Study on Post Merger's Success & Valuation:

Merger an introduction:

A merger has been defined as **"the fusion or absorption of one thing or right into another"**. A merger has also been defined as an arrangement whereby the assets of two or more companies become vested in, or under the control of one company (which may or may not be one of the original two companies), which has as its shareholders, all or substantially all, the shareholders of the two companies.

Post Merger Success and Valuation:

Every merger is not successful. The factors which are required to measure the success of any merger are briefly discussed below;

- The earning performance of the merged company can be measured by return on total assets and return on net worth. It has been found that the probability of success or failure in economic benefits was very high among the concentric mergers. Simple vertical or horizontal mergers were found successful whereas the performance of concentric mergers was in between these two extremes i.e. failure and success.

- Whether the merged company yield larger net profit than before, or a higher return on total funds employed or the merged company is able to sustain the increase in earnings.

- The capitalization of the merged company determines its success or failure. Similarly, dividend rate and payout also determines its success or failure.

- Whether merged company is creating a larger business organization which survives and provides a basis for growth.

- Comparison of the performance of the merged company with the performance of similar sized company in the same business in respect of (1) Sales (2) Assets (3) Net Profit (4) Earnings per share and (5) Market price of share.

    - In general, growth in profit, dividend payouts, company history, increase in size provides base for future growth and are also the factors which help in determining the success or failure of a merged company.

- Fair market value is one of the valuation criteria for measuring the success of post Merger Company. Fair market value is understood as the value in the hands between a willing buyer and willing seller, each having reasonable knowledge of all pertinent facts and neither being under pressure or compulsion to buy or sell. Such valuation is generally made in pre merger cases.

- In valuing the whole enterprise, one must seek financial data of comparable companies in order to determine ratios that can be used to give an indication of the company position. The data is analyzed to estimate reasonable future earnings for the subject company.

    - The following information must be made available and analyzed for post-merger valuation;

        - All yearend balance sheets and income statements, preferably audited, for a period of five years and the remaining period up to the valuation date.
        - All accounting control information relating to the inventory , sales , cost and profit contribution by product line or other segment; property cost and depreciation records; executives and managerial compensation; and corporate structure.
        - All records of patents, trademarks, contracts or other agreements.
        - A history of the company, including all subsidiaries.

- Analysis of all these items provides data upon which forecasts of earnings, cash flow, etc can be made.

- Gains to shareholders have so far been measured in terms of increase or decrease in share price of the merged company. However, share prices are influenced by many factors other than the performance results of a company. Hence, this can't be taken in isolation as a single factor to measure the success or failure of the company.

- In some mergers there is not only increase in the size of the merged or amalgamated company in regard to capital base and market segments but also in its source and resources which enable it to optimize its end earnings.

  - In addition to the above factors, a more specific consideration is required to be given to the factors like improved debtors realization , reduction in non-performing assets , improvement due to economies of large scale production and application of superior management in sources and resources available relating to finance, labour and materials.

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