

PGDM & IB Batch 2015-17

Mergers, Acquisitions and Corporate Restructuring

Subject Code: DM 513 / IB 506

Trimester V, End Term Examination: December 2016

Time Allowed: 2 hrs 30 min

Roll No.: _____

Max Marks: 50

Instruction: Students are required to write Roll No. on every page of the question paper, writing anything except the Roll No. will be treated as **Unfair Means**. All other instructions on the reverse of the Admit Card should be followed meticulously.

Make assumptions wherever necessary and write them down at the beginning of the solution.

Section A: Answer any 3 out of 5 questions. Each question carries 5 marks.

A1. Within the different forms of divestitures, Equity Carve-out and Sale to Another Company have some similarities yet are different from each other. Highlight the similarities and differences between the two.

A2. Parent has decided to acquire 90% in the subsidiary by issuing shares worth \$150,000. The value of the identifiable net assets is as mentioned below:

	Fair Value (Amount in INR)
Cash & Receivable	15,000
Inventory	90,000
PPE	165,000
Total Assets	270,000
Current Payable	20,000
Long term Debt	80,000
Total Liabilities	100,000
Net Assets	170,000

Calculate the value of Goodwill and Minority Interest as per Full Goodwill Method.

A3. Bootstrapping and Economies of Scale are genuine reasons to merge / acquire. Critically evaluate the above statement.

A4. Company A has offered to acquire company B. Company A's premerger stock price is \$100 and no. of shares outstanding are 2 million, company B's premerger stock price is \$ 75 and no. of shares outstanding are 1 million. Company A expects to unlock a synergy value of \$ 60 million after the takeover. Evaluate the synergy gains to Company A if it offers \$60 in cash and 0.4 of its own share for each share of Company B.

A5. What are the different types of Mergers as per movement on the industry's value chain?

Section B: Answer any 2 out of 3 questions. Each question carries 10 marks.

B1. Explain any five post-offer defence mechanisms which a target firm can deploy in order to avoid the takeover bid by any acquirer.

B2. What are the different motivations for firms to merge? Write atleast one motivation under different stages of the industry's life cycle.

B3. Given below is the data for two companies.

	Acquirer (A)	Target (T)
EPS	\$2.00	\$2.50
P/E	15.0	10.0
Stock price	\$30.00	\$25.00
Total Shares Outstanding	10,000	5,000

Assuming the purchase consideration has been paid in form of shares, you are required to calculate the following:

- a. Effect on bootstrapping on EPS of Acquirer
- b. Control Dilution post-merger.

Section C: The question contains two parts. Both the parts are compulsory to attend. Each part carries 7.5 marks.

Part 1: The merger of two tech giants Facebook and WhatsApp was one of the most sought after M&A deal of the calendar year 2014. Facebook, the acquirer, faced a lot of criticism for acquiring WhatsApp, the target firm, at an obnoxiously high valuation. Do you agree with Facebook on its acquisition logic? Discuss your point of view citing relevant examples from recent past wherever necessary.

Part 2. Two firms, A Ltd & B Ltd, are contemplating a merger deal in which A Ltd. will acquire B Ltd. The relevant information about the firms is given as follows:

	A	B
Total earning (Rs. Mn)	50	24
Number of outstanding shares (Mn)	10	8
Price earnings ratio (times)	10	7

Assuming the PE of the combined firm will be 10x with an additional earnings synergies of 20%, answer the following:

- I. How much is the total synergy created from the merger?
- II. What shall be the maximum exchange ratio acceptable to A Ltd.?
- III. If the entire synergy is shared with the target, what is the purchase consideration and what shall be the exchange ratio?

*****End*****