CONFIDENTIAL
PREMIUM RECOMMENDATIONS

Organization	MUELLER WATER PRODUCTS (MWA)
Volume 1	Issue 5

THE VALUE LINE®

M&A Service

Value Line®

MONTHLY STOCK SELECTION SERVICE

IN THIS ISSUE

THE MERGERS & ACQUISITIONS ENVIRONMENT: IN BRIEF

By Ian Gendler

The M&A environment has been unusually strong over the past several years. Transactions in the tens-of-billions-of-dollars have become quite commonplace, with a number of Fortune 500 companies having been acquired. This was not all that surprising since a decade-long bull market and economic expansion padded many large companies' coffers, putting them in a position to close acquisitions rapidly. Interest rates were also historically low, making borrowing costs reasonable for those enterprises seeking expansion through mergers.

The coronavirus and resulting economic recession threw some chaos into the mix. M&A activity abruptly stopped in early 2020. Because of the virus, supply chains were severely disrupted and numerous sectors felt the brunt of lockdowns, stay-at-home orders, and other measures implemented to combat the spread of COVID-19. Countless corporations pivoted to capital preservation, rather than spending. This led to the buildup of debt simply to increase cash on hand, and the reduction or elimination of dividend payouts, among other cash-saving initiatives.

Somewhat surprisingly, the stock market has shown incredible resilience. Following the steep drop in February/March, the major equity indexes recovered all of the lost ground, and are now tracking near all-time highs. Yet near-term prospects for countless companies remain cloudy amid the threat of further spread of the coronavirus. Current price-to-earnings ratios and other valuation metrics also appear lofty and perhaps unsustainable. Thus, for the market to maintain this course, it will be vital that the coronavirus come under control.

Over the past few months, a number of high-profile mergers & acquisitions have been announced, and we think that this trend will persist over the next few years. Interest rates are likely to remain at historically low levels, and it may be easier, less expensive, and less risky for enterprises to expand their businesses via purchases of established companies.

Acquisitions were a big story in the machinery industry in 2019. Within this group, the heating, ventilation & air conditioning (HVAC) sub-segment garnered headlines, and it wasn't because the U.S. had entered peak cooling season, when having a working HVAC system is so crucial to surviving the summer. Rather, it was the prospect of additional pure play HVAC makers hitting the public markets that caught the attention of many. Indeed, Ingersoll Rand's "ClimateCo", which owns the Trane brand, became a stand-alone company, coinciding with the merger between IR's industrial unit and Gardner Denver Holdings. United Technologies, meantime, spun off its Carrier HVAC business, prior to its proposed multibillion dollar merger with Raytheon. We think that trend will persist and that Mueller Water Products (MWA) is a reasonable target for a larger industrial outfit seeking greater scale. We expect Mueller to benefit in the near term from positive trends in the residential home construction market, which ought to boost demand for valves, pipes and various other water infrastructure products. Longer term, the American Water Works Association has estimated that $1.7 trillion of water infrastructure spending will be needed in the United States over the 39-year period ending in 2050. Mueller's management team believes it can compete for about $250 billion of that business. ■

A NOTE FROM THE MANAGING EDITOR

By Harvey S. Katz, CFA

President Biden faces daunting challenges as he begins his term. First, there is the need to address the sharp divisions that weigh on our country, spotlighted by the former President's second impeachment trial. Second, there is the fight against COVID-19. That disease has claimed more than 400,000 U.S. lives and affected the fortunes of millions of Americans. Finally, there is the importance of getting the economy going again and of securing a new stimulus package along the lines Mr. Biden envisions.

Economic woes are mounting. True, we aren't reeling to the degree we were last spring when GDP cratered. Still, lockdowns have multiplied along with infections, and retail sales are off sharply, with the drop especially severe if we exclude auto sales from the mix. Also, employment is down and weekly jobless filings are up. Clearly, it will take time to get the economy going again. For now, we expect little or no growth this quarter, with a double-dip recession not out of the question.

The expected more rapid rollout of the COVID-19 vaccines should help. Still, even with such assistance, the pain resulting from the spike in infections, hospitalizations, and deaths, as well as the growing list of cities and states suffering with lockdowns, curfews, and other restrictive measures, could make it a number of months before we see any significant improvement in the economy.

Amidst these challenges, fourth-quarter earnings season is up and running. To date, results generally top weak forecasts and we would expect this pattern to continue. With price-earnings ratios high, a decent showing may be needed to sustain the market, let alone lift it from its lofty perch.

The bulls are still a force to be reckoned with. Additional records have been set on the major averages, as optimism builds that a more collegial tone will be sought in Washington. That will be difficult, of course, but such an attempt is worth making.

Conclusion: Given the extended levels of the stock market, much of the optimism being seen will need to be realized. That will be a formidable task. But with competing investment vehicles generally less attractive, holding quality companies with favorable earnings prospects is still appropriate. ■

THIS MONTH'S RECOMMENDATION: MUELLER WATER PRODUCTS

Mueller Water Products, Inc. manufactures and markets products and services for use in the transmission, distribution, and measurement of water and gas in the United States, Canada, and overseas. It operates in two segments, Infrastructure and Technologies. The Infrastructure segment offers valves for water and gas systems, including butterfly, iron gate, and tapping, to name a few. This segment offers its products under Canada Valve, Centurion, Ez-Max, Hydro-Gate, Hydro-Guard, HYMAX, HYMAX VERSA, Jones, Krausz, Milliken, Mueller, and Pratt brands, among others. It sells its products primarily through waterworks distributors to various end users comprising municipalities, water and wastewater utilities, gas utilities, and fire protection and construction contractors. The Technologies segment provides residential and commercial water metering, water leak detection, and pipe condition assessment products, systems, and services directly to municipalities and waterworks distributors. It offers products under the Echologics, Echoshore, ePulse, Hersey, LeakFinderRT, LeakFinderST, LeakListener, LeakTuner, Mi.Echo, Mi.Data, and Mi.Hydrant trademarks. The company was founded in 1857 and is headquartered in Atlanta, Georgia. Mueller has 4,200 employees, 3,100 of which are full time.

Industry Overview

Before we get into a discussion about Mueller Water it would likely help to get a feel for the industry in which it operates, the machinery industry. This group is one of the more intriguing segments under our review. It is sensitive to economic cycles, while innovation and technology are key components to long-term growth.

Machinery is a cyclical, capital-intensive industry. Major markets served include agriculture, construction, energy, industrial, infrastructure, mining and transportation. Among the products and services are tractors, engines, compressors, generators, cranes, tools, logistics, financing and remanufacturing. North America, Europe, the Middle East and Asia are the most significant geographic markets, but there are few countries around the world not served by these companies.

Common strategies for optimizing profitability can be identified here. Six Sigma, Lean Manufacturing and Best Practices are among those widely utilized (discussed below). Working capital and cash flow management are crucial to success. Internal and external expansion may be funded with cash, equity and/or debt. Ultimately, companies aim to grow and reward investors with share-price appreciation.

Machinery stocks are best suited to investors seeking above-average capital gains potential. Such market participants must be mindful of the macroeconomic environment, given the industry's close links to the business cycle. Ideally, investors with a long-term view should buy into the group toward the end of recessions. Momentum investors can benefit in the midst of an economic upswing.

In a typical business cycle, there are markets that may be classified as early, mid-, or late cycle. For example, transportation activity picks up early in an upturn, capital goods demand is strong in mid-cycle, and energy is a latecomer. Seasoned investors know that the stock market cycle usually portends swings in the broader business arena. Equipment order trends and backlogs are strong indicators as to what point a company may find itself in the business cycle. Other indicators are capacity utilization, inventory, staffing and capital outlays.

Attempting to smooth the ride over the business cycle, these firms have endeavored to expand the types of equipment they offer, extend geographic coverage, provide product-lifecycle management, sell remanufactured products, and offer repair, maintenance and overhaul services. Within its area of expertise, a company may try to develop or acquire products, assets and services that are counter-cyclical to each other. Locating manufacturing close to customers can allow for better service and provide a hedge against negative foreign currency exchange effects. A wide array of services and parts business lends recurring revenue and operating profit, thus adding stability.

Competing for customers, machineries may strive to develop value-added equipment, creating a barrier to market entry. Some of them will locate facilities in countries with well-educated populations, betting that pricing and productivity can offset high hourly wages and overhead expenses. Conversely, machineries that produce competitive, commodity-like offerings need to have expansive distribution and support networks, as well as competitive manufacturing costs found in low-cost locales. Volume is important, because of generally thin margins.

Throughout the business cycle, managements act to maximize earnings. Production needs to be flexible, limiting the amount of idle capacity in difficult times and getting the most out of assets when business is stellar. Segment reviews should be conducted regularly. Outperformers in the product line ought to be expanded and underperformers de-emphasized. Component outsourcing and part-time workers can contain costs when operations are running flat out, and eliminated when times turn tough.

Six Sigma is used to improve quality through enhanced manufacturing processes. This statistical management tool helps to eliminate defects and save money. It covers a wide range of issues from product attributes to customer satisfaction. Many machineries find Six Sigma useful, though it can be difficult to implement. Lean Manufacturing calls for the elimination of resources used in a process that do not benefit a customer. It may utilize just-in-time and automated production. Savings can be reaped from lower raw material purchases, enhanced inventory control, and more efficient staff and asset utilization. Best Practices can be defined as getting the most out of a process or organization with the least amount of effort. Well-run businesses work to extend a successful practice in one area to all operations of the company.

Restructurings (i.e., staff cuts, facility consolidations, product eliminations, divestitures) tend to recur on an ongoing basis. Other than write-downs of discontinued operations, such expenses should be considered a cost of doing business. When these expenses are unusually large, investors should be cautious, since this can raise the level of operating and investment risk.

The M&A Case

Mueller Water Products represents a good acquisition candidate from our point of view. The company is looking forward to greener pastures in the year ahead. Our cautious optimism is based on continued progress in the fight against COVID-19. If that comes to fruition, we believe that the economy will rebound, which will provide a shot in the arm for infrastructure spending.

A great deal of Mueller's products are sold to the residential construction industry, which should benefit from city dwellers now moving to the suburbs. Historically low interest rates are also helping in that regard. In addition, the American Water Works Association estimated that $1.7 trillion of water infrastructure spending will be needed in the U.S. over the 40-year period ending in 2050, and the past decade has fallen behind that pace. Mueller's management believes that it can compete for about $250 billion of that business. Mueller's residential and infrastructure presence, in our view, makes it a good acquisition candidate.

Mueller's balance sheet is relatively strong. While the company's debt-to-total-capital ratio of 41% as of the end of the September quarter may look somewhat high at first blush, it's quite moderate, given the capital intensive nature of the machinery Industry. What's more, the company has a solid, and growing, cash hoard, which should provide for financial flexibility down the road. The stock also boasts a growing and well-covered dividend, which is a testament to its underlying viability.

At the time of this writing, the equity was trading at less than $13 a share, which equates to a P/E ratio of roughly 21, or nearly identical to the market averages. Throughout their history, these shares have generally traded at a premium to the market's P/E ratio. The company's market cap is $1.9 billion, which places it in the mid-cap tier. Over the past year, these shares have trailed the Value Line Arithmetic Index for total return. That said, we believe that capital gains potential is worthwhile over the 2023-2025 time frame.

We believe that these shares could potentially be acquired at about $17 per share. This seems like a fair value given the company's fundamentals and would represent a roughly 35% premium to the recent share price. The price-to-earnings ratio taking into account the acquisition price would be about 28. Although this multiple would be about 40% higher than the broader market average, it is not implausible given the stock's historical P/E range. In fact, for the 3 to 5 years ahead we project that the multiple will be 20% above the broader market average based on our fairly conservative expectations.

Company History

Mueller Water Products was incorporated as a stand-alone business on September 22, 2005, but traces its roots back to 1857, when the predecessor to Mueller was founded by Hieronymus Mueller in Decatur, Illinois. In 1892, Providence Steam & Gas Pipe Company was combined with sprinkler manufacturers from New York and Ohio to form General Fire Extinguisher with Frederick Grinnell as president. Then, in 1919 General Fire Extinguisher became Grinnell Corporation. Several decades later in 2005, Walter Industries acquired Mueller Water Products for just over $1.9 billion and combined with U.S. Pipe & Foundry. Finally, in 2006 Mueller was spun off and is now a stand-alone company.

Recent Financial Results

While the company reported a decline in sales and earnings last fiscal year (ended September 30, 2020) we believe this requires further explanation. Last fiscal year's results were constrained by the COVID-19 pandemic, which resulted in reduced spending on infrastructure-related projects. However, recent moves by Mueller suggest that business at the maker of industrial products is returning to normal. Indeed, in the fourth quarter of fiscal 2020, the Atlanta-based company terminated a voluntary suspension on stock buybacks that it instituted as a cautionary measure due to the COVID-19 pandemic. Too, the board of directors raised the quarterly dividend by 5%, to 5.5 cents a share.

Business Prospects

Currently, Value Line projects sales increasing nearly 3% this year, following fiscal 2020's sub-1% top-line decline. Earnings could climb 15%, to $0.60 a share. Underpinning our positive stance is a residential construction market that appears to be less challenging than Mueller envisioned a few months ago. The company previously warned that a weak U.S. economy would have homebuilders likely focusing less on land development and more on finishing and selling existing properties. In turn, there would be less need to extend water infrastructure with lower demand for valves and hydrants. However, that hasn't been the case. Rather, it appears that a COVID-19-related exodus from urban areas is driving both new home sales and land development.

Meanwhile, a trio of large capital projects should provide a nice boost to Mueller's bottom line over the long haul. The company recently expanded its Chattanooga foundry, and is now ramping up production there. That project, together with facilities that Mueller is building in Decatur, Illinois and Kimball, Tennessee, is expected to cost $130 million. According to management, they should ultimately yield $30 million in incremental gross profit through a combination of improved efficiency and higher sales.

What About the Stock?

These shares currently trade fairly close to their 52-week high. However, they are still below their high of $14.20 achieved in 2016. As noted earlier, the equity has room to run over the 3- to 5- years ahead, while a decent, and safe, dividend adds to total return potential.

The potential for extensive infrastructure development over the next several years makes Mueller a solid acquisition target by a larger company such as Pentair plc (PNR). Our optimism is based on a healthy economic rebound going forward, increased infrastructure spending, and continued strength in the non-residential and residential home construction markets. ■

FINANCIALS — Mueller Water Products

TABLE 1 - Value Line Projections	
Recent Price	$12.30
18-Month Target Price Range	$8-$18
Current Price to 18-Month Midpoint	6%
2023-2025 Target Price Range	$15-$20
2023-2025 Expected Price Appreciation	20%-65%

TABLE 2 - Company Data	
Industry	Machinery
Exchange	NYSE
Ticker Symbol	MWA
Options	Yes
Financial Strength	B+
Safety Rank	3
Actual E.P.S. FY ’18	$0.39
Actual E.P.S. FY ’19	$0.61
Actual E.P.S. FY ’20	$0.52
Estimated E.P.S. FY ’21	$0.60
Current P/E Ratio	21.1
Relative P/E	1.05
Dividend Yield	1.70%
Shares Outstanding	158,102,357
Insider Holdings	1.5%
Market Capitalization	$1.9 billion (Mid Cap)
Address	1200 Abermathy Road, N.E., Suite 1200 Atlanta, GA 30328
Telephone	770-206-4200
Website	www.muellerwaterproducts.com

FINANCIALS — Mueller Water Products

Table 3 - Income Statement Data					
	2018	2019	2020	2021	2023-2025
Revenue	916.0	968.0	964.1	990.0	1150.0
Cost of goods sold	626.1	647.1	635.9	650.0	745.0
Gross Income	289.9	320.9	328.2	340.0	405.0
Operating Expenses	203.2	198.7	220.9	218.0	238.5
Income Taxes (Benefit)	22.7	24.6	25.2	27.0	36.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	—	—	—	—	—
Net Income	64.0	97.6	82.1	95.0	130.0
Diluted Shares	157.3	157.5	158.1	157.0	153.0
Earnings Per Share	0.39	0.61	0.52	0.60	0.85

Table 4 - Historical Balance Sheet			
	2018	2019	9/30/2020
Cash & Equivalents	347.1	176.7	208.9
Receivables	164.3	172.8	180.8
Inventories	156.6	191.4	162.5
Other	17.5	26.0	29.0
Total Current Assets	685.5	566.9	581.2
Net Property, Plant	150.9	217.1	253.8
Intangible Assets	420.2	529.4	508.7
Other	35.3	23.9	51.3
Total Assets	1291.9	1337.3	1395.0
Payables	90.0	84.6	67.3
Debt Due	0.7	0.9	1.1
Other	76.4	93.0	86.6
Total Current Liabilities	167.1	178.5	155.0
Long-Term Debt	444.3	445.4	446.5
Additional Paid-In Capital	1444.5	1410.7	1378.0
Shareholders' Equity	563.3	590.1	640.7
Total	2452.1	2446.2	2465.2

FINANCIALS — Mueller Water Products

Quarterly Net Revenues

	Dec.31	Mar.31	Jun.30	Sep.30	Year
2017	167.2	199.7	232.2	226.9	826.0
2018	178.3	233.2	250.2	254.3	916.0
2019	192.8	234.0	274.3	266.9	968.0
2020	212.6	257.7	228.5	265.3	964.1
2021	**215.0**	**245.0**	**250.0**	**280.0**	**990.0**

Quarterly Net Revenues Growth

	Dec. 31	Mar.31	Jun.30	Sep.30	Year
2018	6.6%	16.8%	7.8%	12.1%	10.9%
2019	8.1%	0.3%	9.6%	5.0%	5.7%
2020	10.3%	10.1%	-16.7%	-0.6%	-0.4%
2021	**1.1%**	**-4.9%**	**9.4%**	**5.5%**	**2.7%**

Quarterly Earnings Per Share

	Dec.31	Mar.31	Jun.30	Sep.30	Year
2017	0.03	0.03	0.15	0.13	0.34
2018	0.03	0.11	0.10	0.16	0.39
2019	0.07	0.12	0.24	0.19	0.61
2020	0.08	0.15	0.11	0.17	0.52
2021	**0.08**	**0.13**	**0.20**	**0.19**	**0.60**

Quarterly Earnings Per Share Growth

	Dec.31	Mar.31	Jun.30	Sep.30	Year
2018	0.0%	266.7%	-33.3%	23.1%	14.7%
2019	133.3%	9.1%	140.0%	18.8%	56.4%
2020	14.3%	25.0%	-54.2%	-10.5%	-14.8%
2021	**0.0%**	**-13.3%**	**81.8%**	**11.8%**	**15.4%**

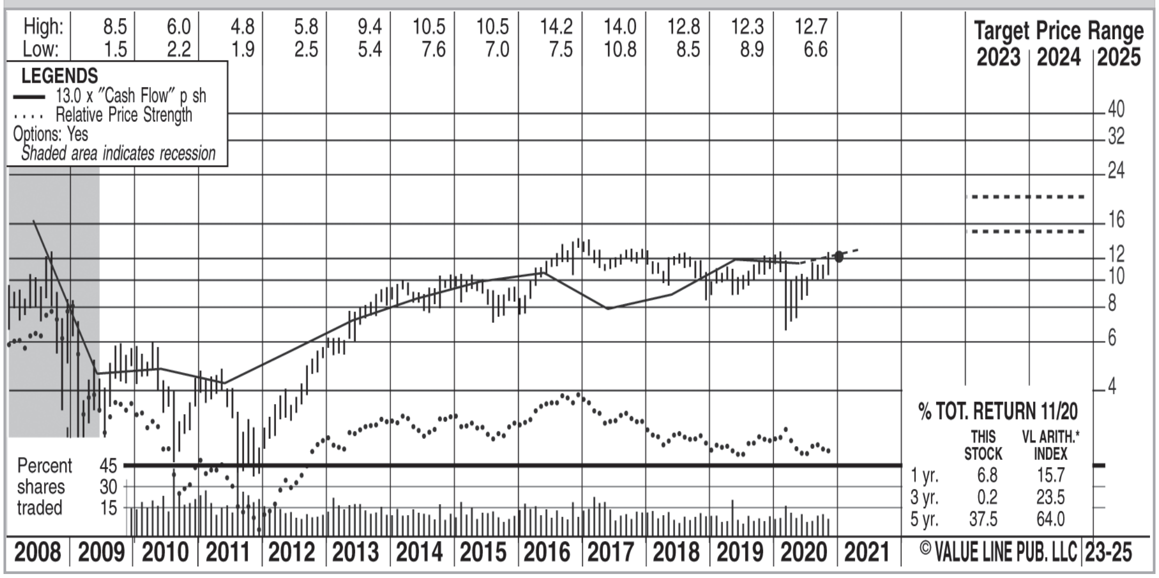
FINANCIALS — Mueller Water Products

Quarterly Dividends Paid

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2017	0.04	0.04	0.04	0.04	0.16
2018	0.050	0.050	0.050	0.050	0.20
2019	0.050	0.050	0.053	0.053	0.21
2020	0.053	0.053	0.053	0.055	0.21
2021					

All numbers, except percentages and per-share data, are in millions. Numbers in bold are *Value Line* estimates. Years end on September 30th.
All estimates except percentages and per-share figures are rounded to the nearest whole number.

Mueller Water Products Price Chart



ANALYSIS OF PREVIOUS RECOMMENDATIONS

BioMarin Pharmaceutical– In last month's issue of The Value Line Mergers & Acquisitions Service, we recommended BioMarin Pharmaceutical (BMRN). In that report, we highlighted the company's impressive product portfolio and encouraging drug pipeline. Shortly after we went to press, BioMarin announced positive findings from a Phase III clinical trial evaluating the experimental drug *Roctavian* as a treatment for adults with severe Hemophilia A. Although the data was broadly encouraging, the stock fell about 6% on the news, likely due to the FDA's decision to request additional information about the study. This means the agency won't consider the possibility of approval until November 2021, at the earliest. Nevertheless, we think the findings support *Roctavian* as a useful drug for patients with severe Hemophilia A, and we continue to view BioMarin as a strong acquisition candidate based on the variables noted above.

B&G Foods – In early December, this publication recommended B&G Foods (BGS), a company that manufactures and distributes a wide range of shelf-stable products and household goods. There, we stated our belief that B&G would benefit from changing consumer behavior resulting from the COVID-19 health crisis, a presumption we think will continue to play out long after the pandemic is brought under control. However, just before we went to press with this issue on 1/25/21, B&G shares spiked roughly 20% in intraday trading, to around the $36 mark on heavy volume. There were no new announcements from the company, and nothing acquisition-related. We suspect the shares may have benefited from a "short squeeze", which occurs when a stock jumps sharply higher, forcing traders who had bet that its price would fall to buy in order to forestall even greater losses. Given that B&G is now trading above our stated $35 target price, we are recommending that investors sell the shares and lock in profits. Those who followed our initial call earned an annualized return of approximately 180%..

Federated Hermes– In our premier issue of The Value Line Mergers & Acquisitions Service, we recommended Federated Hermes (FHI). In that report, we stated our belief that consolidation activities would pick up in the asset management space. This turned out to be true when, on October 8th, Morgan Stanley announced the purchase of Eaton Vance. Eaton Vance shareholders were greeted with a healthy premium, and we still think that the industry remains in play for more deals. However, FHI has now risen more than 40% in price since our September recommendation, denting its appeal to potential acquirers. Consequently, we believe now is a good time to take profits and redeploy capital into one of the aforementioned picks. Subscribers who followed our guidance earned an annualized return exceeding 100%. ■

Value Line Mergers & Acquisitions Service—Past Recommendations & Performance

Company	Ticker	Inception Date	Price at Inception Date	Sell Date	Sell Price	Total Return from Rec.
Cloudflare	NET	10/16/2020	$58.29	12/30/2020	$77.53	33%
Federated Hermes	FHI	9/23/2020	$20.70	1/25/2021	$29.54	43%
B&G Foods	BGS	12/4/2020	$27.64	1/25/2021	$36.04	30%

THE VALUE LINE M&A SERVICE UPDATES

On the following pages are details, information, and analysis on pending and recently completed mergers & acquisitions. Just because a deal already has been announced doesn't mean that money can't still be made. We encourage readers to carefully peruse this content and pay special attention to Value Line's investment recommendations. There are certainly opportunities here.

The ODP Corp (ODP)

ODP Corp., one of the world's largest sellers of office products, principally under its Office Depot brand, was recently approached by USR Parent, Inc. (the owner of Staples U.S. retail business) about a potential merger. USR offered to acquire all outstanding ODP common stock for $40 per share in cash, representing a nearly 61% premium over ODP's average closing price for the last 90 days. The total deal would be valued in the neighborhood of $2.1 billion, including the assumption of debt. However, ODP rejected this overture, calling it insufficient. ODP's board also suggested it is open to a different kind of transaction, such as selling its retail and e-commerce business to Staples or forming a joint venture, though we view this as more of a negotiating tactic to extract better deal terms.

Investment Recommendation: A union here would join two of the biggest names in the office supplies space, at a time when brick-and-mortar retailers are struggling to cope with pandemic-related economic unevenness and various business shutdowns. Investors will recall that Staples had attempted to purchase ODP in 2016 for roughly $6.3 billion, but that acquisition was terminated amid antitrust scrutiny. Staples has stated that it might consider upping its offer if Office Depot can successfully divest certain units, particularly its CompuCom division or its business-to-business segment. However, with ODP shares already trading well above the $40 initial offer price, we would not look to add new positions here. In fact, we think most investors would do well taking some chips off of the table.

Cantel Medical Corp (CMD)

Ireland-based STERIS plc, a provider of healthcare and life science product and service solutions, has signed a definitive agreement to acquire fellow competitor Cantel Medical, which makes infection-prevention products mostly for the endoscopy and dental markets, in a cash-and-stock deal. Under the terms of the agreement, STERIS will pay approximately $82 per Cantel share, consisting of $16.93 in cash and 0.33787 of a STERIS ordinary share. The transaction would total $3.6 billion, or $4.6 billion including Cantel's debt obligations. The deal has already been unanimously approved by the boards of both companies.

Investment Recommendation: The purchase would essentially complement and expand STERIS' portfolio of healthcare sterilization products, while providing sizable cost synergies. Cantel stock, which has rebounded to pre-pandemic levels, rose modestly following the announcement, trading right around the agreed-upon buyout price. We believe the combined company's scale and range of product offerings presents a compelling value opportunity, and would recommend that investors in both firms hold on to their shares.

Slack Technologies (WORK)

Slack Technologies, a software-as-a-service company that engages in the design and development of connectivity applications for businesses, has agreed to be acquired by Salesforce.com (CRM) for $28 billion in cash and stock. Slack shareholders are set to receive $26.79 in cash and 0.0776 of a share of CRM common stock for each WORK share held. Both boards have OK'd the transaction, and it is expected to close by July of 2021.

Investment Recommendation: Because this is a cash-and-stock deal, much will depend on the price of Salesforce stock at the time of the conversion. Right now, 0.0776 CRM stock and $26.79 in cash values Slack at about $43 per share, compared to its recent price of around $42. While we view this transaction as operationally positive for both sides, it is important to keep in mind that Salesforce is paying a hefty 50% premium to Slack's preannouncement share price. Should the deal fall through for some reason, significant downside could follow. Thus, we would advise current Slack stockholders to consider selling their holdings on the open market to lock in the aforementioned gains, unless they specifically prefer to remain committed to SaaS by a longer-run investment in Dow component Salesforce.com

Alexion Pharmaceuticals (ALXN)

Britain's AstraZeneca (AZN) has agreed to buy U.S.-based drugmaker Alexion Pharmaceuticals for $39 billion in cash and stock. The pharmaceutical giant is set to pay Alexion stockholders $60 per share in cash and 2.1243 AstraZeneca American Depository Shares (ADS) for each Alexion share, representing a 40%-plus premium to ALXN's closing price the day before news of the tie-up was made public. The acquisition will enhance AstraZeneca's presence in immunology by giving it access to a slate of best-selling rare disease drugs. The deal is expected to close by the third quarter of 2021.

Investment Recommendation: Alexion shares currently trade at a roughly 7% discount to the proposal based on AstraZeneca's recent share price. The deal shouldn't encounter any serious regulatory roadblocks, as the two companies have very little overlap. While the significant stock portion of the deal does expose Alexion shareholders to AstraZeneca's share price performance, we think ALXN investors should maintain their positions as they stand a good chance of collecting the difference between the current share price and the actual offer terms. ■

Value Line Mergers & Acquisitions Service—Current Portfolio

Company	Ticker	Recent Price	Our Recomm.	Inception Date	Potential Buyout Price (VL Estimate)
BioMarin	BMRN	$88.21	Buy	12/31/2020	$115
Mueller Water Prod.	MWA	$12.69	Buy	1/25/2021	$17

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