Neuro pasta case analysis

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That is when two firms - one profitable and one unprofitable merge together such that the loss of the one firm is offset by the other firm. Also, in certain situation Merger also helpful in increasing the debt capacity. 0 Diversification - Diversification will create value by reduction in unsystematic risk. The firms will diversify in order to move in to different businesses than what they are currently into. 0 Control - Merger will lead to more control to the acquiring managements as they will be handling the bigger management than before.

However , the acquired firm's manager may be asked to leave the firm. 0 Purchase of assets below replacement cost - Merger can also happen in order to place the ageing assets or they want to acquire more assets which are currently operating with full capacity. 0 Synergy - This is the reason because of which most of the mergers happen. Synergy will result in more value than the additive values of the acquiring and acquired firms (V ABA > VA +VI) From the standpoint of society, Most of the points are relevant to company like ICC.

As Icily may look for diversification, that is they are currently into Indian and Chinese cuisine however the merger will help them to diversify into Italian cuisine. Also synergy effects will be there which will ICC. Sections, Group 2 3 Friendly Merger Hostile Merger Friendly merger happens when both the Both the firms will not be receptive acquiring company and target companies are receptive. Merger will happen through the agreement In hostile merger the acquiring company will use between the two companies. Lot of techniques to gain the control over the target company as they will not be agreeing for the merger.

Acquiring firm uses techniques like proxy fights, tender offer to gain the power. In hostile merger the acquiring company will allow tender offer in order to acquire biding more than the actual value of stock. Thismoneybid by the acquiring company will be more than the actual value of the share in order to gain power is the premium. Sections, Group 2 4 During the time of merger or acquisition, the interest expense is not tax effective which means taxation authorities may take a look as if it is for tax avoidance.

This also means to take care that the profits of the parent company are not subsided by showing the interest expense of the target company and vice versa. This is particularly applicable only at the time of acquisition and not later. Hence, it is added later explicitly. Retained earnings are something presented on the other side of cash in the balance sheet. It is not the actual cash which the company can use when its balance gets low. But, it is actually the stockholder's claim which is apparently seen as cash and hence it is not actually available to the company.

A similar situation would prevent the potential suitor/bidder to think twice before replacing the management Secondly, Enron's management can agree with the potential suitor on a mutually beneficial per share price which in turn would be lower than the high price if the bidder were to go for a hostile merger or a takeover. They may negotiate with the potential suitor in the price per share with an intention of Log-rolling to benefit both the parties. Thirdly, as Enron's management should consider positioning itself not as Just a brand but as a Brand owned by a trusted individual like CEO or afamily. For e. G.

It is not advertised that who owns Domino's and pizza hut because it is positioned in terms of pizza as a brand but we it is widely known who own has partnered Cataracts I. E. Data. B) Nero may adopt shareholder rights option, Golden parachute strategy as measures encouraged my Enron's management to Retire the Debt before the Acquisition and reissue and equal amount of debt post-merger. This is because the stockholders can tire at a lower performer rate and later can refinance to neutralize coinsurance effect. Also, they may think of Employee poison pill strategy as anti-take over strategy but it would be unethical at times.

It can still be thought of positively by Just threatening the bidder by showing support and strength of relationship between Management and talented employees that if the knot is broken, the target company may not be able to fare well in future. Sections, Group 2 8 c) Firstly, the terms and conditions should be seen that is the management being replaced while considering the lower offer? If not, then anyway the managers are in benefit as they will still exist in their positions. Also, they should negotiate for a higher compensation in lieu for the lower bid.

Still, if the bid is lower than our minimal expectation then we may think repurchasing shares from market showing confidence in our growth and future. This is will help the stock price rise and in turn pushing the potential bidders to increase the bid price at least near or above the true value. Also, they may give a call for a White Knight company to make a Friendly offer, further influencing the potential acquirer to increase the bid price. D) In the case as stated, the management is young and might want to have larger pie of the expected growth seeing which the acquirer has made a bid.

In the initial stage itself, the target company (Nero) should make clear with the acquirer (ICC) to set the terms of retaining the management. The pillar strength should be clearly shown as the managerial ability of the Management and thus justifying Enron's position in retaining management seats. If things do not work out, they may go threaten with the inevitable Employee poison pill strategy which may be assumed to work in Enron's favor. Sections, Group 2 9 To give a tempting and irrespective bid, we shall place our bid comparing by keeping our upper limit as expected ROE.

As given in exhibit 2, the ROE starting 1996 is consistently above 42% with expected 51% in 1999. Hence, we can place our bid starting 25% above the share price I. E. $ 1. 875 ? $1. 85 and have a target to settle till 40% above $1. 5 which is $ 2. 1 . Also, retaining the Enron's management below $2. 1 should be considered as an option which would be tempting for the Enron's managers exulting lesser restriction towards acquisition. Also, retaining management would be dishes where experienced folks in initial phase would be an added advantage to get acquainted with the system. Action Group 2 10 Yes, we believe that Synergy in any form such as Tax benefit, Revenue increment, reduction in Operational expenses due to some common operations will create value in an average completed merger. The value as mentioned above is created in following fours forms but not limited to only four: - Combined revenue increase than the individual added (Data motors - JELL) Tax infinite due to Combined debt increase or increased Debt taking capacity due to lesser risk Reduction in Operational Costs due to implementing common facilities, common operations, cheap raw material in case of vertical integration/expansion etc. Tech Maidenhair - Astray)

Reduction in capital required for maintaining same efficiency as today From the above mentioned benefits, depending on the type of merger, the source of value creation would change. Like whether it is Vertical integration (Supplier benefit), Horizontal integration (increase market share and higher control over prices in retain cases), conglomerate acquiring (for diversification) etc.