When two businesses dissolve and fold their assets and liabilities into a newly created third entity, this entails the creation of a new corporation.

Examples - Deccan Airways and Kingfisher

Jet Airways and Air Sahara

Mergers

Taking possession of another business. Also called a takeover or buyout.

Example: Tata Corus, Arcelor Mittal

Acquisition

Merger :

"The business combination of one or more corporations in which only one firm survives and the other firm(s) go out of existence".

Example :

In November 1999, HDFC Bank had acquired Times Bank, promoted by the owners of the country's largest publishing group, Bennett Coleman & Co, the owner of *The Times of India* and *The Economic Times*.

(HDFC Bank approves merger share swap ratio of 1: 29 Centurion Bank of Punjab shares)

Source: www.domain-b.com

"Voluntary amalgamation of two firms on roughly equal terms into one new legal entity. Mergers are effected by exchange of the pre-merger stock for the stock of the new firm. Owners of each pre-merger firm continue as owners, and the resources of the merging entities are pooled for the benefit of the new entity."

Source : www.businessdictionary.com

Acquisition :

"The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets"

Example :

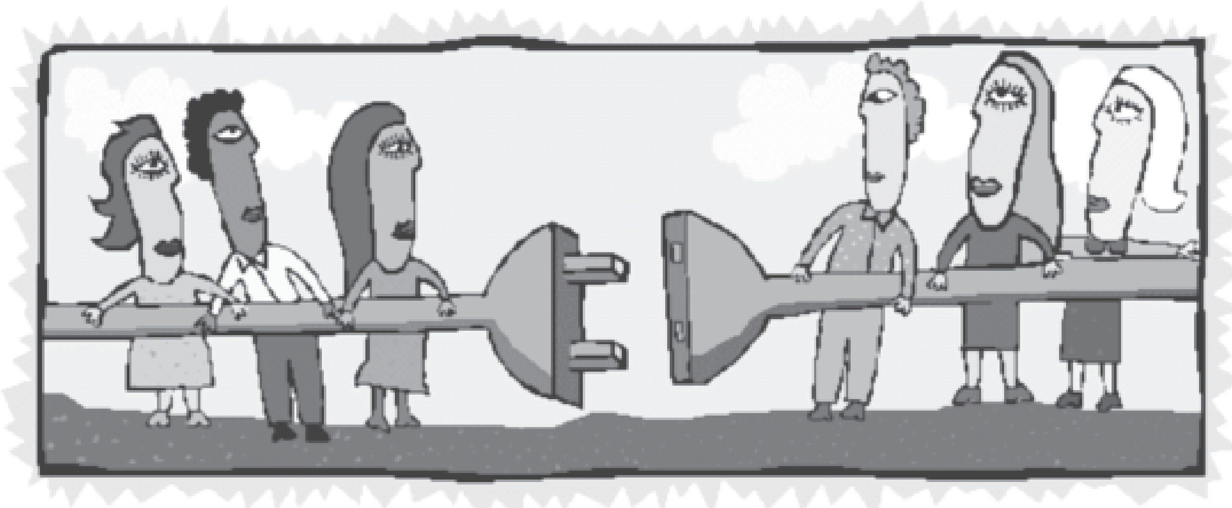
In 1993 Coca-Cola paid Rs 170 Cr to Parle to acquire its soft drinks brands like Thumps Up, Limca, Gold Spot etc to start its second innings in India after a gap of 16 years.Thums Up, the brand taken over by Coca-Cola, is estimated at Rs 1,350 crore, bigger than Coca-Cola itself in India. Thums Up and Limca, two key brands that Coke acquired from Parle, account for no less than Rs 1,950 crore in sales for Coke. The Coca Cola Company in India has Rs 3,757 crore of sales of soft drinks, while PepsiCo's three main brands have sales of Rs 2,490 crore.

Source: Financial Management for Managers – ICFAI
Economic Times presentation, Retail Biz, 25th March 2003

"The purchase of one corporation by another, through either the purchase of its shares, or the purchase of its assets"

There's only one real way to achieve massive growth literally overnight, and that's by buying somebody else's company. Acquisition has become one of the most popular ways to grow today. Since 1990, the annual number of mergers and acquisitions has doubled, meaning that this is the most popular era ever for growth by acquisition.

"Acquiring control of a corporation, called a target, by stock purchase or exchange, either hostile or friendly, also called takeover."



Classification of Mergers

Reverse Merger : allows private company to go public

A technique used by private companies to go public without registering an initial public offering (IPO). A reverse merger occurs when a private company acquires or merges with a public company that is little more than a shell. That is, although the public company is listed on a stock exchange, such as the NASDAQ, or trades in the over-the-counter (OTC) market, its primary business has failed and it has sold off most of its assets and discontinued operations. Reverse mergers became popular after the stock market bubble burst in 2000 and the initial public offering market virtually shut

Vertical Mergers : between buyer-seller relation-ship companies

Merger where backward or forward integration is possible. In case one or more companies are the suppliers of some of the basic inputs for the final product to be manufactured by a company, then the latter company merges with the former company or companies so that it is assured of supplies and is able to control the quality of production of the supplies and also effect economies and improve the profitability of the final product.

A car manufacturer acquires and merges with the suppliers of some of the essential parts and products of which production could be more economically carried out by it. Here the object is to ensure source of supply and/or outlet for products or services and improve

Possible Causes :

- Value chain management
- Technical and other economies
- Tax benefits
- Better control on the supply side
- Strong & large resource base

Horizontal Mergers : between competing companies

A merger is horizontal if it involves the merger of two or more companies which are producing or rendering essentially the same products or services, or products and/or services which compete directly with each other. (e.g. sugar and artificial sweeteners). Horizontal mergers result in eliminating duplication of facilities and operations and broadening the product line, reduction in finance for working capital, widening the market area, and reducing unhealthy competition.

Care should be taken while attempting horizontal mergers to avoid impediment to competition that result in monopolistic organization, as this would attract governmental restraints

Possible Causes :

- To achieve economies of scale
- To reduce the gestation period for new businesses which would be complementary to the existing business of the company
- To compete globally
- To put to use the liquidity available with the company for achieving growth through diversification.
- Increased monopoly and bargaining power
- Product & services complementaries
- Management opportunity/managerial skill
- Acquisition of new products and brands.

Conglomerate Mergers : neither competitors nor buyer-seller relationship

Merger where two or more companies carrying on different businesses are acquired and merged to diversify the products marketed. The companies may not be related to each other horizontally. In a "pure conglomerate" there are no important common factors between the companies in production, marketing, research and development or technology. Conglomerate merger is quite often the result of

Congeneric Mergers : between two firms in the same general industry

Merger where two merging firms are in the same general industry, but they have no mutual customer or supplier relationship, such as a merger between a bank and a leasing company.

Source : www.businessdictionary.com

Successful Mergers and Acquisitions – Key steps

There are different views suggested by various people for successful M&A –

- Manage acquisition phase by understanding the value adding approach
- Screen candidate by identifying knockout criteria and prioritize opportunities.
- Value remaining candidates by knowing real synergies and decide restructuring plan
- Negotiate price reservation and stick to it.
- Manage postmerger integration carefully and move rapidly

Source : Valuation – Measuring and managing the value of companies , Tom Copeland, Time Koller, Jack Murring, Mckinsey & Company, Inc., Chapter 14; p.408

- To transform a new single entity
- A new vision or a statement is required
- Try to discover the optimal culture in the organization
- Appropriate leadership
- Success measurement

Source : Cheryl A. Boglarsky, Ph.D., Originally published in *workspan*, February 2005. http://www.humansynergistics.com

- To know the transaction and the strategy behind the M&A
- Effective leadership and sponsorship
- Have proven structure and methodology
- Plan for success but do not underestimate
- Effective communication
- Culture alignment
- Customer and branding alignment

Source : Tony S Payling, Director, Calibre Business Integration
http://www.calibrebiz.com.au

SECTION - 1

PROCEEDINGS OF WORKSHOP

25.10.2008

SECTION - 1

Back

WORKSHOP
ON
CONSOLIDATION – THE NEW BUSINESS MANTRA
ON
SATURDAY, 25th OCTOBER, 2008

VENUE:- Thorale Bajirao Peshwe Sabhagruha,
Thane College Campus, Thane

PRELIMINARIES
10.00 am

↓

KEYNOTE ADDRESS - Dr. Vishnu Kanhere
10.30 am

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WORLD FINANCIAL CRISIS - Mr. Ramesh Lakshman
11.00 am

↓

LEGAL ISSUES GOVERNING CONSOLIDATION - Mr. R. R. Mallar
11.45 am

↓

CONSOLIDATION MOVEMENT INDIAN AND GLOBAL
PAST, PRESENT AND FUTURE

Dr. Guruprasad Murthy

12.15 pm

12.45 pm

Tax Issues Governing Consolidation

- *Student Leader's Presentation*
- *Monitor : Mr. Subhash Desai*

LUNCH – 1.15 pm to 2.00 pm

2.00 pm

HR Issues Governing Consolidation

- *Student Leader's Presentation*
- *Monitor : Ms. Sukhada Waknis*

2.30 pm

Marketing Issues Concerning Consolidation

- *Student Leader's Presentation*
- *Monitor : Ms. Seema Aggarwal*

3.00 pm

Business Strategies for Consolidation
Prof. S. M. Fakih

- *Speaker : Prof. S. M. Fakih*
- *Student Leader's Presentation*
- *Monitor : Mr. R. S. Verma*

3.45 pm

Industry wise Study on Consolidation

- *Student Leader's Presentation*
- *Monitor : Dr. P. M. Kelkar*

OPEN FORUM – 4.15 pm

VOTE OF THANKS – 5.00 pm

Valuation in Mergers and Acquisitions

Dr. Vishnu Kanhere

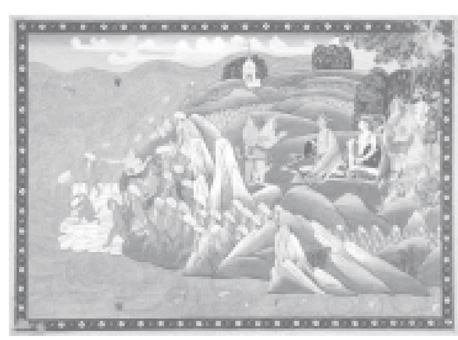
The theme of the presentation of Dr. Vishnu Kanhere was "The Dimensions of Valuation in Consolidation Transactions". He addressed the specific issues of Mergers and Acquisitions. He used the metaphor of marriage to describe Mergers and Acquisitions. After giving the definition of Mergers and Acquisitions, he discussed various types of Mergers in detail. Consolidation has become a necessity today, because 'Small was beautiful – today big is!' Dr. V.Kanhere discussed in details various methods for valuation of Intellectual Property with appropriate examples. He also explained the issues involved in valuation. Finally he enumerated the steps in valuation. He concluded the presentation, by discussing the way ahead for the M&A wave.

PRESENTATION

Consolidation –
'The New Business Mantra'

Dr. Vishnu Kanhere

Mergers & Acquisitions in Scriptures



"Vanarasena building the Setu"
The Ramayana – Maharishi Valmiki.

Mergers & Acquisitions in Scriptures

"Govardhana Giridhari"

Mergers & Acquisitions in Scriptures

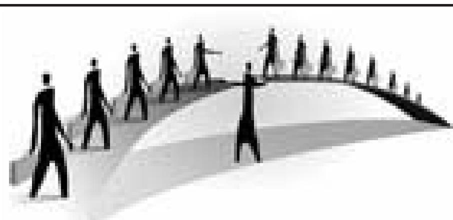
"Samhati Karyasadhika"

Marriages & Mergers

Made in Heaven Not always between likes or equals

The story of co-operation

- IFFCO
- Amul
- Gokul
- Warana
- KVIC
- Many more ……



Why Merger and Acquisition?

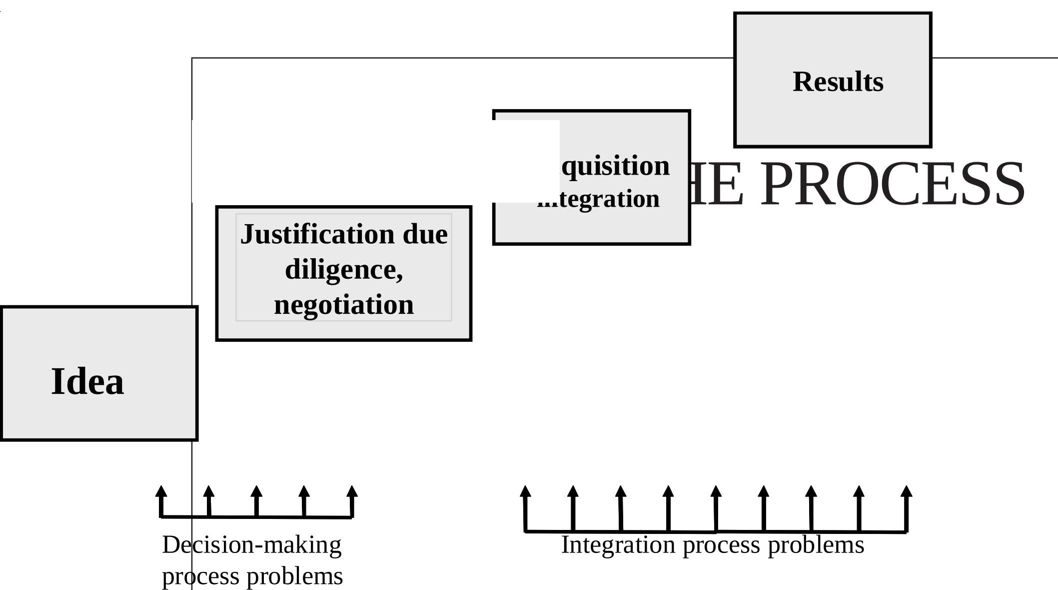
Mergers and Acquisition is extensively used for restructuring the organizations. In India, the government bodies took initiative of rebuilding the organization by following M & A policies. Since 1991, A boom of M & A prompted in the global market, and resulted a strategic change in Indian economy. Main objective of M & A :

- Consolidation
- Better risk management
- Acquiring new technology
- Withstanding global competition
- Developing core competencies
- Synergy with other contiguous and complimentary activities
- Cross branding, merchandizing opportunities
- Tie ups with strategic objectives

Consolidation

- Fight for survival
- Springboard for action
- Magic mantra for dealing with a competitive world
- The way forward .. Challenge & opportunity
- Drive towards attaining critical mass
- Aimed at balanced growth
- Effecting synergy
- Moving towards compliance
- Surviving in a globalized networked world
- Vertical integration, horizontal spread, diversification, acquiring skill sets, up by the bootstraps, overcome entry barriers, ….. Some examples :

  - **Western union – Indian Posts - Pigeon – MTNL**
  - Tata Sky - In Cable Operators - Tata – TD Waterhouse
  - Vodafone – Essar – Hutch - OBC – GTB
  - IDBI – Sangli - IDBI – Centurion – Bank of Punjab
  - Federal Bank – Catholic Syrian Bank- Anil Ambani – Steven Speilberg
  - Oracle - iflex



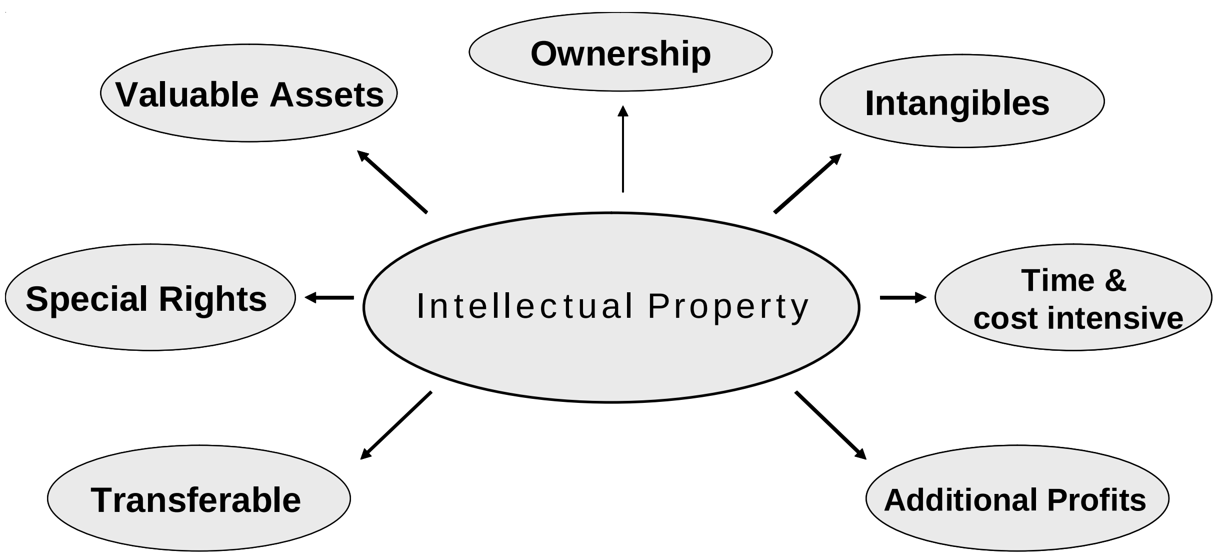
Source: Adapted from P.C. Haspeslagh and D.B. Jemison, Managing Acquisitions: Creating Value Through Corporate Renewal (New York Free Press, 1991), 42

Perspectives

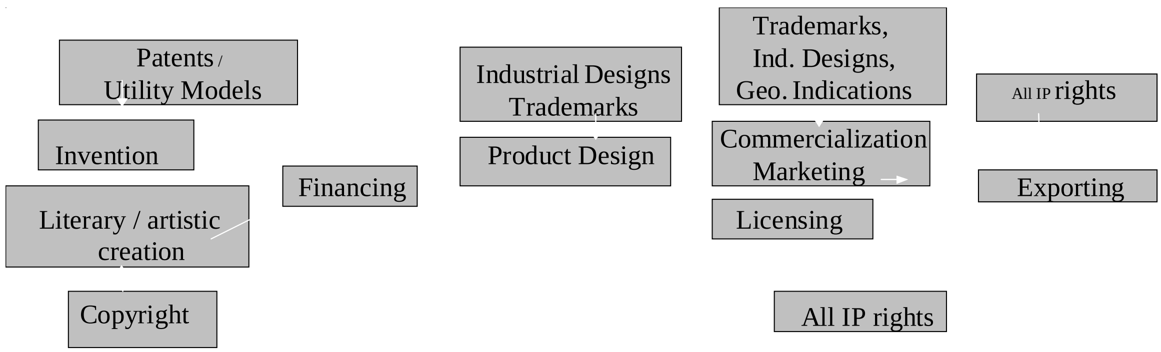
- Mindset
- Approach
- Business ethics
- Work style
- Work culture
- Risk approach and appetite
- Attitude and business posture

Introduction: What is IP?

Most creations resulting from human endeavors in various fields of art, literature, science and technology constitute Intellectual Property"

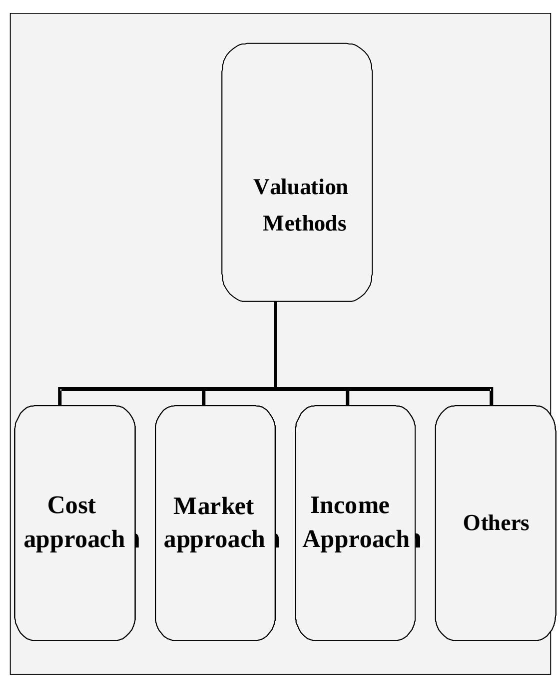


- IP adds value at every stage of the innovation and commercialization process



Methods for valuation of Intellectual Property

The choice of approach will be determined primarily by the type of Intellectual Property asset is to be valued, the circumstances of the specific transaction, the availability of information and the level of due diligence that the corporate is willing to take on. When multiple approaches are applied a comparison and reconciliation of resulting value is possible.



Principles of Valuation

The value of something cannot be stated in the abstract. All that can be stated is the value of a thing in a particular place at a particular time and in particular circumstances. Value of an asset or liability is the present value of future economic benefits or losses that can be reasonably anticipated to accrue to the owner of that asset or liability.

<u>Cost based approach</u>

Based on the principle of substitution, i.e., value of an asset is estimated on the basis of cost to construct a similar asset at current prices.

- Components of cost approach
- Cost of reproduction
- Cost of replacement
- Identify historical costs of developing the intangible asset, adjust for time value of money
- Disadvantage: it seeks to correlate cost with value
- Depreciation cost
- Original cost
- Book cost
- Valuation Process
- Add an appropriate rate of return to calculate developer's profit

Caution: NOT ALL DEVELOPMENTS BASED ON INVENTIONS LEAD TO SUCCESSFUL PRODUCTS

Market Based approach

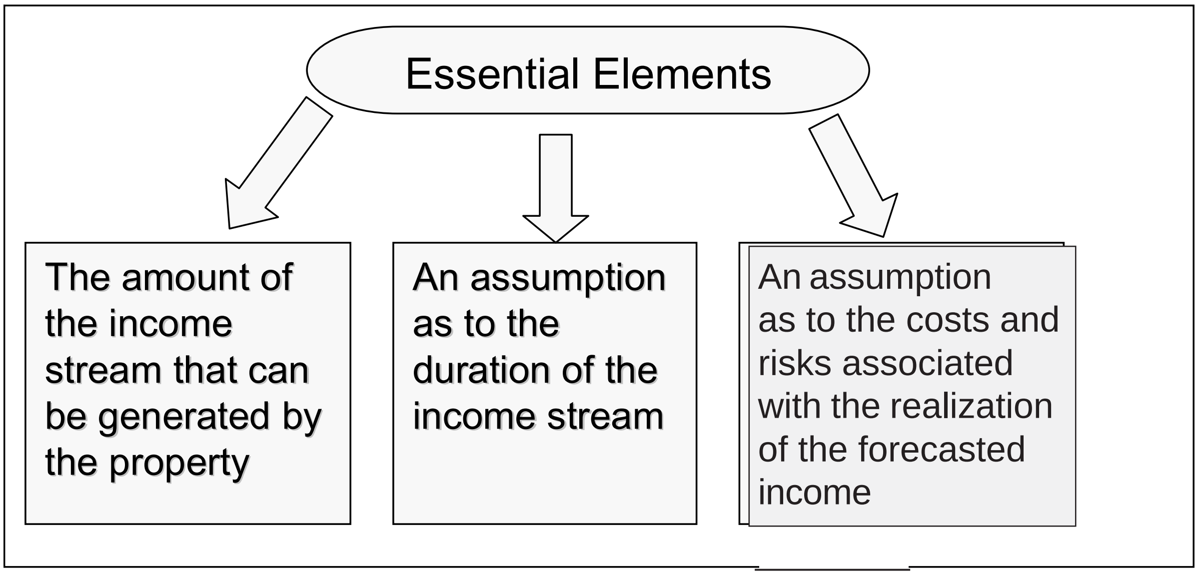
- Estimates the value of an intangible asset based on market prices of comparable intangible assets that have been bought/sold or licensed between independent parties.
- Also referred to as the Comparable Uncontrolled Transaction (CUT) method, and is similar to the Comparable Uncontrolled Price (CUP) method.
- Requisites
  - An active, public market. assessment of fair market value
  - An exchange of comparable products
  - Comparison with the sale value of similar assets

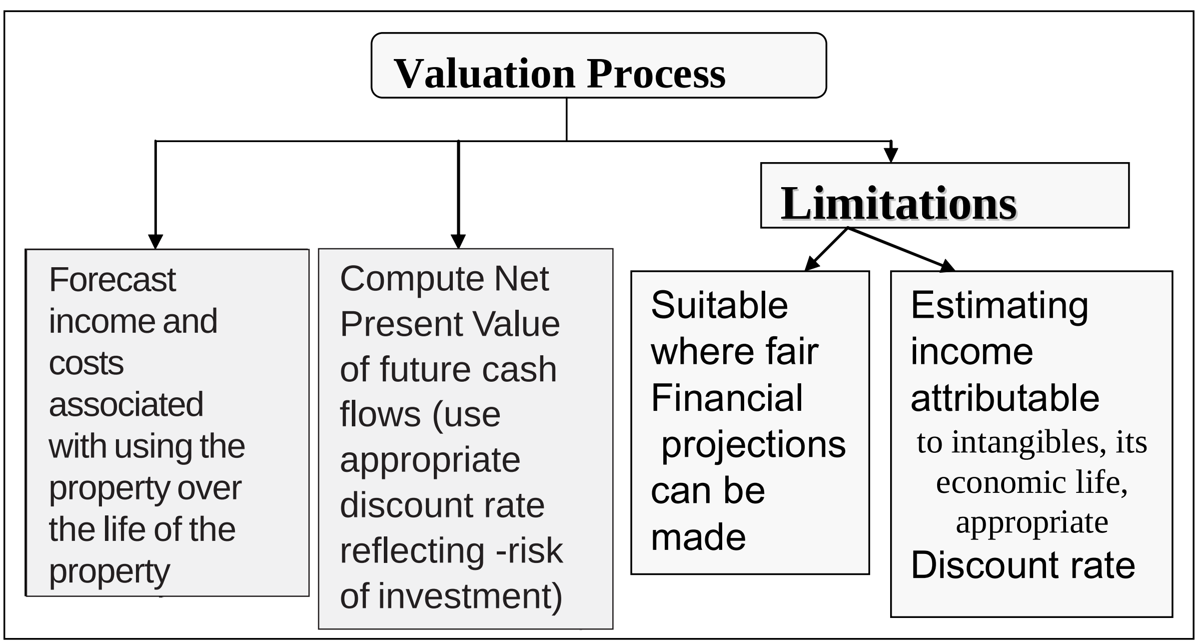
There are various elements of comparison, which should be given due importance while analyzing and comparing the transactions such as, functional characteristics of intellectual property, physical characteristics of intellectual property, the size of industry in which the intellectual property is transferred, the economic condition, the existence of any special term and the legal rights that have been transferred.

Limitations: In practice difficult to find sufficiently comparable transactions-price information, sales or licensing statistics usually confidential.

Income based approach

- Estimates the value of an intangible asset based on the expected income attributable to the intangible asset during its remaining economic life.
- Also known as “Discounted cash flow analysis”





Other Approaches

Other Internationally accepted approaches include:

- Market Capitalization method
- Profit based methods
- Profit split method
- The Economic Benefit Approach

Table shows how big the economic contribution made by brands to companies

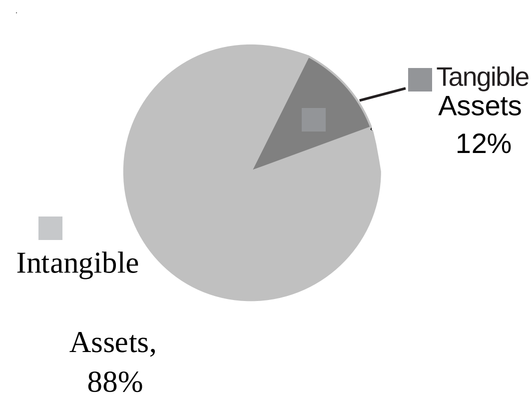
Table 2.1 The contribution of brands to shareholder value

Company	2002 brand value ($bn)	Brand contribution to market capitalization of parent company (%)	2001 brand value ($bn)
Coca-Cola	69.6	51	69.0
Microsoft	64.1	21	65.1
IBM	51.2	39	52.8
GE	41.3	14	42.4
Intel	30.9	22	34.7
Nokia	30.0	51	35.0
Disney	29.3	68	32.6
McDonald's	26.4	71	25.3
Marlboro	24.2	20	22.1
Mercedes-Benz	21.0	47	21.7

Source: *BusinessWeek*; Interbrand/JP Morgan league table, 2002

Instances of Brand Valuation in M&A

- In 1988, UK-based GrandMet acquired the Pillsbury company.
- It was estimated that 88% of the price it paid consisted of "goodwill" i.e., GrandMet paid approximately $990 million (L608m) to acquire the Pillsbury brand name and its other branded properties (Green Giant, Old El-Paso, Häagen-Dazs, etc.).



Instances of Brand Valuation in M&A

- Volkswagen, bought the assets of the Rolls-Royce automobile corporation for $780m against a net tangible asset value of US$250 million
- But it somehow did not include the brand in the deal...
- The rights to use the Rolls-Royce trademark were subsequently purchased by rival BMW for $65m and many analysts believe that BMW got the better deal.