Mergers, Acquisitions and Corporate Restructuring
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Lecture - 36
Alternative Exit and Restructuring Strategies - 1

Hello friends, welcome to another session of mergers acquisition and corporate restructuring. In the previous week, we have discussed about mergers and acquisitions. And we also talked about different types of valuation and then due diligence. So, mostly focusing on the growth of the company through acquiring another company or merging with another company but there are also cases that company can do better by reorganizing itself, maybe making it small, maybe making into multiple companies.

Or maybe going through association with other companies because of technology, or market or whatever that going to benefit the company as a whole. So, in this particular unit that is the last unit of this particular course, we will be discussing about alternative restructuring strategies, or exit strategies, for that matter. Although overall mergers and acquisition also considered as a part of restructuring strategy, but when you toggle restocking strategy we will talk about as if we are making the company smaller.

Or we are also another restructuring that where you go and tie up with other players. So that the company can grow and that can lead to possibly more M and A in the future. So, the concerns that we have in this particular session are corporate restructuring, business alliances, what could be the reasons for corporate restructuring undertaken by the companies and what are the features of a successful business alliances.

And the keywords that we have are corporate restructuring, business alliances, financial restructuring, portfolio restructuring, these are the things we are going to cover besides some other items.

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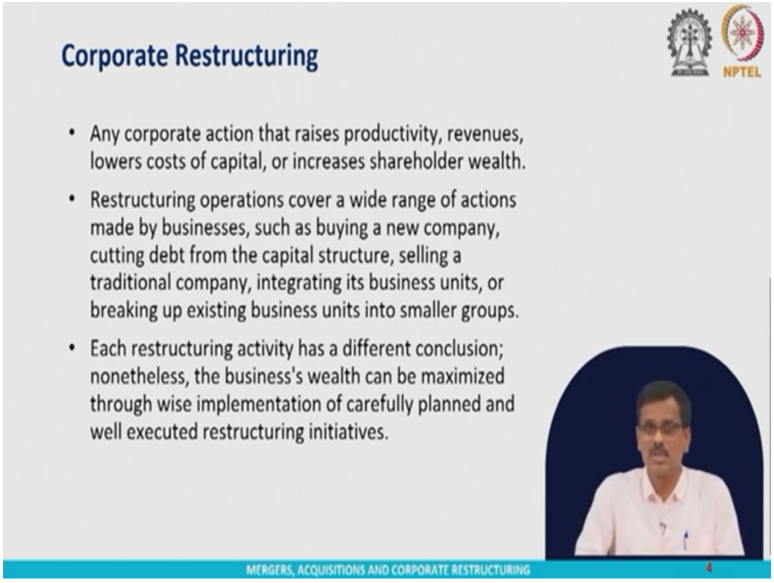

Now, coming to the generic definition of corporate restructuring, so, it is an axiom, which possibly help the company raise the production, increase productivity, all finally, it leads to higher value for the shareholder. So, some actions to be undertaken by the company, which can help company create more wealth for the investors. So, creation of more wealth need not be driven only by expansion, creation or more wealth that can be driven by contraction.

Or splitting the company into different parts or going for some other axiom, which besides mergers acquisition. So, in this particular thing, we are going to discuss non M and A activities or restructuring activities and it can be also generally you can say buying a new company or we can also go for liability restructuring that means reduce the debt. So, that we reduce the cost of debt, reduce interest and that may lead to overall profitable the company.

A company can sell certain business, a division, an asset, an old division for that matter companies go into new technologies, new sector, so, old company's old business do not matter for this company that can be sold to some other company that is also other type of restructuring. So, each restructure that you have has got their different conclusion and the ultimate objective of the organization should be maximizing wealth for the investors and through a very well-crafted plan and execute the restructuring activities.

So, that is the overall purpose the meaning of corporate restructuring in any part of this world for that matter.

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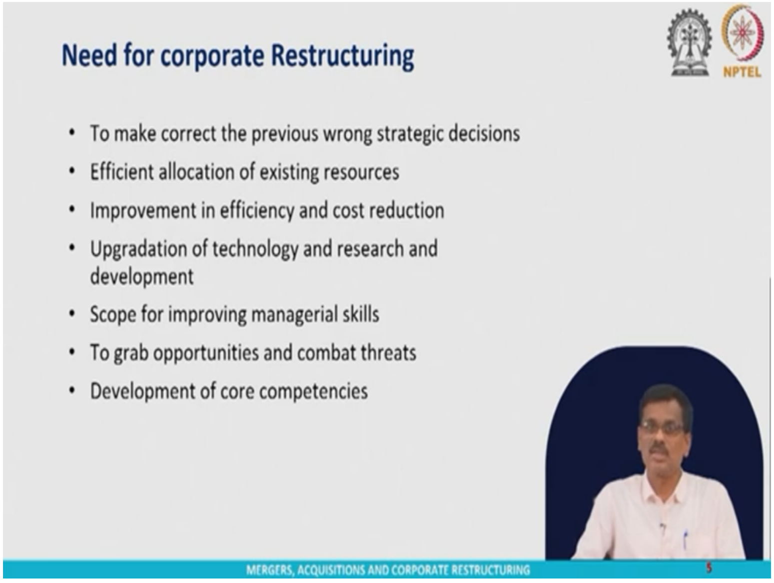

So, why do these companies go for restructuring as such? Maybe certain decisions are taken earlier by the company, which was found to be wrong or not appropriate for the company. So, the company can make a course correction and reverse the decision as an example, company might have acquired another company, A company might have acquired company B, but at the time of integration, it is found that the companies do not gel well with each other.

So, the company even if they have spent a lot of time, resources, money for that matter, company can still think of it selling these acquired company to another player, because not having that company is good in the interest of the company, the existing company itself. So, for that reason, or for some other reason also the company can sell off another unit, but here we are talking about we took a decision of acquiring a company we acquired the company.

But post acquisition we found that the company is not a proper fit, maybe there is a problem at the time of due diligence that will due diligence could not foresee that these type problems can happen otherwise, at the time of due diligence itself. Somebody could have flagged that you should not go for this acquisition, but for some reason, the company went for acquisition, but later found out to be the wrong one.

So, they can always exit from that particular business. So, that is called wrongly some similarly, one may go for a technology tie-up have a joint venture with some other company, but then we found it is not suitable then company can also come out of a joint venture that also can be there. So joint venture can be a restructuring activity, growth activity, exiting from joint venture also can be a restructuring activity for a company.

Then possibly by reorganizing the company to multiple parts, the organization can reallocate resources more efficiently. So, that may be the reason why the company can be made into small parts, then possibly company thinks that by making the company into smaller, you can have more efficiency and maybe the cost can reduce that means it is reverse of the synergy like in synergy, what happens?

Companies combined together and the benefit is more here you are talking about making the company smaller, can lead to possibly more benefit for the company in terms of maybe cost reduction. Because when the companies made into small sizes, managing them become maybe more easier as well. So, that can lead to a lot of benefit for the company that was the reason as such there could be some technology upgradation required.

So, we may go for new parties, alliances and new R and D is required. So, you can have to tie up with the new players in that particular sector. Then, you have when you have multiple companies, then companies have the managerial skills, they are possibly now focused on 1 entity. Now it may be over or excessive managerial skills available for a particular company. Now, if the company is split into multiple parts, multiple divisions, let us say and made multiple companies.

So this managerial skills can be very well deployed into multiple companies. So, we can make these people responsible for different divisions for that matter or different unit for a different companies for them. So, that way, we can possible have a more rationalization of usage of managerial skills. Then maybe if 2 companies made into let us say have a joint venture another partner.

Some other companies worldwide or in the same country itself, we can have more opportunities and maybe by coming together you can the company can be a threat to another player, another competitor for that matter. And it is possible that you company creates inconvenience for any potential takeover of this company itself because the company has gone into a joint venture.

So, the another company is thinking of acquiring this company they will be now thinking twice because this company has now having joint venture with another player as well. Then yes by making the company to small parts, one can always have developed the core competencies a different sector segments technology etcetera. So, this could be the need for corporate restructuring.

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What could the benefit? Yes, by if you get the company is made into small parts, then your focus is increase different companies can focus on different aspects of the business group. And employ the, deploy the skills for that possibly by selling off a particular division or company maybe some liquidity can be there, some cash flow can be there so that way possibly the financial distress related to debt etcetera maybe reduced.

Because you have sold a unit for whatever reason you are that brings some liquidity and the distress is reduced and making it to small parts company, then the decision making scale is now split and possible that leads to more transparency earlier. So many divisions, so many activities or business in 1 particular management now as a multiple management although belong to the same business group and multiple management team is there.

So, more transparency can be ensured and possibly one can give a better signal to the market that the shareholders of the company by making them into small units that could be another reason. And one may have like we discussed by having small multiple companies, one can think of raising finances for a particular division on the strength that particular new company for that matter which has been carved out of the existing company.

So, that leads to wealth transfer from a concentrated group of people to maybe more dispersed group of people that could be there and then yes, possibly the company can transfer assets to those who can possibly use in more better and efficient manner. So, that may be the ultimate benefit of restructuring, we are not able to manage the resources properly. So if the resources go to some other hand, either by way of making different companies out of 1 company or selling this 1 particular division asset.

And the new owner a new manager can manage it better than the existing manager, there is no harm in that because overall the shareholders are going to gain out of this particular exercise.

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There are different types of restructuring possible, one of the restructuring that is called first one is called organizational restructuring. And there what happens one can change the organizational structure itself same company, but structural organization can be different in terms of management restructuring and employee restructuring for that matter, then, one can redesign the divisional boundaries.

So, there are certain divisions existing A, B, C, D now, company can realign and say that no maybe another 2 divisions can be added or can come out of the existing division new business, where they may have new unique properties that is there. Then, one can restructure the market that the company may exit from particular geography, company may enter another geography with the help of restructuring or company can drop certain products.

Though in the market drop certain products in place can be also now reallocated to different divisions, another is that product portfolio reduction that means, portfolio what the company has set of product that is sold in the market that number can be reduced and company and exit from certain products. So, that they can focus on the more value creating products for the company.

Then another discussion is talking about talk about that financial restructuring that means, here you look at the liability side of the balance sheet, where one can go for converting debt into equity or swap up the equity into debt and lowering the debt percent or go for more debt and or renegotiate with the lender for the good Thompson condition. That is one another restructuring could be there with the help of leveraged buyout.

That means, a new company is formed out of this company with a new owner. And they may take over the company with the help of buyout from a financier other leveraged buyout can also take place. Management buyout could take place a leveraged buyout and management buyout, we will discuss them separately exclusively in another session and then comes the portfolio restructuring portfolio restructuring means the portfolio of activities of the particular business restructuring can take place.

One way could be to divest certain divisions, certain products, certain units another is to expand the portfolio with the help of joint ventures, strategic alliances etcetera. Or we can go to the external mergers and acquisitions which we have discussed in the previous sessions. Another type of destruction could be that overall corporate restructuring where the company is made into small parts small companies.

So, for example, a company which is into 5 different products a division of 5 different unique SBU strategic business units can think of splitting the company into 5 parts and 5 different companies are formed and the shareholders of the original company will be now the shareholders of a company 1 to company 5. In excess of shares that they have in the original company original company can be split into multiple parts that could run at one of the way.

Another way could be that a particular division of a company can be converted in another company and carved out of the original company. And that can be a subsidiary of the original company or it can also be split and a separate company can be there, where the shareholders of the original company will also be shareholders with the carved out company. So, all those things are possible.

So those things we talk about like equity carve out, split up, spin off, etcetera, those things we will be discussing in detail in another session. So, in this particular session, we focus more on organised restructuring, portfolio restructuring or for that matter financial restructuring this session as well as the next session.

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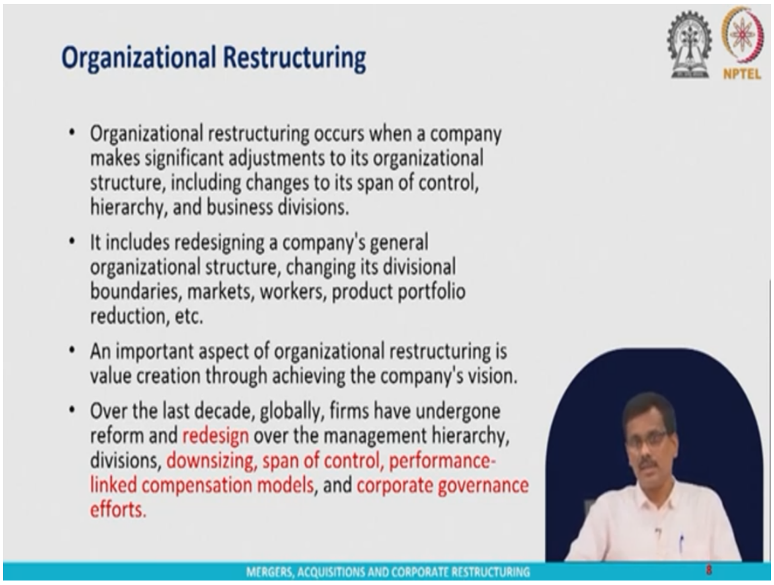

When you talk about organized restructuring, then we talk about that yes the structure, the span of control can be changed, maybe new top management can be added new MDs can be there. So, different divisions can help different people. So that the hierarchy of the organization can be changed, that is called changing the management structure of the company, then, you can have different divisional.

As I have discussed previously, multiple divisions can be created or the new divisions can be realigned maybe 2 divisions can be clubbed together, because of the complementary with each other, then product portfolio can be reduced, it can go for more products or it can go for reducing the product also on the product portfolio. And here at the end of the day, the company’s is trying to align with the vision it is also possible over a period of time the company's vision might have changed.

The company can think of changing the vision because they technology, the economy, the scope is still changing the company vision may not remain the same. So, the vision is changing accordingly company can be also restructured. So, if you look at last previous in the last decade, and the last several years, one can find out loss of organisation reforms are taking place change in management is there.

Company that being downsized the span of control is changing, then companies are also implementing performance link compensation model. New corporate governance mechanism is that is also another type of restriction can be there having more independent directors who will give good advice to the company. Because they are independent directors means they are not employees of the company.

So they do not have a vested interest, they are independent of giving any suggestion to the company that is another level of restructuring for that matter, making the corporate governance structure more gender diversified, having people from both genders in equal number. So that is possibly going to lead to possibly better decision making process more ideas can be also they are for the company so that could be another way of restructuring in at the organizational level.

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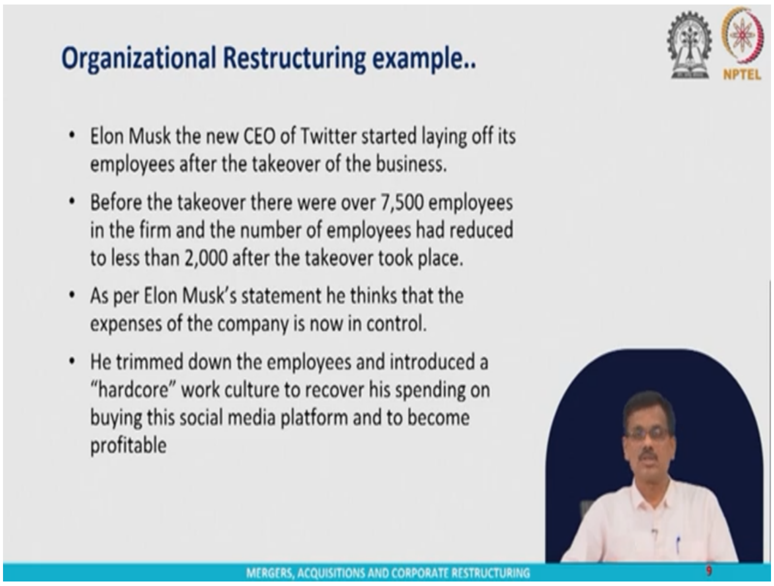

For example, recently, Elon Musk became the new CEO of Twitter. So they have started employee level restructuring they have done. So the people they are now which were some 7500 employees, they have now reduced to almost 2000 after the takeover has taken place. And so they think one of the reason that the new CEO has pointed out that it is going to reduce the cost for the company because Twitter was possibly one of the employee driven company.

And the major cost was number of employees and their salaries and bots for that matter. So by reducing the number of employees were acknowledging the workforce wrestling the works, so they have been able to reduce the workforce. And that has possibly lead to better benefits for the company in terms of cost savings. So and they say that he has trimmed down the employees and introduced something called hard core work culture.

So, that they recover the spending on buying this social media platform because Twitter for recreation, a good amount of money has been paid by Elon Musk and so that money has to recovered in terms of better performance for Twitter. So one of the ways could be that reducing the cost and that they have possibly thought that reducing the employee number itself can reduce the cost substantially.

And it can become more profitable and that can finally the new owner of the company can get back a benefit for the cost incurred because of mergers and acquisition.

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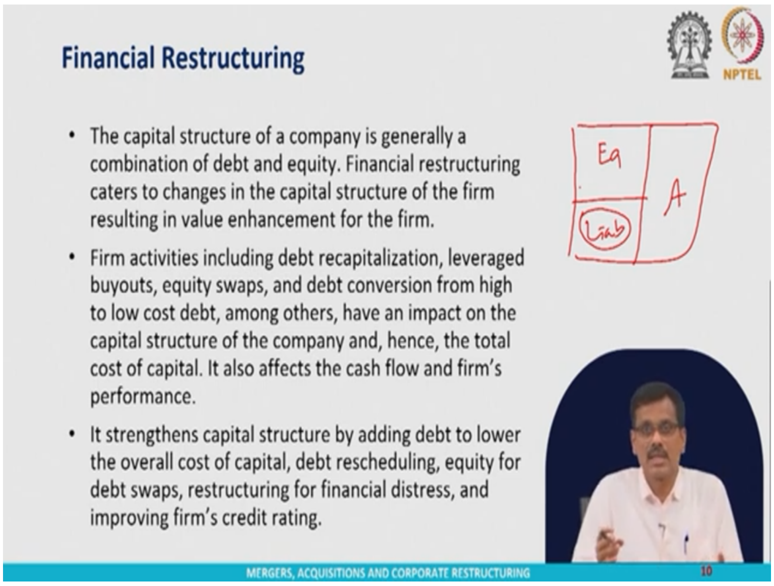

Then another this part of the restructuring is the financing restructuring. So, normally when you look at a company, company's balance sheet is there. So, if you look at the balance sheet of the company, so, this is your assets and this is equity and this is their liability. So, now, we are one of the restructuring is there restructure the assets, sell the assets have new assets, make into multiple parts.

And other ways that let the assets be there whatever asset you structure can always take place, but there could be liability restructuring. For example, liabilities may have a loan with a higher interest rate or certain Thompson condition of the lender, which is little inconvenient for the; exist with the borrower and the company is finding it difficult to pay the interest, repay the principal.

So the company can now go to the lender and renegotiate maybe increase the tenure of the loan. Maybe asking for some moratorium of interest payment or principle a moratorium means for some time the lender really relaxes. And that as you do not have to pay interest or principal for a certain period of time, although the interest will accrue and the company will pay something later, but at this point maybe for next few months or years for that matter.

They will not be any cash outflow because of debt that can be their company can also think of swapping the equity with the debt or debt to the equity some part of equity with debt some part of debt with equity. So, the lenders become owners of the company. In that case, what will happen the company does not have to bother about the interest payment and principal repayment because debt has been converted to equity.

So, this is called the debt swap of debt equity and do is this the overall benefit for the company could be that the cash flow problem is taken care or the cost of debt can be reduced. And people have a little more relaxation in terms of servicing debt for the time being because the business condition is not favourable to service the debt in terms of paying interest and repaying the principal.

So, that could be the reason why a liability side restructuring can also take place. So, corporate restructuring can involve the assets of the company. Corporate restructuring can also involve the liabilities of the company or it can also involve both parallely overall restructuring can also involve asset type asset side restructuring as well as liability side restructuring.

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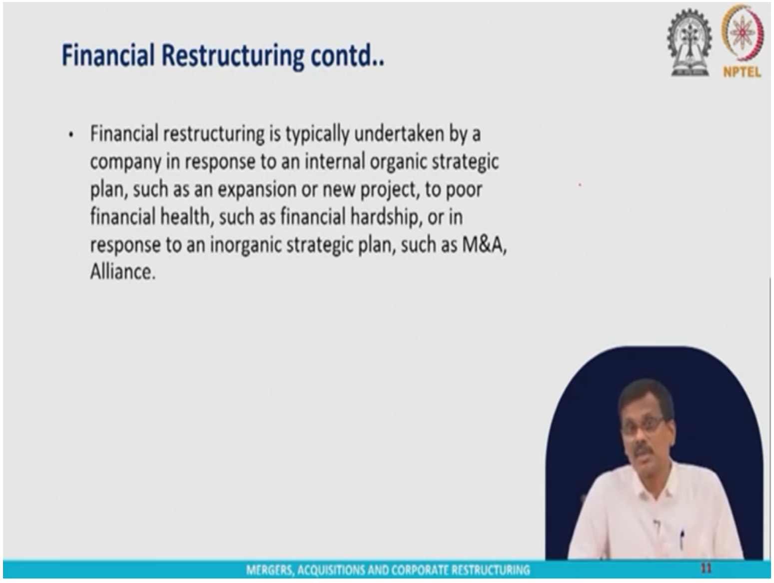

And to conclude, it is taken financial restructuring is undertaken by a company in response to the internal organic strategic plan could be expansion new product, new project. Because of poor financial health or some hardship is there or maybe in response to an acquisition take down by the particular company by using the cast. When we bought the cast may not be now sufficiently available for the company the company can go for debt and that way the debt can be increased and the leverage that final structure can also change.

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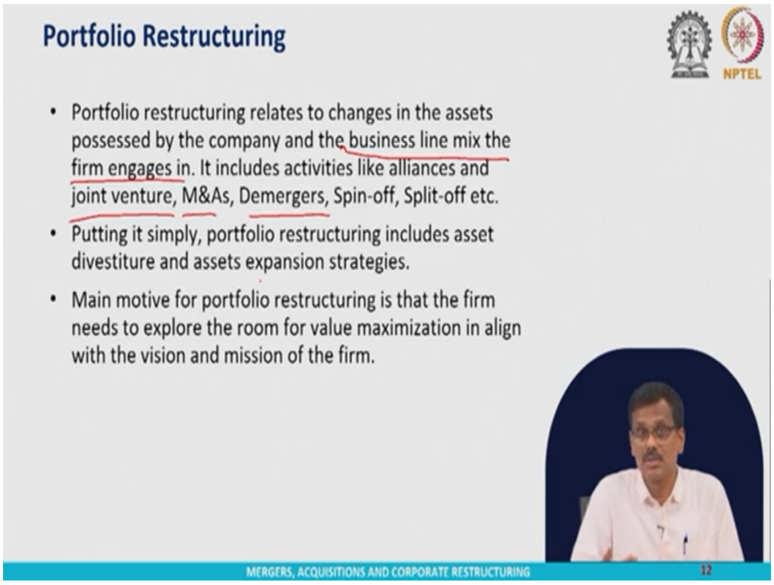

Then we go to the portfolio restructuring this portfolio restructuring is nothing but in a way you can say is asset type of restructuring or restructuring the activities of the business. So, portfolio restructuring do change in assets possessed by the company or the business line mix, what the company is doing, that mix can be changed. And it can include joint venture that means you are having a new product offered by a joint venture company or having a technology tie-up to do the things better or having some tie-up.

So, that you have expand to another market. It can be also the M and A it can be in terms of demerger means we will discuss making the company into smaller parts, demerger spin up. And split up are all similar type of things where organization is plea is converted into small units that may be more easily manageable than the bigger company added together as well. So, in simply portfolio restructuring includes asset divestiture as well as asset expansion it can also be their strategy.

So main motive, the portfolio restructuring is that the firm needs to explore room for more value maximization and again as we discussed previously, aligned with the vision and mission of the firm. Distance can be undertaken nothing is permanent in the world technology changes economy changes, market changes, new players come to the market, there is business always challenging.

So, companies keep on working on new, new ideas, new, new policies, so that the company remains vibrant, agile to the requirements of the market. For example, because of the pandemic that has taken place, COVID related pandemic. So, many organizations have gone for different health restructuring, they have found a way to do the business in different way and a different way of doing the business.

Similarly, they have found that possible, particularly those companies were in place at the value driver and we have to have the employees and the premises, they have found that having the corporate offices business houses in physical interest is not required, company can manage well possible by him having the employees in their home itself. So, the hybrid work culture has now started where some people are working from home.

So, in that case, the investment made in the real estate sector in the building premises etcetera not required. So, company can always sell those, get the cash and do the business in a better manner.

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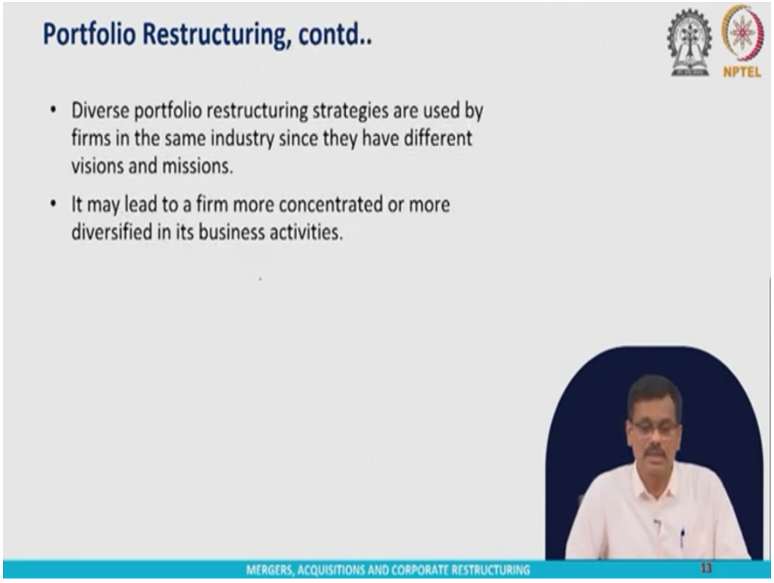

Then we have portfolio restructuring again continuation. So, we have restructuring activities used by the firm same industry, but they have different visions and mission. And it can lead to a firm more concentrated or it can also lead to more diversified for that matter.

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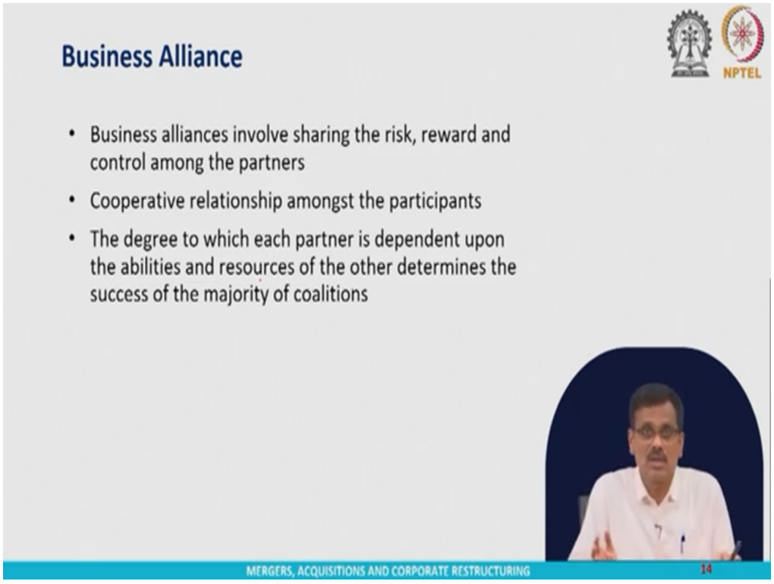

Next is you have got the business alliances, where we tie up with a new player, another player maybe the same country or other country because of certain exclusivity or scales or the technology etcetera. A certain even research they have and we also have some research so that we can complement each other and do a better job by being a combined company and as well. So, one can go for something called business alliances, it is like a corporate relationship among different participant different companies.

And it all depends upon how the pattern depending on the other abilities resources, that determines success. But it is something that is complement each other it is not that one unit or one company is superior another company is infinite like that, they complement each other somebody may be good at technology, somebody is good at the market, somebody may have good customer base somebody who may have good processes.

So, those things complement each other and companies a new company can also be formed as a matter of joint venture or business alliances.

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So, in that case, the company can share the risk companies share the appropriate knowledge some knowledge is there with the company, which can be shared company can share the management skills and resources. And when can share the; significant capital expenditure can be shared sources supply can be now diversified then one can access new markets, cost reduction can take place.

And maybe one can enter into global market or countries outside the domestic market for that matter.

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So, certain benefits the features that successful business alliance has that there are synergies possible roles and responsibilities now shared among the different players, different groups. Now different companies, the clarity of goals as to the who will do far among the business partners, the communication and cooperation has to be ensured. These are the things which are required for having a good successful business alliance, you have to create a win-win situation.

And also have it choose a time frame when this alliance is going to finally form and executed. And also top management for the both the companies, multiple players also have to have wholehearted support for this particular new venture, which is found as an alliance and joint venture for that matter.

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So different types of joint venture that have business alliances that have good joint venture, one can have strategic alliances. That means one goes for alliances and take a technology for use in another company. And in the view of that certain things can be as royalty or ownership can be given to the other company licensee can also be there. There are several players where one can take the license of another company and with their logo, brand, etcetera.

They can have those businesses and get those benefits as such. Also, companies can go for franchising, so they do the business. Like what the original company had the franchise they get the franchise and pay a royalty for that. So we will be discussing about these types of joint venture business alliances, license etcetera in the next session.

Now, let us look at how certain cases where Indian companies have gone to expansion got deferred benefits by in the; with the help of joint venture and alliances.

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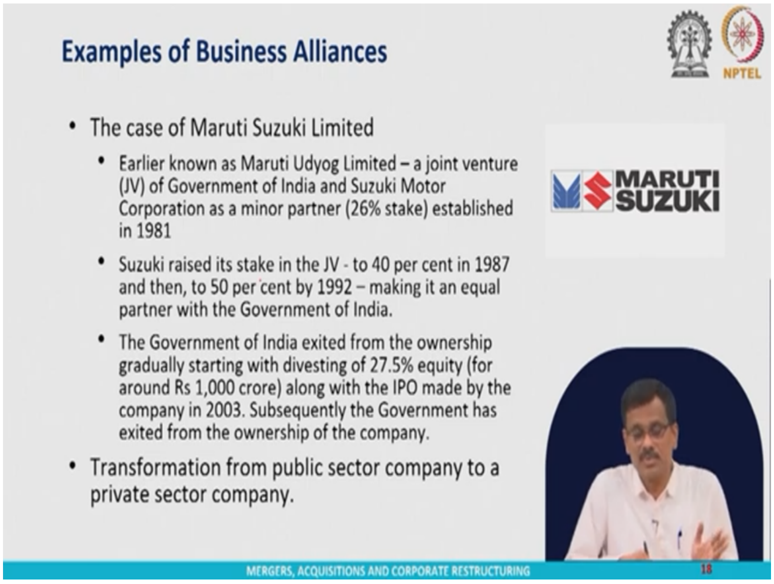

So, one of the example that is very successful example in Indian market is that setting off Maruti Suzuki limited actual Maruti Suzuki Limited was earlier known as Maruti Udyog Limited where government of India have 74 percent share Suzuki as the partner from Japanese country, they are very good automobile player. So, they had 26 percent stake subsequently Suzuki increased the stake to 40 percent in 1987.

Then it became 50 percent is to truly become a joint sector earlier private sector now slowly becoming joint sector also earlier the joint sector where majority holding was by the government of India minority was the Suzuki corporation. Then subsequently government of

India has now exited and passed when these Suzuki went for initial public offering in 19 in 2003, at that time, government divested 27.5 percent stake in the IPO route.

So, that people could buy that. So, that will govern reduced this tech substantially. Now, the government of India has does not have direct holding in the company. Yet, certain government institutions like LIC other institutions may have some stake in Maruti Suzuki corporation. So, Maruti Udyog Limited now is known as Maruti Suzuki. So, that has given a transformation from public sector company to as private sector comment that in terms of ownership of the chain, but whatever actually the advantages for this economy.

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So, this joint venture; help Indian company access modern technology in the automobile sector, it helped development of also ancillary industries in the automobile sector. Because they have to supply the parts and components to Maruti Suzuki and the consumers in India got an affordable car to buy this particular buy. So, that the company can penetrate the on tap segment earlier possibly a passenger car where Indian brands very limited was one of the brand was something like ambassador.

Other some foreign brands were there just not that affordable for the consumer. So, with this the particular joint venture for alliance, the customer got an access to a product a more affordable for that matter it was told Maruti 800 was taken as something a poor man's car at that point of time. Now, the Maruti Suzuki has become an exporter of passenger cars from India, that is the ultimate success.

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Other example that we have in online retail market like on other segments Walmart, Flipkart joint venture is their Tata Starbuck is joined with Tata consumer and products and Starbucks. Tata, Hitachi is a tire between Tata Motors and Hitachi construction is which is helps produce construction equipment. TATA AIA life insurance which is Elliott AIG group, it is an incidence concern when incidents market is open the market private sector players.

So this several companies that Tata HDFC, they came up they tied-up with the internationally well known insurance players and they quoted Indian companies. Then AIX Connect is called Air Asia which is the Air Asia India joined venture between Tata Sons and Air Asia Malaysia. Vistara, another brand in airlines, where you have joined visible Tata Sons and Singapore Airlines.

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So merely in other technology segment you have we talked about Walmart, Flipkart, and Spotify, who is the music player, has tie-up with the Google where people can download those things from Google Play store and use it. Samsung Mobile has a tie up with Spotify. Uber has a tie up with Spotify, where the rider can use the Spotify mobile while driving the particular car for that matter.

Starbucks has a joint venture alliance with the Barnes and Noble bookstore, so the people go for coffee and also read a book. So different examples in innumerable exams are there in terms of strategic alliances, joint ventures etcetera, this is going to be this one of the way of success for a company.

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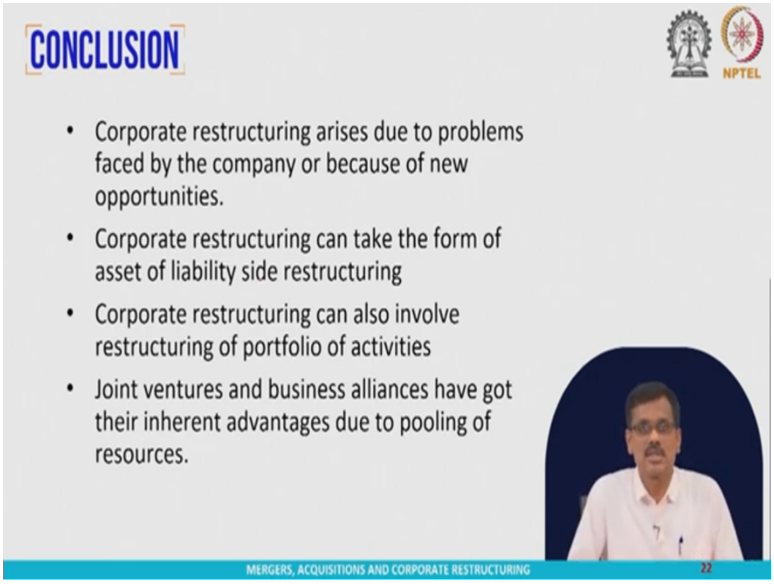

So corporate restructuring is there, it can arise because of the problems faced by the company it can also arise because the new opportunities in this segment of the market corporation can take the firm of the asset side or liability side restructuring. And it can involve restructuring of portfolio of activities. And joint ventures and business alliances have got their own advantages due to pooling of resources, sharing resources and being complement each other.

So that ultimately the benefit goes to the investors for this company. So in the subsequent session, we will discuss all these things in detail. Thank you, and happy learning.