## Contents

1	Financial Factors in Acquisition Analysis	1
	Introduction	1
	The firm as an operating system -	
	implications for financial analysis	3
	Valuation of companies with reference to financial market	
	price movements	7
	Financial market approval of acquisition decisions	9
	Gains from acquisition — problem of risk and uncertainty	
	assessment	11
	Search processes	14
	Organization of subsequent analysis	14
	References	15
2	Financial Market Considerations	16
	Capital market issues for acquisition analysis	16
	Review of evidence concerning share price movements	19
	Random walk model outlined	19
	Fundamental models for absolute price forecasting	28
	Portfolio considerations for acquisition decisions	31
	Perspectives on valuation of assets and companies	
	for acquisition	37
	Capitalization and cash flow expectations	37
	Returns from underlying assets	39
	Projection and analysis of acquisition returns	45

vi	Contents

	'Cost of capital' measures for acquisition appraisal	49
	References	52
3	Financial Market Constraints	54
	Introduction	54
	Financially oriented acquirer companies	55
	Explanation based upon 'satisficing' model	57
	Macro-context of acquisition activity	59
	Funding constraints	64
	Formalization of objectives and constraints in	
	acquisition financing	68
	Qualitative considerations – discussion	72
	Evidence from case studies	79
	Summary	87
	References	88
4	Strategy for Bidding and Financing	89
	Introduction	89
	Negotiation issues	90
	Bid premiums	90
	Bargaining models	92
	Market operations	95
	Formation of bid premiums	97
	Company law and market operations	100
	Selection of financing instruments	102
	Interrelated nature of valuations	102
	Equity issues and deferred rights	106
	Capital rationing circumstances	110
	Summary	112
	References	112
5	Search and Evaluation	114
	Introduction	114
	Indications from business literature	115
	Descriptive — goals and search procedures	116
	Sources of information	117
	Financial model of acquisition process	119
	Dynamic context of acquisition activity	120
	Static model of acquisition analysis	121
	Description and evaluation of prospective acquisition targets	122
	Constraints, negotiation and offer package creation	126
	Summary	132

Contents		vii
6	Conclusion	134
	General	134
	Specific concepts in acquisition strategy and appraisal	135
	Objectives	135
	Constrained acquisition search and evaluation	136
	Capital appraisal of acquisition proposals	137
	Acquisition bargaining and creation of financing packages	138
Appe	endices	
1	Conditions for increased portfolio value through acquisition	140
2	Companies classified as financially-orientated acquirer	
	companies over the period October 1968 – March 1972	
	inclusive	143
3	Calculation of financial constraints	144
4	Acquisition questionnaire	150
5	Research methods and procedure	154
Bibliography		164
Index		168