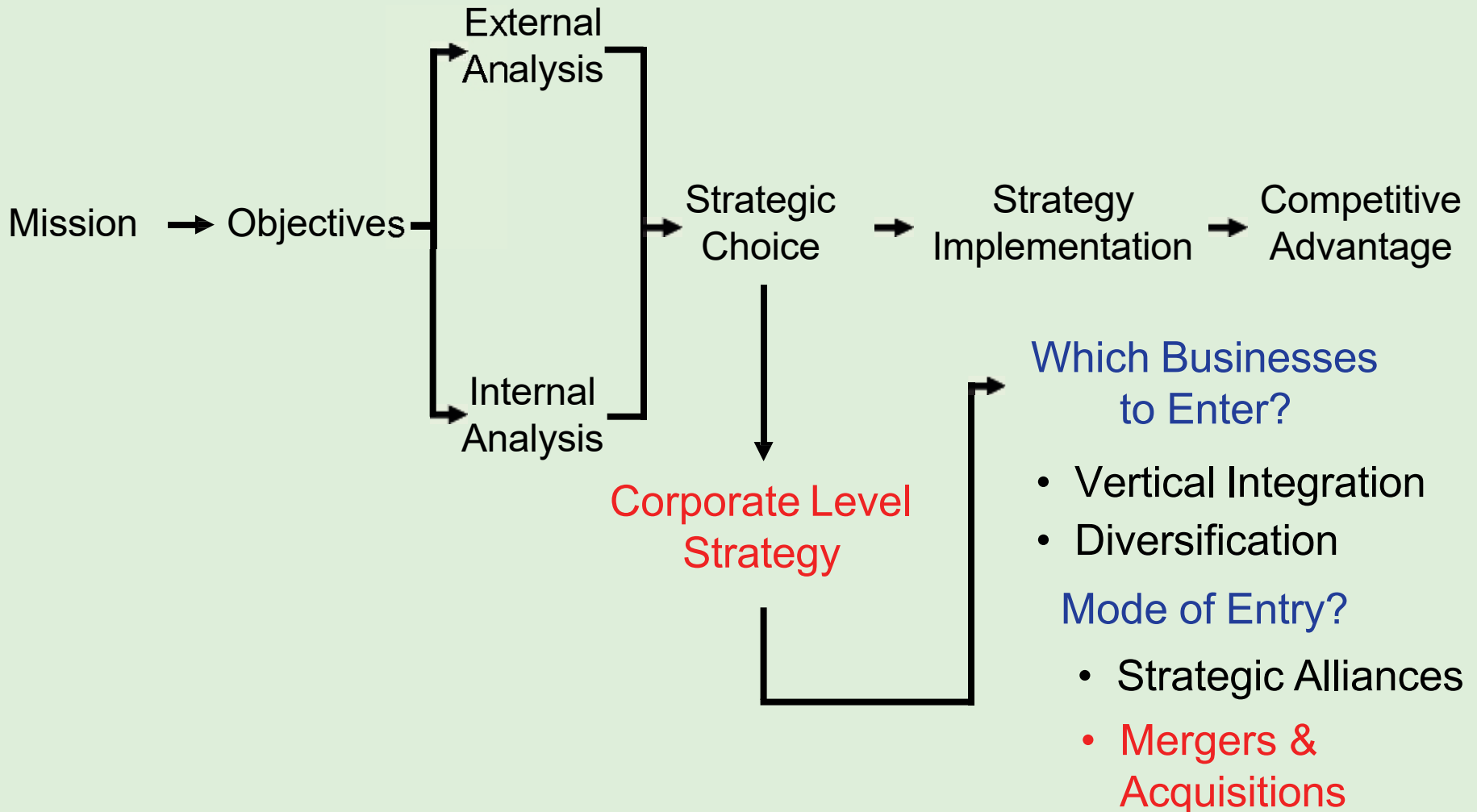


# The Strategic Management Process



# Logic of Corporate Level Strategy Applies

Corporate level strategy should create value:

1) such that the value of the corporate whole increases

2) such that businesses forming the corporate whole are worth more than they would be under independent ownership

3) that equity holders cannot create through portfolio investing

# Mergers & Acquisitions Defined

## Mergers

- two firms are combined on a relatively co-equal basis

## Acquisitions

- one firm buys another firm

- the words are often used interchangeably even though they mean something very different

- merger sounds more amicable, less threatening

# Mergers & Acquisitions Defined

## Mergers

- parent stocks are usually retired and new stock issued
- name may be one of the parents' or a combination
- one of the parents usually emerges as the dominant management

## Acquisitions

- can be a controlling share, a majority, or all of the target firm's stock
- can be friendly or hostile
- usually done through a tender offer

# Do Mergers and Acquisitions Create Value?

## The Logic

### Unrelated M&A Activity

- there would be no expectation of value creation due to the lack of synergies between businesses
- there might be value creation due to efficiencies from an internal capital market
- there might be value creation due to the exploitation of a conglomerate discount
  - a corporate raider who buys and restructures firms

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