International Journal of Engineering Technology Science and Research
IJETSR
www.ijetsr.com
ISSN 2394 – 3386
Volume 5, Issue 1
January 2018

A Study on Mergers and Acquisitions – A Business Strategy for Value Creation

A. Sonam Dubey
Student
St'Joseph's Degree and PG College

ABSTRACT

The purpose of this paper is to study the concept of Mergers & Acquisitions and how do they play a role in value creation, Mergers and Acquisitions in global scenario is one of the way for the companies to undergo the process of restructuring and re-organizing. Mergers and Acquisitions is a cachet of mystique and glamour by reason of the headlines and business press comments which international mega deals attract. They are being used as one of the leading corporate strategy by organizationsto create long-term and sustainable "value" for all the stakeholders. Value Creation necessitates a shift in the growth strategies of firms in order to stay afloat and maximize growth.The study proposes an analysis of the past 3 years Mergers & Acquisitions transactions by number of deals & values across the World. This paper also describes the strategic drivers of mergers and acquisitions and reasons for the failure of them by taking realistic examples.This research paper makes an attempt in achieving these objectives by extracting the information from books, Newspapers, Annual Reports of Big4 firms,Articles from Internet, etc.,

Keywords: Mergers & Acquisitions, Value Creation, Globalization, Technology, Business Strategy

INTRODUCTION

In business there is one simple rule i.e., either grow or die. Companies on a grow path will take away market share from competitors, create economic profits and provide returns to shareholders. Those who do not grow tend to stagnate, loss customers and market share and destroy shareholder value. Mergers & Acquisitions plays a critical role in both sides of the role enabling strong companies to grow faster than competitors and providing entrepreneurs' rewards for their efforts and also ensuring that weaker companies are more quickly swallowed or worse made irrelevant through exclusion and ongoing share erosion. It is the path that businesses take to achieve exponential growth, not just linear and therefore continues to generate interest.Business begins with value creation. It is the purpose of the institution, to create and deliver value in an efficient way that it will generate profit after cost.Mergers & Acquisitions (M & A) refers to consolidation of companies. Starting a company and selling it can be the fastest way to create substantive wealth in this globalized market when long-term independent sustainability becomes difficult.

Global market saw prominent consolidation agreements like acquisition of U.S based seed and agricultural company Monsanto by German pharmaceutical and chemical giant Bayer for $66 billion (2016); telecom giants AT & T and Time warner merger announcement worth of $ 85.4 billion (2017); $13-billion acquisition of Essar Oil Ltd (India) by a consortium led by Russian oil major Rosneft, European trader Trafigura and a Russian fund UCP (2016).

Global companies like P&G, J&J, IBM, GE, Pfizer, Cisco, Tata & Sons, Mahindra &Mahindra, Haier, Lenovo, HSBC, and others all have an M&A strategy coupled with an organic growth strategy, enhancing growth and managing risk at the same time.

OBJECTIVES & METHODOLOGY

Objectives of this paper is to:

a. To explain the concept Mergers & Acquisitions and their types.

b. To describethe value creation and its role in Mergers & Acquisitions.

c. To compare the statistics about Mergers& Acquisitions in terms of number of deals and values from 2015 to 2017 across the world, Europe, Asia-Pacific region.

d. To identify strategic drivers of Mergers& Acquisitions with reference to changing market conditions.

The research design of this paper is exploratory. Secondary data includes qualitative facts and quantitative figures which is collected through Books, Online Articles, and Annual Reports on M&A of Deloitte, PWC, BCG, J.P Morgan, Newspapers.

REVIEW OF LITERATURE

Executive Online's New Challenge of Change Report 2006, stated Merger and Acquisition is the fourth largest driver for change on a par with the introduction of new technology and both of which account for 18% of all change initiatives planned over the next 12months.

Deloitte's fifth M&A trends report, collected data from more than 1,000 executives at corporations and private equity firms about the current year (2017) and their expectations for the next 12 months. The results pointed to strong deal activity ahead: About 68 percent of executives at US headquartered corporations and 76 percent of leaders at domestic based private equity firms say deal flow will increase in the next 12 months. Further, most respondents believe deal size will either increase (63 percent) or stay the same (34 percent), compared with deals brokered in 2017.

Petkova, M. and Do, T.Q. (2012) explored whether the European acquirers in the telecom sector failed to deliver value to their shareholders in the period ranging from 1995 to 2005 and also discussed the possible motives behind the intentions to engage in M&A. The main inference drawn from the study was that acquisitions in general fail to create value to the shareholders, which might be due to many factors. They concluded that despite the negative evidence concerning post-acquisition performance, firms still choose to engage in acquisitions on account of external or internal motives.

Calipha et al. (2010) pointed out that present-day corporate strategy is focused firmly on M&A as a tool for promoting future growth and creatingsustainable value. As a result, companies are aggressively seeking and buyingcompatible and synergistic businesses to bolster core strengths, and sheddingnon-core operations

Mergers & Acquisitions

A Merger is a combination of one company into another, whereby the transferor company loses its existence upon merger with the transferee company. It may take place by purchasing assets, by purchasing common shares, by exchange of shares for assets, by exchanging shares for shares, by paying off debt or by paying off certain liability, etc.,

Primary types of mergers include:

a. Horizontal Merger- Merger of companies involved in the same industry and in direct competition.

b. Vertical Merger - Merger of two companies operating in the same industry but at different level within the industry's supply chain and

c. Conglomerate Merger - Unrelated companies come together to achieve synergy benefits.

In 2016, India's largest oil producing company, Cairn India Limited (Cairn), merged with the metals and mining giant Vedanta Limited (Vedanta) in an all-share deal amounting to 2.5 billion USD, whereby the public shareholders of Cairn would be allotted equity and preference shares of Vedanta.

An Acquisitions can either be in the form of share purchase or it could be in the form of acquisition of a business undertaking. While share acquisition is an effective solution, where the acquirer get entire control over the target.

E.g., the acquisition of Tata group's wireless phone business (Tata Teleservices Limited) virtually for free by Bharti Airtel Ltd is just the latest outcome of the tidal wave of consolidation caused by the entry of Reliance Jio that has swept through India's telecom industry over the past one year.

Following are the primary types of Acquisitions:

a. Transformational—Deals that involve acquiring new markets, channels, products, or operations in a way that is transformative to the fully integrated organization.

b. Absorption—Deals that involve acquiring and integrating similar companies as their own, such as industry competitors. This is sometimes called consolidation.

c. Tuck-in—Deals that involve acquiring and integrating relatively small companies, generally to pick up key products or technologies.

d. Stand-alone—Deals that involve acquiring but not integrating, and keeping the newly acquired entity operationally separate from the rest of the organization.

Mergers and Acquisitions can take place domestically or cross-border. All international mergers are both inbound and outbound.

Inbound Mergers and Acquisitions

An inbound merger or acquisition is a transaction in which a foreign company merges with or acquires a domestic company.

E.g.,when the inbound company is in the United States and is being acquired by or is merging with a foreign company, both companies will benefit from experienced legal guidance, particularly in the arena of compliance with the Securities and Exchange Commission (SEC) requirements and other government regulations.At the same time, however, the U.S. government offers incentives for foreign investment in U.S. companies.

Outbound Mergers and Acquisitions

In an outbound merger or acquisition, a domestic company purchases or merges with one in another country. A U.S. company entering into an outbound merger or acquiring a foreign company will require significant guidance with regard to legal and compliance issues in the other country, as well as of any restrictions, reporting requirements or other regulations of the U.S. government which places on pre-merger interactions.

Value Creation

Creating value for customers helps all products and services, while creating value for shareholders in the form of increase in stock prices insures the future availability of investment capital to fund operations. Value creation can be done by the alignment of business strategy, financial strategy, technology strategy, marketing strategy and attracting investors' strategy.

Creating value by producing a commoditized product is not a pathway to success. Think about the substitutability of your product or service: Do customers have a wide array of other options? Do they have to make a purchase at all? Are you meaningfully distinct from your competitors?

If your industry is in a competitive equilibrium, the death of your business wouldn't matter to the world because some other undifferentiated competitor will always be ready to take your place.This is the condition for most businesses—what they sell is not unique, but generally substitutable. If you want to create the kind of value that builds a lasting and successful business thenyou must be unique.

Role of Value Creation in Mergers & Acquisitions:

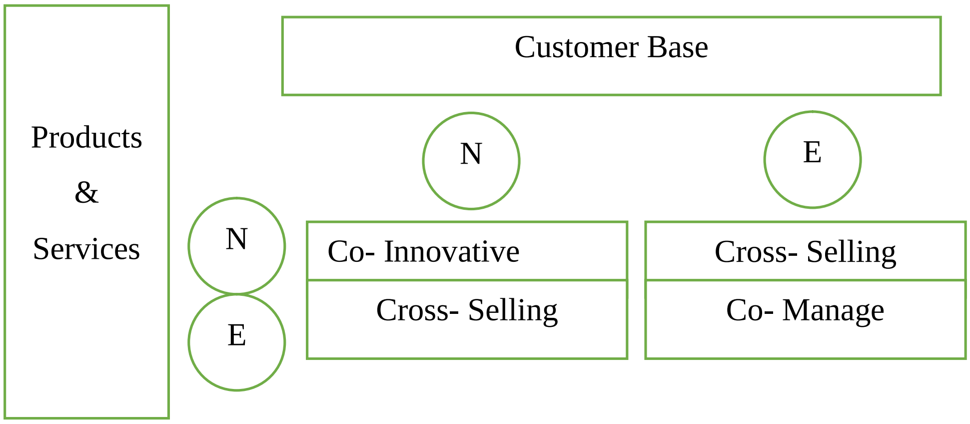
From the point of view of the acquirer's shareholders, a transaction can lead to value creation through three main avenues:

• Target is acquired at a lower price than its intrinsic value.

• Improvement of the target's operating and financial performance on a stand-alone basis post-acquisition.

• Realisation of synergies between the acquirer and the target, assuming that the value associated with these synergies is not transferred by the buyer to the seller via the transaction price.

International Journal of Engineering Technology Science and Research
IJETSR
www.ijetsr.com
ISSN 2394 – 3386
Volume 5, Issue 1
January 2018



Above diagram describes the way to create value creation in M & A based on given parameters. (N stands for New & E stands for Existing)

• A co-manage strategy can be implemented when two competitors merge in a given segment, thereby gaining a greater market share and pricing power vis-à-vis an existing client base buying existing products.

• A cross-selling strategy can be adopted when the acquirer is able sell its products to the target's client base and vice-versa

• When the synergies relate to the new product/service and customer base, we talk about co-innovation.

SECONDARY DATA

Regions	**2017**	**2017**	**2016**	**2016**	**2015**	**2015**
	No of Deals	**Value (US $ Billion)**	**No of Deals**	**Value (US $ Billion)**	**No of Deals**	**Value (US $ Billion)**
World	50,130	3,549	49,161	3,633	47,305	4,763
Europe	16,526	971	18,086	1,003	17,516	1,161
Asia-Pacific	15,229	1,051	15,371	1,113	14,597	1,361

The M& A deal value around the globe reached a record high at US $ 4.76 trillion during the year 2015 since 2010. Later the deal value fallen but the number of deals increased at marginal rate.

➢ **United States**

- Deal volume decreased by 9%, from 13,211 transactions in 2015 to 11,968 in 2016.
- US deal value declined by a similar percentage, from $2.05 trillion to $1.86 trillion.
- The number of billion-dollar transactions involving US companies decreased by eight, from 286 in 2015 to 278 in 2016, while the total value of these transactions decreased 11%, from $1.65 trillion to $1.47 trillion.

➢ **Europe**

- The number of transactions increased by 6%, from 14,652 in 2015 to 15,489 in 2016—the European market's high point since 2000.
- Total deal value decreased from $1,161 billion to $ 971 billion

- The number of billion-dollar transactions involving European companies declined for the second consecutive year,

➢ **Asia-Pacific**

The value of announced merger & acquisition (M&A) deals involving Indian companies amounted to $62.1 billion in 2017, down 3.5 per cent compared to 2016, but still elevated compared to historical M&A activity, said a Thomson Reuters report.

Mergers & Acquisitions Status in India

- The average M&A deal size for transactions with disclosed values declined to $84.6 million in 2017 from $102.3 million in 2016.
- Inbound M&A activity hit a record high of $31.7 billion, up 15 per cent in 2017.
- Outbound M&A activity, however, declined sharply by 73.5 per cent to $2.6 billion, making it the lowest outbound deals year since 2014.
- This totals to cross-border M&A activity of $34.3 billion, down 8.1 per cent in value compared to 2016.
- Domestic M&A stood at $25.4 billion in 2017, down 0.5 per cent in value from over a year ago, despite the 18.6 per cent increase in the number of announced domestic deals.
- Completed M&A deals involving Indian companies totalled $59.4 billion in 2017, a 78.3 per cent increase over 2016 ($33.3 billion), while the number of completed deals grew by 27.3 per cent.
- The telecom sector accounted for majority of the acquisitions involving Indian companies with a 29.8 per cent share worth $18.5 billion, a more than a six-fold increase in deal value compared to 2016, making it the highest annual period of M&A deals for the sector since 2007 ($19.4 billion).

Important M&A across the world from 2015 to 2017

Year	**Acquirer**	**Target**	**Value (US $ Billion)**	**Comment**
2017	Intel	Mobileye	15.3	Intel has advantage in growing self-driving car industry.
2016	AT&T Inc.	Time Warner Inc.	85.41	To influence the ways information & entertainment reach customers
2016	Bayer	Monsanto Co	66	Creating Agricultural Bio-tech Giant. Sharing of technology and digital Farming
2016	ITC Holdings	Fortis	11.4	Provides opportunity for expansion
2016	Anheuser-Busch Inbev SA/NV	SABMiller PLC	103	Combination of world's two leading beer companies
2015	Dell Inc.	EMC Corp	66	Providing infrastructure for companies to build digital future.
2015	The Dow Chemical Company	DuPont	130	Formed DowDuPont. Finished in 2017

Following are the difficulties involved in Mergers & Acquisitionstransactions that can terminate the agreements

1. Regulatory and Legal issues

E.g., Changes in tax inversion regulation of US government terminate the deal between Pfizer & Allergan, plc, 2015.

2. Employees workstyle differences
3. Global economic uncertainty
4. Market Volatility
5. Political Pressures
6. Interest rate concern
7. Investors rejection of proposal
8. Cultural differences
9. Managerial biasthat terminated the deal between 21st Century Fox and Time Warner.
10. Undervaluation of company (Heinz & Unilever Limited end the merger talks in between because of company undervaluation)
11. Obstacles in the conduct of due diligence
12. Fluctuations in share prices.
13. Job cut implications (Pfizer and Astra Zeneca)
14. Fall in value of commodity prices (BHPBilliton and Rio Tinto)
15. Adverse effect on market conditions like eliminating competition, price monopoly etc., (e.g., GE and Honeywell)

Strategic Drivers of Mergers & Acquisitions

- ✓ Technology& Technological Assetsreduces conflicts, costs and time.
- ✓ M&A technological tools (software's) assist with reporting and integration.
- ✓ Need to grow, sustain for a longer time, profitability, eliminating potential competitors, occupying market share and broadening product portfolio.
- ✓ M&A goals are changing. Without any question, many companies still use deals to achieve economies of scale and improve efficiency. But increasingly, they're also trying to achieve transformation.
- ✓ Technology is radically remaking the way people all over the world work, shop, communicate, travel, get an education, invest, buy a home, entertain themselves, and even find love. Under intense pressure to innovate, many companies are clearly using deals to attain the capabilities they need to stay competitive. For some, that can mean integrating two very different business models and cultures.

SUGGESTIONS

- ➢ Divestment- Companies have to focus on core competencies and get rid of unviable part of business and concentrate on investment of capital in places where it really matters.
- ➢ M & A transactions are sensitive especially with respect of valuation. Professional and knowledgeable team must be appointed to handle this type of deals.
- ➢ Convergence Industry and sector convergence are seem popular thus, a strong step can be taken towards them through vertical integration.
- ➢ M&A can also be used to stretch the business, adding new and often unfamiliar capabilities but just not to improve the bottom line.

CONCLUSION

Mergers & Acquisitions became that area of corporate finance that is responsible for the growth of stable company, survival of weaker company and profitable closure of Default Company. Companies are achieving greater financial and operational success with their deals, but strategic success is getting harder to come by and thus where M & Deals comes into picture. It ultimately aim for restructuring, efficiency improvement and cost reduction for a company.

REFERENCES

- Text: Mergers & Acquisitions A to Z by Andrew J. Sherman
- Annual Mergers & Acquisitions Reports of - 2016, 2017 by PWC; 2017 by Deloitte.
- http://www.thehindubusinessline.com/info-tech/merger-with-idea-cellular-may-be-completed-in-2018-vodafone-ceo/article9875133.ece
- https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-advisory/lu-maximise-value-creation-ma-process-04062014.pdf
- https://www.pwc.in/assets/pdfs/trs/mergers-and-acquisitions-tax/mergers-and-acquisitions-the-evolving-indian-landscape.pdf
- https://www.wilmerhale.com/uploadedFiles/Shared_Content/Editorial/Publications/Documents/2017-WilmerHale-MA-Report.pdf
- https://www.jpmorgan.com/jpmpdf/1320723701797.pdf
- http://epublications.marquette.edu/cgi/viewcontent.cgi?article=1123&context=mgmt_fac
- https://medium.com/evergreen-business-weekly/why-value-creation-is-the-foundation-of-business-how-to-define-it-measure-it-and-manage-it-147c92b87aca
- http://www.academia.edu/9479744/LATEST_TRENDS_IN_MERGERS_AND_ACQUISITIONS_RESEARCH._THE_NEW_PATTERN_OF_GLOBALIZATION
- http://indianexpress.com/article/business/companies/ma-deals-jump-10-per-cent-in-2017-but-value-declines-report-5010651/
- https://imaa-institute.org/mergers-and-acquisitions-statistics/