CASE STUDY 4.3 (*cont'd*)

Whether the acquisition will contribute to overall profit growth or not depends on which products contribute to future revenue growth. The lower margins associated with Omniture's products will slow overall profit growth if the future growth in revenue comes largely from Omniture's Web analytic products.

Discussion Questions

1. Who are Adobe's and Omniture's customers and what are their needs?
2. Which factors external to Adobe and Omniture seem to be driving the transaction? Be specific.
3. Which factors internal to Adobe and Omniture seem to be driving the transaction? Be specific.
4. How will the combined firms be able to better satisfy these needs than the competition can?
5. Do you believe the transaction can be justified based on your understanding of the strengths and weaknesses of the two firms and perceived opportunities and threats to them in the marketplace? Be specific.

Answers to these questions are found in the Online Instructor's Manual available for instructors using this book.

CASE STUDY 4.4
BofA Acquires Countrywide Financial Corporation

On July 1, 2008, Bank of America Corp. (BofA) announced that it had completed its acquisition of mortgage lender Countrywide Financial Corp. (Countrywide) for $4 billion, a 70% discount from the firm's book value at the end of 2007. Countrywide originates, purchases, and securitizes residential and commercial loans; provides loan closing services, such as appraisals and flood determinations; and performs other residential real estate–related services. This marked another major (but risky) acquisition by Bank of America's chief executive Kenneth Lewis in recent years.

BofA's long-term intent has been to become the nation's largest consumer bank while achieving double-digit earnings growth. The acquisition will help the firm realize that vision and create the second largest U.S. bank.

In 2003, BofA paid $48 billion for Fleet-Boston Financial, which gave it the most branches, customers, and checking deposits of any bank in the United States. In 2005, BofA became the largest credit card issuer when it bought MBNA for $35 billion.

The purchase of the troubled mortgage lender averted the threat of a collapse of a major financial institution because of the U.S. 2007–2008 subprime loan crisis. Regulators in the United States were quick to approve the takeover because of the potentially negative implications for U.S. capital markets of a major

CASE STUDY 4.4 (*cont'd*)

bank failure. Countrywide had lost $1.2 billion in the third quarter of 2007. Countrywide's exposure to the subprime loan market (i.e., residential loans made to borrowers with poor or nonexistent credit histories) had driven its shares down by almost 80% from year-earlier levels. The bank was widely viewed as teetering on the brink of bankruptcy as it lost access to short-term debt markets, its traditional source of borrowing.

Bank of America deployed 60 analysts to Countrywide's headquarters in Calabasas, California. After four weeks of analyzing Countrywide's legal and financial challenges and modeling how its loan portfolio was likely to perform, BofA offered an all-stock deal valued at $4 billion. The deal valued Countrywide at $7.16 per share, a 7.6 discount to its closing price the day before the announcement. BofA issued 0.18 shares of its stock for each Countrywide share. The deal could have been renegotiated if Countrywide had experienced a material change that adversely affected the business between the signing of the agreement of purchase and sale and the closing of the deal. BofA made its initial investment of $2 billion in Countrywide in August 2007, purchasing preferred shares convertible to a 16% stake in the company. By the time of the announced acquisition in early January 2008, Countrywide had a $1.3 billon paper loss on the investment.

The acquisition provided an opportunity to buy a market leader at a distressed price. The risks related to the amount of potential loan losses, the length of the U.S. housing slump, and potential lingering liabilities associated with Countrywide's questionable business practices. The purchase made BofA the nation's largest mortgage lender and servicer, consistent with the firm's business strategy, which is to help consumers meet all their financial needs. BofA has been one of the relatively few major banks to be successful in increasing revenue and profit following acquisitions by "cross-selling" its products to the acquired bank's customers. Countrywide's extensive retail distribution network enhances BofA's network of more than 6,100 banking centers throughout the United States. BofA had anticipated almost $700 million in after-tax cost savings in combining the two firms. Almost two-thirds of these savings had been realized by the end of 2010. In mid-2010, BofA agreed to pay $108 million to settle federal charges that Countrywide had incorrectly collected fees from 200,000 borrowers who had been facing foreclosure.

Discussion Questions

1. How did the acquisition of Countrywide fit BofA's business strategy? Be specific. What were the key assumptions implicit in BofA's business strategy? How did the existence of BofA's mission and business strategy help the firm move quickly in acquiring Countrywide?
2. How would you classify the BofA business strategy (cost leadership, differentiation, focus, or some combination)? Explain your answer.
3. Describe what the likely objectives of the BofA acquisition plan might have been. Be specific. What key assumptions were implicit in BofA's acquisition plan? What were some of the key risks associated with integrating Countrywide? In addition to the purchase price, how would you determine BofA's potential resource commitment in making this acquisition?

CASE STUDY 4.4 (*cont'd*)

4. What capabilities did the acquisition of FleetBoston Financial and MBNA provide BofA? How did the acquisition of Countrywide complement previous acquisitions?
5. What alternatives to outright acquisition did BofA have? Why do you believe BofA chose to acquire Countrywide rather than to pursue an alternative strategy? Be specific.

Answers to these case discussion questions are available in the Online Instructor's Manual for instructors using this book.

APPENDIX

Common Sources of Economic, Industry, and Market Data

Economic Information

Business Cycle Development (U.S. Department of Commerce)
Current Business Reports (U.S. Department of Commerce)
Economic Indicators (U.S. Department of Commerce)
Economic Report of the President to the Congress (U.S. Government Printing Office)
Long-Term Economic Growth (U.S. Department of Commerce)
Regional statistics and forecasts from large commercial banks
Monthly Labor Review (U.S. Department of Labor)
Monthly Bulletin of Statistics (United Nations)
Overseas Business Reports (By country, published by U.S. Department of Commerce)
World Trade Annual (United Nations)
U.S. Industrial Outlook (U.S. Department of Commerce)
Survey of Current Business (U.S. Department of Commerce)
Statistical Yearbook (United Nations)
Statistical Abstract of the United States (U.S. Department of Commerce)

Industry Information

Forbes (Mid-January issues provide performance data on firms in various industries)
Business Week (Provides weekly economic and business information, and quarterly profit and sales rankings of corporations)
Fortune (April issues include listings of financial information on corporations within selected industries)
Industry Survey (Published quarterly by Standard and Poor's Corporation)
Industry Week (March–April issue provides information on 14 industry groups)
Inc. (May and December issues give information on entrepreneurial firms)

Directories of National Trade Associations

Encyclopedia of Associations
Funk and Scott's *Index of Corporations and Industries*
Thomas' *Register of American Manufacturers*
The Wall Street Journal Index