

Mergers, Acquisitions and Corporate Restructurings

(session 1)

João Carvalho das Neves

Professor of Business Administration, ISEG

President of ACSS (Central Administration of the National Health System)

INTRODUCTION

Mergers, Acquisitions and Other Forms of Restructuring?



- What is it?
- Why is it worth study and research?
- What is the relevance?

THE IMPORTANCE OF MERGERS, ACQUISITIONS AND OTHER CORPORATE RESTRUCTURING

Potential benefits of M&A

- Different forms of synergies
- Economies of scale and scope
- Cost structure reduction
- Sharing of technology e know-how
- Sharing of information



Increase of competitiveness

Regeneration of the sector/industry

Potential losses

- Market power impact on customers
- Unemployment
- Lost of focus on day-to-day operations
- More Ego less Value

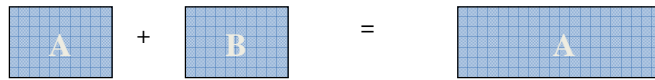
TYPES OF MERGERS AND ACQUISITIONS

Types of mergers and acquisitions

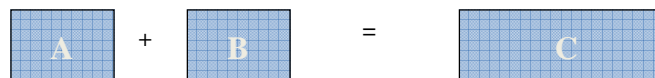
- From the point of view of the equity status:
 - Private negotiation
 - Public offer
- Based on the reaction of the Board of the target company:
 - Friendly takeover
 - Hostile takeover
- From a legal point of view (M&A):
 - Acquisition
 - Merger
 - Consolidation
- From a strategic point of view:
 - Horizontal
 - Vertical
 - Conglomerate

The two types of mergers

Merger



Consolidation



In Portugal an independent auditor (ROC) must give his opinion on the merger/consolidation project (artº 99º do CSC – companies code)

Other forms of exchange of control (takeover)

- Buy-back - aquisições de acções próprias
- Initial public offer – entrada em bolsa
- Delisting - saídas de bolsa
- Tender offer
 - Cash offer - ofertas pública de aquisição
 - Exchange offer - oferta pública de troca
- Public offer for sale - ofertas públicas de venda
- Privatization
- Leverage buy-out
- Management buy-out
- Management buy-in

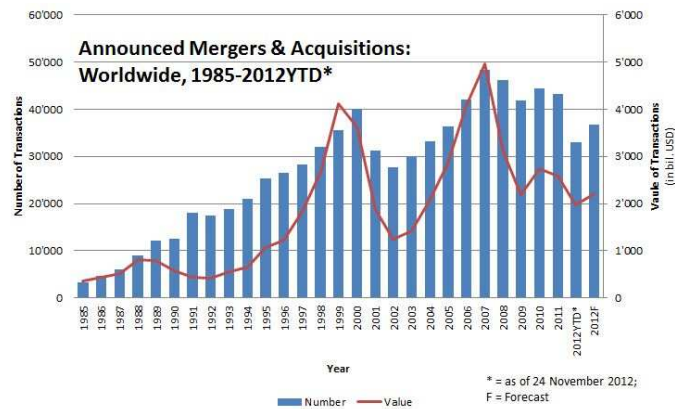
Other forms of restructurings

- SPIN-OFFS (Cisões)
 - Split-offs (the holding stays)
 - Split-up (The holding disappears)
- DINVESTMENT
 - Equity carve-out

In Portugal an independent auditor (ROC) must give his opinion on the spin-off (artº 99º do CSC – companies code)

HISTORY OF MERGERS AND ACQUISITIONS

M&A Waves Worldwide

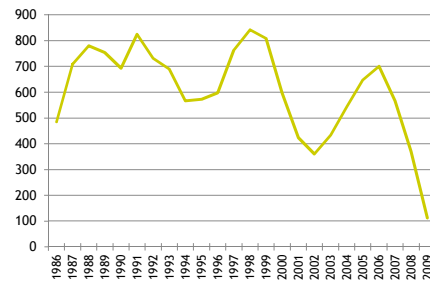


M&A waves in Europe



Waves of Mergers and Acquisitions

Número de Fusões e Aquisições no Reino Unido



Fonte: Bank of England (Inward and Outward)

Phases of M&A in USA

- 1897-1904 * HORIZONTAL AND REGIONAL - Monopolies
 - Mining & manufacturing
 - Infrastructures changes (railway) and production technologies changes
 - Generated monopolies, Economies of production and distribution
- 1916-29 * VERTICAL INTEGRATION AND SPECULATION - Oligopolies
 - Antitrust environment
 - Primary metals, Petroleum, Food and Beverage, Chemicals, transportation equipment
 - Appearance of radio, automobiles – segmentation and distribution
- 1940-47 * AFTER WORLD WAR REGENERATION
 - Large companies buy small companies
 - Regulations and tax relief
- 1965-69 * CONGLOMERATES
 - Companies with financial resources sought to expand
 - Diversification
 - P/E game
- 1981-89 * MEGAMERGERS – CONCENTRATION AND TRANSNATIONAL MERGERS
 - Hostile and speculative
 - Deregulation – Airlines, Banking, etc.
 - Appearance of Raider
- 1990'S * TRANSNATIONAL AND TRANSCONTINENTAL MERGERS
 - Deregulation; Political changes; Technological changes

Theories that explain the merger waves

- Information theory
- Buy or build (q-Tobin ratio)
- Speculation
- Deregulation theory
- Innovation theory (Technology and Financial)
- Prosperity or business cycles