

Internet Acquisition Executive Summary

Problem

What they were doing: A major internet services company (the Company) was considering the acquisition of a company (the Acquisition) owning key IP for Internet-based advertising. A new advertising network market (Ad Network) was beginning to take shape. There were two possibilities for the Company to serve the Ad Network. One, the Company could attempt to build its own capabilities in-house (the Build). Two, The Company could acquire the Acquisition, which would open up the possibility of making a second acquisition (the Target). The combination of the two acquisitions may or may not have the capability to serve the Ad Network but could be faster than the Build.

The Company is broken into several large divisions, two of which have gaps in their current offerings that could be filled by the Acquisition. One of the components is "Media Sales" and the other is "Content Match."

Problems encountered and what it was costing them: The price of the Acquisition was large enough to have the attention of the CEO. He asked for information from many parties, including the Vice President for the Media Sales component (the VP), who asked Provisdom to help value the Acquisition and determine which division should take control of the Acquisition if acquired. The Company was rife with politics and the VP and the Vice President of Content Match were jockeying for control of the acquisition. The political infighting combined with considerable uncertainty in future revenue and performance created a wide range of estimates for the value of the acquisition, from \$200M to \$2B.

Solution

What they did with us: Provisdom had a 45-minute initial information-gathering session with the VP, discussing the background of the acquisition strategy and the most relevant choices, uncertainties, and possible payoffs. With this information, Provisdom built a first-cut model which led to a few clarifying questions that were answered through email over the following day.

Time Required: 2 days

Results: The final model clearly showed that the Acquisition should be made for no more than \$750M and be placed in the Media Sales component. If the acquisition is made, the Target should always be purchased and the Build begun unless the Ad Network size is discovered to be \$0. If the acquisition is not made, the Build should begin unless the Ad Network size is discovered to be \$0.

The total shareholder value of this Ad Network opportunity is \$5.37B minus whatever it costs to purchase the Acquisition. If they aren't able to negotiate the purchase, the NPV is \$4.62B, which still represents a large single-digit increase in the Company's market capitalization.