

Merger and acquisition persuasive essay

[Business](#), [Company](#)



In this Introduction we will have a presentation of those companies and their environment in order to better understand the stakes of this merger and acquisition. In fact it is crucial to know those companies, and the beer market of the concerned country, Brazil. Then we will analyze four main questions during this report. In 1988, a new Brazilian beer was created, nowadays a great and well known one, the Brahma beers. In fact It was firstly a company named Companhia Cervical Brahma, then It had merged with other companies.

One main reason why this firm is well known is due to their innovative and striking ad campaigns and big buzz they arrive to create world widely. Their range is quite impressive because it comports almost twenty different beers under this umbrella brand of Brahma. They are all different, and, the original beer of the company is quite a soft one because it has only less than 50 of alcohol. It has known a relevant success rapidly and became to be well standalone in the Freezable market at the Declining AT the twenty century.

Nine, It has become leader on the Brazilian beer market, and, has extended to some Latino American countries such as Argentina or Venezuela. It has also become the fourth leading company in the beer market on the international scene. It has known such a fast success thanks to different foreign merger and acquisitions, various alliances and investments in the beer market, and sometimes in a quite different market, the soft drink one. By analyzing the related case study, we can enhance an impressive data for this concern in 1998, when beer accounted for 78, 5% of its total sales and 94, 7% of its EBITDA.

But, concerning the soft drink market in which they decided to go, it was not the same success encountered. In fact, the competition was rude, and notably due to the presence of Coca Cola company on this particular market. Coca is well established in that market, with huge brand awareness, and many different beverages proposed to consumers. Clearly, the strategy of the company was to increase their international presence, increase their market shares and acquiring shares of competitors, diversify their range, launch regularly new beverages and innovate on both, beer and soft drinks markets.

They also focus on the branding aspect, in order to impose their image and increase their notoriety, what they succeed through years. And, the other company studied through the related case study, that Brahma acquired is Antarctica. Antarctica was the brand name for a company named Companhia Antarctica Paulista. It has been created in the end of the 19th century, in the same market and the same country than Brahma. This company was first specialized in the beer production, but then, it also tackled into the soft drinks markets and notably Guarani products.

The firm was one of the main competitors of Brahma, and was the second company in terms market shares. In 1999 the two companies merged to form the leading beer company in Brazil and one of the three leaders on worldwide market as we will see later in this paper. Concerning its strategy of expansion, it was sensibly the same as the one of Brahma corporate. We can assimilate both companies as very similar because they have the same core activity, playing on the same markets, with a common strategy...

Antarctica proposes to its customers a wide range of beverages with almost thirty different ones, which more than 50% are beers.

In 1998, Antarctica assets' value were R\$ 3, 4 billion, and the total sales amount was about R\$ 1, 38 billion with 73% of that total sales amount realized in the beer market. The company started to drop off in 1996. In fact, it knew financial faculties, and accurate and growing debts. The sales were collapsing too, actually, it decreased about 20% what is a huge loss. The main reason why it knew such a bad situation was distribution and customer failures. They also did bad forecasts in their strategy and wrong decisions what led to this critical financial position.

So it has to find a solution to recover a decent situation, that is why the company launched a new beer called Bavaria in order to reach a special target, young people, because Brazilian population is a very young one and could generate huge profits. It was a success, but not sufficient to recover the same previous situation and, the other product of the company still collapsed in terms of sales. This was this weakness' situation that made Brahmas interested in acquiring Antarctica, to have more market shares, increase their leading position and decreasing their competition.

I Nils Dulling proposition would provide benefits to both parts because it would permit to Antarctica to avoid bankruptcy and stay alive. Now, it would be interesting to go through an analysis of Brazil in the concerned period, 1993-1995, in order to know the environment of that merger and acquisition and to understand it in a better way. The situation of that country was quite complex. Between 1993 and 1995, it has implemented a positive growth period of

25% in average per year. Between 1996 and 99, the beer market had to face with economical downturns.

In that period, the evolution was almost stagnant in terms of consuming beverages. Moreover, the local money was devalued what implied a increasing in importing ingredients. At this moment, Brazil was considered as the 4th beer market of the world behind USA, China and Germany. It is also the 16th one in terms of per capita consumption, what shows us great opportunities of growth for the future. Moreover, if we take into account the tropical climate, and the fact that the Brazilian population is a very young one show this huge potential unexploited in terms of beer consumption.

Then, we have also to notice the fact that the Brazilian economy was bad, but indicators showed growth predictions and great potentials and opportunities. It was also the time of the emerging middle class in Brazil, a new potential target becoming bigger and bigger. Now that we had analyzed the two concerned companies and the situation of the related country at that time, we are now able to analyze the merger and acquisition itself through four main questions that are the following ones: * Estimate the value of synergies and maximum intrinsic value per share of Antarctica. What are the relative merits of cash and common stock as form of payment in this deal? In your view, does the amount of consideration to be paid depend on the form of payment? Why or why not? * Assuming a share-for-share transaction, what is the maximum exchange ratio (number of Brahma's share per Antarctica) that Brahma's shareholders would tolerate? What factors determine the maximum and minimum? * Prepare a summary outlining your

deal design and recommendation for the Truckee of a proposed combination of Brahmas and Antarctica, addressing all the issues that you believe should be reflected in a deal between these two companies.

Question 1 Estimate the value of synergies and maximum intrinsic value per share of Antarctica. The main objective when making merger and acquisition is to realize economies of scale and synergies in order to create a netter inclemency. It aims also to increase market shares of a company and reinforces the market position. That is why if we want to study if this merger and acquisition was a success or not, we have to estimate the value of synergies. The result of the merger between Brahmas and Antarctica is a totally new entity named Nonce, the effect of such a merger would be synergies in the following sectors cutting costs.

Now, they will gain in production, purchasing power, distribution, administration, organization, sales. Actually, both companies will merge their activities and brand portfolio, gaining synergies in those areas of the company leading to a better position on the market and a better efficiency. If we focus on the sales, this operation will permit a huge growth rate of 75% concerning beers averages. What is interesting is that this operation will lead to more or less a monopolistic situation in favor of Nonce which implies an accurate bargaining power facing suppliers and a better price fixing position toward consumers.

Due to this merger and acquisition, synergies will be possible in every department of the company, but especially in the marketing and branding domain. In fact, it will be much easier to develop and launch new innovative

products, and develop the already wide range. The financial power will also be increased, what will allow to tap into there oversees' markets in an easier way. The new entity will be the driver of the local (Brazilian) beer market, and will have more power on the international scene that was in expansion.

Regarding to the financial situation, Nonce will improve its position gaining in term of margin increasing profits and financial capacity to invest and to maximize shareholder value. More concretely, all those synergies created through this merger operation will make a gain in terms of value and will make save to Nonce R\$ 45 billion per year (due to savings in sourcing, production, distribution, administration...). If we focus on the maximum intrinsic value price per share, it is actually quite difficult to assess.

Regarding to the market shares we see that Brahmas is in a better position that Antarctica leading Brahmas in a good position in order to negotiate the merger we are analyzing. And, for the other company, their shares were decreasing for years. Concerning the financial aspect, we studied that Antarctica had a huge debt of more than IIS\$ 610 million and, to avoid going on bankruptcy it had to find cash immediately, what would be possible thanks to a merger and acquisition. In 1999, this company was in a critical situation and so had not really good bargaining power comparing to the Brahmas one.

Therefore, concerning the volatility of the share price of Antarctica corporate, it is impressive because equal to 84, 6%; so, it is constantly changing. Just before the operation of merger, the share price in average decreased considerably. For example, it was about R\$ 120 in 1997, and Just

about R\$ 39, 6 in 1999 what is quite impressive. That is why the stockholders were not so confident in that firm anymore, and preferred selling their shares to another entity in order to make them merge, and avoid losing money (what interests the most a shareholder).

So, Brahmas was really in a dominant position in order to acquire Antarctica, taking into account another fact, that it was undervalued. Let's calculate now the maximum Intrinsic value per share. According to the data, 10 total this, we will use a tool available on the web and data provided from the related case study (appendixes). R\$ 5.75 earnings per share in 1999, earnings are expected to collapse over the next five years losing money during four years and reaching the 0 point in five years and with a 50% confidence in those predictions.

And we found a stock value per share about more or less R\$70, which we can consider as the maximum intrinsic value of an Antarctica share. What are the relative merits of cash and common stock as form of payment in this? It exists different means of payment when a deal appears, and we can consider cash, or common stock here. In fact, the way of payment implemented could have a direct impact on the merger and acquisition, by affecting the corporate or the market in which it is playing.

Generally, when companies are dealing with merger and acquisition, they use to combine both, cash and shares in order to be the most useful as it is possible to be. It is also the solution the most simple, even if the less interesting concerning the stockholder point of view because it implies a lot of different additional taxes. If we focus on the merger and acquisition we

are dealing with in that report, the one of Brahmas and Antarctica, the way of payment in cash would comports some advantages. In fact, it is more used in sliding trend in interest rates.

Moreover, when companies use that modality of payment, they tend to pay much more attention to the estimation of the price of the concerned corporate. And this, could involve a devaluation by the buyer cutting prices and having a better price for its competitors. Another benefit linked to the cash way of payment is that is lower the probability of earning per share dilution for the buying corporate. But, this technique of payment presents a major drawback that we have to consider, this is the fact that it has a direct and huge negative impact on the cash flow of the company.

The other solution of payment (in stocks) would also be a good solution with advantages too. Firstly it is a tax free solution which is a good point in socialist economies with high tax rates and it would be a good solution in order to lower the final price and so, making a better purchasing offer on Antarctica. The result would be to share the benefits and the earnings of merger between stockholders of both companies, Brahmas and Antarctica.

In this particular case, we will be obliged to acquire shares of shareholders of the bought company, which is not really easy to realize, but, it will allow us to pay lower bill thanks to the devaluation of the intrinsic value of a share. But, this way of payment is more implemented in huge value companies' operations, which is not really the case here. O, ten amount AT consideration to De pall apneas on ten way AT payment we chosen because as we Just saw

those two forms of payments are different and each of them comports benefits and drawbacks.

Assuming a share-for-share transaction, what is the maximum exchange ratio Regarding to merger and acquisition operations, it exists different shapes to realize it, and, one of the most used and common is the "share to share" method. In that particular case, the buying company will swap with the bought one a certain amount of shares. But there is a problem, that is that Antarctica performs in a lower way than the other part, and, the share price of the buying company will automatically decrease when it will buy shares of Antarctica. If we want to make a good operation, we have to pay attention to a fair percentage of exchange ratio.

Let's consider that the maximum of 51% would be a good minimum exchange ratio. And, the minimum could be about 75%. It is possible to obtain this value with the formula that follows (the case study doesn't provide enough data to calculate it.): $AXIS [(E_A + E_B) PEE_{AS}] / PA_{SOB}$
 With : RE = Exchange ratio P = Price per share PEPS = Earnings per share
 PEE = Price earning multiple E = Earnings S = Number of outstanding equity shares ARE = Actual exchange ratio In fact, the factors that permit to determine the maximum and minimum exchange ratio are various.

Firstly we have to take into account the voting majority because less than the half of the corporate won't have the majority and the decision power and veto right too. We have also to consider the relative value of both companies; it is really important in the sense of considering the stocks' value and/or the cash value or both as we just have seen upper in the report. In

our situation, it is quite complex cause if we take into account the shareholders' point of view, they won't agree with acquiring Antarctica.

So, the better option they will agree with would be to create a totally new entity by acquiring the company in cash and/or by buying shares of this same corporate. And, we have to take into account too, the financial capacity of the corporate, and, the regulation of taxes that are important points. Prepare a summary outlining your deal design and recommendation for the structure AT a proposed compilation AT Brand Ana Antarctica, resealing all ten Issues Tanat you believe should be reflected in a deal between these two companies

In this section of the report, we will establish a summary of the deal, enhancing the main points of the operation and including some recommendations for the merger and acquisition of the two concerned companies. Firstly, the price of value per share is likely to be the most important point of the operation for the two corporate because it is the main part of the merger, in any merger and acquisition. What is important, as we saw upper in this paper is to estimate the price that the buying company will pay to obtain the shares of the other part and have the control of Antarctica.

As we studied in the second question of the report, we recommend paying for each share of the bought company to send not more than R\$ 70. But, the negotiation would begin with a quite lower price, due to stockholders of Antarctica corporate that are not so confident and in a bad position to make the price goes up. Now, it is also complex regarding to the way of payment

as we have enhanced in the question two of the paper because the two way of payment proposed comports both positive and negative points.

And, concerning this particular beer case, we would implement a mixed solution in terms of way of payment. This will depend on the maximum share we can get regarding to the will of our own stockholders (who are not confident in buying shares of a bad performing company that Antarctica is). And, the second part of the operation will be done in cash in order to be much more powerful in Nonce and own a large majority of the bought part. This part paid in cash will also permit the buyer Brahmas to lower the debt of the other company involved in this merger and acquisition.

Regarding to the final result of this M; A operation, we would say that a totally new entity would be the better solution in this particular case. The Nonce entity (the new one) would be totally owned by the buyer company and Antarctica. By doing this, it will allow the buying company to lead the very new entity with huge resource and big power of control and decision making. We have also to pay attention to the control and the voting power in the Nonce corporate. As we just have said Brahmas would have a larger influence on decision and in voting due to the share repartition (at least 51% for the buyer).

Like this, only Brahmas will have the possibility to decide, thanks to the absolute majority, as well as the veto right it will confer to this company. Moreover, they will perceive more dividends from the part of earnings of the new entity and having at the same time a really reasonable responsibility. Actually, the exact percentage of detention of the Nonce capital has to be

clearly decided between the two companies involved in the operation in order to find the better agreement they can have and to be agree on that figure, and, we absolutely don't know what the real and concrete negotiation will result.

Concerning the selected accountancy, it will be following the FIRS norms due to the international scene development forecast that they have, and, the FIRS is the international basis of accountancy. Therefore, the Nonce corporate will be referenced as a Brazilian tax policy company Decease AT ten roller AT ten two previous entitles, Ana also ten Tact Tanat ten headquarter will be located in that same country of South America. Nonce will also be referenced in the New York stock exchange in order to obtain an international scope, and in the stock exchange of SAA Paulo too, were their headquarter will be located.

If we focus on the law aspect, we would recommend establishing a forum selection clause in Brazil due to the fact that both parts are issued from that country. In fact it would make things easier in case of legal issues, in another country in order to be as neutral as possible. So, we could imagine selecting USA and England in the clause we want to set up. It is also logical that the official language within the new entity will be the Brazilian Portuguese, and the staff will be referent to the labor law of Brazil, as the unions.

In terms of governance, Nonce will do its best to save the maximum number of the manpower of both side of the operation, at the same time that they will try to avoid the double posts. If the needs in terms of labor force evolve and increase, managers will allow new hiring policies. Concerning the top

managers within the new entity, they will be kept from both parts as far as it is possible, but we could imagine kind of preference for the ones issued from Brahmas.

Moreover, the culture of the Nonce Corporate will automatically be Brazilian due to the fact that both sides of the operation are Brazilian culture companies. So, we won't have to face with cultural choc issues, what is a good point because extremely hard to manage. And, finally, the purchasing process will be beginning in half a year, permitting New to be born, and, the final completed organization of the new entity will be ended in almost two years. To conclude that report, we can say that merger and acquisitions are not so simple; in fact, they are very complex.

It has to be well prepared, and the organization has to be well thought. Both sides of the operation have to think of reshaping the entire organization and to think at every point in order to avoid any problem linked with the M; A operation. Companies have to take into account a lot of parameters, even the economical environment, the culture, the double posts, the financial aspect, the country, the law... In this paper we had gone through the merger and acquisition of Brahmas on Antarctica creating a very new entity, New.

We had first studied the value of the different synergies resulting from this operation. Then we have highlighted the maximum intrinsic value per share of the bought company. After this, we have selected a mixed way of payment after having enhanced the benefits and drawbacks of each ways. We have also obtained the maximum exchange ratio we consider that the

buyer company shareholders can tolerate; Ana we nave also accuses auto
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