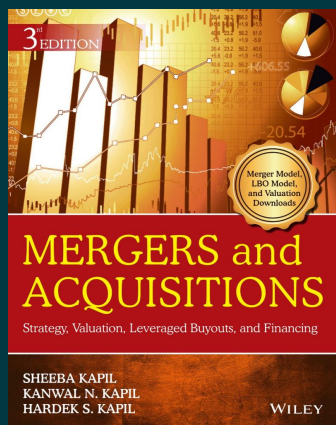




Mergers and Acquisitions: Strategy, Valuation, Leveraged Buyouts, and Financing, 3ed

By Sheeba Kapil, Kanwal N. Kapil, Hardek S. Kapil

Paperback

9789370607897

₹1,129.00

Pages: 636

Description

This book offers an in-depth and practical guide to M&A by integrating theoretical foundations with real-world applications. It brings to light the intricate processes of deal evaluation, strategic fit, regulatory compliance, and accurate valuation necessary to execute successful transactions. It further reflects the latest advancements in valuation methodologies, with particular emphasis on leveraged buyouts (LBOs), start-up and innovation-led valuations, and introduces robust, contemporary tools for risk measurement and integrated financial modeling in the modern M&A landscape.

Table of Contents

1 Mergers and Acquisitions: Trends and Waves 3

1.1 Introduction 6

1.2 Global M&A Trend 10

1.3 Merger Waves 12

1.3.1 First Wave: 1893–1904 12

1.3.2 Second Wave: 1915–1929 15

1.3.3 Third Wave: 1946–1970 15

1.3.4 Fourth Wave: 1980–1989 16

1.3.5 Fifth Wave: 1990–2000 18

1.3.6 Sixth Wave: 2003–2008 18

1.4 Indian M&A Scenario 20

1.4.1 Indian M&A Scene 21

1.4.2 Indian M&A Trend: Pre and Post

the COVID-19 Pandemic 24

1.4.3 M&A in Gaming, Cloud and AI sector 25

Summary 28

Key Terms 29

Multiple Choice Questions 29

Review Questions 30

Project Assignments 30

References 30

Cases

Kroger and Albertsons 3

Microsoft and LinkedIn M&A 8

Microsoft and Nokia 27

2 Understanding M&A 31

2.1 Introduction 32

2.2 Types of Mergers 33

2.2.1 Merger 34

2.2.2 Acquisition 34

2.2.3 Horizontal Merger 36

2.2.4 Vertical Merger 39

2.2.5 Conglomerate Merger 39

2.3 Merger Motives 41

2.3.1 Eliminate Competition and Create
Monopoly 42

2.3.2 Gain Market Access 43

2.3.3 Benefit from Efficiency Gains in
the Form of Synergy 43

2.3.4 Satisfy the Self-Ego of Managers
(Hubris Hypothesis) 44

2.3.5 Benefit from Undervaluation 44

2.3.6 Diversify Across Industries 44

2.3.7 Gain Access to R&D and Technology
Know-How 44

Summary 47

Key Terms 47

Multiple Choice Questions 47

Review Questions 48

Project Assignments 48

References 48

Cases

Simplifying Corporate Structure:

Merger of IDFC Limited with IDFC

FIRST Bank 31

Grasim Does Creeping Acquisition of
L&T for Cement 35

Horizontal Merger in Indian Home Appliance

Industry: Electrolux – Kelvinator – Voltas	36
PayPal Acquires Xoom: Online Mobile Payment	
Space Gets Consolidated and Competitive	37
Savlon vs. Lifebuoy	40
P&G Growth Story: Organic and Inorganic Extensions	45
3 Mergers and Acquisitions: Strategy and Strategic Fit	49
3.1 Understanding Strategy	50
3.2 Successful Strategies	52
3.3 Strategic Analysis	53
3.3.1 External Analysis	53
3.3.2 Competitor Analysis	55
3.3.3 Internal Analysis	56
3.4 Strategy to Create Competitive Advantage	59
3.5 Generic/Business Level Strategies	59
3.6 Cooperative Strategies	60
3.7 Corporate Level Strategies	61
3.7.1 Firm's Directional Strategy	61
3.7.2 Portfolio Approaches/Strategies	62
3.8 Strategy Implementation	65
3.8.1 Framework Strategy for Implementation: Mckinsey 7-S Framework	65
3.8.2 Framework for Strategy Implementation: Balanced Scorecard Approach	66
3.9 Understanding Strategic Fit	67
3.10 Strategic Fit and Synergy Gain	70
3.11 Synergy Gain and Added Value	71
3.11.1 Operating Synergy	72
3.11.2 Revenue Synergy	73
3.11.3 Cost Reduction Operating Synergy	73
3.11.4 Financial Synergy	74
3.12 M&A Tool for Corporate Growth Strategy	75
3.12.1 Market Expansion Strategy	76
3.12.2 Enhancing Product or Service or Brand Offerings	76
3.12.3 Vertical Integration to Fill Gaps or Strengthen the Existing Value Chain	77
3.13 M&A: Strategic Investment Choice for	

Inorganic Growth	77
3.14 M&A Strategic Process	78
Summary	81
Key Terms	83
Multiple Choice Questions	83
Review Questions	84
Project Assignments	84
References	84
Cases	
JP Morgan Snaps Up Major	
US Bank First Republic	49
Working Mission Statement of HALLMARK	53
Daiichi Makes an Outrageously Expensive	
Attempt to Learn Due Diligence	68
Qualcomm Acquires NXP to Gain Strategic	
Benefits into Emerging Industry Verticals	73
AB InBev Becomes World's Largest by Buying	
Its Biggest Competitor	79
4 Corporate Restructuring and Mergers and Acquisitions	85
4.1 Introduction	88
4.1.1 Corporate Restructuring	88
4.2 Organizational Restructuring	91
4.2.1 Organization Restructuring Models	92
4.3 Financial Restructuring	93
4.3.1 Leverage Buyout of RJR Nabisco	95
4.3.2 Management Buyout of	
Harley Davidson	95
4.3.3 Leverage Buyout in India	96
4.4 Portfolio Restructuring	96
4.4.1 Divestment or Divestiture	98
4.4.2 Joint Venture and Strategic Alliances	105
4.4.3 Mergers and Acquisitions	105
4.5 Mergers and Acquisitions as an Inorganic Growth Tool	106
Summary	109
Key Terms	110
Multiple Choice Questions	110
Review Questions	111
Project Assignments	111

References 111

Cases

Corporate Restructuring at Google 85

Corporate Restructuring at Accenture 90

Organizational Restructuring at Xerox 91

Kraft Foods: Mergers and Splits 93

Restructuring at Max India 93

Corporate Restructuring at Aditya Birla Group 97

Corporate Restructuring at AT&T 99

Demerger at Wipro Limited 104

Reliance Industries Ltd.:

Growth Through M&A Tool 108

When Coca Cola and P&G Formed an Alliance 108

5 Identifying Opportunities in Mergers and Acquisitions: Buy Side and Sell Side 113

5.1 Introduction 114

5.2 Buy-Side Mergers and Acquisitions 116

5.2.1 Buyer Motivation 117

5.2.2 Nature of Deal: Horizontal, Vertical,
and Diversified 117

5.3 Financing Options for Buyer 118

5.3.1 Stock Payment/Equity Financing 118

5.3.2 Cash Payment 119

5.4 Fairness Opinion 120

5.5 Definitive Agreement 120

5.6 Buy-Side Valuation and Deal Analysis 120

5.6.1 Football Field 120

5.6.2 EPS Accretion (Dilution) Analysis 124

5.7 Sell-Side M&A 134

5.8 Factors Affecting Sell-Side M&A 135

5.8.1 Company-Specific Variables for Sell Side 135

5.8.2 Existing Market Conditions 135

5.8.3 Synergy Opportunities 135

5.9 Sell-Side Process 136

5.10 M&A Strategic Buyer 137

5.10.1 Rationale for Buyout 137

5.10.2 Financial Buyer 137

5.10.3 J-Curve 138

5.10.4 Deal Dynamics 139

5.11 Marketing Plan for Target 139

Summary 141

Key Terms 142

Multiple Choice Questions 142

Review Questions 143

Project Assignments 143

Reference 143

Cases

PVR & INOX: A Big

Bang Merger 113

Bridge Loan to Debt Market Gaining

Momentum in 2015 115

Football Field Valuation with Steps 125

Kraft Foods and Heinz Create

a Global Food and Beverage Giant,

Projected to Become Accretive by 2017 140

Unit II: Legal Issues and Framework

6 Mergers and Acquisitions: Legal and Regulatory Framework 147

6.1 Introduction 149

6.2 Mergers and Acquisitions:

Regulatory Framework 150

6.3 Merger/Amalgamation 150

6.3.1 The Companies Act Provisions 151

6.3.2 The Income Tax Act (ITA) Provisions 155

6.3.3 Competition Act Provisions 156

6.4 Acquisition/Takeover 157

6.4.1 Threshold Limit for Disclosure of Substantial Holding in Target Company 158

6.4.2 Threshold Limit for Making an Open Offer 158

6.4.3 Rationale for 25 percent Trigger

Threshold Limit and 26 percent Open Offer 158

6.5 Cross-Border Mergers and Acquisitions 160

6.5.1 Foreign Investment in India 160

6.6 Foreign Direct Investment 162

6.6.1 Automatic Investment 163

6.6.2 Restricted Investment 164

6.6.3 Prohibited Investment 164

6.6.4 Instruments of FDI 164

6.7 Foreign Portfolio Investment 165

6.8 Foreign Venture Capital Investments	166
6.9 Pre-Agreement and Share Purchase Agreement	167
Summary	169
Key Terms	171
Multiple Choice Questions	171
Review Questions	172
Project Assignments	172
References	172
Annexure I	173
Annexure II	175
Cases	
Hostile Takeover: The Acquisition of Mindtree Ltd. by L&T Infotech	147
Suzuki Motor Corporation Consolidates Suzuki Motor Gujarat Private Limited with Maruti Suzuki India Limited	154
Amalgamation/Merger Scheme at Akzo Nobel India Limited	154
Abolition of Treasury Stock	159
Cross-Border Mergers under Companies Act, 2013	160
Vedanta Resources and Cairn India: The No Break-Up Clause in the Pre-Agreement	167
Completion of the Transaction Between Vedanta Resources and Cairn India	167
Vodafone and Hutch Deal	168
7 Mergers and Acquisitions: Takeover Defenses	177
7.1 Introduction	178
7.2 Probability of Takeover	178
7.2.1 Golden Parachute	179
7.2.2 Saturday Night Special	183
7.2.3 Dawn Raid	183
7.2.4 Leveraged Buyout	184
7.2.5 Management Buyout	185
7.2.6 Lady Macbeth Strategy	185
7.2.7 Poison Pill	185
7.2.8 People Pill	186
7.2.9 Jonestown Defense	186

7.2.10 Crown Jewels	186
7.2.11 Scorched Earth Policy	186
7.2.12 Bankmail	186
7.2.13 Greenmail	187
7.2.14 Macaroni Defense	187
7.2.15 Shark Repellent	188
7.2.16 Proxy Fight	188
7.2.17 Knight Armors	189
7.2.18 Safe Harbor	190
7.2.19 Anti-Takeover Amendments	190
7.2.20 ESOP	191
7.2.21 Share Repurchase	191
7.2.22 Break-up Clause	195
Summary	198
Key Terms	199
Multiple Choice Questions	199
Review Questions	200
Project Assignments	200
References	200
Cases	
Adani Group vs. NDTV: Hostile Acquisition	177
Golden Parachute at Motorola and eBay	180
Golden Handshake by Citigroup	182
Some More Golden Terms	183
Junk Bonds and Busted Takeovers	184
Kraft Foods' Hostile Takeover of Cadbury	188
Unique Amendment of Lobster Trap	191
Public Announcement of Cairn India Limited for Buyback	192
CRISIL, JustDial, and Clariant Chemicals Buyback Shares	193
Bristol-Myers Squibb Buyback Program	194
Pfizer Completes USD 43 Billion Acquisition of Seagen, Doubling Its Oncology Pipeline	196
Oracle Takeover of PeopleSoft	196
8 Mergers and Acquisitions: Accounting and IFRS-3	203
8.1 Introduction	205
8.2 Purchase Method	206

8.3 Pooling Method	207
8.3.1 Differences Between Purchase and Pooling Method of Accounting	207
8.3.2 Popularity of Pooling Method	208
8.4 New Accounting Norms (Post 2001)	208
8.4.1 Indian Accounting Standards (IND AS) 103 and 27	209
8.5 Consolidation Process	215
8.5.1 Consolidation Accounting	217
Summary	226
Key Terms	226
Multiple Choice Questions	226
Review Questions	228
Project Assignment	228
References	228
Cases	
Treatment of Acquisition-Related	
Costs in Ind AS-Compliant Financials	203
New Companies Act 2013 Paves Way for	
International Accounting	
Standard Compliance	225
9 Foreign Direct Investment and Mergers and Acquisitions	229
9.1 Introduction	230
9.1.1 Recent Trends in FDI	230
9.2 Defining Foreign Direct Investment	232
9.2.1 Inward and Outward Foreign	
Direct Investment (FDI) Flows	234
9.3 Rationale for Foreign Direct Investment	235
9.4 Costs of Foreign Direct Investment	236
9.5 Forex Rate Volatility, Balance of Payments,	
and Foreign Direct Investment	237
9.6 Determinants of Foreign	
Direct Investment	238
9.6.1 Market Size	238
9.6.2 Political Risk	239
9.6.3 Quality of Labor	239
9.6.4 Quality of Business Infrastructure	239
9.6.5 Gross Domestic Product (GDP)	
Growth Rate	240
9.6.6 Macroeconomic Stability	240

9.6.7 The Regulatory Environment	240
9.6.8 Profit Repatriation	240
9.6.9 Openness	241
9.6.10 Incentives and Operating Conditions	241
9.7 Foreign Direct Investment in India	242
9.7.1 Entities for Foreign Direct Investment	245
9.7.2 Instruments of Foreign Direct Investment	246
9.7.3 Concern for Repatriation	246
9.8 Advantages of Foreign Direct Investment	247
9.9 Foreign Direct Investment and Asian Countries	248
Summary	252
Key Terms	252
Multiple Choice Questions	252
Review Questions	253
Project Assignments	253
References	253
Cases	
Microsoft's FDI in Asian Countries	229
Composite Cap	233
Shale Gas Driving FDI in the United States	241
MNCs and Value Addition	244
Entry Mode for MNCs in India	247
Temasek Provides FDI to Singapore	251
Unit III: Valuation and Mergers and Acquisitions	
10 Concepts in Business Valuation	257
10.1 Introduction	258
10.2 Components of Discounted Cash Flow	259
10.2.1 Free Cash Flow Estimation	259
10.2.2 Period of FCF Estimation	261
10.2.3 Growth in FCF	263
10.2.4 Perpetuity Value Beyond FCF Period	263
10.2.5 Discount Rate	264
10.3 Valuing Firm with DCF	274

10.3.1 Two-Stage Model	275
10.3.2 Multi-Stage Growth Model	276
10.4 Unlevering Beta and Firm Valuation	277
10.4.1 Determinants of Beta	277
10.4.2 Levered Beta	277
10.4.3 Unlevered Beta	278
Summary	284
Formulae	285
Key Terms	286
Multiple Choice Questions	286
Review Questions	287
Project Assignments	287
References	287
Cases	
Broadcom's Acquisition of VMware	257
Anthem Acquires Cigna (Health Insurance Sector of the United States)	277
RBI Notifies Valuation Methods for Acquisition or Sale of Shares	283
Changing Value of Ranbaxy: From Daiichi to Sun Pharma	283
11 Valuation by Multiples	289
11.1 Introduction	290
11.1.1 To Value Non-Traded, Private Companies	291
11.1.2 To Value Divisions of Traded Companies	291
11.1.3 To See How a Listed Company Is Valued Relative to Its Peers	291
11.1.4 To Value a Transaction Like a M&A Deal Relative to Other Transactions Involving Its Peers	291
11.2 Steps in Comparable Analysis	291
11.2.1 Step 1: Selecting Comparable Companies	292
11.2.2 Step 2: Identifying Required Financial Information	293
11.2.3 Step 3: Determining Key Financial Statistics, Ratios, and Multiples	294
11.3 Equity Value	294
11.4 Enterprise Value	296
11.5 Earnings Before Interest Taxes Depreciation and Amortization (EBITDA)	296
11.6 Gross Profit Margin	296
11.7 Growth Metric	297
11.8 Credit Profile	297

11.8.1 Calculating Key Trading Multiples	298
11.8.2 Creating the Comparable Companies Financial Metric Spread	299
11.8.3 Determining the Valuation	301
11.9 Precedent Transaction Analysis	302
Key Terms	305
Multiple Choice Questions	305
Review Questions	306
Project Assignments	306
Reference	306
Cases	
Microsoft's Acquisition of LinkedIn for USD 26.2bn (INR 2,213.09 Billion)	289
PE Buyout Deals and Valuations	304
Chancery Base Fair Value Calculation of a Target Firm on the Income-based Model	304
12 Business Valuation and Consideration Paid in Mergers and Acquisitions	307
12.1 Introduction	308
12.2 The Historical Cost Approach	309
12.3 The Residual Income Approach	310
12.4 The Multiples Approach	310
12.4.1 Price Multiples	312
12.4.2 Enterprise Value Multiples	313
12.4.3 Transaction Multiples	314
12.5 The Dividend Discount Model	316
12.6 The Discounted Cash Flow (DCF) Approach	317
12.6.1 Forecasting Cash Inflows	317
12.6.2 Estimating the Cost of Capital	318
12.6.3 Determining the Terminal Value	320
12.6.4 Determining the Total Firm Value	320
12.7 Economic Value Added (EVA)	322
12.7.1 Measuring Economic Value Added (EVA)	324
12.7.2 The Importance of Economic Value Added (EVA)	326
12.7.3 Net Present Value (NPV) and Economic Value Added (EVA)	328
12.7.4 Management Value Added (MVA) and Economic Value Added (EVA)	329
12.7.5 Shareholder Value Management	331
12.8 Consideration in Mergers and Acquisitions (M&A)	331
12.8.1 Value of the Target Firm	331

Summary 339

Key Terms 340

Multiple Choice Questions 340

Review Questions 340

Project Assignments 340

References 341

Cases

Microsoft's Acquisition of Activision Blizzard:

Creating the Third Largest Gaming

Company by Revenue, only Behind

Tencent and Sony 307

Corporate Value 311

EVA-Driven Mission Statements of Coca-Cola 329

India's Value Creators 330

IBP: Valuation Analysis for Proposed Acquisition 338

Unit IV: Advance Topics in Mergers and Acquisitions Valuation

13 Brand Valuation and Mergers and Acquisitions 345

13.1 Introduction 347

13.2 Mergers and Acquisitions and Brand Valuation 348

13.3 Brand Valuation Methods 349

13.3.1 Accounting-Based Methods 350

13.3.2 Market-Based Methods 351

13.3.3 Discounted Cash Flow Method 352

13.3.4 Interbrand Method 353

13.3.5 Royalty Relief Method 357

13.4 International Financial Reporting Standards (IFRS) and Brand Valuation 358

13.5 Intangible Assets 359

13.6 Value Drivers for Valuation 360

Summary 361

Key Terms 361

Multiple Choice Questions 361

Review Questions 362

Project Assignments 362

References 362

Cases

HUL-GSK: FMCG Giant Buys Horlicks Brand

for EUR 375.6 Million 345

Brand Mortgage by Kingfisher 349

Brand Value of Sintex Industries Ltd.	350
Tata's Acquisition of Jaguar and Land Rover	350
Selling Rolls Royce	352
Brand Strength Index	357
Infosys's Brand Value Model	359
Brand Valuation as a Defense: RHM's Response to a Hostile Takeover Attempt	360
14 Private Equity and Start-Up Valuation	363
14.1 Introduction	365
14.2 Convertible Debt for Start-Ups	365
14.3 Equity Series Round	367
14.4 Pre- and Post-Money Valuations	368
14.4.1 Pre-Money Valuation	369
14.4.2 Implied Valuation and Internal Rate of Return (IRR)	369
14.4.3 Expected IRR	371
14.4.4 Exit Value	371
14.4.5 Dave Berkus Method of Adjustment in Pre-Money Valuation	371
14.4.6 Cayenne or Scorecard Method	372
14.4.7 Risk Factor Summation Method	373
14.5 Future Dilution	374
14.6 Option Pool	374
14.6.1 Baked-In or In-The-Round Option Pools	374
14.6.2 Treatment of Unused Option Pool	
Shares in Case of Acquisition	375
14.7 Preferred Stock and Liquidation Preference	375
14.7.1 Participation Right	376
14.7.2 Participation Cap	376
Summary	377
Formulae	378
Key Terms	378
Multiple Choice Questions	378
Review Questions	379
Project Assignments	380
Cases	
Byju's Acquires Aakash Institute Giving Exit to PE Firm Blackstone	363

SEBI Launches Separate Trading Platform for Start-Up Ventures	366
Indian End-to-End Logistics Start-Up Firms Get Funding from PE Firms	376
Flipkart and Snapdeal Attract Series of Investments from PE Investors	377
15 Leveraged Buyout Economics and Valuation	381
15.1 Introduction	382
15.2 Leveraged Buyout (LBO) Economics	383
15.2.1 Internal Rate of Return (IRR)	383
15.2.2 Cash Return	384
15.3 Leveraged Buyout (LBO) Valuation	384
15.3.1 Leveraged Buyout (LBO) Model	384
15.3.2 The Adjusted Present Value (APV) Method	396
Summary	399
Key Terms	400
Multiple Choice Questions	400
Review Questions	401
Project Assignments	401
References	401
Cases	
Cisco's Acquisition of Splunk: 50 Percent Debt Financing	381
Blackstone Buys Gates Global from PE Firms, Enhances Valuation by 20 percent in Just 4 Years	399
Unit V: Financing Aspects	
16 Financing Options in Mergers and Acquisitions	405
16.1 Introduction	406
16.2 Normal Equity	407
16.2.1 The Value of Equity	408
16.2.2 Features of Equity Shares	408
16.2.3 Modes of Issue	408
16.2.4 Options Built-in Shares	409
16.3 Differential Voting Equity	410
16.4 Preference Shares	411
16.4.1 Characteristics of Preference Shares	412

16.5 Debt Financing	414
16.5.1 Key Terms for Debt Instruments	414
16.5.2 Types of Debt Financing	415
16.5.3 Term Sheet and Debt Financing	420
16.5.4 Characteristic of Traditional Debentures and Bonds	420
16.5.5 Types of Debentures and Bonds	422
16.6 Retained Earnings/Cash Surplus	423
16.7 Eurobonds	424
16.8 Foreign Bonds	425
16.9 Depository Receipts	426
16.9.1 Understanding American Depository Receipts	426
16.9.2 Other Depository Receipts	427
16.10 External Commercial Borrowings (ECBs)	428
16.11 Equipment Financing	429
16.12 Leasing and Hire Purchase	429
16.12.1 Types of Leasing	430
16.12.2 Advantages of Leasing	431
Summary	433
Key Terms	433
Multiple Choice Questions	433
Review Questions	434
Project Assignments	434
References	434
Cases	
Oracle Bridges Loan to Buy USD 28Bn	
Cerner: A “Huge Growth Engine”	405
Cairn Vedanta Deal	410
SEBI and Put/Call Option Case of Vulcan Engineers Ltd.	410
Amendment Regarding Preference Shareholders Right	411
Compulsory Convertible Preference Shares (CCPS)	413
Tata Steel Refinances USD 5 Billion Corus Loan	416
Tata Consumer to Fund Two Acquisitions With Cash Reserve, Bridge Financing	417
Bridge Loans Mandate as Per RBI	417
Tata Capital Floats INR 500-Crore Public Issue	

of Secured Non-Convertible Debentures	419
Blackstone to Offer Senior Notes	419
KKR Completes Acquisition of Fotolia	420
Anheuser-Busch InBev NV Acquisition of SABMiller in 2015	420
Cash Reserves Used for M&A	423
Term Loans and Institutional Financing	424
Saint-Gobain Post Acquisitions Refinances Its Debt with Eurobond	425
Domestic and International Bond Markets: Some Statistics	425
HRT Acquires UNX with GDR	427
Aurelian Commercial Lending	429
RESCO Bankruptcy Post LBO	431
17 Leveraged Buyout	437
17.1 Introduction	438
17.2 Leveraged Buyout (LBO) Sponsors	439
17.3 Leveraged Buyout (LBO) Mode of Target Acquisition	439
17.3.1 Acquire a Public Company Which Is Then Taken Private	439
17.3.2 Acquire Any Company and Then Immediately Divestiture (Sell Off Parts of the Company)	440
17.3.3 Private Company and Entrepreneurial Ventures	440
17.4 Criteria for Selecting Leveraged Buyout (LBO) Candidates	440
17.4.1 Mature Industry/Company	440
17.4.2 Non-Cyclical Stable Cash Flows	441
17.4.3 Strong Management Team	441
17.4.4 Strong Balance Sheet	441
17.4.5 Core Advantage in th	

To purchase this product, please visit:

<https://www.wileyindia.com/mergers-and-acquisitions-strategy-valuation-leveraged-buyouts-and-financing-3ed.html>



Scan to buy