Gewalo Company	should proceed with the acquisition with	share	offer because the premium is	
2692308 R	which is less than the cash offer premium of	8000000	R	

Financial Information (Rands)

Cash Payment to Jeftot Builders 12 Million
Synergistic benefits of take-over 10 Million

Pre-take-over details:

	Number of Shares		Market Value per share		Earning Per Share	
Gewalo Company	0,25	Million	60	R	40	cents
Jeftot Builders	0,05	Million	80	R	100	cents

The acquisition is based on the exchange of 1,5 shares of Gewalo Company for each share of Jeftot Builders

AC	Acquiring Company
TC	Target Company
MV	Market Value
EPS	Earnings per share
MP	Market price
P/E Ratio	Price earning ratio
DV	Synergy Value
VB	Value of company B

In Rands

1.1 Value of Take-Over= MV of AC + (MV of TC + Synergy)

=(0,25 x 60) + ((0,05 x 80) + 10)
15 + (4 + 10)

= 15 + 14

= 29 M

1.2 Net present value = (MV of TC + Synergy) - Amount paid

= 14 - 12

= 2 M

1.3 Take over premium = Amount Paid - MV of TC

12 - 4

= R 8 M

1.3b. No. of shares issued to: Jeftot Builders

= 0,05 x 1,5

= 0,075 Million shares

= 75000 shares

1.3c. Market price per share: Take over Value/ (Market value of AC + shares issued)

= 29 / (0,25 + 0,075)

= 89,23 R

1.3c. Expected GAIN To Gewalo Company (MP per share based on share exchange - Market price of AC)

= 89,23 - 60

= 29,23 R

1.3d Expected GAIN To Jeftot Builders (MP per share X Exchange - Market price of TC)

= (89,23 x 1,5) - 80

= R 53,85

1.3e. Implied purchase price = 89,23 x 75000

= R 6692308

1.3f. New net present value = 14 - 6,692308 Million

= R 7,307692 Million

1.3g New premium = 6692308 - 4000000

= R 2692308

Conclution :

Gewalo Company should proceed with the acquisition with share offer because the premium is 2692308 R which is less than the cash offer premium of 8000000 R