

- **Merger** is the combination of two or more firms into one of the firms. Merger could be horizontal, vertical or conglomerate. A merger results into an economic advantage when the combined firms are worth more together than as separate entities. Merger benefits may result from economies of scale, economies of vertical integration, increased efficiency, tax shields or shared resources. Merger should be undertaken when the acquiring company's gain exceeds the cost. Cost is the premium that the buyer (acquiring company) pays for the selling company (Target Company) over its value as a separate entity. Discounted cash flow technique can be used to determine the value of the target company to the acquiring company. Merger and acquisition activities are regulated under various laws in India. The objective of the laws as well as the stock exchange requirements is to make merger deals transparent and protect the interest of all shareholders.
- **Horizontal Merger** is the combination of two or more firms in the same stage of production/distribution/area of business.
- **Vertical Merger** is combination of two or more firms involved in different stages of production or distribution.

- **Conglomerate Merger** is the combination of firms engaged in unrelated lines of business. Acquisition or takeover means a combination in which the acquiring company acquires all or part of assets (shares) of the target company. In acquisition, there exists willingness of the management of the target company to be acquired while this may not be so under takeover.
- **Leveraged Buy-Out (LBO)** In a leveraged buy out a company is bought by raising most funds through borrowings. When the company is bought out by its own managers, it is called management buyout (MBO). After acquisition, the LBO generates lot of profits and creates high value. Lenders get high return by converting their loans into equity or using warrants buying the company's shares..
- **Pooling of Interest Method** In the pooling of interest method, assets and liabilities are combined at book values.
- **Purchase Method** In the purchase method, the assets and liabilities are revalued and then combined. The difference between book values of assets and liabilities and their revaluation is shown as goodwill or capital reserve.