Should We Buy It? An Acquisition Investment Case

Investment Banking & M&A | Advanced | 120 minutes (estimate) | IBA-01/02 and transaction mechanics

Learning outcomes

Separate earnings accretion, financing effects and value creation. Calculate the result, reconcile it and communicate its limitations.

Method

A transaction can improve steady-state EPS while destroying value if its price exceeds the value of the acquired cash flows and achievable synergies. Evaluate financing, first-year integration cost and the premium separately. Here a simplified perpetual after-tax synergy value is supplied as a teaching convention, not a complete transaction model.

Smaller worked example

A buyer earning $200 on 100 shares has EPS $2. If it issues 20 shares and combined earnings rise only to $220, EPS becomes $1.83 despite higher total earnings.

Business context and rules

Fictional Cedar Holdings buying Pine Services, at 30 September 2026. USD thousands except EPS and share price; shares are thousands. Buyer net income 400 and shares 100. Target net income 90; purchase EV 1,000 plus eligible target cash 200 less debt 400 gives equity consideration. Finance half of equity consideration with new buyer debt at 8% and half by issuing shares at $20. Target net income already reflects its existing debt costs; that debt remains in place. Annual pretax cost synergies 60, fully realized from year one; first-year pretax integration expense and cash cost 100. Tax 30% applies to synergies, integration and new buyer interest; assume deductions usable immediately. Standalone target EV 900; value synergy as a level perpetuity at 10%. No fees, purchase-accounting adjustments or other changes. Test 50% synergy realization as downside.

Original synthetic inputs

Input	Value	Unit
Buyer net income	400	USD thousands
Buyer shares	100	thousand shares
Target net income	90	USD thousands
Purchase EV	1000	USD thousands
Eligible target cash	200	USD thousands
Target debt staying in place	400	USD thousands
Debt funding share	0.5	fraction
New debt interest rate	0.08	fraction
New share issue price	20	USD / share
Annual pretax synergies	60	USD thousands
First-year integration cost	100	USD thousands
Tax rate	0.3	fraction
Standalone target EV	900	USD thousands
Synergy discount rate	0.1	fraction

Required deliverables

Deliver an equity and funding bridge, first-year and steady-state EPS, synergy value / downside, and an investment memo. State which omitted transaction features could materially change the recommendation.

Use formulas for derived amounts and preserve source data. Put narrative deliverables in the workbook response area; expand it as needed. Compare amounts within 0.01 of the stated unit and percentages within 0.1 percentage point. No unsupported balancing plugs.