You are the Chief Operating Officer for the Generex Corporation, a large diversified company with $126 billion in annual sales and 310,000 employees. Your current corporate strategy involves maximizing the value of your firm to shareholders by strengthening your core businesses. The CEO charged you with identifying opportunities for further investment, and after much research, you determined that “alternative” or renewable energy was the optimal choice. Indeed, Generex has already made a global strategic commitment to renewable energy technology and is expanding into energy generation. Your solar facility in the California desert is the flagship of your strategy, and a symbol of your commitment to renewable natural resources. You have been looking for another renewable energy facility since the recent California energy crisis. A big wind energy operation would complement your solar facility as well as solidify the Generex image as a progressive and diversified renewable energy provider. And per the strategic initiative, you would be significantly strengthening Generex’s “Power Systems” division. Power Systems is currently Generex’s second-largest division, generating $20 billion in annual sales with 30,000 employees. The division is one of the world's leading suppliers of power generation technology, fuel, support and distribution services, and management systems.

Time is of the essence. You’d like to move forward with your strategy as quickly as possible. Your own internal analysts estimate the global wind energy market will grow 20% a year, and getting in now would be ideal. For each day that goes by without a big wind operation, you are not getting that 20% increase in sales. As you considered your options, one clear opportunity presented itself, the Energetics Wind Corporation (“Wind”). You have scheduled a meeting with the Energetics COO to discuss their Wind operation.

Publicly Available Information

The following information is in the public domain:

Energetics
The Energetics Corporation is a large diversified energy company with $100 billion in annual sales and 20,000 employees. Energetics has a variety of energy operations in many different locations around the world. Its businesses are involved in: drilling for, refining, and distributing petroleum; electricity transmission; and conventional and alternative electricity generation. Recently, the company declared bankruptcy but continues to operate.

The Energetics Corporation’s subsidiary, Energetics Wind Corporation, is currently offered for sale, and is the target of your interest. The wind power division accounts for about $1 billion in annual sales with 1,600 employees. As such it is 1% of Energetics’ revenues but 8% of the Energetics’ work force. The division includes wind energy equipment manufacturing and distribution around the world, and wind farm production facilities in Texas, Vermont, and California. The market for wind electricity facilities goes up and down and not many wind farms change hands each year in the United States, so it’s not clear what the price for this division should be. Wind turbine technology has improved immensely in the last decade, making it competitive with fossil-fuel power generation.
Energetics originally paid $100 million in cash and stock for the productive assets of this division five years ago and has made substantial investments—upgrading older turbines with new technology, updating transmission equipment, etc. The wind farms in operation in California are particularly attractive because of uncertainties in that large electricity market. Including the substantial improvements, Wind’s depreciated book value in the most recent annual report is $189 million. Two years ago, the Energetics Corporation unsuccessfully offered the division for sale for $200 million.

Electricity Market
The U.S. electricity market varies both seasonally and annually. It has declined since the spike associated with the recent California energy crisis. Conservation efforts are reducing demand and older gas and coal powered electricity plants that were off line over the last few years due to needed repairs are now back up and running. On the other hand, wind power is also cheaper than in the past. Most analysts agree that wind energy is now competitive with conventional power in California. Experts agree on the desirability of wind power in the long run, but disagree on its short-term potential.

Private Information for Generex Power Systems
The following information is confidential. You may or may not choose to share it with your counterpart:

Your CEO has given you a blank check to expand into renewable energy however you see fit. But you also need to show that you are getting the best value in your choice. So even though you are motivated to expand the alternative energy segment, you can do that in two ways: purchase an existing facility, or build a similar facility from scratch. There is a big advantage to buying a facility that is already up and running. A turn-key operation would avoid the vast amount of time, effort, and uncertainties associated with construction, not to mention those associated with staffing and training a large workforce. However, a new, and presumably more modern wind energy operation might be more efficient and more suited to the market. For example, you might want bigger turbine factories, or more concentrated wind farm locations. It all depends on the relative costs of each option.

As an alternative to buying Wind from Energetics, Generex could choose to build a wind energy business from scratch. It has plenty of resources to do so. Your accountants estimated that developing a comparable facility from scratch would cost $350 million but would take as long as three years. You have heard that Siemen’s entire alternative energy division was for sale for $220 million, but that division is smaller than Energetics and centered in Europe. Generex leadership has instructed you to focus on wind power in the U.S. market right now.

Your lawyers cautioned you not to discuss these confidential numbers with the Energetics COO. You have the authority to sign a deal today if you can get a good price. With a blank check in hand, and recognizing the eagerness of headquarters, your accountants estimate that even $400-450M could be a more profitable option than new construction. You could easily defend these numbers to your CEO. That said, although very interested in buying Wind, you do not expect to pay such a high price, and would of course prefer to pay the lowest amount possible. The deal has to involve cash and be completed within three months. No other terms can be added to this deal.

You now have the information you need to meet with the representative from Energetics. You have complete authority to do this deal within the parameters described above.