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A ROLE OF INVESTMENT BANKS IN MERGER AND ACQUISITION

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ABSTRACT: An investment bank is a financial institution that provides a wide range of services to corporations, governments and other organizations. one of the key functions of investment banks is to facilitate merger and acquisitions. There are several reasons why investment bank plays a crucial role in merger and acquisition throughout a company's life cycle. Top companies understand that acquiring organization is cost-effective than building internally, in addition company wants to merge or acquisition, then the company must address technical aspects such issues as finding bidders or targets, communication with bidders or targets, acquisition of financial information and negotiation with legal, technical and financial due diligence advisors. all these things cannot be done by company alone because lack of expertise and knowledge, so company will hire investment banker who will assist the company throughout the process of merger and acquisition. this study reveals the role of investment banker during merger and acquisition. the present study is descriptive in nature and used secondary data. It concludes that role of investment banker in merger and acquisition is very significant.

Keywords: Growth, Stake, Market, Valuation, Financial, Deal, Billion, Negotiation, Bank

INTRODUCTION:

An investment bank is financial intermediary that plays a pivotal role in the world of finance by providing a wide range of services to corporate, government. institutional investors. These banks are distinct from traditional commercial banks, investment banks focus on sophisticated financial transactions and services like merger and acquisition, capital markets, asset management, trading and brokerage.

In advisory related services they assist the company in merger and acquisition

Related matters, companies are need of advisory because of the excellent knowledge and expertise, negotiation skills, financial information of the investment banks.

Capital markets are one the fascinating investment banking activities, companies need these services when they are about to go public or want to issue debt sold to the public, going public is a critical movement in the life of any business, an IPO is a complex transaction that must be carried out at the right time and must be ready regarding size, profitability, administrative capacity and growth potential i.e., investment bankers have been the trusted advisors of companies who ensure the whole process goes smoothly.

Trading and brokerage is an investment banking business line that involves purchasing and selling securities by using the banks money or conducting it on behalf of clients, the first type of trading is proprietary trading and the second is brokerage.

Asset management is an investment banking area that helps clients with investment management and strategic advice, the ultimate goal is to help clients achieve their financial goals. In other words, asset managers use client's money to make more money.

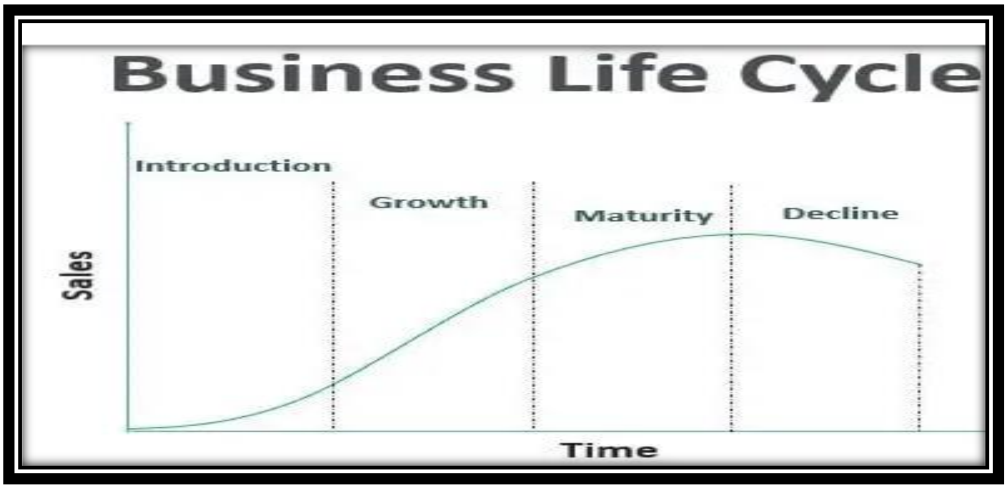
OBJECTIVES OF THE STUDY

- To analyze the various functions performed by the investment banks.
- To understand the functions performed by investment bank in servicing merger and acquisition.

WHY COMPANIES GO FOR MERGER AND ACQUISTION?

1. Growth and Expansion: merger and acquisition can help companies quickly expand their market share, customer base, geographic reach, allowing them to grow faster.
2. Diversification: companies may acquire businesses in different industries to diversify their revenue streams and reduce uncertainty.
3. Cost savings: mergers can lead to cost synergies through the Consolidation of operations, eliminating redundancies and optimizing supply chains.
4. Access to new markets: merger and acquisition can provide access to new geographic markets or emerging markets that would be difficult to penetrate independently.
5. To acquire new technology or expertise: merger and acquisition can be a way for companies to quickly gain access to new technologies or expertise that they would have to develop internally.
6. Competitive advantage: merger and acquisition can enhance a company's competitive position by eliminating competitors or gaining access to unique resources.
7. Financial Performance: Companies may pursue merger and acquisition to improve financial metrics, such as earnings per share or return on investment.
8. Shareholder value: merger and acquisition are often driven by the desire to create value for shareholders through increased profitability and stock appreciation.

WHEN IS AN MERGER AND ACQUISTION DEAL LIKELY TO OCCUR IN A COMPANY'S LIFECYCLE?



Let's look at the following graph, which depicts the various stages that a company goes through, as time goes by shown on the horizontal axis, we expect revenue (sales) to develop in a specific pattern. vertical the four stages include development (introduction) the early days when the business makes little to no money and is still a startup.
Growth, an exciting period when the company grows revenue (sales) faster.
Maturity businesses become very profitable and competition increases significantly.
Decline the company loses market share because of a declining product portfolio or substitute products. Gradually, its profitability declines and the firm Starts to burn cash. These are the four stages a company goes through.
Let's consider these periods in the context of merger and acquisition
How likely will a company buy other businesses in its early startup days? It cannot at the point, they don't have sufficient funds to carry out this transaction. On the other Hand startup firms can be suitable acquisition targets, a larger company could be interested in a deal if a startup has an innovative product or quality team.
Growth firms are attractive targets for larger companies. They have many opportunities to grow organically and reinvest cash generated from their business. The established players in an industry have specific internal M&A departments with those who carefully study growth firms.
At the maturity stage, its common to observe mergers of equals. The primary purpose of these transactions is to deal with overcapacity. Mature firms are frequent buyers of startups and growth companies. Understandably, these businesses are cash rich and can afford to acquire external growth when needed.
And finally, declining stage Companies growth potential is low. Often these firms are acquired for their name brand, patents, knowhow, historical relationships or access to distribution channels. On most occasion business only Buy certain parts of declining firms in an asset deal.

HERE'S HOW INVESTMENT BANKS ASSIST IN KEY POINTS OF MERGER AND ACQUISTION

1. Target identification: Investment banks helps identify potential target companies by conducting market research and industry analysis.

2. Valuation Analysis: Investment banks conduct in depth financial analysis to determine the fair value of the target company.
They use various valuation methodologies, such as discounted cash flow, comparable company analysis.
3. Deal structuring: Investment banks assist in structuring the deal, helping determine the optimal payment (e.g., cash, stock, or a combination of both) and deal terms.
4. Financing: Investment banks helps arrange financing for the transaction, whether through debt, equity, or other financial instruments. They assess the buyer's financial capacity and advise on the most suitable financing options.
5. Negotiation: Investment banks often act as intermediaries during negotiations, representing the interest of the clients. They help facilitate discussions between buyer and seller, aiming to reach a mutually beneficial agreement.
6. Regulatory compliance: Investment banks ensure that the merger and acquisition transaction Complies with all relevant regulatory requirements. This includes obtaining necessary approvals and adhering to antitrust laws.

7. Due Diligence: Investment banks play a vital role in due diligence, where they assess the target company's financials, operations, legal obligations, and potential risk.
8. Documentation: They assist in drafting and reviewing the necessary legal documents, including the merger agreement, purchase agreement, and disclosure documents.
9. Closing: They oversee the closing process, ensuring that all conditions and requirements are met.
10. Post merger integration: in some cases, investment banks provide guidance on post -merger integration, helping the merged entities combine their operations and realize synergies.

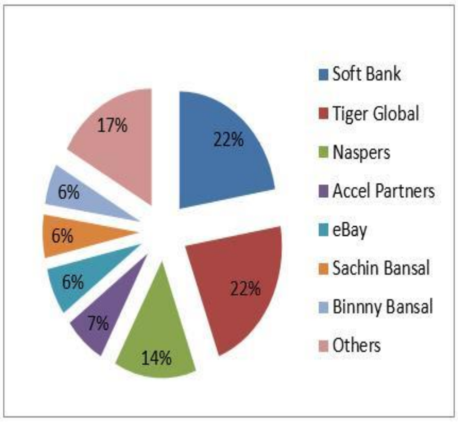
CASE STUDY
Walmart Flipkart Acquisition

The acquisition of Flipkart by Walmart in 2018 was a significant event in the world of e- commerce and retail. It marked Walmart's entry into the Indian e-commerce market was one of the largest e-commerce deals globally at the time. Here is a detailed case study of the acquisition.

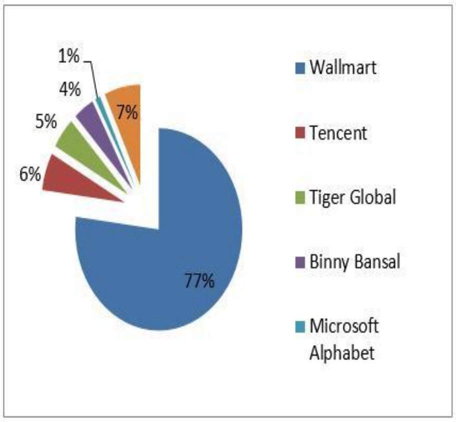
Background:
Walmart: As one of the world's largest retailers, Walmart was looking to expand its presence in the rapidly growing e-commerce market. It had faced tough competition from amazon in the U.S., and international markets presented new growth opportunities.

Flipkart: Flipkart was one of India's leading e-commerce companies, founded in 2007 by Sachin Bansal and Binny Bansal. Flipkart had gained a significant market share in India and was competing fiercely with Amazon India.

Deal Overview:
Announcement: In May 2018, Walmart announced its intention to acquire a 77% stake in Flipkart for approximately $16 billion. This marked Walmart's largest -ever acquisition and its entry into Indian market.



Before the deal



After the deal

Advisory Roles: Goldman Sachs and Morgan Stanley played key advisory roles in the deal. Goldman Sachs acted as the financial advisor to Walmart, while Morgan Stanley advised Flipkart.

ROLES OF GOLDMAN SACHS AND MORGAN STANLEY

Goldman Sachs:

- Financial Advisor to Walmart: Goldman Sachs acted as the primary financial advisor to Walmart, the acquiring company in the deal.
- Valuation and Pricing: Gold Mansachs conducted a thorough valuation analysis of Flipkart. This involved assessing Flipkart's financial performance, market position, growth prospects, and competitive landscape. The valuation helped Walmart determine a reasonable purchase price for the stake in Flipkart.
- Deal structuring: Goldman Sachs played a key role in structuring the deal. This included determining the proportion of primary and secondary shares to be acquired, negotiating the terms and conditions, and deciding on the overall deal structure.
- Due Diligence Support: The investment bank assisted in the due diligence process by reviewing Flipkart's financial records. Legal contracts, operational aspects, and potential risks, this helped Walmart makes informed decisions and mitigate risks associated with the acquisition.
- Regulatory Compliance: Given the complex regulatory environment in India, Goldman Sachs provided guidance on regulatory compliance. They ensured that the deal adhered to Indian foreign direct investment (FDI) regulations and other legal requirements.
- Competitive Analysis: The bank conducted competitive analysis to assess how the acquisition would impact Walmart's competitive position in Indian e-commerce market, particularly to amazon.

Morgan Stanley:

- Financial Advisor to Flipkart: Morgan Stanley acted as the primary financial advisor to Flipkart, the target company in the deal.
- Valuation and Pricing: Morgan Stanley conducted a comprehensive valuation of Flipkart, this involved assessing Flipkart Financial performance, market share, growth potential, and competitive position
- Deal Structuring: Morgan Stanley played a crucial role in structuring the deal from Flipkart's perspective. They were involved in shaping the terms and conditions of the transaction to ensure it met Flipkart's objectives.
- Due diligence Support: Morgan Stanley assisted Flipkart in the due diligence process by helping review Walmart's financial records, legal contracts, and other aspects relevant to the deal. This helped Flipkart assess the risk and benefits of the acquisition.
- Regulatory Compliance: The investment bank provided guidance to Flipkart on regulatory compliance, ensuring that the deal followed Indian regulations and that Flipkart's interests were protected.
- Negotiation Support: Morgan Stanley played a role in the negotiate the best possible terms with Walmart.

VALUATION OF A FLIPKART BEFORE AND AFTER ACQUSITION

- There are several reasons behind Walmart's acquisition of Flipkart

a. Gain access to the Indian e-commerce market – India is one of the fastest growing e-commerce markets in the world, with a potential customer base of over 1Billion people. Walmart had previously tried to enter the Indian market directly, but its efforts had been thwarted by regulatory hurdles. By acquiring Flipkart, Walmart gained immediate access to a leading-commerce platform with a strong customer base.

b. Compete with Amazon- Amazon is the world leading e-commerce company and it has been aggressively expanding into new markets, including India. Walmart saw Flipkart as the best way to compete with Amazon in India.
c. Leverage Flipkart's technology and expertise- Flipkart is a leading Indian e-commerce company with a strong track record of innovation. Walmart saw Flipkart's technology and expertise as valuable assets that could help it improve its own operations.

- Value of Flipkart before acquisition it was $16 Billion and after acquisition value of Flipkart soar to $21Billion. Due to increase in total revenue by 42 percent in FY-19 to Rs 43,615 crore (6.14Billion) from Rs 30,644 Crore (4.32Billion) in FY-18, overall expenses reduced significantly from 6.6billion in the preceding fiscal year to 2.4Billion in FY-19.
- Flipkart's Valuation has increased by 31.25 %, this is a testament to the company's strong growth.
- Sachin Bansal (co-founder) has exited the company and sold his entire 5.5% stake to Walmart for $1Billion. Bansal reportedly felt uncomfortable with Walmart's corporate culture, which he found to be more bureaucratic and less entrepreneurial than Flipkart.
- Binny Bansal (co-founder) partial sale of stake will bring him &104 million, and he retained 4% stake. Binny Bansal's decision to sell his stake in Flipkart was likely a complex one influenced by a combination of personal, financial, and professional considerations.
- Tiger Global has raked in $3.3 Billion from its total investment of $1Billion after selling 17% stake, Tiger Global exited Flipkart after its acquisition with Walmart to lock in profits, diversify its portfolio.
- Soft Bank has Received $4Billion from sale of its 22% stake in Flipkart to Walmart, fetching about 1.5 times its investment of $2.5 Billion. It Exited from the Flipkart Because Soft Bank has a large investment portfolio, and it wanted to focus its resources on other opportunities. By exiting Flipkart, Soft Bank was able to free up capital for other investments.
- Accel made $800 Million on its investment of about $100 Million, Accel had invested in Flipkart in 2009 and the company had grown significantly since then, by selling their stake to Walmart, It was able to realize their investment and generate a significant return.
- Naspers has sold 12% stake in Flipkart to Walmart

For $2.2 Billion on its investment for $600 Million, Naspers has a global portfolio of investments, and it wanted to focus on other opportunities. The sale of its Flipkart stake allowed it to free up capital for other investments.
- E-bay received $1.1 Billion in gross proceeds from the sale of its Flipkart stake to Walmart. E- bay wanted to focus cross – Border trade, While Flipkart was Focused on the Indian market. This difference in strategy made it difficult for the two companies to work together effectively.

In Summary: Both Goldman Sachs and Morgan Stanley played instrumental roles in facilitating the Flipkart-Walmart acquisition. They provided financial advisory services, conducted valuations, assisted in structuring the deal, supported due diligence efforts, ensured regulatory compliance, and helped negotiate the transaction terms. Their expertise and guidance were essential in completing this complex and high-Profile merger and acquisition deal.

FIINDINGS AND CONCLUSION: Investment banking plays several crucial roles in merger and acquisition transactions. Investment bankers facilitate the entire Merger and acquisition process by identifying potential target companies, conducting financial valuations, and providing strategic advice to clients, negotiating terms and ensuring compliance with regulatory requirements. Investment bankers also act as intermediaries between buyers and sellers, helping bridge gaps in expectations and facilitating a smoother negotiation process. Their deep industry knowledge and extensive networks enable them to identify potential synergies and value creation opportunities, which are critical for merger and acquisition success.

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