Mergers & acquisitions- Practise Questions

1. “A” Company Going to give offer for “B””

Company	Shares outstanding	MPS	Earnings
A	1,000,000	Rs.25	2,000,000
B	100,000	Rs. 10	200,000

- Pay 12.5 per share of “B”Ltd
- Exchange 25 cash & one share of “A” for every 4 shares of “B”
- exchange every 1 share of “A” for every 2 shares of ”B”

A. What is the EPS under three plans
B. Determine the MPS of “A” P/E ratio prevail

2. “A ” Ltd wishes to give offer to “B” Ltd

Company	No of shares	MPS
A	20Mn	Rs.10
B	6Mn	Rs.3

Mkt value of both companies reflect accurate reflection

Take over expect synergy benefit of 1.5Mn every year forever. Required rate of return of shareholders is 12.5%

The bid consist of one share of” A for every 3 shares of B plus Rs 1 in cash for every three shares

How much wealth of shareholder who owns 3000 shares of B would increase because of takeover successful?

3.

Suppose *"P"* Ltd & "*S*" Ltd Separate entities has Market value of Rs 500 & Rs 100

	"P" Ltd	"S" Ltd
Market Value	Rs.500	Rs.100
No of shares	25	10
Price per share	Rs. 20	Rs. 10

if *P* acquires *S*, the Merged *PS* will have Combined Value of Rs. 700
The Board of *S* Ltd has indicated that they will sell " *S* " if it is offered Rs. 150 in Cash

1. What is the value of the P Ltd after the acquisition

2. What is the NPV to P Ltd Shareholders

3. What is the MPS of P Ltd

Suppose "P" Ltd Exchanges 7.5 shares for entire 10 shares of S Ltd

4. What is the MPS of P Ltd

5.What should be the exchage ratio that S Ltd receive only Rs 150 of P Ltd Stock

4. A Ltd is analyzing the possible acquisition of B Ltd neither firm has debt.

The forecasts of A Ltd show that the purchase would increase its annual after tax cash flow by $600,000 indefinitely.

The current market value of **A** Ltd $35 million & current market value of **B** Ltd $20 million The appropriate discount rate for the incremental cash flows is 8 percent. A Ltd is trying to decide whether it should offer 25 percent of its stock or $25 million in cash to B Ltd .

a. What is the synergy from the merger?

b. What is the value of B Ltd to A Ltd?

c. What is the cost to A Ltd of each alternative?

d. What is the NPV to A Ltd of each alternative?

5. **A** PLC is considering making an offer to purchase **B** Ltd The vice president of finance has collected the following information:

	A PLC	**B Ltd**
P/E Ratio	12.5	9
Shares outstanding	1,000,000	550,000
Earnings	Rs.2,000,000	Rs. 580,000
Dividends	Rs. 600,000	Rs. 290,000

A PLC knows that securities analysts expect the earnings and dividends of B Ltd to grow at a constant rate of 5% each year. A PLC management believes that the acquisition of B will provide the firm with some economies of scale that will increase this growth rate to 7% per year.

a.What is the value of B Ltd to A PLC?

b. What would A PLC 's gain be from this acquisition?

c. If A PLC were to offer Rs 18 in cash for each share of B Ltd , what would the NPV of the acquisition be?

d. What's the most A PLC should be willing to pay in cash per share for the stock of B Ltd ?

e. If A PLC were to offer 100,000 of its shares in exchange for the outstanding stock of B Ltd , what would the NPV be?

f. Should the acquisition be attempted? If so, should it be as in (c) or as in (e)?

g. A PLC 's outside financial consultants think that the 7 percent growth rate is too optimistic and a 6 percent rate is more realistic. How does this change your previous answers?