



# 2018 Bank Study Project Class of 2019

## MERGERS AND ACQUISITIONS Chris Hargrove

### NOTES:

1. Please use 8 1/2" x 11" paper (or paper folded to that size).
2. Attach the **Junior Cover Sheet – Class of 2019** from <http://www.gsblsu.org/students-4/> as the first page of your project.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips, or any kind of folder or binder.

**Complete and mail by February 15, 2019**

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**Discussion Question:** List and discuss all the factors that influence the value a bank receives in an acquisition (limit response to two pages).

**Problem One**

Project the impact to the earnings per share of the acquirer for three years assuming a 100% common stock transaction and utilizing the following data:

Acquirer Information

Average Assets Year One	\$200,000
Growth Rate of Assets	10%
Return on Average Assets	1.00%
Shares Outstanding	1,000

Seller Information

Average Assets Year One	\$100,000
Growth Rate of Assets	8.0%
Return on Average Assets	1.25%
Shares Outstanding	500
Exchange Ratio	1.1 for 1

Total Core Deposit Intangible \$2,700

Amortization Period of Core Deposit Intangible 10 Years (straight line)

Use the table on the following page to assist in solving the problem.

	Year 1	Year 2	Year 3
Average Assets-Acquirer	\$_____	\$_____	\$_____
Average Assets-Seller	_____	_____	_____
Shares Outstanding-Acquirers	_____	_____	_____
New Shares Issued	_____	_____	_____
Pro Forma Shares	_____	_____	_____
Net Income Acquirer	\$_____	\$_____	\$_____
Net Income Seller	_____	_____	_____
Amortization of CDI	_____	_____	_____
Pro Forma Net Income	\$_____	\$_____	\$_____
Status Quo Earnings			
Per Share-Acquirer	\$_____	\$_____	\$_____
Pro Forma Earnings Per Share *	_____	_____	_____
Amount Change	_____	_____	_____
Percent Change	_____	_____	_____
* Round to nearest cent			

## Problem Two

Utilize the following information to solve the problem:

Deposits	\$60,000
Core Deposit Premium	3.0%
Purchase Price	\$10,000
Seller Net Income	\$ 1,000
Seller Equity	7,500
Interest Rate on Debt	10%
Tax Rate	34%
Principle Payment at the End of the First Year	\$ 100
Core Deposit Intangible Premium Amortization	10 years (straight line)

Utilizing the information above and assuming a 100% cash transaction, what is the gross impact to the acquiring institution's net income in the first year?

Net Income Seller	\$ _____
Interest Expense	( _____ )
Core Deposit Intangible Amortization	( _____ )
Tax Impact	_____
Gross Impact	\$ _____

What is the cash needed by the acquirer to fund its debt in the first year? \$ \_\_\_\_\_.

### Problem Three

Utilize the following information to solve the following share repurchase:

Share Price	\$20.00
Shares Repurchased	200,000
Current Shares Outstanding	1,000,000
Current Net Income	\$ 2,000,000
Current Equity	\$18,000,000
Cost of Funds	8.0%
Tax Rate	34.0%

Status Quo Net Income	<u>\$2,000,000</u>
Cost of Funds	<u>( )</u>
Tax Effect	<u>          </u>
Pro Forma Net Income	\$ <u>          </u>

Status Quo Shares Outstanding	<u>1,000,000</u>
Repurchased Shares	<u>( )</u>
Pro Forma Shares Outstanding	<u>          </u>

Status Quo Earnings Per Share	<u>\$2.00</u>
Pro Forma Earnings Per Share (round to nearest cent)	\$ <u>          </u>

Status Quo Equity	<u>\$18,000,000</u>
Redemption	<u>( )</u>
Pro Forma Equity	\$ <u>          </u>

Status Quo Book Value Per Share	<u>\$18.00</u>
Pro Forma Book Value Per Share (round to nearest cent)	\$ <u>          </u>