

# [Good example of case study on mergers and acquisitions](https://assignbuster.com/good-example-of-case-study-on-mergers-and-acquisitions/)

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Mergers and acquisitions are a popular strategy for businesses both in the United States and, across borders. Although these two terms are often used in the same breath, the terms merger and acquisition bear some slight differences. A merger is an amalgamation of two or more firms whereby the assets and, liabilities of the selling company is absorbed by the buying firm. The buying firm may be a significantly dissimilar organization but after the merger, it holds its original identity. On the other hand, acquisition refers to the buying of an asset, for example, a division, a plant or even a whole company, with the form of payment being cash, the securities of the buyer, or other assets that are of value to the seller (Sherman & Hart, 2006). On the surface, the distinction may not really matter, since the net result is often the same: two companies or more that had separate ownership under the same roof, usually to obtain some strategic or financial objective.   
In January 2011, Alpha Natural Recourses, Inc., a leading Virginia-based producer of coal and, the third largest supplier of metallurgical coal globally, officially attained all outstanding shares of Massey Energy at a tune of $8. 28 billion. Both companies were involved in the energy industry, that is, coal production. The merger and acquisition brought together the valuable assets of both companies, which included approximately 110 mines and, joint coal reserves of more than five billion tons (“ Alpha Natural Resources”, 2011). In order to successfully complete this merger, Alpha got committed financing from Morgan Stanley and Citi. The financing was added to its present cash balances to finance the Massey stockholders and, refinance some existing debt Massey and Alpha had at that time. At the time of the merger, there was a strong demand for coal in the world market, including metallurgical coal used in the process of manufacturing steel. The demand was precipitated by the economic growth in Brazil, China and, other developing countries. The economic growth in these countries tightened the global supplies of metallurgical coal making the prices to rise. Additionally, after the merger, the new entity would be among the elite companies worldwide that would be involved in the export of metallurgical coal since it had adequate access to rail infrastructure and, port to increase its exports significantly over the next numerous years.   
At the heart of all decisions regarding mergers and acquisitions, regardless of the existing global financial crisis, is a fundamental question: Are we better off buying a new capability, market entry, customer base, earnings opportunity, and so on, or attempting to build it ourselves (Sherman & Hart, 2006)? These were some of the fundamental questions Alpha Natural Recourses, Inc. had to find answers to before coming up with the decision to purchase Massey Energy. The overall purpose of sealing off the deal was precipitated by the realization that the combination of the assets of the two firms would result into a single premier coal operator, both in the United States and globally. The entity would boast being a global leader in the supply of metallurgical coal since the merged firms would operate a combined reserve base of almost 5 billion tons. Globally, it would be among the world’s largest and, producer of metallurgical coal of the highest-quality. Metallurgical coal is considered one of the most profitable types of coal available. Additionally, the acquisition of Massey Energy was fuelled by the massive legal battles it faced after 29 miners died in an explosion in one of its mines in April 2010.   
As stated earlier, Alpha Natural Recourses, Inc. paid a premium of $8. 28 billion to Massey Energy. The premium covered all the debts that Massey Energy had. According to Baxter F. Phillips, Jr., the president and chief executive officer of Massey Group, the transaction between the two partners presented a tremendous opportunity for them to create a new leader in the industry. He further states that the board unanimously agreed to the merger and acquisition since they believed that was the best decision they could ever make after reviewing a wide range of strategic opportunities. Baxter goes ahead to reiterate that the merger presented an opportunity for Massey stockholders to get immediate and considerable premiums (“ Alpha Natural Resources”, 2011). In addition to Baxter’s comments, Kevin Crutchfield, the chief executive officer of Alpha, was pleased with the merger describing it as a transformational deal. He stated that the merger would make the resulting entity the leading seller of metallurgical coal for the global steel industry. Mr. Crutchfield added that they were committed to developing the company to ensure future growth opportunities and, maintain the highest environmental and, safety standards in order to achieve absolute excellence. Alpha’s chairman, Mike Quillen, too was not left behind in pointing out the wisdom of the agreement. Quillen believed that the merger would provide a great partnership and, create more employment opportunities for employees of both firms. The combination of skills, ambitions and talents of these employees would be a key ingredient for their success (“ Alpha Natural Resources”, 2011).   
The acquisition of Massey energy by Alpha came with some challenges. When the deal was first announced, some shareholders of Massey Energy filed a petition in the West Virginia Supreme Court with an aim of stopping the dealing. These shareholders argued that some top management organized the sale to escape personal liability caused by the death of 29 miners in an explosion in one of its mines. The petition was thrown out and, the sale proceeded as planned. The acquisition displayed some of the key features of effective acquisitions. One of the key factors considered for a successful acquisition is the competitiveness, fragmentation and pace of the marketplace and the industry (Sherman & Hart, 2006). These strategic factors were considered by the board of Alpha before coming to the decision of purchasing Massey Group.   
The merger and acquisition was successful. First, the resulting entity was considered among the world’s elite producers of metallurgical coal. Since metallurgical coal is one of the most profitable, the company was poised for success. However, with the emergence of small competitors, the coal prices have plunged. China, being one of its largest markets, has slowed down its demand for coal. Hence, this has affected the sales revenue of the company. The situation has been made worse by the Australian coal firms that have increased supplies to China. However, with most of the small companies going into bankruptcy, Alpha Inc. is expected to bounce back and, realize its profits.

## References

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