ON ONE PAGE

Accretion/Dilution

Why a deal can lift earnings per share and still make every share worth less.

IN ONE LINE

Accretion depends on how a deal is paid for; value depends on whether the synergies beat the premium. Run both, and decide on value.

$$EPS = (NI_a + NI_t - cost + S(1 - t)) \div (shares + new\ shares)$$

NI_a, NI_t: acquirer and target net income · cost: after-tax interest or lost interest · S: pre-tax synergies

Five rules

1. **Share deal: compare P/Es.** Target P/E below the acquirer's is accretive before synergies.
2. **Cash deal: compare yields.** Target earnings yield above the after-tax cost of debt is accretive.
3. **Cash is not free.** Charge the interest it would have earned, after tax.
4. **Phase the synergies.** They arrive along an S-curve and cost money to capture.
5. **Decide on value.** PV of synergies must beat the premium plus fees.

Ravelstone bids for Hartwell

$65 offer, $150m synergies, FY1 EPS

	EPS	Change
Standalone	1.338	Base
Cash, no synergies	1.319	−1.4%
Cash, synergies	**1.589**	**+18.8%**
Shares, synergies	1.557	+16.4%

Accretion is not value

The cash deal is **+18.8%** to EPS but value per share falls from $29.29 to **$28.00**. Break-even synergies: **$209m** a year against $150m announced.

Before you sign it off

- [ ] Financing cost charged, cash or debt
- [ ] Fees and new shares included
- [ ] Synergies phased, with costs to achieve
- [ ] Break-even synergies compared with announced
- [ ] Value per share checked, not just EPS



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