FIN401: Chapter 24: Mergers and Acquisitions

TRAIN TO LEARN EFFECTIVELY: TIP SHEETS PREPARED BY: NELLIE GOSSAI

Types of Mergers

- **Horizontal:** Same line of business (Ex. Gap and Old Navy)
- **Vertical:** Producer-supplier relationship (Ex. Car manufacturer and Tire company)
- **Conglomerate:** Unrelated business

Cash Acquisition

- **NPV for bidder**= Value After-Value Before
  - Value before= # of shares*Price per share
  - Value After=Value Before+Value of Target+Value of synergy-cash paid
- **Synergy**=NPV of bidder+Premium paid to Target
  - Premium=Price paid-Target Price per share
  - Total Premium paid=Premium*Target Share outstanding
- **Price/Share after**
  - Value after/# of shares
  - (Price/share before +NPV)/# of shares
- **Maximum Price/Share**
  - (Value of Target+Synergies)/# of shares of the target

Stock Acquisition

- **NPV for bidder**= Value After-Value Before
  - Value before= # of shares*price per share
  - Value After=Value Before+Value of Target+Value of synergy*(Initial # of shares of bidder/combined number of shares)
- **Exchange Ratio**=Bidder's value of Target share price/Bidder's share price
  - # of new shares issued=Exchange ratio*# of Target's shares
- **Synergy**=NPV of bidder+Premium paid to Target
  - Premium=Price paid(NPV for bidder*(# of new shares/# of bidder shares initially))-Value of Target before
- **Price/Share after**
  - Value after/# of shares
  - (Price/share before +NPV)/# of shares
- **Maximum Price/Share**
  - Value of bidder before/Value after=x
  - Bidder's initial number of shares/x=Total # of shares

Defenses against hostile takeovers

- **Poison pill defense**- makes the acquisition financially unfavorable or more complex for the acquiring entity through mechanisms like diluting shares or **offering highly discounted** prices to **current shareholders.**
- **White knight**-is a hostile takeover defense whereby a **'friendly' individual** or company acquires a corporation at fair consideration when it is on the verge of being taken over by an 'unfriendly' bidder or acquirer.
- **White squire**-an investor or company that takes a stake in a company to prevent a hostile takeover-**will not exercise controlling interest.**
- **Golden parachutes-**lucrative severance packages inked into the contracts of top executives that compensate them when they are terminated.