



STRATEGIC MANAGEMENT (SM)

Learning takeaway

- Mergers and Acquisitions: Takeover and Defense Tactics, Laws For Mergers And Acquisitions, Regulatory Framework of Takeovers in India, Cross Border Mergers and Acquisitions.; Strategic Management in an International Firm; Strategy and Corporate Evolution in Indian Context.



What is a

Merger - two organizations of about equal size unite to form one enterprise.

Acquisition - a large organization purchases (acquires) a smaller firm, or vice versa.

A takeover or hostile takeover - when a merger or acquisition is not desired by both parties.

a friendly merger - if the acquisition is desired by both firms.

White knight - a firm that agrees to acquire another firm when that other firm is facing a hostile takeover by some company. In 2009, Palo Alto, California-based CV Therapeutics Inc., a heart-drug maker, was fighting a hostile takeover bid by Japan's Astellas Pharma. Then CVT struck a friendly deal to be acquired by Forest City, California-based Gilead Sciences at a higher price of \$1.4 billion in cash.

Merger & Acquisition



Procter & Gamble's (P&G's) purchase of Gillette - acquisition.

Acquisitions - occur between firms of different sizes and can be either friendly or hostile (takeovers).

Purchasing another company already operating in that area. Synergistic benefits can result if the company acquires a firm with strong complementary product lines and a good distribution network. Belgium's InBev purchased Anheuser-Busch in 2008 for \$52 billion to obtain a solid presence in the profitable North American beer market. Before the acquisition, InBev had only a small presence in the U.S., but a strong one in Europe and Latin American, where Anheuser-Busch was weak.

Ways 2 grow - Classification



- Organic growth (Growth of biz by snatching mkt share from competitor, expansion into newer geographies, export mkt)
- Inorganic Growth (Merger, Acquisition)
 - Complementary mergers
 - Vertical integration
 - Forward / backward integration (also Horizontal / Vertical mergers, horizontal in the same activities, vertical in forward or backward integration)
 - Coca Cola acquired Parle (Thums Up) to gain distribution muscle, Essar, Adani, LNM bought mines abroad to ensure RM (raw material), fuel supply
 - Merger through absorption - big fish swallows the small one (Global Trust Bank got absorbed into OBC and Bank of Madras into ICICI, GTB and BoM no more exist)
 - merger through consolidation

National Bank + Grindlays bank = National & Grindlays Bank, Standard Chartered, AI+IA = Naci (National aviation Co of India)

M & A Classification contd...



- Friendly
 - Tata Tea merged Consolidated Coffee (a bean grower) , Assam Coffee (Processor) - Friendly and backward / forward / Vertical integration as well, Tata Corus etc.
 - Hostile
 - Chabria / NEPC VS Modiluft / Sterlite vs Indal/ L&T - Mindtree
 - "poison pill" as protection against hostile takeover offers
- White knight* is a term that a firm agrees to acquire another firm when that other firm is facing a hostile takeover by some company. For example, in 2009, Palo Alto, California-based CV Therapeutics Inc., a heart-drug maker, was fighting a hostile takeover bid by Japan's Astellas Pharma. Then CVT struck a friendly deal to be acquired by Forest City, California-based Gilead Sciences at a higher price of \$1.4 billion in cash. Gilead is known for its HIV drugs, so its move into the heart-drug business surprised many analysts.
- LBO (Leveraged buy out) / Bootstrap acquisition
 - Asset Stripping

Why M & A



- To increase value of the organization
- To grow mkt share, footprint – domestic & overseas, and eliminating duplicate capacities
- To stabilise earning & sales
- Balance, complete and diversify product line, portfolio (Pepsico merged Quaker Oats to get into energy drink space – Gatorade, Coca Cola got Powerade, Fanta – fruit based carbonated drink, Minute Maid, a departure from caffeinated high cal guzzlers)
- Manage competition
- Fill a resource gap, (Cisco bought 75 tech cos for tech width and depth, Intel merged 300 companies)
- Avail synergy, unlock value.
- Leverage tax regulations
- Daimler Benz & Chrysler merged to become Daimler Chrysler to consolidate surplus capacity

7

Indian regulations in M & A domain



- Companies act 1956, Chapter 5, Sec 391, 395, Rules 67-87, Company (Court) Rules 1959.
- Income tax act 1961, Sec 2 (IA)
- Post amendments in MRTTP Act (1969) no prior Govt permission required from Govt for M & A
- Takeover code rationalization by Bhagwati Committee set up in 1996
- SEBI's Takeover code – Substantial Acquisitions of Shares & Takeover Regulations, 1994, amended in 1997
- Securities Contracts Regulation Act, 1956 – earlier acquired companies could refuse permission to register shares by acquiring firm, now scrapped. Hostile mergers are possible now.

8

Government restrictions on ownership



The U.S. requirement that limits foreign ownership of U.S. air-lines to 49% of nonvoting and 25% of voting stock, can also discourage acquisitions.

Takeover



- Takeover (management control) possible through more than 50% or even 10 % stake.
- The relevant Indian regulation on takeover is Sec 372 of Co act 1956.
- Friendly – Vodafone taking over Mannesmann AG
- Hostile

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10

Deals – Sweetheart & Sour

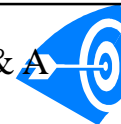


Acquirer	Acquired	Value (B \$)	Outcome	Yr
M & M	Schoneweiss, Ger		So So	2007
Tata	Corus	10	Sour	2007
Vodafone	Hutch	11.1	Legal issues, tax retrospective	2007
Orkela, Norway	MTR, Bengaluru	100 m		2007
NACI	AI, IA		Sour	
Sun	Ranbaxi		Litigation	
Infy	Panaya	25 m	CG issues	

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11

Issues in M & A



- Strategic
- Financial
- Managerial – Change management
- Legal

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12

Demergers



Merged	Demerged entities			
Hindustan Ciba Geigy	Novartis	Syngenta	Ciba Specialty	
Reliance	Reliance Communication	Reliance Energy	Reliance Capital	Reliance natural resources
Zee Telefilm	Zee Entertainment	Wire & Wireless	Zee news	

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13

Acknowledgements



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- SM & BP, 3 ed, Azhar Kazmi, Mc Graw-Hill.

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14