* Diffⁿ types of mergers.

* Horizontal Merger

- Betⁿ 2 Companies
  - in the same business sector
- E.g ⇒ A health Care System buys another health Care System.
- * Means that
  - Synergy can be obtained
  - through many forms including such as
    - increased market share
    - cost saving
    - exploring new market opportunities.

* Vertical Merger

- Buying of supplies
  - of the Business
- E.g ⇒ A health Care System
  - Buys the ambulance services
  - from their service suppliers
- * Means that reducing
  - overhead cost of operations
  - (&) economy of scales.

* Conglomerate Merger

- Betⁿ 2 irrelevant Companies
- E.g ⇒ A health Care System buys a restaurant chain.
- Means
  - Diversification of
  - Capital investment

* Congeneric Merger

- Betⁿ 2 Companies
  - that are related through
    - Basic technology
    - production
      - processes (or) markets
- The acquired Company represents an extension of
  - product line
  - Market participants (or) technologies of acquirer.

* Short notes on Friendly (&) Hostile Takeover.

* The acquisition of 1 firm by another

- Where the owners of both the firms
- Agree to the terms of the takeover transactions.

⇓ [Friendly Takeover.]

- That is opposed by the target Corporations directors.

⇓ [Hostile Takeover.]

* In a Tender offer
  - an acquiring entity offers
  - the target Corporations shareholders

  ⇓ Cash in exchange for their shares

* If the acquiring Corporation obtains enough shares
  - It can approve a merger resolution
  - (OR)
  - Simply operate the corporation as its subsidiary
    - By replacing
      - its
        - Directors (&) officers
      - with its own appointees
    - And direct corporate affairs in this manner.

☆ Anti - Takeover Strategies (OR) Defending against takeover bid

☆ There are several methods to defend a Takeover.

① Crown Jewel Defense

- The target Company
  - has the right to sell off
    - entire (OR) Some
    - ⇓ of the Company's most valuable assets
  - when facing a hostile bid
- In the hope
  - to make the Co.
    - less attractive
    - in the eyes of acquiring Co.
  - (&)
  - To force a drawback of the bid.

② Poison Pill

⇓

The logic behind the pill is

- to dilute the targeting Company's stock in the Company so much
- That
  - the bidder never manages
  - to achieve an imp part of the Co.
  - without the consensus of the board.

③ Poison Put

- Here the Company issue Bonds
- which will
  - encourage the holders of the Bonds
  - to cash in at higher prices
- which will result in target Company being less attractive.

③ Pac - man defense

- The target Company
  - itself makes a Counter Bid
  - for the acquirer Company
- And
  - Let the acquirer Company defence itself
  - which will call off the proposal of takeover.

(4) Green mail

- involves repurchasing a block of shares
  - ⇓ which is held by
    - single shareholders
    - (OR) other shareholders
      - at a premium over the stock price
      - in return for an aggreement called "stand still agreement"
- ★ In this agreement it is stated that
  - Bidder will no longer be able
  - to buy more shares
  - for a period of time
    - ↓ offen longer than 5 years.

(5) Golden parachutes

- is an agreement betw^n
  - a Company
  - (&) an employee [Generally upper executive.]
- Specifying that
  - The employee will receive certain significant Benefits
  - If employment is terminated

⇓ This will

- discourage the bidders
- (&) hostile takeover can be avoided.

(6) White Knight

★ The target company seeks for a friendly Co.

- which can acquire majority stake in the Company
- (&) is called "White Knight"
- with the intention of not loosing the management
- ★ In the hostile takeover
  - There are alot of chances that
  - the Company does not loose its management

(7) White Squire

- A different variation of white knight is white squire.
- ★ Instead of acquiring the majority stake in the target Company
  - smaller portion is acquired.
  - enough to hinder the hostile bidder from acquiring majority stake.

★ 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 transferee Company for acquisition
- Should exceed its original Share Capital.

③ There should be change of Control

- in transferee Company
- by way of introduction of
  - a minority holder
  - (OR) group of holders.

★ Chop - Shop method

★ This approach attempts

- to identify multi-industry Companies
- that are
  - undervalued
  - (&) have more value if Seperated 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 those industries.]
2. Calculate
   - a "Theoretical" market value
   - based upon each of the average Capitalization Ratios.
3. Average
   - The "Theoretical" market values
   - to determine the "chop - shop" value of the firm

★ Leverage Buy out [LBO]

- is an acquisition
- where
  - The purchase price is financed
  - through a Combination of
    - equity
    - (&) 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
  - (&) Insolvencies

- ☆ 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 firms in many cases
  - gets substantially lost
  - In fact in some cases
    - accumulated losses over the years
    - may be more than share capital
    - causing negative net worth.

- ☆ 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
    - (&) fictitious assets
  - (&) show share capital at its true worth.

☆ Management Buy out (MBO)

⇓

MBO is a form of acquisition where

- a Companies existing Manager
- acquires
  - a large part
  - (or) all of the Company
- from
  - either the parent Company
  - (OR) from the private owners.

☆ MBO

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

☆ An MBO can occur for a number of Reasons :

1. The owners of the business want to
   - retire
   - (&) Sell the Company to the management team they trust
2. The owners of the business
   - have lost faith in the business
   - (&) are willing to sell it to the management
   - in order to get some value for the business
3.
   - The management see a value in the business
   - that the current owners do not see
   - (&) Do not want to pursue.

☆ 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 :

☆ $\boxed{EVA}$ => EBIT (–) Taxes (–) Cost of funds employed

(OR)

☆ $\boxed{EVA}$ => net operating profit after tax (–) Cost of Capital employed

- net operating profit after tax → ☆ profit available to provide returns to
  - Lenders
  - &
  - Shareholders.
- Cost of Capital employed → ☆ WACC × 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 return
  - 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 to understand (&) evaluate financial performance of a Company.

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

Infosys Technologies Ltd. (&) BPL Ltd are a few of them.

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

$V(AB) > V(A) + V(B)$

In other words, it is Combined value of 2 firms (or) Companies shall be more than their individual value.

This may be result of Complimentary Services (OR) Economies of Scale (OR) both.

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

Complimentary Services → e.g ① A Company may have a good networking of branches (&)
② other Company may have efficient production system.

* Reduction in Overhead Costs on A/C of Sharing of Central Services such as
→ A/Cing
→ finance
→ office executives
→ top level mngt etc.