Example of mergers and acquisitions case study

Business, Company

Mergers and acquisitions

Introduction

Mergers and acquisitions are elements of diverse, but related companies to form one large industry from which they operate. This contributes to rapid growth and economic stability of the companies that would have been complex to attain as individuals.

The companies

The two companies involved are the Unipol that is an Italian insurer and the Fondiaria-SAI FOSA. MI. It is an insurance industry located in Italy. The entity is a non-life insurance involving the compensation of motors. The environment of the industries is based on the rescue for the downfall and deteriorating Fondaria Company that is a car insurance company. Against their expectations, the environment is hostile, and they need a struggle to meet their objectives. It is an unconducive environment and constant alterations of the deal are made becoming a hindrance for their success. This is because the chief leaders of both the companies had disparities thus complicating the disputes between them.

Purpose and objective

It is aimed to uplift it to curb the perpetuating loss being made. There is the readiness of Unipol to sell its assets to for the safety and revival of the Fondaria Company. Unipol is none better and is facing an equivalent challenge of loss making. They are both aimed at eradicating the obstacles that would lead to their failure (Bergami et al. 2012). The two companies will thus meet their expectations of bringing out the second largest insurance company, which was their main goal. Their major role is to provide compensation to the motor owners who experiences damages so long as they are registered with them. They hope to serve their customers to their satisfaction without violating their customers' expectations. This will lead to the zooming of the entity and thus meeting their goals. Their main aim for merging is to share responsibilities for smooth running of the business.

Challenges

The harsh environment derailed the deals progress and thus took a longer time to solve it. While Unipol proposes for only 67% of the new insurance company, Fondiaria proposed for 61%. The approval of the Consob's complex deal also took time as it incorporated three capital increments to strengthen the foundation of the companies in capitalism. The Unipol's rule to warrant a solvency ratio in benefit of the deal exceedingly 120% that is the central regulatory necessity was crucial. This was according to the ISVAP. ISVAP is the insurance regulator in Italy. The continued arguments between the two companies raise concern since it leads to derailment of capital increment (Bergami et al. 2012). This results to the Fondiaria being subjected to special administration according to ISVAP. Concern is raised as to why Mediobanca agrees to the merging of the two companies yet Fondiaria owes it a huge debt.

Another great challenge is the threat of some of the banks quitting the deal because of the market mayhem that occurred in Italy. The banks feared venturing into a deal in fear of the risk.

Debts also hinder this deal as companies such as the Premafin that covers 35% of Fondiaria's capital is under the control of Ligrestis. Mediobanca owes

Fondiaria more than a billion Euros and thus compromising its financial performance. The companies also face a stiff competition from the Generali. They aim to stand out and take over to come up with a company with 32% of non-life insurance part in Italy, as well as 37% covering the motor insurance sector in business (Megarry & Oakley, 2002). Unipol and Fondiaria will put off Generali and thus reducing the competition by this. Generali is Italy's third largest insurance company.

According to the watchdog for Unipol to merge with Fondiaria, it had to sell insurance collections worth measurable premiums, brands and agency networks in order to attain liberty. It further stated that, the newly formed body would have to decrease its global and local market share in other insurance companies to 30% and below. It also advised the entity to have independent governance through formation of a board of members and abandon the Ligrestis family. The family exited with the wages of the furious shareholders.

Fondiaria acquires a capital of 416 million Euros, which has drastically declined for the last duration of five years, which was 5 billion Euros.

Unipol would only control the Fondiaria under a 400 million Euros deal as the creditor banks would continue with the restructuring of the debts (Megarry & Oakley, 2002). However, Unipol accepted the $2. 12 billion deal by Mediobanca that was the top investment house in Italy for the rescue of Fondiaria.

Involved in the deal were; Barclays, Mediobanca, UniCredit CIB, Credit Suisse, Morgan Stanley, Nomura, UBS, as well as the Deutsche Bank. They were the major boosters and assistance in the funding of the entity deal.

Conclusion

The acceptance of the merging deal between Unipol and Fondiaria will not only result to their success but also an expansion of Italy's economy. Disagreements will result to deterioration of their performance. The performance of the unstable Fondiaria will highly be stabilized by its acceptance of the conditions set for it to merge with Unipol.

References

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