

7-12
J. STEWART
Session 8

MERGERS & ACQUISITIONS

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MERGER

ACQUISITION

PUBLIC vs PRIVATE

COMMON FEATURES

SUCCESS RATE

PROBLEMS & PITFALLS

RISK LIMITATION

MERGER

- JOINING TOGETHER
- MARRIAGE

ABB

- from ASEA (Sweden)
- + Brown Boveri (Switzerland)

UNISYS

- from Burroughs
- + Sperry (both US)

Smith Kline Beecham - from Smith Kline (US)

- + Beecham (UK)

Ernst & Young

- from Arthur Young
- + Ernst & Whinney

ACQUISITION

- ONE PARTY ACQUIRES ANOTHER
- SUBORDINATION
- Ford (us) acquired Jaguar Cars (UK)
- Jacob Suchard (Switzerland) acquired Rowntree (UK)
- Labatt (Canada) acquired Birra Moretti and Prinz Brau (Italy)
- Electrolux (Sweden) acquired Zanussi (Italy)
- Whirlpool (us) acquired Philips (Holland)

PUBLIC vs PRIVATE

- varies from country to country

	<u>PUBLIC</u>	<u>PRIVATE</u>
Negotiator	Management	Owner
Approach	Often contested	Agreed
Value	Reference to market	Open
Public Information	Good	Limited
Confidential Information	Limited	Extensive
Due diligence		
Form	Offer	Sale & Purchase agreement

COMMON FEATURES

- **Even in a merger one party dominates**
- **Objectives are the same**

OBJECTIVES

- **Entry into new markets**
- **Acquire know-how or technology**
- **Access products or raw materials**
- **Gain management**
- **Diversify**
- **Frustrate competitors**
- **Eliminate a competitor**

SUCCESS RATE

Few transactions represent as great a risk as a major acquisition

- less than half are considered successful
- one third considered failures

PROBLEMS

- Objectives not clearly defined
- Strategy not followed
- Reacting to opportunities instead of creating opportunities
- Ineffective post acquisition strategy
- Insufficient exit valuation
- Significant commitment from management

PITFALLS

Major pitfall is not understanding target and its market in particular:

- Sales and profitability
- Quality of products
- Management
- Distribution & Market
- Manufacturing process
- Facilities

PITFALLS (continued)

Second relates to financial and economic:

- **overvalued assets**
- **unrecorded liabilities**
- **contingent liabilities**
- **commitments**
- **related party transactions**
- **beneficial use of undisclosed assets**
- **assets not used in the business**

PITFALLS (continued)

Lastly relates to cultural and environment:

- **Owner/manager rebellion**
- **Employee disenchantment**
- **Customer boycott**
- **Government and political interference**

RISK LIMITATION

- Active acquisition policy

- Don't rush
- Due diligence
 - legal
 - financial
 - product
 - environmental
 - manufacturing
- Warranties
- Post acquisition recourse and/or exit