Transaction Value, Enterprise Value, and the "True" Purchase Price in M&A Deals




How Journalists Confuse You with Finance Concepts They Don't Understand

Common Question About M&A Deals…

"Can you explain the **true purchase price** in an M&A deal? Is it the Purchase Enterprise Value? The Purchase Equity Value? The Transaction Value?"

"What is the difference, and **why** is this so confusing?"

Common Question About M&A Deals…

(Yes, we covered this topic a long time ago, but the old video **over-complicated** the answer.)

(So, this is my attempt to simplify and explain it more clearly and give you better Excel examples.)

Common Question About M&A Deals…

If you want this tutorial in writing, along with screenshots and the Excel model, go to this URL (**pinned in the comments**):

https://breakingintowallstreet.com/kb/ma-and-merger-models/enterprise-value-vs-purchase-price/

The Short Answer…

1. **"True" Purchase Price:** This is closest to the **Purchase Enterprise Value** of the deal and represents what the Buyer pays for the Seller… with some adjustments




2. **Seller Proceeds:** The Seller's shareholders get the **Purchase Equity Value** because they only get paid for their shares (in CF/DF deals, Debt is repaid with the Seller's Cash, and any remaining Cash goes to the shareholders)

3. **M&A Modeling:** In the EPS accretion / dilution calculations, the **Purchase Equity Value** is more relevant because the Seller's existing Cash and Debt make a marginal impact

The Short Answer…

- **"Transaction Value":** This term is often used when it's **unclear** whether it's the Purchase Equity Value, Purchase Enterprise Value, or something like % Acquired * Purchase Equity Value – need to investigate further

- **Capital IQ:** Makes this point even more confusing by taking the Purchase Enterprise Value and *adding Cash* to get a "Transaction Size" (???)

- **"Including Debt" or "Including Assumption of Net Debt":** These terms refer to the **Purchase Enterprise Value** when you see them in news articles and press releases

Lesson Outline: The True Purchase Price

- **Part 1:** Why the Purchase Enterprise Value is the "Real Price" **3:56**
- **Part 2:** The Seller Proceeds in a Deal **8:40**
- **Part 3:** The "True Price" in M&A Models **9:24**

Why Purchase TEV is King

- **Baseline:** The Buyer must acquire the Seller's **common shares**, and it usually pays a premium to do so

- **Purchase Equity Value** = Offer Price * Common Shares

- **Seller's Debt:** The Buyer **assumes** or **refinances** this (i.e., replaces it with new Debt); it may also **repay it entirely** (rare)

- **But:** No matter what the Buyer does, it *effectively* pays for the Debt because the issuance is now its responsibility!

- **Refinancing:** Not paying directly, but it is *issuing new Debt*

Why Purchase TEV is King

- **Seller’s Cash:** This gets **distributed to shareholders** as the deal closes (cash-free/debt-free deals for private Sellers) or **retained** (many M&A deals with public Sellers)

- **Distribution:** The Seller’s Cash *reduces* the Purchase Equity Value since Net Assets are lower after this distribution

- **Retention:** The Buyer “gets” the Seller’s Cash upon deal close, reducing its *effective price*

- **“True Price”:** Purchase Equity Value + Debt – Cash, AKA the Purchase Enterprise Value

Adjustments to Purchase TEV

- **Adjustment #1:** There will always be **transaction fees** (legal, advisory, accounting, etc.) and sometimes **financing fees**

- **So:** You could add these to the Purchase TEV to get the “true purchase price” (not done in real life due to lack of data)

- **Adjustment #2:** In CF/DF deals, there might be a **Minimum Cash** requirement for the Seller, which the Buyer must fund

- **So:** Maybe we should subtract (Total Cash – Minimum Cash) rather than Total Cash to get the “true price” (rare in real life)

The Seller Proceeds in an M&A Deal

- **Public Sellers:** Very simple – the shareholders get the Offer Price * # Common Shares, or the Purchase Equity Value

- **Cash-Free/Debt-Free M&A Deals:** The Seller repays its Debt using its Cash; remaining Debt is deducted from the shareholder proceeds, and remaining Cash adds to them

- **Seller Proceeds** = Purchase Enterprise Value – Debt + Cash

- **Purchase Equity Value** = Purchase Enterprise Value – Debt + Cash

The True Price in M&A Models

- **Merger Models:** The issue is that **the Seller's existing Debt and Cash** *barely make an impact* in most cases


- **So:** The **Purchase Equity Value** is a *more direct driver* to calculate EPS accretion/dilution (e.g., Cash/Stock/Debt used)

- **Why 1:** If the Buyer "gets" the Seller's Cash, the Combined Interest Income stays the same

- **Why 2:** If the Seller's Debt is assumed or refinanced, the Combined Interest Expense also stays the same (*minor adjustment* if the interest rate changes)

The True Price in M&A Models

- **So:** Only the amount the Buyer pays for *the Seller's common shares* – the Purchase Equity Value – makes a **net impact** on the combined Income Statement, with some exceptions and adjustments (e.g., Fees, Minimum Cash, etc.)

- **Impact #1:** Foregone Interest on Cash

- **Impact #2:** Interest Paid on New Debt Issued

- **Impact #3:** New Shares from Stock Issued

Recap and Summary

- **Part 1:** Why the Purchase Enterprise Value is the "Real Price"

- **Part 2:** The Seller Proceeds in a Deal

- **Part 3:** The "True Price" in M&A Models