

### A STUDY ON OUTBOUND MERGER AND ACQUISITION OF SELECTED OIL AND GAS COMPANY

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#### Abstract

*Merger and acquisition both are different to each other. Examine the outbound merger and acquisition of selected Oil and Gas Company. Study the chevron corporation of America annual report from the year 2006 to 2013. In that 2006 to 2010 is pre acquisition period of the company and 2011 to 2013 is the period of the post acquisition of the company. For the study of this paper used the secondary data. For the research use the sample size of the data. For this paper analysis use the ratio analysis technique like net profit ratio, current ratio, interest coverage ratio etc. Object of this paper is to analyze the ratios of the pre and post merger and acquisition. A finding of this paper is that in the last year of the study 2013 all ratios give negative impact of the corporation acquisition. Overall negative impact. No any suggestion.*

#### INTRODUCTION

Merger and acquisition (M&A) is define as combine two or more companies. Separate the two terms, merger is combination of two companies to form one company, while Acquisition is one company taken over by the other company. Merger is the one of the Significant perspective of corporate world.

A Merger is a corporate strategy of combining two different companies in to single company in order to increase the financial and operational power of both the companies. A merger is commonly involves combining of two companies convert in to a single large company. The combinations of the two companies involve a transfer of ownership, either through a stock swap or a cash payment between two companies. In short both companies surrender their stock as a new company. For Example, horizontal merger may occur between two companies in the same industry. Vertical mergers may happen between two companies in the same industry value chain. Merger between two companies in related, but not the same industry are called concentric mergers. Finally, conglomerate merger may happen between two diversified companies that may share management to improve economies of scale for both companies.

An acquisition means the purchase of all or some portion of a company's asset or Target Company. Acquisition is commonly done by using cash or debt to purchase outstanding stock, but companies can also use their own stock by exchanging it for the target firms stock. Acquisition has either hostile or friendly. For Example: Let's assume company RP wants to acquire company XY. Company RP Starts to buy XY shares on the open market, but once company RP acquires 7% of XY; it must formally declare to the Securities and Exchange Commission how many shares it owns. Company RP must also state whether it intends to buy XY or hold its existing shares as an investment. If company RP wants to proceed with the acquisition, it will make a "tender offer" to XYs board of directors, followed by an announcement to the press. The company RP is willing to pay for XY and how long XY shareholders have to accept the offer.

The Reason behind merger & acquisition generally given is to separate companies together and create more value compared to an individual company. Reason for Merger and Acquisition are 1.Financial synergy for lower cost of capital 2. Improving company's performance and accelerate growth 3.Economies of scale 4. To increase market share and positioning giving broader market access 5.Tax consideration 6. Diversification risk 7.Under valued target 8.Diversification for higher growth of products or markets.

Principle behind any Merger & Acquisition is  $2+2=5$ . There are always synergy values created by the merger of companies. The synergy value can be seen either through the Expenses, Revenues. The company must be willing to take the risk and vigilantly make investments to benefit fully from the competitors and the industry take head quickly. To reduce and diversify risk, multiple bets must be made, in order to narrow down to the one that will prove fruitful.

#### LITERATURE REVIEW

**Bertrand, Olivier and Betschinger, Marie-Ann(2011)** they investigates the long-term impact of domestic and international acquisitions, initiated through Russian firms, on their operating performance. In general, acquisitions can be associated with synergy gains, internalization advantages, and higher market power. Based on sample of more than 600 acquirers they found that both domestic and international acquisitions tend to reduce the performance of acquirers compared to non-acquiring firms. They examine how different deal, firm and industry level characteristics moderate the value destroyed effects of acquisitions, their results suggests

that Russian acquirers suffer from the inability to leverage value due to low merger & acquisition experience and capability, especially when makes international acquisitions

**Johnson Kinyua Ileri(2011)** studied that a causal research designs. Causal research design was consistent with the study's objective which was to determine d the effect of merger and acquisition on financial performance of oil industry in Kenya which was measured through long-run profitability, leverage and liquidity. They studied the target population was the oil companies in Kenya with keen interest on those that had gone through merger and acquisition. The process of data collection was involved self administered drop and pick questionnaires distributed to management and employees of the oil industries involved. They also chi-square test was used for establish the relationship between pre and post merger/acquisition and linear regression model for the analyses of the effects of merger and acquisition on financial performance. They find, the majority of that company was established through merger rather than acquisition. also find that the clear indication of the firms performs better financially after the result of merger and acquisition. Based on the finding of that the studied recommended that there was a need for companies to merger to enhance creations of economies of scale, a higher bargaining power, and business expansion.

**Tariq H. Ismail, et al. (2011)** are studied that the literature on the consequences of merger and acquisitions on corporate performance as well as factors that might affect such identified synergies. These papers aims at synthesizing and analyzing prior literature of mergers and acquisitions and its effects on the financial performance in an attempt to determine factors that might influence post mergers and acquisitions performance. They studied that using varieties of measures to examine the impact of M&A on corporate performance, where measured might be accounting, market, mixed measures, or qualitative measures-based. That study concluded that there was a disputes regards to that factors that affect the reported performance, where eight factors was affect the performance as follows: (a) method of payment (b) book to market ratio, (c) type of merger or acquisition transaction, (d) cross border versus domestic M&A, (e) mergers versus tender offers, (f) firm size, (g) macroeconomic condition, and (h) time period of transaction.

**Stephen Njuguna Mboroto(2013)** found that the effect of mergers and acquisitions on the financial performance of the petroleum firms of Kenya. The study was limited to a sample of pair companies listed on the Kenya market that merged/acquired between the years 2002 to 2012.comparisons was made between the mean of 3 years pre and post merger/acquisition financial ratios. Used financial ratio analysis and paired t test, the studied reveals that merger/acquisitions had insignificant effect on the overall financial performance of petroleum firms in Kenya. The analysis and results shows that petroleum firms performed Bette in the post M&A era as compared to the pre M&A era. He suggests that there was a significant improvement on the financial performance as reflected by the significant increase in ROA.

**JayachandraBairi, et al. (2013)** are studied that from the open-ended interview with the two companies, that can be concluded that the service providers are able to grow their technical and domain capability through knowledge acquisition from ageing workforce and reduce the cost to client. Primary data was collected. Upon content analysis of data collected, the framework was evaluated. The purpose of the paper is to provide an understanding of the major critical success factors involved in knowledge acquisition from an aging oil and gas workforce by outsourced service providers and find the outcome. Limitation was that restricted to two service providers, with majority of operations carried out of India, focusing only on US/UK-based oil & gas firms.

**Paul M. Heal, et al. (1990)** are examine the post acquisition operating performance of merged firms used a sample of the 50 largest mergers between U.S. public industrial firms completed in the period 1979 to 1983. The results indicate that merged firms have significant improvement in asset productivity relative to their industries after the merger, leading to higher post-merger operating cash flow returns. Sample firms maintain their capital expenditure and R&D rates relative to their industries after the merger, indicating that merged firms do not reduce their long-term investments. There is a strong positive relation between post-merger increase in operating cash flows and abnormal stock returns at merger announcements, indicating that expectations of economic improvements underlie the equity revaluations of the merging firms.

**Alex Ng, Han Donker(2013)** was studied that purchasing reserves and commodity market timing as takeover motives in the oil and gas industry. This paper theorizes that managers are motivated in mergers and acquisitions to purchase energy reserves and to time the commodity market in the oil and gas industry. They find supportive evidence that shows that energy reserves and prices cause and affect takeover activity, value and performance. Acquirers are motivated to purchase reserves, while targets are motivated to sell based on market timing. Acquirers have negative takeover performance from lower risk. Their conclusions were robust to the traditional explanations of the free cash flow, equity valuation, synergy, equity and debt market conditions, and economic cycles.

**YakovAmihud and Baruch Lev (1981)** are studied the risk reduction as a managerial motive for conglomerate mergers. In this study, a managerial motive for conglomerate merger was advanced and tested. Specifically managers, as opposed to investors, was hypothesized to engage in conglomerate mergers to decrease their largely undiversifiable "employment risk". Such risk reduction activities was considered here as managerial perquisites in the context of the agency cost model. These hypotheses about conglomerate merger motivation was empirically examined in two different tests and found to be consistent with the data.

**Andrei Shleifer and Robert W. Vishny (1988)** was studied the value maximization and the Acquisition Process. Their objective was appraising the acquisition process from the managerial perspective. They find the value maximization and the acquisition process. For finding the value maximization and acquisition process use the research methodology of sample. They suggested that the existing constraints on providing managers with share ownership or other compensation that might encourage them to serve shareholders should be removed and the second suggestion was that board of directors should be compensated with stock.

**Steven J. Piloff and Anthony M. Santomero(1996)** was studied the value effects of bank mergers and acquisitions. 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 paper suggests that the value gains that are alleged have not been verified. The object of the study was seeks to address alternative explanations and reconcile the data with continued merger activity. Empirical evidence indicates clearly that on average there was no statistically gain in value or performance from merger activity.

### OBJECTIVE OF THE STUDY

Objective this paper is to analyze the pre and post merger and acquisition of outbound Oil and Gas Company. Ratios like net profit ratio, current ratio, interest coverage ratio etc.

### RESEARCH METHODOLOGY

Descriptive research design is used for this study. Only one company is selected randomly from foreign Oil and Gas Industry. Samples have been selected based on the availability of the annual reports on the web site of the companies for the period 2006 to 2013. Study the chevron corporation's annual report. Chevron Corporation acquires the Atlas company.

In This paper Research gap is found and study the profitability ratio, current ratio, dividend pay-out ratio and many. These ratios analysis do in this research paper.

### DATA ANALYSIS

The study the merger and acquisition of outside India and I select the chevron corporation. Chevron Corporation is an American multinational energy corporation. Chevron is engaged in all aspect of the oil, natural gas, and geothermal energy industries. Chevron is the one of the world's largest oil companies; as of 2017. And a chevron company acquires the Atlas Company at February 2011. The study this company's annual report from 2006 to 2013. Study the pre acquisition and post acquisition annual reports of the company.

Ratio/Year	2006	2007	2008	2009	2010	2011	2012	2013
<b>Net Profit Ratio</b>	8.36%	8.72%	9.03%	6.26%	9.59%	11.00%	11.35%	9.73%
<b>ROCE</b>	22.60%	23.10%	26.60%	10.60%	17.4%	21.60%	18.70%	13.50%
<b>ROE</b>	26.00%	25.60%	29.20%	11.70%	19.30%	23.80%	20.30%	15.00%
<b>EPS - Basic</b>	7.84\$	8.83\$	11.74\$	5.26\$	9.53\$	13.54\$	13.42\$	11.18\$
<b>Dividend Payout Ratio</b>	25.63%	25.59%	21.55%	53.99%	27.91%	22.82%	26.15%	34.88%
<b>Total Debt to Total Debt Plus Equity</b>	12.50%	8.60%	9.30%	10.30%	9.80%	7.70%	8.20%	12.10%
<b>Interest Coverage Ratio</b>	53.50%	69.20%	166.90%	62.30%	101.70%	165.40%	191.30%	126.20%
<b>Current Ratio</b>	1.3:1	1.2:1	1.1:1	1.4:1	1.7:1	1.6:1	1.6:1	1.5:1

The ratios of the company are as above.

#### Ratios on the basis of Annual Report from 2006 to 2013

The First study the Net profit Ratio in that in the year 2006 to 2008 constant increase the ratio. Then in the year 2009 due to some reason net profit will be decrease. And in 2010 to 2012 net profit will be increase. In 2013 net profit ratio will decline.

Then study the Return on Capital Employed of the chevron corporation. In the year 2006 to 2008 increase the return on capital employed. In the year 2009 decrease the return on capital employed ratio. In the year 2010 and 2011 constant increase the ROCE. And in the year 2012 and 2013 decrease the ROCE.

Next study the Return On Equity of the chevron company from 2006 to 2013 pre and post acquisition of the company. In the year 2006 to 2008 increase the ROE it is good for the shareholders. In the year 2009 decrease the ROE, and in 2010 and 2011 also increase the ROE. In the year 2012 and 2013 constant decrease the Return on Equity.

Then study the Earning per Share-Basic. In the year 2006 to 2008 increase the earning per share-basic. Then in 2009 decline the EPS-Basic. And in the year 2010 & 2011 increase the Earning per share basic. And at last in the year 2012 & 2013 decline the Earning per Share-Basic. After the acquires the company decline the EPS-Basic.

Next study the Dividend Pay-out Ratio from the annual reports of the chevron Corporation. In the year 2006 to 2008 constant decrease the dividend pay-out ratio. In 2009 suddenly increase the dividend pay-out ratio. After 2009 in 2010 decrease the ratio & 2011 increase the divided pay-out ratio compared to 2010. In the year 2012 & 2013 constant decrease the dividend pay-out ratio.

Next Ratio is Total Debt to Total Debt plus Equity Ratio in that study from 2006 to 2007 declines the ratio. In the year 2008 & 2009 increase the total debt to total debt plus equity ratio. In the year 2010 & 2011 decline the total debt to total debt plus equity ratio. And in the year 2012 & 2013 the total debt to total debt plus equity ratio is increase.

In the Interest Coverage Ratio in year 2006 to 2008 constant increase the Interest Coverage Ratio. In the year 2009 decrease the interest coverage ratio. In the year 2010 to 2012 constant increase the Interest coverage ratio. In the year 2013 suddenly decrease the interest coverage ratio.

At last I study the current ratio of the chevron corporation from the annual report. In the year 2006 to 2008 constant decrease the Current Ratio of the corporate. In the year 2009 & 2010 suddenly increase the Current Ratio. In the year 2011 & 2012 Current Ratio is same no change. And In 2013 the Current Ratio will be decline suddenly.

## FINDING

The study of outbound merger and acquisition of selected Oil and Gas Company. In this paper find the ratio analysis and compare that all years ratio which each other. And ratio increase or decrease on the basis of previous year. compare that ratio with every year. In the last year of the study 2013 is impact of negative because most of the ratios decrease in the 2013. The net profit ratio is decline, Return on Capital Employed, Return on Equity; Basic Earnings per share all are decline in the year of 2013. A dividend pay-out ratio, Total debt to total debt plus equity ratio both are increase. The interest coverage ratio and current ratio both are also decrease. So the overall decline in the year 2013.

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