Mergers, Acquisitions and Corporate Restructuring
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Lecture - 09
Takeover Tactics and Anti-Takeover Defenses – 3

Hello friends, welcome to the another session of mergers, acquisition and corporate restructuring. In this session we will be talking about, acquisition search and different crucial perspectives or processes involved in acquisition search process. What are different principles that a company can follow while going for acquisition searching.

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And we will also talk about a real life example a case study on, how one company went about the acquisition searching for a target and the process.

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So, we will talk these are the keywords for our session, acquisition search we will talk about short analysis, we will talk about porters five forces model, we will talk about BCG's growth share matrix and we will also talk about due diligence. In fact, for any occasion to be effective the target has to be chosen very carefully. So, the companies have to go through a multiple processes layers of processes involving different people consultants employees key people also.

So, that they get the best candidate for as a takeover target, and if they have done the job properly then post merger acquisition on the integration takes place it is going to be much easier. So, that is why acquisition search is a very important activity of any mundane process for that matter. Whether it is hostile takeover or is a friendly takeover, searching for the right candidate is the ultimate thing as such.

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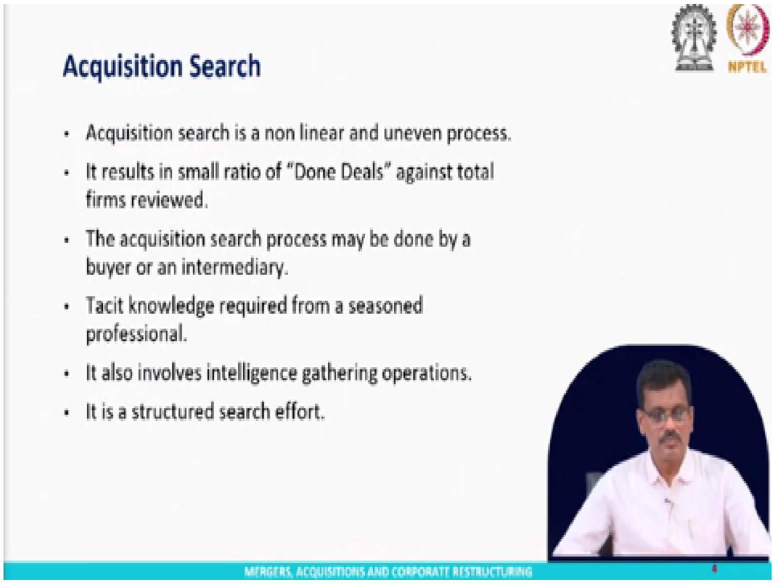

So, and acquisition search is not something a linear process a go one step by step not that, because several things one person one may have to go through, parallel different teams might be working on the acquisition search. It is not an even process access it inverse lot of activities. And finally, what happens companies go for several firms to be searched several targets to be searched.

But at the end of the day if they searched for some thousand looked at thousand candidates. They may end up look getting only two or thick and its further matter looking at the how the company fits their business as such. So, that is why there is very small ratio of done deals that means deals completed to how many companies that one has looked after. And acquisition search can be done by the buying company itself, its own team or it can be also the company also can rely upon a third party.

Like an investment banker a consulting firm can also help searching and candidate a target for a company for that matter. And it is not the periphery knowledge these are lot of tacit knowledge you go on one is go deeper into the company their processes their activities their products markets. And then so that they know the best results you need to have seasoned professional either as a internal team or citizen professional as a third party who can provide those services.

It is like an intelligence gathering operations, one has to be finding out about the target possible without the targets people not knowing about it. So, then because one may have to keep the surprise element and also although it is a little uneven but there is some structure there is some method in the madness definitely. And so that people act on different direction different activities. So, that they can get the best target.

So, that way it is structured because if there are good group people are involved who will be helping us the getting the right candidate of target.

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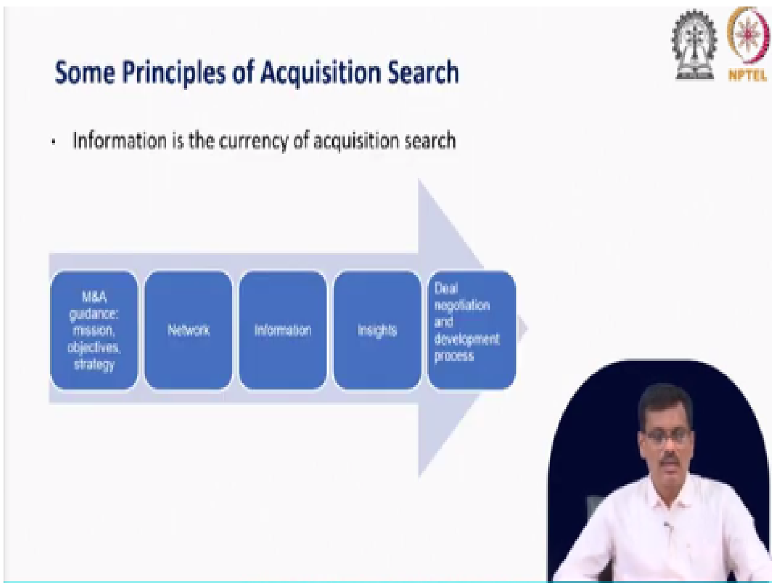

Certain principles whatever you talk about the information about any target is the ultimate thing. In fact, that is called the currency of acquisition search. So, the company we have to look at it is own mission, vision and companies own guidance, strategy then they look at what to do for expansion of the company whether organic or inorganic. Even organic they go for then how do they go about.

So, they will then use their network they depend on the network of the consultants who can help. So, that they can reach out to or find out as many targets possible. And then they get also the information about those targets. Then once they got the information, they will have some insights certain knowledge about this particular target. This company is good for us or strategically this company may be adding to the technology of our company.

This per company may help us expand the product line or expand the geography. Certain things like that, so there is a lot of insights. Once these insights are done then the negotiation with the target can take place and further development can take place. So, typically in the acquisition source in the friendly environment it happens like that. So, that you start with the companies own purpose then end with the negotiating the deal with the target company assets.

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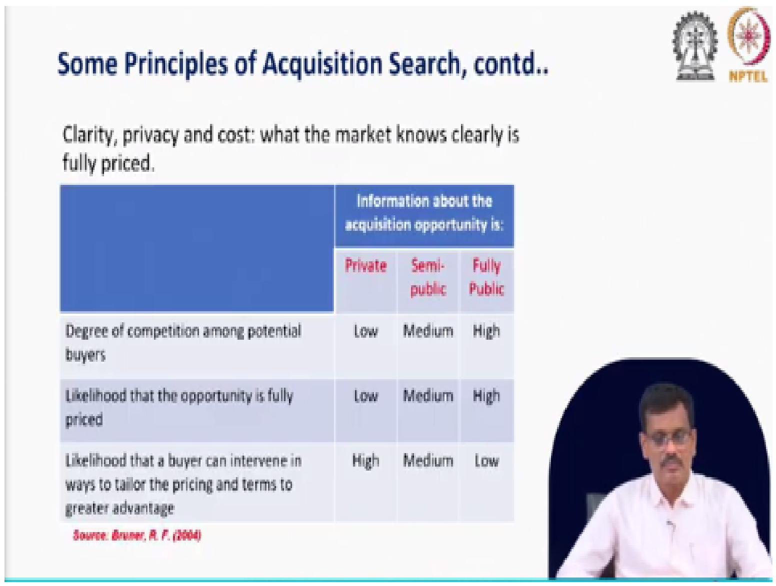

And then this is a very beautiful framework given by Bruner. So, something is there is a clarity, privacy and the cost, these are three key elements. And the if these things people know about the things are already public about the company, that whatever the company is good bad habit is public. Then that is already factored in the price of the company itself. So, if something is not public then it is actually more valuable for us.

So, in that case if you have got three cat classification here, where we look at information about the company could be a private semi-public or fully public. And then you have three other potential things here, that is degree of computation among the potential buyers is going to low if people do not know about this particular target. If it is semi-public then computation is going to medium among the potential aquarians is fully public because already people know about it.

If so, much good so many people know about it. So, lot of occurring companies can be there who to target this particular company asset. So, in that case the likelihood that opportunity is fully priced is also low. That means if the information is private, then possible then the opportunity to get that means possibly will know that, it is not fully priced. That means whatever price it looks we will find out now, it may be lower than actually whatever the oath of the company.

Similarly, it is going to medium. If it is semi-public and likelihood already priced that is high as such. And similarly in that case if the information is private, then buyer can intervene in a different ways tailor to the pricing and terms of the get of the deal. So, that puts on greater advantage. Because, they know what is excellent about this company not some people know us. So, they can actually talk with the target and go for better negotiation.

Whereas that is not possible if this is fully public. Because already several people know about this good thing and everybody will also come with good ideas for that matter. So, a buyer not have an advantage over other buyers. Because everybody comes with that particular idea. So, in that case the company will always look for a targets where not so many people know about it, then it becomes much insightful much better for a particular company to acquire assets.

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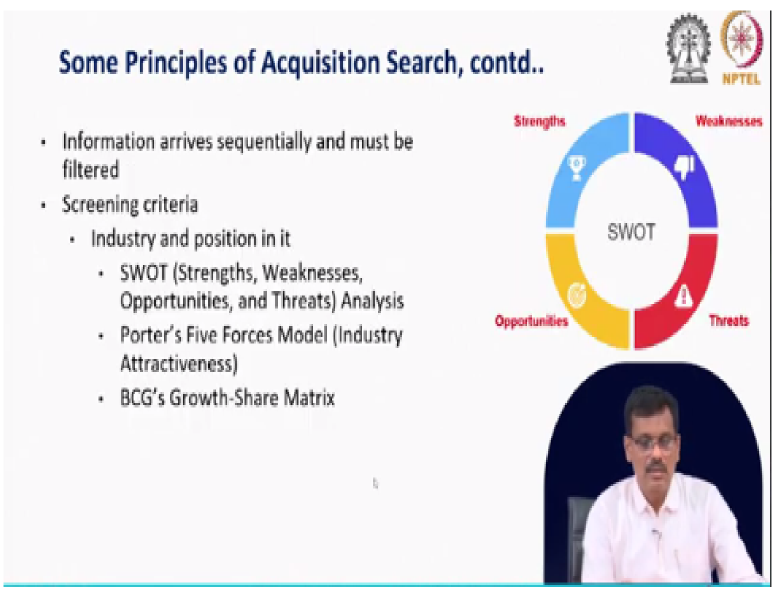

So, certain principle that one can follow in the acquisition search process. Information about this acquisition will keep on slowly and sequentially. And we have to actually because a lot of information can be there lot of noise can be there so one has to actually filter those information's. Not that every information is actually relevant you have to look at what is relevant for us. So, then company can go for some screening criteria.

So, fast training critic would be that what the company is actually doing? And how it is going to and the other acquiring company? Now how is the target company is going to fit to the acquiring company's business. So, the acquiring company can go for it is own analysis called SWOT analysis, called strengths weakness opportunities and threads. So, that they know what the company is doing where they will act and accordingly whether the target fits to them and as well, they can take advantage of that.

So, in fact strength and weakness is typically internal to the company and opportunity and threats are actually external and van related or it is competition related for that matter. So, the company can do that, as a growth strategy. Then, company also can look at the strategy analysis using two very famous celebrated models given one is porters five forces model and another is diseases growth share matrix.

So, in fact these models is not relate only applicable for **(()) (09:46)** or the or inorganic growth. This model also can is also equally applicable any growth opportunity any strategy for that matter for any company.

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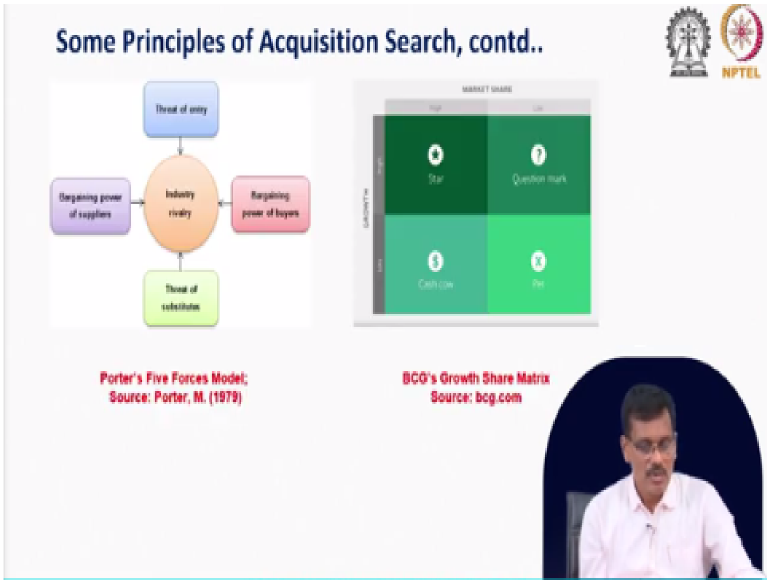

So, coming to the porters five forces model, we have got a couple of five things there. One is called your the rivalry among the in the industry among the different players in the particular sector in that particular product. Then we have got the how what this bargaining power of suppliers, you also because that also can dictate the firm's performance firm strategy. You also are affected by the bargaining powers of buyers there could be some limited buyers in that case, buyers detect the market.

And then your product may be something which is it can be substituted by another product. So, there could be some substitutes available. So, your product may not have the advantage over other products for that matter and whether any other country company also can entry quickly or easily to this particular your sector or not if threat is not there then it becomes good otherwise threat is there for the competitors it is good for us.

Otherwise, there is no threat of entry for that matter then anybody can come to this industry. So, those five things are also looked after looked at by the company when they go for the strategic analysis. Then we have another thing called BCG’s growth metrics where you have two way classification, one is your market share and the second one is your growth of different divisions products businesses of particular company.

So, growth could be low or growth could be high civil **(()) (11:38)** markets here could be high and market share could also be low for that particular product business segment. So, in that case what happens the best division in the portfolio of particular businesses actually star. Because they have the high market share, they also had high growth opportunity. So, this is something the company will always like to retain, because that is going to lot of growth opportunities there and they are going to get lot of cash from there also.

Similarly, you have another classification another group that is your called the cash cows. The cast cows are that where you have got high markets here, but growth is low assess as of now very high markets here but growth is low. And so, this is something which will give you the cash possibly to the star segment because, stars began require. Then you have another segment where the market share is low as well as growth is low.

So, they are called the pets or the dogs in the common parlance. And these are the divisions or products the processes of the business which the company can think of diversity. Then you have another thing called a question mark, which is we have got low markets here and there is a high growth assets. So, the company has to go for a lot of analysis what to do with this particular business asset.

So, keeping this particular thing in mind the company can also look for target, what is going to be that particular target for them? Is it going to be cash cow over them or a star for them. If they are going to pay it for this, suppose certainly then or should not go for it as these assets. So, this is another framework where the company analyses it is own strategy. And tries to compare the targets also look for the targets which will also fit into the strategy of this particular company the acquiring company.

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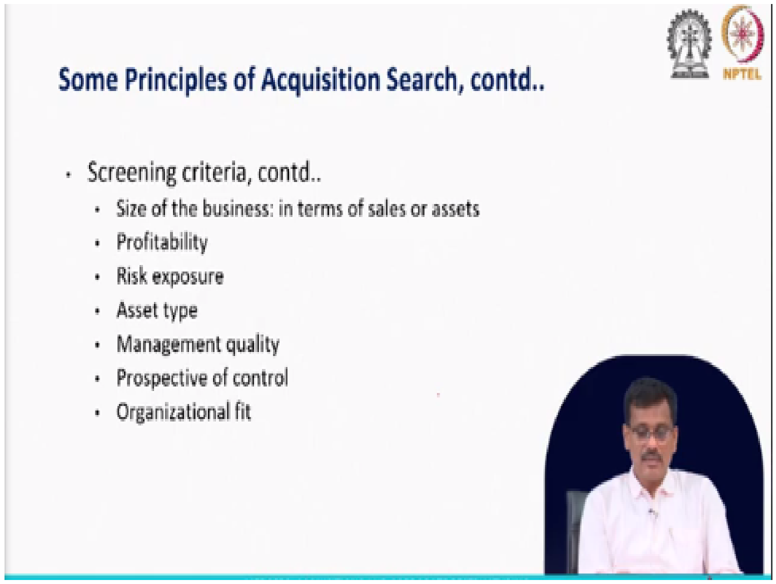

Then after you have done this analysis assets, then you get so many companies coming to your as a target potential targets are there it is not that every target is worth to consider. Then one can have some screening or filtration criteria, some other data like this size of the business is one of the criteria. So, size of the business is something that, I may go for some several acquisitions several targets I can always look for.

But I do not want to go for as a company we may not like to go for small acquisitions. Because all the acquisition process involve lot of activities and it takes a lot of time. So, in the same time if I can go for bigger size deals, it is always better. So, company can have, let us say a screening criteria, that unless the sales of that particular target is more than this much revenue or say this much rupees crore or something like that rupees million for that matter.

Or the total assets the companies those mass then we will not look at such targets assets. So, maybe have a criteria that beyond below this particular revenue or the assets will not consider. So, there could be another case. So, that you do not spend same efforts looking for multiple targets and one target may be is better to go for three for small targets for that matter. Then company can also another criteria, that we will go for profitable companies.

That means the company is not making profit will not go for it. That means loss making companies are not allowed. That could be there or company can also have target that we may go for loss making companies also not a problem. Because that loss making company may have lot of prospects, and loss-making company may have may be available cheaper and we may also have some tax advantage. So, that could be there, so some criteria can be there.

How much risk this company is going to bring to USS? How are you going to is going to expose to more risk? Then possibly the companies say no we may not go for this particular target assets. And what type of assets they have? They have more of intellectual assets or what type of they have more of fixed assets but there are more liquid assets, whatever assets they have is going to be useful or not. Then comes the another very important thing management quality.

So, what is the quality management? Some companies acquiring companies may say that we do not have people to manage the new business. In that case we will depend on the existing management of the target. So, which then in that case you have to assets how is the query the quality management access. But some acquiring companies may say that we do not bother about the management because we have our management bandwidth which can be used to manage the new target also if it is acquired.

So, you do not have to bother him. So, that can be there, but if the occurring company feels no, we cannot have a we do not have the bandwidth to manage a new another business, we have depend upon the targets management you would look at what is the management's quality assets. Are they efficient are they operating well or not are they contributed organization not, so that also has to be looked at.

In that case the companies can filter and we may reject or we may select the company assets. Then when you acquisition take over takes place it is essentially, we want to control over them. And control is not necessary that you have to go for some like 51 percent share, control can be there with less than 51 percent. It depends on the how the rest of this assets are dispersed or not. So, in that case I can look for an acquisition where you do not have to pay for 51 percent lot of money may be required for that matter.

If I say keeps going for 20 30 percent acquisition of shares, I can still control the affairs of the company and control the decision making then also I can go for this is not necessary always that you should go for a majority personally like 51 percent share. Then comes another thing, how is organisational fit? That means the company's culture may be something different and our calls may be different so then when the mismatch can be there could be there are several deals.

Where the company found a lot of economic scale and scope could be there. But finally, did not fit culturally for example Daimler and Chrysler the merger took place for later it actually got split further. Because this one company in the European culture another company was American culture. Possible one of the reason was that the cultural fit was northern finalist merger acquisition did not also took place but it actually again got into split into two companies later.

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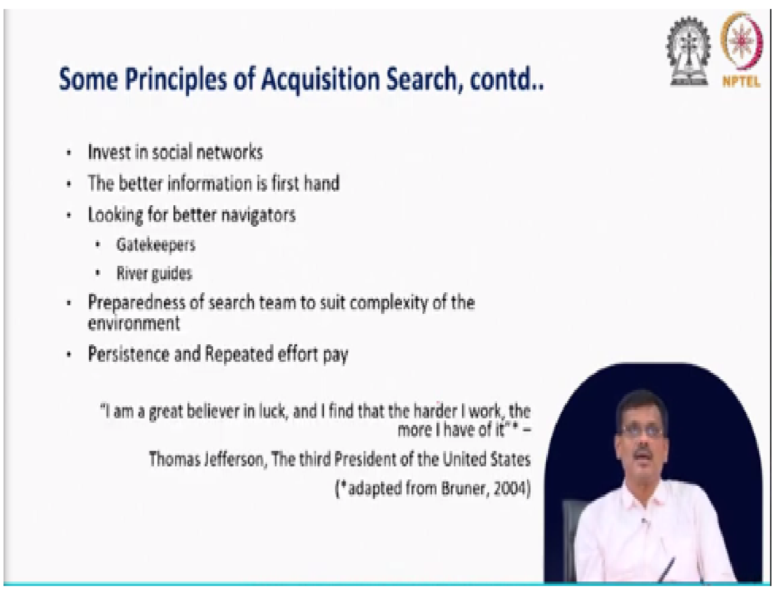

So that is one important aspect. And you have to invest in lot of in your social networks find it out who are there get your connection. So, that you get the people who are actually can give information about the company. And the better information that one company can have in the first hand; you get from the company source itself that the best thing for that matter. But it may not be always possible. So, you have to repent upon other parties also.

So, there are some agencies who may be working like your like gatekeepers, river guides. Gatekeeper is something a third-party company which could be a investment banker or consultant who can tell you, we can tell you about this particular sector geography in all those things the company also. River guides are actually specialized or experts they know what is happening in this industry where should you go for.

So, they can gives an idea where should actually company expand for the assets. And you have to have a source team comprising people who can look at the complexity of the environment and accordingly they can look for candidates and they should be have a lot of patience to search for as much information assets. And persistence and repeated effort will always pay so, surface is not going to be one single step you go and get the candidates not like that.

You have to look for a lot of information you have to persist with different sources of information and try to get the best candidate further matter. A repeated effort is definitely going to pay, but at the same time to code the Thomas Jefferson with third president of United States, he says I am a great believer in lock but I find that harder I work the more I have of it more I have of it. So, finally you may look go for lot of efforts all those things and the lock may not finally actually prefer.

And you having done lot of steps you have taken still you may end up with the target which may not fitting when you actually have acquired. So, then is going to problem. So, these things always happen all model acquisition are not going to be successful, several acquisitions become failure. So, company might have chosen a target looking at those competitive advantage etcetera. But subsequently the target has not been found to be suitable and lot of complications might have come up later.

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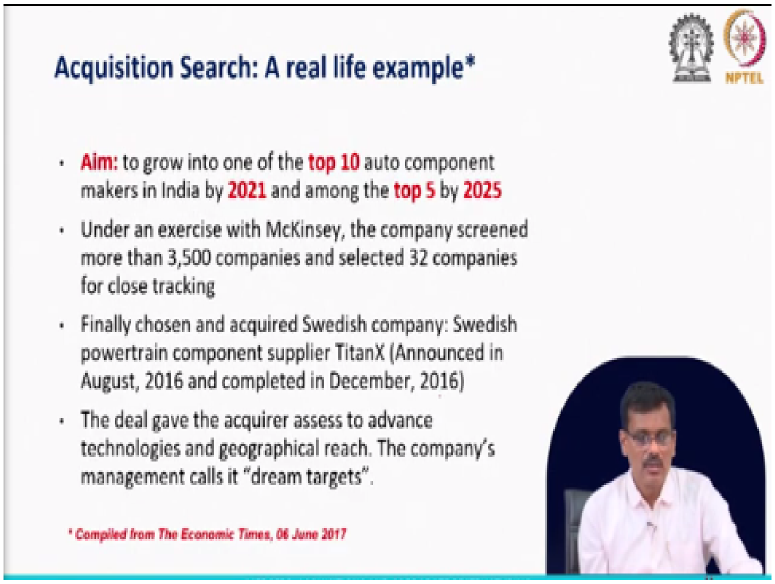

So, one example that we took about in this context is that there is a auto component maker in India into they wanted by 2021, this actually this took place couple of years back. So, they wanted to be top 10 auto component maker makers in India by 2021 and they also wanted to be top 5 in the 2025. So, what they did with the help of the their consultant vacancy the company had screened 3500 companies in the auto company segment.

And then they finally for close tracking they got 32 companies which is actually less than 1 percent of 3500 companies they initially looked at. So, they are 32 close tracking then finally they chose and acquired a Swedish company that is Swedish pout and component supply Titan X and they announced that in August 2016 and the deal was complete in December 2016. And this deal gave this acquire access to advanced technologies and geographical resource.

With this target acquisition the Tata auto component system could expand to a new geography, new market and outside India. At the same time, they also got the technology advanced technology which was there in Titan X is not there is the company's name is Tata auto component systems. And the management company says that, these types of things are like the dream targets for them. So, as you discussed previously that there to some screening criteria.

So, they also have a screening criteria like they started to 3500 ended up 32 companies, then they chose this Titan X. So, they also have some other principle they follow to choose the dream targets for the matter.

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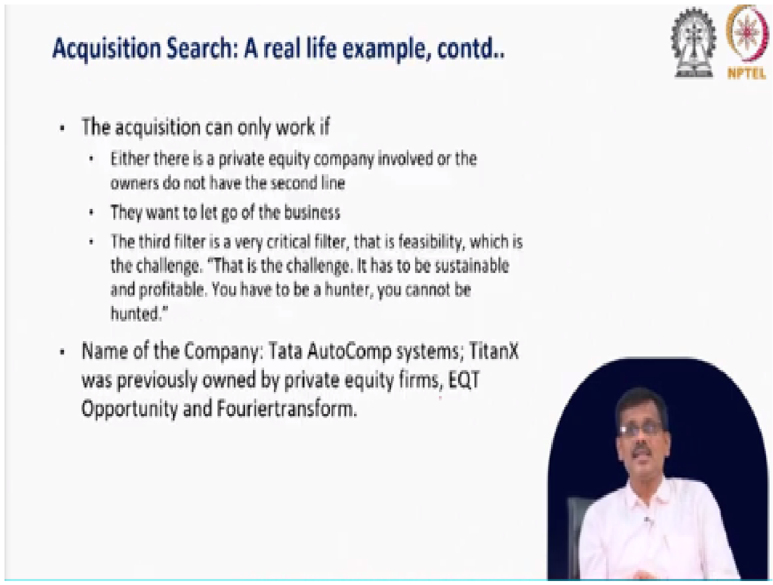

So, like they say that the acquisition can only work, if two or three things are there that. There is a private equity company involved or there is a family business which is managing business and they do not want to continue. So, they want they do not a second lines which are going to continue. So, family business is managing the business they want to exit, or private equity players always have their day when they acquire a company, they always go for a exit.

They plan to exit as there is a plant they may exist today tomorrow or two or three years later, but there is an exit status always. And so, and also the owner will like to let go of the business. And the third one that filter this company Tata auto component systems are that it is very crucial the feasibility. That is called it has to be a sustainable business also profitable. So, that means here as you discussed in one of the screen criteria Tata auto component systems will not look at the targets which are not making problem.

That means loss making targets are not in their purview. So, they may reject those then filter the reject this is not going to be looked we are not going to look at that one. So, these things fit and then they say you have to be a hunter and you cannot be hunted. That is what the Tata Auto comp systems management told at that point of time. So, this company Titan X was actually previously owned by a private equity firms called equity opportunities and four channel transfer.

These two companies were actually owning this company, and they wanted to exit from this business. So, that they can possible they can take the money and use for some other company for that matter accusation. This is an example.

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This is an example then another important aspects of in acquisition search etcetera, is that the due diligence. You will search for the candidates targets but is it going to be successful or not that depends on the due diligence. You have to be very careful about this company and look at different aspects of the company for that matter. So, that you know everything about this company. So, that you do not have a nasty surprise at the time of post-acquisition.

Is there any surprise about this company? It is a not good one answer there should be better that is comes before the company is actually selected by them. So, that is called the following the diligence process. And due diligence is a very methodical process.

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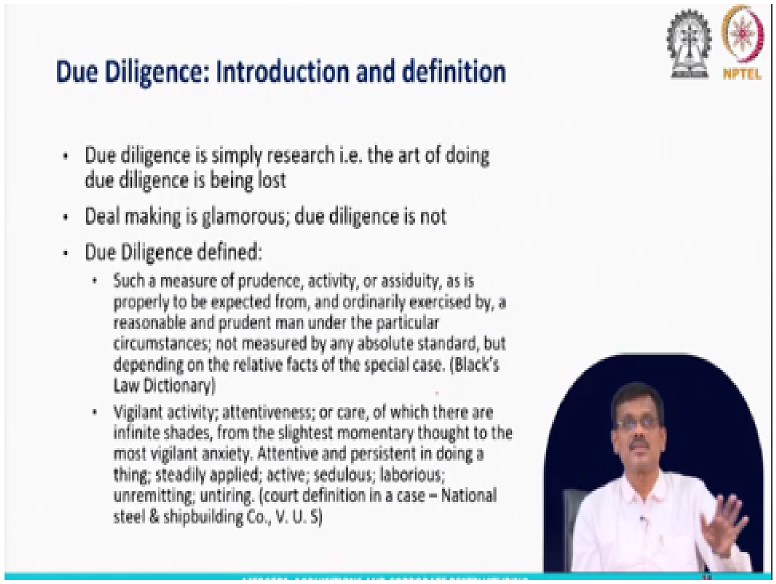

And it is simply research look at target look at all the aspects of the company, how this company is doing deal making is glamorous. But due to listen not, it is going to very messy process we will discuss more about the different steps in the subsequent session but to just talk about what due dilligence has such. Somebody defined the lord dictionary define that it is a measure of prudence, activity, assiduity as is properly to be expected from an ordinary exercise by a reasonable and prudent man under a particular circumstances.

That means this process that you are have little due diligence is not going to be you cannot replicate. It is going to applicant all the cases it is specific to this particular target or circumstance for that matter. And there is no standard to measure how much is good how much is bad. But it can depend relative facts of the case there is a lot explained. Similarly, if in a particular court case they in US the code defined that it is a vigilant activity you have to be very attentive.

You have to have a lot of care there are lot of infight sets from the slightest momentary thought to the most vigilant anxiety, attentive and persistent you know doing a thing steadily applied you have to be active schedules very laborious process and untiring for that matter, lot of efforts have to be there individuals process. It is not going to be very simple job due diligence for anything. Suppose any one when you even go for a buying a house also, individually we go for several checks and balances we go for that.

And find out which particular house is going to be suitable depending on actually our budget itself. So, this is a company acquisition and lot of things are going to come people are going to be there, the culture is going to be mixed means also two different systems are going to be there, two different IT systems can be there are, two different production processes can be there. So, many things can be there, and finally it can lead to lot of problem access.

So, if your duty lens is planned properly then the post merger integration becomes very easier. That is the advantage reliance, in fact due diligence will guide you that what are the steps that companies should be taking as far as integration. So, you come to know you plan in advance that. These things can be done at the time of integration, let us be prepared for that. That is what it makes you prepared well. So, that you do not have the nasty surprises in future assets.

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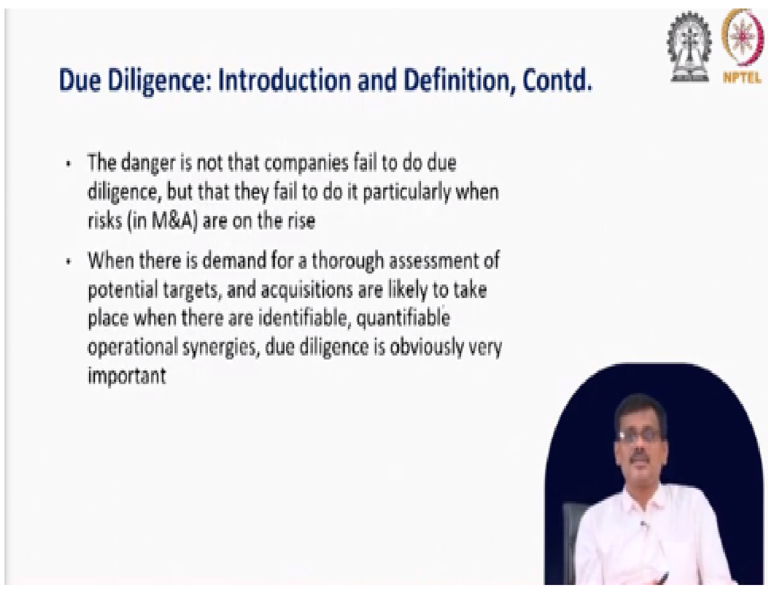

And yes, is not that people do not just that fail to due diligence and particularly this is very high risk like a amorphous law, the risk they fail in diligence assets. And when you there is a demand for a thorough assessment potential targets and an acquisition likely to take place when they are identifying the quantizable operating synergies devious varies. So, when the company is saying that we are going to have lot of synergies for that matter.

In that case you have to very vigilance is this synergy is going to happen is suppose synergy could be revenue enhancement. Are you going to have more cells combined company together, then what is today A plus B together A plus B now or not is it going to be there, are you going to actually expand new geography are you going to actually going to have cross selling for that matter. So, their company A sells B product B sells A products.

Similarly, is the cost reduction going to happen are you going to reduce the process cost or employee cost something like that. So, it has to very carefully. So, the due diligence has been done then the synergy claims can be justified for that matter.

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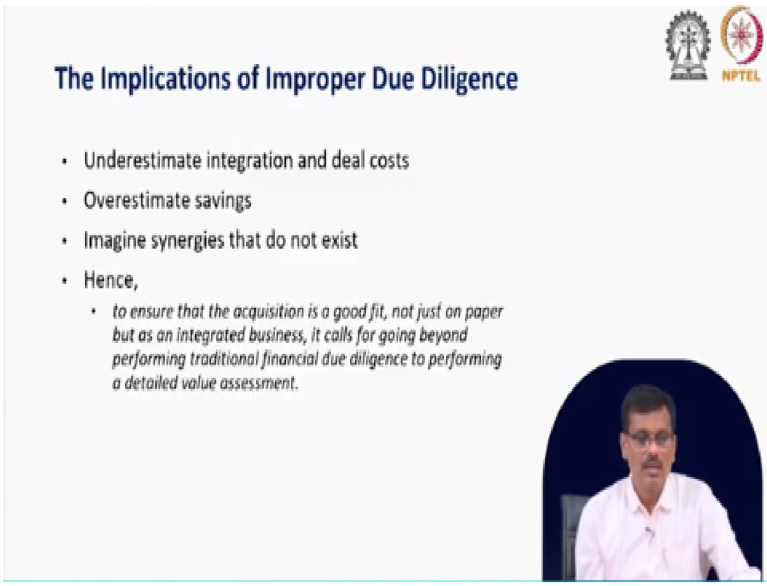

So, otherwise what will happen, if you do not do that you will be understated in integrals we talked about if you down the device properly then integration plan can vary good. Otherwise, you will be actually the deal cost of the integration cost is going to be underestimates. That means you must have thought of spending. Let us say 100 crore rupees but you will be ending up spending more because you did not plan it properly.

Because you never knew that there are certain things inherent but you never could know about it because it did not do a proper dividends access. You may overestimate the savings because of synergies cost energy say or you may imagine synergy actually they do not exist. Just looking at in hinds it is because the two common is coming together economic scope can be there economic scale can be there.

But a manner is actually possible unless you look at these processions of the company for that matter look and visit the companies for that matter in that case. So, hence to ensure that the acquisition is a very good fit not just on paper and but is integrated business it calls for going beyond the performing a traditional financial dealership that some properties their assets their liabilities they are not less liabilities they are more properties they are good assets that they are auditing is done accounting policies are followed.

These are called the financing due diligence loan is their loan look at the loan however the lender for that matter secured or not secure. All this and final drill relation but that is not enough due diligence beyond value you have to do a very good very detailed value assessment of the target. So, that very careful about it.

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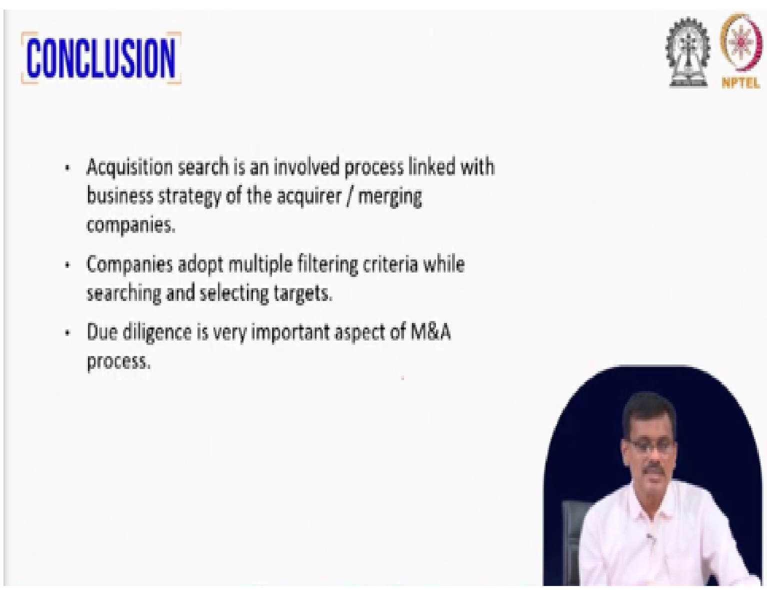

So, in this session we discussed about that how in acquisition such in very involved process. It involves lot of activities it is linked to the business strategy of the company acquiring company the merging companies and companies adopt multiple filtering techniques or criteria to select a target like you saw in Tata; Tata Auto compound systems finally shows Titan X company for acquisition.

And also we saw that we discussed that dual diligence is very important aspect mundane process, one can neglect. And the next session will discuss more in detail about different aspects of due diligence status from finance product, operations, marketing, HR culture different aspect dividends will be discussing the next session.

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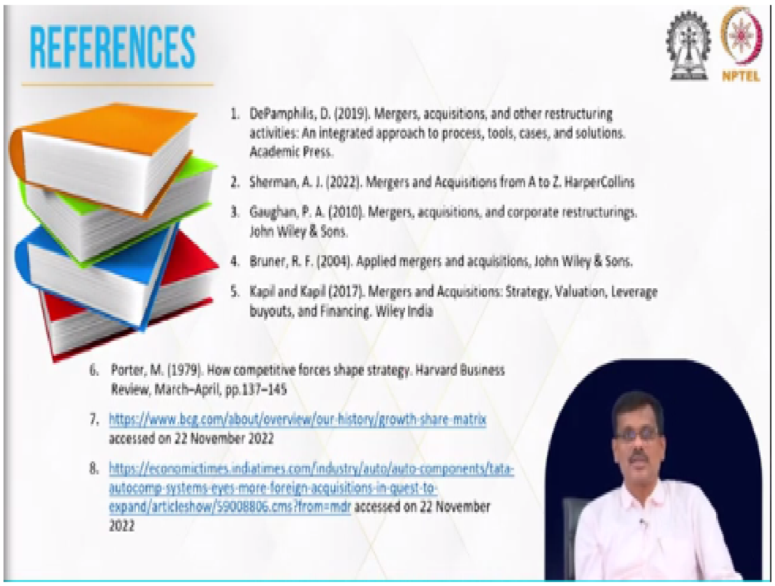

Thank you and happy learning.