CHAPTER V

CONCLUSION

5.1 Conclusion

The conclusions from this case study are:

1. Multifinance, given their unique characteristics, can be valued using excess return model, as suggested by Professor Aswath Damodaran of New York University.
2. Value to the target shareholder is around Rp 7 Billions in excess to the purchase price; however, this value is justified considering the projection of synergy value transferred to acquirer shareholder, which is around Rp 683 Billions.
3. The synergy expected between the two in this case, is operating synergy, by targeting an enhancement to the projected revenue, as well as financial synergy under the terms of maximizing “cash slack” of Bank MDR in joint financing scheme with their new subsidiary, Tunas Finance.

5.2 Lesson Learned

Chanmugam (2006) stated that each sub-process of the acquisition needs to be ensured to capture value. The analysis in previous chapter shows that Bank MDR’s shareholders have potentially capture value with the acquisition of Tunas Finance. The investigator of this case study believes that this is due to each sub-process of this acquisition has been designed to capture value, as follows:

1. Goal and strategy definition: Bank MDR's review of their position in automotive loan market was compared against their mission to be "regional champion bank" in 2010. The strategy to grow non-organically was based on the forecast that if they grow organically, they won't be able to achieve the targeted market position, best three in 2011. In strategy definition, the bank managers also proposed joint financing scheme after learning from SWOT analysis of bank and multifinance in automotive loan.
2. Selection and review targets: The selection of candidates to be acquired was based on 5 criteria. Candidates which pass these criteria then reviewed with legal, financial and operational due diligence.
3. Forecast evaluation: Tunas Finance, who topped the list after the second sub-process, was then analyzed for their financial forecast in the joint financing scheme. The projected revenue for 2009-2011 business plan was presented to acquisition team and analyzed considering the business downturn during 2008, and the boom possibility as the country is back on prosperous track started with increase in consumption pre and during 2009 general elections, as tipped by internal office of chief economist. The analysis also considers the vast network of Tunas Finance with their 32 branches in Indonesia as well as their strengths in captive market, innovative products and front-end process.

4. Analysis: The internal rate of return, that is the cost of equity used in the valuation of the firm was estimated by considering:
   a. Business sector risk, by calculating the beta using bottom up method from the multifinance sector
   b. Other investment opportunities for Bank MDR, which is to stay growing organically. Cost of equity of acquiring Tunas Finance must be higher than the required yield when they sell the automotive loan straight to their customers, for one reason because the credit risk is higher in multifinance due to their flexibility in analyzing loan application from end users.
5. Management review and decision: In order to acquire and make sure the synergy between the two firms is working as planned, Bank MDR's acquisition team need to have following approvals:
   a. Tunas Finance's business plan 2009-2011 from board of director.
   b. Joint financing product's manual, risk acceptance criteria and mutual agreement with Tunas Finance, need to pass the board of director.
   c. Joint financing limit, as well as its terms and conditions of agreement with Tunas Finance from shareholders representative as it topped the limit of Rp 2 Trillion for 2009 only.
6. Negotiating the acquisition: The negotiation of the acquisition was being delegated under the supervision of directors of the bank, to make sure that the whole process was representing the requirement of the bank. The pre

acquisition team, in preparation for joint financing scheme also incorporated by specialists in automotive loan from the bank.

5.3 Limitation

This case limits its discussion to valuation topics in inorganic growth in consumer financing business: the valuation of a finance company and synergy between banks which have the ability to raise fund from their depositors but have less agility in automotive loan, and multifinance, which have limited source of fund but because of their superiority compared to the first, cover the majority of the automotive loan market share.