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Valuation of target companies in mergers and acquisitions: the case of Aspen Pharmacare and Adcock Ingram

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ABSTRACT

This paper assesses shareholder wealth creation in target and acquiring companies as a result of an acquisition, in particular, a hostile takeover. The paper reviews existing mergers and acquisitions literature and also considers a case study in order to review some practical results. The case study of the Bidvest Group hostile takeover of Adcock Ingram Pharmaceuticals that took place in January 2014 in South Africa is reviewed. A detailed qualitative and quantitative analysis is conducted to ascertain and quantify shareholder wealth creation after the takeover. The analysis conducted included a financial assessment using relevant financial indicators, an analysis of existing literature and interviews with key board directors of Adcock Ingram Pharmaceuticals. To ascertain whether the results of the target company, Adcock Ingram Pharmaceuticals, are either in line, below or above industry performance after the takeover, Adcock Ingram Pharmaceuticals' results are benchmarked against Aspen Pharmacare Holding's results. Majority of the findings literature reviewed are that target company shareholder gains exceed acquiring company shareholder gains post an acquisition. The findings of this research are that target company (Adcock Ingram Pharmaceuticals) shareholders are worse off whilst acquiring company (Bidvest Group) shareholders continue to increase their wealth after the takeover. Possible reasons for these results, which contradict majority of the existing literature on wealth gains post a merger or acquisition, are given.