Background

Eight months after the signing of Conditional Sales and Purchase Agreement (CSPA) between Bank MDR and shareholder of PT Tunas Financindo Sarana ("Tunas Finance"), the acquisition process of the latter was finally completed. Ahsan Mariowedhana, CEO of Bank MDR, gave brief comments about the acquisition," We are all glad that the whole process has finalized. The strategic alliances between Bank MDR and Tunas Finance in consumer finance business, especially in automotive loan, should be started immediately. We expect that in three years, the synergy will be fruitful; where we become top three in the business, thus, support our mission to become Regional Champion Bank." Founder of Tunas Group, who formerly owned 100% of Tunas Finance, Mr Anton Setiawan, could not agree more," With financing support from Bank MDR, combined with our expertise, it will not be long before the market sees a new leader in this business."

Above paragraph is also the introduction of the latest Bank MDR's acquisition case study. After acquiring Bank Sinar Harapan Bali, a leading micro and small business loan bank in Bali, Bank MDR is making yet another headline as they acquire another firm to confirm their mission to become regional-class bank. Acquisition has

become a choice for a firm to grow inorganically. Despite the drawback of acquiring another company in order to grow, it still becomes the preferred and fastest choice (Solovan, 2004). After all, it also proven to be profitable, not only for the target shareholder, but also the acquirer shareholder, if the valuation process –as part of the negotiation process— is done correctly (Bruner, 2003).

A case study is important as the reader can make the knowledge from actual business situation and able to take correct actions should they face the likes in the future. Learning using case method triggers discussions, so that alternative or even better outcomes could be offered. Hopefully with this case study, it could offer an added value in process of discovering a value in an acquisition which many suggest it is not exist (Damodaran, 2005)- that is, the synergy value.

1.2 Purpose and Benefit

The purposes of this case study are:

1. To offer a better yet unpopular approach to value a finance company, as suggested by an expert,
2. To analyze the strategy chosen to maximize synergy with the new subsidiary,
3. To extract lesson learned from the whole acquisition chronicle.

1.3 Scope

In this case study, the writer is going to discuss about the process of Multifinance acquisition by Bank MDR, identify reason, analysis and computation of business valuation to justify the investment. It also enlightens how Bank MDR focuses on value creation of the synergy with its new subsidiary to achieve common goals. A re-writing of the case, told as a narration, is provided in the attachment as to benefit the readers to learn by discussing it with peers so that they are able to make a conclusion in their own point of view.

1.4 Organization of Thesis

Chapter I describes the background of the case study that discussed in this thesis as well as its purpose and benefit, its scope and how the thesis is organized. Chapter II explains about the literature reviews of theories which are connected with the case study; reason for a firm to choose inorganic approach to grow, the true value of an acquisition, the calculation of synergy value in acquisition, and acquisition valuation of a finance company. Chapter III contains the explanation why a case method is selected, its definition and advantages. This chapter also enlight the framework for writing a case study and explain an approach on how to discuss a case study in order to maximize its learning process. Chapter IV gives details about the case description and its problem statement as well as the case analysis itself. The latter part starts with the analysis of the business environment, the acquirer and the target company to explain the reason behind the acquisition. Next, it also covers the prospective strategy between the acquirer and the target for the baseline of the

valuation proses. It ends with the computation of synergy valuation, which must be started with an intrinsic value of the target, as to find out the value offered to the acquirer shareholder, which becomes an enigma in this case. Chapter V, the last chapter of this thesis, lists the lesson learned from the case. An attachment which can be found in the end of the thesis, is the case study re-written in a narration, which is intentionally made for learning process in a finance class, being specific a mergers & acquisition or corporate finance valuation class.