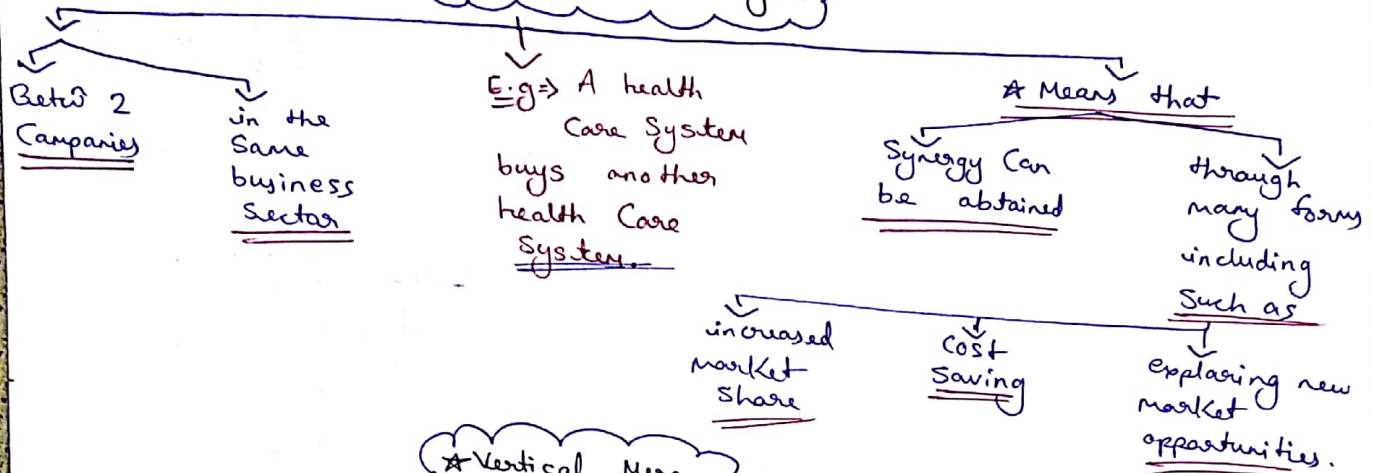
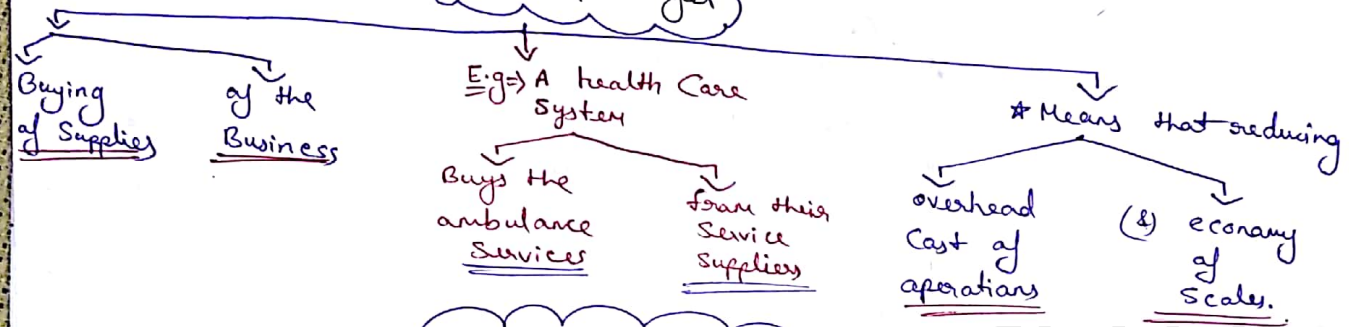


* Diffⁿ types of mergers.

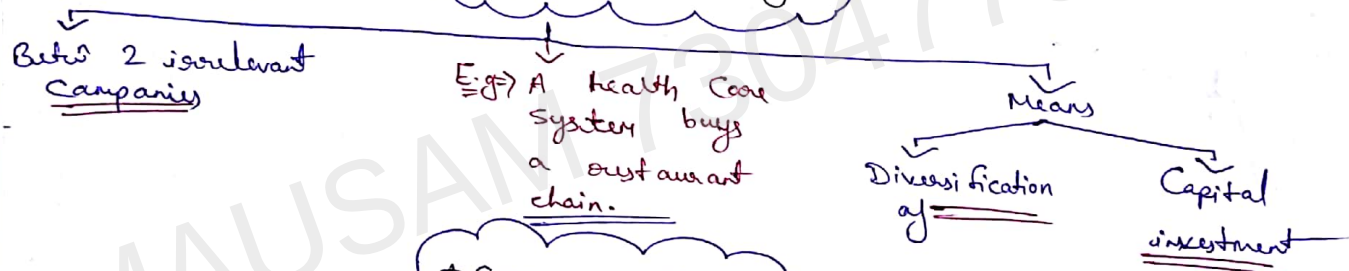
* Horizontal Merger



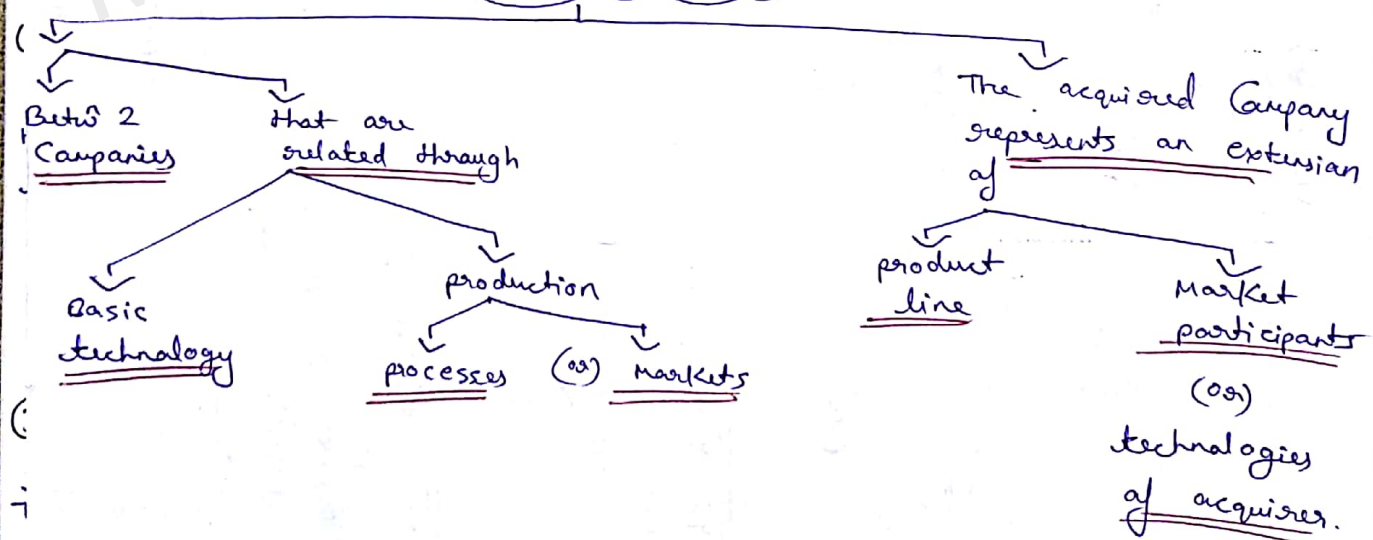
* Vertical Merger



* Conglomerate Merger

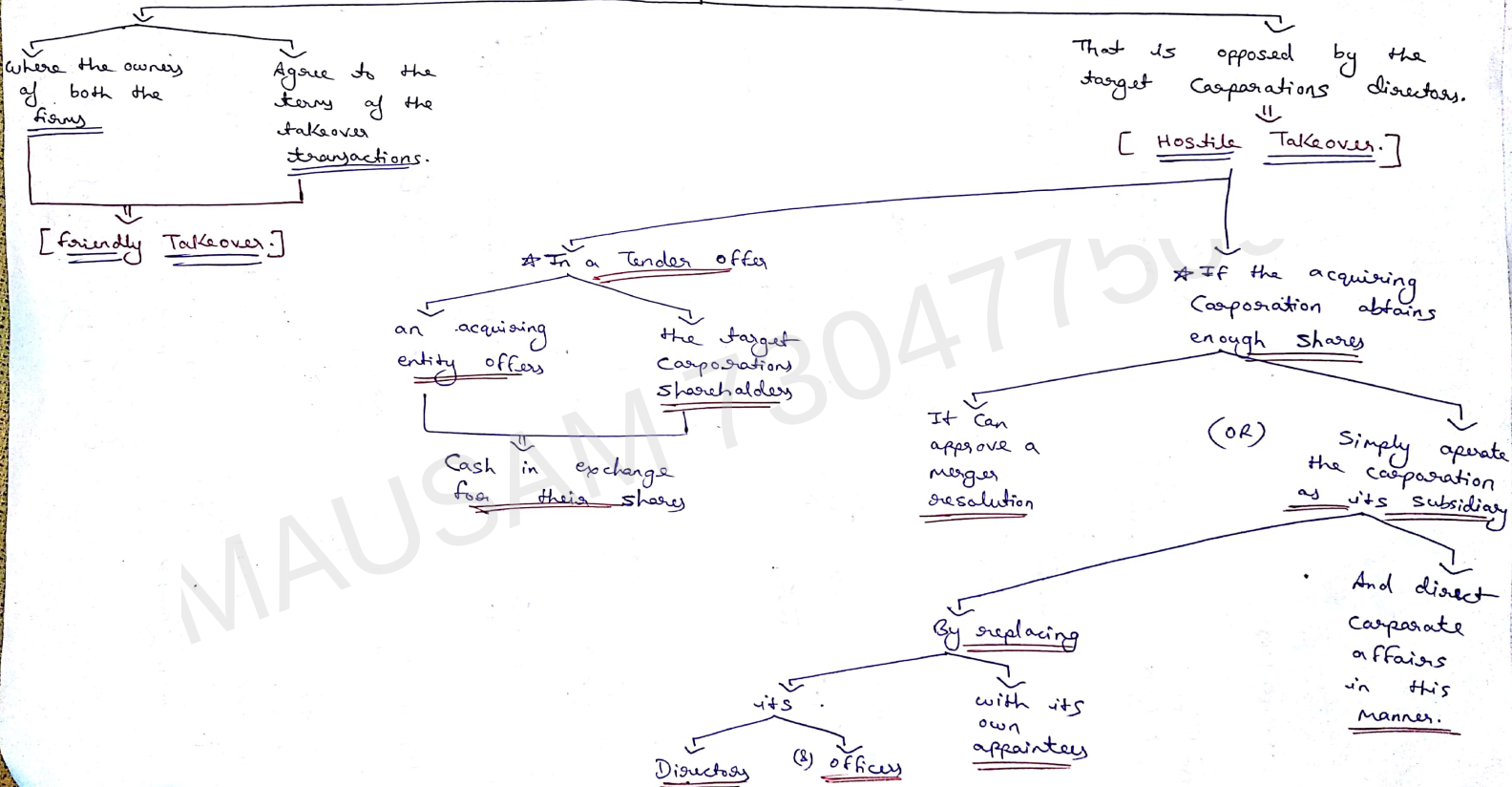


* Congeneric Merger



* Short notes on Friendly (i) Hostile Takeover.

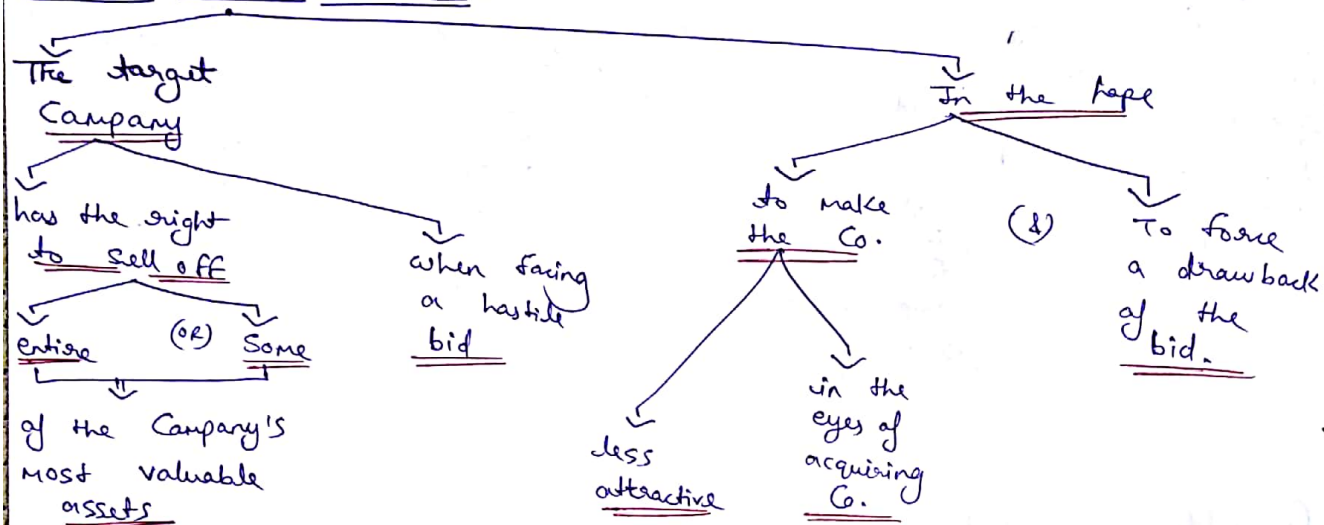
* The acquisition of 1 firm by another



Anti - Takeover Strategies (OR) Defending against takeover bid

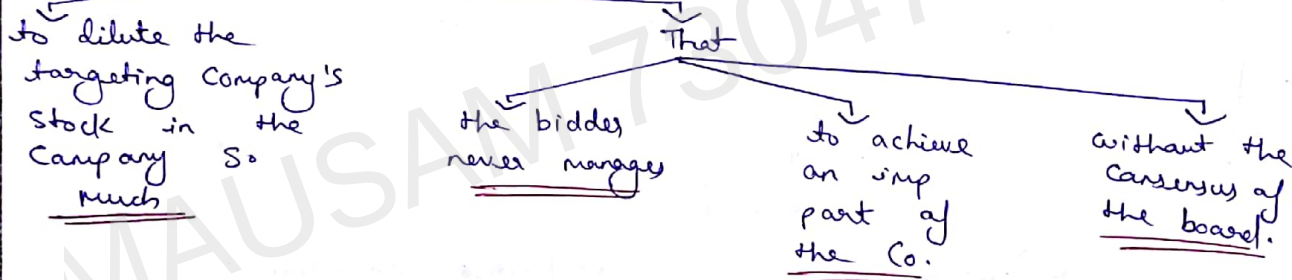
* There are several methods to defend a Takeover.

① Crown Jewel Defense

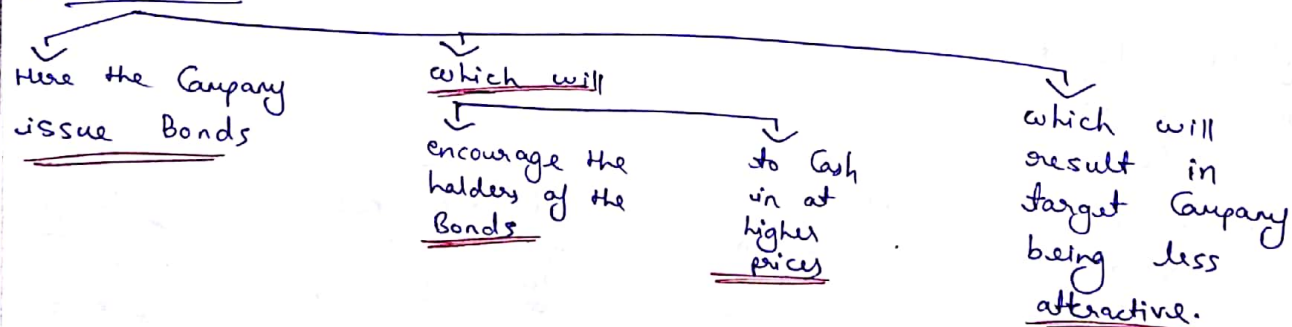


② Poison Pill

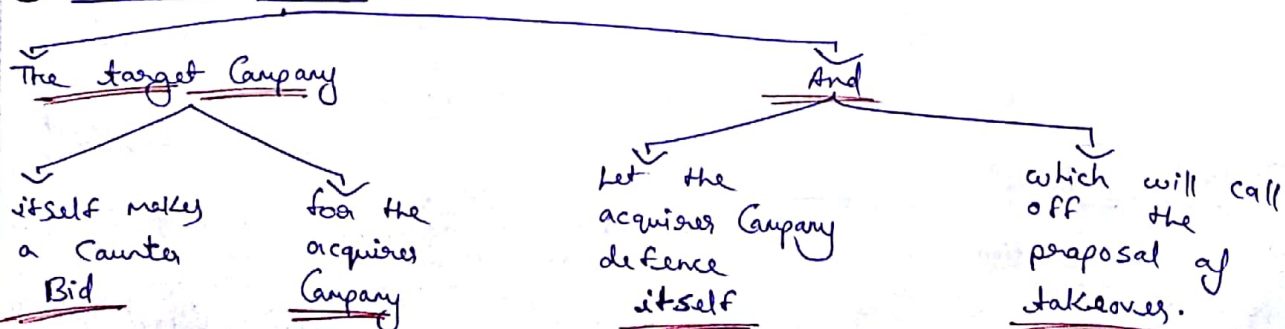
↓
The logic behind the pill is



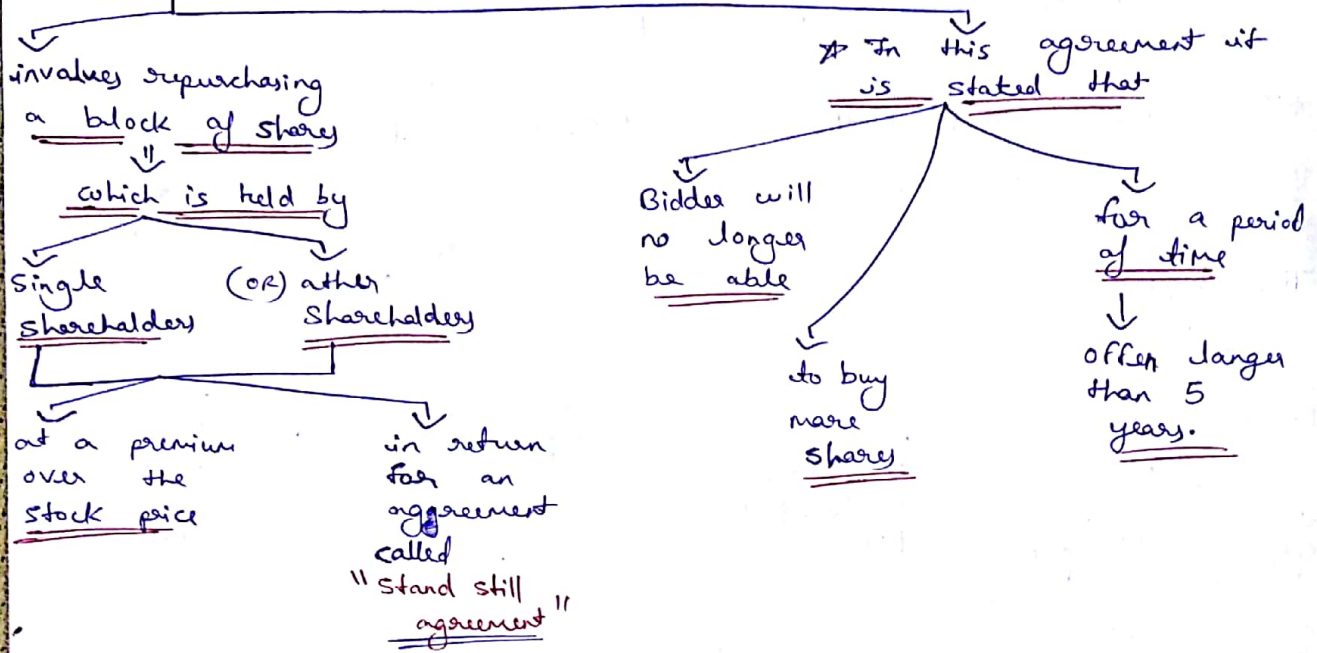
③ Poison Put



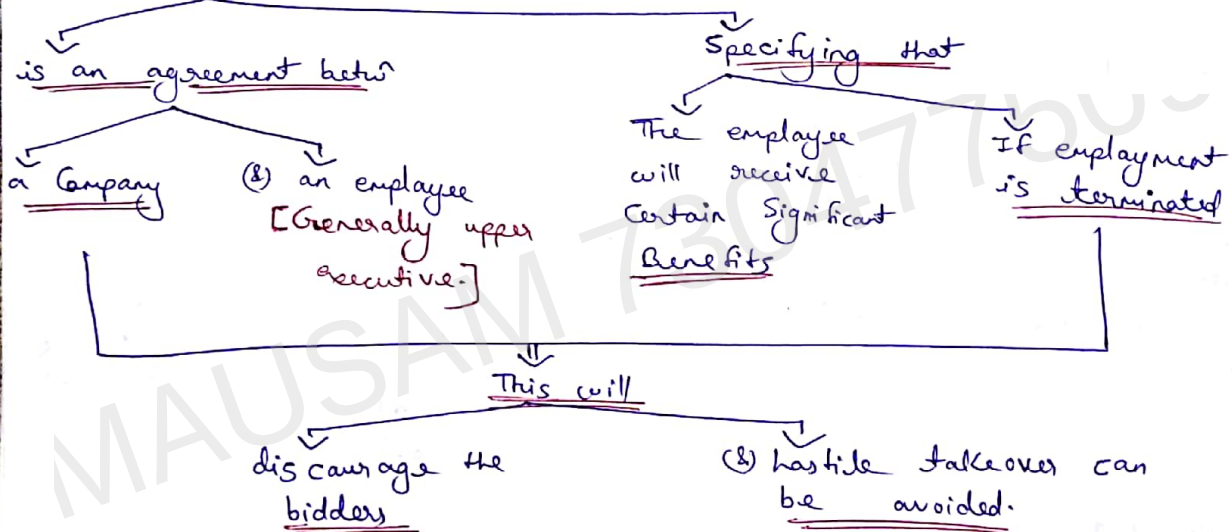
③ Pac - man defense



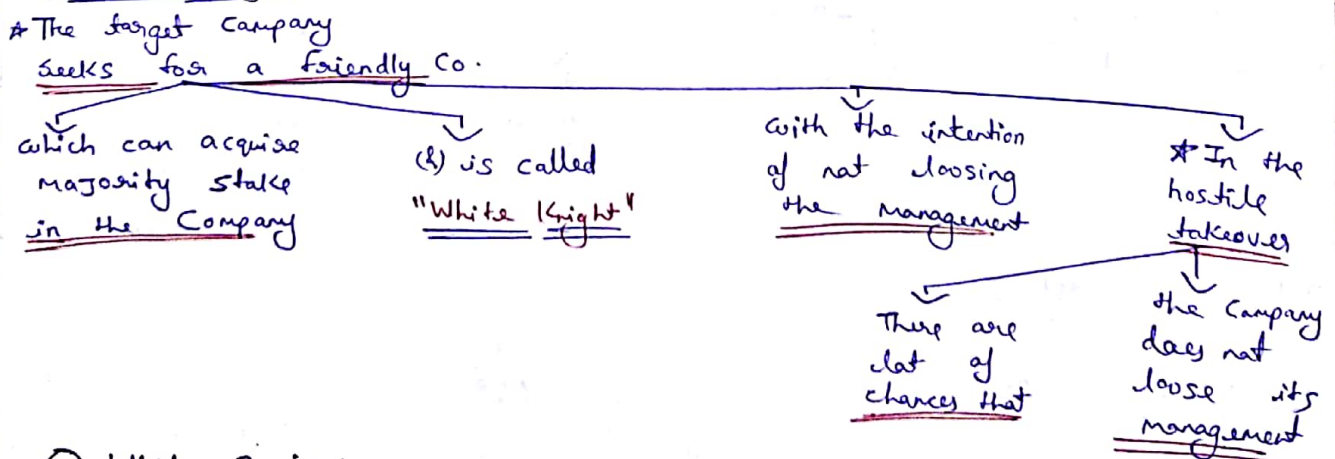
④ Green mail



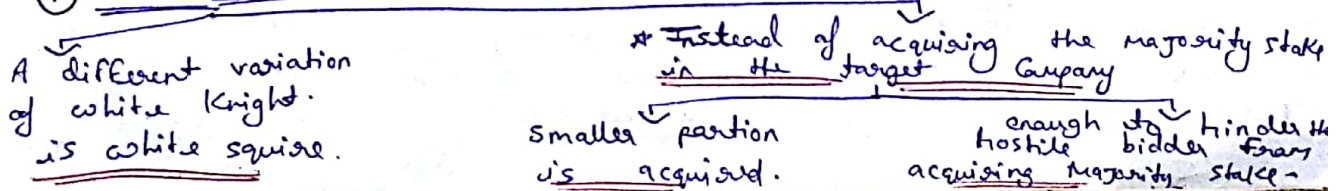
⑤ Golden parachutes



⑥ White Knight



⑦ White Squire



* Reverse Bid (or) Reverse merger

① Acquisition

usually refers to
a purchase

of a smaller
Company

by a larger
one.

② However, Sometimes

a smaller
firm

will acquire
management control
of a larger
firm.

And

retain the
name of
the latter

for the
post acquisition
combined
entity

* This is known as "Reverse Takeover"

③ A form of transaction.

That enables a
pvt. Company

to be publicly
listed in a relatively
short time frame.

* This is known as "Reverse merger"

It occurs when

a privately held
Company

buys a
publicly listed
Company

usually one with
no business (or) limited assets.

* 3 Test requirements for takeover by reverse Bid

① The assets of

The transferor
Company

are greater
than the
transferee
Company

② Equity Capital to be issued

by the
transferor
Company
for
acquisition

Should
exceed its
original
Share
Capital.

③ There should be change of Control

in transferor
Company

by way of introduction of

a minority
holder

(or) group of
holders.

★ chap - shop method

★ This approach attempts

to identify
multi-industry
Companies

that are
undervalued

(2) have more value if Separated
from each other

★ This approach involves
following 3 steps:

① Identify

↓
[The firms various
business Segments.]

And

Calculate

↓
[The average Capitalization ratios
for firms in these industries.]

②

Calculate

↓
a "Theoretical" market
value

↓
based upon each of the
average Capitalization Ratios.

③

Average

↓
The "Theoretical" market
values

↓
to determine the "chap-shop"
value of the firm

★ Leverage Buy out [LBO]

is an
acquisition

where

↓
The purchase
price is
financed

↓
through a
Combination
of

↓
equity

(2) debt

And in which

↓
The
Cash flows
(or) assets
of the target
Company

↓
are used
to
Secure
(or)
repay
the debt.

★ LBO can have many diffⁿ forms such as.

↓
Management
Buy out
(MBO)

↓
Secondary
Buy out

↓
Management
Buy in
(MBI)

And can occur in

↓
growth
Situations

↓
Restructuring
Situations

(2) Insolvency

* Financial Reconstruction.

★ is carried out internally in the firm

with the consent of its various stakeholders

★ is a suitable mode of restructuring of Corporate firms

that have incurred accumulated sizable losses

over a number of years

* As a Sequel -

The share Capital of such firm in many Cases

gets substantially lost

In fact in some cases

accumulated losses over the year

may be more than Share Capital

causing negative net assets.

* Financial Restructuring

is one such a measure

for the revival of only those firms

that hold promise

for the better financial performance in the years to come

* To achieve the desired objective

Such firms warrant a restart

with a fresh balance sheet

which does not contain.

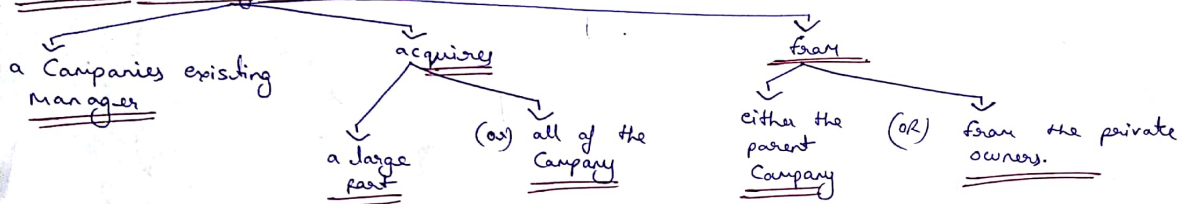
past accumulated losses

(2) fictitious assets

(2) Show Share Capital at its True worth.

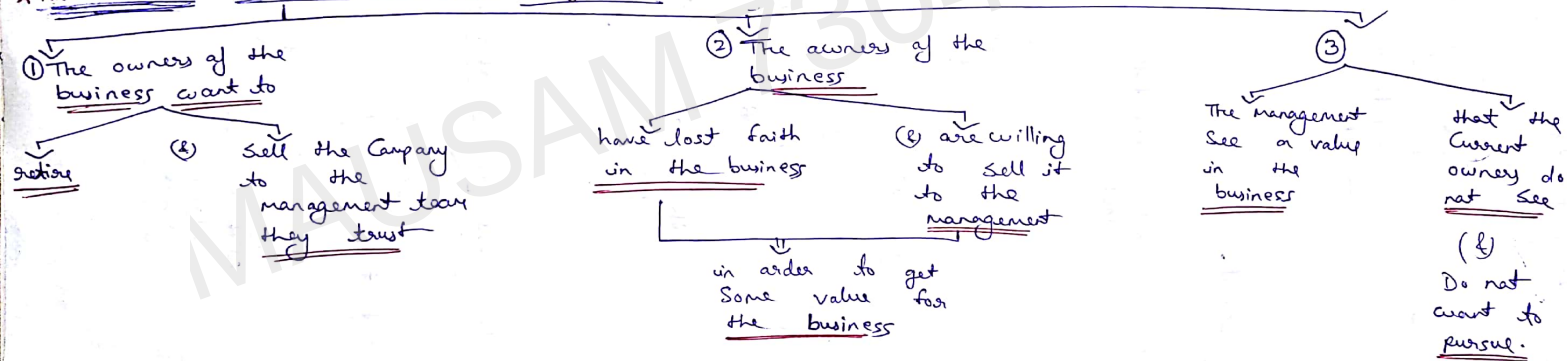
* Management Buy out (MBO)

↓
MBO is a form of acquisition where



* MBO are Similar in all major legal aspects to any other acquisition of a Company.

* An MBO can occur for a number of Reasons :



★ Economic Value Added [EVA]

is returns
earned by
the Company

in excess of the minimum expected return
of the shareholders

★ EVA is calculated as follows :

$$\star ||\text{EVA}|| \Rightarrow \text{EBIT} (-) \text{Taxes} (-) \text{Cost of funds employed}$$

(OR)

$$\star \boxed{\text{EVA}} \Rightarrow \text{net operating profit after tax} (-) \text{Cost of Capital employed}$$

★ profit available to provide
returns to

Lenders

(A) Shareholders.

$$\star \text{WACC} \times \text{Capital employed.}$$

EVA

is a residual
income

which a Company
earns after
Capital costs
are deducted.

measures

The profitability
of a Company

After
having
taken
into A/C
the cost
of all
Capital including
equity.

★ Represents the value added to the shareholders

by generating operating
profits in excess

of the cost of Capital employed
in the business.

★ EVA increases if

★ Operating profits
grow without
employing additional
Capital

★ Additional Capital is
invested in projects

that give higher
returns

than the
cost of
incurring
new Capital

★ Unproductive
Capital is
liquidated.

* Demerger

defined under
the Income
tax Act
1961.

Refers to a situation
where

pursuant to
the scheme
for reconstruction

an undertaking is
transferred (or) sold

to another purchasing

Company (or) entity.

Even after demerger

the transferring
Company

would continue
to exist.
(*)
may do
business.

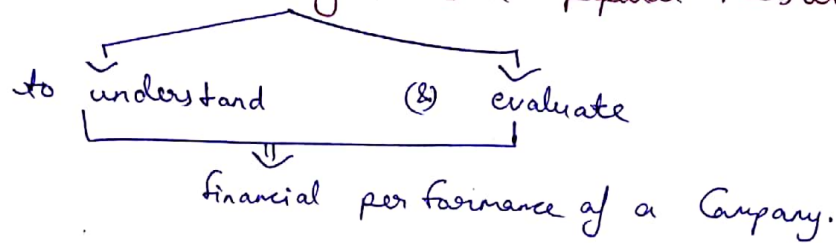
* Demerger is used as a
suitable scheme in the
following cases:

Restructuring
of an
existing business

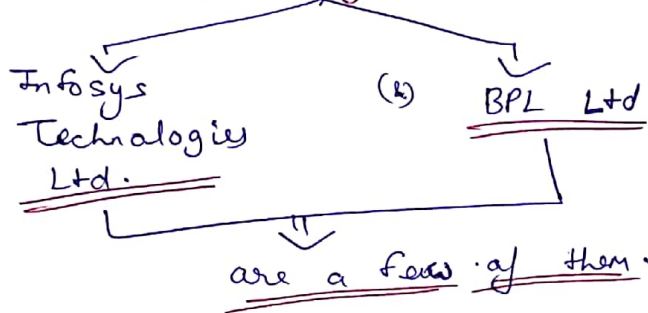
Division of
family managed
business

MBO.

* In India, EVA has emerged as a popular measure



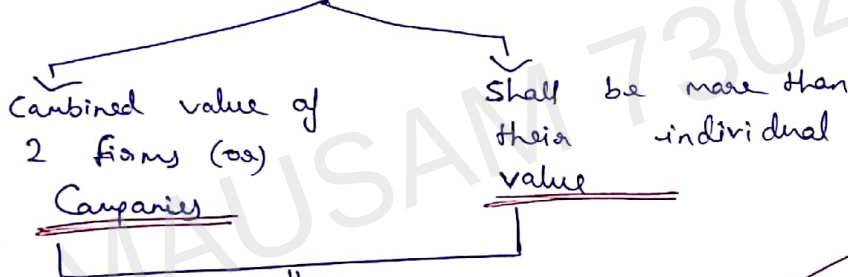
* Several Companies have started showing EVA during a year as a part of the Annual Report.



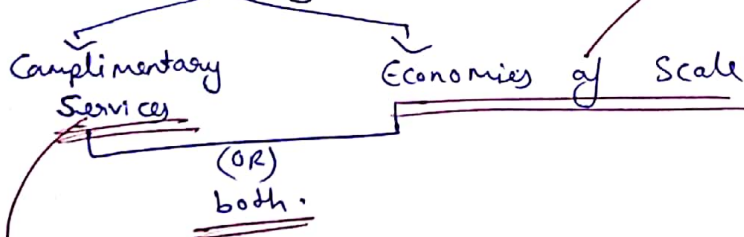
* Synergy in the context of Mergers (4) Acquisitions.

$$\underline{V(AB)} > \underline{V(A) + V(B)}$$

In other words, it is



This may be result of



e.g. ① A Company may have a good networking of branches (2)

② other Company may have efficient production system.

① Large Scale production results in lower average cost of production
e.g. ⇒ Reduction in overhead cost.

* Reduction in Overhead Costs on A/C of

