

# [Example of mergers and acquisitions business plan](https://assignbuster.com/example-of-mergers-and-acquisitions-business-plan/)

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## Payment Amount and Method of Payment

Referring to our calculation, we find that the acquiring company will pay $857. 40 million, i. e. the market value of the target acquisition company. Important to note, the intrinsic value of the company is much higher than the market value, which indicates that the acquiring company is purchasing an undervalued company that will turn profitable for it.   
- Kmart Market value - $857. 40 millionKmart Book Value - $700 millionKmart Terminal Value of the business (intrinsic value) -$9, 536 Billion

## In order to pay the target acquisition company, the acquirer can use the following two methods:

i)Cash Offering: This is the most straightforward payment method under which the acquiring company pays the acquired company the agreed value all in cash.   
ii)Securities Offering: Under this method, the shareholders of the acquired company receives shares of the acquiring company in exchange of their shares in the acquired company. This method takes days to plan and involves numerous factors such as the exchange ratio, the number of shares outstanding of the acquired company and most importantly, the value of acquired company’s stock on the day when the deal was closed. As for the exchange ratio, both the companies decide the ratio before initiating the deal because of daily fluctuations in the stock price of the acquired(to be) company.

## Synergies in the process of acquisition

Synergies are the biggest motivation behind any M&A activity as here, the acquiring firm must have figured out the potential benefits, either in the form of increased profits or reduced costs that will result from acquiring the company. In other words, if Target Corporation acquired Kmart, it is most probable that either a cost synergy, revenue synergy or some other must have been forecasted by the acquiring company before entering into deal itself.   
Cost Synergy: Acquiring Kmart will result in the increased economies of scale for Target Corporation. In other words, it might be possible that by acquiring Kmart, Target Corporation may only be able to increase their revenue by small amount, but with such a big acquisition, it will be able to decreased the combined fixed cost(through elimination of duplicated functions), thus lowering the average cost per unit for Target Corporation and creating a good source of profitability.

## Revenue Synergies: The acquisition activity can also help Target Corporation to achieve revenue synergies through cross-selling of products.

Increased market power: Since the acquisition of Kmart by Target Corporation is a horizontal acquisition activity, the acquiring company will be able to achieve increased market share possibly through increased customer base(the customers of Kmart will now be customers of Target Corporation), thus increasing the market share of the acquiring company.   
Talent Retention: This is the least referred synergy from the M&A activity. By acquiring Kmart, Target Corporation in addition to the above discussed synergies, will also be able to gain the talented and key employee workforce of Kmart.   
Achieving more rapid growth: External growth via M&A activity is usually a much faster way for managers to increase revenues than making investments internally. In addition, it is also less risky for the acquiring firm to generate the growth by acquiring resources through M&A activity rather through organic growth.

## Works Cited

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