Merger, Acquisition and Buyout

Capital Research Partners & Co. (CRP) is a corporate finance boutique that advises middle market companies on the development and implementation of financial strategies. To serve our clients better, provide guidance and help navigating the financial strategy process, CRP launched its knowledge center. A data base containing descriptive overviews, case studies, discussion papers and more.

The following provides an overview on merger, acquisition and buyout.

Merger & Acquisition

Mergers, acquisitions or takeovers, cover a number of different transaction types, which can range from two firms merging, to creating a completely new firm. Generally, there are several ways in which a firm can be acquired by another firm.

In a merger, the boards of directors of two firms agree to combine and seek approval for the combination. In most cases, at least 50% of the shareholders of the target and the bidding firm have to agree to the merger. The target firm ceases to exist and becomes part of the acquiring firm.

In a consolidation, a new firm is created after the merger, and both the acquiring firm and target firm shareholders receive stock in the new firm.

In a tender offer, one firm offers to buy the outstanding stock of the other firm at a specific price and communicates this offer in advertisements and mailings to stockholders. By doing so, it bypasses the incumbent management and board of directors of the target firm. Consequently, tender offers are used to carry out hostile takeovers. The acquired firm will continue to exist as long as there are minority stockholders who refuse the tender. From a practical standpoint, however, most tender offers eventually become mergers, if the acquiring firm is successful in gaining control of the target firm.

In a purchase of assets, one firm acquires the assets of another, though a formal vote by the shareholders of the firm being acquired is still needed. There is a one final category of acquisitions that does not fit into any of the four described above. Here, a firm is acquired by its own management or by a group of investors. Also referred to as a buyout.

Buyout

A leveraged buyout (LBO), is defined as the acquisition of a company by a specialized investment firm using a relatively small portion of equity and a relatively large portion of outside debt financing. The leveraged buyout investment firms are generally referred to as private equity firms. In a typical leveraged buyout transaction, the private equity firm buys the majority control of an existing or mature firm.

A management buyout (MBO) is a transaction allowing the management team of a company to acquire the business that they work in, from its owner, with the help of financial backers. Usually, the bulk of the financing to acquire the business is provided by banks and private equity groups. The banks provide loans and overdraft finance, which is comparatively cheap, while private equity groups provide equity finance and will want a larger return to compensate them for the additional risk that they are taking. Sometimes the vendor, who is selling the business, will provide some of the financing.

Telephone: (203) 454-0355

200 Connecticut Ave., 5th Floor, Norwalk, CT 06854

Learn more by visiting: www.crpco.com

References include:

- Research papers by NYU Stern, Harvard and Chicago Booth