The shareholder of Flannery Company has voted in favor of a buyout offer from Stultz Corporation. Information about each firm is given here:

Flannery Stultz

Price-Earnings Ratio 5.25 21

Shares Outstanding 60,000 180,000

Earnings $300,000 $675,000

Flannery’s shareholders will receive one share of Stultz for every three shares they hold in Flannery.

1. What will the EPS of Stultz be after the merger? What will be the PE ratio be if the NPV of the acquisition is zero?
2. What must Stultz feel is the value of synergy between these two firms? Explain how your answer can be reconciled with the decision to ahead with the takeover.