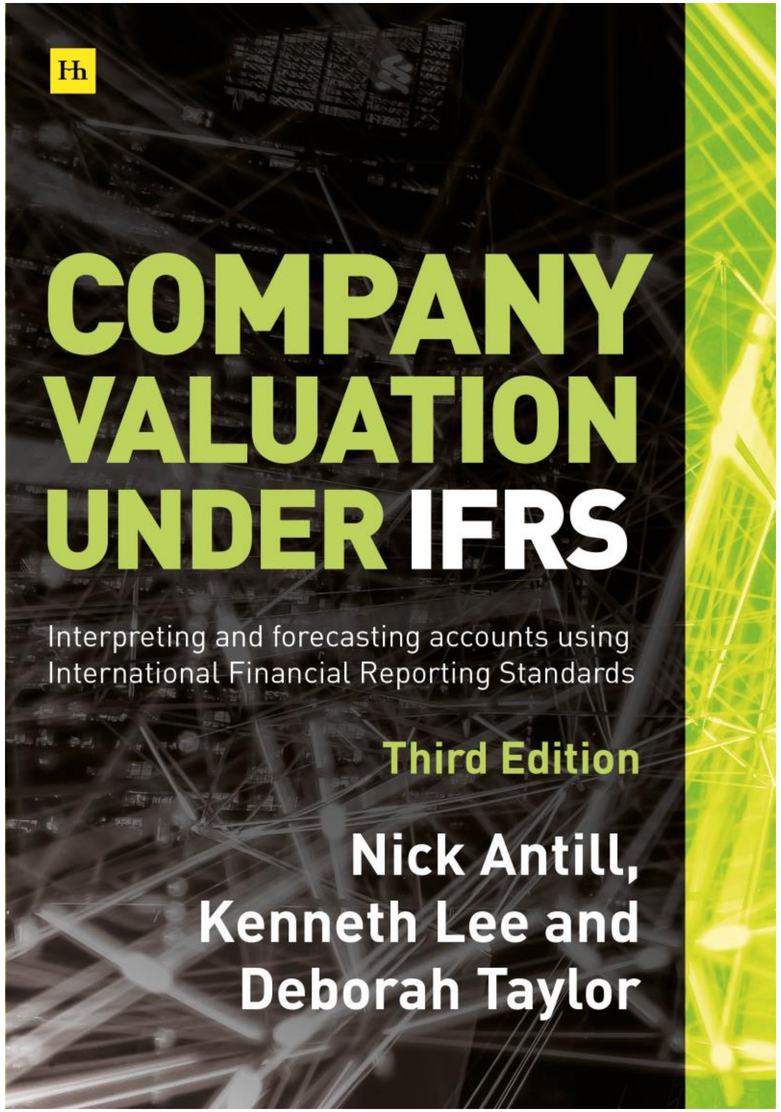
Department of Accounting

Analysing M&A transactions Accounting & valuation

issues

Dr Kenneth Lee
London School of Economics

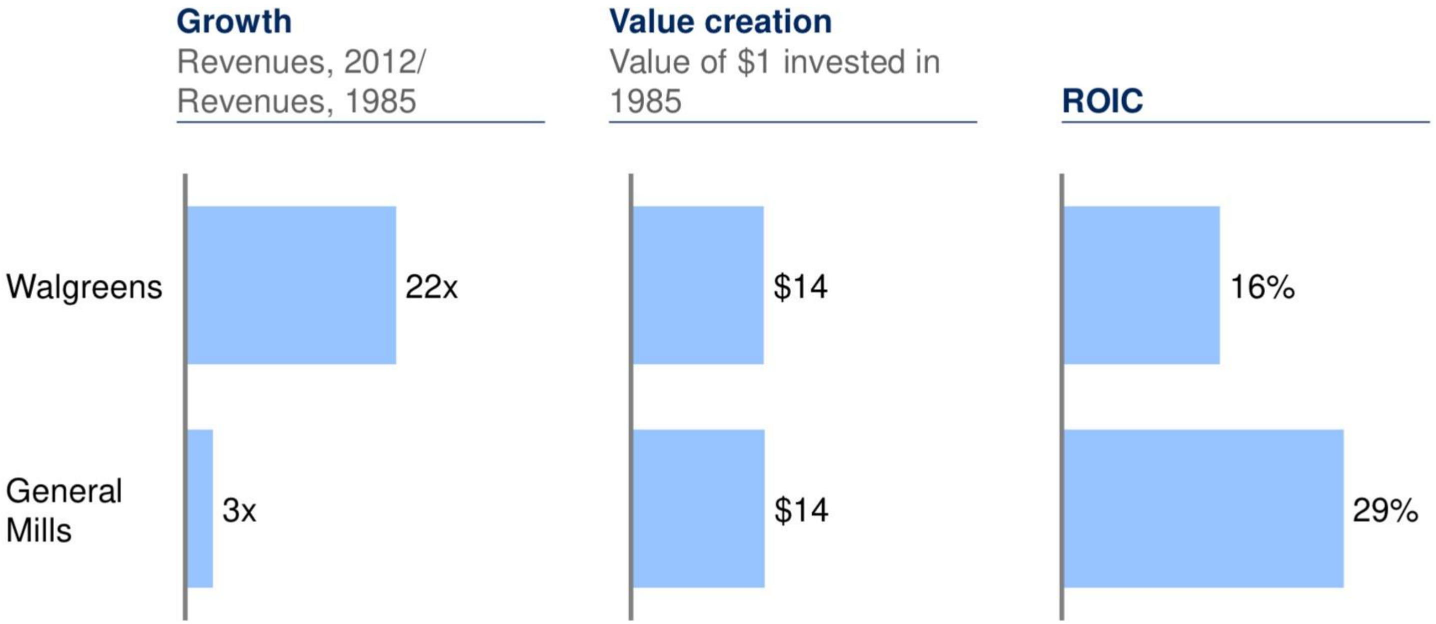


"Generally, one models a company first and values it afterwards. With mergers it is the other way round. The **starting point is whether or not a bid is a good idea, and how much it would be worth paying**, if you are acting for the bidder. If you are an investor and a bid has been announced, again, the key question is whether or not it will add value after taking the consideration into account. "
(p.353)

What drives value?

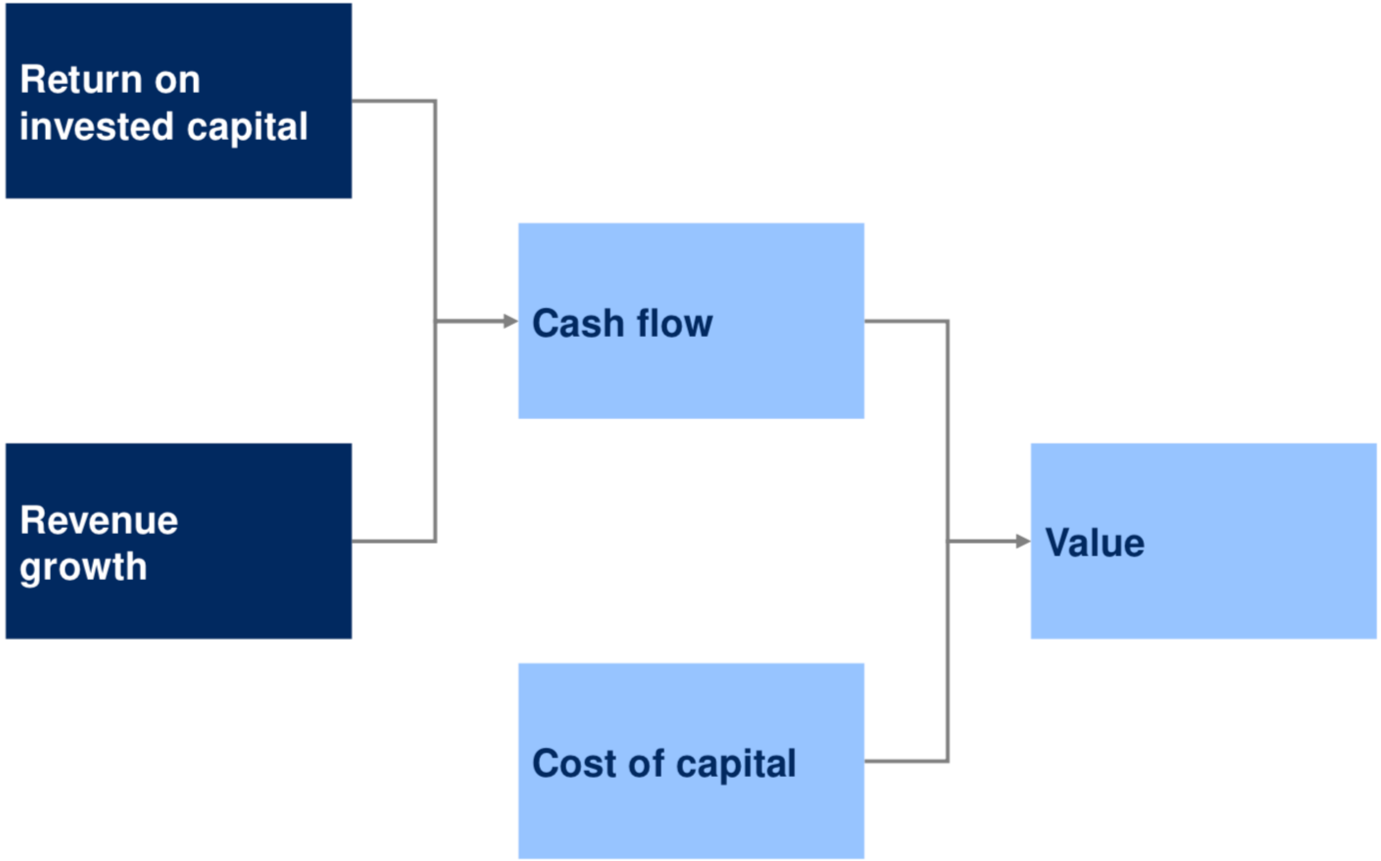
Most common answer:
Cashflows

Value can be created in different ways…



Koller et al, *Valuation: Measuring and managing the value of Companies,* Wiley, 6th Edition, 2015.

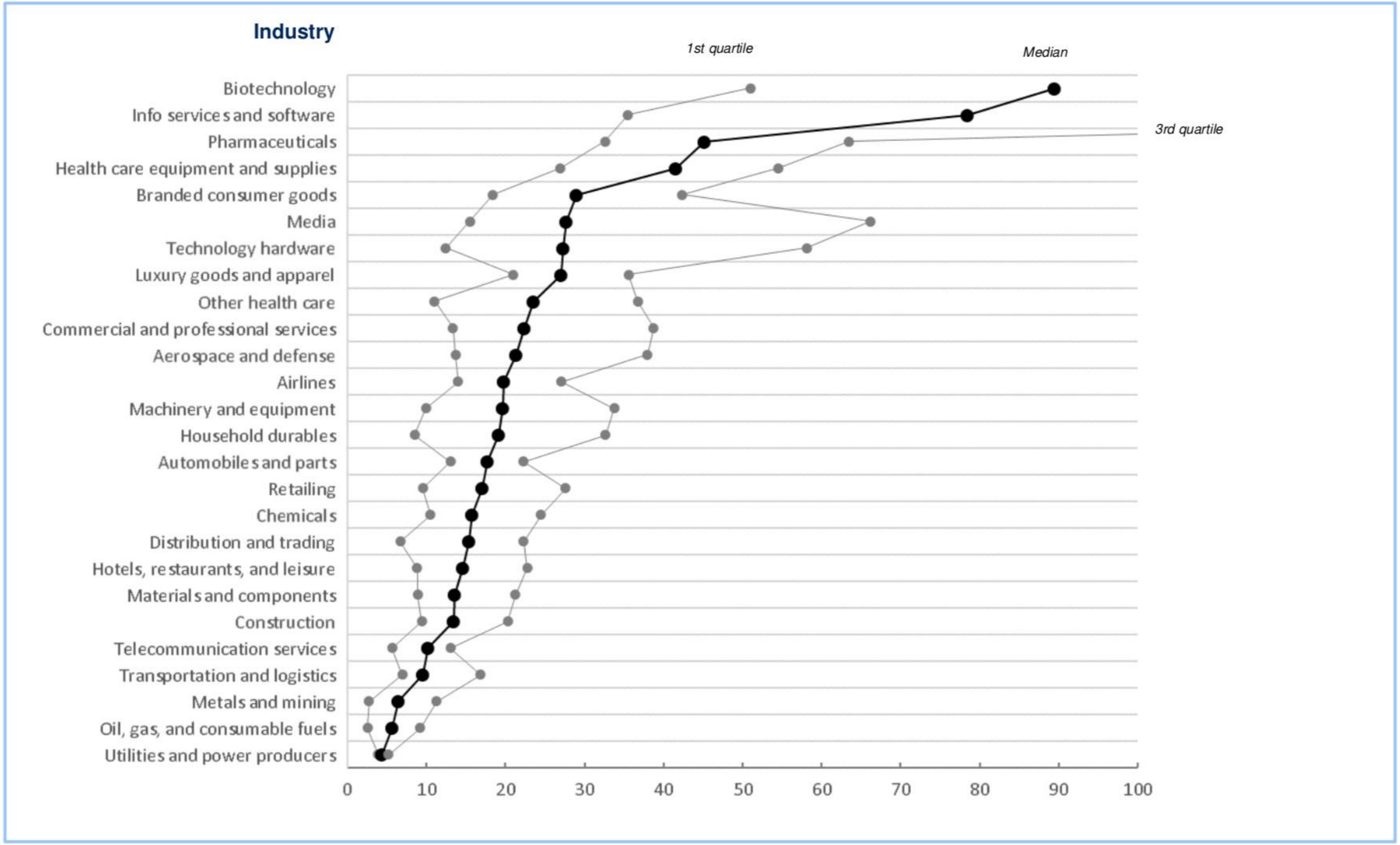
Value is created by ROIC and growth



Koller et al, *Valuation: Measuring and managing the value of Companies,* Wiley, 6th Edition, 2015.

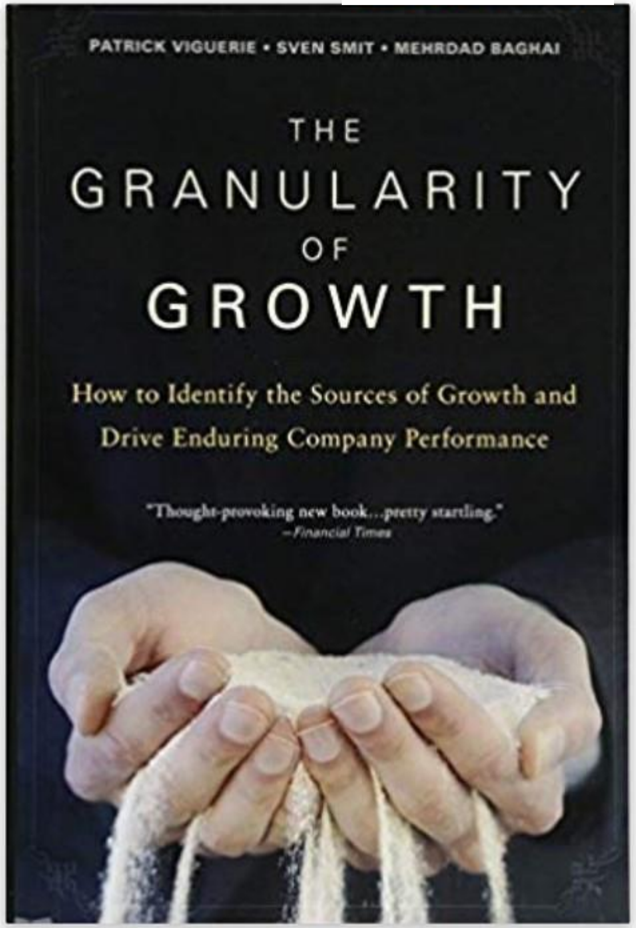
ROIC very dependent on sector

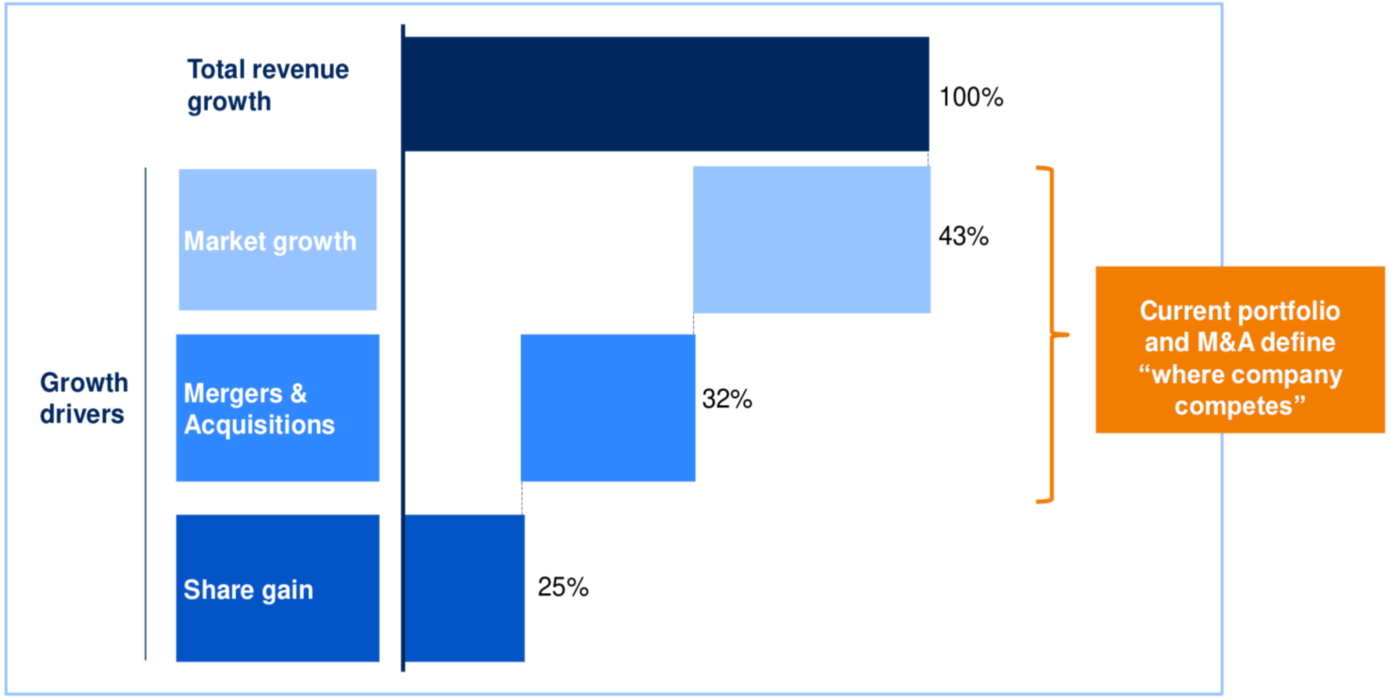
ROIC excluding goodwill, 2015-2017, percent



Koller et al, *Valuation: Measuring and managing the value of Companies,* Wiley, 6th Edition, 2015.

Where does growth come from?





Interaction of growth & ROIC is key!

Buy cheap rarely works!!!!

Creating value through acquisitions

Improve the target company's performance

Get skills or technologies faster or at lower cost than they can be built

Consolidate to remove excess capacity from industry

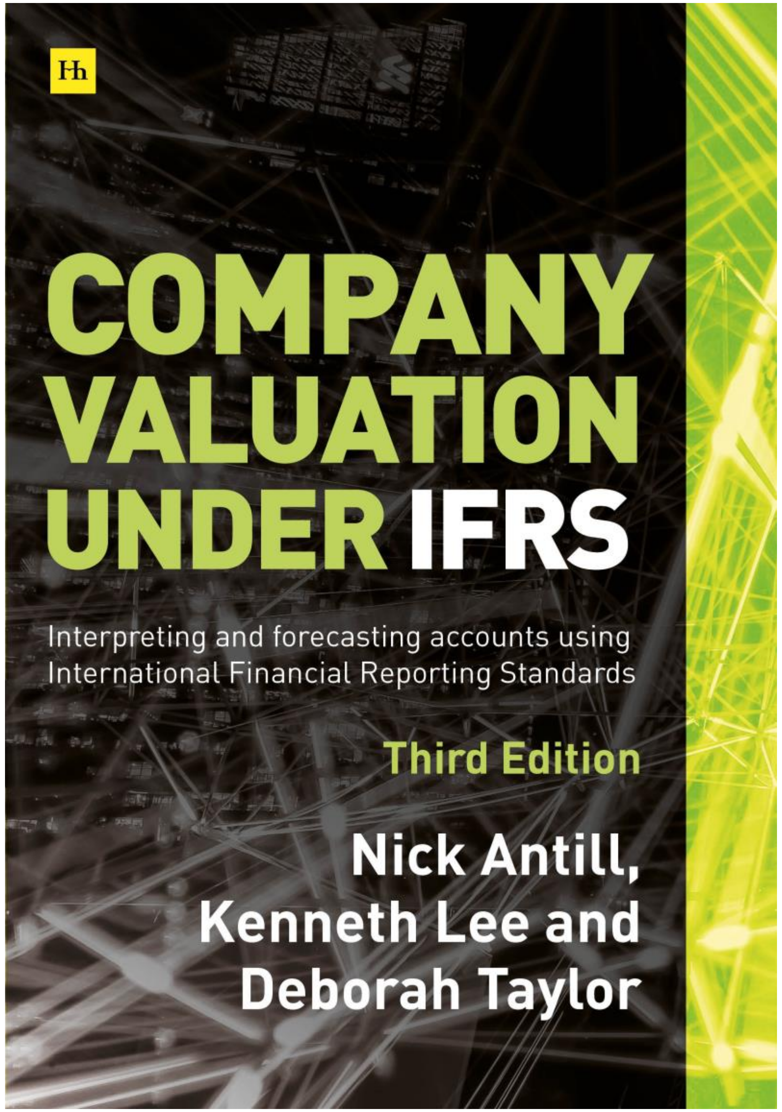
Exploit a business's industry-specific scalability

Accelerate market access for the target's (or buyer's) products

Pick winners early and help them develop their businesses

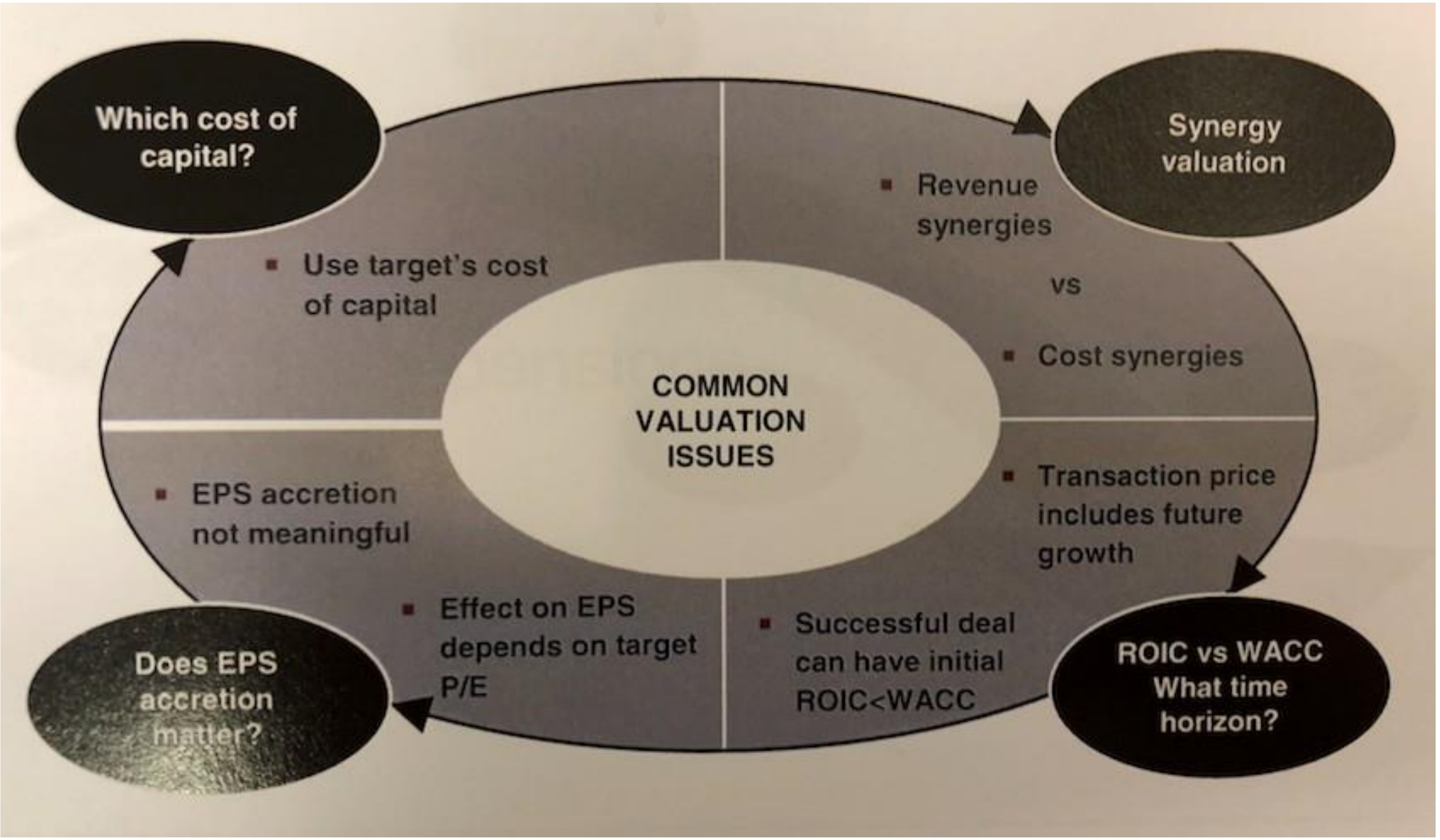
Adapted from: The six types of successful acquisitions, Goedhart, M., Koller, T. and Wessels, D.

Issue I: Synergies



'Starting with synergies, these generally come in one of three types: enhancement of revenue; reduction in operating cost; or reduction in capital costs.'
(p.353)

Issue II: Other financial issues



Issue III:
Characteristics of successful M&A