Finance management essay

[Business](), [Management]()

CH17

1. The Highland Instrument Company has revenues of about $300 million per year. Its management is interested in expanding into a new type of product manufactured primarily by Lowland Gauge Inc., a firm with sales of about $200 million annually. Both firms are publicly held with a broad base of stockholders. That is, no single interest holds a large percentage of the shares of either firm. Describe the types of business combination that might be available for the two firms. Include ideas like merger, consolidation, acquisition, and friendly and hostile takeovers. How would Highland's management get started? Do the relative sizes of the two firms have any implications for the kinds of combination that are possible or likely?

This could be a merger or a consolidation. Because the sizes aren't too different, a consolidation seems most reasonable. Similarly, the sizes imply that a hostile takeover would be difficult. The size issue, however, is only an indication, and any method is possible regardless of size.

2. Hostile acquisitions create real animosities between the stockholders of the acquired and acquiring companies. Comment on the truth of this statement.

The hostility is between managements and boards of directors. The target's stockholders are generally only interested in the return on their investments. Therefore if an acquiring company offers a hefty premium, they're nothing but pleased.

4. Industry A is dominated by 10 large firms each with sales of approximately $500 million per year. A proposal to merge two of these firms was approved

by the Justice Department as not violating the antitrust laws. Industry B is locally defined and much smaller. It is dominated by three small firms, each selling about $50 million per year. A merger between two of these companies was prohibited under the antitrust laws. Explain the logic under which the merger of two $500 million giants can be allowed while the relatively insignificant merger of two small companies is disallowed.

The competitive effect of mergers is defined relative to the industry in which the merging companies operate. The large merger leaves nine firms competing where there were ten, not a big decrease. The small merger leaves only two competitors where there were three, a larger relative change.

5. Suppose an industry is dominated by three firms, one of which is twice as large as the others, which are about the same size. Could a merger of the two smaller firms actually increase competition in the industry?

Yes, because of its size advantage. If the two smaller companies combine the resulting firm might be able to challenge the large one on an equal footing. That could bring about a competitiveenvironmentwhere there effectively was none before.