

A STUDY ON MERGER AND ACQUISITION OF SELECTED FOOD AND BEVERAGES COMPANIES

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Abstract

This research study aims to find the impact of mergers and acquisition on the performance of foods and beverages industry by examining some pre and post-merger by financial variables. Total three merger is studied in this paper. First the merger of Smackers and big heart pet is studied in the paper. Study is done mainly on Net sales, EBIT, EPS and Net income and financial position of the acquire company pre and post-merger. Second merger and third merger are done within a short span of time. Second merger is of flower foods with organic baker alpine valley bread and flowers foods with Dave's killer bread on few days after 2nd merger itself. This study is done mainly on Net sales and Net income financial position of the acquire company pre and post-merger. The results of the study suggests that there is significant increase in overall profitability, total revenues and shareholder's profitability in Smackers company. In case of flower's foods there is no significant impact on profitability but there is increase in overall revenues.

Key words: food and beverage industry, EPS, growth Financial variables, Mergers and Acquisitions (Pre and Post M&A performance).

INTRODUCTION

The mergers and acquisition play a significant role in the industrial sector of any economy for expanding or increasing the size and volume of business. The total number of Mergers and Acquisitions worldwide increased almost four – fold during 1990 to 2001. This trend is different from earlier scenario where in the Mergers and Acquisitions was looked upon as a threat and had evoked images of dark shadows and backdoor entries to the corporate world. M&A deal activity in the food and beverage industry remains active, with more than 270 deals closed over the last 12 month (LTM) for period ending July 31, 2018. Mergers and acquisitions activity in the food and beverage industry is predominately driven by strategic buyers. Of the 270 deals closed in the past 12 months, 185 (68%) were completed by privately owned buyers.

Merger and acquisition in global food and drink industry

| | |
|------|-----|
| 2011 | 466 |
| 2012 | 520 |
| 2013 | 481 |
| 2014 | 560 |
| 2015 | 596 |
| 2016 | 614 |

Mergers and Acquisition: The Concept

Merger

Merger is a new company may be incorporated for this purpose or one existing company generally a bigger one survives and another existing company which is smaller is merged into it.

Acquisition

Business acquisition is the process of acquiring a company to build on strengths or weaknesses of acquiring company. One company purchases most or all of another company's shares in order to take control.

LITERATURE REVIEW

Hogarty(1978) study Post-Acquisition Operating Performance of 1953-1964 period. He has used accounting measure Earnings Per Share and used sampling univariate analysis. His findings are that the investment performance of firms heavily involved in acquisitions was generally worse than the average investment performance of firms in their industries. EPS also showed under performance for the merged firms.

Herman and Lowenstein (1988) they analyse 56 samples and period of analyses was 1975-1978 1981-1983. They analyse this data by using accounting measures Return on Equity and Return on Total Capital and used univariate method of sampling data. Their analysis concluded that the post-acquisition return on equity ratio of firms which were acquired by tender offers during the period 1975-1978 were higher compared to their

respective pre-acquisition period, whereas for the firms acquired during the 1981-1983 period there was a decline in ROE.

Sinha et al(2010) The present paper examines the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, they calculate the change in the position of the companies during the period 2000-2008. Secondly, they examine changes in the efficiency of the companies during the pre-merger and post-merger periods by using nonparametric Wilcoxon signed rank test. They found a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. They also calculate Return to Equity Shareholders (return on net wealth and earning per share), current ratio and debt-equity ratio as a accounting measures. Their findings are earning available to shareholders and debt to equity ratio showed a significant change in pre and post-merger financial position of the companies and also found the change in the return on net worth, liquidity position and profit before tax to total income of the companies to be not statistically significant.

Weston and Mansingka (2004) studied the pre and post-merger performance of conglomerate firms, and found that their earnings rates significantly underperformed those in the control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. The improvement in earnings performance of the conglomerate firms was explained as evidence for successful achievement of defensive diversification.

Cornett and Tehranian (1992) using a Operating cash flow returns on assets as a accounting measure and Univariate and Regression method as a sampling method they analyze Post-Acquisition Operating Performance of banking industry of 1982-1987. They report that Combined banks outperforms the banking industry in the post-acquisition period. There is significant correlation between announcement period abnormal stock returns and the various performance measures.

Beena (2004) this paper analyzed the pre and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, between 1995-2000, using a set of financial ratios and t-test. The study is not find to any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-Merger period, for the acquiring firms.

Verma and Sharma(2013) research paper aims to study the impact of types of mergers on the performance of Indian Telecom industry. By examining some pre-merger and post-merger financial and operating variables. Their purpose of the study, companies which have been merged during the period 2001-02 to 2007-08 have been selected.

Pawaskar (2001) analyzed pre and post-merger operating performance of 36 acquiring firms during the year 1992-1995, using financial ratios of profitability, growth, leverage, liquidity and tax provision. The study concluded that acquiring firms performed better in terms of profitability in the industry. The study also concluded that the type of merger did not affect the post-merger performance of the firms. The comparison of pre and post-merger financial and operating performance, for the different types of mergers suggested that no statistical improvement or decline was seen in the post-merger period for all the firms taken in the sample which suggests that the type of mergers have no effect on the post-merger performance.

Ravenscraft and Scherer (1987) studied 1950-1977 data on Post-Acquisition Operating Performance. Their accounting measures are Operating income over end of year assets, Operating income over sales and Cash Flow over sales. Sampling methods used by them was Univariate and Regression. They concluded that acquired firms earned positive abnormal returns compared to their control group during the pre-acquisition period but not in the post-acquisition period. Acquisitions did not generate synergy or improve the performance of the acquired firms.

RESEARCH METHODOLOGY

Objectives

To check the financial position of the of selected food and beverages company.

To examine the changes in Net sales, EPS, EBIT and Net income of selected food and beverages company.

Scope of study

To know about merger and acquisition of particular company and its impact on overall performance of the company.

Data collection

To study the impact of types of mergers on financial performance of the selected companies in food and beverages industry, the data for six years and four years has been taken into consideration which includes three years and two years data from Pre-Merger period and three years and two years data from post-Merger period of the companies which were involved in the Merger and acquisition. Data for both the deals of merger and acquisition for all six years and four years are calculated by using following accounting measures.

1.Net sale

2.EBIT(earnings before interest and tax)

3.Net income

4.EPS(earnings per share)

I have selected year 2013-2018 data in 1st deal Smucker and big heart pet brands merger and 2014-2017 data in 2nd deal which includes two mergers with one company which are Flowers foods buys Organic Baker Alpine Valley Bread and also Flowers foods buys Dave's killer bread.

DATA ANALYSIS

Smucker and big heart pet brands merger

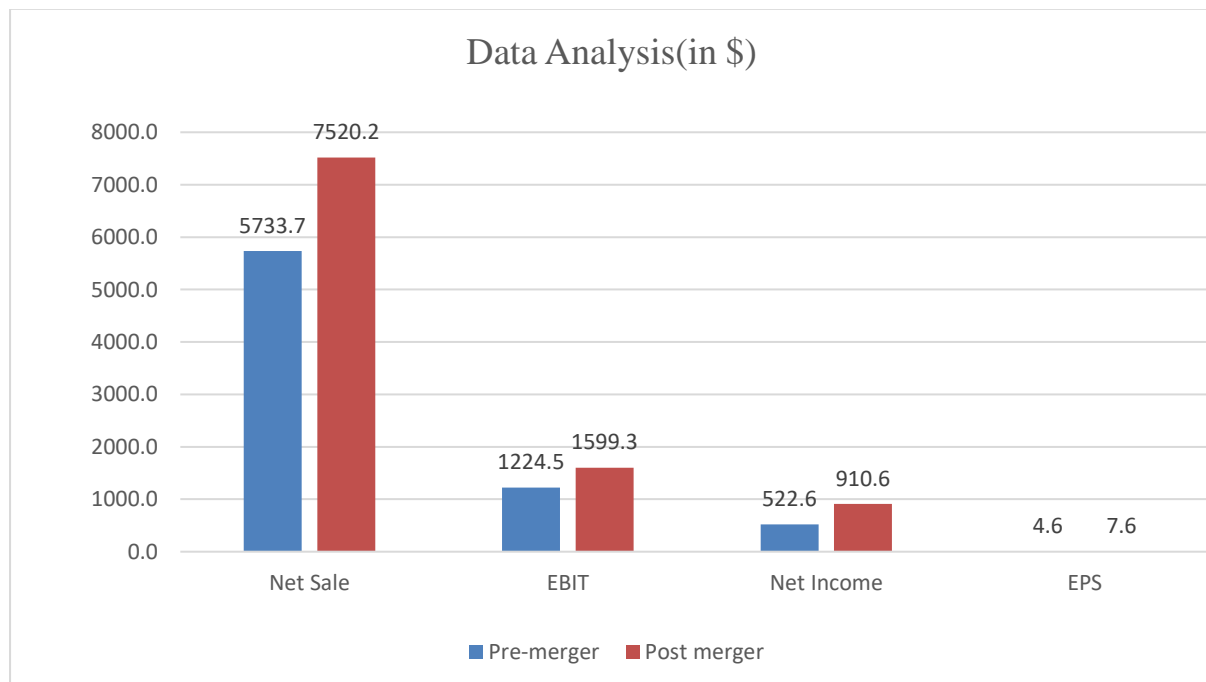
Pre-merger data (Smucker's data in \$)

| Year | Net Sale | EBIT | Net Income | EPS |
|---------|-----------|----------|------------|----------|
| 2013 | 5897.7 | 1616.6 | 580.4 | 5 |
| 2014 | 5610.6 | 1185.5 | 584.9 | 5.42 |
| 2015 | 5692.7 | 871.3 | 402.5 | 3.33 |
| Total | 17201 | 3673.4 | 1567.8 | 13.75 |
| Average | 5733.6667 | 1224.467 | 522.6 | 4.583333 |

Post-merger data (consolidated data in \$)

| Year | Net Sale | EBIT | Net Income | EPS |
|---------|----------|--------|------------|----------|
| 2016 | 7811.2 | 1579.1 | 931.3 | 5.77 |
| 2017 | 7392.3 | 1593.7 | 895.9 | 5.11 |
| 2018 | 7357.1 | 1625.1 | 904.6 | 11.79 |
| Total | 22560.6 | 4797.9 | 2731.8 | 22.67 |
| Average | 7520.2 | 1599.3 | 910.6 | 7.556667 |

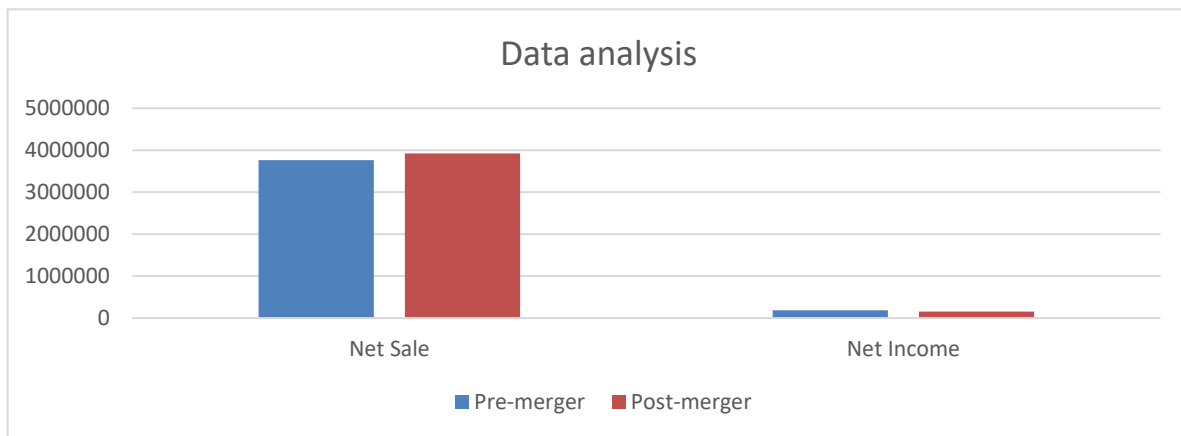
| | Net Sale | EBIT | Net Income | EPS |
|-------------|----------|--------|------------|-----|
| Pre-merger | 5733.7 | 1224.5 | 522.6 | 4.6 |
| Post-merger | 7520.2 | 1599.3 | 910.6 | 7.6 |



By using financial data like Net sales, EBIT, EPS and Net income of Smackers and big heart pet brands merger the results indicates that there was an increase in Net sales, EBIT, Net income and also on EPS after merger and acquisition in compare to pre-merger and acquisition.

Data Sampling of Flowers foods and organic baker alpine valley bread and with Dave's killer brand
Pre-merger data of flower foods

| Year | Net Sale | Net Income |
|------------------------------------|-------------|------------|
| 2014 | \$37,48,973 | \$1,75,739 |
| 2015 | \$37,78,505 | \$1,89,191 |
| Total | \$75,27,478 | \$3,64,930 |
| Average | \$3763739 | \$182465 |
| Post-merger (consolidated data) | | |
| Year | Net Sale | Net Income |
| 2016 | \$39,26,885 | \$1,63,776 |
| 2017 | \$39,20,733 | \$1,50,120 |
| Total | \$7847618 | \$3,13,896 |
| Average | \$3923809 | \$156948 |
| Net Sale | | |
| Pre-merger | \$3763739 | \$182465 |
| Post-merger | \$3923809 | \$156948 |



RESULTS AND ANALYSIS OF THE STUDY

By using financial data of Net sales of Flowers foods merger with Organic Baker Alpine Valley Bread merger and with Flowers foods buys Dave's killer bread merger the results indicates that there was an increase in net sales.

On the other hand, there is significant decrease in Net income of the flowers foods to merge with organic baker alpine valley bread and with Dave's killer bread.

LIMITATIONS OF THE STUDY

1. This study covers only three company's data and also data analysis is limited I calculate only Net sales, EPS, EBIT and Net income.
2. The data is secondary data.
3. This study doesn't covers statistical tool for analysing the impact of merger and acquisition.

CONCLUSION

The study analyses the pre and post-merger financial performance. From the above analysis it can be concluded that Smucker's Total revenues and Net profitability has significantly increases in post-merger, the results are very encouraging and indicates impactful growth in topline as well as in bottom line witnessed. In case of flowers food total revenue is increased but overall profitability is decreased in both companies.

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Conceptual Frameworks of Merger and Acquisition