

# PLENIUM Service Informatique

## Teaching Note

In early 2006, the CEO of a French IT services startup faces the challenge of buying out the firm's founder and majority partner. The case describes the company and its business model, the structuring of the buyout, and the terms of the deal. The transaction featured a substantial amount of leverage (about 50% of the price), and a holding company structure eligible for tax integration. Students are asked to evaluate the price, check the debt capacity of the target, and value the tax benefits of debt utilization. The case also exposes students to the difficulties and risks involved in this kind of deal.

### Pedagogical objectives

- Illustrate the challenges involved in valuing and structuring small-cap M&A deals: incomplete and asymmetric information, hidden dividends, reputational issues, etc.;
- Give students an opportunity to use the Adjusted Present Value model of valuation and to determine a deal's debt capacity;
- Introduce students to the basic steps in the structuring process, as well to its costs, which are significant for small companies;
- Expose students to relevant institutional details of the French market, namely the "tax integration" regime;
- Discuss the risks of what is effectively a leveraged buy-out deal.

### Audience

The case was designed to be part of the Mergers and Acquisitions course, where it introduces students to the specificities of small-cap deals and to serve as bridge between standard M&A analysis and leverage buy-out analysis. However, depending on the focus given by the instructor, it can also be

## Plenium Service Informatique – Teaching Note

used in a first course in corporate finance. The case is also suitable to be used on short executive courses for a non-technical audience that wishes to understand the basics of valuation and structuring. The case is a part of the ESSEC Private Equity Chair curriculum, where it is used to give students a first introduction to the basic structure of buyout investing and to discuss how PE investors might create value in a context characterized by asymmetric information.

### Case Format

The case is oriented towards working in groups. The information contained in the case is sufficiently rich to make it an “open-ended” case, i.e. one without a clear-cut “solution”. The degree of difficulty involved in the analysis can be considered relatively high, especially if students must build their valuation models from scratch. A second option is to give students the companion spreadsheets in advance, such that they can progress faster and concentrate on debating their valuation assumptions. This second option is particularly recommended for utilizations of the case in executive programs. In an undergraduate/introductory setting, the instructor will probably focus more on the valuation as well as determination of debt capacity aspects. More advanced or “older” cohorts will tend to be more interested on the aspects of structuring as well as on the discussion of the costs and risks of the deal.

### Case Questions

1. Why has Plenium been successful?
2. Did Pedro Sousa and his new partners pay the right price for Plenium? Please value the company, making the following assumptions:
  - The adjustments to net income of Plenium contained in exhibit 12, are correct;
  - The company will recruit employees at a pace roughly making its sales growth;
  - Plenium will have negligible debt if its own;
  - The (unlevered)  $\beta$  of Plenium is 1.75 and the market risk premium, is 6.74%.
3. The debt used to buy the company will be paid out of the dividends of Plenium to PlenITude, the holding company. Can Plenium sustain the acquisition’s debt load? Please quantify.
4. What is the value created by the use of debt in this deal? (Assume that PlenITude can benefit from tax integration as soon as it fulfills all requirements).
5. Is Plenium the right target for a leveraged purchase? What are the risks facing the company going forward?