

Figure 25.5: Valuing Digital with Control and Synergy

| Component | Valuation Guidelines | Value |
|----------------------|---|------------------|
| Synergy | <p><i>Value the combined firm with synergy built in.</i> In the case of Compaq/Digital, the synergy comes from</p> <ol style="list-style-type: none"> 1. Annual cost savings, expected to be \$100 million 2. Slightly higher growth rate | \$ 2,422 million |
| Control Premium | <p>Value Digital as if optimally managed. This was done by assuming</p> <ol style="list-style-type: none"> 1. Higher margins and a return on capital equal to the cost of capital 2. Higher debt ratio and a lower cost of capital | \$ 2,421 million |
| Status Quo Valuation | Value Digital as is, with existing inputs for investment, financing and dividend policy. | \$ 2,110 million |