

Mergers and Acquisition Notes

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Session 1: Topic: Mergers and Acquisitions – summary

Forms of company Restructuring

The corporate restructuring comes in 2 core forms:

- Financial restructuring: wherever businesses have debts and tax issues, it's usually necessary to reconstitute financially to cut back liabilities and increase profitability.
- Organisation restructuring: Over time, a business or group's organisational structure will become inefficient either due to surplus services or advanced worker hierarchies.

Reasons for company restructuring

1. money distress: Your Company is losing cash as a result of prices that are too high and growing debts. All this leads to associate degree inability or issue to pay creditors.
2. Expansion: You're shopping for another company, incorporating a brand new business strategy or developing a special means of operating. As such, you wish to review your structure to confirm potency doesn't slip.
3. Management: growth and growth have resulted in an exceedingly advanced management hierarchy which will have the benefit of being simplified or maybe entire parts of your business has become redundant.
4. Legal compliance: New laws have forced you to review your method or introduce new ones that require to be adopted quickly into your existing structure.

Types of company Restructuring

1. Mergers & Acquisitions

One of the most effective ways in which of skyrocketing profitability {in a|during a|in associate degree exceedingly in a very} business quickly is to include an existing company into yours. this may be available in a range of forms, from shopping for a business outright to merging with one and engrossing their assets.

Mergers and acquisitions (M&A) will permit you to quickly increase your revenue, production capability and market reach, all while not the time and exertions of building a brand new company.

M&As have their own type of structures that supported the link between the companies concerned. as an example, horizontal mergers describe the method of 2 corporations in direct competition returning along, whereas vertical mergers might turn up once an organization buys a provider.

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2. Divestment and Spin-Offs

If M&As exist for corporations that need to grow, divestment and spin-offs are unit helpful for businesses that are unit trying to consolidate. wherever a business unit is not any longer profitable or fulfilling a strategic purpose, you'll contemplate merchandising or closing it — this is often referred to as divestment.

If you wish to cut back your involvement in an exceedingly business unit while not entirely stepping removed from it, a byproduct is often a straightforward resolution. This involves restructuring the unit to become its own standalone company that you continue to part own. this may be significantly helpful if you wish to attain a high valuation on a part of your business.

3. Debt Restructuring

Debt restructuring is one of the foremost common motivators for business restructuring. Owing creditors will place the terrible existence of your company in danger, however, their area unit usually steps you'll go to cut back your liabilities.

You may be ready to reconstitute your debt and continue commerce by introducing an organization Voluntary Arrangement (CVA), which may be a de jure binding agreement between you and your creditors. If you think that you'll build profit once more within the future, a CVA will give short relief from your debts reciprocally for a guarantee that you'll honour them within the future.

Alternatively, you'll be ready to clear half or all of your debts by agreeing a company reconstitute to produce your creditors with equity in your business.

4. Value Reduction

If you're facing growing debt in your business, it's doubtless that your running prices are unit too high. In these things, reviewing your company structure will highlight overspend, whether or not within the administration or operation of your business.

In order to cut back prices, you'll contemplate liquidating redundant corporations in your business cluster to unharness assets, reducing the number of workers, or restructuring departments to get rid of gratuitous management prices.

5. Legal Restructuring

In some cases, company restructuring could also be necessary not as a result of a business is troubled, however just because there's a shift in responsibilities at the highest.

This could embrace the incorporation of the latest investors or a modification within the possession structure if a business unit leaves the cluster.

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What is Merger?

A merger refers to the mixture of 2 or a lot of corporations into one company wherever one survives and therefore the others lose their company existence.

Acquisition

Acquisition within the general sense is feat the possession of the property. within the context of business mixtures, a buying deal could be purchase by one company of a stake within the share capital of another existing company.

Tender provide

Under the offer, one party, typically a company seeking a stake in another corporation, asks the stockholders of the firm it's seeking to manage, to submit, or tender, their shares of stock within the firm.

Joint Ventures

Joint ventures involve the intersection of solely a tiny low fraction of the activities of the businesses concerned and frequently for a restricted period of years. they'll represent a separate entity during which every one of the parties makes money and alternative varieties of investment.

Sell-Offs

Sell-offs includes divestitures and spin-offs.

a) Divestitures

Divestiture involves the sale of some of the firm to an outdoor third party. The amusing firm receives money or equivalent thought. the customer is an associate degree existing firm so no new legal entity results. It merely represents the shape of growth on the part of the shopping for a firm and includes equity carve-out

Equity Carve-Out

Equity Carve-out is another variation of divestitures. It involves the sale of some of the firm via associate degree equity giving to outsiders. a brand new share of equity is oversubscribed to outsiders, that offer them possession of some of the antecedently existing firm.

b) Spin-Offs

A by-product creates a separate new legal entity. Its shares are distributed on a pro-rata basis to existing shareholders of the parent company. Thus, existing shareholders have a similar proportion of possession within the new entity as within the original firm. It includes split-offs and split-ups.

Split-Off

A split-off is another variation of the by-product. some of the present shareholders receive stock in a very subsidiary in exchange for parent company stock.

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Split-Up

Under split – up the complete firm is variable in a very series of spin-offs, so the parent not exists and solely the new offspring survive.

Corporate management

The third class of grouping activities is mentioned as “corporate control”. It embraces premium buybacks, standstill agreements, anti-takeover amendments and proxy contests.

a) Premium obtain – Back

Premium buybacks represent the repurchase of a considerable stockholder’s possession interest at a premium on top of the market value.

b) Standstill Agreements

A standstill agreement is written about buybacks. It represents a voluntary contract, during which the investor WHO is bought out agrees to not build any tries to require over the corporate within the future. once a standstill agreement is created while not purchase, the substantial investor merely agrees to not increase his possession, which presumptively would place him in a good management position.

c) Anti – Takeover Amendments

Anti – takeover amendments are changes within the company bylaws to create a buying deal of the corporate tougher or a lot of comprehensive. These include:

- Supermajority balloting provisions requiring a high share (f.g: 80%) of stockholders to approve the merger.
- Staggered terms for administrators which might delay amendment of management for a variety of years, and
- Golden parachutes that award giant termination payments to existing management if the management of the firm is modified and management is terminated.

d) Proxy Contest

An outside cluster in a very proxy contest seeks to get illustration on the firm’s board of administrators. The outsiders are mentioned as ‘dissidents’ or ‘insurgents’ WHO obtain to cut back the management position of the ‘incumbents’ or existing Board.

Changes in possession Structure

An amendment in possession structure represents the fourth cluster of restructuring activities. It encompasses exchange offers, share repurchases, going non-public and leveraged buyouts.

a) Exchange Offers

Exchange offers could also be the exchange of debt or preferred shares for common

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stock.

b) Share Repurchase

It implies that the corporation buys – back some fraction of its outstanding shares of common shares. Tender offers could also be created for share repurchase. If the proportion of shares purchased is substantial, the result could also be to vary the management structure within the firm.

c) Going non-public

Undergoing non-public dealing, the complete equity interest in a very public corporation is purchased by a tiny low cluster of investors. The firm is not any longer subject to the rules of SEBI and/ or stock exchanges. Going non-public transactions generally embrace members of the incumbent management cluster WHO obtains a considerable proportion of the equity possession of the freshly non-public company.

d) Management Buyouts

If in a very going-private dealing, the incumbent management initiates the dealing, it's mentioned as a management buy-out.

e) Leveraged Buyouts

When funding from third parties are organized by a tiny low cluster of outdoor investors for providing funds and for securing illustration on the non-public company's Board, in a very going-private dealing, it's mentioned as leveraged buyouts.

Session 3: Major forms of Mergers forms of Merger

Mergers could also be horizontal, vertical or conglomerate.

- A horizontal merger could be a combination of 2 or a lot of companies in a very similar variety of production, distribution or space of business.
- A conglomerate merger could be a combination of companies engaged in unrelated lines of commercial activity. what is more, these could also be friendly or hostile.

Horizontal Merger

A horizontal merger represents a merger of companies engaged within the same line of business (i.e.) manufacturing similar merchandise or giving a similar service. Ex: Associated Cement Company. A horizontal merger will take any of the subsequent forms:

- a) Complementary merger,
 - b) Competitive merger, and
 - c) Geographical merger.
- a) Complementary Merger

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a) Complementary Merger Under established a merger between corporations that has tested experience in numerous fields crop up **Example: bank fundamentals that's good in market operations mergers with Bank XYZ notable for treasury operations**

b) Competitive Merger This is merger between corporations that share common field of specialization. this kind of merger might even produce apple noncompetitive scenario that field. as an example, once 2 producing business that square measure market leaders in Forex business merge into one entity and consequently eliminate all competition and acquire apple stranglehold.

c) Geographical Merger This is a merger between corporations having presence in 2 completely different regions. **Example: producing sector XYZ having presence in northern region merges with producing Sector fundamentals that has sturdy presence in southern region to extend their market share.**

Vertical Merger

A vertical merger represents a merger of firm engaged at completely different stages of production in AN business (i.e.) producing completely different product however having client provider relationship whereby the merchandise of 1 company is employed as staple by the opposite company.

Conglomerate Merger A conglomerate merger represents a merger of companies engaged in unrelated lines of activities (i.e.) a totally completely different business with no necessary common factors between them in production, marketing, analysis and development or technology.

In any variety of merger of listed corporations, parties like shareholders, the creditors, the staff, the government through monopoly commissions, the loaning money establishments, the stock exchanges, high courts, etc. become involved. Industry Lifecycle section and M&A

M&A activity will vary counting on the acquirer and/or targets innovate the business lifecycle. • **Pioneering Phase:** start-up founders might like better to “cash out” of their promising ventures by commerce to larger corporations that square measure seeking growth opportunities. Horizontal and conglomerate mergers. • **Accelerating Growth Phase:** extremely profitable and quick growing corporations in new industries might sell themselves to undergone corporations so as to access capital for business enlargement. Horizontal and conglomerate mergers. • **Mature Growth Phase:** larger corporations with speed growth rates might rummage around for targets with worth potential or targets that may facilitate economies of scale. Horizontal and vertical mergers. • **Industry Maturity Phase:** AN getting company is currently growing round the same pace as that of the economy; it'll rummage around for targets that may increase economies of scale or invest in tiny growing issues that offer come opportunities for shareholders. Horizontal mergers. • **Decline Phase:** overall business is shrinking; AN acquirer might rummage around for synergies, to shop for profitableness of younger companies, or to easily survive. Horizontal, conglomerate, and/or vertical mergers. **Capital Budgeting:** Capital budgeting is that the analysis and choice of long investments on the premise of their prices and potential returns. the method provides a framework for formulating and implementing the acceptable investment methods. income estimates square measure accustomed verify the economic viability of long investments. The incomes of a project square measure calculable victimization discounted and non-discounted money flow ways.

Definition and mensuration of money Flows & Capital Budgeting Basis for Firm Valuation
Discounted Money Flows Discounted income, or DCF, ways account for the duration of cash once determinant the viability of comes. now worth is that the modification within the getting power of the greenback over time.

The DCF ways additionally indicate the chance value -- that's, the results of renunciation various investments to form the chosen investment. the most forms of DCF ways square measure internet gift worth, internal rate of returns and therefore the profitableness index.

1. **NPV**, is that the distinction between AN investment's gift worth of money inflows and its gift worth of money outflows. The income estimates square measure determined employing a market-based discount rate; additionally, referred to as a hurdle rate, that accounts for the duration of cash. NPV expresses the wealth generation impact of an investment in greenback terms. The rule of thumb is to just accept capital investments with positive money flows and reject those with negative money flows. this can be as a result of a positive NPV confirms that the investment's income can sufficiently compensate its prices, the price of funding and therefore the underlying income risks.

2. **Internal Rate of come Internal rate of come, or IRR**, is that the rate at that AN investment is predicted to get earnings throughout its helpful life. IRR is truly the discount rate that pushes the NPV to zero. this can be additional or less the discount rate at that this worth of money outflows equals this worth of money inflows. settle for a capital investment if the IRR is larger than the price of capital, and reject it if the IRR is not up to the price of capital.

3. **profitableness Index** The profitableness index, or PI, is that the quantitative relation of AN investment's NPV. It shows the quantitative relation of this worth of money inflows to this worth of money outflows. This methodology facilitates the ranking of investments, particularly once managing reciprocally exclusive investments or distributed capital resources. settle for a capital investment once the PI is larger than one, and reject it once the PI is a smaller amount than one. Non discounted money Flows Non-DCF ways don't account for the duration of money; they assume the worth of the greenback can stay constant over the economic lifetime of a capital investment. The payback amount, or PBP, is that the solely non-DCF methodology that uses income estimations. PBP is that the length it takes to recover the initial capital of AN investment. Investments with short PBP square measure most well-liked over investments with longer PBP. However, this methodology has major shortcomings, as a result of it doesn't show the temporal order of money flows and therefore the duration of cash.

Risk Analysis

Market knowledge is difficult to find; the business valuation skilled might intercommunicate the financial gain approach. This approach converts future expected economic edges — typically, income — into a gift worth. as a result of this approach bases worth on the business's ability to get future economic edges, it's typically best fitted to established, profitable businesses. The capitalization of earnings methodology capitalizes calculable future economic edges mistreatment associate acceptable rate of come back. The skilled considers changes for such things as discretionary expenses (for example, for above- or below-market owner's

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compensation), nonrecurring revenue and expenses, uncommon tax problems or accounting strategies, and variations in capital structure. This methodology is most acceptable for corporations with stable earnings or income. The discounted income (DCF) methodology additionally falls underneath the financial gain approach. additionally, to the factors thought of within the capitalization of earnings methodology, the skilled accounts for projected money flows over a separate amount (say, 3 or 5 years) and a terminal worth at the top of the separate amount. All future money flows (including the terminal worth) area unit then discounted to gift value employing a discount rate rather than a capitalization rate. As with the market approach, the financial gain approach will generate a control- or minority-level worth, betting on whether or not discretionary changes area unit created to the longer term economic edges. Important call No universal formula exists for all businesses. Therefore, it's essential for specialists to elucidate why they selected a selected methodology (or methods) over all the potential choices. Application of Capital Budgeting Basis to Four amount Case (Topics: Free income Basis for Valuation - The No-Growth Case - Constant Growth - Supernormal Growth followed by No Growth - Supernormal Growth followed by Constant Growth - Dividend Growth Valuation Model - Comparisons of Valuation Models.) Common stock valuation Stock worth vs. intrinsic value: a get backs Growth rate g : expected rate of growth in dividends $g = ROE * \text{retention magnitude relation}$ Retention magnitude relation = one - dividend payout magnitude relation

Definition of Valuation

1. Valuation is that the art/science of crucial what a security or quality is price

Typically, we will observe a value for a security and that we have an interest in assessing whether or not it's over or underneath valued (e.g., stock analysis); typically, there's no value and that we try to construct one for dialogue or group action functions (e.g., a company is curious about commerce a division). the worth of a security or quality goes to rely crucially on the quality evaluation model we elect. (As we tend to shall see next, the impact is thru the suitable discount rate.) 3. the foremost common quite valuation downside is equity valuation.

Problem 1: The value of bedrock Company's shares is Rs. ten and dividend of Rs. three per share. it's expected that value of share can in increase five %. what's honest worth of this share for one year if discount rate is eight percent? Solution: Answer: Rs. 12.5

Increasing the worth of the Organization: Below area unit a number of the key steps you'll go for accomplish the simplest potential worth for your company.

1. Get your books so as Accurate accounting data and monetary statements area unit a very important component for the effective management of any business, however once it involves commerce your company they additionally offer the simplest live of current and future performance. monetary statements are going to be scrutinised as a part of the due diligence method, thus it's essential that they're correct, up-to-date which any anomalies (for instance, exceptional items) may be explained. Buyers evaluating your company can generally need a minimum of 3 years' of economic statements, ideally audited. additionally, as historic monetary statements, you may have to be compelled to make sure that a sturdy management method of accounting is in place; this could embrace monthly sales, prices and profit data, ideally diminished across the company's totally different revenue streams.

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2. Trying to the longer term Alongside correct current and historical monetary statements, having a comprehensive business and strategic arrange to accompany any monetary forecasts for your business can increase the company's believability within the eyes of potential patrons. A written arrange provides potential patrons or investors with the peace of mind that your business is aware of wherever it's going and the way it'll get there. However, it's necessary that any forecasts area unit supported by elaborated assumptions, and written and confirmed orders can offer forecasts and plans further believability. See our post the way to produce a business arrange to raise investment for a lot of details.

3. Systems and controls Systems and controls area unit the policies and procedures place in situ by a corporation to trace, manage and report financials. {they area unit|they're} enforced to make sure that risks are being managed, which resources area unit being employed with efficiency. They additionally guarantee compliance with laws and rules, and safeguard assets against loss and harm. It's necessary to be able to demonstrate to a prospective emptor that the proper processes area unit in situ for your business to operate effectively, with efficiency and in compliance with all rules and rules, while not requiring the involvement of key management. ensuring that everyone these processes area unit clearly documented can reassure a possible emptor that the corporate will operate effectively from day one, post-sale. Strong controls surroundings also can facilitate to cut back the quantity of warranties and indemnities required as a part of the business sale as a result of the client are going to be a lot of assured that the corporate is in good shape.

4. Contracts and continual revenue Customer contracts, service contracts associated retainers represent important intrinsic worth for a buyer; they supply an assurance of standard financial gain, additionally as making certain that – a minimum of for the length of the contract – customers can stay with the corporate once the sale. So wherever contracts exist already it's necessary to form certain they're up-to-date and enforceable, as they're going to have to be compelled to face up to the scrutiny of economic and legal due diligence. Strengthening existing client contracts (providing they're profitable) – and if potential, confirming new continual revenue streams.

5. Speaking of money flow...

...it is that the preferred issue most potential consumers consider once decisive the valuation to position on a corporation. a corporation which might demonstrate property and growing income gains other credibleness for its product or service, and underlines management's ability to drive growth.

A client may be willing to pay additional for your company if there's a chance of upper and additional sure money flows – notably if the client is considering debt to assist fund the deal, as money flows might be crucial in conjugation that debt.

6. Diversify revenue streams and cut back client concentration

As a smaller company, you will realize that one or two of shoppers generate an outsized proportion of your business revenue. However, any client representing 100 percent or additional of your company's revenue would cause a significant risk to earnings and income if they were to change to a unique provider. therefore wherever doable, aim to cut back client concentration by

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diversifying your company's client base, which can increase the reliability of future revenue streams – and facilitate increase your company's valuation.

Typically, a client can fastidiously review any client relationship that includes quite 100 percent of overall revenue, therefore ensuring that contracts area unit in situ with such customers can facilitate to mitigate part of the concentration risk.

7. The standard of company earnings

The quality of earnings refers to the number of earnings because of exaggerated sales or reduced prices, instead of to any artificial profits created by aggressive accounting policies. It are often wont to predict a company's future earnings, therefore it's a neighborhood that may be notably vital if the client is trying to worth your company on the premise of earnings. a comparatively amendment|chickenfeed|chump change|cash|hard cash|hard currency} within the level of earnings being assessed will convert into a fabric change within the valuation of a corporation once victimisation the earnings basis of valuation, that successively directly influences the thought arranged during a deal. a possible acquirer can, therefore, be notably diligent in assessing the standard of the mercantilism company's earnings.

There area unit steps you'll be able to go for maximize the standard of earnings at intervals your business, as well as applying conservative accounting policies, recording revenue properly, and accurately recording accruals, liabilities and stock.

FIRM VALUATION: PRICE OF CAPITAL AND APV APPROACHES

We examined 2 approaches to valuing the equity within the firm -- the dividend discount model and also the FCFE valuation model. This chapter develops another approach to valuation wherever the whole firm is valued, by either discounting the cumulated money flows to all or any claim holders within the firm by the weighted {average price|monetary worth|price|cost} of capital (the cost of capital approach) or by adding the marginal impact of debt on worth to the unlevered firm worth (adjusted gift value approach). within the method of gazing firm valuation, we have a tendency to additionally consider however leverage could or might not have an effect on firm worth. we have a tendency to note that within the presence of default risk, taxes and agency prices, increasing leverage will typically increase firm worth and typically decrease it. In fact, we have a tendency to argue that the optimum funding combine for a firm is that the one that maximizes firm worth. The Free income to the Firm The free income to the firm is that the add of the money flows to all or any claim holders within the firm, as well as stockholders, bondholders and most popular stockholders.

There area unit 2 ways that of measurement the free income to the firm (FCFF). One is to feature up the money flows to the claim holders, which might embody incomes to equity (defined either as free money flow to equity or dividends), money flows to lenders (which would come with principal payments, interest expenses and new debt issues) and money flows to most popular stockholders (usually most popular dividends).

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FCFF = Free income to Equity + disbursement (1 - tax rate) + Principal Repayments - New Debt problems + most popular Dividends

Note, however, that we have a tendency to area unit reversing the method that we have a tendency to want to get to free income to equity, wherever we have a tendency to deducted out payments to lenders and most popular stockholders to estimate the income left for stockholders. a less complicated method of going to free income to the firm is to estimate the money flows before any of those claims. Thus, we have a tendency to might begin one with the earnings before interest and taxes, internet out taxes Associate in Nursing reinvestment wants and attain an estimate of the free income to the firm.

FCFF = EBIT (1 - tax rate) + Depreciation - cost - D capital

Since this income is before debt payments, it's usually said as Associate in Nursing unlevered income. Note that this free income to the firm doesn't incorporate any of the tax edges thanks to interest payments. this can be by choice, as a result of the employment of the after-tax price of debt within the price of capital already considers this profit and as well as it within the money flows would double count it. FCFF and different income measures

The variations between FCFF and FCFE arise primarily from money flows related to debt interest payments, principal repayments, new debt problems and different non-equity claims like most popular dividends.

For corporations at their desired debt level, that finance their capital expenditures and dealing capital wants with this mixture of debt and equity. As for the employment of debt problems to finance principal repayments, the free income to the firm can exceed the free income to equity. One live that's wide employed in valuation is that the earnings before interest, taxes, depreciation and amortization (EBITDA). The free income to the firm may be a closely connected conception however it takes into consideration the potential liabilities from the earnings likewise as capital expenditures and dealing capital necessities. 3 measures of earnings are usually wont to derive money flows. The earnings before interest and taxes (EBIT) or operative financial gain comes directly from a firm's financial gain statements.

Adjustments to EBIT yield cyber web operational profit or loss when taxes (NOPLAT) or cyber web operational financial gain (NOI). cyber web operational financial gain is outlined to be the financial gain from operations, before taxes and non-operating expenses. every of those measures is employed in valuation models and every may be associated with the free income to the firm. Each, however, makes some assumptions regarding the link between depreciation and capital expenditures that are created specific within the table blow.

Growth in FCFE versus Growth in FCFF can equity money flows and firm money flows grow at identical rate? Consider the place to begin for the 2 money flows. Equity money flows are based mostly upon {net financial gain|net|net profit|lucre|profit|profits|earnings|income} or earnings per share – measures of equity income. Firm money flows are based mostly upon operational financial gain – i.e. financial gain before debt payments. As a general rule, you'd expect growth in operational financial gain to be not up to growth in profits, as a result of money leverage will augment the latter.

Expected growth in profits = Equity Reinvestment rate * come on Equity
Expected growth in operational financial gain = Reinvestment Rate * come on Capital
We conjointly outlined the come on equity in terms of the come on capital:

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When a firm borrows cash and invests in comes that earn over the after-tax value of debt, the come on equity are beyond the come on capital. This, in turn, can translate into a better rate in equity financial gain a minimum of within the short term. In stable growth, though, the expansion rates in equity financial gain and operational financial gain need to converge. To see why, assume that you simply have a firm whose revenues and operational financial gain and growing at five-hitter a year forever. If you assume that identical firm's profits grow at 6 June 1944 a year forever, cyber web financial gain can catch up with operational financial gain at some purpose in time within the future and exceed revenues at a later purpose in time.

In stable growth, therefore, even though come on equity exceeds the come on capital, the expected growth is identical altogether measures of financial gain. Stable Growth Firm as with the dividend discount and FCFE models, a firm that's growing at a rate that it will sustain in sempiternity – a stable rate – may be valued employing a stable growth model.

The Model A firm with free money flows to the firm growing at a stable rate may be valued victimization the subsequent equation: Practice drawback Tube Investments of Bharat could be a heterogeneous producing firm, with its headquarters in South Bharat. In 2019, the firm reportable operational financial gain of Rs. 632.2 million and paid vis aged a charge per unit of half-hour on financial gain. The firm had a value of equity of Rs 3432.1 million rupees and value of debt of Rs. 1377.2 million at the tip of a pair of 019. The firm's come on capital may be calculable as follows: General Version of the FCFE Model Rather than break the free income model into two-stage and three-stage models and risk continuance what was same within the last chapter, we tend to gift the final version of the model during this section. we tend to follow up by examining a spread of corporations – a standard producing firm, a firm with operational leases and a firm with substantial R&D investments – maybe the variations and similarities between this approach and also the FCFE approach.

The Model the worth of the firm, within the most general case, may be written because the gift worth of expected free money flows to the firm. If the firm reaches steady state when n years and starts growing at a stable rate g_n at the moment, the worth of the firm may be written as: Firm Valuation: The APV approach within the adjusted gift worth (APV) approach we start with the worth of the firm while not debt. As we tend to add debt to the firm, we tend to contemplate cyber web result on worth by considering each the advantages and also the prices of borrowing. To do this, we tend to assume that the first advantage of borrowing could be a tax write-off which the foremost important value of borrowing is that the additional risk of bankruptcy. The Mechanics of APV Valuation We estimate the worth of the firm in 3 steps. we start by estimating the worth of the firm with no leverage. we tend to then contemplate this worth of the interest tax savings generated by borrowing a given quantity of cash. Finally, we tend to judge the result of borrowing the number on the chance that the firm can go bankrupt, and also the expected value of bankruptcy. worth of Unlevered Firm the primary step during this approach is that the estimation of the worth of the unlevered firm. this will be accomplished by valuing the firm as if it had no debt, i.e., by discounting the expected free income to the firm at the unlevered value of equity. within the special case wherever money flows grow at a continuing rate in sempiternity, the worth of the firm is well computed Where $FCFF_0$ is that the current after-tax operational income to the firm, letter is that the unlevered value of equity and g is that the expected rate. In the additional general case, you'll worth the firm victimisation any set of growth assumptions you think ar affordable for the firm. The inputs required for this valuation ar the expected money

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flows, growth rates and also the unlevered value of equity. To estimate the latter, we are able to draw on our earlier analysis and reckon the unlevered beta of the firm. This unlevered beta will then be wont to hit the unlevered value of equity.

The method of payment in M&A

On the one hand, acquiring companies might choose to finance the deal with cash. This is the most straightforward method, which seems to come without any ambiguity. There is a price for the desired company to take over or to merge with, which has to be paid in the correct currency. On the other hand, there is the option of paying for the deal with equity. In this case the acquiring company pays with their own shares, which all represent a certain value.

The difficulty here however, lies in the fact that nobody can assure themselves of knowing the exact value of the equity, and therefore the exact price the acquirer is willing to pay.

Of course, as a third option, also a mixture between these methods is possible and frequently used. In this case a part of the deal is financed with cash and the other part is financed with equity. Finally, in rare cases, the payment is done by exchanging other financial assets, like bonds or convertibles. However, in the majority of the cases the payment is done by one of the first three options. Therefore, only these options will be elaborated further in the remainder of this thesis.

Whereas pure cash was the predominant method of payment during the first merger wave, equity turned out to be so during most of the other waves in history. Martynova and 17 Renneboog (2006) found confirming evidence, showing a decrease in the proportion of all cash acquisitions of 50% in the 1990s, compared to the 1980s. This separation between different payment methods might raise the question why a company would choose for the option of either paying in cash, in equity or by using a mix of the two. Following the theory developed by Modigliani and Miller (1958), in a perfectly efficient world with symmetric information, investors or shareholders would be indifferent between either cash or equity payments.

Cash payments

For example, could be compared to the distribution of dividends to shareholders, whereas equity payments could be compared to the buyback of outstanding shares, raising the share value of the existing shareholders. All information is reflected in the share prices and therefore there would not be any difference. However, the real world differs from their theoretical framework and therefore their theory is not completely applicable. In their research, Franks, Harris and Mayer (1988) discussed various implications of either paying in cash or in equity.

At first, there is the **tax hypothesis**. The different means of payment have different implications on the tax liabilities of the shareholders of the target company. In case of an equity deal, in which the shareholders of the target firm decide to accept the shares of the acquiring company, there is no immediate capital gain for the target firm's shareholders. In this way, they avoid the realization of a direct capital gain tax payment. This tax payment is postponed until the moment the shares are sold.

However, when the method of payment is cash rather than equity, an immediate obligation is created and the investors are forced to pay the capital gain tax at that moment. This effect is a

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huge advantage for equity deals compared to cash deals. With only this implication, there is no justification for the use of cash deals and only equity deals are likely to occur from the target company's point of view. Hence, in order for targets to be **indifferent between either cash or equity, the cash option should generate benefits before tax.**

This can be achieved by paying higher bid premiums when paying with cash compared to paying with equity (Wansley, Lane and Yang, 1983). Neutralizing this imbalance, also cash deals face some tax benefits, albeit for the acquiring company. When using cash to acquire another company, under US tax code the acquiring firm is allowed to raise the depreciation basis of the assets they acquired, against the market value instead of the book value (Travlos, 1987). Therefore, in case the market value of the target's assets is higher than the book value, this leads to higher depreciation allowances. Since these higher depreciation allowances are tax deductible, it is an advantage for cash bids compared to equity bids. However, this benefit is only applicable under US tax code and not globally. Furthermore, also the owners of equity of the acquiring firm, might be affected by tax implications. The disincentives to use cash mentioned earlier, might be offset by tax benefits the acquiring shareholders face, depending on their tax positions. In case a company has excess cash, it could for instance choose to distribute dividends to the shareholders, taxed at their personal income tax rate. However, the company could also choose to use this cash to acquire another company's assets. This might be attractive, since the cost of purchasing assets in the corporate sector is lower than buying the assets from the incorporated sector (Franks, Harris and Mayer, 1988). This might help the company to grow, which could lead to capital gains for the shareholders, taxed at the capital gain tax rate. Therefore, in case the capital gain tax rate is lower than the personal income tax rate of the shareholders, executing an acquisition by using cash might be more tax efficient. Next to the tax effect, there is also the signaling or information asymmetry hypothesis.

In a world **with asymmetric information, paying by either cash or equity, might signal important information to the market.** Within asymmetric information, it could be the case that the acquiring firm has more information about the intrinsic value of the company, which has not yet been reflected in the current share price. In this case, it will finance the deal in the for their existing shareholders most profitable way.

Myers and Majluf (1984) developed a model so as to capture the consequences of knowledge imbalance and therefore the issue of recent equity. Amongst others, this model shows that the management of the deed firm prefers to use equity as means that of payment, if they need info the equity of their own firm is overvalued. It additionally works the opposite method around; deed firm's management prefers money if they understand their own equity as undervalued. consequently, regarding verity price of the deed firm, the market perceives Associate in Nursing equity bid as unhealthy news, as a result of it provides the impression of overvalued equity, and a money bid pretty much as good news. Therefore, the acquirer announcement returns square measure expected to be higher for money deals than for equity deals. within which cases and to what extent these returns square measure higher are mentioned in a while during this section. Target firms are tormented by the data imbalance and it may verify their desired technique of payment. Whereas the tax result in most cases ends up in a target's preference for equity deals rather than money deals, the data imbalance issue ends up in a target's preference for money instead of equity. After all, by paying in money instead of equity, there's no ambiguity regarding the whole quantity the acquirer is willing to pay. So, it will be complete that, regarding the data

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imbalance result, each parties get pleasure from money deals. Finally, as a 3rd implication, there's the leverage issue. This issue is an element of the larger hypothesis concerning the agency price of free income. Lewellen (1971) showed that the default nineteen risk of the incorporate entity will decrease, as long because the money flows of the 2 merging firms don't seem to be absolutely related. Since it's extraordinarily rare for money flows of 2 completely different firms to be absolutely related, this can be nearly always the case. thanks to this cut default risk and therefore the co-insurance have an effect on, plan. that is closely associated with the concept of diversification, the debt capability will be augmented and therefore the worth of this debt, in terms of the charge per unit, will be cut. Hence, combining 2 companies has positive effects on debt, during a method of either creating it cheaper or increasing the debt capability. Besides, by increasing the quantity or proportion of leverage, the interest or reimbursement obligations square measure augmented yet. so as to take care of these liabilities, management is pre-committed to get stable and high enough money flows. Therefore, from an explicit level onward, the quantity of debt prevents the waste of free income and helps increasing stockholder price. Or, as writer (1988) describes, "Debt reduces the agency price of free income by reducing the income accessible for disbursement at the discretion of managers." At now the connection between the advantages and disciplining role of debt and therefore the technique of payment comes into play. once a corporation acquires or merges with another and pays by victimization money, this money isn't continuously money the corporate already has existing. it would even be that the deed company obtains a loan or problems a bond so as to lift the mandatory quantity of money. Hence, so as to complete the M&A, it will increase their debt, that reduces the agency prices. On the contrary, once paid by equity, the proportion of debt inside the capital structure doesn't increase and may even decrease. due to the advantages and therefore the disciplining result of debt, the market and therefore the shareholders of each the bidding and therefore the takeover target understand a money supply pretty much as good news Associate in Nursinging an equity supplies as unhealthy news. Therefore, additionally this issue contributes to higher expected announcement returns for money bids compared to equity bids. once having detailed the various kinds of payment and therefore the motives to use either of them, the empirical results as found within the literature are mentioned. it'll be checked if the empirical findings square measure in line with the represented theory. As declared before, each the leverage issue, that is an element of the agency price of free income hypothesis, and therefore the sign or implication hypothesis predict Associate in Nursinging outperformance of money deals compared to equity deals. On the opposite hand, the tax issue doesn't cause a transparent prediction of outperformance of either money or equity deals. notwithstanding, as mentioned before, due to the tax advantages for equity deals, money deals square measure expected to face pre-tax advantages, resulting in higher bid premiums. Wansley, Lane and rule (1983) dead one amongst the leading studies during this field, within which they found leads to line with the idea. work returns of non-heritable companies round the twenty announcement date of the deal, they found well higher abnormal returns for money takeovers compared to equity takeovers. However, they contributed most of the distinction to the tax result and variety in regulation, facilitating money deals. additionally, once observing deed companies, variations in wealth gains square measure found in literature. for example, Travlos (1987) rumored higher additive abnormal returns for deed firms just in case they're concerned in money deals, compared to their involvement available deals. regarding the long effects of the strategy of payment, additionally completely different studies are conducted. Loughran and Vjih (1997) found a link between post-acquisition returns and therefore the mode of acquisition, either offer or merger, and therefore the technique

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of payment, either money or stock. work the 5 years following the dealings, on the average they found a negative excess come back of -25.0 % for companies concerned available mergers. For money tender offers, the simplest playing cluster, they found positive vital abnormal returns of sixty one.7 percent. additionally, once dominant for the mode of acquisition – since tender offers square measure additional prefer to be paid in money and mergers square measure additional doubtless to be paid available (Martin 1996) – they found vital variations.

Determinants	Effect on the payment method of M&A	Effect on acquirer abnormal returns	Evidence
Financial Leverage	1) High Financial leverage acquiring Companies use less cash financing and likely to finance with stock. 2) Moderate financial leveraged acquiring companies have no effect on choice of payment methods in M&A.	Highly leveraged firm uses stock financing lead to better abnormal returns.	(Uysal, 2011) ;(Trifts, 1991)
Free Cash Flow	More Cash availability with the acquiring company refers to making use of cash financing as a means of payment in M&A deal.	Large cash availability may attract management to go for expansion of business and that is expected to have a negative influence on abnormal returns.	(Jensen, 1986) (Martin, 1996)
Relatedness	Stock payment method is more likely to be used in the related M&A deal.	Related M&A deal shows positively effect on acquirer abnormal returns.	(Faccio & Masulis, 2005)
Size of the deal	Stock financing has a positive relation to M&A deal size.	Deal size is positively affects the abnormal return of acquiring company.	(Swieringa & Schauten, 2007); (Faccio & Masulis, 2005)
Tax considerations	Stock financing is used to take advantage of immediate tax payment than other payment methods.	More tax payment leads to a negative impact on abnormal returns.	(Ayers, Lefanowicz, & Robinson, 2004); (Travlos, 1987) (Brown & D.Ryngaert, 1991)
Tobin's Q	There is a negative relationship between Tobin's Q and use of cash financing as a payment	Acquirer abnormal returns are significantly higher for greater Tobin's Q acquirer than lower Tobin's Q	(Boateng & Bi, 2013); (Martin, 1996); (Doukas, 1995)

Theories of Mergers & Acquisition

Generally, M&As square measure driven by the motive of skyrocketing the shareholder's wealth ensuing from bigger potency, diversification, market power, and also the like. The synergistic gains from M&As might result from additional economical management, economies of scale and scope, improved production techniques, the mix of complementary resources, the deployment of assets to additional profitable uses, the exploitation of market power, or any range of value-creating mechanisms that constitute the rubric of company strategy.

M&A can also be driven by non-value maximising motives, like empire building by company executives or by government's objective to form the industry additional stable. Mergers can also be undertaken on account of highhandedness on a part of the managers. Consolidation is driven by sort of forces like liberation, technology, economic process and monetary distress. Different theories are evolved by researchers and analysts over the years to elucidate the motives behind

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company M&As. we tend to discuss all of those theories to grasp the motives behind enterprise M&As. 1 potency Theories These theories recommend that the M&A that deploy the resources have potential for social edges. they supply a mechanism by that the capital of the firm is reallocated for higher uses. they often involve up the performance of the target management or achieving a variety of action. potency theories square measure additional studied underneath separate headings as all of them might justify differing types of mergers.

1.1 Differential potency

Theory The differential potency theory assumes that there square measure 2 styles of corporations on the idea of their potency, economical corporations and fewer economical corporations. The differential potency theory conjointly assumes that Associate in Nursing economical firm acquires less economical firm and will increase the amount of potency of such a firm to the amount of potency of deed firm. the amount of potency within the economy would be raised by such mergers and thus, mergers square measure thought of to be of social gain. the speculation suggests that there square measure corporations with below average potency or that aren't operative up to their potential. it's additional urged that corporation's operative in similar forms of endeavour would be presumably to be the potential acquirers.

1.2 **Inefficient Management** This is the same as the conception of social control unskillfulness however with a distinction. in line with this theory, inefficient management means the management of a selected company is just not acting up to its potential. Another management cluster is in a very position to manage the assets of the firm additional effectively. Inefficient management merely represents management that's incompetent within the complete sense.

1.3 Synergy

Synergy implies a state of affairs wherever the combined firm is additional valuable than the add of the individual combining corporations. Van Home (1990) defines it as 'two and 2 is up to 5' ($2 + 2 = 5$) development. action refers to edges aside from those associated with economies of scale. operative economies square measure one variety of action edges. However, except operative economies, action can also arise from increased social control capabilities, creativity, innovations, analysis and development and market coverage capability thanks to the complementarities of resources and skills and a large horizon of opportunities. The action is also of 2 types: operative action and monetary action. The operative action theory postulates economies of scale or scope and people mergers facilitate reach levels of activities at that they will be obtained. It includes the conception of complementarities of capabilities. The monetary action theory hypothesizes complementarities of investment opportunities and internal money flows. A firm in a very declining trade can manufacture giant money flows since there square measure few enticing investment opportunities. A industry has additional eighteen investment opportunities and no internal money flows. A merger of 2 corporations, with unsteady, however negatively correlate money flows, will bring stability of money flows of the combined firm. the steadiness of the money flows reduces the danger of financial condition and enhances the capability of the new entity to service a bigger quantity of the debt.

1.4 Pure Diversification

Pure diversification theory of mergers differs from shareowner portfolio diversification. Shareholders will expeditiously unfold their investments and risk among industries, so there's no want for corporations to diversify for the sake of their shareholders. Managers and staff, however, square measure at a bigger risk if the one trade within which their firm operates ought to fail, their firm specific human capital isn't transferable. Therefore, corporations might diversify to encourage firm specific human capital investments that create their staff additional

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valuable and productive and to extend the chance that the organization and name capital of the firm are going to be preserved by transfer to a different line of business in hand by the firm within the event its initial trade declines.

1.5 Strategic realignment to dynamical environments Strategic alignment theory suggests that corporations use the strategy of M&A to quickly benefits changes in their external environments. Strategic designing worries with the firm's atmosphere and its constituencies. The strategic designing approach to merger implies that there's an occasion of achieving economies of scale or victimization the underutilized social control capability of the firm. it's going to conjointly mean that by external diversification the firm acquires management skills required for increasing its gift capabilities.

1.6 Evaluation

One of the motives of corporations resorting to merger is that the evaluation of the company. evaluation refers to the target being value quite what it's really valued within the market. The reason for evaluation is also that the management isn't operative the corporate up to its potential (inefficient management). A firm can also be undervalued on account of the possession of the within info by the acquirers that the overall market doesn't have and consequently, they'll place a better price on the shares than presently within the market. The q-ratio is additionally associated with the evaluation theory. corporations will acquire assets for growth additional cheaply by shopping for the stock of existing corporations than by shopping for or building assets once the target's stock worth is below the cost of its assets.

2. Information and Signaling

A tender offer in the acquisition spreads the information that the target shares are undervalued and immediately the market revalues those shares even if the offer turns out to be unsuccessful. A hypothesis based on this empirical observation posits that new information is generated as a result of the tender offer and the revaluation is permanent. The signaling theory is a variation of the information hypothesis. It states that certain actions convey other significant forms of information. A firm receiving a tender offer may give a signal to the market that it possesses extra value which was not recognized by the market earlier. It may also signal that the future cash flows of the firm are likely to rise. When the acquirer uses stock to buy a firm, this may be taken as a signal by the target and others that the common stock of the bidder firm is overvalued. When a firm buy back its own share, the market may take it as a signal that the management has information that its shares are undervalued and there are growth opportunities for the firm.

3. Agency Problems and Managerialism

Agency problems may-result from conflict of interest between

(1) Managers &shareholders

And (or) between

(2) Shareholders & debt holders.

Agency problem arises when managers own only a fraction of the ownership shares of the firm. The partial ownership may cause managers to work less vigorously than otherwise and/or to consume more perquisites (luxurious offices, company cars, membership in clubs)

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because the majority owners bear most of the cost. Managerialism theory considers mergers as a manifestation of agency problems rather than a solution.

The *managerialism theory* is put forth by Mueller (1969). Mueller hypothesizes that managers are motivated to increase the size of their firms. He assumes that the compensation to managers is a function of the size of the firm and he argues, therefore, that managers adopt a lower investment hurdle rate. It is argued that managers seek to diversify because it is expected to increase their compensation, power and prestige, or make their positions with the firm more secure (i.e., entrench themselves) by making investments that require their particular skills via manager-specific investments. However, findings of recent studies are not consistent with the managerial hypothesis and therefore, the validity of this theory is questioned. The hubris theory is another variant of the agency cost theory. It implies that acquiring firm managers commit errors of over-optimism in bidding for targets. This hypothesis was first proposed by Roll (1986). Roll hypothesizes that managers commit errors of over-optimism in evaluating merger opportunities due to excessive pride, animal spirits, or hubris. Roll uses this hypothesis to explain why managers might pay a premium for a firm that the market has already correctly valued. Roll's argument is that managerial pride makes managers believe that their valuation is superior to that of the market. Therefore, the takeover phenomenon is a result of hubris on the part of bidders, the overbearing presumption that their valuation is correct.

4. Free Cash flow hypothesis

Jensen (1986) defines free cash flow as 'cash in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital'. Jensen's free cash flow hypothesis states that takeovers take place because of the conflicts between managers and shareholders over the payment of free cash flows. The theory posits that managers have a tendency to invest 'free cash flow' in negative net cash flow projects, which is contrary to the shareholders' wealth maximization policy. According to him, this agency problem is particularly severe for firms with substantial free cash flow and limited growth potential and where consideration for acquisition is equity rather than cash or debt.

5. Market Power: Market power theory argues that merger gains are the result of increased concentration leading to collusion and monopoly effects. Merged firm by limiting the competition can earn super-normal profit and strategically employ the surplus funds to further consolidate its position and improve its market power. The market power enhances the profit margin of the merged firm either by increasing the prices to be paid by the buyers or by forcing the suppliers to accept lower prices or by reducing the compensation payable to the employees.

6 Taxes

Tax effects can be important in mergers, although they do not play a major role in explaining M&A activity overall. Carry-over of net operating losses is the tax motivation for managers. If a firm has current operating losses, its merger with another firm with current taxable profits can result in a net gain at the expense of the government. In the mergers, losses are used to reduce the taxes owed.

7. Redistribution

Redistribution theory states that the value increases to shareholders in takeovers come at the expense of other stakeholders in the firm. It is argued that the source of the gains represent redistribution among the shareholders from a number of other stakeholders. Expropriated stakeholders under the redistribution hypothesis may include bondholders, the government (in the case of tax savings) and organized labour. The redistribution among the shareholders may take place from bondholders in the form of reduced values, labour in the form of reduced wages and/or reduced employment and consumers in the form of restricted supply and/or higher prices. The discussion of above theories of merger motives developed by researchers over the years explains the possible motives behind undertaking M&As. It is also clear from the merger theories discussed above that M&A may be undertaken for varied motives. Motives for undertaking M&A may vary from merger to merger. Further, more than one factor may motivate a firm to undertake an M&A transaction.

Summary

Some of the motives influencing the M&A transaction may include:

- to achieve synergy-operating or financial;
- to enhance profitability and to enhance shareholder's wealth;
- to achieve economies of scale and scope;
- to enter into new product markets;
- to enter into new geographical markets;
- to increase the market share; to accelerate growth;
- to broaden client base for existing merchandise and services of effort firm;
- to accumulate professional talent from target company;
- to eliminate or scale back competition;
- to guarantee prompt/timely provide of raw material;
- to diversify risk by merging corporations in unrelated business;
- to scale back tax liability; • to eliminate money constraint;
- to deploy/invest surplus cash;
- to replace the inefficient target management;
- to enhance debt capacity;
- to raise extra capital at a reduced cost;
- to offer extra services to the prevailing clients;
- to deploy underutilized assets/resources (human and physical and social control skills) for economical uses;
- to circumvent government regulations;
- to overcome the matter of slow growth and profit of acquirer's business (to overcome the matter of slow growth and profit of a firm in a very mature/declining industry);
- to stop bankruptcy prices of the target company;
- to react to its competitors;
- to utilize the superior/advanced technologies of the nonheritable company within the performance of the effort company;

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- to utilize effort company's experience in promoting, production, or alternative areas of uninheritable company;
- to avail tax benefit; and to serve social control self-servicing objective; and on account of hauteur behavior.

Topics covered:

Sell-Offs and Divestitures: Definition and Examples - Divestiture - Background on Divestitures - money Effects of Divestitures - Analysis of Divestitures Motives for Divestitures - Case Illustrations of Spin-offs and Divestitures - Voluntary Liquidations and Takeover Bust-ups. Sell-Offs and Divestitures: Definition and Examples Divestiture is that the sale of associate plus by an organization.

There are four main kinds of divestitures, namely: spin-offs, sell-offs, carve-outs, and pursuit stocks. a company sell-off could be a divestiture operation within which a parent firm sells a number of the assets in its portfolio, which may embody each physical assets and business subsidiaries.

Divestitures are method for an organization to manage its portfolio of assets. Divested business segments could also be spun off into their own corporations instead of enclosed bankruptcy. In divestiture strategy involves the sale of the subsidiary or product to a different company. The parent company decides that it now not is the simplest owner of that portion of the business. In some cases, uncalled-for consumers can approach to shop for the subsidiary. Examples of divestitures embody commerce property rights, company acquisitions and mergers, and court-ordered divestments. Example: GE divests GE Capital In the year 2015, parent company General Electrics set it might become independent from its GE Capital business as a part of a reorganization arrange. in step with a piece of writing by Fortune, investors likable this dealing for following reasons:

- Share buybacks could also be a far better use of capital
 - Investors don't like conglomerates (i.e., there's a "diversified discount" applied to their valuation)
 - Earning a come on capital higher than your price of capital creates worth (a reason to sell GE Capital)
- Divestitures Sale Motives: –De-conglomeration / Increasing company Focus –Moving aloof from the core business –Assets ar value a lot of to the customer than to the vendor –Satisfying government needs –Correcting past mistakes –Assets are meddlesome with profitable operation of alternative businesses Read Fortune's article on the sale of the business and ulterior restructuring of the remaining operations.

Background on Divestitures Best divestures approach

1: to form an avid Team The best divestures approach is that their counterparts in company development bring back acquisitions. they need established sell-side groups, that ar perpetually screening their company's portfolio for divestiture candidates and ar frequently thinking through the temporal arrangement and implementation steps required to maximize stockholder worth.

2: check for work and worth The executives ar captive to divest not once it's best for the corporate however as a reaction to the variation. They're most reluctant to sell assets once economic conditions ar sensible and potential asking costs ar at their highest, and that they can't wait to sell once the economy slows, values fall, and consumers dry up. By adopting the work and worth tests, corporations become much better able to sell at the proper time.

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The benefits of this approach are twofold: Divested assets sometimes fetch higher costs as a result of corporations are able to sell on their own terms, and markets are a lot of forgiving of such a strategic readjustment once investors expect the corporate can grow at an intoxicating pace as a result.

3: arrange for De-Integration Many corporations opt for outright sale, either to strategic consumers or to personal equity or alternative money consumers. A good example of the previous is Ford's sale of its premium Land Rover and Panthera onca automotive vehicle lines to India's Tata Motors.

4: It Impart a Compelling Logic for consumers and staff The best divestitures clearly communicate what's within the deal for all concerned. This entails having convincing—and honest—answers to four questions: • What actions ought to be taken to enhance the profit of the divestiture candidate to fuel its growth? • How long can it take the customer notice (to attain) the deal's full potential worth? (The quicker an acquirer will realize the rise in value, the a lot of it'll be willing to purchase the divested business.) • How ought to the worth that may be unsecured through divestiture be split between the customer and also the seller? • How can we tend to encourage and encourage the individuals within the business to stay it buzzing on till the deal closes (and beyond)?

Deciding once to Sell: money analysis of Divestitures

1. Estimate unit's after-tax money flows viewed on a standalone basis, fastidiously considering dependencies with alternative operative divisions
2. Determine acceptable discount rate
3. Calculate the unit's PV to estimate enterprise worth
4. Calculate the equity worth of the unit as a part of the parent by deducting the market price of liabilities
5. Decide to sell or retain the division by scrutiny the market price of the division (step 3) minus its operative liabilities (step 4) with the after-tax payoff from the sale of the division.

Divestiture process steps

		BUYER'S PERSPECTIVE		
		Differentiating (competitive advantage)	Competitive necessity ["table stakes"]	Nonessential
SELLER'S PERSPECTIVE	Differentiating (competitive advantage)	IN DEMAND Both sides need the skills and technologies. This situation is most common in a partial divestiture, and the terms may depend on the seller's need for cash.	MUTUAL GAIN, WITH MORE AT STAKE FOR SELLER Both sides should exercise caution; otherwise, buyer may end up overpaying, while the seller risks losing essential staff or technologies.	UNLIKELY DEAL Neither seller nor buyer has reason to proceed.
	Competitive necessity ["table stakes"]	MUTUAL GAIN, WITH MORE AT STAKE FOR BUYER Both sides should exercise caution, or seller may end up retaining too much, and the buyer may not gain everything it needs.	MUTUAL GAIN, WITH FRUGALITY During the sale, both sides should think about the investment required and whether to begin arrangements for outsourcing. The two sides might even collaborate to share operations and expenses after the deal.	BUYER BEWARE The buyer has little or no interest in these capabilities, but the seller may use this as an opportunity to reduce its ongoing costs by selling off some of its operations.
	Nonessential	MUTUAL GAIN Potentially a good deal for both sides; make sure the buyer gets every aspect of these capabilities and the products and services associated with them.	BUYER'S BARGAIN OPPORTUNITY The buyer gains from these capabilities, and should not have to pay very much for them.	BOTH SIDES BEWARE Both sides have an interest in making sure that they don't end up with these capabilities and the activities associated with them. Explore selling to a third party.

Source: Booz & Company

Divestiture Selling Process

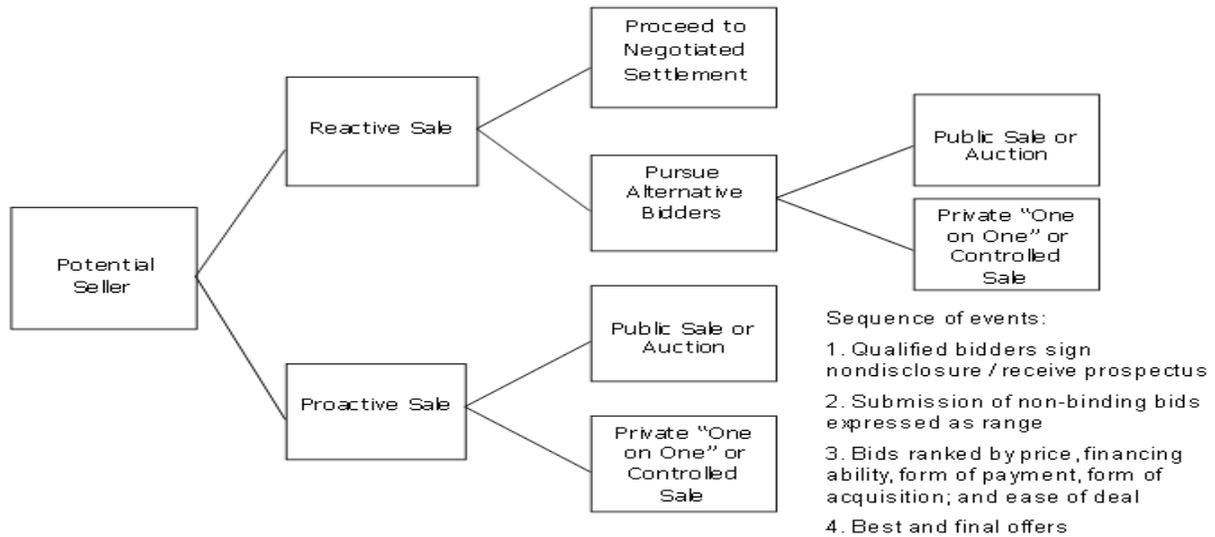
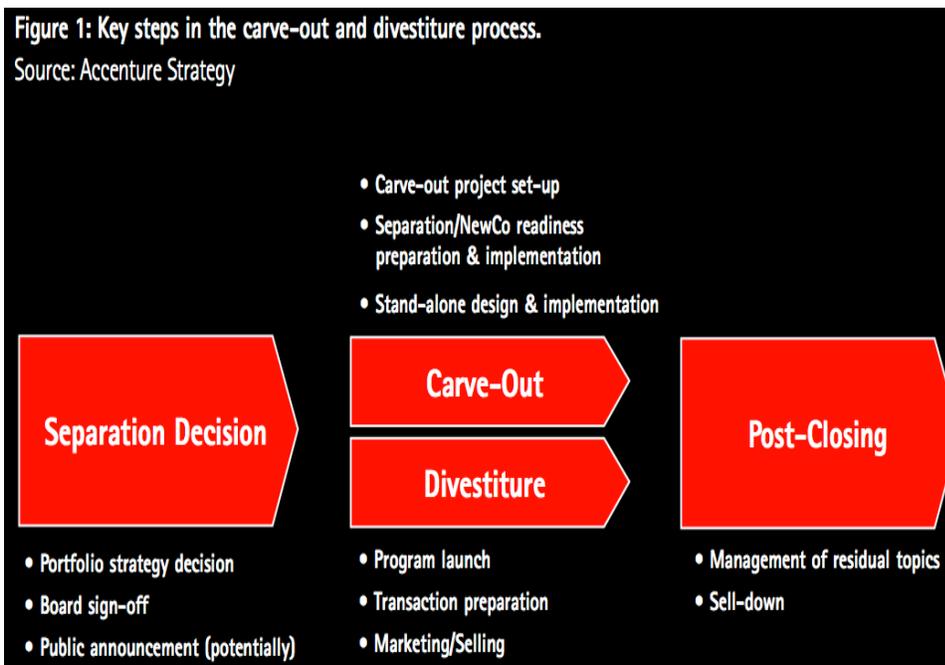


Figure 1: Key steps in the carve-out and divestiture process.

Source: Accenture Strategy



1) Equity Carve-Outs non-public Firm Sells: a little of Its Equity to the general public Public/Private Equity Markets Parent Firm Sells a little of Its Subsidiary Stock to the general public Public/Private Equity Markets Subsidiary of Parent Firm Initial Public giving Subsidiary Equity Carve-Out money Stock Subsidiary Stock money Split-Offs It is a variation of a production during which some parent company shareholders receive shares in a very subsidiary reciprocally for his or her parent shares. (e.g., AT&T spun-off its wireless operations in 2001 to its shareholders for his or her AT&T shares)

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This strategy is often used once a parent owns a but 100 percent investment stake one in a very subsidiary so as to: –Reduce pressure on the spun-off firm’s share value, as a result of shareholders UN agency exchange their stock square measure less seemingly to sell the new stock and –Increase the parent’s EPS by reducing the quantity of its shares outstanding –Eliminate minority shareholders in a very subsidiary. Example: kraft paper Foods Splits-Off Post Cereals in Merger-Related dealings Voluntary Liquidations or Bust-Ups This is the sale of all of a firm’s individual in operation units when paying off any remaining outstanding liabilities, after-tax take square measure came back to the parent’s shareholders and also the company shell is dissolved. This different is employed if management views the expansion prospects of the consolidated firm as slender. Summery Divestitures, spin-offs, equity carve-outs, split-ups, split-offs, and chase stock square measure common restructuring methods to reinforce shareowner price. Joint Ventures Topics enclosed -Tax Aspects of Joint Ventures - International Joint Ventures - principle for Joint Ventures - Reasons for Failure - Joint Ventures and Anti-Trust Policy A venture (JV) could be a business entity created by 2 or additional parties, typically characterised by shared possession, shared returns and risks, and shared governance. Most joint ventures square measure incorporated, though some, as within the oil and gas trade, square measure "unincorporated" joint ventures that mimic a company entity. Key components of a joint venture's style include: 1) the variety of parties; 2) the geographic, product, technology and value-chain scope inside that the squad can operate; 3) the contributions of the parties; 4) the structural kind (each country has specific choices, e.g. in the U.S. the most choices square measure a C Corporation or AN LLC/partnership structure); 5) the valuation of initial contributions and possession split among the parties; 6) the economic arrangements, post-deal (e.g. is that the venture meant to general profits vs. operate as a cost-sharing or production-sharing venture; if a for-profit entity, can the parties share profits in proportion to equity possession, or another way?); 7) governance and control; 8) Talent/HR model (will the squad have its own employees on own payroll vs. second employees from the parent firms; 9) written agreement arrangements with the parent companies for inputs, outputs or services; 10) exit and evolution provisions? firms generally pursue joint ventures for one in every of four reasons: to access a brand new market, notably rising markets; to achieve scale efficiencies by combining assets and operations; to share risk for major investments or projects; or to access skills and capabilities. In European law, the term 'joint venture' (or joint undertaking) is AN elusive legal conception, higher outlined beneath the principles of company law. In France, the term 'joint venture' is multifariously translated 'association d'entreprises', 'entreprise conjointe', 'coentreprise' or 'entreprise commune'. In Germany, 'joint venture' is healthier delineated as a 'combination of companies' (Konzern). With people, once 2 or additional persons move to make a short lived partnership for the aim of effecting a specific project, such partnership may be referred to as a venture wherever the parties square measure "co-venturers". The venture will be a business squad (for example, Dow Corning), a project/asset squad meant to pursue one specific project solely, or a squad aimed toward process standards or serving as AN "industry utility" that gives a slender set of services to trade participants. Some major joint ventures embrace Dow Corning, Miller Coors, Sony Ericsson, Penske Truck Leasing, and Owens-Corning. Source: Wikipedia Joint venture could be a business arrangement between {the 2|the 2} or over

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two parties during which the parties move to pool their assets with the target of finishing the particular task wherever every of the parties has joint possession of the entity and is to blame for the prices, losses or profits that arise out of the venture. Source: <https://www.wallstreetmojo.com/joint-venture-jv/>

Tax Aspects of Joint Ventures There square measure many various motives of venture like

- 1) Property investment or development,
- 2) The operation of a trade,
- 3) The style of a brand new product or combining resources to bid for a contract. Joint ventures will be structured in several ways that.

These embrace establishing a venture company, establishing a partnership or avoiding any kind of venture entity and easily agreeing to figure along on a specific project. Tax problems can ought to be thought of in reference to the set-up of the venture, the operation of the venture and also the ultimate termination of the venture.

Types of venture The choice of venture structure can rely upon several factors and though the tax treatment is a problem to be thought of, the choice is probably going to be created for a mix of reasons and not strictly for tax reasons. Joint venture company Compensation of a venture company square measure that it's a separate legal entity in order that it's liable in its title for tax liabilities and different debts.

If things fail it's tougher for liabilities to connect to the shareholders within the venture. The disadvantage of an organization is that it's subject to numerous filing, accounting and different body necessities which might raise the value.

- 2) Tax liabilities might arise on the found out of a venture company if assets or businesses have to be compelled to be transferred into the corporate by any of the shareholders.
- 3) The transfer of capital assets into a joint venture company will potentially give rise to a charge to capital gains tax or corporation tax on chargeable gains for the shareholder making the transfer. Depending upon the nature of the assets transferred and the tax position of the shareholder making the transfer, exemptions or reliefs from tax or deferrals of the tax liability may be available.
- 4) If the asset transferred into the joint venture company is UK land, a charge to stamp duty land tax could arise for the joint venture company.
- 5) If the joint venture company is to be funded by way of loans from the shareholders, various anti avoidance provisions could prevent the joint venture company obtaining a tax deduction for the interest paid. These include the transfer pricing provisions, which restrict tax reliefs for payments between connected parties to the amount that would have been payable on an arm's length basis. The transfer pricing provisions can apply in relation to loans even if the interest rate is what an independent third party lender would have charged. They can apply if a loan between connected parties exceeds the amount that would have been lent to the joint venture company by an independent third party.

UK corporate shareholders may be able to surrender losses to, or receive surrenders of losses from, the joint venture company, depending on the shareholding structure.

There may also be an obligation on the company to deduct tax from interest paid on loans, especially if the lender is situated outside the UK.

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- 6) Shareholders could extract profits from a joint venture company by the payment by the joint venture company of dividends, interest or royalties or licence fees. Interest, royalties and license fees may be tax deductible for the joint venture company, subject to anti avoidance provisions such as the transfer pricing rules. As mentioned above, those rules restrict tax reliefs for payments between connected parties to the amount that would have been payable on an arm's length basis and apply more widely in relation to loans.
- 7) If a corporate joint venture is terminated, similar issues to those on set up will arise if assets are transferred out of the joint venture. One way of extracting assets from a joint venture company which saves stamp duty or SDLT is to extract them by way of dividend.

Partnership for Joint venture

There are three different partnership structures.

- Limited liability partnership or LLP.

Both limited partnerships and LLPs offer limited liability, which means that the partners are not automatically liable for the debts of the partnership.

If a joint venture partner transfers a capital asset into the partnership, the transfer will be treated as the disposal by the joint venture partner of a share in the asset in exchange for a share in the assets contributed by the other joint venture partners. This could give rise to a tax liability for the joint venture partner

Contractual joint venture

In a contractual joint venture, the parties do not establish any separate entity to carry on the venture. Instead the parties enter into contracts and make their own profits and losses. They pay tax only on their own profits.

Contractual joint ventures are sometimes used by parties to combine resources to bid for the award of a contract or to undertake joint research.

An important advantage of contractual joint ventures is that there is no joint and several liabilities for the losses of the venture.

As no particular documentation or legal structure is required in order for a partnership to exist, it is important that the parties to a contractual joint venture structure their operations so that they cannot be regarded as acting in partnership. If they are treated as acting in partnership they could be subject to unexpected tax and other liabilities. One of the key indicators of a partnership is profit sharing so contractual joint ventures will need to ensure that the arrangements are structured to avoid this.

A contractual joint venture will not involve the transfer of assets to another entity and so no tax issues should arise on set up or on termination of the arrangements. Also the operation of the joint venture will not involve any sharing of profits so each party will be subject to tax on the profits it makes as a result of the venture.

Advantages and downsides of a venture (JV) • Starting a venture provides the chance to realize new insights and experience. • Joint venture can offer you access to raised resources, like specialised employees and technology. All the instrumentality and capital that you just required for your project will currently be used. • JV is simply a short lived arrangement between your company and another. By definition, you won't be committing thereto future. • Both parties of squad share the risks and prices • Your possibilities of success can become higher as you're already riding with a noted complete. The acquisition of your time Warner Cable Iraqi National Congress by Charter

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Communications Iraqi National Congress in could 2015, valued at \$77.8 billion, established to be the most important U.S. based mostly M&A deal of the year 2015, followed by Dell-EMC merger of \$65.5 billion. REASONS WHY JOINT VENTURES FAIL Source:By Werner van Rooyen, Director of a way to Tender (Pty) Ltd UN agency is consulting and tender coaching knowledgeable. There square measure several reasons why Joint Ventures fail and 5 of the foremost common reasons are: 1. Lack of a correct venture Agreement. The importance of a correct venture Agreement that you just have a correct go for place that covers the whole foundation of your squad. 2. Adaptability: typically venture with another business owner UN agency doesn't have constant values and ethics. this is often a dangerous that you just have established an explicit method of doing business which you've got invested with plenty in building the ethics in your business. 3. Impractical expectations. All the parties concerned should be briefed on the expected profits in order that there are not any surreal expectations from any of the parties concerned. There should be clear indicators on the probabilities of winning a young still because the expected profits to be created when the award of a young and also the completion of the tender. 4. Lack of funds. If one in all the parties to the venture is troubled financially squad will be the breakdown. 5. Lack of management. In any personal relation too you wish to seek out that somebody must be the leader or the choice maker. In squad too someone must be up to speed of the business and scenario. make sure that the right leadership is appointed. Joint Ventures and Anti-Trust Policy Joint ventures even have the potential to wreck competition. squad produce the danger of approval above all the kind of anti-competitive conduct that antitrust legislation that aims to stop. Federal Trade Commission and U.S. Department of Justice, antimonopoly pointers for Collaborations among Competitors

See:

https://www.ftc.gov/sites/default/files/documents/public_events/joint-venture-hearings-antitrust-guidelines-collaboration-among-competitors/ftcdojguidelines-2.pdf

http://competitionlawblog.kluwercompetitionlaw.com/2016/09/20/treatment-joint-venture-s-indian-competition-law/?doing_wp_cron=1596785925.9028000831604003906250

Divestment of Public Sector Undertakings and Leveraged purchase –outs

Summary: General Economic and money Factors - Illustration of associate degree LBO - parts of a Typical LBO Operation - Divestment of Public Sector Undertakings On seventeenth could 2020, as a part of a stimulant package the minister of finance Nirmala Sitharaman declared that the govt can privatize all Public sector enterprises in non-strategic sectors. She conjointly declared that in strategic sectors, the amount of PSU's are going to be restricted to four.

Meaning of Disinvestment: When the govt sells a section of its equity of a public enterprise but fifty per cent of its total stock, it's known as simply withdrawal and during this case management and management of the commercial enterprise remains within the hands of presidency. The government is functioning on finishing the stake sale method of concerning twenty three public sector corporations whose divestment has already been cleared by the cupboard, minister of finance Nirmala Sitharaman. The minister conjointly aforementioned she would shortly meet little finance corporations and non-banking finance corporations (NBFCs) to review the credit being extended by them to businesses. Sitharaman, in an exceedingly voice communication with Hero Enterprise Chairman Sunil philosopher Munjal, aforementioned the govt as a part of the Atmanirbhar Asian

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country package had declared gap from all sectors for personal participation. "The final decision on that square measure the sectors that square measure planning to be known as 'strategic' isn't created however, that needs to be declared and that i cannot preempt what announcement is probably going to return. "But in those sectors that we have a tendency to square measure planning to decision strategic, the personal can clearly be allowed to return in however the general public sectors are going to be restricted to a most of 4 units," she said. She aforementioned this might cause consolidation of public sector undertakings (PSUs) still as scaling from their operations. Talking concerning withdrawal plans, the minister aforementioned the government needs to sell stake publically sector corporations at a time once it fetches the proper value. "There square measure already nearly 22-23 such PSUs that are cleared by the cupboard for withdrawal. The intent is obvious that a minimum of for those that had already been cleared by the cupboard, we are going to need to disinvest," Sitharaman aforementioned. For 2020-21 financial , the govt has set a withdrawal target of Rs a pair of.10 trillion. Of this, Rs 1.20 trillion can come back from withdrawal of public sector undertakings and another Rs ninety,000 large integer from stake sale in money establishments. First Published: Mon, Gregorian calendar month twenty seven 2020. 20:49 IST

See:

https://www.business-standard.com/article/economy-policy/govt-to-go-ahead-with-divestment-of-23-psus-cleared-by-cabinet-sitharaman-120072701589_1.html

The following main objectives of withdrawal were outlined:

- To cut back the money burden on the govt.
- To improve public finances.
- To introduce, competition and market discipline.
- To fund growth.
- To encourage wider share of possession.
- To depoliticize non-essential services.

Dec 10, 2019 [Burning Issue] Strategic withdrawal of Central Public Sector ... www.civildaily.com > burning-issue-strategic-disinvestm... LBO - parts of a Typical LBO Operation A buyout is that the acquisition of another company mistreatment principally debt. The buyout dealing is completed by a personal equity firm (also known as a money sponsor) or cluster of personal equity corporations (also known as a personal equity cluster or a consortium), which can take possession (own the equity of) the business when the acquisition has been completed. Prepare a place of candidate corporations. This list can rely part on the investment philosophy of the deed company. Some investors could explore for under-performing corporations they will revitalize with new management, whereas others might solely contemplate corporations with sturdy fundamentals, like steady income, low debt levels and low cost necessities. Companies capable of with success undergoing Associate in Nursing LBO usually have the subsequent features: Mature business and/or company: The stock value of the company is mercantilism at a lower multiple to free income than new corporations in high-growth industries. Clean record with no or low quantity of outstanding debt: consumers would like the power to be ready to use new debt, or "leverage" because the name suggests, as a part of the acquisition thought. Overall come for the sponsor or pool in Associate in Nursing LBO is decided by variety of factors: • The exit multiple on EBIT/EBITDA relative to the entry or acquisition multiple; and • The quantity of debt that's paid off over the time horizon of the investment. • Growth within the in operation profit/cash flow of the corporate (EBIT or EBITDA) over the lifetime of the investment Source: World Wide

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Web.streetofwalls.com While every buyout is structured slightly otherwise, there's a typical structure to the LBO that happens on deal when deal (more or less). By this, we tend to square measure relating the elements of the capital structure for the newly-purchased LBO Company. every part of the capital structure relates to a chunk of the finance package that was accustomed purchase the corporate. Half (50%) of Associate in Nursing LBO's capital structure usually includes Senior Debt, additionally referred to as Bank Debt finance. Senior Debt is that the "cheapest" of all of the finance instruments accustomed obtain an organization via LBO: it's a lower price of capital than alternative tranches of the capital structure, because it is that the initial in line within the capital structure to receive worth throughout a liquidation of the corporate. therefore it'll usually have lower interest rates than alternative debt elements of the company's capital structure. Senior Debt is usually absolutely amortized over a 5 to 10 year amount, that creates a burden on the corporate to come up with spare income from its operations to pay these debt . High Yield Debt/ Subordinated Debt, usually represents concerning two hundredth -30% of the capital structure of the recently noninheritable company. High-yield debt has higher monetary prices than senior debt. However, high-yield debt usually has less restrictive covenants or limitations and interest-only payments. Subordinated debt will comprises varieties of mezzanine finance, like PIK notes, convertible most popular debentures, etc. Mezzanine finance is typically said as quasi-equity, or equity-like securities. See: www.streetofwalls.com The Theory of the LBO whereas each buyout is exclusive with regard to its specific capital structure, the one common component of a buyout is that the use of monetary leverage to finish the acquisition of a company. A charge account credit facility ("revolver") could be a supply of funds that the bought-out firm will draw upon as its assets wants dictate. A charge account credit facility is meant to supply the bought-out firm some flexibility with regard to its capital wants – it is a line of credit that enables the firm to create sure capital investments, modify unforeseen prices, or cowl will increase in assets while not having to hunt further debt or equity finance. Topic: International Mergers and Acquisitions: Summary: The Theory of the MNE - Reasons for International Trade - Growth - Technology - External benefits in Differential product - Government Policy - Exchange Rates - Political and Economic Stability - Differential Labor prices, Productivity of Labor - To Follow purchasers - Diversification - Resources Poor Domestic Economy. International Mergers and Acquisitions: Is also referred to as cross-border M&A seek advice from people who square measure going down on the far side the boundaries of a selected country. The relative political and economic stability of a nation is another vital think about attracting foreign consumers. Most mergers Associate in Nursingd acquisitions square measure driven by the will to chop prices or to make a bigger marks in an existing sector or follow the provider. Reasons for International Trade and M&A 1. Government policy, laws, tariffs and quotas will boost international M&As 2. Mergers and acquisitions will escort varied tax benefits. 3. New prospects offered by a replacement market. and firms have tailored themselves to the economic process atmosphere through cross-border M&As 4. getting easier access to a talented labor pool. 5. Currency Risk Management: exchange rates may impact cross border acquisitions. 6. you'll be able to diversify your portfolio. 7. shopping for or merging with another company is typically cheaper. Associate in Nursinging plus exploiting firm seeks to deploy its strategic assets in a very new market so as to realize competitive advantage. 8. To

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leverage on the Differential Labor prices therefore rising the productivity. 9. higher access to a bigger market. Equity and bond markets additionally expedited the event of cross border acquisitions. monetary innovations and straightforward convenience of capital to finance acquisitions. 10. The relative political and economic stability of a nation is another vital think about attracting foreign consumers. Management usually hopes that megamergers can produce a replacement company wherever one and one equals 3 or 5. Examples of M&A in 2019 The movie maker gained a large assortment of films and tv assets once it bought elements of twenty first Century Fox. The records square measure substantial enough that it might facilitate Disney+ vie with Netflix and Amazon Prime. GlaxoSmithKline was liable for the most important of the pharmaceutical M&As this past decade. GlaxoWellcome proclaimed a USA \$ seventy four billion mergers with SmithKline Beecham within the year 2000, currently referred to as GlaxoSmithKline. Topic: Share Repurchase and Exchanges: Summary: The Nature of money Share Repurchases - money Tender Offers to Repurchase-The Theories Behind Share Repurchase-Tax Aspects of Exchange Offers - Empirical proof on Exchange Offers. Share Repurchase or Buyback: A company would possibly repurchase shares as a result of it believes the market has discounted its shares too dead, to speculate in itself, or to boost its monetary ratios. Trough redemption it reduces the amount of outstanding shares on the market, that will increase the ownership-stake of the prevailing stakeholders.

Companies that purchase their shares typically believe: The stock is undervalued and is sweet to redemption at the present value.

The Nature of money Share Repurchases: firms perform them repurchase by stock account are going to be debited and also the brokerage account attributable for the total repurchase/buyback quantity. If the corporate used a various quality for the repurchase, credit that account rather than money. in a very redemption share costs can increase. Stocks primarily based upon offer and demand and a decrease within the range of outstanding shares often induce an increase in stocks. Is it useful to shareholder?

From a money perspective affirmative, buybacks profit investors by up shareowner price, increasing share costs and making tax blessings. Repurchasing stock will increase the debt quantitative relation because of the realism that equity is reduced and companies' debt is unchanged. If an organization wished to stay the debt quantitative relation the alike, they might use surplus money to pay off outstanding debts of the corporate in such the simplest way on keep the quantitative relation an equivalent because it was earlier to a stock repurchase/buyback. Cash

Tender Offers to repurchase debt A money provide|offer|offering} is public offer to the market by the institution to buy all or a neighborhood of the outstanding principal quantity of debt securities from the holders at a worth, and this is often subject to state of affairs, set forth within the issuer's provide to buy. The Theories Behind Share Repurchase There area unit few theories that may be qualified to share repurchase.

- The 1st being business impact: These theories suggest that tax things produce business effect. teams of shareholders UN agency pay high taxes on dividends would really like higher to speculate within the stock of firms that pay low dividends. • Signaling: once corporations believe that their share is commercialism at a worth under its true intrinsic price, they purchase their

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shares at a worth on top of the prevailing market rate. Managers redemption shares to create public their non-public data regarding the firm's smart future prospects consistent with D'Mello & Shroff, 2000. • Capital structure rectification: Buyback, by itself will increase the leverage of the corporate by reducing the value of equity and increasing debt. firms with low leverage profit a lot of from share repurchase. Takeover bar will be main reasons for share redemption. firms that area unit potential targets for takeovers sometimes come in for share redemption to extend the share worth of the corporate and thus creating takeover troublesome for the acquirer company. • Dividends and share buybacks serve an equivalent purpose, of returning excess money to the shareholders. the essential distinction lies within the nature of client we tend to area unit handling. Dividends area unit paid to any or all the shareholders whereas redemption is formed to the shareholders UN agency area unit willing to surrender their shares. One college of thought says dividends cannot be substituted by repurchases since each serve completely different communication purpose. Dividends area unit wont to indication a company's future projection whereas repurchases signal stock rating. Tax Aspects of Exchange Offers Under Merger & integration, Section forty-seven of the ITA specifically exempts the subsequent transfers from liability to capital gains tax. i. Transfer of capital assets by associate amalgamating company to the amalgamated company if the amalgamated company is associate Indian company. ii. Transfer of shares in associate Indian company by associate amalgamating foreign company to the amalgamated foreign company if each the factors below area unit satisfied:

- At least twenty fifth of the shareholders of the amalgamating company still stay shareholders of the amalgamated company. Hence, shareholders of amalgamating company holding 3/4th in price of shares UN agency become shareholders of the amalgamated company should represent a minimum of twenty fifth of the overall range of shareholders of the amalgamated company.

- Such transfer doesn't attract capital gains tax within the amalgamating company's country of incorporation. Under Demerger ITA defines a demerger underneath Section 2(19AA) as a transfer consistent to a theme of arrangement underneath Sections 391-394 of the businesses Act, 1956, by a "demerged company", of 1 or a lot of of its undertakings to a "resulting company" and it ought to satisfy the subsequent criteria: i. All the properties and liabilities of the enterprise now before the demerger should become the property or liability of the ensuing company by virtue of the demerger. ii. The properties and liabilities should be transferred at value. iii. In thought of the demerger, the ensuing company should issue its shares to the shareowners of the demerged company on a proportionate basis (except wherever the ensuing company itself may be a shareholder of the demerged company). iv. Shareholders holding a minimum of 3/4th in price of shares within the demerged company become shareholders of the ensuing company by virtue of the demerger. Shares in demerged company already control by the ensuing company or its politician or subsidiary don't seem to be thought-about in shrewd 3/4th in price. v. The transfer of the enterprise should air a going concern basis. The process of redemption Summary: company management Mechanisms: Internal and External Management Mechanisms - within versus Outside administrators and chief executive officer Turnover the Role of Majority Shareholders twin category Recapitalization - Proxy Contests Topic: company management Mechanisms The marketplace for company management primarily refers to the marketplace for acquisitions and mergers wherever there's competition for management rights. consistent with Berle and suggests that "the actual right to decide on the members of the board of administrators of an organization or the bulk of the members whether or not through the exercise of legal powers or by transferral

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pressure involved.” In observe, management is connected to a company’s operational policies and management powers. In countries or regions like the UK or port that have a system of obligatory tender offers, laws and laws on the acquisition of listed firms have special provisions with respect to powers of management. China enforced the tactic of Managing Acquisitions of Listed firm’s exploitation the idea of actual powers of management.

Models of management mechanisms

1. The U.K. &U.S. Model wherever there's a high degree of decentralization and liquidity This model has primarily emerged in system like the U.S.A. and also the uk. the most options of such a system area unit the high degree of decentralization of stock rights, the existence of a flourishing capital market and a high level of liquidity available rights.
2. The Family Model – high concentration of stock rights The Family Model has primarily emerged in Southeast Asia. Its outstanding feature is family holdings, for instance family management in Asian country accounts for forty eighth of all enterprises, in Taiwan it's sixty one.6% and in Asian nation sixty seven.2%. In enterprises with family management, relations aren't solely shareholders with management however conjointly participate wide within the operational management of enterprises.
3. The Continental Model – stock rights comparatively centralized and stable The Continental Model has primarily emerged in such countries as Federal Republic of Germany and Japan with the Continental system. The degree of centralization of stock rights is between the U.K.-U.S. Model and also the Family Model. additionally, the Continental Model differs from the U.K.-U.S. Model in 2 respects. the primary is that the interlocking shareholdings of economic banks and industrial enterprises and also the second is that boards of administrators don't exercise any higher-up perform.

Mechanisms of restraint for management rights: Mechanisms of restraint in company management is examined with reference to internal and external mechanisms.

1. Internal mechanisms embrace board structure variables like duality and also the proportion of non-executive administrators, debt finance and executive shareholdings. control mechanisms control mechanisms also are referred to as the company’s internal governance structure. They primarily indicate what internal systems and measures an organization needs to forestall management from deviating from the aim of maximising company advantages. consequently, the shareholders cannot override the choice of the board of administrators. This includes Directors’ duties, shareholder’s rights etc.
2. External management mechanisms – competition for management rights starting from the attitude of management rights, the external management mechanisms of company governance area unit primarily mirrored within the marketplace for company management and particularly in competition for management rights. There area unit 2 sides to competition for management rights: the primary is corporate acquisition and mergers, specifically hostile takeovers, and also the second is that the gaining of proxy selection rights.

(1) Company acquisitions and mergers The marketplace for company acquisitions and mergers is principally a supply of external management power and issues of company governance is resolved partially through this external pressure. Control rights group action strategies The operational potency of the marketplace for company management is obstructed by bound factors like thumbing rides and management defense.

1. Thumbing rides The development of “thumbing rides” will influence the potency of acquisitions. several tiny shareholders pay shut attention to fluctuations within the worth of company shares and take completely no notice of the possession of company management. If they think about that a purchase will build the corporate share worth go up they'll still hold their shares and this could increase the price of the acquisition. At such times, even though the action of the company’s management doesn't have the maximization of the shareholders’ wealth as its aim, the acquisition won't achieve success and, as a result, the potency of the marketplace for

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company management are going to be affected (Grossman, Sanford and Hart, jazz musician 1980). 2. Management defense in hostile takeovers, the party creating the acquisition could encounter fierce resistance from management and this can influence the operational potency of the marketplace for company management. Since the Nineteen Eighties, anti-takeover measures of every type have appeared for instance poison pills, green-mail, golden parachutes and white knights. The role of management in acquisitions within the procedure of an organization acquisition, the management of the takeover target area unit long-faced with 2 difficulties. On the one hand, a purchase continuously implies a repudiation of the talents of the target company's management and its penalization by the market. once the acquisition has succeeded, this managers area unit oftentimes replaced and lose their management rights over the corporate. Thus, the management of the takeover target can commit to adopt every type of anti-acquisition techniques to keep up these management rights. On the opposite hand, the management of the takeover target ought to act in accordance with the principle of maximising the shareholders' advantages. If the acquisition of the corporate is advantageous to the maximization of the shareholders' advantages, the management of the takeover target ought to offer its support. Topic: Takeover Defense Summary: Takeover Defenses: Anti-Takeover Amendments - styles of Anti- Takeover Modification Topic: Takeover defenses embrace all actions by managers to fight having their corporations nonheritable. tries by target managers to defeat outstanding takeover proposals area unit overt varieties of take- over defenses. Conflict conjointly includes actions that occur before a takeover provide is formed that build the firm tougher to amass. Antitakeover modification discourages the duties of company administrators and management once long-faced with an attainable tender offer. The non-financial effects (NFE) modification either permits or needs managers to contemplate the interests of the company's stakeholders throughout takeover bids. Common anti-takeover measures embrace

1.The Pac-Man Defense: The Pac-Man defense could be a business strategy wont to prevent a takeover, during which an organization that's helpless with a takeover "turns the tables" by trying to amass its would-be vendee. 2. The Macaroni Defense: within the Macaroni Defense, the takeover target problems an oversized range of bonds with the condition they have to be ransomed at a high worth if the corporate is taken. this can discourage the acquitting company to go into reverse from the deal. rather like the macaroni food expand in predicament the bond reimbursement can swell throughout takeover bid.

Top of Form

Bottom of Form

Apart from these anti-takeover defenses, there are many alternative defensive ways adopted by the companies worldwide. These are as follows: • Golden Parachute. The shark repellent is associate degree agreement between a corporation associate degreeed a worker (usually a prime executive) specifying that the worker can receive sure important edges if employment is terminated. These might embody severance pay, money bonuses, stock choices, or alternative edges. • porcupine provision: Greenmail is that the preparation of shopping for enough shares in a very company to pressurize a takeover so the takeover target can instead repurchase its shares at a premium value. Staggered Board: A staggered board is associate degree operational defense against a takeover bid because of the stunned type of the elections. A staggered board may be a board created of totally |completely different} categories of administrators that serve different term amount and ar elective at different times of the year. White Knight: a corporation creating an acceptable counter-offer for a corporation facing a takeover. and therefore the company are going to be sold-out to a company to avert a hostile company. Summery Topics: Management

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Guides for Mergers and Acquisitions: Diversification and Mergers in Strategic Long vary coming up with Framework - Merger Analysis in a very price Creation method.

Merger Analysis in a very price Creation Method Takeover Models Types of Takeover Bids The four differing kinds of takeover bids include:

1. takeover A takeover bid happens once the board of administrators from each the target and acquirer company hash out and approve the bid. associate degree example of a takeover bid is that the takeover of Aetna by CVS Health corporation. in Dec 2017.
2. takeover When associate degree exploit company seeks to accumulate another company the takeover target realize the damage offered unacceptable. The takeover target might reject a bid. the 2 most typical methods employed by acquirers in a very takeover ar a young supply or a proxy vote. Tender offer: providing to get shares of the takeover target at a premium to the market value. Proxy vote: Persuading shareholders of the takeover target to vote down the present management.
3. Reverse tender offer When a non-public company purchases a public company. this is often some reverse takeovers is to accomplish listing standing while not longing associate degree initial public providing. This method of being listed desires massive amounts of work and may be a tedious and expensive method.
4. Backflip tender offer When the acquirer becomes the subsidiary of the takeover target. The takeover is termed a “backflip” because of the very fact that the takeover target is that the extant entity and therefore the exploit company becomes the subsidiary of the incorporate company. associate degree example of a backflip tender offer is that the takeover of AT&T by SBC in 2005.