NET PRESENT VALUES, ACQUISITIONS AND MERGERS

One of financial goals of the financial managers is to maximize the shareholders’ wealth. Therefore, merger and acquisition decisions should be consistent with shareholder wealth maximization criteria and financial characteristics of the targets should be considered in the decision process. The NPV method is one of the useful methods that help financial managers to maximize shareholders’ wealth.

Module 5 Case Assignment has two parts. Part I of this case assignment is related to capital budgeting decision and part II is about mergers and acquisitions. Please read both parts carefully before you start answering the questions.

**Case Assignment**

**Part I:**

Net Present Value (NPV) method is one of the most important methods which is used to make capital budgeting decisions by almost every company. NPV method is important because it helps financial managers to maximize shareholders’ wealth by making better capital budgeting decisions.

Suppose Google ([*http://finance.yahoo.com/q?s=goog&ql=1*](http://finance.yahoo.com/q?s=goog&ql=1)) is considering a new project that will cost $2,425,000 (initial cash outflow). The company has provided the following cash flow figures to you:

|  |  |
| --- | --- |
| **Year** | **Cash Flow** |
| 0 | -$2,425,000 |
| 1 | 450,000 |
| 2 | 639,000 |
| 3 | 700,000 |
| 4 | 550,000 |
| 5 | 1,850,000 |

*If Google's cost of capital (discount rate) is 11%, what is the project's net present value? Based on your analysis and findings, what would you recommend to the executives and the shareholders of Google? Should the project be accepted? The shareholders of Google would also like to know the meaning of NPV concept.*

You may use the following steps to calculate NPV:

1. Calculate present value (PV) of cash inflow (CF)

**PV of CF =** CF1 / (1+r)1 + CF2 / (1+r)2 + CF3 / (1+r)3+ CF4 / (1+r)4 + CF5 / (1+r)5

1. Calculate NPV

**NPV** = Total PV of CF – Initial cash outflow

or

-Initial cash outflow + Total PV of CF

r = Discount rate (11%)

If you do not know how to use a calculator for these calculations, please use the present value tables.

Brealey, R.A., Myers, S.C., & Allen, F. (2005). Principles of corporate finance, 8th Edition. The McGraw−Hill. Retrieved May 2012 from [*http://jcooney.ba.ttu.edu/fin3322/Brealey%20Files/Appendix%20A%20-%20Present%20Value%20Tables.pdf*](http://jcooney.ba.ttu.edu/fin3322/Brealey%20Files/Appendix%20A%20-%20Present%20Value%20Tables.pdf)

(Please use Table 1)

**Part II: part 2 must be 2/3 pages……..**

**Rumors that Google is Considering Acquiring Groupon**

Rumors about potential mergers and acquisitions are often a hot topic in the business press. There are rumors that Google is considering acquiring Groupon ([*http://finance.yahoo.com/q?s=GRPN&ql=0*](http://finance.yahoo.com/q?s=GRPN&ql=0)).

As you know from reading the material in the background materials, mergers and acquisitions can potentially bring about great rewards but also can potentially bring great risks and pitfalls. For this assignment, do some research concerning the arguments both for and against such an acquisition from a financial perspective. For this module we are not so concerned with how consumers may fair, as this is an issue for the government to consider if they have to approve this acquisition. Instead you are considering this from the point of view of whether or not such an acquisition would be a profitable undertaking that would add value to the shareholders of two corporations (Google and Groupon).

The following article provides information on Google's potential acquisition of Groupon:

Lachapelle, T. (2012). Buying groupon hard for anyone as growth slows: real m&a. Retrieved December, 2012 from [*http://www.bloomberg.com/news/2012-12-11/buying-groupon-hard-for-anyone-as-growth-slows-real-m-a.html?link=mktw*](http://www.bloomberg.com/news/2012-12-11/buying-groupon-hard-for-anyone-as-growth-slows-real-m-a.html?link=mktw)

But do not limit yourself to this article. Use Proquest, EbscoWeb, and other sources in the Cyberlibrary. Use various internet search engines such as news.google.com for the latest news on this acquisition. Then write a five to seven pages report for the shareholders of Google and Groupon by answering the following questions and the questions in part I:

*1) Do you think Google's potential acquistion of Groupon would add value to the shareholders of both corporations?  Why or why not?*

*2) Based on your analysis and findings (Part I and Part II), what would you recommend to the shareholders of Google and Groupon? Please explain your reasoning.*

The main focus of this assignment will be answering the questions above and the questions in part I.

In your answers to the primary questions in part II, please respond to following issues:

* The impact on Google shareholders
* The impact on Groupon shareholders
* The financial conditions of both corporations (do not forget to consider the new project proposed by Google in part I)
* Why might one combined Google/Groupon company be more profitable than if they remained separate companies? In general, what makes an acquisition successful?
* Potential pitfalls - might the combined entity actually be less profitable than either company operating independently? What are the risk factors with this potential acquisition?

In addition to making use of concepts from the background materials for this module, feel free to use concepts from Modules 1-4 as well.

NOTE: Please note that your report/assignment will not be accepted without proper citations and references. You must use the sources from the background material together with the sources you find your own. It is also REQUIRED that you answer all the questions related to learning outcomes.