~~This~~ small
A – $10 billion
B – $ 15 billion
Sum = $25 billion
any thing exceed 25 billion is synergy

Synergy → Combine of Large company will be larger to the value of the other two company

value = sum of all cash flow in future.

- Synergie
  - Revenue
    - more customers — Better market coverage
    - higher avg / shared customers — increased pricing power
      - Cross sale from diff product
  - Cost
    - Direct
      - infra sto.
      - main.
      - anet.
    - Indirect
      - Sales
      - mark
      - call center

we save on all these costs merging

wrap-up -
Both create a customized profit tree that makes sense to the business model.

9 Prioritize cost

By prioritizing & synthesize that you're able to quantify your Hypothesis

Multiples - Price/Esa to earning & Price to sales ratio

enterprise value / earnings before taxes, m° (EBITDA)

Microsoft want to acquire Yammer

Yammer use a simple DCF valuation method. This will allow us to test if an acquisition price of $1.2 Billion is a good deal for Microsoft

Step 1 - Dis. Rate = 11%

Growth Rate = 3% / annum

Yearly cash flow = $ 50 million per annum

cash flow / (Discount rate - growth) = $50 / (0.11-0.03) = $625 million

Wrap up - IS $1.2 Billion the Right price.

~~but~~ Value landed around $ 625 m.

CASE → SYNERGIES CALCULATION →

Synergy - profit differential b/w combined company vs sum of separate companies

Telecom company merge with other Telecom compan

What Synergy would come up!!!!

How M&A works →

(1) Review Company's liquidity & financial well being.
(2) Prepare the business team for the merger & acquisition.
(3) Engage in pre-merger / acquisition planning by defining the post-merger / acquisition goals & objectives.
(4) Exercise Due Diligence.
(5) Create a dedicated M&A Transition Team.
(6) Plan ahead as you make your business transition.

CASE →

3 types of valuation approaches

Discount Cash Flow – DCF → uses future free cash flow projections & then discounts them to arrive at a present value estimate. This is present value estimate is used to evaluate the potential of the investment.

$$DCF = \frac{CF1}{(1+r)} + \frac{CF2}{(1+r)^2} + \dots \frac{CFn}{(1+r)^n}$$

CF = cash flow
r = discount rate

Comparables & multiples from similar companies –

A valuation technique which is based on the concept that companies which share char. should have valuation with similar multiples

Merger and Acquisition → M&A

Companies buy small companies to get greater market share and work with more efficiency

Acquisition is when one company takes over another clearly establishes itself as the new owner.

On legal side - company to be exist but business is swallowed.

Merger happens when 2 firms, often of similar size, agree to go forward as a single new company

Purchase deal - To join together.
acquisition - friendly deal

Synergy → revenue enhancement & cost saving

Staff reductions
Economies of scale
Acquiring new technology
Improved market reach
Industry visibility - large company with higher profit easily to raise revenue..

Synergy is highlighted very much in in M&A

Varieties of mergers

(1) Horizontal - when 2 companies are direct comp.
(2) Vertical - customer company or supplier company merge

eg - cone supplier merge with ice cream maker

(3) Market - extension - 2 companies sell same pdt to diff market

Product extension - Different but related pdt into the same market

Conglomeration - 2 companies have not any common business areas