Corporate Reporting & Finance

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Table of Contents

Introduction 3
Part (B) 3
- A) Executive summary 3
- B) Valuation 4
- C) Required return 5

Conclusion 7
Reference list 9

SAMPLE

Introduction

There will be the proper analysis of the miller and miller on its decision of acquiring the Crème ltd. How the company status will change if the Creme is purchased and what will happen if the miller and Miller will terminate this decision. The various analyses done by the finance officers will also be included while problem-solving. The most significant thing that will be discussed in this study is the changing condition of the cost of capital in various aspects. The calculation and justification will also be provided for the work performed. The various methods of funding the acquisition will be included. The product development idea of miller and miller instead of the acquisition will be concluded in the study. The study will support the company in taking decisions in various conditions and will help the financial director in the cost of capital assertion.

Part (B)

A) Executive summary

The decision of Miller and Miller in acquiring the Creme is not seen economic by the board members. This is not mandatory that the company decision will, be right. The decision can be concluded on the basis of various advantages, and disadvantage which is discussed below The advantages are: It will be beneficial for the company to acquire a well-settled market in order to set or launch its product The traditional market will help the company to earn revenue faster (Murthy and Abeysekera, 2015). The capital of the company will increase rapidly. The company can manage to acquire a big part of the customers. The company can stand different from its competitors and can help to earn more revenue from sales. The skill of the company will increase as the company will earn more skilled staffs by the acquisition. The Creme ltd. has a well-settled market which will help Miller and miller to capture the big part of the market (Campopiano and De Massis2015).

The disadvantages of acquiring the Creme can be staffs may feel de-motivated in front of the staffs of the crime. The acquisition cost will be high. The same cost can be used by the company to develop its new product. The acquisition cost may be higher than the production of the new product. The acquisition may not always be fruitful as it may lead to the wrong decision for the company and can reduce the current profit too (Michelon *et al.* 2015.).

The acquisition can be financed using the fund of the company which can be the company savings and the equity of the company. The miller and Miller can take loans if required. This

SAMPLE

method is used by the business entities to finance their business process. The 7A loan process is the best kind of loan method in SBA funding process (Michelon *et al*. 2015.).

The intangible assets are the significant assets in a firm's capital, and the company should preserve this at any cost. The company can ascertain the value of the assets at the time of acquisition in order to avoid any misconception in the acquiring process. It is to be kept in mind that the company must avoid any impairment at the time of acquisition and current assessment must be done. It is essential to protect the intangible assets to keep the future safe (Angwin and Meadows, 2015).

B) Valuation

The company range of value per year is 4 per share for the financial year. The earnings per share of Creme ltd. are 40 pence which is comparatively higher than the miller and miller. The debt to equity ratio is 35%. Creme ltd is using more its debt part for increasing the capital which is risky as the liabilities have to meet on time. The competitor of Creme ltd. has a price-earnings ratio of 11 and for the crime, it is 10 (Ortega, 2014.). The company is meeting the competition with its competitors very rationally that is why Creme lens has only 1% lag in the price-earnings ratio.

The research that is being performed by Jim in order to reduce the cost of the acquisition will result in better outcomes. Here the competitors of the Creme ltd. are also undertaken, so that the negotiation of the price of the acquisition can be supported with proper logic (Lerner and Seru, 2017). The equity cost of the Creme ltd is 13%. which is quite less as investors return on the stock will also going to hamper by the company. The corporate tax is 20%.

The company has to pay to the various parties from its income. The indirect expenses include the taxes, rent, electricity bills depreciation, bad debts and other parts of the incidental costs of the company. The debt part of the company is 1.05, and the company is paying interest at 6%. The Creme has a significant dependency on the debt part, and so the company has to fulfil the need of the debentures (Cheng *et al*., 2014). The Creme is providing 10% to its shareholders as the return on the investment.

The value per share for the Creme ltd is 4 and the company can take decisions on the basis of this value that how much they have to pay (Atanasov and Black, 2016). The return capital on capital is also determined which is 13% for the Creme ltd. The debt portion of the company is also high, so the miller and Miller can negotiate for the price because it is acquiring the debt part of the company too. The dividend payout ratio of the company is altogether good which

SAMPLE

can increase the price of the acquisition. The price will increase because the company is paying more as the dividend to the shareholders, which means that earning is more (Ozkan *et al*., 2017.). Therefore the miller and Miller have to agree in terms of setting the price on the basis of dividend payout. The miller and Miller should follow a rational approach while acquiring the company to avoid any kind if extra charge. The Jim idea of proving the best price for the overall acquisition is being done logically. The ratios which have been assessed and analysed is adequate to know the lowest price for the acquisition by Miller and Miller.

The best price of the company will be 4000000 in order to be paid to the Creme ltd. The result has extracted by multiplying total ordinary share by the price of the shares. The miller and Miller have to take responsibility in order to hold the position of the Creme ltd to do a sustainable growth with it. In verifying the correct possible price of the acquisition, the Jim has done the various assessments, and these assessments are relevant to the study. Jim has taken the different approaches to evaluate the condition and to provide the best solution for that (Atanasov and Black, 2016). The ideas of including the ratio for the cost assessment are the best part of the plan. The aim of providing the best named the lowest cost to the miller and Miller is rationale, and the company may consider the acquisition price. The earnings ratio which has taken by Jim will help to know the income statement of Creme and on the basis of that price can be set first the undertaking.

The miller and Miller can go for the other fields in order to negotiate the price (Woodrow and Guest, 2017). The earning and the debt part of the company can be taken into consideration in order to negotiate the price. The miller and Miller should assess all the fields which can be helpful in negotiating the price at the time of acquisition. Another method for negotiation is to bring the assessment of different sources. This will help the company to know the exact profitability of the business and the crime cannot demand more on the basis of good business performance (Mäkinen, 2015).

C) Required return

The required return for the company is assessed 9% with the market return of 10%, and beta is equal to 0.8. This means that the company has to pay the less part of the profit. The investors will get less return over their investment. The acquisition of the Creme ltd. Can be helpful for the company to increase its capital and to earn more profit from the established customers of the Creme ltd. The reduction that is being occurred can be negotiated by increasing the return on equity or to the shareholders. The cost of equity or the return on

SAMPLE

capital will only be increased if there is an increase in the profit of the company. The increase in the gross income of the company will help the organisation increase in its net income.

The cost of equity includes the cost of equity and the cost of debt part of the company. The company uses more cost of debt, it will increase, and if the company issues more equity, the cost of equity will increase. The issues related to the cost of capital are:

- ➔ Dividend policy- if the dividend payout ratio of the company increases that is if the company is distributing more profit to the shareholders the break-even point will not be met. The new issue of share and the existing share break-even point cannot be met in the condition on increases in the dividend payout ratio (Rothman. 2015).
- ➔ Investment policy- the investment that is being decided by the company team can also hamper the cost of equity. The reason is if the company changes its investment policy the risk factor will, also change. The changing risk will affect both the cost of vd5ebt and the cost of equity.
- ➔ Interest to the debt- the interest rate if increases it will increase the cost of debt and the overall cost if equity or return to the equity will get hamper as the debt will acquire the higher part of the cost of capital.
- ➔ The tax rate- as the tax rate for the company increases the debt part will increase in the overall cost of capital for the miller and Miller (Mitchell *et al*., 2014).

The alternate method for the cost of capital calculation is a company can calculate the dividend yield. The dividend yield is the disbursement of the dividend by the company in relation to the total shares available with the company. The result is expressed in percentage as like the cost of capital. This method is also used by the company to determine the cost of equity of the organisation. The result is deprived by the diving the dividend paid by the company to the total number of shares available to the various investors of the company. This also shows the current price of the share in the market of the company. There is no any other alternate method, and the company has to take the cost of capital into consideration mandatorily. This will help the company to know the exact portion of the debt and equity in total cost of capital. The assessment of the cost of capital will help the company to know that which part of the capital financing needs to be controlled by the company (millerandmillerchem.co.uk, 2018). The aim of calculating the cost of capital is to determine the return to the securities by the company. It can be crucial for the company as the debt part need to control and then the equity of the company need to be raised. This can also restore the

SAMPLE

faith of the investors if mentioned in the company's financial report. Another motive of calculating the cost of capital is it will help the decision makers of the company in how many funds need to be raised by debt and how many funds need to be raided by equity. The equity and debt are the significant portions of the company resources. Where the increase in debt can harm the company and an increase in investment can be beneficial for the financial health of the company. The company must achieve the required rate of return in order to maintain the balance between the equity and debt part of the company.

The acquisition of the Creme ltd. By the miller and Miller was financed by the taking the help of the Creme ltd. in financing the acquisition process. The financial condition of the miller and Miller will get improved due to the better business of the Creme ltd. The Creme ltd. Has helped the miller and miller in its financing process by providing the shares of the company. The shares acquired by the miller and Miller will increase the cost of equity of the miller and Miller (creamuk.com/, 2018). The increase in the cost of equity will increase the percentage of the cost of equity in the cost of capital. The percentage of the cost of capital will increase due to the increase in the cost of equity. As the cost of capital increases the company debt part will reduce. The reduction in debt will reduce the liability of the company. The company can increase its return on equity to its investors or the shareholders. The risk of the company will increase as it can increase the liability of the company towards the shareholders. The miller and Miller have to match the dividend payout ratio given by the Creme ltd. The company in the case failed to match the dividend disbursement it can lead to loss of the shareholders of the company. To make the acquisition fruitful, the company has to take care of the interest of every party including the cost of capital after the merger (nibusinessinfo.co.uk, 2018).

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Conclusion

The conclusion derived on the basis of the attempting the several questions is that the company miller and Miller can terminate the decision of the acquisition of the Creme ltd. The acquisition cost is also relatively high, and the brisk of the company will also increase. The company may go for its own product development or introduction of the new product. The company's shareholders fund will increase in the balance sheet. The analysis was done by Jim to acknowledge the best possible price for the acquisition is also a great way to negotiate the price. The price negotiation can be done on the debt part as the company has n\more debt part which will be acquired too by the miller and miller. The miller will be left with more debt

with its existing debts. It is recommended for the part of Crème Ltd to withdraw the contract. The finance director decision on reassessing the cost of capital was a good step. The recalculation shows the company has 9% cost of capital rather than the previous cost of capital which was 10%. The overall conclusion is that Miller and Miller will be going to affected by the decision of acquisition as the Creme ltd has a well-settled market. The product of the Creme ltd. Is highly preferable among the customers and it will go to increase the liability of the miller and miller in every term.

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