

Listed companies case study

[Business](#)



In the case of listed companies, this will usually entail one group of shareholders accepting an issuance of shares in one company for the surrender of their shares in the 'merged' entity. A merger will typically involve a combination of the resources of the two entities, and a combination of processes throughout all or relevant parts of the two organizations including management in most cases. On the other hand, an acquisition involves one entity buying another? In the case of a listed company this would involve an acquisition of the outstanding shares of the acquired company, usually paid in cash or with shares.

The important differentiator between a merger and an acquisition is that the acquisition requires only an agreement between the acquiring company and the shareholders of the acquired company – the management and board of the acquired company need not agree.

A takeover in which the target company's board does not support the transaction is commonly known as a 'hostile takeover'. Business combinations are typically classified under three types – horizontal, vertical and conglomerate. Co-generic mergers also exist but are less common.

A horizontal integration occurs between two (or more) companies that are competitors in the same industry in hopes of creating various synergies. Combining the operations and resources of two substantial companies can create a competitive advantage because the number of competitors decreases whilst the pool of resources increases. If successful, there should be an improvement in capital, profits and performance.

Comparatively vertical Integrations occur when two (or more) companies that are In the same Industry but are In different levels of the supply chain combine.

By merging with the right suppliers, companies can decrease the level of reliance on external sources and therefore increase their profitability. This can be achieved by successfully integrating the various production and operation processes of both companies. In many cases there are other circumstantial goals such as new opportunities to expand e. G.

Supply parts to competitors. Finally, conglomerate integrations occur between two (or more) entities that have irrelevant business activities.

Pure conglomerate mergers means the companies have nothing in common In terms of product line or Industry, however, merge into one enterprise. Diversification and reducing exposure to risk are the two main reasons why what may seem like irrelevant companies to merge. Mixed conglomerate mergers occur when 2 or more companies are expanding ten sale AT tenet companies, tenet range AT products and services and access into markets. These are all factors of a company increasing their market share, which is the most common reason for conglomerate mergers to take place.

There are many reasons why companies decide to merge or acquire, but the common denominator amongst them is ' synergy – the achievement of an outcome through combination that is superior and greater than the sum of the individual parts. The intention of achieving different synergies is fundamental to almost any merger or acquisition. However, it is possible that situations may have exceptions, such as regulatory requirement or the <https://assignbuster.com/listed-companies-case-study/>

discontinuity of family line making it essential to make changes in management – where there is no obvious financial synergy through combination.

Product Synergy One of the most common and important reasons for mergers and acquisitions is product synergy. The businesses combined are able to provide a superior offering to target customers.

On May 5 2006, Disney acquired Pixar for \$7. Billion in an all-stock deal meaning Disney issued shares to Pixar's shareholders in return for their shares in Pixar. Whilst there was a good deal of motivation on the basis of poor cooperation between the separate businesses, the combination was essentially one driven by product synergy.

The merger allowed free cooperation between the two businesses in different / overlapping parts of the value chain (a vertical integration), to combine excellence in concept, design, execution and distribution of children's' animated movies. " WALL-E", " UP", and " Bolt" are examples of the vast success of this combination.

Market / Customer Synergy All companies generate profits by serving their market and customers. When two organizations have the differentiated customer bases, they can achieve synergies by gaining access to an expanded customer base.

When Singapore Teammates (a major shareholder and influencer in both Singtel and Startup), working with Siam Commercial Bank and certain individual Thai investors, acquired 49.6% of Thai telecommunications giant,

Shin Corporation for THEBE. 3 billion, the intention of the acquisition was to achieve market ; customer synergy – leveraging Shin Corporations presence and customer base in Thailand to roll out products and services, and to infinite from strategic strength in telecommunications, in the Thai telecommunications market.

The acquisition ultimately was not a success, however the intention and potential of the transaction were evident.

As both organizations were providing similar product offerings to the public, this would be regarded as a horizontal integration. One important consideration in customer-driven business combinations is anti-trust laws. Anti-trust laws are designed to protect customers from mergers and acquisitions that are designed to improve profitability by reducing competition.

Though different countries' regulations may vary, typically, in situations where combinations result in 20% or more market-share being concentrated in a single entity, regulators in end-markets will begin paying attention to the combination and may seek to block that combination using anti-trust laws.

Cost synergy When companies provide the same products and services in the same market using essentially the same or similar processes, one could draw the conclusion that it would be more efficient for those organizations to combine and to work together. Verbena costs cool a De snared (one Dora, one management team, one once, etc); infrastructure combined (one production facility, warehouse, one logistics fleet); leverage in supplier

negotiations improved through scale; and labor requirements reduced through the benefits of workforce pooling.

When Sears and Smart combined in 2005, product synergy was one key driver, but cost synergies were also cited as a critical advantage of the combination.

Ultimately the combination was not a success – the cost savings achieved were not sufficient to offset the combination of poor product offerings and the combined organizations saw significant detriment to their combined financial performance. In this particular example, competitors such as Wall-Mart and Target experienced major increases in revenue within the first 5 years of the merger. This case highlights the very realistic possibilities of failed M&A's, in which instead of achieving goals to increase efficiency, a company can benefit its competitors.

Synergy of competitive scale Achieving synergies through competitive scale can be another driver of business combination. By growing through combination, a business may have sufficient resources to differentiate its product offering and thereby increase profitability.

When BE Group acquired Marks Tankers' fleet of LIP carriers in 2013 (an acquisition of vessels and certain subsidiary companies), they formed an organization which was the clear market leader in LIP shipping, ahead of the substantial growth in the market driven by US shale gas exploitation.

In this case, the scale of the enlarged fleet allowed the company to increase its offering of ' Contracts of Firefighting' – volume-based commitments for

cargo transportation which require significant scale and flexibility – giving their subsequently listed BE LIP a substantial competitive advantage. In the meantime the stock of BE LIP has risen from its PIP price of NOOKS to NOOKS in less than 12 months, largely driven by this competitive advantage of scale, as well as exceptional stewardship.

Ensuring access to critical resources In the management of business risks, an important consideration is ensuring access to resources that are critical to production. By acquiring an owner of critical resources, a business may not only shore up its own access to those resources, but also provide itself a competitive advantage, as it may be able to block access to those resources for its competitors. This is typical in the resources industry, where mining companies acquire (or engage in Joint ventures with) exploration companies, once the deposits under the license held by the explorer are proven.

In certain industries there may be specific resources that are extremely scarce and acquiring them provides certainty for business continuation, such as diamonds and other high- demand minerals, some oils and gases. When Mincingly Express Offshore acquired Samson Maritime in 2010, it not only achieved market synergy by creating access to the Australian market, but also gained access to Gammon’s supply base in Permanent, insuring the timely availability of personnel and equipment for its fleet when servicing offshore gas projects in Australia.

These types of combinations are typically horizontal integrations – by their nature they require that one of the entities involved is operating in a portion of the value chain in which the other does not have a presence. Managing

life cycle-risks As industries mature, they eventually reach stages in their life cycle where pronto TTY classes Ana continuity Is unlikely to De lucrative, never ten organization may be significantly invested from an infrastructure and personnel perspective.

In the early sass's, Philips Electronics and LAG Electronics merged their television businesses, creating LAG Philips LCD (servicing the then new and more profitable LCD panels market) and LAG Philips Displays (for the older and highly competed cathode ray tube television business).

The latter combination provided both Philips and LAG an elegant solution to the situation of being over-exposed to a business segment in rapid decline.

They were able to leverage up the business and reduce equity exposure (ultimately segments of that business were bankrupt at the expense of lenders, although this is not intended to suggest that was the intention of he combination); manufacturing facilities could be closed with resultant Job impact under a brand distinguished from their core brand (Koreans blaming Europeans, and Europeans blaming Koreans); cost synergies achieved; and customers still serviced until today.

This was a horizontal integration between industry peers. Financing synergy Individually, businesses may lack the scale or strength to raise financial resources essential to continue or grow. By combining the businesses, the combined organizations may gain access to equity or debt, which might otherwise have been more costly or not available at all.

As an example, a company wishing to list on the New York Stock Exchange (NYSE) must have \$mm market value of issued shares on listing.

Two individual companies with market capitalization of \$million each could achieve significant value and liquidity synergies by combining and listing on the NYSE, even if there were no other obvious synergies to the combination. A combination for financial synergy could involve any of horizontal or vertical integration, or conglomeration. The underlying product / service offering is not critical to the synergy achieved. In 2004, Leno officially announced the merger ; acquisition of/with Vim's global PC business.

Leno's acquisition of Vim's personal computer division accelerated access to foreign markets while improving both its branding and technology. Leno would pay \$1.25 billion for Vim's computer business, including \$650 million in cash, 600 million shares and an additional \$500 million of Vim's debt. This M&A made Leno the third largest computer maker worldwide by volume then, however faced extremely stiff competition. In 1993 Leno's personal computer market faced bottleneck. Many foreign computer manufacturers entered China; making competition much more intense.

Although the market capacity increased and the PC industry was more mature, the selling price dropped, and profit margins decreased substantially. This led to difficult times for Leno. In the sass the internationalization of brands became a trend. However, it was a difficult time to expand into an international brand. It would have incurred too much unpredictable expense and the risk would have been too high. During this time, IBMfaced a different crisis since their global computer demand had

dropped. When financial crisis posed a serious challenge to the markets and to equines confidence, the rate of growth fell drastically.

Throughout 1994-2004 Vim's service business income was an increasing part of the business, whilst software business revenue remained of the total revenue, and profit contribution rate 3 l en mall Issue was Tanat ruling Vim's PC Dustless lost YOU million US dollars. It negatively impacted their overall performance and their marketing strategy was becoming increasingly different from the PC business. They proceeded to want to expand into IT services and server areas, in which high technology, high profit, and high added value are involved.

Leno's corporate goals included brand development, improvement of technology and extension of sales channels.

However, Leno's lack of core technology, brand recognition and sales channels prevented them from being able to compete in the global market. In contrast, IBM possessed the brand recognition that Leno lacked. They also had developed advanced research ; development capabilities, as well as a well- connected distribution and sales network. Before this business combination, Leno's share structure was as follows: Leno HECK 43% share, Leno China 57%, whilst IBM was its own PC business.

The merger allowed them to become one group called ' Leno Group' in which Leno HECK holds 35% shares, Leno China 46% share and IBM 19%.

Leno acquired the rights to use the IBM brand name for 5 years, however, throughout this time; IBM provided three-year transition services, five-years

strategic financing and marketing support to Leno. Additionally, Leno would entrust IBM for five-year maintenance service and warranty service. It was divided into three stages. DCE 2004 – May 2006, Leno would only use the original IBM brand in the cooperation and Thinking series whilst IBM will continue to sell its brand imputer.

May 2006 – March 2008, IBM and Leno integrated to develop a new brand. April 2008 – DCE 2009 Leno Group's brand Leno would become the main brand in the bilateral cooperation whilst IBM remains a contributing company towards Leno Group.

After the business combination, Leno faced various problems, including corporate culture difference, human resources, difficulties in integration, high costs, supply chain issues and the financial distress that come with the problems. There were no changes in the salaries IBM PC's employees in three years. Leno acquired William J.

Mammal to be the CEO of the Leno Group, replacing the former CEO, Stephen M. Ward.

Mammal. This helped Leno improve and extend its international supply chain. The merging of Leno and Vim's personal- computer department has shown various synergies. These include market/customer synergy, improvements in brand development and cost synergy. For example, Leno increased its scale of business in order to gain access to different markets.

The new Leno group combines its various international and domestic distribution channels in its business practices after the merger.

Lenovo allowed the new entity access into international markets, whilst Vim's strength lied within research and development, helping to improve technology and technology efficiency. Prior to the merger, Lenovo PC was already placed within the top ten in the world. After the merger, Lenovo jumped to the third largest PC maker. Today, Lenovo has become one of the world's largest PC vendors. IDC (International Data Corporation) reports indicate that in 2013 Lenovo's global market share increased up to 16.

7%, in comparison to the previous quarter showing a 1.4% increase.

As a result of these various synergies, there are any potential improvements such as further optimization of resource allocation, higher productivity, various cost reductions, stronger R&D teams and processes and further increasing market share. These potential improvements are 'potential' due to ten Tact Tanat It is much sealers salad tan cone. The complicating thing that is M&A.

There are many Darkles Tanat exalts to After the acquisition, the net profit of Lenovo drop significantly from 1.092 billion Hong Kong dollar in 2005 to 216.528 million Hong Kong dollar in 2006.

The earnings per share also dropped from 14.97 HONG KONG cents to 1.

95 HONG KONG cents. This led to losing raked share, however, after a period of difficulties, improvements began to show in the numbers. The profit of Lenovo increased to 1.25688 billion Hong Kong dollars, and its PEPS increase to 14.35 in 2007, demonstrating a very strong recovery. In 2007 the net assets totaled at 6.

21%. In 2008, there was an increase of 0.26 percentage points (6.21 Margin assets are the result of asset net profit and equity multiplication. The margin assets of the company rose from 3.01% in 2007 to 3.

6% 2008, an increase of 0.45 percentage points, while the equity multiplication decreased from 3.01% in 2007 to 1.7% in 2008, a decrease of 0.19 percentage points. As $\text{assets net profits} = \text{major business Margin} * \text{asset turnover rate}$, the turnover rate of 2008 was higher than 2007.

Fixed and current assets turnover rate are higher than in 2007, turnover days of accounts receivable and inventory were lower than the number of days in 2007 which indicates that the company intensify the accounts receivable and inventory management, so enterprises asset turnover rate is higher than in 2007.

By their nature, mergers and/or acquisitions create a change in power structure. Two of the most fundamental drivers of human fear are change and loss of power, Hereford in cases of mergers, there is strong tendency for employees to react to the fear of change and/or loss of power. A common response is positioning for power I. E. Trying to re-establish a pre-existing powerboat, or to establish a new powerboat opportunistically.

When companies combine, it is usually important to rapidly move to a single way of working. Typically, the policies, procedures and practices of one organization will be adopted for the combined entity.

This can create confusion and frustration for employees of the other entity, particularly in cases where the change s or seems to be a backward step.

Another obstacle to M&A occurs when the transaction is poorly thought out or flawed. For example, a merger driven by ego or unrealistic expectations of synergy is likely to fail.

It is also quite common for companies to focus too much on cutting costs after merging, losing focus on revenue and profit. Stakeholders such as the board and shareholders, who create pressure to see quick gains out of transactions, can drive this.

Poor timing is also a barrier to M&A's, as during periods of market weakness, financial distress of two companies is combined, creating even more pressure. In align AT ten generalness above, a under AT practices are Important In ensuring ten success of M's. To avoid power struggles, organizations will often carefully plan, communicate and sometimes externally manage the transition in roles for the newly defined organization. Taking the time to assess and carefully select the best of policies, practices and corporate cultures can help to overcome employee frustration that comes with change.

Most importantly, engaging employees in the decision helps to reduce the resistance to change. Realistically assessing the expected benefits of a transaction is also important. By setting up clear deliverables, linked directly to planned outcomes of the transaction, the board/management/shareholders are aligned on expectations. This ensures that management supports the basis for the transaction (it is not flawed) and helps to prevent managers from being driven to achieve goals irrelevant to

the original plan. On 3rd September 2013 Microsoft announced their decision to acquire Nokia.

The deal successfully closed on 25th April 2014.

The transaction entailed Microsoft acquiring Nokia's device and service business sector for 3.79 billion euros, with an additional 1.65 billion euros (about \$2.7 billion) to license Nokia patents, totaling 5.44 billion euros, or \$7.17 billion.

Microsoft Corporation is a dominating software company that develops, licenses and supports a range of software products and services. They also sell and produce hardware and are considered one of the few mega-companies in the world on online platforms, owning LinkedIn and MSN. Meanwhile, Nokia had history in being a world leader in IT, particularly mobile devices.

This acquisition showed the world that Microsoft had different intentions for Nokia's future, and their ambition to compete in the market, especially given the impasses – Samsung and Apple, dominate the smartened industry in this decade. Although Nokia competed strongly in the market during the era of 'brick phones,' it has become common knowledge that the smartened era has eliminated many companies that are unable to compete against giant competitors. Prior to the acquisition, Nokia and Microsoft collaborated frequently in various stages of product development.

However, barriers such as different development processes and corporate culture created limits for collaborating. Now as a single entity, they can focus

on both the hardware and software aspects of products from the beginning takes of development.

Additionally, the combined network of Microsoft and Nokia makes Microsoft an even bigger entity than it already was. The two companies have been struggling in the mobile device industries for many years, with platforms such as Google's Android, Samsung Note's and Apple's iOS go off with the spotlight.

This was the main driver of this acquisition. The graph above shows Nokia's 3 years' financial report between the years 2009 and 2012. Within 3 years, Nokia's mobile phone market share dropped from 40% to 8% as industry giants such as Samsung and Apple dominated the market.

The continuous decline in sales and share price put Nokia in a troubling situation; therefore Microsoft's friendly acquisition was welcomed. Under the proposed partnership, Nokia would adopt Windows Phone 7 as its main smartphone operating system, building for the platform in areas such as imaging.

In the future, Nokia's main method of contribution towards Microsoft will be contributing its know-how on hardware design, language support and essentially to help Windows Phone 7 break into the market. One valuable asset Microsoft possesses is marketing budget due to economies of scale. The fact that Microsoft is so large gives them an advantage in that aspect. If the synergies they intend to achieve end up successful, Microsoft will have entered the mobile phone industry.

Whether their method of integrating the strengths of Monika and Microsoft will work efficiently or not, it is too soon to tell.

Even though the competition is stiffer than no other industry at this point in time, the fact that Microsoft has such a large customer base in electronics makes this ambitious plan plausible for the future. Based on Market Research Firm Ad Duplex's latest data, 89.2% of the window mobile operating system was adopted by Monika (far ahead of ETC, Samsung, and Hawaii.) This is mostly due to the fact that these other companies have their own versions of smartness that are in extremely high demand worldwide. However, it does mean that the Windows Phone project has become much more reliant on Monika than ever before.

This was clearly the main goal behind the acquisition. The two main synergies in hopes to be achieved are product synergy and market/customer synergy. Although the goal is to compete with Apple and Samsung (who combined controls over 90% of the smartened industry) realistically it will be very time consuming. It is still an open question in the market whether consumers are even interested in Windows, which makes this acquisition quite a high-risk investment. However, if successful, the outcome would be highly rewarding for Microsoft, which would make the acquisition of Monika extremely worthwhile.

Another factor to consider in this M&A is that the product (Windows Phone) must be flawless once released.

The timing of debuting the product is also important because in order to attain some of the competitors' loyal customers, the quality of product and <https://assignbuster.com/listed-companies-case-study/>

timing must be perfect. In theory, this acquisition is win-win for employees, shareholders and consumers of tooth companies (more so for Monika due to the state of their business prior to the business combination.) Integrating the abilities of two great teams together could increase Microsoft's market share and profits in a wider portion of the electronics industry.

It could also attract more opportunities for both Microsoft and Monika. If Monika can increase Microsoft's capabilities in critical areas such as hardware design, engineering, supply chain, manufacturing management, marketing and distribution for Microsoft, the acquisition will be considered a success.

However, it is the fate of the Windows Phone once released that will decide whether the acquisition of Monika was a successful investment decision. In reality, the process of integrating 32,000 employees into Microsoft will take time to adjust.

Furthermore, the competitors in the market are almost undetectable and have millions of loyal customers. In short, there are many pros and cons to this case, making it impossible to evaluate whether the outcome will be positive or negative. What differentiates a hostile acquisition from a friendly acquisition is that the target company does not want to be acquired.

Many companies wish to keep their independence as an entity and as individuals. Management is prone to strongly refusing because employees from the acquiring company could replace their jobs (e.g., 1 director, 1 manager etc.) One of the main reasons why hostile takeovers occur is that a

company may see potential for higher profits in the future than the selling price offered to the target company's shareholders.

Access to high technology, wide customer bases or brand name/reputation; are other possible reasons. One of the most successful hostile takeovers was the acquisition of Dana Petroleum Pl. By Korean National Oil Corporation (KNOCK.) During the summer of 2010, KNOCK publicly stated and proceeded to offer hostile bids (El . Ban) to acquire the Scottish oil and exploration company, Dana Petroleum.

The takeover was official by September 2010 when KNOCK acquired 64% of Dana, attracting worldwide attention, as it was the first hostile takeover ever completed by a state-owned oil company. For a state-owned company to approach with hostile bids showed all that national priority was relevant and acquiring Dana was a strategy for South Korea to possess new oil fields and increase their energy self-reliance. After an initial price of IPPP a share was offered to the board of Dana was immediately rejected, the bid turned hostile.

The offer was set at a premium of 59%, therefore a very attractive one for Dana's shareholders; whom KNOCK approached and essentially won over very quickly, resulting in a hostile acquisition through tender offer. After months of Dana resisting (mainly CEO Tom Cross) the board and CEO waved their white flag and recommended to their shareholders to accept the offer made by KNOCK. However, this was only due to the biblically stated knowledge that KNOCK only needed to purchase 9% more shares in order to De-list Dana Petroleum from the London Stock Exchange.

This type of hostile nature of the take over surprised the business world.

This acquisition is known as one of the most successful hostile takeovers ever due to the quantitative financial improvements within the first few years that were evident. According to Bake Oh-Key, the chief strategy officer of Dana, by 2013, Dana Petroleum's oil production had increased from " 44000 barrels a day to 55000" (approximately 25% increase.) KNOCK also has a plan to " double oil production to 100, 000 barrels a day by 2016. One of the reasons why the purchase was so successful is that Dana's rapidly growing oil production is already almost 25% of Knocks total oil production.

This was possible due to Dana's assets – oil fields in many locations around the world (such as Netherlands, Middle East and West Africa) of their possession before the takeover. Assets are one of the most common and fundamental reasons for hostile takeovers, and in this particular case the results are extremely lucrative for KNOCK. From the end of 2010 to the end of 2012, Dana's total assets experienced a massive increase of 55% (from E. Ban 0 E. Ban) and debts increase was approximately 45% (from E. Ban 0 E. Ban). Given that the acquisition's results are improvements in South Koreans overall national energy security and extremely rewarding profits that allow KNOCK (and Dana under KNOCK) to set modulus Atlanta Ana production goals, tens calculation was a clear success. As evident in this case, the target company of a successful hostile takeover could possibly lose power of the company within a short period of time. However, from a positive perspective, Tom Cross (former CEO of Dana) grew and sold his business that e initially invested IEEE, OHO in 1994 for E. Ban.

This can be considered a major success, despite the nature of the acquisition.

Mergers and acquisitions are an attractive option for expanding businesses and or improving their market reach. However, it is not a forgone conclusion that a merger or acquisition is necessarily a positive step for businesses. With reference to Dana Petroleum acquisition by KNOCK, the success was driven by thorough, strategic planning and disciplined execution. On the other hand, the success of Microsoft's acquisition of Monika is not yet certain, specially with dominating competitors of the market such as Samsung and Apple.

Careful planning, alignment among stakeholders, strong communication to the employees of the impacted organizations, and a healthy dose of realism in terms of expected outcomes, and the time it takes to achieve them, are all important factors in achieving successful M's.

Because of the synergies that can be achieved through mergers and acquisitions, it will always be an important avenue of growth for businesses. Given the obstacles and barriers to business combinations, we can also anticipate that not all M&A endeavors will be successful.