

Introduction



In Today's corporate world, one of the most talked topic is Mergers and Acquisitions which is now become an integral part of business strategy. Many Company's Acquires another company to gain the market share in the economy and to gain synergy or to avoid the competition.

These are some of the reasons for mergers and Acquisition. But in this article I will tell you about the scenario where many company fears which is the hostile takeover. The big bulls of the market captures the whole of Industry to gain more and more advantage. But there are many small companies which is at a growth stage and they have good prospect in the future but they have been acquired by the big companies. First of all I will explain to you about the hostile Takeover and then we will see some of the techniques to tackle the hostile takeover.

Hostile Takeover



It means when the board of directors of the acquiring company decides to approach the shareholders of the target company directly through a public announcement (Tender Offer) to buy their shares consequent to the rejection of the offer made to the Board of Directors of the Target Company.

Example: - A Ltd wants to acquire B Ltd and it made an offer to buy shares of B Ltd to the board of directors of B Ltd, But B Ltd.'s Board rejected their offer. So, A Ltd made a public announcement and made an offer to the shareholders of B Ltd to buy their shares. If majority of the shareholders ends up selling the shares of B Ltd to A Ltd then it is a case of Hostile Takeover.

Techniques to Tackle Hostile Takeover:-

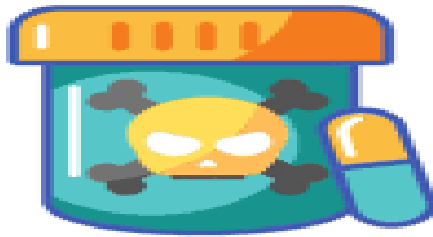
1) Crown Jewels:



It is one of the techniques used by the company to look unattractive. Basically, the company used to sell its most valuable assets or trade secrets to its friendly company (Subsidiary Co. or Associate Co.) in the hope that the Acquiring Company will drop its bid. The company uses this technique as a last resort.

Example- A Ltd wants to Acquire B Ltd and B Ltd board fears that A Ltd will try to buy off their shareholders. B Ltd sells its valuable assets to C Ltd (Friendly Co) to look unattractive. Hence, in this case A Ltd has no other choice to withdraw the bid as the company sold their assets. Afterwards, B Ltd will repurchase their assets from C Ltd.

2) Poison Pill:



Poison Pill Strategy

This Tactic was devised by New York based legal firm Wachtell, Lipton, Rosen and Katz. It is used by the target Company to make its share unattractive and Bidder will back off from the bid. In Poison Pill, There are several techniques and one of the technique is to issue convertible debentures to the existing shareholders to be converted at a future date when it faces a takeover threat. Due to this, with shares converting at future date will reduce the voting power of the acquirer and it eventually withdraw from the bid.

Example- One of the practical example is of Netflix in 2012, where Mr. Icahn one of the major shareholders of Netflix accumulated a stake of 9.98% stake and with the fear of takeover the Netflix board puts a poison pill provision that the whoever buys more than 10% stake they need to take approval from the board. But if the approval is not taken then company will flood the market with new shares and make the takeover more expensive.

3) Greenmail:



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It is a strategy where management of the Target Company offers incentives to the Acquirer Company for not pursuing the takeover. The management of the target Company may offer the Acquirer for its shares a price higher than the market price.

Example- A Ltd acquires a large no of stakes in B Ltd and threatens B Ltd for a hostile takeover. To prevent this, B Ltd agrees to repurchase the shares at a higher market price than the usual price. In this case, the target Company B Ltd value is reduced and the greenmailer A Ltd walks away with a significant amount of profit.

4) White Knight:



It is a strategy where target Company offered to be acquired by a friendly company to escape the hostile takeover. The main aim of the target Company is to retain the management and Control of the Company.

Example- A practical example of white knight is JP Morgan case where it acquired Bear Sterns at a heavy discount. Bear Sterns was on the verge of Bankruptcy and then it agreed to sell itself to JP Morgan chase for a mere \$2 a share by surviving the great depression in 2008.

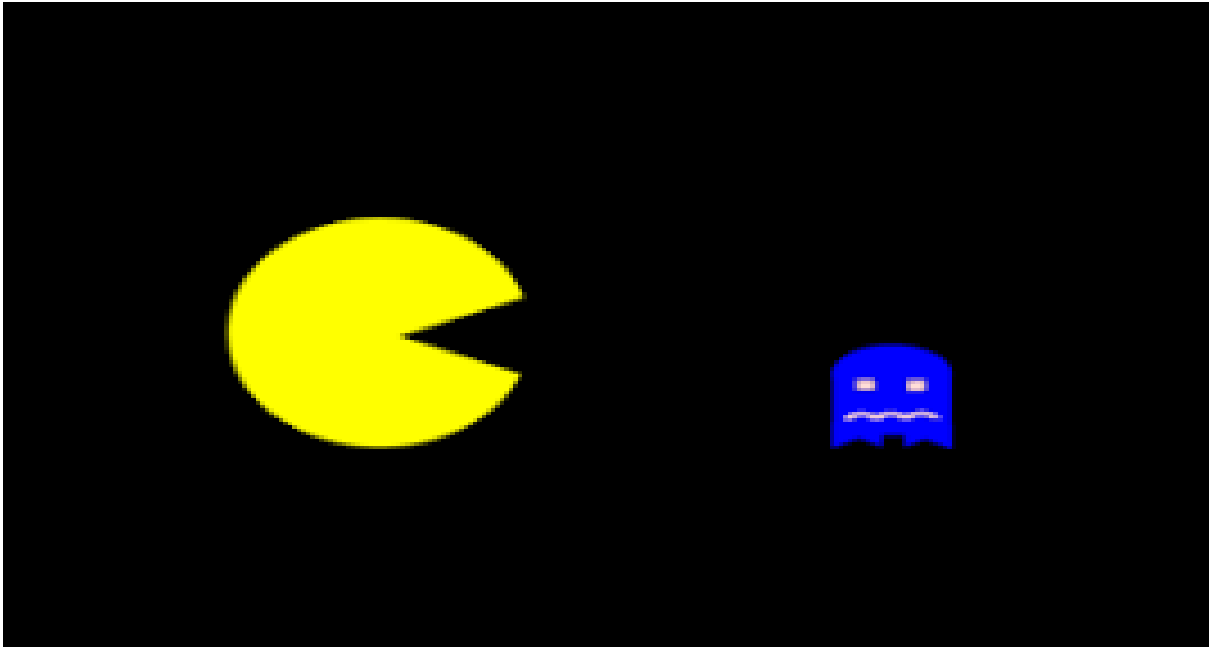
5) Golden Parachutes:



It is a strategy where management of the target company offers hefty compensation to its managers due to the threat of takeover which makes the takeover expensive and this will reduce the interest of the acquirer Company. It may be in the form of cash, Bonus, Vesting Stock options etc.

Example- A Ltd has the clause where if it will get acquired by another Company then Mr. John who is the top executive of the company will get the severance pay, Stock options and retirement benefits. So, In case of takeover Mr. John can reap the benefits due to golden parachute clause in his contract. It is a technique to retain the top executives by providing the Job security and Incentives.

6) Pac-man defence:



It is a strategy where target Company makes a counter bid to the acquirer Company. It is used to scare off the acquirer Company to call off its proposal for takeover.

Example- Real life example is the case where Porsche attempted to buy stocks of Volkswagen to acquire a controlling interest but it failed to buy. After the financial crisis in 2008, Volkswagen ended up turning around and buys the shares of Porsche enabling it to take over Porsche altogether by 2012.

Conclusion:

Hostile takeovers are expensive and this should be avoided as they are more difficult to consummate. Friendly takeover are better course of action to follow

The End

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