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The Sears acquisition: a retrospective case study of value detection

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[Strategy & Leadership](#)

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Abstract

Purpose

This paper introduces the base-case-valuation pattern, which is derived from the modern Graham and Dodd valuation methodology, and it demonstrates how that pattern could be utilized in M&A by way of a case study.

Design/methodology/approach

The paper presents a case study of the 2004 acquisition of Sears by hedge-fund manager Eddie Lampert. It draws on previously published Graham and Dodd methodological materials as well as Sears' publicly available financial information. The valuation calculations presented in the case is the sole work of the author.

Findings

The results of the case suggest that base-case valuation could be practically utilized in M&A. Significantly, it could also be utilized in the formulation of an M&A-negotiating strategy, shareholder-communication plan, and performance-improvement plan.

Research limitations/implications

The paper demonstrates how that acquisition contained a reasonable margin-of safety, or price discount to estimated value, even though it occurred at a multiple of 1.8x Sears' book value at the time.

Practical implications

This paper is intended to provide a practical guide to the



This work introduces the base-case-valuation pattern, and it is the first work, as far as we are aware, that applies the Graham and Dodd methodology to the Sears acquisition even though Eddie Lampert is a noted Graham and Dodd-based practitioner.

Keywords

- Acquisitions and mergers
- Financial analysis
- Case studies

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