Formulae in M & A

,

X= Purchasing Company
Y = Vendor Company
XY = Merged Company

From X's Point of View (Purchasing Company View)

Equation: 1

Synergy or Benefit = PV of XY – (PV of X + PV of y)

Equation: 2

Cost = PC Paid – PV of Y

Equation: 3

NPV = Benefit – Cost

From Y's Point of View (Vendor Company View)

NPV = PC Received – PV of Y

Note:

1. Unless otherwise specifically provided, synergy given in the problem will be deemed to be income synergy

Calculation of Exchange Ratio

$$\text{Exchange Ratio} = \frac{\textit{No of Shares Exchanged}}{\textit{No of Shares in the Merged Entity}}$$