# *Case 2: Analysis of Acquisitions*

## Facts

You are an accountant working in the M&A department of NatureWear and you are currently considering whether to invest in another firm, namely GreenInvest. You are provided with the following information about GreenInvest.

### Company History and Operations

GreenInvest was founded in Berlin in 2012. It is known as a young, innovative firm, which is mainly focused on sustainable, recyclable drinking bottles for outdoor activities. GreenInvest mainly operates via specialized outdoor fashion stores but also has own stores in the metropoles Berlin, Frankfurt, Hamburg and Munich.

GreenInvest went public on the Frankfurter Wertpapierbörse in 2015.

### Company Growth Strategy

GreenInvest's growth strategy has two elements:

i) Increasing advertising and marketing spend to conduct some large-scale marketing campaigns.

ii) High R&D intensity to keep the products innovative.

### Product Development

GreenInvest's current R&D efforts relate to the development a new patent for an innovative material that is even lighter than the current material of the drinking bottles. The high amount of intangibles on its current balance sheet mostly relates to foregoing patents for materials and registered designs. The company's inventories mostly comprise drinking bottles from its own production.

### Financial Reporting

The consolidated financial statements are reported in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as applicable within in European Union. You are provided with OutdoorWear's balance sheet and income statement (s. Excel).

### Investment in GreenInvest

NatureWear is considering investing in GreenInvest. Currently, there are two options for the investment:
a) 60% of the shares of GreenInvest or
b) 40% of the shares of GreenInvest

Please assume for simplicity that: (i) there are no intragroup transactions; (ii) all assets and liabilities of GreenInvest are carried at their current fair values (i.e., no fair value adjustments); and (iii) that NatureWear would not pay a premium (i.e., no goodwill arises from the transaction).

## Tasks

1. Please describe GreenInvest's business model. Please point out pros and cons of investing in GreenInvest regarding how they might complement NatureWear's business model.

2. Please explain the different accounting implications that would arise from investing 40% versus 60%. Doing so, please also distinguish the concepts of "control" and "significant influence" according to IFRS.

3. Based on 2., please prepare NatureWear's pro-forma consolidated balance sheet and income statement for the 40% investment and 60% investment, respectively. Please explain key differences and their implications for key financial ratios and the combined entities' future profitability.

Based on your analyses, discuss the two investment options, what are arguments for the one investment option, what are arguments for the other investment option? What are e.g., the inferences for profitability?