FACULTY OF MANAGEMENT STUDIES

Business Policy & Strategic Management

Mergers , Acquisition & Takeover

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MERGER ,ACQUISITION
AND TAKEOVER

Index

- What is Merger?
- What is Acquisition?
- Types of Merger and Acquisition
- Steps of Merger and Acquisition
- Reasons for Merger and Acquisition
- Issues in Merger and Acquisition
- What is Takeover?
- Types of Takeover
- Example of Mergers, Acquisition and Takeover
- Difference between Mergers, Acquisition and Takeover
- Conclusion

Merger

A merger is a combination of two or more organisations in which one acquires the assets and liabilities of the other in exchange for shares or cash ;or both the organisations are dissolved and assets and liabilities are combined and new stock is issued.

Acquisition

An acquisition is when one company purchases most or all of another company's shares to gain control of that company. Purchasing more than 50% of a target firm’s stock and other assets allows the acquirer to make decisions about the newly acquired assets without the approval of the company’s shareholders.

Types of mergers and acquisitions

❑ Horizontal

A horizontal merger occurs between companies operating in the same industry. The merger is typically part of consolidation between two or more competitors offering the same products or services. Such mergers are common in industries with fewer firms, and the goal is to create a larger business with greater market share and economies of scale since competition among fewer companies tends to be higher.

EXAMPLE: Merger of SBI with associate banks.

❑ Vertical

When there is a combination of two or more organisations, not necessarily in the same business ,which create complementarities either in terms of supply of materials(inputs) or marketing of goods or services (outputs).

For instance a footwear company combines with a leather tannery (supplier) or with a chain of shoe retail stores (distributor).

EXAMPLE: Walt Disney acquired Pixer animation studios $7.4 billion in 2006 .pixer was an innovative animation studio and Walt Disney was a mass media and entertainment company.

❑ Concentric

Takes place when there is a combination of two or more organisations related to each other either in terms of customer functions ,customer groups or alternative technologies used.

Footwear company combines with hosiery firm making socks or another specialty footwear company ,or with leather goods company making purses, handbags etc.

Example: Citigroup's acquisition of travellers insurance. While both were in the financial services industry ,they had different product lines.

❑ Conglomerate

This is a merger between two or more companies engaged in unrelated business activities. The firms may operate in different industries or in different geographical regions.

- A pure conglomerate involves two firms that have nothing in common.
- A mixed conglomerate, on the other hand, takes place between organizations that, while operating in unrelated business activities, are actually trying to gain product or market extensions through the merger.

Example: Merger of Walt Disney and American broadcasting company.

Steps of Merger and Acquisition

- Spell out the objective
- Indicate how the objectives would be achieved
- Assess managerial quality
- Check the compatibility of business styles
- Anticipate and solve problems early
- Treat people with dignity and concern

Reasons for Mergers and Acquisitions

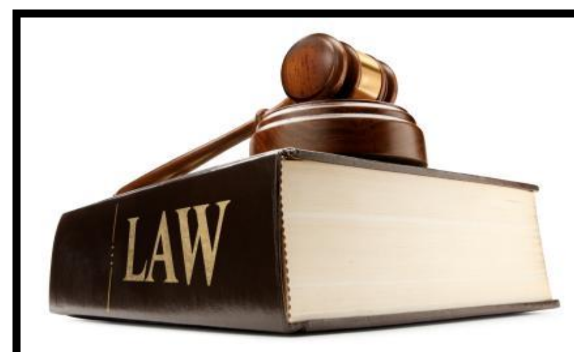
- Financial alliance for lower cost of capital
- For improving company's performance and stimulating growth
- Economies of scale
- Diversification for higher growth markets
- For increasing market share
- Strategic realignment and technological change
- Tax considerations

Issues in Mergers and Acquisition

Strategy Issues

Financial Issues

Managerial Issues



Legal Issues

- **Strategic Issues** relate to the commonality of strategic interests between the buyer and seller firms.

- **Financial Issues** are of 3 types –
    - Valuation of the business and shares of the target firm.
    - Sources of financing for mergers.
    - Taxation matter after mergers.

- **Managerial Issues** in mergers relate to the problems of managing firms after the merger has taken place.

- **Legal Issues** in mergers relate to the provisions made in law for the purpose of mergers.

TAKEOVER

Takeover is an inorganic corporate growth device whereby one company acquires control over another company usually by purchasing all or majority of share or voting rights i.e. when the acquirer takes over the control over target company or substantial quantity of share or voting rights of target company.


BAIL OUT TAKEOVER
TYPES OF TAKEOVER
FRIENDLY TAKEOVER
HOSTILE TAKEOVER

FRIENDLY TAKEOVER

- With consent of taken over company.
- Through agreement between company's.
- Through negotiation between two groups.
- Also called negotiated takeover.

HOSTILE TAKEOVER

- Acquirer company does not offer the target company.
- Acquires silently.
- Against the wishes of management.
- No proposal to acquirer.

BAIL OUT TAKEOVER

Takeover of financially sick company by a profit making company to bail out from sickness.

DEFENSIVE STRATEGIES

- Packman defense
- Shark repellents
- Poison pills
- White knight
- Grey knight
- Golden parachute
- White square defense

DISADVANTAGES

- Reduce competition.
- Results in Job cuts.
- Conflict among management/employees of acquirer and target company.
- Acquirer may face hidden threats and undisclosed liabilities.
- Opposition from stakeholders.

EXAMPLES

1. TAKEOVER

Larsen & Tourbo Ltd. takesover Mindtree Ltd.

In what is touted as the first hostile takeover of a company in the country, Indian conglomerate Larson & Toubro has successfully completed its takeover of IT company Mindtree. As per L&T, initially, Cafe Coffee Day founder VG Siddhartha who was facing pressures of liquidity approached them offering to sell his stake in the company in March 2019. Interestingly, Siddhartha was the single-largest non-promotor shareholder having 20.32 per cent stake in Mindtree. L&T offered him Rs 980 per share, which approximately amounted to Rs 3,269 crores. This offer was vehemently opposed by the management of Mindtree which set stage for a hostile acquisition.

2. MERGER

Idea Cellular and Vodafone Networks Merger

Vodafone India and Idea Cellular decided to have a merger of equals. Vodafone and the Aditya Birla Group will have a joint control of this combined company. Once you combine the Vodafone and idea customers, the merged entity could be the biggest telecom company in India. It would have nearly 40 crore customers, 35% customer market share and 41% revenue market share. Months ago, the entry of Reliance Jio in the market disrupted the operations of other service providers. This merger is a strategic response to Jio’s significant move, as per analysts quoted in various media reports.

3. AQUISITION

Facebook Inc. Aquires Whatsapp Inc.

WhatsApp is Facebook's largest-ever acquisition. The social networking giant will pay $4 billion in cash and $12 billion worth of shares for WhatsApp. But the ultimate cost of the deal is $19 billion, with WhatsApp employees and founders receiving an additional $3 billion in restricted stock units of Facebook.

The acquisition dwarfs the $1 billion that Facebook paid for photo-sharing service Instagram. Several analysts had termed Instagram acquisition expensive. But now, Facebook is paying $42 per user with the deal.

Google

Jio
saavn

TATA

JAGUAR

LAND ROVER

Myntra

JABONG COM

flipkart.com
MYNTRA

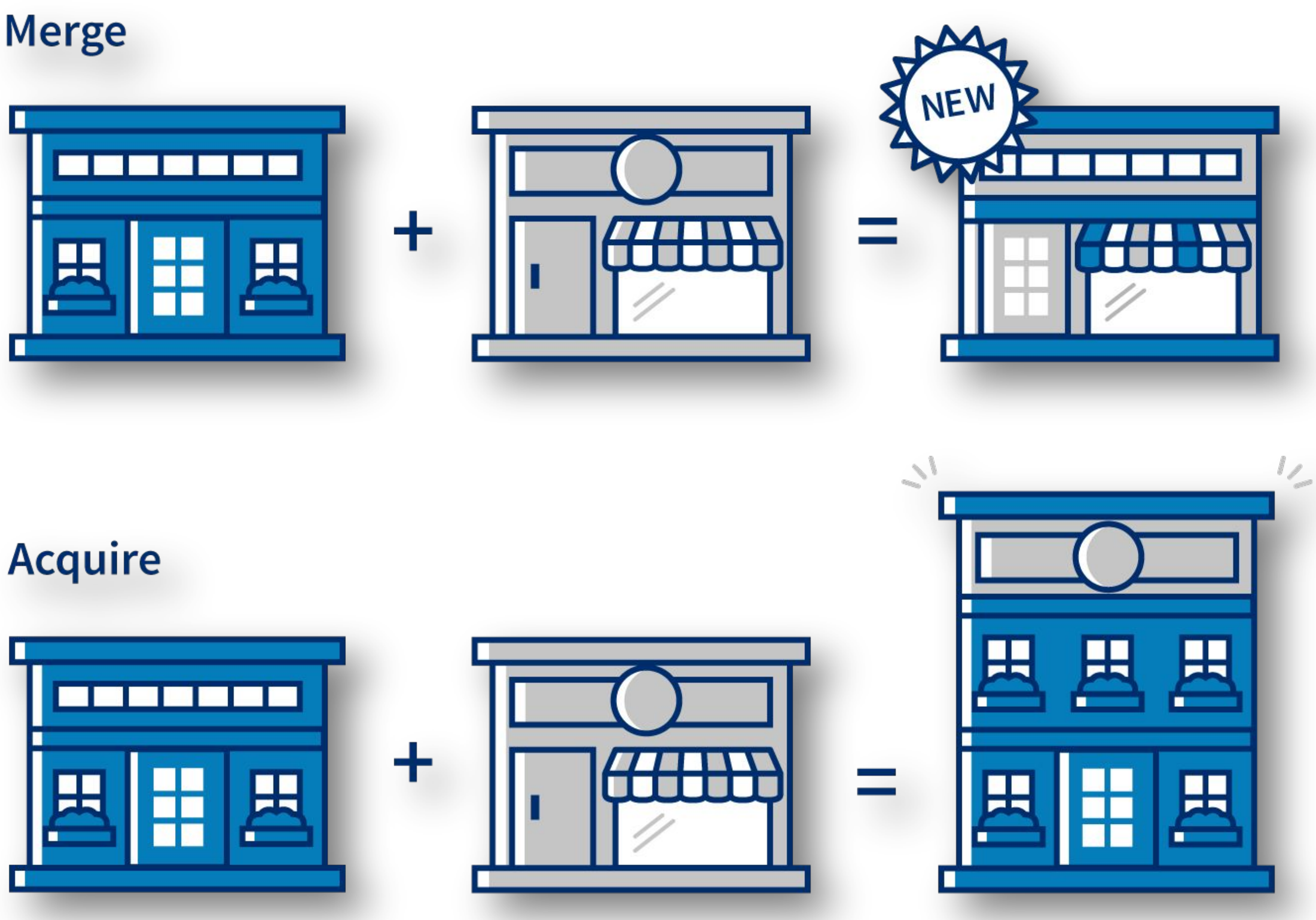

Flipkart
Walmart

- Facebook announced that it would be buying mobile messaging company WhatsApp for US$19 billion in cash and stock
- One of its first major acquisitions was in April 2012, when Facebook acquired Instagram for approximately US$1 billion in cash and stock.
- In 2005, Google acquired Android for an estimated $50 million.
- India's biggest firm, Reliance Industries (RIL), is giving final touches to the acquisition of Future Retail (FRL).
- On March 23, 2018, RIL announced a strategic merger of its digital music service JioMusic with music over-the-top platform Saavn with RIL acquiring a 75-80 % stake in the merged entity.
- Tata Motors today acquired the Jaguar Land Rover businesses from Ford Motor Company for a net consideration of US $2.3 billion.
- In 2014 Myntra was acquired by Flipkart in a deal valued at ₹2,000 crore
- In August 2018, U.S.-based retail chain Walmart acquired a 81% controlling stake in Flipkart for US$16 billion, valuing it at $20 billion.
- In July 2018, E-commerce major Flipkart Group has acquired 100% stake in Walmart India Pvt Ltd, which operates the Best Price cash-and-carry business, and has launched Flipkart Wholesale, a new digital marketplace.


MEGA BANK
MERGER DRIVE
Merger 1
Indian Bank
+
ALLAHABAD BANK
Merger 2
Punjab National Bank
+
Oriental Bank of Commerce
+
Merger 3
Canara Bank
+
SyndicateBank
Merger 4
Union Bank of India
+
ANDHRA BANK
+

Difference between Merger, Acquisition & Takeover

Mergers and acquisitions are two of the most misunderstood words in the business world. Both terms often refer to the joining of two companies, but there are key differences involved in when to use them.



Is there any difference between Takeover & Acquisition?

Acquisition	***Takeover***
An acquisition is quite parallel to takeover in that one company will acquire the other, however usually on a pre-planned & orderly manner in which both the parties strongly agree if beneficial to both the firms.	A takeover is generally a hostile act, where the acquirer will surpass the target company's board of directors & will purchase more than 50% of the shares to obtain a controlling stake in the firm.
The process of acquisition is normally agreed upon in a well-planned operation.	Whereas the process of takeover is basically a hostile act.
Both the acquirer company & the acquired company mutually decides for the acquisition.	The concept of mutual decision is not included in the process of takeover.

Conclusion


THANK YOU!