

CBCS SCHEME

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18MBAFM401

Fourth Semester MBA Degree Examination, November 2020 Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs.

Max. Marks: 100

Note: Answer any FIVE full questions.

1. a. What do you mean by merger and acquisition? (03 Marks)
b. Discuss the motives of merger in the present world of business. (07 Marks)
c. Name the phases in the industry life cycle. Discuss the strategic significance of each phase in merger. (10 Marks)
2. a. Define due diligence. (03 Marks)
b. Describe the managerial challenges of mergers and acquisitions. (07 Marks)
c. Explain the tips required for successful merger process. (10 Marks)
3. a. What do you mean by business valuation? (03 Marks)
b. Discuss market based approach methods of business valuation. (07 Marks)
c. 'A' Ltd is considering merger with 'B' ltd. 'A' ltd shares are currently traded at Rs.25, it has 2,00,000 shares outstanding and its profit after tax is 4,00,000. 'B' ltd has 1,00,000 shares outstanding. Its current market price is Rs.12.50 and its PAT are 1,00,000. The merger will be affected by means of stock swap. 'B' Ltd has agreed to a plan under which 'A' Ltd will offer the current market value of 'B' Ltd shares.
(i) What is the premerger earning per share and PE ratio of both companies?
(ii) If 'B' Ltd PE ratio is '8', what is its current market price? What is the exchange ratio? What will 'A' Ltd post merger EPS be?
(iii) What must the exchange ratio be for 'A' ltd's that pre and post merger EPS to be the same? (10 Marks)
4. a. Define Amalgamation. (03 Marks)
b. Discuss the types of Amalgamation and add a note on methods of accounting. (07 Marks)
c. Explain value creation in horizontal, vertical and conglomerate mergers. (10 Marks)
5. a. Define takeovers. Name the types of takeovers. (03 Marks)
b. Discuss the antitakeover defensive measures available to the firm in order to make it unattractive or less attractive to the bidder. (07 Marks)
c. What is CCI? Explain the objectives of CCI. (10 Marks)
6. a. What do you mean corporate restructuring? (03 Marks)
b. Describe the significance of corporate restructuring in the present situation. (07 Marks)
c. What is LBO? Discuss the different type of LBO's with suitable examples. (10 Marks)
7. a. What is MLP? Name the types of MLP's. (03 Marks)
b. Describe the process of due diligence. (07 Marks)
c. What is swap ratio? Discuss the methods of determining swap ratio with formulae to be used in each method. (10 Marks)

A case in point: Mars buys Wrigley in one sweet deal

Wrigley Corporation, a US based leader in Gum and confectionary products, had been loosing market share since 2006 to Cadbury Schweppes in the US gum market. Mars Corporation, a privately owned candy company with annual global sales of \$22 billion, sensed an opportunity to achieve sales, marketing and distribution, synergies by acquiring Wrigley. On April 28, 2008, Mars announced that it had reached an agreement to merge with Wrigley for \$23 billion in cash.

The terms of agreement were approved unanimously by the boards of both firms. Wrigley share holder would receive \$80.00 in cash for each share of common stock outstanding. The purchase price represented a 28 percent premium to Wrigley's closing share price of \$62.45 on the announcement date. The merged firms would, in 2008 enjoy a 14.4% share of global confectionary market, annual revenue of \$ 27 billion and 64,000 employees worldwide.

When the deal was consummated in September 2008, it was a strategic blow to the efforts of Cadbury Schweppes to continue as the market leader in the global confectionary market with its gum and chocolate business. Prior to the announcement, Cadbury had a 10% worldwide market share.

Wrigley became a separate standalone subsidiary of Mars, with \$5.4 billion in sales. The deal helps Wrigley augment its sales, marketing and distribution capabilities. To provide more focus to the Mars brands and stimulate growth, Mars transferred its global non-chocolate confectionary sugar brands to Wrigley. Bill Wrigley, Jr., remains executive chairman of Wrigley, and the Wrigley management team remains in place. The combined companies now have substantial brand recognition and product diversity in six growth categories: chocolate, non-chocolate confectionary, gum, food, drinks and pet care products. The resulting confectionary power-hour also expects to achieve significance cost savings by combining manufacturing operations and having substantial presence in emerging markets.

Although mergers among competitors are not unusual, the deals highly leveraged financial structure is a typical of transactions of this type. Almost 90% of the purchase price was financed through borrowed funds, with remainder financed largely by a third party equity investor, Mar's upfront exposure consisted of paying for closing costs from its cash balance in excess of its operating needs. JP Morgan chase and Goldman Sachs provides the debt financing for the transaction, \$11 billion and \$5.5 billion, respectively. Berkshire-Hathaway, a nontraditional source of high-yield financing, put in an additional \$4.4 billion in subordinated debt. Typically such financing would have been provided by investment banks or hedge funds and subsequently repackaged into securities and sold to long term investors. Such as pension funds, insurance companies and foreign investors, but the meltdown in global credit markets in 2008 forced investment banks and hedge funds to withdraw from the high yield market in an efforts to strengthen their balance sheet. Berkshire Hathway completed the financing of the purchase price by providing \$2.1 billion in equity financing in exchange for a 9.1% ownership stake in Wrigley.

Questions:

- a. Why did Wrigley's share price not rise to the \$80 offer price following the announcement of the merger? Why did competitor Cadbury shares gain 3.5% following the announcement? (04 Marks)
- b. Speculate as to how the Wrigley family may have been convinced to sell their firm. (04 Marks)
- c. How did factors external to both firms specifically influence their decision to merge? (04 Marks)
- d. Would you characterize this transaction as a friendly or hostile takeover? Why was this particular approach taken? (04 Marks)
- e. Of the motivations for business combinations outlined in the syllabus, which do you think were most applicable in this case study? (04 Marks)

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