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M & A Framework

Merger :- A Business transactions that unites 2 companies into. a new & single entity

Acquistion :- A Business transaction where one company purchases full control of another company. → following the acquistion the company being purchased will dissolve & cease to exist

- The New Owner of the company will absorb all of the acquired Company's Assets & Liabilities

Two Major types of M & A cases
a) A company acquiring OR merging with another company.
b) A Private Equity from acquiring a company.

a) Acquiring & Merging :- eg:- Walmart is a large retail. corp that operates a chain of supermarkets, Dept stores & Grocery stores. → they are considering acquiring a company that provides an online platform for Small Business to sell their products → Should they make this acquistions.

↳ In making Acquistion OR Merger. a company may be trying to

- Gain access to the other Company's customers, distribution channel.
- Acquire Intellectual property, proprietary technology & other assets
- Realize Cost Synergies, Acquire Talent, Removing Competition
- Diversify Sources of Revenue

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b] Private Equity acquiring a company :- PE firms uses investors money to acquire companies in the hopes of generating High returns on investments → After acquiring a company → Try to improve the company's ~~opera~~ overall operation → Drives growth.

- After a no. of years the firm will sell the acquired company for a profit.

eg :- A PE firm is considered acquiring a national chain of Tattoo Parlours → Should they make this investment

- Generate a high return on Investments.
- Diversify its portfolio of companies to reduce risks.
- Realize synergies with other companies that the firm owns.

5 Steps Approach

1) Understanding the primary reason behind the acquistion.

- Company wants to generate high return on investments
- Company wants to acquire intellectual property, proprietary technology & other assets.
- Company wants to realize revenue & cost synergies.

2) Quantify the Specific Goal / Target → Try to use numbers to quantify the metrics for success.

- High Return on Investment →. What ROI are they targetting.
- Realize Revenue synergies → How much revenue increase are they expecting.

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3) Create an M&A Framework & work through the case.
↳ Structure a framework to help guide you through the case.
- Framework should include all of the questions, you need to explore. In order to determine whether the company should make the acquistions.

4) Considering Risks & Alternative Acquistion ~~??~~ Targets
- Recommending making the acquistion or not making it.
- If yes, explore the potential risks of the acquistions.
  a) How will the acquistion affect the existing customers
  b) Will it be difficult to integrate the companies
  c) How will competitors react to this acquistions.

If we are leading towards not recommending making the acquistion.
↳ What are the other potential acquistions ~~or~~ Targets
Are there other projects / Investments → Better to pursue.
- There's always an opportunity cost when a company makes an acquistion. → This money can spent on something else that drives revenue.

5) Delivering a recommendation & proposing next steps
- Stating the overall recommendation firmly.
- Provide 3 reasons that supports your recommendation.
- Propose potential next steps to explore.

1) Market Attractiveness | 2) Company Attractiveness
3) Synergies | 4) Financial Implications

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Framework for M&A

1) Market Attractiveness → Factors to consider.

- What is the market size.
- What is the market growth rate.
- What are the average profit margins in the market.
- How available & strong are substitutes
- How strong is supplier power.
- How strong is Buyer power
- How high are Barriers to entry

2) Company Attractiveness → Whether the acquisition target is an attractive company.

- Is the company profitable.
- How quickly is the company growing
- Does the company have any competitive advantages.
- Does the company have significant differentiation from competitors?
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3) Synergies → Whether there are significant synergies that can be realized from the acquisitions

- Synergies
  - Revenue → Helps company increase revenue.
  - Cost → Helps company reduce overall costs.

Revenue :- Accessing new distribution channels, accessing new ~~products~~ customers segments, Cross selling products, Up-selling products & Bundling products together.

Costs :- Consolidating redundant costs & Having increased ~~buyer~~ buyer power.

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Financial Implications → Whether the expected financial gains or return on investment justifies the acquisition price.

- Is the acquisition price fair.
- How long will it take to break even on the acquisition price
- What is the expected increase in annual revenue.
- What are the expected cost savings.
- What is the projected Return on Investment (ROI)