Mergers and Acquisitions

Mergers and Acquisitions part 4

Narrator:

Even after all the checks are put in place its crucial for both sides that the eventual value of the deal is realistic and reflects both assets and crucially liabilities as Ian Wilson recalls in Part 4 of this interview. First let's consider the Assets.

The seller may lose out if there are assets that deliver unexpected gains after the deal has been completed.

Ian Wilson:

I remember I was once involved in selling a business where the prime business was manufacturing chemicals that were used to make flat panel displays for televisions and computers.

But there was a patent that was associated with this transaction for a particular insulator that could be used in microchips. And although that patent wasn't highly valued in terms of the value at the time of the deal two years later the revenue from this insulator outstripped that from the flat panel displays.

Narrator:

Including liabilities in the purchase price can reduce the buyer's cash requirement.

Ian Wilson:

One also has to look at liabilities associated with these deals as well. For example, I once bought a fine chemical manufacturing plant in the States for $10M. But associated with that was that I'd agreed to take on an environmental liability that was also valued at $10M.

So although only $10M in cash changed hands effectively I'd paid $20M to the seller for that deal.