

Free merger and acquisition-gap research proposal example

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



Introduction

In the entire field of finance, there are certain aspects, theories and topics are interlinked with each other that will be used for all other purposes over the world. The financial management and aspect and functions are profound for the corporation for a core and long term effectiveness and determination. Among numerous things and aspects that will be used in the function of the finance and investment, there is a name of Mergers and Acquisition (M&A) is one of them (Mendenhall, 2013).

M&A has now has significance for the management and for the organizations particularly because it is one of those criteria that deem extremely effective and essential for an organization. Posted to the current economic downturn, there were numerous M&A, partnership and strategic alliances initiated just to give strength to the financial function and structure of these organizations accordingly, however the uniqueness in the market is still missing in most of the countries (Sherman, 1997).

There are some questions that always arise from a proposed merger which known as, initiation of merger, reason behind the initiation, and the potential benefits that will be achieved through this merger for the parent and other company. It is requested to analyze the core theme of the M&A stance of two companies. The companies selected for this particular paper is GAP, and Uniqlo is strategizing to merge GAP with it. It means that the focal point of the analysis will be on the financial aspects and financial capability of GAP in particular. The assignment requires extensive financial computation through the annual report of the company, along with computation of the actual price of the company.

Analysis and Findings

About the Chosen Company: GAP

The GAP Inc which commonly known as GAP Inc or simply as GAP is an American based multinational clothing and accessories retailer which was founded in the financial year 1969 by Donald Fisher. It has the headquarter in California, the United States. The company is currently operating in five different primary divisions. It is the largest specialty retailer throughout the United States. Currently, they operate in around 3, 076 stores across the globe along with 2, 551 stores located specifically in the United States.

The marketing and financial aspect of the company is extremely vital and effective, and the financial worth and value of the company has been increasing effectively with each of the year accordingly. North American region is the most effective region for the company, which is generating the highest amount of revenues for the company particularly. As per the annual report of the company, North American region has the potential to generate annual sales amounting to US\$ 834 million each year. However, the net revenue reported by the company in the year 2014 was US\$ 16. 148 billion and net income of US\$ 1. 28 billion in the same year. Currently, there are more than 130, 000 employed by GAP to have their effectiveness in the market. Utilizing the operational assets accordingly emerged as a perfect one for its revenue management and effectiveness. Retail industry is the one in which GAP is currently operating with full of authority.

On the other hand Uniqlo Co. Ltd is Japanese based casual wear and designer, manufacturer and retailer. It is a subsidiary of Fast Retailing Co. Ltd, and located in the first section of the Tokyo Stock Exchange (TSE). The

company is currently recognizes in different countries with effectiveness. Currently, they own 30, 000 employees and not as financially active and sound as GAP.

The real Reason behind the Merger

Expansion and development is a perfect recognized intuition that will bring competitive for the companies without expansion and development within their premises or outside their premises (Sherman, 2005). Most of the times, the reason behind a proposed merger is the devastating financial structure of the companies particularly, however sometimes the reason behind the same is totally change, which is to have an expansion in different countries. The real reason behind the initiation of merger between Uniqlo Ltd and GAP is that Uniqlo, a Japanese brand is intending to expand its operations in the area of N. A, the United States. The reason behind the merger is clear which is to have a strong collaboration with the markets of the United States, and getting an idea about the United States market, and the taste and preference of the consumers located here. The merger will be successful subjected to the current financial and strategic power and strength of GAP.

Industry Analysis

The retail industry is a sector of an economy that comprised specifically on those companies that engage in the selling of the finished goods and products to the end customers. As per estimation, 2/3 of the income or GDP of the United States comes directly from the retail industry. Therefore the stance and amount of stores closing and opening is an indemnity that the power of effectiveness of the company is increasing tremendously well.

Retail Industry has performed wonderfully regardless with the fact of the current economic crisis (Sherman, 2005).

According to the latest annual report released by the Commerce Department of the United States were US\$ 4. 7 trillion in the year 2013 that represents a heavy surge of around 8% as compared to the sales of the year 2010. This was the highest growth that reported specifically in the USA after the current economic crisis. The retail has a great growth rate in the market, and it has the tendency to increase the productivity and level of efficiency accordingly for a long span of time. The largest retailer in the United States is Wall-Mart, however there are other companies as well which have a great name and share in the market, and among them there is a name of Gap as well. Up till now, it is clear that the market power and potential of GAP is perfect, and the company has a strong market share in terms of retailing companies of the United States, which is a positive point for their effectiveness and growth further in the market accordingly. The industry and company analysis of Gap is in the favor of Uniqlo Ltd to initiate a proposed merger with the company; however there are some ratios which will be used here to analyze the effectiveness of the company in terms of profitability, efficiency, solvency and liquidity.

Financial Analysis

Profitability Analysis

In terms of profitability, cost efficiency is an important matter that leads to increase the bottom line of the company with a positive node. With the help of high Gross Profit Margin (GPM), it is shown that the company has enough

power to mitigate their direct expense that resultantly increases the financial belongings of the company (Stahl & Mendenhall, 2005).

Gross Profit Margin

A financial ratio that uses to analyze the stance of cost efficiency of a company is known as Gross Profit Margin (GPM). It is an important ratio that will be used here to analyze the cost efficiency stance of Gap. The computation related on four years is as follow

Efficiency Ratio Analysis

Efficiency of an organization accordingly for a proposed ratio with the name of Return on Assets (ROA) (Stahl & Mendenhall, 2005).

Return on Assets (ROA)

Operational assets are quite important for an organization, and it is equally beneficial for the analytical purpose of a company. The return on asset is a ratio that provides analysis on the asset efficiency of a company.

It is now clear from the entire analysis is that the capability of the company in terms of utilizing its net and operational assets is highly mobilizes and effective. It was nearly to a level of 17.04%, which decreased by 5.8%, and then increased for two consecutive years by 3.9% and 1.11% respectively.

The average ROA is showing that GAP has a perfect scenario in terms of having net income provision of 14.92\$ from their net sales of 100\$ particularly. It is an effective sign for Uniqlo Ltd to have an idea about the asset's power of Gap to have a merger with them accordingly (inc/the, 2014).

Solvency Ratio

Before every merger, the thing which has effectiveness in their power is important and solvency ratio will analyze the same aspect accordingly. Debt to Equity Ratio will be used here to analyze the same aspect accordingly.

Debt to Equity

Debt to equity ratio is an important proportion of the power of solvency or long run debt management of a company. The debt to equity ratio of the company for the four years of operations is as follows

It is clear from the entire aspect of Debt and Equity that in the equity function of the company is extremely high that can be found from the aforementioned table. The Debt to Equity of the company was effective in the year 2011; however it is higher than the level of 100% in all of the upcoming years. The average D/E of the company is 1: 39, showing that the power of debt is very high on the company as compared to its net equity. It is not in the core favor of the Uniqlo Ltd as far as initiation of merger is concerned.

Liquidity Analysis

A ratio that used to analyze the tendency of a company as far as changing its current assets into cash is known as Liquidity Ratio, and there is a ratio that uses for the same function known as Current Ratio

Current Ratio Analysis

Current ratio analysis is an important ratio that analyzes the power of a company in terms of managing its operational current assets in a perfect

manner. If the value of the current ratio is higher than the level of 1, then it means that the company has power to comply with all the short term obligatory analysis of the company. The computed current ratio of Gap is as follows

This particular analysis is showing that Current Ratio of the company lies in a satisfactory range in all of these four years of operations. The Current based ratio which has a figure 1 will show the efficacy and high liquidity position of the company (inc/the, 2014). The average CR of GAP is 1: 86, showing that the company is operating effectively and effective as well in terms of meet with all of the promises are concerned. This particular aspect is again in the favor of Uniqlo Ltd, as it is perfect sign for their investors to have a perfect liquidity analysis of the company.

Discounted Cash Flow Technique

Discounted Cash Flow (DCF) technique is an important financial technique used by the organization to value down their future cash flow in the present value. It is an important aspect that uses by the merger companies to analyze the effectiveness of the company in terms of having a present value particularly

Market Capitalization

Market capitalization is an important element and ratio that uses by the companies to analyze the core potential behind their merger and acquisition stance accordingly and effectively at the same time. The companies which have high market potential and capitalization would be more effective and worthwhile as compared to those organizations which have low market

capitalization particularly. The market capitalization of Gap is mentioned below

The market capitalization of Gap in the financial year 2011 was US\$ 13. 20 billion which decreased by 32. 9% in the year 2012. The market capitalization of the company increased for two consecutive years by 63. 3% and 20. 10% respectively in the year 2013 and 2014. The average Market Capitalization of Gap is US\$ 13. 57 billion.

Intrinsic Value Estimation

Intrinsic value which also known as Purchasing value is an important aspect from the viewpoint of initiating a merger, and it would be done with the help of applying relevant techniques and tools on the financials and financial capability of a company. Intrinsic value will be analyzed on the basis of current share price and the total amount of shares issues in the market. The share price of Gap is \$ 40. 14 per share; however the intrinsic value is showing that the potential of the share price of the company is nearly \$ 45. This figure will be multiplied with the total number of outstanding share in the market

Common Stock is 55 million

The purchasing figure will be

$$= 55 * 45$$

2, 475 million

This particular figure of the shares are effective for the company, and Uniqlo Ltd should offer the same amount to Gap in order to complete buy the operations of the company while entering in the region of N. A.

How the Company will operate?

The merger analysis which has been proposed in this analysis is showing that the potential found in the financial aspect of Gap is perfectly organized and attentive, and the merger will be beneficial for both of the players accordingly. Gap which has a great name in the market of the United States, and other markets of the world are now focusing to capture more markets. By merging with Uniqlo Ltd, the company can operate in a better position in the future by enhancing the values of their shareholders accordingly at the same time. The deal will be financed by the discussion of the management officials of both the companies on the prescribed and computed amount mentioned above. This will be a perfect strategy for the companies who are intending to initiate a proposed merger with each other.

Conclusion

The power of analysis utilized in merger and acquisition is essential, and it will be used accordingly by the analysts and the researcher to have perfect timings of the analysis. The analysis is related to the analysis of merger between Gap and Uniqlo Ltd. Relevant measures and techniques have been used and defined in the analysis which reveals that the proposed merger would be a perfect one for the company in their future concerns, and will create lots of effectiveness in the financial markets of the company. The

consumers will gain added advantage from the proposed merger, and Uniqlo Ltd should initiate the merger with the proposed price computed above.

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