INTERNATIONAL MERGERS AND ACQUISITIONS

International Mergers And Acquisitions

- Mergers and Acquisitions have become the most frequently used methods of growth for companies in the twenty first century. They present a company with potentially larger market share and open it up to a more diversified market. Mergers and Acquisitions refers to the aspect of corporate strategy, corporate finance and management dealing with the buying , selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector… ***it's also a way to manipulate the stock price and be paid a bigger bonus.***

Mergers And Acquisitions

- The growth of the firm can occur either **externally** or **internally**. The firm may grow by purchasing the assets of another firm i.e., growth by acquisitions or by agreeing to join with that other firm under single ownership i.e., growth by merger.

- In everyday language "**Acquisition**" tends to be used when a larger firm absorbs a smaller firm and "**Merger**" tends to be used when the combination is portrayed to be **between equals**.

Mergers

- Merger is a financial tool that is used for enhancing long-term probability by expanding their operations.
- Mergers can be classified into the following based on the nature of merging companies-
  - Horizontal Mergers
  - Vertical Mergers
  - Conglomerate Mergers
  - Product-Extension Mergers
  - Market-Extension Mergers

Types Of Mergers

- **Horizontal Mergers** refers to the merger of two companies who are direct competitors of one another and they serve the same market and sell the same product.
- **Vertical Mergers** are effected either between a company and a customer or between a company and a supplier.
- **Conglomeration** refers to the merger of companies which do not sell any related products to any related market.

Types Of Mergers

- **Product-Extension merger** is executed among companies which sell different products of related category. They also seek to serve a common market.
- **Market-Extension merger** occurs between two companies that sell identical products in different markets.

Acquisitions

- An acquisition is the purchase of one business or company by another company or other business entity. There maybe either **hostile** or **friendly** takeover.
- In the course of an acquisition a bidder may purchase the share or the assets of the target company.

Hostile Takeovers and Friendly Takeovers

- The process of taking control of the assets and liabilities by a company of another firm is termed as **takeover**.
- When the offer is approved by the Board of Directors, the process of takeover commences.
- There maybe two instances when a takeover takes place-
  - Hostile Takeover
  - Friendly Takeover

Hostile Takeover

- When the tender offer is placed before the Board, the Board of Directors evaluates the same to see if it will be advantageous for the shareholders or will go against them. Decision is not only taken keeping in mind the interests of the shareholders but other areas are also scanned through, if the Board feels the tender is not agreeable it turns down the offer. If this is not agreed by the management team of the acquiring company and they wish to continue with the same , this takeover takes the nature of hostility and hence a **Hostile Takeover.**

Friendly Takeover

- In case of a friendly takeover the Board approves of the offer put forward by the acquiring firm. Both companies oversee each others interest and agree to merge. This sort of merger is expected to increase the productivity of this newly formed company and have several added features by the amalgamation of the specialities of both the merging companies.

Advantages Of Mergers And Acquisitions

- It gets a larger set of resources at its disposal which includes manpower , inventory and other assets. With the larger set of resources , efficiency is increased which in turn increases the output.

- The increase in output leads to lower cost of producing service or products , which is the input.

Continued…

- The increased output or lowered input definitely translates to better business growth for any entity.

- Another advantage of a takeover is that brand awareness increases as the business expands allowing more effective advertising of its products and services

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Disadvantages Of Mergers And Acquisitions

- The bigger the business the harder to control.
- More decision making and more risks.
- More expensive. For example more running costs , more demand , more supplies , more products need to be made, new location.

Merger And Acquisition Process

- Merger and Acquisition **process** is the most important thing in a merger or acquisition deal as it influences the benefits and profitability of the merger or acquisition. This process is continued in the following six steps

1. Preliminary Assessment or Business Valuation In this first step , the market value of the target is assessed. In this process of assessment not only the current financial performance of the company is examined but also the estimated future market value is considered. The product of the firm , its capital requirement , organizational structure , brand value everything are reviewed strictly.

Continued....

2. Phase of Proposal After complete analysis and review of the target firm's market performance , in the second step , the proposal for merger and acquisition is given . Generally this proposal is given through issuing an non-binding offer document.

3. Exit Plan When a company decides to buy out the target firm and the target firm agrees , then the latter involves in Exit Planning. The target firm plans the right time for exit.

4. Structured Marketing After finalizing the exit plan the target firm involves in the marketing process and tries to achieve highest selling price. Here the target firm concentrates on structuring the business deal.

Continued....

5. Organization Of Purchase Agreement or Merger Agreement In this step , either a final purchase or a merger agreement is prepared.

6. Stages Of Integration In this final stage , the two firms are integrated through a Merger or Acquisition. This can take many forms, but often “synergies” are sought.

2 EXAMPLES: Cases of “international Mergers and Acquisitions that have happened between companies in the past years.

1. By Merger :

2. By Acquisition :

MITTAL STEEL pre-merger was the largest producer of steel in terms of volume. Despite the fact that Mittal steel is based in Netherlands, it is perceived that the company is non-European because its CEO Lakshmi Mittal is Indian.

Revenue :$28.132 billion

Operating income:$4.746 billion.

Net income:$3.365 billion.

Employees 320,000.

- ARCELOR pre-merger was the world's largest steel producer in terms of turnover and second steel output. Headquartered in Luxembourg, the merger of three steel companies- Aceralia, Arbed and Usinor led to the creation of Arcelor

  - Revenue € 32.611 billion
  - Operating income $4.1 billion
  - Net income $2.65 billion
  - Employees 94,000

- LONDON, June 25,2006 — A new steel giant is being created out of a bitter battle, after Arcelor agreed to a merger with its rival Mittal Steel in a deal valued at 26.8 billion Euros, or $33.5 billion.

About the Merger.....

- January 2006 - Mittal Steel proposed a $22.7 billion offer the shareholders of Arcelor to create the world's first 100 million tonne plus steel producer. The deal was split between Mittal Shares (75 percent) and cash (25 percent). Under the offer, Arcelor shareholders would have received 4 Mittal Steel shares and 35 Euros for every 5 Arcelor shares they held.

- February 2006 - Mittal Canada completes the acquisition of three Steel.co subsidiaries, the Norambar and Steel fil plants, located in Quebec, and the Stelwire plant in Ontario.

- May 2006 - Mittal Steel announces US antitrust clearance for Arcelor bid and the approval of the offer documents by European regulators.
- June 2006 - Mittal Steel and Arcelor reach an agreement to combine the two companies in a merger of equals.
- September 2006 - Arcelor Mittal announces new dividend policy, under which it will pay out 30% of net income annually.
- And hence ArcelorMittal was formed

RESULT…

- The merger resulted in the creation of the world's largest steel company. 2007 revenue - $105 billion Steel production - 10 percent of global output 320,000 employees Presence in 60 countries A global leader in all of its target markets

- Though competitors they exhibited little overlap in terms of their operations. Arcelor's attributes proved to be highly complementary with Mittal owning much of its raw materials such as iron ore and coal and Arcelor having extensive distribution and service center operations. Unlike many mergers involving direct competitors, a relatively small portion of cost savings would come from eliminating duplicate functions and operations.

2.Acquisition....

NEW LOGO OLD LOGO

- Procter & Gamble (P&G) is an American multinational company headquartered in downtown , Ohio that manufactures a wide range of consumer good's. P&G recorded $82.6 billion dollars in sales.

- Revenue US$ 82.6 billion
- operating income US$ 15.8 billion
- net income US$ 11.8 billion
- Total assets US$ 138.3 billion
- total equity US$ 68 billion
- Employees 129,000

- The original Gillette Company was founded by King Camp Gillette in 1895 as a safety razor manufacturer.
- Under the leadership of Colman M. Mockleras CEO from 1975 to 1991, company faced down three takeover attempts, from Ronald Perelman and Coniston Partners.

About the Acquisition ...

- Proctor & Gamble Co.'s in 2005 announced $57 billion acquisition of Gillette Co. According to *The* Gillette chairman and chief executive officer James Kilts will earn more than $153 million if the deal goes through, including gains on his stock options and stock rights, an estimated $23.9 million payment from P&G, and a change-in control payment of $12.6 million. The transaction, which is subject to certain conditions including approval by Gillette's and P&G's shareholders and regulatory clearance, was expected to close in the fall of 2005.

- As per the P&G and Gillette merger deal, P&G would exchange 0.975 shares of P&G common stock for each share of Gillette. It represented an 18% premium to Gillette shareholders based on the closing share prices on January 27, 2005. However, the merger was subject to approval by the shareholders of both Gillette and P&G. The merger was expected to get regulatory clearance by 2005. P&G planned to buy back $18-22 billion of its common stock immediately after the merger. The buy back process could take around 18 months to complete. This would make the deal structure a 60% stock and 40% cash deal, although on paper it was a pure stock-swap.

- On October 1, 2005, Procter & Gamble finalized its acquisition with The Gillette Company.

Result..

- P&G's acquisition of Gillette, formed the largest consumer goods company and placing Unilevir into second place. This added brands such as Gillette razors, Duracell, Braun, and Oral-b to their stable.
- Analysts said the merger was a brave move by Lafley who had led P&G during difficult times after he joined the company in 2000. Lafley changed the company's focus from household products to the fast growing health and beauty products. The company bought hair care firm Clairol from Bristol Myers Squibb in 2001 for $4.9 billion and German hair care firm Wella AG (Wella) in 2003 for $7 billion.