

Quadrant II – Transcript and Related Materials

Programme:	Bachelor of Commerce (Honors) (Second Year)
Subject:	Commerce
Paper Code:	COS 101
Paper Title:	New Venture Planning
Unit:	01 – Starting New Ventures
Module Name:	Acquiring an Established Venture: Advantages and Key Issues
Module No:	04
Name of the Presenter:	Subasish Mohanty

Glossary of terms/words:

- Mergers
- Acquisition
- Hostile Takeovers
- Management Buyouts
- Leveraged Buyouts
- Economies of Scale
- Competitive Advantage

Possible misconceptions/clarification

Merger:

- ⊙ The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.
- ⊙ Basically, when two companies become one.
- ⊙ Usually mutual between both firms.
- ⊙ A general term used to refer to the consolidation of companies.
- ⊙ A merger is a combination of two companies to form a new company
- ⊙ It may be Horizontal, Vertical or Diagonal

Acquisition:

- ⦿ A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm.
- ⦿ *An acquisition is the purchase of one company by another in which no new company is formed*
- ⦿ Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations compared to expanding on its own.
- ⦿ Acquisitions are often paid in cash, the acquiring company's stock or a combination of both.

Merger	Acquisition
The case when two companies (often of same size) decide to move forward as a single new company instead of operating business separately.	The case when one company takes over another and establishes itself as the new owner of the business.
The stocks of both the companies are surrendered, while new stocks are issued afresh.	The buyer company “swallows” the business of the target company, which ceases to exist.
Glaxo Wellcome and SmithKline Beecham ceased to exist and merged to become a new company, known as Glaxo-SmithKline.	Dr. Reddy's Labs acquired Beta pharm through an agreement amounting \$597 million.

Leverage Buyout:

- ⦿ The purchase of a controlling share in a company by its management using outside capital.
- ⦿ The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital.
- ⦿ The basic idea behind an LBO is that the acquirer purchases the target with a loan collateralized by the target's own assets.
- ⦿ Private equity firms often raise money specifically to conduct LBOs.
- ⦿ The acquirer must also create and study financial forecasts of the combined entities to make sure that they generate enough cash to cover the principal and interest

payments. In some cases, maintaining optimal cash flow could be a challenge if the target's management team leaves after the acquisition.

Reverse LBO:

- ⦿ Generally, acquirers sell or take their LBO targets to the public five or ten years after their purchase and make what are hopefully large profits, often 15% to 25% compounded annually.
- ⦿ A sale doesn't always mean the debt is paid off. However, The act of offering new shares to the public is frequently an attempt to obtain cash to pay down the debt to a feasible level. This process is known as reverse LBO.

Case Studies and Additional Examples/Illustrations