Lwesho Industry should proceed with the acquisition with share offer because the premium is R 7,777778 Million which is less than the cash offer premium of R 4 Million and also the NPV is a Positive R 2 Million compared with a Negative NPV of R -1,778 Million

Financial Information (Rands)

Cash Payment to Dike Limited 14 Million
Synergistic benefits of take-over 6 Million

Pre-take-over details:

	Number of Shares		Market Value per share		Earning Per Share	
Lwesho Industry	3	Million	8	R	360	cents
Dike Limited	2	Million	5	R	280	cents

The acquisition is based on the exchange of 1,2 shares of Lwesho Industry for each share of Dike Limited

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)

=(3 x 8) + ((2 x 5) + 6)

24 + (10 + 6)

= 24 + 16

= 40 Million

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

= 16 - 14

= 2 Million

1.3 Take over premium = Amount Paid - MV of TC

14 - 10

= R 4 Million

1.3b. No. of shares issued to: Dike Limited

= 2 x 1,2

= 2,4 Million shares

= 2,4 Million shares

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

= 40 / (3 + 2,4)

= 7,41 R

1.3c. Expected LOSS To Lwesho Industry (MP per share based on share exchange - Market price of AC)

= 7,41 - 8

= -0,59 R

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

= (7,41 x 1,2) - 5

= R 3,89

1.3e. Implied purchase price = 7,41 x 2,4

= R 17,77778

1.3f. New net present value =		16	-	17,78	Million	
	R	-1,77778	Million			
1.3g New premium	=	17,77778	-	10	million	
	= R	7,777778	Million			

Conclution :

Lwesho Industry should proceed with the acquisition with share offer because the premium is R 7,777778 Million which is greater than the cash offer premium of R 4 Million and also the NPV is a Positive R 2 Million compared with a Negative NPV of R -1,78 Million