UNIT 13: Mergers and acquisitions

Vocabulary

1) mergers and acquisitions= strategic alliances companies make by combining with or buying others in order to increase their grip on the market they trade in ; M&A, integration, external or extensive growth, merger activity (fusions et acquisitions)

2) growth= strategic objective aimed at expanding the scale of business= growth in size (croissance)

3) large-scale firm= a very large business organization or company, often a multinational, operating in a given market sector. (croissance)

4) market share= A percentage of total sales volume in a market captured by a brand, product, or company. (part de marché)

5) private enterprise= Basis of a free market capitalist system, it is a business unit established, owned, and operated by private individuals for profit, instead of by or for any government or its agencies. (société, compagnie privée)

6) manufacturing = make or process (a raw material) into a finished good, especially by means of a large-scale industrial operation (usinage)
7) net output= The industrial output is the total output of all the facilities producing goods within a country. The manufacturing output, the output of all factories in a country, is a sub-set of industrial output.
manufacturing production refers to the total production output from industries that consists of producing goods in factories or plants for a specific time period (production industrielle nette)

8) achieved= accomplished, highly skilled or developed (accompli)

9) net= Amount remaining after all deductions from, or adjustments to, a gross figure have been made.

10) acquisition= Taking control of a firm by purchasing 51 percent (or more) of its voting shares.

11) merger= Voluntary amalgamation of two firms on roughly equal terms into one new legal entity. Mergers are effected by exchange of the pre-merger stock (shares) for the stock of the new firm. Owners of each pre-merger firm continue as owners, and the resources of the merging entities are pooled for the benefit of the new entity. If the merged entities were competitors, the merger is called horizontal integration, if they were supplier or customer of one another, it is called vertical integration. (fusion)

internal growth= business expansion by way of market penetration, market or product development, intensive growth (croissance intene)

12) shares= A unit of ownership that represents an equal proportion of a company's capital. It entitles its holder (the shareholder) to an equal claim on the company's profits and an equal obligation for the company's debts and losses.
Two major types of shares are (1) ordinary shares (common stock), which entitle the shareholder to share in the earnings of the company as and when they occur, and to vote at the company's annual general meetings and other official meetings, and (2) preference shares (preferred stock) which entitle the shareholder to a fixed periodic income (interest) but generally do not give him or her voting rights. (parts, actions)

13) merging firms= companies, normally two, involved in negotiations leading to a merger. (des firmes qui fusionnent)

14) legal entity= An association, corporation, partnership, proprietorship, trust, or individual that has legal standing in the eyes of law. A legal entity has legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions. (entité légale, juridique)

15) a venture= Start-up entity developed with the intent of profiting financially. A business venture may also be considered a small business. Many ventures will be invested in by one or more individuals or groups with the expectation of the business bringing in a financial gain for all backers. Most business ventures are created based on demand of the market or a lack of supply in the market. Needs of consumers are identified for a product or a service and the entrepreneur and investors will proceed to develop the idea, market the idea, and sell the product or service developed. (entreprise)

16) shareholders= An individual, group, or organization that owns one or more shares in a company, and in whose name the share certificate is issued.
It is legal for a company to have only one shareholder. Also called (in the US) stockholder. (actionnaires)

17) a takeover= the act of assuming control or management of or responsibility fpr something, especially the seizure of power, as in a nation, political organization or corporation (rachat)

18) controlling interest= Ownership of 51 percent or more of the voting-stock (shares) that gives the owner(s) legal control of a firm. (participation majoritaire)

19) share price= the price of a share (prix d'une action)

20) stock market= a place where shares are bought and sold, i.e. a stock exchange (bourse, marché boursier)

21) raised= increased
22) subsumed= put into abroader category / included, swallowed up (inclure, englober, intégrer)

23) a purchaser= a buyer (un acheteur)
24) constituent companies= companies that are part of a group of consolidated, merged or affiliated companies (sociétiés d'un groupe)
25) horizontal integration= The merger of companies at the same stage of production in the same or different industries. When the products of both companies are similar, it is a merger of competitors. When all producers of a good or service in a market merge, it is the creation of a monopoly. If only a few competitors remain, it is termed an oligopoly. Also called lateral integration. See also vertical integration. (intégration horizontale)

26) acquiring firm= company that has taken over another company by buying the majority of its shares. (firme qui fait l'acquisition de)

27) vertical integration= Merger of companies at different stages of production and/or distribution in the same industry.
When a company acquires its input supplier it is called backward integration. When it acquires companies in its distribution chain it is called forward integration. For example, a vertically integrated oil company may end up owning oilfields, refineries, tankers, trucks, and gas (petrol) filling stations. Also called vertical merger. See also horizontal integration. (integration verticale)

28) conglomerate mergers= amalgamations of companies producing completely different products providing totally different services but which have something in common. (fusion conglomérale)

29) lateral integration= alternative term for horizontal integration. (intégration latérale)

30) despite= in spite of, notwithstanding (malgré, en dépit de)

31) subsequent= following in time and order, succeeding (prochain, suivant, subséquent)
32) exert= put to use oreffect / exercise/ to put oneself to strenuous effort (exercer, efforcer,pratiquer)
33) supplies= General purpose consumable items which commonly have a shorter life span in use than equipment and machines, and which are stocked for recurring use. (fournitures)

34) source of supply= person or company selling materials or goods or other resources to other companies (source de ravitaillement, fournitures,/ fournisseur)

35) factor inputs= resources used by firms in their production processes such as land, labour and capital; inputs, factors of production (facteurs de production)

36) cost price= the price that it costs to make an item, without a profit being added. (prix de revient, prix coûtant)

37) a retail outlet= company selling products in small units directly to the final consumer as a shop or supermarket: marketing outlet, shop, retailer, point of sale (point de vente, magasin de detail)

38) wholesale pricing policy= strategy aimed at fixing the price at which goods are sold to shops by the people who produce them, rather than the price the customer usually pays in the shop: wholesale price policy, trade price policy (politique de prixde gros pratiquée)

39) retail pricing policy= strategy aimed at fixing the price the final consumer pays for a company's goods or services (politique de prix de detail pratiquée)

40) curriculum testing facilities= places where students are tested about their courses of study (lieux de passage de test)

41) assessment testing facilities= places where students are evaluated (lieux d'évaluation)

42) customized learning= personalized learning= The term **personalized learning**, or *personalization*, refers to a diverse variety of educational programs, learning experiences, instructional approaches, and academic-support strategies that are intended to address the distinct learning needs, interests, aspirations, or cultural backgrounds of individual students. (enseignement personnalisé)

43) operations= the actual work or activities of a company such as production, sales or financial transactions.

44) diversification= strategy aimed at moving into new markets or activities so as to grow, or to reduce or spread risks, often but not always by buying other companies in different fields.

45) previously= existing or occurring before something else in time or order; prior (precedent)
46) account for=provide an explanation or justification for (expliquer, justifier)

47) giant conglomerates=large-scale, fully diversified firms.
48) chemicals= substances (produits chimiques)
49) animal feeds= food for animals (foin, fourrage)
50) cushioned against= lessen or suppress the effects of (amortir, soulager)
51) commonality=shared features (point commun, bien commun)
52) labour skills= workers' particular abilities or capacities, often acquired by training. (compétences des travailleurs)

53) capital equipment= goods used as tools to manufacture other goods: capital goods (biens déquipement)
54) raw materials= goods that are used as inputs to manufacture other goods. (matières premières)
55) product outlet= A store that products or services to the general public. (magasin, point de vente de produits)
56) cleared= free from
57) competition authorities= competition regulators , government agencies which sometimes regulate and enforce competition laws in some countries. They also protect consumers. (autorités de la concurrence)

Reading comprehension: Mergers and acquisitions in the growth of the firm

One of the most significant changes in the UK's industrial structure over the past hundred years has been the **growth** of the **large-scale firm**. For example, the **market share** of the 100 largest **private enterprises** in **manufacturing net output** has risen from 22% in 1949 to a maximum of 42% in 1975, before falling back to around 30% by 2000. Most of the growth in size was achieved by **acquisition** or **merger** rather than by **internal growth**.

A merger takes place with the mutual agreement of the management of both companies, usually through an exchange of **shares** of the **merging firms** with shares of the new **legal entity**. Additional funds are not usually required for the act of merging, and the new **venture** often reflects the name of both the companies concerned.

A takeover (or acquisition) occurs when the management of Firm A makes a direct offer to the **shareholders** of Firm B and acquires a **controlling interest**. Usually the price offered to Firm B shareholders is substantially higher than the current **share price** on **the stock market**. In other words, a takeover involves a direct transaction between the management of **the acquiring firm** and the stockholders of **the acquired firm**. Takeovers usually require additional funds to be raised by the acquiring firm (Firm A) for the acquisition of the other firm (Firm B) and the identity of the acquired company is often **subsumed** within that of the **purchaser**.

Sometimes the distinction between merger and takeover is clear, as when an acquired company has **put up a fight** to prevent acquisition. However, in the majority of cases the distinction between merger and takeover is difficult to make. Occasionally the situation is complicated by the use of the words ‘takeover’ and ‘merger’. For example, in 1989 the press announced that SmithKline Beckmam, the US pharmaceutical company, **had taken** over the UK company Beecham for £ 4,509 m. However, **technically speaking** it was a merger because a new company SmithKline Beecham was created, which acquired the shares of the two constituent companies to form a new entity.

Four major forms of nodular activity can be identified: horizontal integration, vertical integration, the formation of conglomerate mergers, and lateral integration.

Horizontal integration occurs when large firms combine at the same stage of production, involving similar products or services. During the1960s over 80% of UK mergers were of the horizontal type, and despite a subsequent fall in this percentage, some 80% of UK mergers in the late 1990s were still of this type. The merger of Royal Insurance and Sun Alliance to form Royal and Sun Alliance in 1996, Imperial Tobacco's acquisition of the German Tobacco firm Reemtsma Cigarettefabriken in 2002, and the Resolution Life Group’s acquisition of the Britannic Group in 2005 were all examples of horizontal mergers.

Vertical integration occurs when the firms combine at different stages of production of the common good or service. Only about 5% of UK mergers are of this type. Firms might benefit by being able to exert closer control over quality and delivery of supplies if the vertical integration is ‘backward’, i.e., towards the source of supply. Factor inputs might also be cheaper, obtained at **cost price** instead of cost plus profit. The takeover of Texas Eastern, an oil exploration company, by Enterprise Oil in 1999, serves as an example of backward vertical integration. Of course, vertical integration could be forward- towards **the retail outlet**. This may give the firm merging ‘forward’ more control of **wholesale or retail pricing policy**, and more direct customer contact. An example of forward vertical integration towards the market was the acquisition by the UK publishing company Pearson PLC of National Computer Systems in 2000 for £1.6 billion. NCS was a US global information service company providing Internet links and **curriculum and assessment testing facilities** for schools. The takeover allowed Pearson to design **integrated educational programs** for schools by providing students with **customized learning and assessment testing facilities**.

Conglomerate merger refers to the adding of different products to each firm's **operations**. **Diversification** into products and areas with which the acquiring firm was not previously directly involved **accounted for** only 13% of all mergers in the UK in the 1960s. However, by the late 1980s the figure had risen to 34%. The major benefit is the spreading of risk for the firms and shareholders involved. **Giant conglomerates** like Unilever (with interests in food, **detergents**, toilet preparations, **chemicals**, paper, plastics, **packaging**, animal **feeds**, transport and tropical plantations- in 75 separate countries) are largely **cushioned against** any damaging movements which are restricted to particular product groups or particular countries.

Lateral integration is sometimes given separate treatment, though in practice it is difficult to distinguish from a conglomerate merger. The term 'lateral integration' is often used when the firms which combine are involved in different products, but in products which have some element of **commonality**. This might be in terms of factor input, such as requiring similar **labour skills**, **capital equipment** or **raw materials**; or it might be in terms of **product outlet**. The Swiss company TetraLaval's offer for the French company Sidel in 2001, which was finally cleared by the EU competition authorities in 2002, provides an example of the difficulty of distinguishing the concepts of conglomerate and lateral integration. TetraLaval designs, manufactures and sells packaging for liquid food products as well as manufacturing and marketing equipment for milk and farm products. Sidel designs and sells machines used in the manufacture of plastic bottles and packaging. The European Commission regarding the merger as conglomerate in that the companies operated in different sectors of the market and were to be organized, post merger, into three distinct entities within the TetraLaval group. However, it was still the case that the merger would resemble a case of lateral integration in that the companies had a commonality of experience in the packaging and container sector.

Mergers and acquisitions exercises

Comprehension

Exercise: Circle the alternative (a), (b) or (c) that most fully and correctly completes the statements or answers the questions below

1) What has been the most commonly used expansion strategy by British firms over the past hundred years? a) Internal growth b) external growth c) diversification

2) During the same period, the market share of Britain's largest firms has a) increased steadily b) increased slightly c) increased a lot before falling

3) The situation in which the management boards of two companies agree to exchange shares in order to form a new company is known as a) a merger b) an acquisition c) an agreement

4) A takeover is a situation in which the management board of the company makes an offer to buy another company directly to a) the management board of the target firm b) the management board and shareholders of the target firm c) the shareholders of the target firm

5) When there is a merger, the name of the newly created film often reflects the identity of a) the acquiring firm b) the acquired firm c) the merging firms

6) Which company's identity is absorbed when there is a takeover? a) the acquiring firm's b) the acquired firm's c) the merging firms'
7) In mergers and acquisitions, there is sometimes a need for additional funds to be raised by a) the acquiring firm b) the acquired firm c) the merging firms
8) Which type of merger is most frequently resorted to by companies in the UK? a) horizontal merger b) vertical merger c) conglomerate merger
9) The situation in which companies producing totally different products which nevertheless have something in common merge is known as a) diversification b) conglomerate merger c) lateral integration
10) When a merger or takeover bid is cleared by the EU competition authorities, as in the Swiss company Tetralaval offer for the French company Sidel this means that the European commission has a) rejected the deal b) approved the deal c) blocked the deal

VOCABULARY

Exercise 2: Use the list of definitions above to select the appropriate term to fit each sentence.

1) The underlying principle in .... is, one way or another, the pursuit of profit.= MERGERS AND ACQUISITIONS
2) The .... of firms gives higher remunerations to managers and raises job security because once firms become large, they appear to be more stable and less prone to takeover.= GROWTH
3) Productive efficiency is considered achieved when a firm is producing a given level of .... with the least-cost methods of production available.= NET OUTPUT
4) In the period before an ...., the acquiring firm generally grow much faster than the acquired firm.= ACQUISITION
5) Some insurance companies and pension funds invest substantially in company equity and thus provide a source of finance for companies that want to issue more SHARES
6) Directors and managers of a target firm will resist hostile takeover to safeguard the interests of their ....= SHAREHOLDERS
7) It is not necessary for a company to have a .... in its suppliers in order to exert effective control over them.= CONTROLLING INTEREST
8) The merger of Air France and KLM airlines in 2004 is an example of HORIZONTAL INTEGRATION
9) The purchase by Boeing of its parts suppliers Global Aeronautics in 2008 and Vought Aircraft in 2009 is an example of VERTICAL INTEGRATION
10) The Indian Tata Group, which has over 90 companies operating in various business sectors, and heir giant multinational, Procter and Gamble (PG), are examples of CONGLOMERATES

B) Match the meanings of the words and expressions in column A as used in the text with those in column B.

1. has put up a fight	a. the period after
2. technically speaking	b. worldwide
3. despite	c. in relation to
4. global	d. resists
5. accounted for	e. according to a strict definition
6. cushioned	f. in spite of
7. given separate treatment	g. corporate bodies
8. in terms of	h. represented
9. post	i. covered, protected
10. entities	j. dealt with differently

1D 2 E 3F 4B 5H 6I 7J 8C 9A 10G

GRAMMAR : TENSES/PHRASAL VERBS

Exercise 3: Replace the verb in italics in the following sentences with a phrasal verb from the list below, using the correct form of the verb in the active or passive voice.

bail out/ break off/cut back/ dispose of/ give in/ lay off/set up/ shut down/ take over

1) If it were to transpire that Airbus (acquire) Bombardier in order to circumvent high import tariffs for its assembly plant in Alabama, the regulatory authorities might step in.= HAD TAKEN OVER
2) The company was about (save) by the government when it was purchased at the very last minute.= TO BE BAILED OUT
3) As a result of a merger, the newly formed company (retrench) workers massively and each employee was hoping to be one of the few lucky ones to stay.= LAID OFF
4) The two merging firms (stop) their negotiations when it was discovered that one of the directors had a criminal record for insider trading.= BROKE OFF/ BROKE ....OFF
5) The unions have urged shop floor workers to (halt) the production lines and put pressure on the board to find a new acquirer.= SHUT DOWN/ SHUT ....DOWN
6) If the merger deal looked like the company (yield) to pressure from financial lobbies, the unions would probably call the workers out.= WAS GIVING IN
7) Instagram (create) in 2010 and absorbed by Facebook two years later.= WAS SET UP

8) Soon after L'Oreal bought The Body Shop in 2006, women's human rights groups (increase) calls for consumers to boycott their products.= STEPPED UP

9) Kraft, the US food giant, (reduce) its expenses by £675 m per year when it acquired Cadbury, the UK confectioner in 2010.= CUT BACK/ CUT .... BACK

10) Once the company integrated its main business rival, several inefficient business units (dump) quickly.= WERE DISPOSED OF

Exercise 4: CASE STUDY: Select a conglomerate and trace its development over the past 20 years.

FROM THE NEWS: MERGING: America's car industry: And then there were two

And then there were two: The combination of GM and Chrysler hinges on government support

DESPERATE people do desperate things, which is why the odds are that a merger between two of Detroit's Big Three carmakers, General Motors (GM) and Chrysler, will somehow be made to happen. Certainly, the choices facing both firms are stark. At their current rates of cash burn, both firms will run out of money before the end of 2009, according to Rod Lache, an analyst at Deutsche Bank. GM, which has seen its sales in America fall by 18% this year, has about $20 billion in cash, but it needs to keep back at least $11 billion as working capital. Sales at Chrysler, which is owned by Cerberus Capital Management, have fallen by 25%, but it should have about $8 billion left by the end of this year. It too needs more than half that amount to finance its continuing operations.

Neither GM nor Chrysler is in any position to raise funds on commercial terms. Nor do they have assets that anyone else wants to buy. Chrysler's hopes that Carlos Ghosn of Renault-Nissan, always on the lookout for new automotive alliances, might provide it with an injection of capital were firmly rebuffed this week by Mr Ghosn himself.

Both companies are adamant that bankruptcy, a route well travelled by America's big airlines, would only make things worse. Car buyers, they say, will refuse to buy vehicles from companies that might not be around in the future to honour warranties and supply parts. As for the proposed merger (a euphemism for GM absorbing Chrysler), GM fears that some chunky restructuring costs will have to be met before it can realise a predicted $10 billion in annual savings.

Accordingly, any deal depends on the government stumping up most of the cash required to make it work. To that end GM's boss, Rick Wagoner, has been twisting arms in Washington, DC. He wants the Department of Energy to speed up the disbursal of $10 billion in loans to GM (approved by Congress as part of a $25-billion scheme supposedly intended to help carmakers shift to making more fuel-efficient vehicles). Meanwhile GMAC, the big lending firm jointly owned by Cerberus and GM, wants the Federal Reserve to let it become a bank holding company. This would make it eligible for a slice of the Treasury's $700 billion bank-bail-out fund.

All the signs are that GM and Cerberus will not be sent away empty-handed. David Cole of the Center for Automotive Research observes that the government is likely to conclude that if Chrysler is going down, “it's a lot better if it goes down in somebody's arms.”

Read the article and write answers to the following questions:

1) What type of merger does the combination of GM and Chrysler illustrate? Say why.
2) Who are the desperate people in the text, and what desperate things are they trying to do?
3) Why are the merging firms worried about filing for bankruptcy?
4) Who or what is the companies’ last hope for their survival?
5) From your knowledge of current affairs, how have the two companies got on since?

1) What type of merger does the combination of GM and Chrysler illustrate? Say why.

This is a friendly but necessary merger, like a horizontal merger. It shows that mergers that are very unlikely between two giant automakers are sometimes necessary to save both companies.

2) Who are the desperate people in the text, and what desperate things are they trying to do?

Chrysler’s CEO, Rick Wagoner is desperate to avoid bankruptcy and hopes that another car maker like Renault will provide the American company with capital.

3) Why are the merging firms worried about filing for bankruptcy?

Merging firms are worried about filing for bankruptcy because if they do, car buyers won’t buy cars from them because they won’t be able to supply them with warranties and spare parts if they break down.

4) Who or what is the companies’ last hope for their survival?

The American government could bail out both companies. Rick Wagoner, for example, wants a $10 billion loan from the Department of Energy to develop research on fuel-saving cars or Chrysler could become a bank holding company.

5) From your knowledge of current affairs, how have the two companies got on since?

In 2016, General Motors owns Buick, Cadillac and Chevrolet and still operates from Detroit, Michigan. General Motors went bankrupt in 2009 and has been restructures and is now called General Motors Company LLC (Limited Liability Company), or “new GM”.

Chrysler was taken over by / merged with Fiat in 2014 and is now called FCA US LLC (Limited Liability Company), the American subsidiary of Fiat Chrysler automobiles. Chrysler is now controlled by the Italian auto maker. They are registered in the Netherlands and have headquarters in London for financial reasons.