(10 points)

In every merger or acquisition situation, estimates of the value of the target firm (and/or estimates of the value of the merged bidder and target firms together) are made by all of the major participants in the transaction. Based on everything you have learned at the Simon School, but particularly those things that you have learned in FIN 423, answer the following questions.

(a) What role, if any, should the current market price of the target's stock play in creating these valuation estimates? (i.e., what factors relating to value are not reflected in the current market price?)

(b) Suppose there has been unusual trading activity (e.g., a price runup and higher than normal trading volume) in the target company's stock in the recent past, but you as a potential bidder have not been buying this stock. How, if at all, would this information affect your estimates of value? Why, or why not?
(c) Describe the incentive problems faced by each of the following participants in producing a valuation estimate (also describe the factors, if any, that would mitigate these incentive problems):

(i) a financial analyst working for the CFO of a bidder firm to help acquire the target firm

(ii) an investment banker hired by a bidder firm to help acquire the target firm

(iii) an investment banker hired by the target firm to help defend itself

(iv) an investment banker hired by either the bidder or the target firm to provide a “fairness opinion” on the terms of a negotiated deal.