LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

M&A Strategies

and

Restructuring Strategies

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M&A STRATEGIES

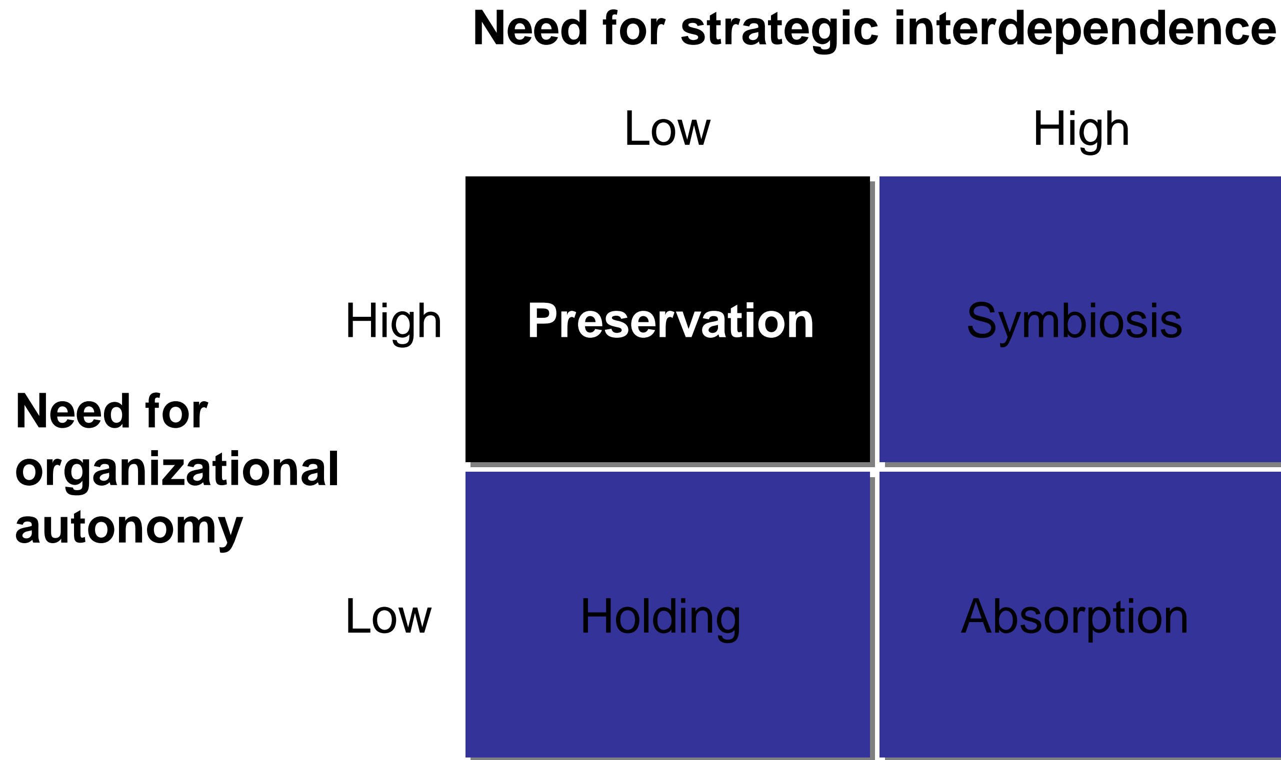
Absorption

Need for strategic interdependence

		Low	High
Need for organizational autonomy	High	Preservation	Symbiosis
	Low	Holding	**Absorption**

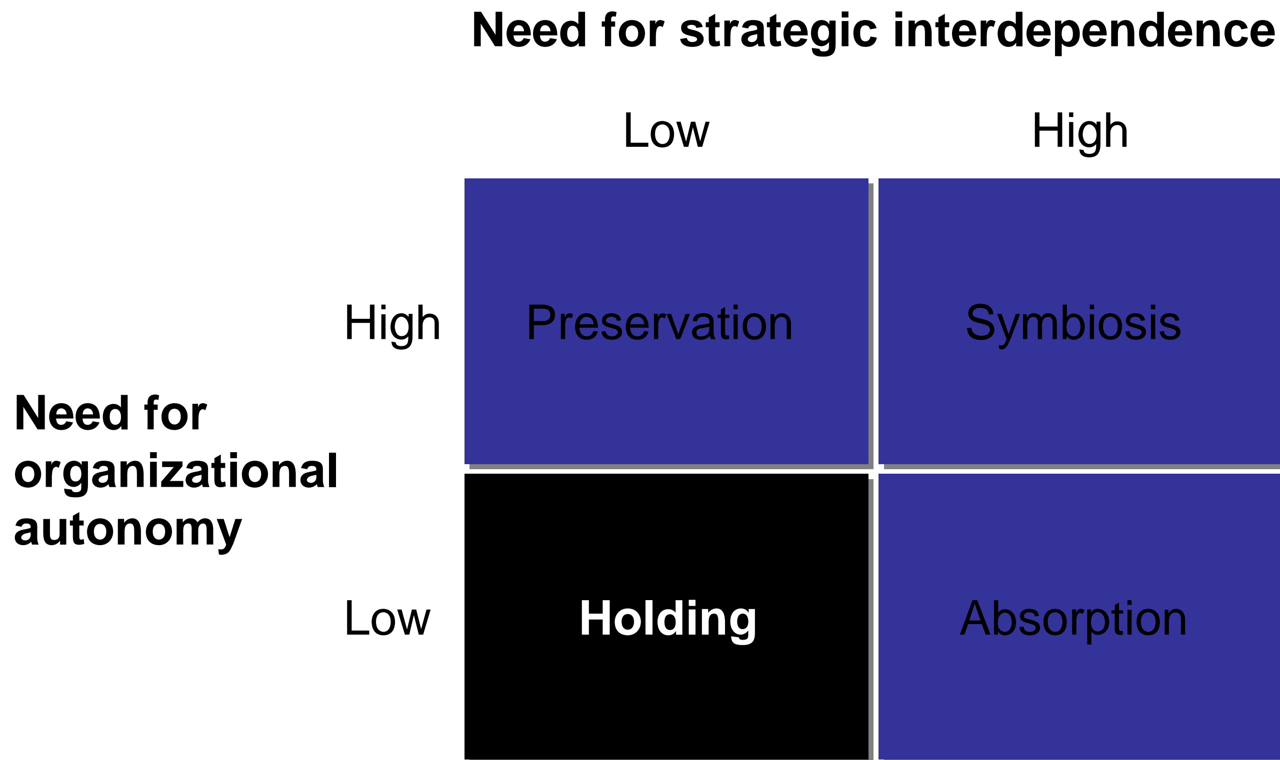
Acquiring company completely absorbs the target company. If the target company is large, this can take time

Preservation



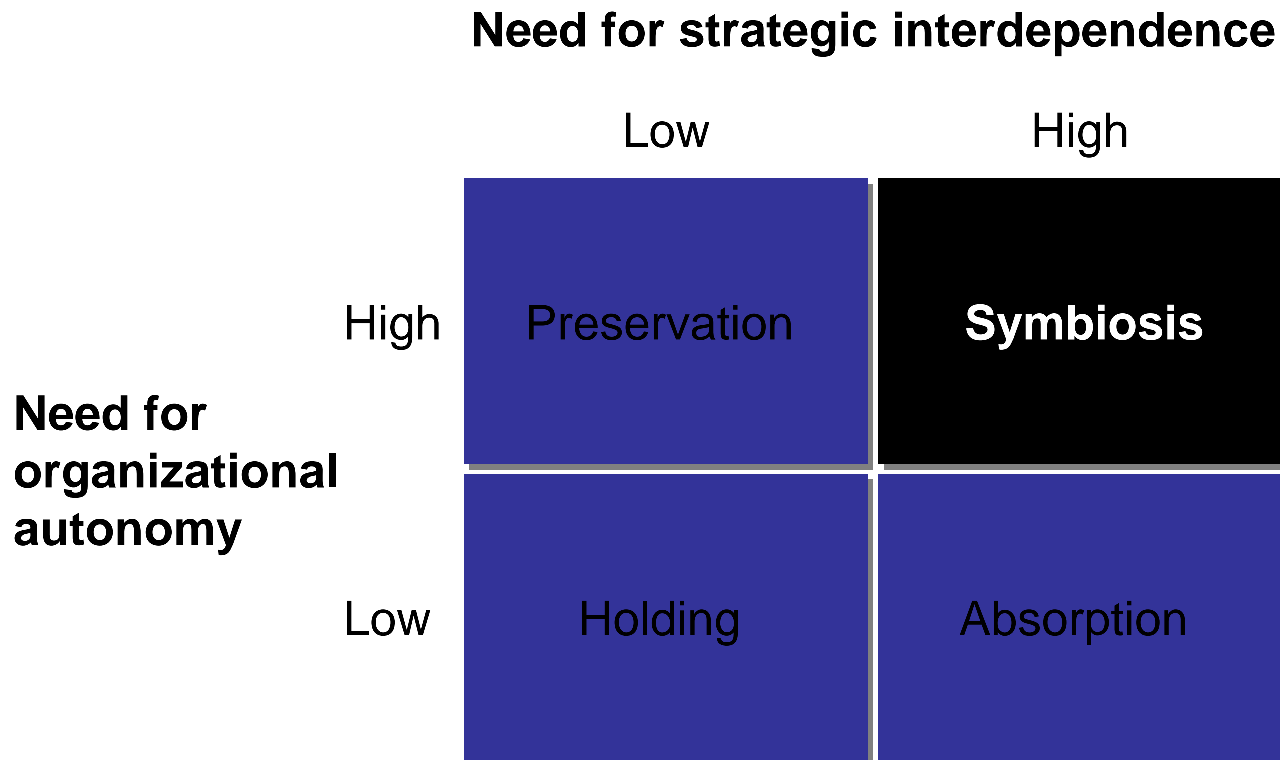
The acquiring company makes very few changes to the target , and instead learned from it in preparation for future growth (e.g., many of Wal-Mart's early international acquisitions)

Holding



The acquiring company allows little autonomy - yet does not integrate the target into its businesses (e.g., Bank One's acquisitions of local banks)

Symbiosis



The acquiring company integrates the target in order to achieve synergies - but allows for autonomy, for example to retain and motivate employees. This is possibly the most difficult to implement (e.g., Cisco's acquisitions which cost the firm $1 million per employee on average)

RESTRUCTURING STRATEGIES

Restructuring Strategies

Different alternatives for Restructuring

1) Business Alliances
2) Divestitures
3) Spin-offs
4) Equity carve-outs
5) Split-offs and Split-Ups
6) Reorganization and liquidation in bankruptcy process

Restructuring Strategies

Different alternatives for Restructuring

1) **Business Alliances**
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Different alternatives for Restructuring

1) **Business Alliances**

Motivations for business alliances

a) Risk Sharing

- Sharing proprietary knowledge
- Sharing Management Skills, Information and Resources
- Sharing substantial capital investments
- Securing sources of supply
- Cost reduction

b) Gaining Access to New Markets

Different alternatives for Restructuring

1) **Business Alliances**

c) Globalization

International competition increased the demand for alliances and Joint Ventures to enable companies to enter markets in which they lack production or distribution channels or in which law prohibits 100% foreign ownership of a business.

Different alternatives for Restructuring

1) Business Alliances

Type	Key characteristics
Joint-ventures	• Independent legal entity involving two or more parties • May be organized as a corporation, partnership or other legal/business organization selected by the parties • Ownership, responsibilities, risks and rewards allocated to parties • Each party retains corporate identity and autonomy • Created by parties contributing assets for a specific purpose and for a limited duration
Strategic alliances (e.g., technology transfer, R&D sharing and cross-marketing)	• Do not involve the formation of separate legal entities • May be precursor to a joint-venture, partnership or acquisition • Generally not passive but involve cross-training, coordinated product development and long-term contracts based on performance metrics such as product quality rather than price
Equity partnerships	• Have all the characteristics of an alliance • Involve making minority investment in the other party (e.g. 5%-10%) • Minority investor may have an option to buy larger stake in the other party
	Source: DePamphilis, D. "Mergers, Acquisitions and other Reestructuring Activities", pp.554

Different alternatives for Restructuring

1) Business Alliances

Type	Key characteristics
Licensing: **• Product** **• Process** **• Merchandise and trademark**	• Patent, trademark or copyright licensed in exchange for a royalty or fee • Generally no sharing of risk or reward • Generally stipulates what is being sold, how and where it can be used and for how long • Payments usually consist of an initial fee and royalties based on a percentage of future license sales
Franchising alliances	• Network of alliances in which partners are linked by licensing agreements (e.g. fast-food chains, hardware stores) • Often grant exclusive rights to sell or distribute goods or services in specific geographic areas or markets • Licensees may be required to purchase goods and services from other firms in the alliance
Network alliances	• Interconnecting alliances among companies crossing international and industrial boundaries (e.g. airlines) • May involve companies collaborating in one market while competing in others (e.g. computers, airlines, cellular telephones) • Most often formed to access skills form different but increasingly interconnected industries
Exclusive agreements	• Usually involve rights for manufacturing or marketing specific products or services • Each party benefits from the specific skills or assets the other party brings to the relationship
	Source: DePamphilis, D. "Mergers, Acquisitions and other Reestructuring Activities", pp.554

Restructuring Strategies

Different alternatives for Restructuring

1) Business Alliances
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Different alternatives for Restructuring

2) Divestitures

A Divestiture is the sale of a portion of a firm´s assets to an outside party, generally resulting in a cash inflow to the parent company.

Assets may include a product line, a subsidiary, or a division.

Motives for Divestitures

Divestiture typically represent a way of raising cash. A company may choose to sell an underperforming operation that it determined to be nonstrategic or unrelated to the core business and to use the proceeds of the sale to fund investments in potentially higher return opportunities, including paying off debt.

Restructuring Strategies

Different alternatives for Restructuring

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Different alternatives for Restructuring

3) Spin-off

A Spin-off is when a company creates a new independent company by selling or distributing new shares of its existing business.

Motives for a Spin-off

A company creates a spinoff expecting that it will be worth more as an independent entity.

Different alternatives for Restructuring

1) Business Alliances
2) Divestitures
3) Spin-offs
4) **Equity carve-outs**
5) Split-offs and Split-Ups
6) Reorganization and liquidation in bankruptcy process

Different alternatives for Restructuring

4) Equity carve-outs

Equity carve-out is a type of corporate reorganization, in which a company **creates a new subsidiary**, while **retaining management control**. Only part of the shares are offered to the public, so the parent company retains an equity stake in the subsidiary. Typically, up to 20% of subsidiary shares is offered to the public.

Equity carve-outs have similar characteristics to spin-off. Both result in the subsidiary´s stock´s being traded separately from the parent´s company stock.

Equity carve-outs are also similar to divestitures and IPOs, in that they provide cash to the parent.

Nevertheless, unlike the spin-offs or the divestiture, the parent generally retains control of the subsidiary in a carve-out transaction.

Different alternatives for Restructuring

1) Business Alliances
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5) **Split-offs and Split-Ups**
6) Reorganization and liquidation in bankruptcy process

Different alternatives for Restructuring

5) Split-offs and Split-Ups

A **split-off** involves the parent firm making an offer to its shareholders to exchange their parent stock for all or a portion of the shares of the firm´s subsidiary.
It is equivalent to a share repurchase by the parent of its stock using stock in the subsidiary instead of cash.

A **split-up** refers to a restructuring strategy in which a single company splits into two or more separately managed firms.

Different alternatives for Restructuring

Key Charecteristics of Alternative Exit and Restructuring Strategies

Characteristics	Alternative Strategies					
	Divestitures	Equity Carve-Outs/IPO's	Spin-Offs	Split-Ups	Split-Offs	Tracking Stocks
Cash Infusion to Parent	Yes	Yes	No	No	No	Yes
Parent Ceases to Exist	No	No	No	Yes	No	No
New Legal Entity Created	Sometimes	Yes	Yes	Yes	No	No
New Shares Issued	Sometimes	Yes	Yes	Yes	Yes	Yes
Parent Remains in Control	No	Generally	No	No	No	Yes
Taxable to Shareholders (*)	Yes	Yes	No	No	No	No

Source: DePamphilis, D. "Mergers, Acquisitions and other Reestructuring Activities", pp.610

Restructuring Strategies

Different alternatives for Restructuring

Exit/Restructuring Strategy	Characteristics of Operating Unit Subjec to Exit/Restructuring Strategy
Divestitures	• Usually unrelated to other businesses owned by the parent • Operating performance generally worse than the parent's performance • Slightly underperform their peers in the year before the announcement date • Generally sell at a lower price than carve-outs, as measured by the ratio of market value to book assets
Carve-outs	• Generally more profitable and faster growing than spun-off or divested businesses • Operating performance often exceeds parent's • Usually operate in industries characterized by the high ratio of market to book values • Generally outperform peers in the year before the announcement date
Spin-offs	• Generally faster growing and more profitable than divested businesses • Most often operate in industries related to other industries in which the parent operates • Operating performance worse than parent's • Slightly underperform peers in the year before the announcement date
	Source: DePamphilis, D. "Mergers, Acquisitions and other Reestructuring Activities", pp.611

Different alternatives for Restructuring

1) Business Alliances
2) Divestitures
3) Spin-offs
4) Equity carve-outs
5) Split-offs and Split-Ups
6) **Reorganization and liquidation in bankruptcy process**

Different alternatives for Restructuring

6) Reorganization and liquidation in bankruptcy process

Bankruptcy is the legal proceeding involving a business that is unable to repay outstanding debts.

The bankruptcy process begins with a petition filed by the debtor firm, which is most common, or on behalf of creditors, which is less common.

The debtor firm may seek protection from its creditors by initiating bankruptcy or may be forced into bankruptcy by its creditors.

All of the debtor's assets are measured and evaluated, and the assets may be used to repay a portion of outstanding debt.

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