

MERGERS & ACQUISITIONS.

m-1

(a) True cost of merger.

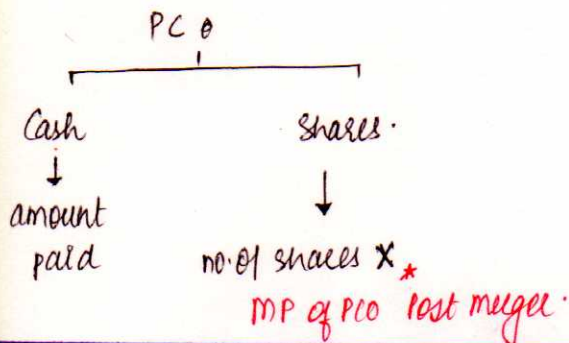
(b) Exchange ratio (ER) and impact of ER on MPS/EPS/PE

(c) Max. amount which can be paid to SCO

(d) Given the price what is the value of acquisition to PCO.
Is merger possible?

True cost of merger

True cost = what we pay - what we receive.
= PC - mv of SCO.



$$MPS(PM) = \frac{\text{Total mv}}{\text{Total shares}}$$

$$= \frac{\text{mv of PCO(BM)} + \text{mv of SCO(BM)} + \text{Capitalised synergy}}{\text{existing shares + new issue of PCO.} + \text{to SCO}}$$

existing shares + new issue of PCO.

BM → before merger.

OR

$$MPS(PM) = EPS(PM) \times PE(PM)$$

[PE = MPS/EPS formula]

Capitalised Synergy

$$\text{No growth} = \frac{D_1}{K_e} \text{ or } \frac{\text{synergy benefit}}{\text{cap. rate}}$$

$$\text{growth} = \frac{D_1}{K_e - g} = \frac{\text{exp. synergy in NY}}{\text{cap rate - growth rate}}$$

$$D_1 = D_0(1+g)$$

True cost = True benefit

↓
PCO

↓
SCO.

EXCHANGE RATIO

New: Old and $ER = \frac{SC}{PCO}$

Based on

MPS	EPS	Net Worth	PE
$= \frac{MPS(SC)}{MPS(PCO)}$	$= \frac{EPS(SC)}{EPS(PCO)}$	$= \frac{NW(SC)}{NW(PCO)}$ <i>* always per share</i>	$= \frac{PE(SC)}{PE(PCO)}$

• when ER based on EPS - EPS (Pre & Post) merger will be same

Post merger EPS

$$= \frac{\text{Pre-m PCO profit} + \text{Pre-m. SCO profit} + \text{synergy benefit}}{\text{ex. shares of PCO} + \text{new issue to SCO.}}$$

ex. shares of PCO + new issue to SCO.

MAXIMUM AMOUNT BE PAID TO SCO.

max price = PV of future benefits (since capitalized value)

Note:-

- (i) bank balance will be CIF
- (ii) Discharge the debt of SCO by PCO (COF).
- (iii) only debt to be discharged x credit to unsecured liab - ✓

Cap value:- $\frac{div}{K_e}$ or $\frac{div}{K_e - g}$

Cap value year = '0'

diff in value had there been no merger = value of SCO only - max price.

- dep to be added to PAT
- value of merger to PCO = value of PCO Post merger - value of PCO stand alone basis.

calculate % holding properly

• CIF avoided = COF

• merger decision viable or not:

NPV
0 or +ve → accept / viable
-ve → reject / not viable

• discounting lab = req overall ROR.

$$K_e = \frac{1}{P_e}$$

EBIT
(-) Tax

PAT
(+/- dep)

CIF
due to profit