MERGERS AND AQUISITIONS.

Date

Merger :-

It refers to a situation, where two (or) more existing firms combined together to form a new entity.

Either a new company may be incorporated with this purpose (or) one existing company services and another existing company is merged into it.

The term merger means dissolution of one (or) more companies.

Aquisition :- (Including takeover)

It refers to acquiring of ownership rights in the property and assets.

It denotes only change or control & no time is Liquidated.

Types of Mergers :-

1. Horizontal Merger :-

Combination of two (or) more companies operating in a same industry.

2. Vertical Merger :-

Combination of two or more companies operating in same industry but at different stages of production (or) distribution.

(a) forward Integration.

(b) Backward Integration.

3. Conglomerate Merger :-

Combination of two or more companies operating in different & unrelating industry.

4. Reverse Merger :-

a) Profit making co. merging with loss making co.,

b) Holding co., merging with subsidiary co.,

Kinds of takeover :-

1. friendly takeover :-

The aquirer will aquire the controlling interest after through negotiations and agreement with target co.,

2. Hostile takeover :- (Violat takeover)

Acquiring without the knowledge & concent of target co., Date

3. Bailout Takeover :-
This is resorted to bailout of sick companies

Share Exchange Ratio :- (SWAP Ratio)
The no. of new shares to be issued in acquiring firm for every one share held in target firm is known as Share exchange Ratio.
Basis for Share exchange Ratio :.
→ Share exchange Ratio based on NAV per Share.
→ Share exchange Ratio based on MPS.
→ Share exchange Ratio based on EPS.

(i) Based on NAV Per share :-

$$\text{Share Exchange Ratio} = \frac{\text{NAV per Share of target firm}}{\text{NAV per Share of Acquiring firm}}$$

(ii) Based on Earnings per Share :-

$$\text{Share Exchange Ratio} = \frac{\text{EPS of target co.,}}{\text{EPS of acquiring co.,}}$$

(iii) Based on MPS.

$$\text{Share Exchange Ratio} = \frac{\text{MPS of target firm}}{\text{MPS of acquiring firm.}}$$

Reasons for Mergers & Acquisitions.
Why Should I go for Merger?
What a buyer would Say?
1. An opportunity to grow faster with a ready made market price
2. TO eliminate a Competetor by buying it out
3. Better Integration - Horizontal / Vertical.
4. Diversification with Min cost & Immediate profit.
5. TO Improve div yield, earnings (or) Book Value

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6. TO prevent the companies takeover by a third party.

What a vendor would say?

1. Declaining sales/ earnings.
2. An uncertain future.
3. Owner wants to slow down (or) retire with no successor insight.
4. Desire to maximize the growth under the umbrella of a larger company.
5. TO raise cash for a more promising line of business.
6. Lack of adequate financial & Management skills.