Should We Buy It? An Acquisition Investment Case

Investment Banking & M&A | Advanced | 120 minutes (estimate)

Worked numerical schedule

Measure	Value	Unit
Equity consideration	800.00	USD thousands
New buyer acquisition debt	400.00	USD thousands
New shares issued	20.00	thousand shares
After-tax new interest	22.40	USD thousands
Buyer standalone EPS	4.00	USD / share
First-year combined net income	439.60	USD thousands
First-year EPS	3.66	USD / share
Steady-state EPS	4.25	USD / share
EV premium over standalone	100.00	USD thousands
Simplified net value created	250.00	USD thousands
Net value at half synergies	40.00	USD thousands
Funding reconciliation	0.00	USD thousands

Interpretation and recommended actions

Equity consideration is 800, funded by 400 debt and 20 thousand new shares. First-year income 439.6 gives EPS 3.6633 versus 4.00 standalone; steady-state EPS is 4.2467. Simplified net value is 250, falling to 40 at half synergies. This does not justify unconditional approval: validate timing and persistence of savings, integration execution, actual financing terms and purchase accounting. First-year EPS dilution does not by itself establish value destruction.

Scoring rubric - 100 points

Dimension	Points	Awarding guidance
Calculation	40	Consideration / funding 10; EPS 15; base and downside value 15.
Interpretation	25	Correct application of the case rules 10; explain the business decision 10; identify evidence or limitations 5.
Controls / audit trail	20	Traceable formulas 8; independent reconciliation 8; explicit units and signs 4.
Communication	15	Decision and numerical headline 5; actions with owners and evidence 5; concise response covering all required deliverables 5.

Award method credit after an isolated arithmetic error rather than repeatedly deducting for it. Equivalent account labels and well-supported alternative recommendations are acceptable. Numerical tolerance is 0.01 in the stated units; no universal passing score is prescribed.

Common mistakes

Funding enterprise value while calling it equity consideration; removing target interest twice; equating EPS accretion with value creation.

Staged hints

Bridge EV to equity first. Finance that consideration. Keep after-tax synergy value separate from EPS.

Instructor notes

Prerequisites: IBA-01/02 and transaction mechanics. The total duration of 120 minutes is a planning estimate, not a tested completion time. Allocate class time according to prior knowledge and reserve time for discussion of the decision and evidence.

For a simpler class, provide the model structure and work through one driver. For an extension, change one operational assumption and require a new reconciliation and recommendation. Verify the new key before distributing any variant. Open files in the intended spreadsheet application before class. Solutions are learning resources, not secure hiring examinations.

Decision

Make any investment recommendation conditional on credible synergies, integration delivery and financing terms.

Evidence and reasoning

First-year EPS dilution and value creation answer different questions. Integration cost affects timing, whereas synergy persistence drives the simplified value calculation. The half-synergy result leaves little room for omitted deal costs.

What would change the conclusion

Slower synergy capture, revised financing, purchase accounting or higher integration costs can reverse the recommendation. Test the explicit synergy-realisation input rather than embedding a fraction in a formula.