18MBAFM 401 : Mergers Acquisitions and Corporate Restructuring
Sem 4
Solutions to VTU Qn Paper
Answer any 5 full questions

1. A) **Conglomerate merger with suitable examples?**
   A conglomerate merger is a merger between firms that are involved in totally unrelated business activities. These mergers typically occur between firms within different industries or firms located in different geographical locations.
   Ex: Walt Disney Company and the American Broadcasting Company

b) **Tips for successful mergers?**

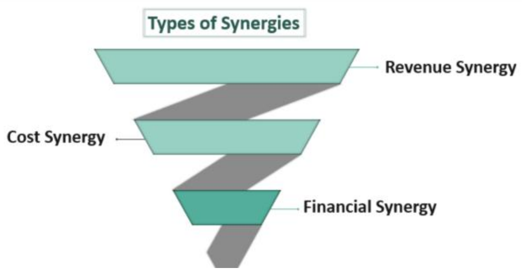
Clearly define your strategy, goals, and milestones
Create a transition team and the best leadership team possible
Communication and transparency
Practice due diligence securely

c) **Reason for the failure of M & A?**

- ❖ Limited Owner Involvement
- ❖ Misvaluation
- ❖ Poor Integration Process
- ❖ Cultural Integration Issues
- ❖ Large Required Capacity
- ❖ High Recovery Costs
- ❖ Negotiation Errors

2a) **Explain LBO?**
A leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.

b**) Discuss the different types of synergies resulting from M & A?**



c) **Discuss the reasons for corporate restructuring**?
Few internal reasons behind the corporate restructuring:
Lower gross margin
Poor internal communication
Higher cost of operating
Bad cash flow
Lack of proper designs of processes

3a) **Describe Equity Carve Out(ECO)?**
In an equity carve-out, a business sells shares in a business unit. The ultimate goal of the company may be to fully divest its interests, but this may not be for several years. The equity carve-out allows the company to receive cash for the shares it sells now

b) **Explain the 5 stages model of merger process?**
Creating an acquisition strategy

Building a database of targets
Refining target criteria and evaluating potential target companies
Making initial contact with targets
Evaluating target

c) **Discuss the steps in due diligence?**
1st Phase – Merger and Acquisition Strategy
2nd Phase – Target Screening
3rd Phase – Due Diligence
4th Phase – Integration Planning and Execution

4a) **Explain demerger?**
A de-merger is when a company splits off one or more divisions to operate independently or be sold off. A de-merger may take place for several reasons, including focusing on a company's core operations and spinning off less relevant business units, to raise capital, or to discourage a hostile takeover.

b) **Discuss the HR aspects of Mergers and Acquisitions?**
Mergers in business terms mean two or more organizations are coming together to form one entity. Acquisitions are whereby a company obtains full control of another organization through purchase or other means. The success of mergers and acquisitions mostly fails due to hr's management styles, poor communication, and motivation, lack of high talent, to name a few.

It is essential that the human resource identifies the organization's problems, develop solutions, and advise the new management on implementing them. Below are the prominent mergers and acquisitions hr best practices you need to know.

The new organization requires guidance to create new policies

- ✓ Retention of highly talented employees. This means you will have to dismiss other workers
- ✓ You cannot release workers without compensation. That said, a reasonable compensation strategy is essential
- ✓ A comprehensive program for employee benefits is essential. Consider creating one that fits the new organization
- ✓ Communicate with employees on the benefits of M&As. Let them know the vision and goals of the organization while answering any questions they might ask

c) **Different types of Due diligence performed in M & A?**

1. Administrative DD. Administrative DD is the aspect of due diligence that involves verifying admin-related SG&A SG&A includes all non-production ...
2. Financial DD.
3. Asset DD.
4. Human Resources DD.
5. Environmental DD.

5a) **Explain the purchase method of accounting for amalgamation?**
In purchase method accounting for amalgamation is done by applying same principles used in accounting for normal purchase of assets. Some of the rules adopted are the following. The Assets and liabilities (not reserves) of the transferor company are incorporated in the books of transferee company at the existing amounts**.**

b) Explain the reason to form a join venture?

A joint venture involves two or more businesses pooling their resources and expertise to achieve a particular goal. The risks and rewards of the enterprise are also shared. The reasons behind forming a joint venture include business expansion, development of new products or moving into new markets, particularly overseas

6a) **Distinguish between friendly takeover and hostile takeover**?

A hostile takeover occurs when one corporation, the acquiring corporation, attempts to take over another corporation, the target corporation, without the agreement of the target corporation's board of directors
A friendly takeover occurs when one corporation acquires another with both boards of directors approving the transaction. Most takeovers are friendly, but hostile takeovers and activist campaigns have become more popular lately with the risk of activist hedge funds.

b) **Salient features of Limited Liability Partnership**?
LLP stands for Limited Liability Partnership. Limited liability partnership definition – It is an alternative corporate business form that offers the benefits of limited liability to the partners at low compliance costs. It also allows the partners to organize their internal structure like a traditional partnership. A limited liability partnership is a legal body, liable for the full extent of its assets. The liability of the partners, however, is limited. Hence, LLP is a hybrid between a company and a partnership. It is not the same as limited liability company LLC.

Salient Features of Limited Liability Partnership

- ✓ **LLP is a body corporate**
- ✓ Perpetual Succession
- ✓ Separate Legal Entity
- ✓ Mutual Agency
- ✓ LLP Agreement

c) **Discuss the different takeover defenses available to target firms?**

- ✓ Stock repurchase. ...
- ✓ Poison pill. ...
- ✓ Staggered board. ...
- ✓ Shark repellants. ...
- ✓ Golden parachutes. ...
- ✓ Greenmail. ...
- ✓ Standstill agreement. ...
- ✓ Leveraged recapitalization.

7a) **Explain Master Limited Partnership?**
A master limited partnership is a publicly-traded business venture that combines the features of a corporation with that of a partnership and exists as a publicly-traded limited partnership. Such business ventures are exempt from corporate tax. A master limited partnership pools the tax benefits of a private partnership and liquidity of a publicly-traded business.

b**) Key features of SEBI takeover code 2011?**

In the meantime, SEBI was established in 1992 as a body corporate under the SEBI Act, 1992 with the main objectives to,

i) protect the interest of investors in securities market, and

ii) to provide for the orderly development of securities market.

Thus while the possibility of takeover of a company through share acquisition is desirable in new competitive business environment for achieving strategic corporate objectives, there has to be well defined regulation so that the interest of all concerned are not jeopardized by sudden takeover threats.