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A STUDY ON MERGER AND ACQUISITION OF SELECTED COMPANIES OF COSMETIC INDUSTRY

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Abstract

Restructuring a company is a process where the operations, pattern of ownership, composition of liability and assets mix is changed. Because of globalization, competition has increased on another level which compels the organization to improve their operations. Thus corporate restructuring is a process where company changes its pattern for becoming more competent and to maintain its position in the market. Corporate restructuring is done for improving the performance of company which in turn increases the profitability of the company and increases the market value of the company and its share value. Large restructuring are taking place due to which number of companies are compelled to do that as the economy is also being diversified. Indian companies are also accepting the concept of restructuring as the Indian economy has accepted LPG, hence providing competent advantage to the companies. This study is done to analyze the performance of the company Revlon of cosmetic industry which bought Elizabeth Arden Inc. for US $870 million. Performance evaluation of Revlon after acquiring is done.

Keywords: *Merger, Acquisition, performance evaluation, cosmetic industry.*

INTRODUCTION

In the world of finance, there are many terms like corporate restructuring, merger, acquisitions, takeovers, business combinations, strategic alliances & disinvestments. Generally people are taking all the terms as same but although all are different.

Mergers

When a firm purchases or acquires another firm is known merger. Generally, for investment in future growth opportunities a merger takes place. It denotes the combination of two or more firms. In merger the seller or target company, loses its identity. In a true merger, the merging firms are dissolved and new firms is formed after combining the assets & liabilities of dissolved firms.

Acquisitions

In acquisition one company acquires the stake of other company where the management and operations of the company changes but both the companies remain as separate entities.

LITERATURE REVIEW

DeYoung et.al. (2009) Asubstantive body of theory and research on the role of culture in mergers and acquisitions (M&A) suggests that cultural differences can create major obstacles to achieving integration benefits. However, the opposite view—that differences in culture between merging firms can be a source of value creation and learning—has also been advanced and empirically supported. In an attempt to reconcile these conflicting perspectives and findings, we present a model that synthesizes our current understanding of the role of culture in M&A, and we develop a set of hypotheses regarding mechanisms through which cultural differences affect M&A performance. The research suggests that cultural differences affect sociocultural integration, synergy realization, and shareholder value in different, and sometimes opposing, ways. Moderator analyses reveal that the effects of cultural differences vary depending on the degree QP1201063613of relatedness and the dimensions of cultural differences separating the merging firms, as well as on research design and sample characteristics.

Wilcox et. Al. (2001) This paper provides a review of the recent financial institution mergers and acquisition (M&A).This review suggests the North American bank mergers are (or can be) efficiency improving, although the event-study literature presents a mixed picture regarding stockholder wealth creation. In contrast, European bank mergers appear to have resulted in both efficiency gains and stockholder value enhancement. There is robust evidence linking high CEO compensation to merger activity and strong implications that deals can be motivated by the desire to obtain 'too-big-to-fail' status and reap the associated subsidies. Evidence on the impact of both geographic and product diversification via merger is mixed. There is growing evidence that financial institution M&As can adversely impact certain types of borrowers, depositors, and other external stakeholders.

Rhoades (1998) After analyzing nine case studies, on the efficiency effects of bank mergers. The mergers selected for study were ones that seemed relatively likely to yield efficiency gains. That is, they involved

relatively large banks generally with substantial market overlap, and most occurred during the early 1990s when efficiency was getting a lot of attention in banking. All nine of the mergers resulted in significant cost cutting in line with premerger projections. Four of the nine mergers were clearly successful in improving cost efficiency but five were not. It is not possible to isolate specific factors from these mergers that are most likely to yield efficiency gains, but the most frequent and serious problem was unexpected difficulty in integrating data processing systems and operations.

Schuler & Jackson (2001) Mergers and acquisitions are increasingly being used by firms to strengthen and maintain their position in the market place. They are seen by many as a relatively fast and efficient way to expand into new markets and incorporate new technologies. Yet their success is by no means assured. To the contrary, a majority fall short of their stated goals and objectives. While some failure can be explained by financial and market factors, a substantial number can be traced to neglected human resource issues and activities. Numerous studies confirm the need for firms to systematically address a variety of human resource issues and activities in their merger and acquisition activities. This article proposes a three-stage model of mergers and acquisitions that systematically identifies several human resource issues and activities. Numerous examples are offered to illustrate the issues and activities in each of the three stages. The article concludes with a description of the role and importance of the HR department and leader.

S. &Santomero(1998) The complex phenomenon that mergers and acquisitions (M&As) represent has attracted substantial interest from a variety of management disciplines over the past 30 years. Three primary streams of enquiry can be identified within the strategic and behavioral literature, which focus on the issues of strategic fit, organizational fit and the acquisition process itself. The recent achievements within each of these research streams are briefly reviewed. However, in parallel to these research advances, the failure rates of mergers and acquisitions have remained consistently high. Possible reasons for this dichotomy are discussed, which in turn highlight the significant opportunities that remain for future M&A research.

Štrach, & Everett (2006) As waves of mergers and acquisitions (M&A) have swept over American industrial business organizations, construction firms have been caught in the middle of the resulting turbulence. Nonetheless, no research has investigated these significant events in the construction industry. Built upon the financial theories and methodology, the overall success level of construction M&A transactions was assessed. The research findings, which were drawn from an analysis of 171 construction M&A transactions, indicate that the performance of construction M&A was positive at an insignificant level, as measured by equity market returns. Whereas the relationship between the type of diversification strategy and performance indicates that while the related diversification strategy has been slightly favored by both theories and empirical research findings over unrelated diversification, no significant performance difference was observed between two diversification strategies.

Choi & Russell (2004) The banking industry has experienced an unprecedented level of consolidation on a belief that gains can accrue through expense reduction, increased market power, reduced earnings volatility, and scale and scope economies. A review of the literature suggests that the value gains that are alleged have not been verified. The paper then seeks to address alternative explanations and reconcile the data with continued merger activity. In general, we find these explanations are rationalizations for the non existence of positive value outcomes, not alternative, testable theories. Recently, a new thread of the literature has developed which seeks to understand individual cases, looking into the process of change for a particular merger. This approach seems potentially rewarding and revealing, but what we will learn is still an open question..

Koenig &Mezick(2004) Several major econometric studies have looked at mergers and acquisitions (M&As) across various industries and concluded that, in general, there is no synergy created or released by M&A activity. This investigation concentrates upon research and development (R&D) performance in the pharmaceutical industry to examine the impact of M&A activity on corporate productivity. Findings indicate that, when compared to those companies within the pharmaceutical industry that did not experience merger activity during comparable time periods, as well as to the industry as a whole, pharmaceutical companies that merged were able to achieve more favorable post-merger productivity scores than were attained prior to their merger.

Danzonet. Al. (2007) We examine the determinants and effects of M&A activity in the pharmaceutical/biotechnology industry using SDC data on 383 firms from 1988 to 2001. For large firms, mergers are a response to expected excess capacity due to patent expirations and gaps in a firm's product pipeline. For small firms, mergers are primarily an exit strategy in response to financial trouble (low Tobin's *q*, few marketed products, low cash–sales ratios). In estimating effects of mergers, we use a propensity score to control for selection based on observed characteristics. Controlling for merger propensity, large firms that merged experienced a similar change in enterprise value, sales, employees, and R&D, and had slower growth in operating profit, compared with similar firms that did not merge. Thus mergers may be a response to trouble, but they are not a solution. Copyright © 2007 John Wiley & Sons, Ltd.

Stahl &Voigt(2008) Since the 1996 Telecommunications Act, numerous mergers and alliances (M&A) have been consummated within the telecommunications industry. These M&A involve both large and small firms in a

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variety of different and similar industry segments. In this industry, replete with technological uncertainty, it is useful to evaluate the impact of these activities on the market valuation of the firms involved. This study uses event analysis to examine 44 M&A events involving 89 partners in the telecommunications industry. Drawing on prior literature on diversification and firm size, the study formulates and tests hypotheses relating the impact of near and far diversification, and the size of the firm, on market valuation. The results are mostly consistent with prior work and suggest that while overall these events weight positively on market value, M&A involving near-diversification and larger firms tend to experience greater valuation effects.

RESEARCH METHODOLOGY

Objectives of the study
To get the idea about merger and acquisition of cosmetics industries.
The study will help that how mergers and acquisitions can be beneficial to both the companies.
It also shows that how some mergers and acquisitions can be failed.
Period of the study:
The data collected is from the year 2014-2017
Data Collection:
Data is collected from the annual reports of both Revlon Company and Elizabeth Arden.
Ratios like NPR, EPS, ROE, ROCE are calculated for the analysis.

ANLAYSIS AND FINDINGS

RATIOS	Average pre-merger (2014-2015)	Average post-merger (2016-2017)
Net profit ratio	0.51	0.19
EPS	0.15	0.42
ROE	0.29	0.036
ROCE	0.52	0.45

Here the net profit ratio is decreased from 0.51 to 0.19 which is not good for the company.
ROE and EPS both increases after the merger happened which is profitable for the company.
The ROCE decreases from 0.52 to 0.45 so here ROCE decreases which becomes profitable for the company.

LIMITATIONS OF THE STUDY

- Taken only one merger.
- Used limited period for analysis.
- Not so experienced in research.

CONCLUSION

The ratio analysis suggests that the merger between Revlon and Elizabeth Arden was partially successful in achieving the objectives of the acquisition.
Ratios like EPS increases whereas ROEC decreases which helps in increasing the profits while the net profit ratio and return on equity is decreased which shows the lacking of the company.
But the objective of this acquisition is to achieve long term objectives and so it can be said that this acquisition might be successful in upcoming years.

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