MERGER AND ACQUISITION

Why are we discussing this:

Business cycles have become shorter

World has become flat

Larger Corporate have become larger and are keen to explore inorganic growth strategy

Consolidation in the industry has become a norm

Size matters

MNCs into India and vice versa is now a norm

What all will be discussed:

Mergers

Acquisition

Joint

Ventures

Distribution Agreement

Technical Collaboration

Franchising

What is Merger:

- Strategic tools in the hands of management to achieve greater efficiency by exploiting synergies.
- Arrangement where by two or more existing companies combine in to one company.
- Shareholders of the transferor company receive shares in the merged company in exchange for the shares held by them in the transferor company as per the agreed exchange ratio.

Different Types of Mergers:

A horizontal merger - This kind of merger exists between two companies who compete in the same industry segment.

A vertical merger - Vertical merger is a kind in which two or more companies in the same industry but in different fields combine together in business.

Co-generic mergers - Co-generic merger is a kind in which two or more companies in association are some way or the other related to the production processes, business markets, or basic required technologies.

Conglomerate Mergers - Conglomerate merger is a kind of venture in which two or more companies belonging to different industrial sectors combine their operations.

Advantages of Merger:

- Does not require cash
- Accomplished tax-free for both parties.
- Lets the target realize the appreciation potential of the merged entity, instead of being limited to sales proceeds.
- Allows shareholders of smaller entities to own a smaller piece of a larger pie, increasing their overall net worth.
- Merger of a privately held company into a publicly held company allows the target company shareholders to receive a public company's stock.
- Allows the acquirer to avoid many of the costly and time-consuming aspects of asset purchases, such as the assignment of leases and bulk-sales notification

Reasons for Merger

What is Acquisition

Acquisition essentially means ‘to acquire’ or ‘to takeover’. Here a bigger company will take over the shares and assets of the smaller company.

Different Types of acquisitions

Friendly acquisition - Both the companies approve of the acquisition under friendly terms.

Reverse acquisition - A private company takes over a public company.

Back flip acquisition- A very rare case of acquisition in which, the purchasing company becomes a subsidiary of the purchased company.

Hostile acquisition - Here, as the name suggests, the entire process is done by force.

Reason for Acquisition

Industry Consolidation

Tactical move that enables a company to reposition itself (with a merger partner) into a stronger operational and competitive industry position.

Improve Competitive Position

Reduces competition, and allows the combined firm to use its resources more effectively.

Defensive Move

Attractive tactical move in any economic environment - particularly in a cyclical down-turn where a merger can be a strong defensive move.

Synergies

Allowing two companies to work more efficiently together than either would separately.

Market / Business / Product Line Issues

Whether the market is a new product, a business line, or a geographical region, market entry or expansion is a powerful reason for a merger.

Acquire Resources and Skills

To obtain access to the resources of another company or to combine the resources of the two companies

Merger And Acquisition Process

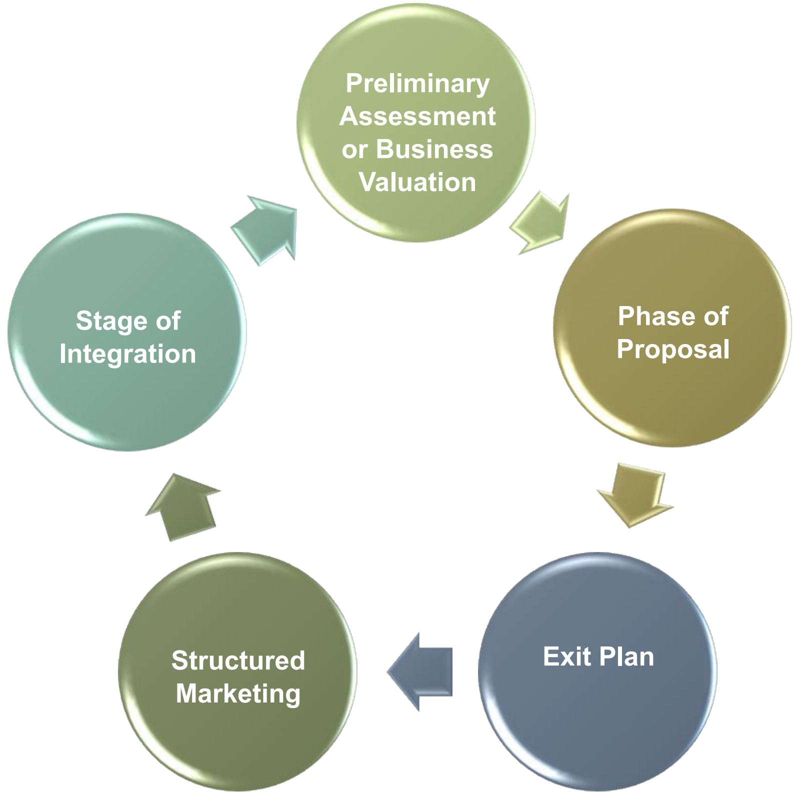
Preliminary Assessment or Business Valuation- In this process of assessment not only the current financial performance of the company is examined but also the estimated future market value is considered

Phase of Proposal- After complete analysis and review of the target firm's market performance, in the second step, the proposal for merger or acquisition is given to multiple suitors

Exit Plan- When a owners decide to exit the target firm the structure is decided and proposed to the potential suitors

Structured Marketing- After finalizing the Exit Plan, the target firm gets involves in the marketing process and tries to achieve highest selling price.

Stage of Integration- In this final stage, the two firms are integrated through Merger or Acquisition.



Motives for Mergers & Acquisitions

Greater Value Generation

Mergers and acquisitions generally succeed in generating cost efficiency through the implementation of economies of scale. It is expected that the shareholder value of a firm after mergers or acquisitions.

Gaining Cost Efficiency

When two companies come together by merger or acquisition, the joint company benefits in terms of cost efficiency. As the two firms form a new and bigger company, the production is done on a much larger scale.

Increase in market share

An increase in market share is one of the plausible benefits of mergers and acquisitions.

Gain higher competitiveness

The new firm is usually more cost-efficient and competitive as compared to its financially weak parent organization.

- Economies of large scale business
- Elimination of competition
- Desire to enjoy monopoly power
- Adoption of modern technology
- Lack of technical and managerial talent

Impact of Mergers and Acquisitions

Employees:

Mergers and acquisitions impact the employees or the workers the most. It is a well known fact that whenever there is a merger or an acquisition, there are bound to be lay offs.

Impact of mergers and acquisitions on top level management

Impact of mergers and acquisitions on top level management may actually involve a "clash of the egos". There might be variations in the cultures of the two organizations.

Shareholders of the acquired firm:

The shareholders of the acquired company benefit the most. The reason being, it is seen in majority of the cases that the acquiring company usually pays a little excess than it what should.

Shareholders of the acquiring firm: They are most affected. If we measure the benefits enjoyed by the shareholders of the acquired company in degrees, the degree to which they were benefited, by the same degree, these shareholders are harmed

Joint Ventures

Both Companies have something to offer to the JV

Both are usually equal partners

When Corporate entering into new market

Specifically for a country or a market

Have detailed roles and responsibilities of each party defined in the agreement

Research indicates that two out of five JV arrangements last less than four years, and are dissolved in acrimony.

Cross Border Investments/Joint Ventures (Important Points)

Business Structure

Management

Financial Committment

Identifying JV Partner

Due Diligence

Planning

Understanding Different Cultures

JV Agreement

Market Research

Regulatory Approvals

Dispute Settlement

Closure of Business

Taxation

Distribution Arrangement

When the manufacturer not keen to set up local manufacturing

The distributor either works on commission or as a reseller

Local partner provides after-sales and marketing support

Often exclusive

Comes with an expiry date

Technical Collaboration

- Intellectual property remains of the Technology provider
- May be a pure technology transfer agreement or with 100% buy back
- Royalty needs to be paid to the provider
- May or may not be exclusive
- Comes with an expiry date

Franchising

Variant of Technical Collaboration

More relevant in apparel retail, QSR, F&B, Healthcare

Commission linked to sales, fee for opening new stores and one time sign up fee are part

From Principal's perspective best way to enter new markets

Country master franchisee and sub franchisee network created

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