AOL was perceived as winner and Time Warner as loser . Also, there was a slow-down in the growth of AOL. AOL did not enter the broadband business.

Daimler Benz acquiring Chrysler in 1998 for 38 bn US $ was indeed a very big acquisition. Many of them thought that this would be an ideal acquisition or merger. Daimler's German engineering of Car manufacturing combined with strong customer base of Chrysler motors would make this merger very strong and formidable. Daimler being a German company and Chrysler an American, there were cultural clashes within company. Also, Chrysler experienced a slowdown in its business in following years. Hence, Daimler sold Chrysler to private equity firm.

HUL has been a market leader in FMCG sector for many years. Its success can be attributed to its philosophy which states that "What is good for India is good for HUL".

They have always addressed the needs of Indian Society. For any business to be successful, requirements of society and aims of corporate should go hand in hand. They also have a rich history in consolidation. They have made some excellent mergers and acquisitions, which have helped them, both in expanding as well as enhancing growth in business. They acquired Cadbury's Dollups in 1993 to enter Ice cream business. They also acquired TOMCO since it had a very strong presence in South Indian markets. A year after acquiring Dollups they also acquired quality ice-cream and followed it up with acquisition of Milk foods ice-cream in 1995. However, HUL soon realised the lack of growth opportunities in TOMCO. Also managing a FMCG Industry was different from managing Tea Plantation, Hence HUL decided to divest TOMCO.

HUL had also set an in house shared services unit in 2002 called as Indigo shared services. HUL divested 51% of this business to Cap Gemini who are experts in handling such operations.

According to Mr. Paranjpe consolidation should be guided by some core values and strategic motive. Two big companies having different values and motives can never lead to a successful consolidation. While doing any consolidation, both economics as well as dis economics of scale should be taken into account. There should not be a winner or a loser in any merger or acquisition. Such feelings lead to ego clashes thus affecting both the forms involved in merger or acquisition. Risk analysis is mandatory before pursuing any merger or acquisition. He also acknowledged the role of domain expertise. Every manager should respect the knowledge and efforts of domain expertise.

PRESENTATION

Agenda

- ☞ Consolidation
  - What
  - Why
  - Global Experience
- ☞ HUL Experience
- ☞ Summary

Oxford Definition

Consolidate/ *kuhn-sol-i-dayt*

make firm or secure; strengthen;

bring together into a single whole or system;

form into a solid mass or whole;

Consolidation in Business

The act of combining into an integral whole; Consolidation or amalgamation is the act of merging many things into one.

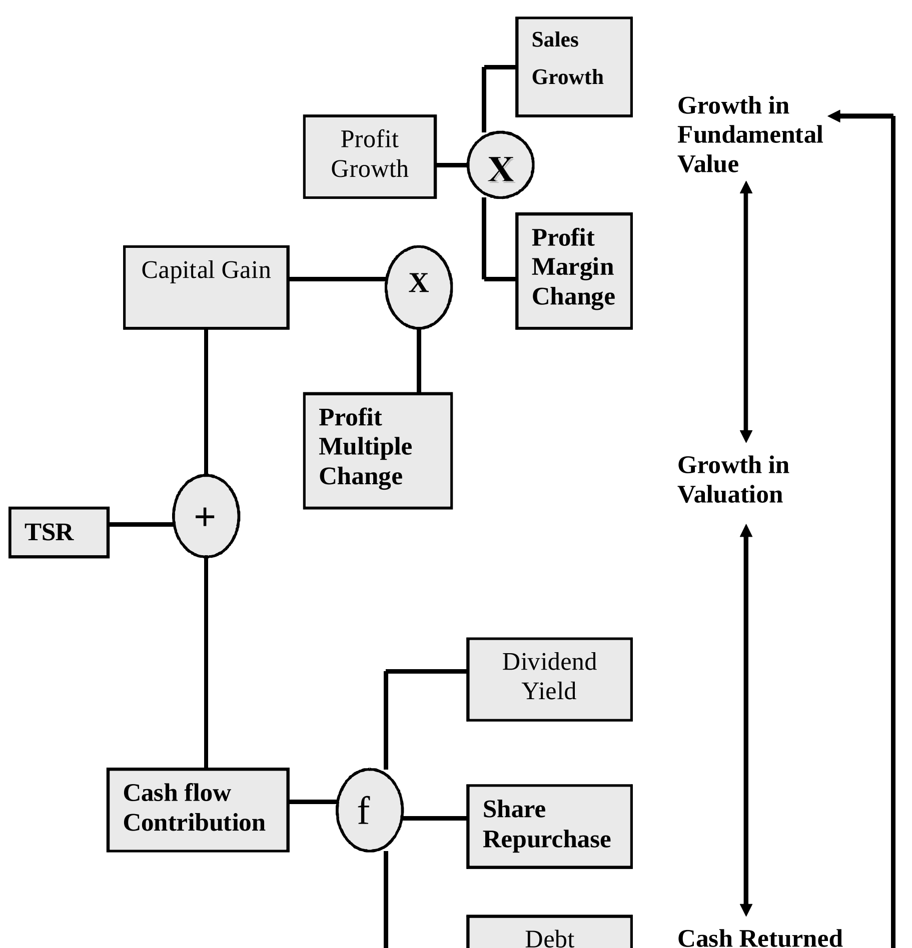
In business, it often refers to mergers or acquisitions.

Value Creation –

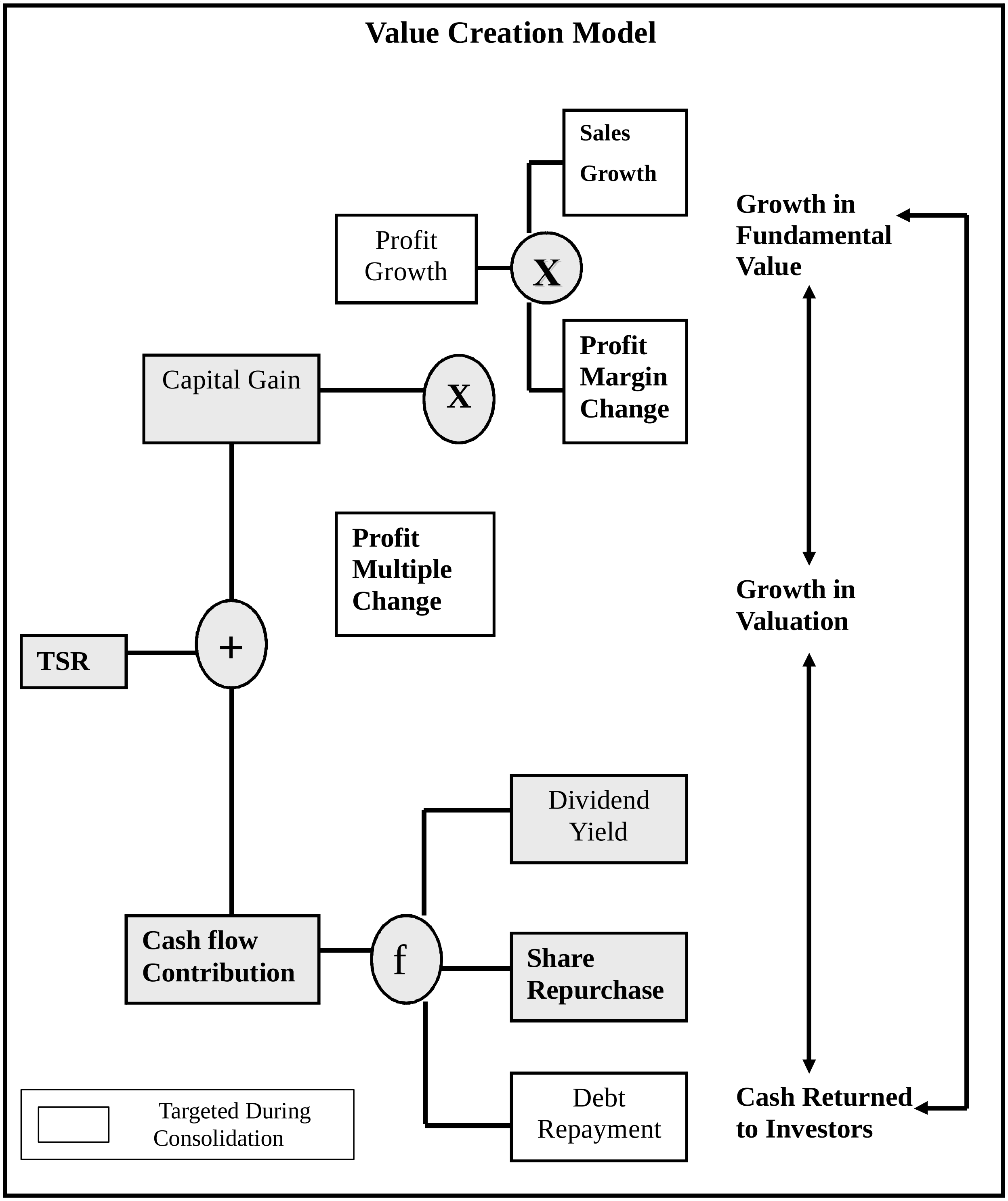
Its a dynamic concept, not only deals with the creation of demand of specific product/brand or commodities but also keep concern on its supply chain in continues cyclic pattern concerning business strategies, product identification as well as its value/pricing or financial status.

Value creation - Operating Income less the Weighted Average Cost of Capital (WACC) on Average Net Assets :
(Net Sales - Operating Costs = Operating Income) - (WACC × Average Net Assets).

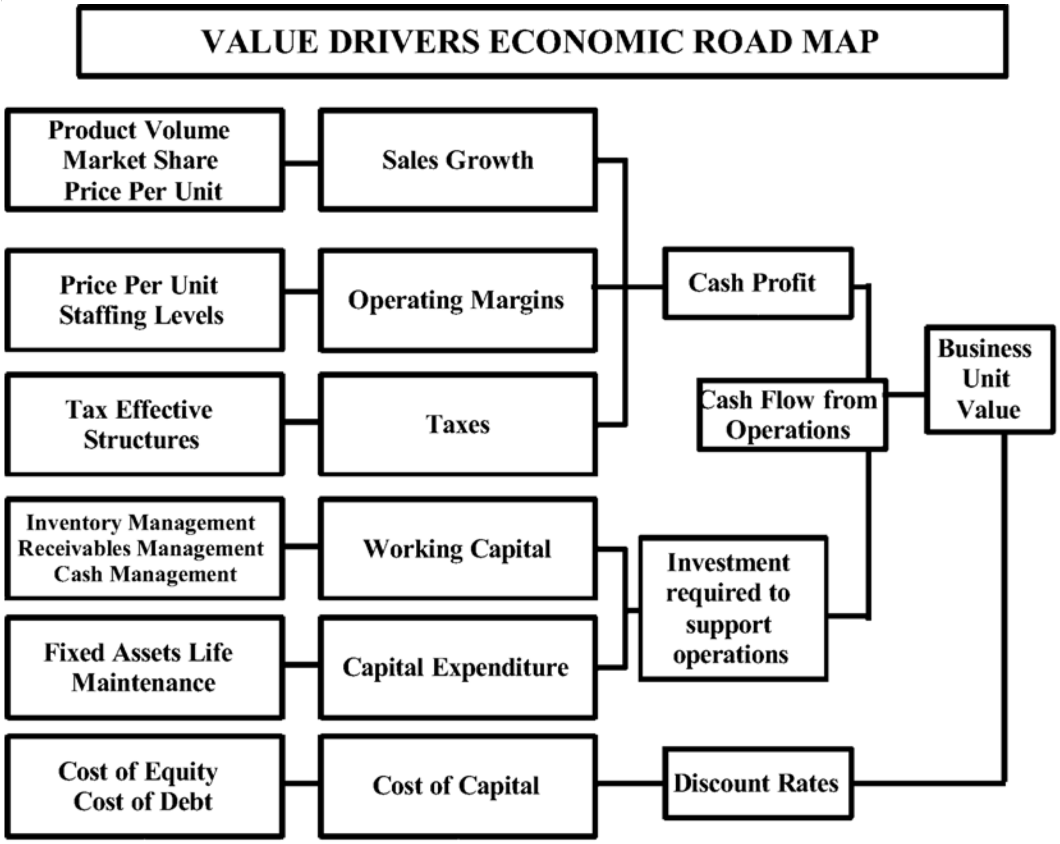
Value Creation Model

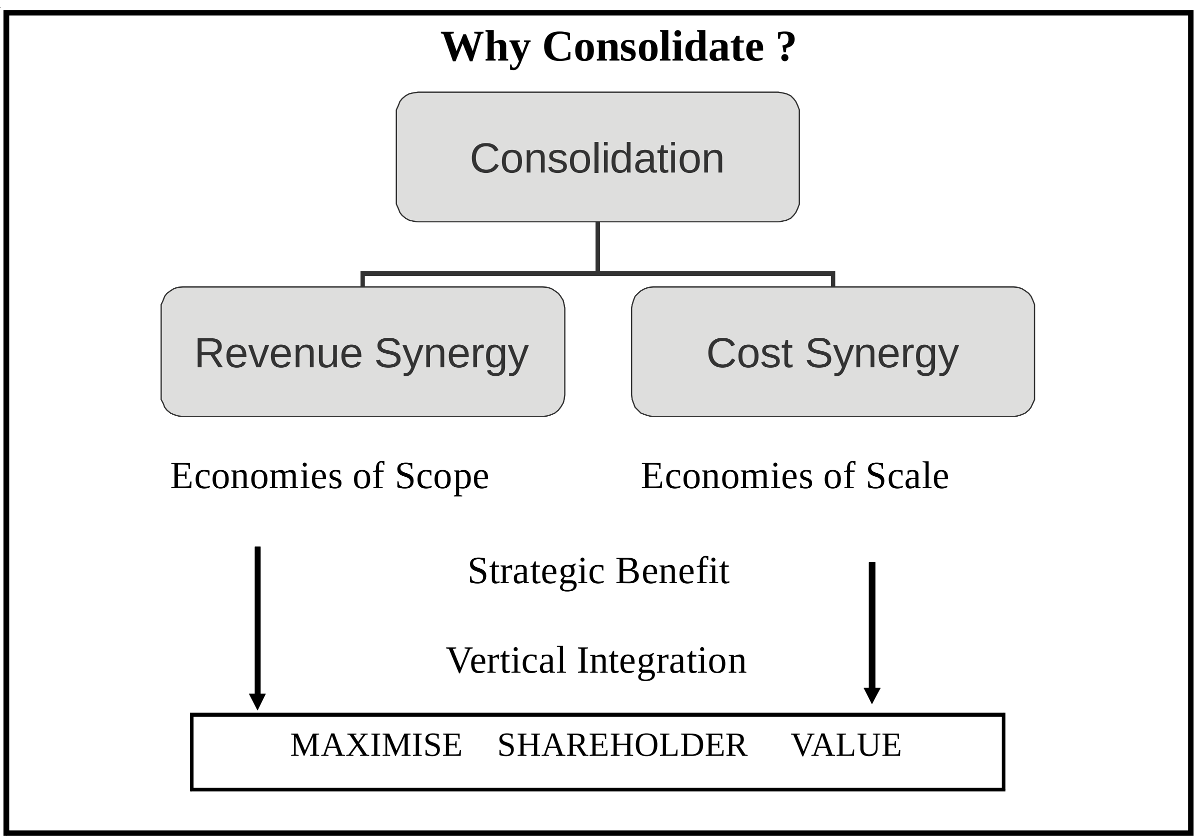


Source : BCG Analysis



Source : BCG Analysis

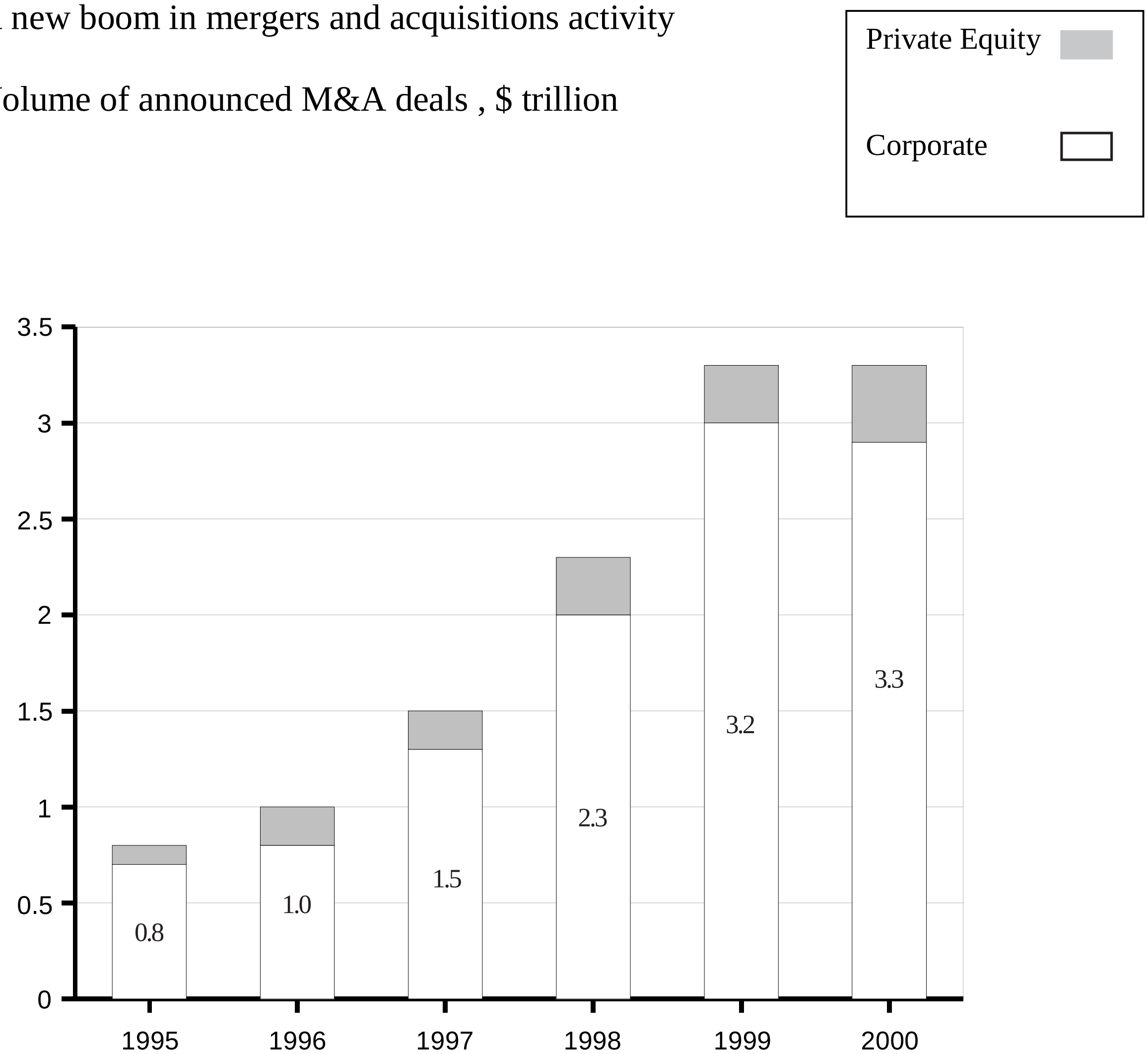

VALUE DRIVERS ECONOMIC ROAD MAP
Product Volume
Market Share
Price Per Unit
Sales Growth
Price Per Unit
Staffing Levels
Operating Margins
Cash Profit
Tax Effective Structures
Taxes
Cash Flow from Operations
Business Unit Value
Inventory Management
Receivables Management
Cash Management
Working Capital
Investment required to support operations
Fixed Assets Life Maintenance
Capital Expenditure
Cost of Equity
Cost of Debt
Cost of Capital
Discount Rates


Why Consolidate ?
Consolidation
Revenue Synergy
Cost Synergy
Economies of Scope
Economies of Scale
Strategic Benefit
Vertical Integration
MAXIMISE SHAREHOLDER VALUE

Global Experience

A new boom in mergers and acquisitions activity

Volume of announced M&A deals , $ trillion



Includes announced deals (not withdrawn) >525 million in value; 2006 data as December 11.

Source : Dealogic- Mckinsey Analysis

Drivers of Consolidation

- Slowdown in organic growth in the developed markets
- Globalisation
- Easy flow of capital, people and information
- Capital
- Availability of risk capital
- Financial Engineering
- High valuations
- All stock deals

However…they do not generate value !

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	% Pos. Returns	Notes
Langetieg (1978)	-1.61%	149	1929-69	(-120,0)	47.6%	Mergers; uses effective date as event date
Dodd (1980)	-1.09%** Successful -1.24%* Unsuccessful	60 66	1970-77	(-1,0)	N.A.	Mergers only. Daily data.
Asquith, Bruner, Mullins (1987)	-0.85%**	343	1973-83	(-1,0)	41%	
Varaiya, Ferris (1987)	-2.15%** -3.9%**	96 96	1974-83 1974-83	(-1,0) (-20,80)	N/A 42%	
Morck, Shleifer, Vishny (1990)	-0.70%	326	1975-87	(-1,1)	41.4%	Measured return by comparing change in bidder MV to MV of target's equity
Franks, Harris, Titman (1991)	-1.45%	399	1975-84	(-5,5)	N/A	Mergers and tenders offers; segment data available on means of payment and competition
Servaes (1991)	-1.07%**	384	1972-87	(-1,Close)	N/A	Mergers and tender offers; segment data by payment method
Jennings, Mazzeo (1991)	-0.8%**	352	1979-85	(-1,0)	37%	
Bannerjee, Owers (1992)	-3.3%**	57	1978-87	(-1,0)	21%	White knight bids
Byrd, Hickman (1992)	-1.2%**	128	1980-87	(-1,0)	33%	
Healy, Palepu, Ruback (1992)	-2.2%	50	1979-84	(-5,5)	N/A	50 Largest U.S. mergers during period
Kaplan, Weisbach (1992)	-1.49%**	271	1971-82	(-5,5)	38%	Mergers and tender offers
Berkovitch, Narayanan (1993)	-$10 MM	330	1963-88	(-5,5)	49.4%	Tender offers
Sirrower (1994)	-2.3%**	168	1979-90	(-1,1)	35%	
Eckbo, Thorburn (2000)	-0.30%	390	1964-83	(-40,0)	N/A	U.S. Acquirers of Canadian Targets
Mulherin and Boone (2000)	-0.37%	281	1990-1999	(-1,+1)	N/A	
Mitchell, Stafford (2000)	-0.14%** [20] -0.07%	366 366	1961-1993	(-1,0)	N/A	Fama and French 3-Factor Model, applied to monthly returns.
Walker (2000)	-0.84%** [21] -0.77%	278 278	1980-1996	(-2,+2)	41.4% 46.4%	
DeLong (2001)	-1.68%**	280	(1988-95)	(-10,1)	33.6%	Deals in which at least one party is a bank.
Houston et al. (2001)	-4.64% ** (1985-90) -2.61% (1991-96) -3.47%** (all)	27 37 64	(1985-96)	(-4,1)	N/A	Deals in which both parties are banks.

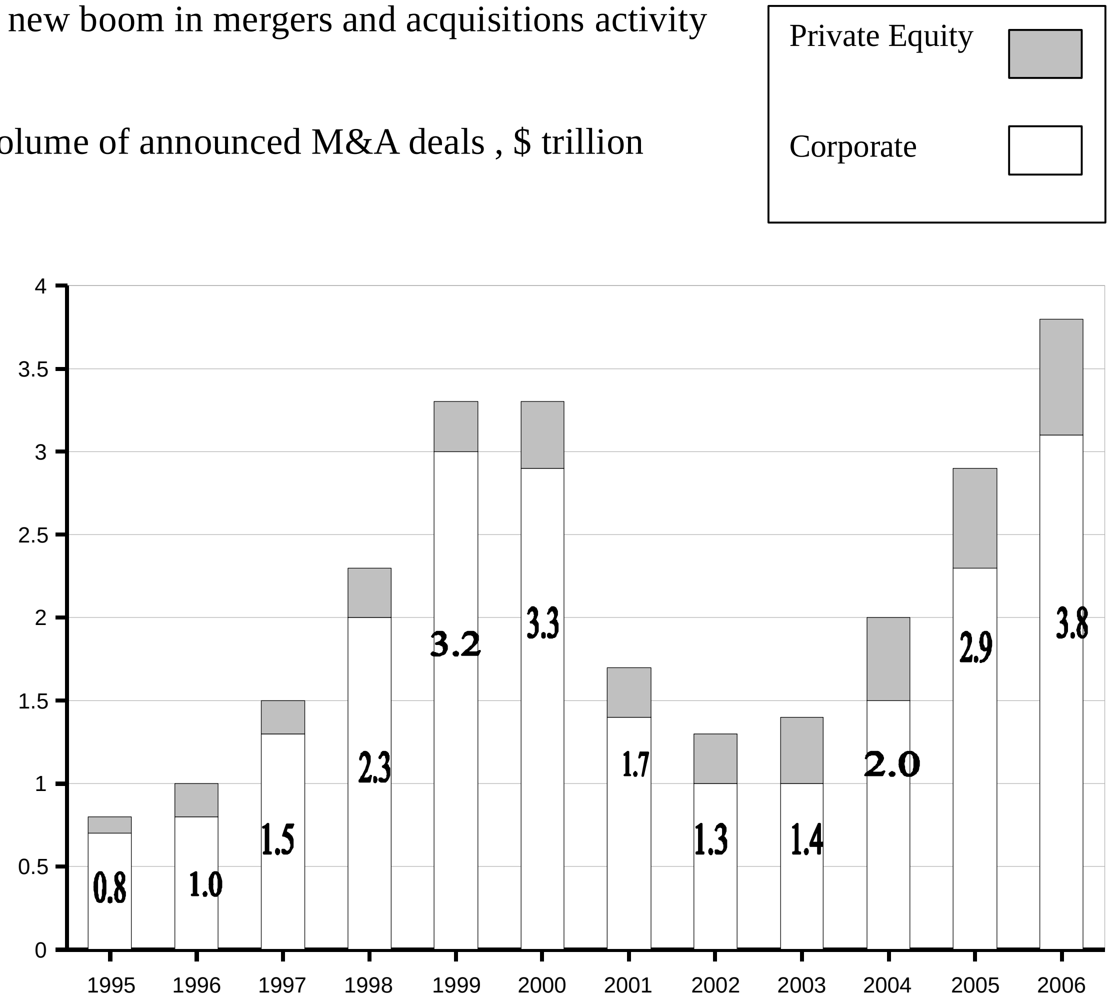
*KPMG study: 74% of M&A destroy value

* McKinsey study: 83% of M&A destroy value

Global Experience

A new boom in mergers and acquisitions activity

Volume of announced M&A deals , $ trillion



Includes announced deals (not withdrawn) >525 million in value; 2006 data as December 11.

Source : Dealogic- Mckinsey

AOL- Time Warner
A case study

AOL – Time Warner		
Facts	AOL	Time Warner
Revenue (2000)	US$ 8 billion	US$ 29 billion
EBITDA (2000) History	US$ 2 billion Started in 1992	US$ 6 billion Started in 1922
Businesses	Internet Service Provider Ecommerce	Media & Entertainment
Market Cap	US$ 140 billion	US$ 112 billion

In January 2001, Time War ner merged with AOL in all stock transaction.

AOL – TW

- **Strategic Rationale**
  - Coming together of traditional and digital media
  - Content & Last Mile Connectivity
  - Leveraging the massive potential of the Internet age
  - Offer “package” deals to ‘lock in’ consumers

AOL – TW

- **What Followed**
  - Bursting of the Internet bubble
  - SEC investigation into accounting improprieties at AOL
  - US$ 98 bln loss announced for 2002
  - Largely linked to write-off of AOL goodwill
  - Entire board (incl CEO) replaced by 2003

AOL – TW : Diagnosis

Issue	Cause	Effect
Cultural Clashes	TW : Competitive , Hardworking AOL : Million dollar options	Lack of Integration
Loss of Morale	AOL : Perceived as Victor TW : Perceived as Loser	Loss of critical people
Slowdown in AOL growth	Bursting of internet bubble	Value destruction; huge writedowns
No synergy benefits	Consumer needs from traditional and internet media different	Projected revenues not realized
Incorrect strategic choices	AOL did not enter broadband market in time	Future growth potential restricted
Over-projection of AOL revenues	“Hype” on the future of digital media	Defocus on core business; value destruction

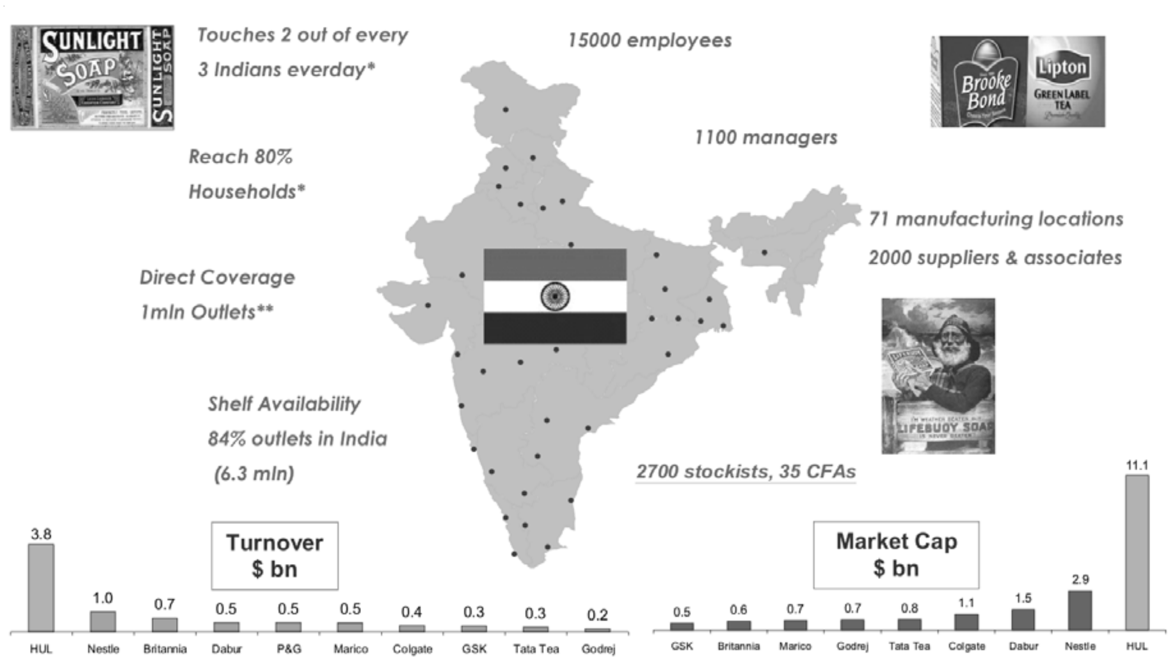
Daimler Chrysler

- Daimler Benz acquires Chrysler in 1998 for US$ 38 billion
- **Strategic rationale**
  - Complementary product portfolio
  - Leverage joint strengths in emerging markets
  - Marrying design and engineering capability
  - Trans Atlantic competitive advantage
- **What Followed**
  - Lack of cultural fit
  - German vs American ways of working
  - Chrysler makes substantial losses
  - US$ 5 billion losses in 2005; 20,000 people laid off
  - Daimler sells Chrysler to PE firm in 2007 for US$ 6 billion

The Unseen Differences

The design mavericks from Auburn Hills redefined style in the 1990s	Neon $ 12,000: Dodge Viper $71,000	Low-cost high volume; still fighting quality demons	Soup to nuts: 28 models, from the basic to macho	Foremen & boomer families. Jay Leno owns a Viper
Styling	Pricing	Quality	Variety	Audience
State-of-the-art engineering. Styling ? Try state of the Soviet Union	Kompressor at $31,000; S600 at $134,250	The best... but some of the highest costs	Trying to add diversity to its once staid collection of sedans	Lots of important men in suits. Yearning for a few fashion models

75 year history & Strong leadership



*Based on Hansa Research, Guide to Indian Markets, 2006

** Based on AC Nielsen Market Research

P&G Turnover= sum of P&G Home Products (estimated), P&G Health & Hygiene and Gillette

Turnover of companies - DQ'07 to SQ'08

Market Cap BSE as on 31st December, 2008

HUL – Principles of Consolidation

- Consolidation driven by
  - Our Purpose
  - Philosophy: National requirements
    - Priority sectors, export focus, etc.
- To lend focus, attain synergy and maximise value for all stakeholders

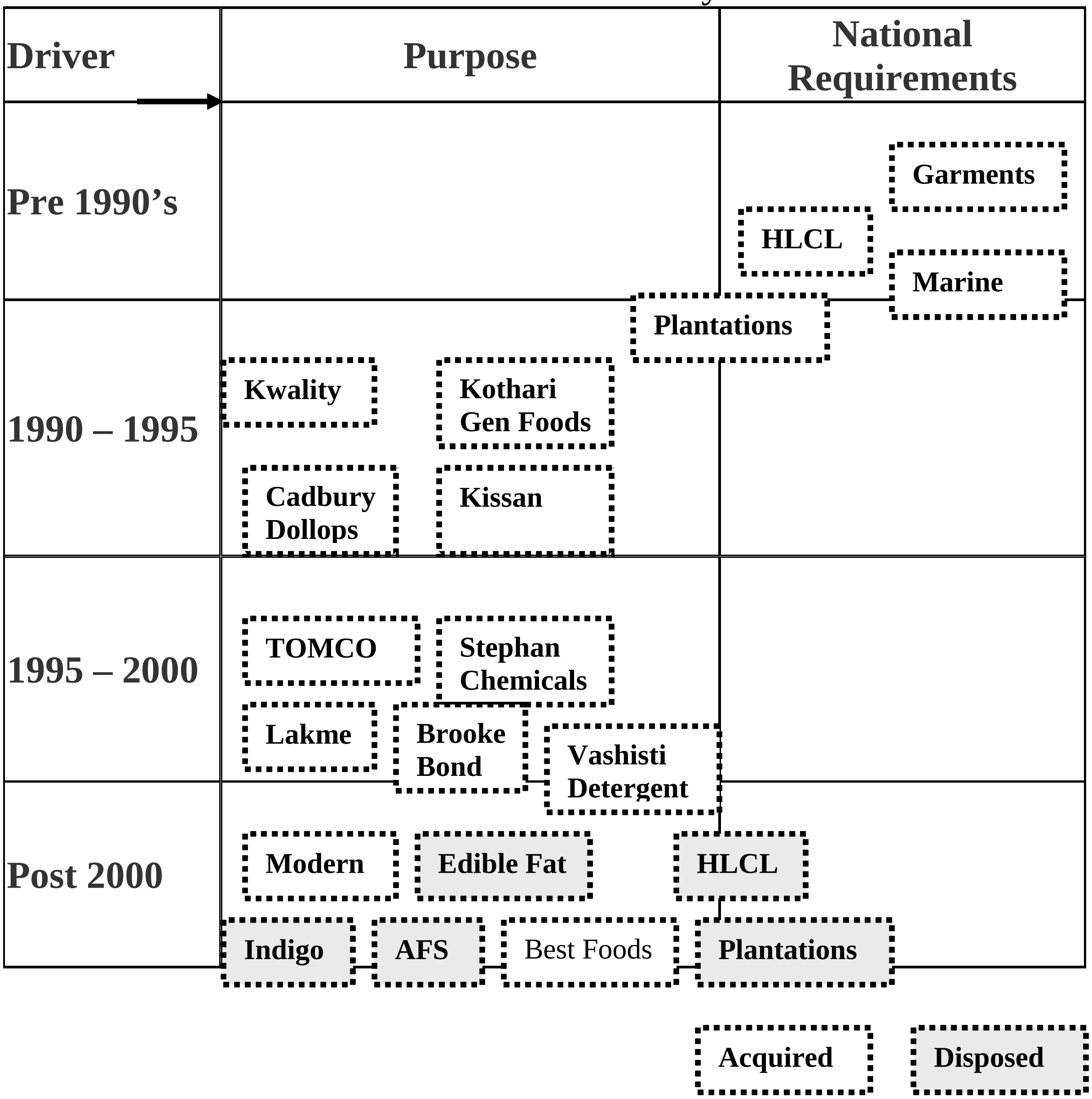
Our vision

Our purpose

To add vitality to life

We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life

Consolidation Journey



Consolidation Journey…
A Few Milestones

Driver	Purpose	National Requirements
Pre 1990's	Plantations	
1990 – 1995	Kwality Cadbury Dollops	
1995 – 2000	TOMCO	
Post 2000	Plantations Indigo	

Acquired Disposed

Ice creams

- **Growth through acquisitions-**
  - Cadbury's Dollops in 1993
  - Kwality Ice creams 1994
  - Milkfoods Ice Creams 1995
- **Strategic Rationale-**
  - National Brand Equity – Kwality
  - Complementary product portfolio
  - Distribution infrastructure
  - Rapid expansion to pre-empt competition

Ice creams market

Ice creams market

Market Shares - 1993

	Value %	**Volume %**
Kwality	42	38
Vadilal	19	16
Dollops	6	5
Milkfood	6	5
Go Cool	7	7
Joy	5	6
Others	15	23
	100	**100**

From start-up to Market Leader in 2 years with +50% Share

A Few Milestones …. TOMCO

Driver	**Purpose**	**National Requirements**
Pre 1990's		
1990 – 1995		
1995 – 2000	**TOMCO**	
Post 2000		

Acquired **Disposed**

Tata Oil Mills Company (TOMCO)

HUL acquired TOMCO in 1993

☞ **Strategic Rationale:-**

- Strong Brands
- Complementarity
- Geographical strengths
- Production Capacities: (HUL in North, TOMCO in South)
- Augmentation of existing capacities
- Scale & Synergy Benefits
- Pre-empted competition post liberalisation

The Journey

- Added turnover of + 400 Cr through acquisition
- Strengthened leadership in Market with 50%+ soap market share
- Improved efficiencies and restructured manufacturing units
- Strategic Portfolio Fit

Position	Brand
Beauty	Lux , Rexona
Freshness	Liril
Health	Lifebuoy
Family	Hamam

Gap filled

A Few Milestones …. Plantations

Driver	Purpose	National Requirements
Pre 1990's		
1990 – 1995	Plantations	
1995 – 2000		
Post 2000	Plantations	Disposed

Acquired

Plantations

Disposed off in 2006

- **Strategic Rationale**
  - Focus on Brands vs commodity
  - Vertical integration not necessary as
  - Blend Formulations require non-HUL plantations teas also
  - Dilution of TMCO (Tea Marketing Control Order) enabling Marketing Co's to enter into strategic alliances with gardens
  - Plantations is a fundamentally different business to managing FMCG
  - Future growth prospects for plantations better addressed by a dedicated plantation (industry) player

A few Milestones…Indigo

Driver	Purpose	National Requirements
Pre 1990's		
1990 – 1995		
1995 – 2000		
Post 2000	Indigo	

Acquired Disposed

Indigo Shared Services

- Set up an in-house shared services unit in 2002
- Handled accounting, payments and SOX for HUL
- Extended services between 2003 to 2006 to other Unilever operations
- HUL divested 51% share to Cap Gemini in 2006
- Advantage HUL
- Drive World Class Financial Processes and Technology
- Leverage Cap Gemini's global shared services and IT capabilities to enhance the current Indigo offering
- Advantage Indigo
- Enable Indigo to extend business outside HUL
- Advantage Cap Gemini
- Gain expertise in F&A platform

Some Takeouts

- **Consolidation can have several meanings**
  - Disposal for one is consolidation for another
  - Need not be only of product portfolio, can also be of processes and systems
- **Align consolidation strategy to vision, purpose and values**
  - Backward vs Forward Integration
  - Brand vs Commodity
  - Premium vs Mass vs Straddle the Pyramid
  - Cultural fit
- **Exploit all synergies (seen and unseen)**
  - Supply Chain
  - Brands/Portfolio
  - Consumers/Customers
- **Create a strong integration team**
- If disposing, be transparent, fair and wait for the right buyer

Some Common Pitfalls

PITFALLS	CAUSE	EFFECT
"Deal Heat"	Egos of people involved; all upsides factored in	Overpaying; value destruction
Loss of morale	Winner – Loser mentality	Loss of critical people
Lack of cultural integration	Due diligence may not be able to judge cultural fit	Loss of morale; integration losses
Diseconomies of scale not factored in	Scale benefits are easier to quantify vs focus benefits	Unforeseen losses due to complexity
Lack of business knowledge (of target)	Management control tends to be with the acquirer	Value destruction of the acquired business

Key Messages

- Consolidation is a viable competitive tool
- Needs to fit into broader strategic framework
  - Vision, Mission and Values
- Common Pitfalls
  - Egos
  - Lack of rigour
  - Challenges of cultural integration
  - Winner – Loser mentality
- Only success criteria is Value Creation

Ms. Sukhada Waknis

Consolidation –An Overview

Ms. Sukhada Waknis started her presentation by giving a short recap / summary of the previous workshop on consolidation that was held on 25th October 2008.She gave a brief review of the consolidation movement, India and global, past, present and future .

Throughout her presentation , she made us aware of the global crisis by the use of various newspaper articles.

An article that came in TOI dated 24th October 2008 said that despite slowdown, the FMCG sector was showing progress and therefore is less affected.

She explained that the impact of global meltdown is illustrative with the help of various practical examples. One such example is the case of TATA- JAGUAR.

Even a giant company like TATA- JAGUAR could not escape the liquidity crisis.

An article in TOI dated 13th December 2008 stated that “Tatas pledge shares worth Rs 6.7 k crores.

During September 2008, with recession more and more Indian Companies started tinkering their financial statements. One such company is SATYAM.

She made us understand what SWF actually meant. SWF means Sovereign Wealth Fund that are separated pools of assets controlled by government. They acquired considerable prominence in the area of financial capitalism. SWF could be a source of corporate finance. An article dated 25th September 2008 mentioned that “ Maveric Investors move may boost market” thus giving a bit of hope.

However, just around 10 days before i.e. On 15th September 2008, the situation was such that the day was referred to as the worst day in financial history.

The US stock market plunged the worst in last 7 years. Dow Jones closed below 11000.

Four of the well known investment banks namely : Lehman Brothers, Merill Lynch, Bears Storms and Funnie Mac & Freddic Mac closed down.The Lehman brothers were burdened 600$ billion .

A table showing the inflows of foreign cash in India was also displayed which mentioned that the FDI and FII during Sept.- Dec. 07 was 6162 mn USD and 21382 mn USD respectively. However, there figures has declined considerably to 5142 mn USD and -7193 mn USD respectively during Sept – Nov 08.

Now, the heat of financial crunch is also felt in India. There are just limited resources available.

A very recent article dated 12th January 2009 stated that " New Investment Norms may throw FDI gates open.

Ms.Sukhada Waknis also made us aware of a new concept which is the CHINDIA effect that refers to China and India. She mentioned that India and China is still having a high rate of growth. Which means that the worst part is probably yet to come. However, the entrepreneurs in both these countries have got an important role to play in the countries progress during such financial crisis.

There was an article in Economic Times dated 21st January 2009 with a headline " Power of Ideas. It mentioned various factors due to which the real estates can be cheaper, inflation under control, growth rate can be quite steady and so on. Various giant companies like Google, CNN, Walt Disney etc were started during tougher times, but still they prospered. So the others need to take inspiration from them.

Last but not the least, Prof. Sukhada ended her presentation with a short quote by Govind Rajan.

" Tough times to bring best out of India Inc."

The presentation was precise and simple yet gave us a complete insight on the topic of consolidation and the crisis faced globally. The use of various old and recent news articles throughout was new to us and this made the presentation different from others.

PRESENTATION

Change in Outlook

- Prior to September 2008, outlook was very optimistic
- Post September 2008, there have been mixed responses
- Global meltdown is haunting all countries
- Impact of global meltdown is illustrative
- Consolidation movement may get a back-seat, particularly for want of financial resources

'... yet this can be a great opportunity to go shopping'

S&P downgrades Tata Motos rating

– TOI, 13th December 2008

Crisil downgrades Tata Motors

– TOI, 25th December, 2008

Tata Motors to roll over $ 2 billion bridge loan

–TOI, 29th January, 2009

Tata Motors posts quarterly loss after 7 years

–TOI, 31st January, 2009

Tatas pledge shares worth Rs.6.7k crore

- TOI, 10th February 2009

Loss of Confidence

Loss of confidence in the competence and credibility of economic policy makers and financial institutions, including the central banks and the sovereign wealth funds (SWF)

What is SWF?

- SWFs acquired considerable prominence in the era of financial capitalism
- SWFs represent one of the separated pools of assets, primarily but not exclusively internationally invested, controlled by governments to achieve economic, financial and strategic objectives
- Foreign exchange reserves are another separated pool of assets controlled by the governments
- SWF could be a source of Corporate Finance
- Russian government is lending to corporates at rates higher than US Treasury Bond, which is now a fraction of 1%

15th September, 2008 was one of the worst days in the financial history of the World when the US stock markets' plunge was the worst in the last seven years.

12th September 2008

- Lehman Brothers
- Merrill Lynch
- Bears Sterns
- Fannie Mae and Freddie Mac

Dow Jones (DJ) closed at 11,422

On 15th September, 2008, the DJ closed below 11,000. For only the first time the Dow had plunged over 500 points in one day