

VALUATION OF TARGET FIRMS IN MERGERS AND ACQUISITIONS: A CASE STUDY ON MERGER OF SKYPE AND MICROSOFT

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ABSTRACT

Mergers and acquisitions have become the most popular used methods of growth for the company and it's one of the best ways to make a shortcut to get the success. They create the larger potential market share and open it up to a more diversified market, increase competitive advantage against competitors. It also allows firms to operate more efficiently and benefit both competition and consumers. However, there are also many cases that the synergy between acquiring company and acquired company failed. The most common reason is to not create synergy between both of them. In recent months, the merger between Microsoft and Skype is a very hot topic of analysts and viewers...etc. This acquisition presents a big opportunity for both firms, Skype give Microsoft a boost in the enterprise collaboration. To exchange for this synergy, Microsoft paid \$8.5 billion in cash for Skype, the firm is not yet profitable. Skype revenue totaling \$860 million last year and operating profit of \$264 million, the company lost \$6.9 million overall, according to documents filed with the SEC. Is that a good deal for Microsoft? Many analysts have different point of view but most of them have negative perspective. Research was to provide the analysis of Skype's intrinsic value with an optimistic view of point about Skype's future, Microsoft overpaid for Skype. However, the synergy between Microsoft and Skype is kind of promisingly potential. Skype will be incorporated into Microsoft devices and system such as Xbox and Kinect, Xbox Live, the Window Phone operating system, Lync and Outlook. There are two potential opportunities for Microsoft in the Window Phone and Xbox & Kinect markets. Research also made some assumptions about what will happen in these markets with optimistic view of point based on some information available.

Keywords: Mergers and Acquisitions, Intrinsic Value, Synergy, Microsoft, Skype.