MERGERS AND ACQUISITIONS
AS A STRATEGY FOR BUSINESS GROWTH IN NIGERIA

BY

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Dedication

The completion of this dissertation could not have been possible except for the Will of the Almighty Allah (SWT) and to Him I dedicate it.

Declaration

I hereby declare that this study was carried out by me under the supervision of Dr. Bimaje Akpa and Mr. B.D. Watoseninyi. To the best of my knowledge and belief, this work has never been submitted either in Ahmadu Bello University, Zaria, or any other institution for the award of a degree. All quotations are distinguished by the use of appropriate marks and the sources of information are specifically acknowledged by means of references. The responsibility of any mistake in this work is mine.

Muhammad Sani Bello

Certification

This dissertation entitled Mergers and Acquisitions As A Strategy For Business Growth: The Nigerian Environment by Muhammad Sani Bello meets the regulations governing the award of the degree of Master of Science (Accounting & Finance) of Ahmadu Bello University, and is approved for contribution to knowledge and literacy presentation.

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Finally, I am praying to the Almighty to reward all those who have contributed to the successful completion of this work in any way. I wish to state here that while all those who contributed to this work share the good aspect of it with me, I have sole responsibility for whatever shortcomings it may contain.

Muhammad Sani Bello

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Dissertation Abstract

Mergers and Acquisitions as a Strategy for Business Growth In Nigeria

The Objective of the study is to (a) determine whether mergers and acquisitions foster growth among selected businesses in Nigeria, (b) discuss the major considerations in mergers and acquisitions transactions and the conditions necessary for application of the strategy and (c) highlight the advantages associated with the strategy.

The study has the Significance of determining the growth effect of practical application of The mergers and acquisitions strategy among selected companies in Nigeria. Another Significance is that the study contributes to knowledge especially in the area of Corporate Finance.

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Three (3) successful mergers and acquisitions transactions were selected viz. Intra Motors Nigeria Limited Vs West Coast Fisheries Limited, Seven-Up Nigeria Limited Vs John Holt Nigeria Limited (Beverage Franchise), and Lever Brothers Nigeria Limited Vs Cheseborough Products Industries Limited as sample for the study.

The research is a blend of descriptive survey and computations aimed at discovering fact using available information. The basic Data used for the study is derived from published annual accounts and reports of the selected companies supplemented with other financial information. The sample selected satisfies the following conditions that are considered necessary for the validity of the research conclusion:

i. That relevant information is obtained on the merger or acquisition exercise; and

ii. That in each case, neither the acquiring nor the acquired company combined with any other company in the pre-event or post-event reference period. This condition means that changes in growth is more readily attributable to a single exercise during the reference period.

The study concludes that mergers and acquisitions foster growth among business in Nigeria . The study further reveals that the practice of mergers and acquisitions in Nigeria, generally, conforms to internationally accepted standard in terms of legal, financing, and accounting considerations.

The conclusion of this study makes it apt to recommend that businesses in Nigeria should continue to employ the mergers and acquisitions strategy for growth purposes. In particular, the financial sub-sector of the economy should either use the strategy to remain in business especially in the wake of distress syndrome in the system, or employ it to dominate the market and brighten their future.

CHAPTER ONE

INTRODUCTION

1.1 Preamble

Nigeria's economic environment has witnessed a number of changes in the last three decades after independence. First it was the era of boom, then recession and, later depression. During each of these eras various institutions operating within the economy have tried to contend with the prevailing environmental condition: boom era comes with buoyancy, improved standard of living and merriment while recession and depression eras are fraught with gloom, low standard of living and generally, social discontent.

Since business strategies follow the trends of the economy at any prevailing situation, these changes (boom to recession and then depression) suggest that enterprises operating within the economy should undergo some adjustments in line with the dictates of the economic conditions. This is in line with the fact that, contingencies are alternative views towards an organisational design and management action must be appropriate for specific situations.

Basically, there are two types of environment within which businesses operate, namely, external environment and internal environment. External environment is complex and dynamic. It offers management opportunities, challenges and constraints.

It is the responsibility of management to take full advantage of the opportunities and transform the challenges and constraints into positive openings or at least minimise their negative impact on the business.

The most important task of management operating in a recessionary and depressionary economy like Nigeria's is to adopt a strategy for survival. Once this is achieved, the need to strengthen its position for growth and expansion ensues.

Mergers and acquisitions is one of the strategies for business survival in a depressed economy like Nigeria's. The global application of the strategy to salvage businesses at the verge of collapse is on the increase. For instance, Steiner (1975) reports that the asset acquisition which had held steady at just over one per cent per annum from 1961 to 1966 in the United States of America (USA), doubled in 1967 and tripled in 1968

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The spate of mergers and acquisitions activities can be traced to the period around 1885-1905 in the USA. However, the first merger exercise in Nigeria was witnessed in 1982 when United Nigeria Company Limited, unsuccessfully made a bid for United Nigeria Life Assurance Company Limited. The relative economic and political stability in the country between late 1950s and early 1960s (partly) and the oil boom of the 70s (largely) seemed to have beclouded the need for mergers and acquisitions activities at an earlier date.

According to Synge (1989), the history of mergers and acquisitions activities in Nigeria cannot be separated from the oil boom era. The oil boom did have some beneficial effects on the country's social and economic structure, but it created widespread imbalances and distortions in the economy as a whole. Instead of making the economy self-reliant, the oil-boom made the country more susceptible to external control. Many public investments of doubtful feasibility were made. The manufacturing sector of the economy failed to provide local value added. Agricultural exports suffered sharp decline. Over valuation of the Naira in the late 1970s made export of non-oil products uncompetitive while local production could not compete with imports.

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The situation was worsened by balance of payment difficulties between 1982 and 1985. Foreign debt was rising out of proportion and oil revenue was falling sharply. This economic crisis prompted serious corrective action. Consequently, the Federal Government introduced the Structural Adjustment Programme (SAP) in 1986 as a strategy to halt the deterioration of the national economy and achieve a 'turnaround' in it fortune.

This marked a turning point in the management of the country's economy. With the introduction of SAP, however, a number of businesses are quite unexpectedly, facing a whirl-wind of decline both in efficiency and growth. A number of businesses are thrown into a state of financial distress as a result of operating below installed capacities and decline in profits. Hence the need to restructure and realign many

public and private organisations became glaring. Public organisations are being commercialised or privatised to make them efficient while private organisations are evaluating their businesses with a view to formulating new strategies for survival within the economic order.

Generally, a company may opt to rescue itself from possible collapse by employing internal strategies or external strategies. Reliance on internal development as the preferred strategy to corporate growth has been a rule for many companies around the world. Recently, however, companies weigh the costs and risk of internal development programmes against renewed opportunities of external strategies such as mergers and acquisitions. It is argued that external strategies could provide more rapid and predictable results for corporate growth. Appendix I indicates some of the external, financial and economic conditions that influence corporate management attitudes towards the choice between external and internal strategies.

The aim of mergers and acquisitions is basically, to achieve cost efficiency through economy of scale and to diversify and expand the range of business activities. The strategy could also serve the ultimate corporate objective of increasing the market value per share and growth of a business.

On this account, the economic situation in Nigeria, provides rationale for the application of mergers and acquisitions towards the survival and growth of ailing business concerns heading for collapse.

1.2 Research Problem

Theoretically it is argued that the growth of a company could be achieved through the application of mergers and acquisitions strategy. For instance, where excess capacity exists in an industry, output might be concentrated in existing least cost plants. Or the reduction in market uncertainty on the merger of two former rivals might act as stimulus to investment in new lower cost equipment. Or, again, the concentration of output in the hand of a single producer might enable him realise the potential economics of scaled. Or, finally, a merger or acquisition might lead to the better management of existing assets.

However, there are opposite views that leave the growth conclusion in doubt. For instance, some economists, upholding the general case of **liasser-faire,** argue that mergers or acquisitions weaken the competitive pressures within the economy, which if fully effective, should preserve the growth both of individual units and of markets and ensure the harmony of private and social interests. They maintain that since most companies are controlled by salaried managers with little or no ownership interest in the companies, they (managers) may not wholly engage themselves in the pursuit of income for the owners. Hence the competitive pressures on a company (in product and/or market factors) are not sufficiently strong to constrain managers to maximise profits (which in this study, is taken to be the main indicator of growth). A version of such views stresses that rigorous cost minimisation and relentless pursuit of profit are likely to be uncomfortable for managers. Leibenstein (1964) contends that:

> firms and economies do not operate on an outerbound production possibility surface consistent with their resources. Rather they actually work on a production surface that is well within that outer-bound. This means that for a variety of reasons people and organisations normally work neither as hard nor as effectively as they could. In situations where competitive pressure is light, many people will trade disutility of greater effort, of search, and the control of other peoples' activities for the utility of feeling less pressure and of better interpersonal relations.

On this account, a merger or acquisitions which offers prospect for growth, either through improved trading terms or lower average costs for the combine, might prompt only a relaxation of effort on the part of management.

It is further argued that imperfect markets create a permissive environment in which achievements can depend on aspirations, which themselves display considerable inertia. This 'behavioural' theory sees management's aspirations as relatively stable in the short term. If this is so, then change in company's environment which has potential of yielding higher revenue or reducing costs may not be accompanied by any significant improvement in profit; either the company may fail to realise potential benefits at all or else it will absorb these benefits in less efficient production or administration.

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Meeks (1977) nurtures a different opinion. According to him, "several factors suggest that the pursuit of growth might loom large in manager's calculations. Not only those greater size typically bring the management of a company greater power and prestige; but, other things being equal, it also bring more stable performance". However, this stand is countered by other economic theorists. To them, the main effect of a merger or acquisition is not to be found in its participants' subsequent performance, but in its role as a control mechanism upon inefficient management. They further contend that so long as bidders threaten managements producing poor results, the economy would

probably gain from the general spur to efficiency even through the taken-over assets themselves were operated with the most appalling incompetence.

It follows from the above variant views that putting aside the text book rationale for mergers and acquisitions, there is no consensus among economic theorists on the effect of the strategy on growth.

The first problem this study attempts to resolve therefore is to find out which theoretical position is supported by evidence (underscored for emphasis) of past mergers and acquisitions in Nigeria. While mergers and acquisitions activities can be traced to the period around 1895 - 1905 in some part of the world, the phenomenon in Nigeria is still in the learning process of its rules and conduct. Thus the pattern and **modus operandi** of the strategy especially as related to three (3) major considerations viz. legal, finance and accounting are only being fashioned out.

The second problem of this study is to compare (by way of discussion) the adequacies or otherwise of the three (3) major considerations in the light of what obtains in the developed economies where defined pattern and **modus operandi** abound.

1.3 Objective Of The Study

The objective of any endeavour is a goal or guide to action with accompanying criteria for evaluating plans or accomplishments. It is therefore, the objective of this

study to:

(a) Determine whether mergers and acquisitions foster growth among businesses in Nigeria;

(b) Discuss the major considerations in mergers and acquisitions transactions and the conditions necessary for successful application; and

(c) Highlight the advantages associated with mergers and acquisitions application so as to stimulate the desire for increased utilisation of the strategy among businesses in Nigeria as appropriate.

1.4 Significance Of The Study

One of the features of mergers and acquisitions plans in Nigeria is that they are invariably made by companies with foreign affiliations, which employ the strategy to consolidate themselves further and edge out more, the indigenous companies. This study has the significance of providing clues into the perspectives and options in mergers and acquisitions opened to Nigerian indigenous companies as they embark on a transition towards attaining growth.

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While the parties to merger and acquisition bids in the USA and UK have an armoury of reference works to call upon, their Nigerian counterparts remain curiously starved of such suitable reference materials. Such text books as are available concern themselves genuinely with legal and financial theory and bear little relation to the practical application of the strategy in the country.

The second significance of the study is that it will provide insights into the practical application of the strategy in Nigeria.

Finally it has been said that the state of our knowledge reveals the frontier of our ignorance. Hence another significance of the study is to provide contributive suggestions for future research that will improve the present state of knowledge on the subject matter.

1.5 Research Questions

There are a number of questions in relation to merger and acquisition bids that require answers. The principal question this study will attempt to answer and which form the basis of the research conclusion is: ***Do mergers and acquisitions foster growth?***

The second question that would be answered through intensive and extensive literature review is: ***To what extent do legal, finance and accounting considerations in mergers and acquisitions arrangement in Nigeria conform with what obtain in other parts of the world?***

These questions are restated for investigation as follows:

1. What is the effect of mergers and acquisitions on the growth of selected companies in Nigeria?
2. How effective is the legal framework governing mergers and acquisitions arrangements in Nigeria?

3. In what ways are mergers and acquisitions transactions financed in Nigeria.

4. How is mergers and acquisitions transactions accounted for in Nigeria.

It is pertinent to consider the importance of these questions. In the last eight (8) years the spate of mergers and acquisition activities is on the increase in Nigeria. The motive for embarking on these exercises seems to be the desire to attain growth through synergy that is expected to ensure therefrom. Akamiokhor (1989) supports this observation. He presents the characteristics of mergers and acquisitions plans handled by the Securities and Exchange Commission (SEC) as including:

- The reasons for the exercises are usually the common text books reasons; and
- There is indiscriminate reliance on synergy.

These characteristics prompt the need for inquiry to confirm whether mergers and acquisitions foster growth by solving the research problem in focus.

The importance of the last three(3) questions cannot be over-emphasised. Mergers and acquisitions are a new phenomenon in Nigeria. The business community in the country would like to have an insight into the major considerations in mergers and acquisitions transactions.

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The consequent answers to these research questions may assist in re-shaping future mergers and acquisitions plans in Nigeria.

It is note worthy that the study opts for the use of research questions rather than the

formulation of hypothesis because both approaches provide opportunity for generalization upon which reasonable conclusion might be reached. Thus the research question approach is considered convenient here especially that only one (1) out of the four (4) relevant questions may be tested using statistical or mathematical formulae. The remaining three (3) questions are answered through literature review and findings. The formulation of null hypothesis is therefore avoided.

1.6 Scope Of The Study

The Nigerian Securities and Exchange Commission (SEC), the body responsible for handling applications for mergers and acquisitions in Nigeria, received only a total number of fifteen applications between 1982 and 1988 (see Appendix II). The outcome of all the applications but one were determined as at the end of 1988. Of the fourteen applications the outcome of which were determined at the end of 1988, twelve were successful while the remaining two were unsuccessful.

In three (3) out of the twelve successful bids both the "acquiring company" and the "target company" were private companies. Statutorily, private companies are not obliged to publish audited annual accounts and reports for public consumption. Hence the collection and subsequent analysis of effect of the merger and acquisition exercise between these companies was frustrated by the non availability of relevant information. This is because management treat such information as highly

confidential and for internal use only.

It is noteworthy here that among the population considered for this study are companies that were involved in more than one merger or acquisition arrangements within a period of five years. However, the study intends to analyse the result of each merger or acquisition arrangement for an effective period of five years without over-lap so as to be able to attribute changes in growth of the affected companies to a single exercise during the reference period. This means that companies that were involved in more than one merger or acquisition are necessarily excluded from the study sample. The scope of this study is therefore delimited to the analysis of the successful merger and acquisition bids involving:-

- Intra Motors Nigeria Limited Vs West Coast Fisheries Limited
- Seven-Up Nigeria Limited Vs Beverage Division of John Holt Nigeria Limited
- Lever Brothers Nigeria Limited Vs Cheseborough Products Industries Limited

This scope delimitation is taken to be adequate as to provide the necessary data upon which a reasonable conclusion on the application of mergers and acquisitions in Nigerian environment may be drawn.

1.7 Definition Of Terms

The following terms assume the definitions given wherever they occur in this study.

Absorption: Merging by transfer of all or part of the amounts in an account or

group of accounts with another account in such a manner as to cause the identity of the first to be lost.

Acquisition: The purchase by one company of the controlling interest(s) in one or more companies.

Amalgamation: A continuation under a single head of all or a portion of the assets and liabilities of two or more business units by merger or combination.

Combination: An agreement between two or more business organisations, often constituting a trade group, for the purpose of mutual benefit such as price or other trade practice agreement.

Conglomerate: Generally, a corporation that has grown by acquiring or merging with other firms in different kinds of businesses.

Consolidation: The combination of two or more enterprises, accomplished by the transfer of their net assets to a corporation organised for that purpose.

Diversification: A process of investing in assets of different risks and maturities in order to reduce variations in the returns that might be experienced.

Growth: Efficiency leading to a reduction in the resources actually used to produce a given output.

Holding Company: A controlling company having subsidiaries and confining its activities to their management.

Horizontal

Merger: A business combination of companies with similar functions in production or sale of comparable products.

Leverage: Refers to the tendency of net income to vary disproportionately with sales or of residual net income to vary disproportionately with net income.

Liquidation: The sale of assets and settlement of debts in the winding up of a business estate or other economic unit.

Merger: The combination of two or more companies to form a single company

Strategy: A plan used to govern or guide other plans

Synergy: The value of combining two companies that the result is greater than the sum of the total of the individual parts.

Take-Over: The acquisition of a going business by another through out-right purchase, exchange of capital stock or other device.

Vertical Merger: A business combination involving companies with supplier-customer relationship.

1.8 Sequence of Presentation

Chapter Two of this study discusses the conceptual framework of mergers and acquisitions in general. Comparative presentation of mergers and acquisitions in other parts of the world particularly the USA and UK vis-à-vis Nigeria environment was made.

In Chapters Three and Four, the methodology employed in undertaking the study and the analysis of data collected with the results are discussed respectively. The presentations and discussion in Chapters One to Four form the basis of summary, conclusions, observed limitations and recommendations in the final Chapter Five.

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CHAPTER TWO

CONCEPTUAL FRAMEWORK

2.1 Mergers And Acquisitions As A Strategy

The main tendency of successful business organisation is to expand. When a business has been built up to a particular point, it is difficult or impossible for it to maintain a constant turnover or profit at that point for any length of time, for if it does not continue to go forward, it will almost inevitably begin to decline.

For this reason alone, the trader who has achieved any success will seek to extend his operations and enlarge his business. But the sole trader may find it difficult to obtain employees or managers to act for him and will always be embarrassed in regard to the carrying on of business during absence or illness, and will probably find advantages in taking in a partner or partners. Sometimes such partner(s) will already be established and be able to bring in their own business(es) and assets to the common stock, so enlarging the business as well as ensuring better continuity of management and control.

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But the partnership cannot be considered a permanent organisation, and in order to ensure continuity of existence and possibly to further enlarge its capital and operations, the partners may decide to convert the business into a limited company, an entity existing apart from themselves.

The company may be small in the first place and be public or private. It may continue to develop, enlarging its capital from time to time by the retention of profits, but as it expands further, it may find that competition with other similar businesses becomes keener and that turnover can only be maintained at increased cost and/or lower profits.

At this point, the possibility of combination of some form with other firm(s) may present itself. The combination may be of various businesses in the same state of the trade e.g. the manufacturing of particular goods, or a manufacturing business may enter into combination with the suppliers of its major raw materials, or in the other direction with those marketing its products. The combination is not necessarily of organisation of equal size and strength.

In fact, one business may have become weak for various reasons, and to save itself may agree to acquisition by a larger or stronger organisation, which itself is willing to undertake the operation by reason of the increased size and power it may thus attain.

This background presents mergers and acquisitions as strategy for business growth. The word strategy bears different meanings to different people depending on the point of focus. Glueck and Jauch (1984) defines strategy as "a unified, comprehensive and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved"

However, Anoa (1979) sees strategy as a scheme, method, manoeuvre, which management hopes to develop in order to move the organisation from its present position to arrive at its target goal by the end of a specified period, recognising that during the intervening period a host of changes would take place in the environment. Thus strategy is a pattern of decisions in a company that:

- Shapes and reveals its objectives, purpose or goal;
- Produces the principal policies and plans for achieving these goals; and
- Defines the kind of business and the kind of economic and human organisation it intends to be.

It follows that a strategy is concerned with the direction of an organisation. In essence, a strategy is a chosen course of action for pursuing an objective through the future. Osaze (1991) identifies the following factors as being responsible for shaping a strategy:

⇒ Opportunities identified in the environment;
⇒ Organisational competence and resource capabilities;
⇒ Threats to opportunities in the environment;
⇒ Social obligations and ethical value; and
⇒ Organisation culture and value system-whether pioneering, innovative, complacent or bureaucratic.

There are various strategies that an organisation might adopt in its desire to survive and grow. An organisation might decide to grow through internal expansion, in

which case it will need to retain a substantial portion of its annual profit. The organisation will also need to identify high yielding investment to convince its shareholders to retain profits for the expansion than receive dividends.

Growth through internal strategies would entail penetrating the market with low priced, better quality and more efficient products than the competitor, backed up by effective advertising campaign. Similarly, internal growth can be achieved through new product development.

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The alternative option for growth is by external strategy. This involves searching for other organisation to acquire or to merge with in order to diversify and stabilise fluctuating income or to gain bigger share of the market.

Unlike internal strategies however, mergers and acquisitions as a form of external strategy is regulated by external and restrictive factors such that some advocates of *laissez-faire* view the restrictions as being contradictory to the policy of liberalism in an open economy.

On one hand the very idea of restricting mergers and acquisitions is considered detestable. Lord Robbins (1973) takes this position:

> Speaking as one who is persuaded by the main principles of economic liberalism - to put it mildly, my feeling about policy relating to mergers and take-overs is that there is a certain presumption against preventing people from buying or selling such property as seems to them to be desirable.

But on the other hand, mergers and acquisitions typically entail a further departure from those conditions of perfect competition in which the ***laisse-faire*** ideals would be fulfilled. Whereas Lord Robbins lends his weight to those arguing for few (if any) restrictions upon mergers and acquisitions, There is wide support for an outright ban on a major class of mergers and acquisitions in order to safeguard the conditions under which ***laisse-faire*** can operate effectively.

Inspite of the restrictive policy and varied views being expressed about mergers and acquisitions, the strategy has continued to gain ground and application in many parts of the world including Nigeria.

2.1.1 Historical Perspective

Although mergers and acquisitions have continually been a part of the corporate scene, major surges of activity are identified at three different periods. Each period of heightened activity has been followed or terminated by depression or recession. And the regulatory framework has changed and matured either during or after each period of activity, thus affecting the type and pattern of other acquisitions. The first major spurt of mergers and acquisitions occurred around 1895 - 1905 and primarily involved horizontal mergers. In this period, a number of major and (at that time) single industry firms were evolved. Examples include U.S. Steel, Dupont, and others.

The purpose in most cases was the stifling of competition and in many cases they succeeded in doing so. The consequence however, was the arousal of adverse public opinion and finally the enactment of the Sherman Anti-Trust Act, which made it illegal for concerns engaged in interstate commerce to combine in restraint of trade.

In the 1920s a second burst of mergers and acquisitions activity occurred. The focus here was on vertical integration of industrial firm and the formation of utility holding companies. The main purposes were either the elimination or reduction of competition, or the accomplishment of production economies through large scale operations. In many cases existing combinations were themselves combined. This period was described as period of bigger and better 'trust' and 'pyramiding'. The number of mergers and acquisitions was then sharply reduced as a result of depression of 1929 and many of the combinations failed to justify the hopes of their promoters. Four reasons were advanced for the failure of mergers and acquisitions in this period.

I. Their failure to suppress competitions completely;
II. Their failure to reap super-normal profit from large scale operations;
III. The eventual effectiveness of the Sherman Anti-Trust Act; and
IV. The shift in investors interests from industrial to public utility enterprises where competition was not commonly a factor.

The third period occurred after World War II particularly between 1960 although activity began to pick up in the 1950s. In 1969, the all-time peak occurred in terms of numbers - more than 6,000 transactions.

Whereas earlier period were characterised by horizontal and vertical mergers and acquisitions, the 1950s and 1960s were unique in that the emphasis was diversifying acquisitions and the growth of conglomerates. Examples of latter include LTV Corporation; Fuqua Industries Inc; and Textron Inc.

Following the recession of 1973 -1983, a new round of mergers and acquisitions began, each differentiated itself from that of the past period by a distinct set of conditions, characteristics, and "players". Members of this group, although not necessarily highly diversified companies, for the most part no longer represent business or single market companies. This is in keeping with current strategic planning philosophy, including product and market portfolio concepts and the balancing of activities between units with both different maturities and different financial characteristics. Concurrently there has evolved more of a useful, coherent economic basis for considering, carrying out, and managing mergers and acquisitions.

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Angear and Dewhurst (1987) succinctly reveal the amount expended on mergers and acquisitions activity in the UK between 1987 and 1988, thus:

> The annual expenditure on take-overs continues to spiral over upwards. In 1987, total spending in the United Kingdom reached a staggering £27.7 billion Pounds involving 1,937 separate transactions, an increase in value on 1986 of just over 10 per cent. This investment wave continued unabated throughout 1988 in spite of the stock market crash in October 1987. Total spending in the UK increased to £37.6 billion Pounds representing 2,241 completed transactions.

The practice of business combination by way of merger or acquisition became evident in the Nigerian environment first in 1982. However, there is evidence of merger and acquisition activity (not handled by SEC) prior to this date in Nigeria. For example Ahmed (1989) revealed the acquisition exercise in the first half of the '70s involving Paterson Zochonis Nigeria Limited (now PZ Nigeria Plc) and Amalgamated Industries Limited. Although fifteenth (15) applications were handled by the SEC to date (Appendix II), no official pronouncement has been made or document released on the amount involved in the successful transactions made under the auspices of the SEC.

The highest number of merger applications was recorded in 1985 and in 1988. There were five applications in 1985 and four applications in 1988.

There were two cases each in 1984 and 1987 while the years 1983 and 1986 recorded one case each. The first successful merger handled by SEC was that between A.G. Leventis and Company (Nigeria) Limited and Leventis Stores Limited. The merger was consummated in 1983.

The SEC approved of both 60K per 50K share for A.G. Leventis and Company (Nigeria) Limited and a par price of 50K each for the shares of Leventis Stores Limited. This resulted in an exchange ratio of 83% or 100 ordinary shares of Leventis Stores in exchange of 83 ordinary shares of A.G. Leventis and Company (Nigeria) Limited. In order to finance the purchase, A.G. Leventis increased its share capital and issued 11,718,750 ordinary shares in exchange for 14,062,500 ordinary

shares of Leventis Stores. Subsequent mergers and acquisitions arrangement in the country-involved exchange of shares, debt finance, and outright cash purchase.

In Nigeria, however, there are no anti-trust legislation as in the UK and USA. Hence the only form of regulations for mergers and acquisitions are indirectly derived from the provisions of the Nigerian Enterprises Promotion Act, 1977, the SEC Act, 1979, the Listing Requirements of the Nigerian Stock Exchange and the regulations of Federal Board of Inland Revenue. It is therefore evident that mergers and acquisitions activity is still in its infancy in Nigeria as compared to industrially advanced countries notably the UK and the USA.

2.1.2 Conditions For Application

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Mergers and acquisitions strategy may be applied successfully only when certain conditions are in place. The first and most important condition is that the strategy should be integrated within the overall corporate objective of the company concerned. According to Korn and Bradley (1981) rational mergers and acquisitions objectives in creating value for the stockholders' over and above management desire for expansion often include:

(a) A higher level of income from the combination of business entities that can be achieved separately as a result of operating financial and or market economics that is, synergy.

(b) Less cyclicality of income. This for example, might be achieved by means of a highly cyclical company combining with one of low or opposite cyclicality.

(c) The achievement of greater market recognition by entrance into a "favoured" field: a risky and often costly strategy, but one that sometimes might prove necessary and successful for firms in ageing industries.

(d) The spreading of risk by participating in several rather than a single business or geographic area: the application of portfolio theory to corporate activities. This can also apply to reducing political or geographical risk.

(e) The development of a more balanced enterprise in terms of cash flow and stages of maturity.

Second, when a company decides to expand through the application of the external strategy rather than by continuous internal growth, it is faced with the task of identifying suitable target. Finding a suitable target could be a onerous task. However, this condition is indispensable if the application of the strategy is to succeed. Where the target is not suitable, either the proposal will fail to take place, or if it takes place disastrous results will lead to an eventual corporate divorce. A completely unsuitable combination may lead to the demise of both companies.

Earl and Fisher (1986) writing on the process of identifying a suitable merger and acquisition partner emphasise this condition:

> The long-term industrial logic which determines the selection of a take-over candidate is as critical as the immediate financial or stock market effects of the move itself. Only if a company sets itself a specific set of guidelines to which it firmly adheres will it be in a position to actively carry out the research which will identify the right target.

The process of identifying a target therefore includes deciding on corporate objective, setting criteria, searching and screening possible candidates.

Third, the target company should be thoroughly evaluated for feasibility and viability. A company may subject mergers and acquisitions (whether of quoted or unquoted companies) to the same tests as it would apply to any other major capital expenditure project. For instance, since a company would normally have a required rate of return on capital employed for a project, mergers and acquisitions can be evaluated by the same criterion. In this case, the capital employed consisting of the purchase consideration and any funds to be invested by the company on consummation of the combination.

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Similarly, a company can reduce its major capital expenditure projects to a discounted cash flow analysis using either of the two main variant of the technique:

(a) The net present value (NPV) approach, which establishes what the value of the project would be if the anticipated cash flows arising from it is discounted to the present date at a predetermined rate of interest. The more positive the NPV, the more attractive the project; or

(b) The internal rate of return (IRR) approach, which asks, in effect, at what rate of interest funds could be borrowed such that the net present value of the project would be zero. The higher the solution rate the more attractive the profit.

Both approaches provide a ranking mechanism and by establishing an appropriate 'hurdle' rate, they can provide a guide as to whether a project should be undertaken or not.

According to Begg (1986) mergers and acquisitions can be subjected to the same evaluation. In his words, "the purchase consideration is equivalent to the capital expenditure on a project and the net cash flows for each year can be calculated by appreciating the cash expected from operations with the forecast working capital and capital expenditure requirements of the business".

However, such calculations should be subjected to various sensitivity factors, which take into account the possibility of substantial shifts in the underlying assumptions affecting returns from the combination, for example, interest rates, exchange rates, or price and demand for the company's projects.

Having satisfied the above three conditions, a company employing mergers and acquisitions strategy should then establish dependable means of getting useful information about the target company from both primary and secondary sources in order to consolidate and validate its strategic objective. Here, the services of professionals such as accountants, lawyers, bankers, stockbrokers and so on may be employed.

In essence, a high degree of care and skill coupled with defined and articulated corporate objective to merge with or to acquire suitable target are necessary conditions for application of the strategy.

2.1.3 Criteria For Selecting A Target

Mergers and acquisitions made on random or speculative basis will hardly be successful. Once a company intends to grow by the external strategy, a list of precise criteria may be drawn up to judge whether potential target is suitable or not. Ideally, the criteria should be succinct and specific enough to rule out all unsuitable candidates.

Angear and Dewhurst (1987) opine that the process of selecting a target should contain the following elements:

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* A review of the competitive positioning and market environment of the base business, combined with some insight on how these will evolve;
* An assessment of the likelihood of achieving a sustainable advantage position for the business over some future period under various organic development options, and analysis of the financial consequences and resource requirement of each of the leading options;
* The identification of alternative acquisition routes which could meet these resource requirements, and a comparative evaluation of acquisitive and leading options;
* A clear statement of the value creation logic underpinning the acquisition, either by improving the targets performance or by identifying and exploiting synergies;
* An analysis of the likely financial implications of acquisition with particular focus upon future profitability, gearing and the impact upon earnings per share;
* An initial review of the risks involved, ideally with reference to representative take-over targets; and
* A statement of the key acquisition criteria to be used in searching for and screening candidate companies, and the target timetable and project responsibilities.

Obviously, the depth with which these elements should be addressed depends upon the specific complexities of each individual situation. Equally, the focus and priorities of the analysis will vary from one company to the next, depending upon whether the merger and acquisition rationale is being driven by the need to strengthen the core business or by the diversification considerations.

But in all cases, the merger and acquisition strategy must meet the requirements of identifying the 'value-creation' logic and providing a clear guide for subsequent action. It is the responsibility of the company to decide the priority it wishes to give each individual requirement and the amount of detail it wishes to include.

As soon as the criteria have been specified, however, the company's management advisers can begin the search process that would lead to an eventual short-list of prospective candidates.

It is also important to assemble the various screening criteria in some form of rank order thus:

(a) Primary Criteria: Strategic Contribution
    i. Size, nature of business location
    ii. Competitive positioning and prospects
    iii. Specific resource requirements (such as technology base, manufacturing assets, sales force configuration and head office structure)

(b) Secondary Criteria: Financial Acceptability
    i. Profitability and cashflow requirements
    ii. Balance Sheet requirements

iii. Price earning ratio

iv. Shareholder profile

(c) Tertiary Criteria: Other Considerations

i. Management capabilities

ii. City profile

iii. Financial engineering potential (such as sale/lease back opportunities, or unrealised assets).

In the first instance, these criteria should form the basis of the search activity to identify a shortlist of targets which appear to fit the required profile. Thereafter, the same criteria are used to establish the framework for analysing the shortlisted companies, and discriminating across them.

The process of mergers and acquisitions strategy definition does not stop with the establishment of screening criteria. A number of important practical dimensions to the strategy may only be addressed in the context of evaluating specific targets, and it is of vital importance that these issues are kept in the forefront as the proposal advances. The following questions may be asked:

I. Can a hostile bid be entertained? Is management willing to subject themselves to the intense public scrutiny that accompanies a hostile approach? What are the risks and costs of failure?

II. How realistic are the synergy opportunities for each target? Over what time frame are they realisable, and with what management implications?

III. From a cultural and system perspective how well do the two companies fit? What is the proposed organisational model post - acquisition? How dependent is success upon the continued commitment of the targets management and what needs to be done to ensure this?

IV. What will be the impact of acquisition on the balance sheet earnings? What constraints regarding funding does this impose? What are the timing implications for the transactions?

The further the screening process progresses, the more the issue becomes tactical addressing the specifics of the transaction. And the more management becomes embroiled in the tactics and day to day negotiations, the easier it is to lose sight of the underlying strategic requirements. A thorough and well documented merger and acquisitions strategy serves as a central foundation for the subsequent implementation process, and minimises the risk that management will either enter an inappropriate transaction or accede to an unrealistic price.

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2.1.4 Rationale For Mergers and Acquisitions

The spate of mergers and acquisitions activities is on the increase both in Europe and the USA. In Nigeria also, the last few years have witnessed an upsurge of both successful and unsuccessful proposals. This development prompts a question: What is the rationale for mergers and acquisitions? Despite the risk and the difficulties associated with employing the strategy, its unique attractions tend to justify the exercise.

Prior to the exercise, it is normal to weigh the cost against the expected benefits. The main problem here is that the cost and pains of the exercise are immediate whilst the benefits and gains comes later, and would in many cases, only be realised if the

integration that follows the exercise is done with commitment, decisiveness, and efficiency.

The rationale for mergers and acquisitions are diverse and varies depending on the motives of the parties involved. However, the main known rationale is to increase the market value of the combined company. This is fundamentally, the objective of every business enterprises

The market price per share of a company is given thus:

$$Po = Dt/ke$$

Where: P_o market price per share of a company at time zero.

Dt = Dividend expected at the end of time t.

ke = Required rate of return of investors in the stock involved.

After a merger or acquisition, it is expected that the value of the company would be higher than before because future dividend per share is expected to rise as in the numerator above. On the other hand, the required rate of return is expected to fall as a result of reduced risk to investors.

A recent study on mergers, acquisitions in the context of the indigenisation policy in Nigeria, reveals that increase in the market value of the company through expansion of production is the main rationale for merger and acquisitions as that would take the interest of all groups affected by the exercise namely shareholders, top management in target company, employee, government and the society.

Apart from the general motive for increase in the market value of the merging or acquiring business, other factors influence positively, the decision to undertake a merger or acquisition exercise.

One of such factors is the usual motive for combining the strength of different organisations in order to eliminate their unique weaknesses and exploit opportunities to meet their individual needs. For instance, if company A has financial muscle with a cash-rich balance sheet and good cash generating business, but suffering declining future prospects and limited room for expansion, and company B has good product portfolio with numerous business opportunities for expansion of it's existing business, but is short of cash; an integration of the two companies may produce a good balance, which in the new configuration, provides both the required cash and investment opportunities for expansion and profitable growth.

Similarly, companies in the same market with identical organisation culture, human resources and reward systems may find merger and acquisition an appropriate vehicle to pool resources and achieve economies of scale and improve profitability. In many cases increased profits can be generated when one company acquires another dealing with complimentary goods or services. For example if a cement manufacturer adds paints to its product line (as West African Portland Cement Company Limited did), there would be sales and management synergy. In the on-going economic scenario, reduction in capacity utilisation and inflation is the order of the day. Companies in distress could combine with others in order to survive.

While discussing the rationale for mergers and acquisitions, Giwa (1989), opines that businesses are set to create wealth and produce adequate return to the shareholders. A company that is unable to sustain the fabric of its business is hardly meeting its obligations. Such a company may consider the option of merging with a stronger company to bail it out.

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Osaze (1991) quotes Haner's proposal on the motivation for mergers and acquisition as presented in table 2.1.

Table 2.1 *Mergers and Acquisitions Motivation*

I. SURVIVAL REQUIREMENT	II. PROJECTION AGAINST	III. DIVERSIFI-CATION	GAIN IN
Capital structure Deterioration	Market infringement	Counter cyclical	Market position
Technological obsolescence	Lower cost position of competitor	Counter seasonal	Technological edge
Loss of raw materials	Product innovation by others	International operations	Financial strength
Market loss to superior	An unwanted take-over	Multiple strategic	Management talent

Source: *Nigerian Corporate Policy & Strategic Management - Text & Cases, 2nd Edition, CAMD, Nigeria, P.57*
Edition p. 57.

It can be adduced from the foregoing that, the rationale for adopting mergers and acquisitions is situation specific. There is, however, the general flair for growth and positive impact to the bottom line.

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2 .2 Legal Considerations

2.2.1 General

All countries which have enacted laws to govern the operations of companies inside their territories have at some time passed legislation to control corporate mergers and acquisitions. In some countries such as the UK and Hong Kong, a number of the take-over practices are monitored and controlled by informal bodies whose non-legal but nevertheless building procedures are administered by professional advisers experienced in the routine business of effecting mergers and acquisitions. Other countries such as the US, have a rigid system of laws enforced by officers of the court or government departments. A merger or acquisition may be disapproved by the government at any time for no specific reason if it appears to be contrary to public interest. As a result, a company considering merger or acquisition usually goes a great length to obtain relevant approvals long before completing the transaction, and makes its offer conditional upon the requisite consents being granted.

Regulatory approvals fall into two distinct categories: formal consents or clearances which must be obtained before the completion of the proposal, and informal approvals which is sought either during the mechanical stages or negotiation or even afterwards.

Included in the second category are the hazy quasi-regulatory approvals from trade unions, trade federations, and industry ministry. In some countries such as West Germany workers' participation on the board of directors of their domestic companies

is required. In most cases of mergers and acquisitions, workers' representatives on a board will receive same treatment as other executive directors. And union reaction has in the past been used as an effective defensive tool to frighten away unwelcome acquirers.

It is apt to look at the regulatory framework on mergers and acquisitions activities in the UK and USA so as to appreciate the general practice:

The United Kingdom (UK)

In the UK, corporate mergers and acquisitions are regulated primarily by the Monopolies and Mergers Commission - a statutory body and the Council for Securities Industry (CSI) - a self-regulatory non-statutory body.

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The Monopolies and Mergers Commission (MMC) is an off-shoot of the Monopolies Commission which was established by the Monopolies and Restrictive Practices (Inquiry and Control) Act of 1948. The Monopolies Commission was by virtue of this Act empowered to obtain any information needed to investigate monopolies brought to it by the Board of Trade. A monopoly was broadly defined to include firms controlling over one-third of the industry's market. In 1965, the Commission's powers were expanded by the enactment of the Monopolies and Mergers Act. In accordance with this Act, firms in monopoly situation or involved in the acquisition of assets exceeding 5 million Pounds could be referred to the Commission by the Board

of Trade (later Department of Trade and Industry) for investigation. By 1973, however, the two Acts, that is, the Monopolies and Restrictive Practices Act 1948 and the Monopolies and Mergers Act of 1965 were found to be inadequate and replaced by more comprehensive Act, the Fair Trading Act of 1973.

The new Act empowered the MMC to regulate and scrutinise monopolies, mergers and anti-trust practices with intent to protect public interest. The Director General of the Office for Fair Trading and the Secretary of State for Trade and Industry were authorised to refer cases of monopolies to the Commission for proper investigation and recommendations vital to the public's interest. The Secretary of State for Trade and Industry was also given the added responsibility to take necessary preventive or remedial action against monopoly or the adverse effects if identified by the Commission. Monopoly as currently defined is a situation where at least a quarter of a particular commodity or service is supplied by or to a single person, or by two or more people acting in a way to distort competition.

The Commission investigates all proposals (when referred by the Secretary of State) which may lead to a monopolistic situation or where the total assets being taken over is in excess of 15 million Pounds. Where the merger is thought to be of adverse effect to the public, the Secretary of State can on the recommendation of the Commission prevent the merger from being effected or it could, on the alternative request for an undertaking from the merging parties that the adverse effect identified by the Commission would be remedied.

The second body which regulates mergers in the UK, is the CSI. As earlier mentioned it is a self regulatory non-statutory body composed of professional bodies involved in the securities business. The Council sets codes of conduct which govern all activities in the industry. Most importantly, the Council has established rules and regulations in respect of all mergers and acquisitions transactions involving public companies both quoted and unquoted. Private companies are exempted. These rules are embodied in "The City Code on Take-Overs and Mergers" published by the Council. These rules and regulations are enforced and administered by the Panel on Take-Overs and Mergers which is more or less the 'Judicial arm of the Council'.

Under the rules, all mergers and acquisitions, which bring the total holding of a shareholder in an affected security to between 15 and 30 per cent are subject to regulation. It is also obligatory for all companies involved in a merger arrangement to disclose to their shareholders all pertinent information, fact and option which would aid them in weighing the costs and benefits of the merger offer, and reach a decision. In addition, sufficient time must be provided to enable them take a meaningful stand. The Council also prohibits the creation of a false market in the equities of both companies by all parts involved in the merger/acquisition. In essence, insider dealing is discouraged.

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The United States of America (USA)

Mergers and acquisitions in the USA are regulated by Anti-Trust Laws. The Sherman Act was passed by congress in 1980 following public outcry over the growth of mergers and trusts, which restrict production and raise prices. The Act was therefore, designed basically to discourage monopoly and to preserve and encourage competition as could be adduced from the following two sections of the Act:

> Section 1 "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states or with foreign nations, is hereby declared illegal. Any person who shall make or engage in any combination or conspiracy, shall be deemed guilty or a misdemeanour".
>
> Section 2 "Every person who shall monopolise, or attempt to monopolise or combine or conspire with any other person or persons to monopolise any part of the trade or commence among the several states or with foreign nations shall be deemed guilty of a misdemeanour".

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However, the real meaning of 'restraint of trade' or 'Monopoly' depended on the interpretation of the court. A case in point was when the American Sugar Refining Company attempted to control the sugar refining business by a series of horizontal mergers raising the company's market control from 65% to 98% in the late 19th Century. The Supreme Court of America in 1890 ruled in favour of the merger on the grounds of commerce. As a result of this decision, there arose a proliferation of mergers in the production sector of the economy. By 1903, 26 companies had controlled 80% of the business in their respective industries. This period 1887 - 1904 also witnessed the formation of such giant corporations as the U.S. Steel (formed in 1901 from a combination of about 785 plants), Standard Oil and General Electric.

The Sherman Act was practiced for about two decades after which it was found to be inadequate. The consequences were the enactment of two additional laws, the Clayton Act and the Federal Trade Commission Act. The Clayton Act basically tried to identify and forbade certain practices. Specifically Section 7 of the Act as amended by the Celler Kefauver Act of 1950 states that: "No corporation shall acquire directly or indirectly the whole or any part of the assets of another corporation where in any line of commerce, in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly".

Prior to the amendment of this section, assets acquisitions were excluded and it was not very clear whether or not law applied only to horizontal mergers. As of today, section 7 of the Clayton Act is the principal statute governing mergers in the United States. Within ten years of the amendment, over 800 merger moves were queried by the Federal Authorities.

Anti-trust laws have not always been easy to administer especially since their intent has been interpreted differently by the courts from time to time. During the later part of the 19th Century to the early part of the 20th Century, the attitude of the courts was based on the circumstances with primary concern directed towards the behaviour or intent of the concentrated industries. By the middle of the Century, however, the main focus was on the market structure or 'market power'. An example was the case of Aluminium Corporation of America (ALCOA) which was decided in 1945 by the

US Court. The court ruled that since ALCOA has achieved its 90% hold of the industry's output through monopolistic practices, such as keeping price low to discourage entry, it has violated the anti-trust law. The Court thus used market structure rather than market conduct as a test. It was decided that unjust monopolising was illegal. In recent years more and more guidelines on anti-trust policy have been developed by the government to prevent too much seller concentration.

Under the Hard-Scott-Radiono Anti-Trust Improvement Act of 1976, the Federal Trade Commission and the Anti-trust Division of the Justice Department must be notified of substantial acquisitions moves. Substantial, specifically refers to "acquisition by firms with net sale or total assets of companies with net sale or total assets of at least $10 million, if at least 15% or $15 million or more of the stock or assets of the acquired firm is being sought". Joint ventures are not excluded from this Act as they are regarded as acquired companies.

It follows then that a $10 million (or more investment in a company within a year is subject to the requlations of the Act). Contained in the notification document are various information about the companies and the intended merger.

After the notification, a waiting period of 30 days (15 days for cash tender) is required before the deal can be affected. However, this could be extended by 20 days through a court order if need be. And in the event of unsatisfactory information,

hearing of a preliminary injunction motion would be held.

In the USA also, an acquisition of a 5% or more interest of the equity shares of a company must be disclosed to the Securities and Exchange Commission. Owing to the growing incidence of mergers and acquisitions and erratic price movements which have preceded such mergers and acquisitions, suggesting insider dealings, the New York Stock Exchange is presently creating a specialised surveillance unit under its regulatory services to check such practices which are detrimental to the market.

It can be seen from the above analysis that adaptation and changes have characterised the regulation procedures adopted. Each new regulatory action or system is limited to current problems as they are currently understood. As new evidences emerge restrictions are imposed to plug the loopholes.

2.2.2 The Nigerian Environment

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One major difference between the now repealed Companies Act, 1968 and the Companies and Allied Matters Decree (CAMD) No. 1, 1990 is the amount of attention given in the new Decree to mergers and acquisitions. Whilst the former legislation devoted only 4 sections to the topic, in the new Decree, 22 sections (sections 594 through 613) deal with the subject.

Under the guide of the relevant sections of CAMD 1990 and the provision of other regulatory bodies, the procedures being followed as regards mergers and acquisitions can be stated thus:

(a) When, for example, an intention is established for ABC Limited to merge with or be acquired by XYZ Limited, the directors of both companies commence discussions with a view to achieving this objective.

(b) If subsequent to (a) above, progress is made, a "package" is prepared showing the advantages of a merger or acquisition to both parties. Subsequently, this package is scrutinised with the assistance of their respective financial and other advisers.

(c) The bid package as agreed between the parties is then referred to the SEC, the NEPB and FBIR for their approvals and for confirmation of the legality, reasonableness, and propriety of the terms of the bid.

(d) Upon the approvals of SEC, NSE, NEPB and FGBIR being obtained, separate meetings ordered by the Federal High Court are held during which the whole bid is considered by the shareholders of the two companies. The outcome of these meetings are subsequently reported to the Court for endorsement. Thus, if a majority of the members of ABC Limited present and voting in person or by proxy at a court meeting summoned for the purpose and controlling 75% or more of the shares represented approve the scheme, the Court then examines it further for approval.

(e) Upon court approval, the scheme becomes binding on all share-holders including minorities who may not support the scheme that becomes effective on the day after an office copy of the Court Order is filed with the Corporate Affairs Commission. The approval process and consideration by the relevant regulatory bodies is as follows:

1. Securities and Exchange Commission (SEC)

Section B of the SEC decree of 1988 states that "every merger, acquisition or combination between or among companies shall be subject to the prior review and approval of the Commission". The Commission will only approve if "such acquisition is not likely to cause substantial restraint of competition or tend to create monopoly in any line of business enterprise" (Section 8(2)a. Hence a horizontal merger (i.e. where a company acquires a competitor) may never be approved by the SEC as the result would definitely be a restraint of competition. A situation has not yet arisen where the words "substantial restraint of competition" or "monopoly" has come up for interpretation. The guidelines on mergers and acquisitions published by the SEC list those factors which the Commission considers before granting approval. They are as follows:-

i) The Geographic and product Market

In determining whether competition might be restrained or a monopoly created as a result of the proposed business re-organisation the SEC will identify the company's products(s) and the area where it is manufactured or sold.

The next point is to decide if a firm with a monopoly in that product within the area defined can raise prices profitably without being defeated by its customers purchasing other similar products or by the production of substitute products by competitors. If this cannot happen then these products compete in the same market.

ii) Market Shares

After identifying the product and geographic market, SEC then identifies other participants and measures their shares of the market. Market shares are measured by relating the annual sales of each company to the relevant product in its geographic market. Production capacity is also used as a measure where necessary. The market shares of the merging parties will determine whether the effect of the combination will be anti-competitive or lead to a monopoly.

iii) Calculation of Concentration Ratio

Once a market is established, the commission then goes to the calculation of the market concentration ratio, the general principle being that the more concentrated the market, the greater likelihood that even a small increase in concentration is measured by combining the market shares of the major companies in the market. When the top two firms occupy 50% of the market, this is called a market in which the two firm concentration ratio is 50% and so forth.

A "highly concentrated" market generally, is where the top four firms account for 75% or more of the market and is "unconcentrated" where an eight-firm concentration ratio is less than 50%.

The SEC obtains its power to issue guidelines from Section 542(1)(d) of the CAMD 1990, and Section 23 of the SEC Degree 1988.

2. The Federal High Court

As already indicated, the Federal High Court also has power to regulate Schemes of Arrangements under Section 591 CAMD. In departure from the old Companies Decree 591(2) directs that a scheme approved by members of the companies to be affected at the Court ordered meetings summoned in line with Section 591 should thereafter be referred to the SEC for approval. Upon approval of the Scheme by the SEC, the company goes back to court for sanction of the scheme and when so sanctioned, the scheme becomes binding on both the acquiring and target companies. Section 591 of the CAMD states that the court may order separate meetings of both companies upon an application by any of the companies upon an application by any of the companies to be affected. This is to be compared with section 197 of the old decree which spoke of a compromise or arrangement between the company and its creditors or members and an application by the company, a member or a creditor.

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Although the old law S.197 (5)(a) defined "company" in Section 197 and 198 to mean the company liable to be would up (which is usually the target company) the courts have held that both the acquiring and the target company must both apply to hold court ordered meetings.

In the Lever Brothers Nigeria Limited vs Lipton Nigeria Limited Scheme of Arrangement, the Federal High Court said:

> the transferor company may be transferring asset or liability and the shareholders of the transferee company should know and accept what they are receiving. Each of the companies giving and each of the companies receiving is making an "arrangement" under

> section 197(1) and each of the two companies shareholders should be consulted in a manner laid down in sections 197 and 198 of the Act.

This opinion was further stressed by the same Judge (M.B. Belgore now C.J.) in the John Holt Limited vs John Holt Investment Limited Scheme of Arrangement when the Judge said:

> For avoidance of doubt, I might restate that when two companies want to amalgamate, both steps to comply with the provisions of Section 197 and 198 of the Companies Act until they are finally united by an order of the Court. Each company owes its shareholders of whatever class obligation to let them know what is going and to give them opportunity to have a say in approving or rejecting a scheme of arrangement that is being approved. The meetings would be that of individual companies, not a joint one of the two or several companies shareholders; for the companies are still courting each other making proposal to be considered by each family before a union.

This judicial legislation has been enacted into Section 591 (the present law) by the section talking of separate meetings of the company to be summoned. However, since that section refers to any of the companies to be affected, the impression created is that either the acquiring company or the target company but not both may apply for court ordered meeting.

Whereas, Schedule 1 enterprises are reserved exclusively for Nigerians, aliens are permitted to participate and own shares in Schedules II and III Companies up to 40% and 60% respectively. However, due to a curious and perhaps unintended provision in the NEPB Act, any enterprises with an alien interest (even 1%) is considered to be an alien company. Consequently, all Schedules II and III companies operating in Nigeria are alien companies.

As a consequence of the above, it is at present not legally possible in Nigeria for a Schedule II or III company to "takeover" or "acquire" a 100% subsidiary which is itself a Schedule II or III company. The argument often advanced is that a forth category or Schedule of Company would be created were "take-overs" of Schedule II or III companies of other Schedule II or II companies may be allowed. In view of this, the SEC has taken a stand to the effect that when a company which has alien interest is acquiring another, the one being acquired must be voluntarily would up in order not to contravene the provisions of the NEPB Act. The contention is that if the acquired company is allowed to retain its status, it automatically becomes 100% foreign-owned thus creating a company which has no classification under the NEPB Act of 1977. The NEPB has on some occasions taken a different view.

In a take-over bid involving quoted public companies application has to be made to the NSE to admit any new shares that may be created and to de-list any shares that may have to be cancelled. The NSE also like the SEC, has the opportunity to vet merger and acquisition circulars of Listed Companies.

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3. <u>The Nigerian Enterprises Promotion Board</u>

Where two wholly indigenous quoted companies decide to merge the NEPB would appear to have little or no function. However, in a merger or acquisition arrangement involving companies which have 1% alien interest, the parties are obliged to seek NEPB ruling and directives on the bid.

4. The Federal Board of Inland Revenue (FBIR)

The incidence of taxation on mergers and acquisitions is of considerable importance. As Gower (1979) puts it, tax considerations have occasionally provided the motive for mergers and acquisitions. The FBIR may, if satisfied that certain conditions are met, grant a "roll-over relief" pursuant to Section 24 (9) of Companies Income Tax Act (CITA) No.28 of 1979. Thus the commencement and cessation provisions of CITA would not apply to the business transferred in consequence of a merger. However, for the purpose of Schedule 2 of CITA, each of the transferred assets shall be deemed to have been sold for an amount equal to the residue of the qualifying expenditure thereon on the day following such sale or transfer, and the acquiring company shall not be entitled to any initial allowance with respect to the transferred assets under the said schedule and any allowance deemed to have been received by the vendor company.

In granting the relief, the FBIR may require that the transferee company given satisfactory guarantee or security for payment in full or all tax due or to become due by the transferor company. The FBIR may also impose such other conditions as it deems fit on either or both the transferor and transferee companies.

In the case of a take-over, the transferor company would only become a subsidiary and would, therefore, continue to enjoy all tax advantages it had before the take-over, which advantages would henceforth affect the consolidated accounts of the two

companies or of the group. However, the tax advantages so ensuring may well be offset by the fact that the acquiring company is still lumbered with a full-fledged company, albeit taken over as a subsidiary thus losing the benefits of economy of scale, one of the attractions of a business integration.

Another incidence of taxation on mergers is in the area of capital gains. By virtue of sections 1 and 3 of the Capital Gains Tax Act (CGTA), tax is imposed on capital gains accruing to any person on a disposal of assets. The tax is payable by the person making the gain. It follows that, if a merger is effected by the transfer of assets, whereby the transferor company ceases to exist, and becomes a division of the transferee, the shareholders of the transferor company would be liable to pay a capital gains tax on the disposal of their shares in the transferor company if a chargeable gain accrues to them. In other words, if the value of the shares or cash received by the shareholders is greater than the value of the shares given up, capital gains tax 20% would be payable on the gain made.

This anomalous incidence of capital gains tax, which fails to recognise the continuity of the shareholders holding even though they are increased in value and under a new corporate setting, occurs only in theory. This is because the FBIR has, in its ruling on the tax implications of concluded mergers in the past recognised the fact that the share exchange ratios usually approved by the SEC for mergers should not attract tax. This is in keeping with the accepted principle that enhancement in the value of shares is not taxable until the shareholder sells off his interest therein.

Where, however, shareholders elect to receive cash in lieu of shares in a merger exercise, they would have to pay capital gains tax on the difference between the amount so realised and the price at which they originally acquired the shares of the transferor company.

5. The Federal Ministry Of Finance

If foreign shareholders are involved, the federal ministry of finance would have to give dispensation for the foreign shareholders regarding approved status for the shares held in the acquiring company in exchange for the shares in the target company.

The legal framework regulating mergers and acquisition in Nigeria is still in its evolutionary state. The adequacy of the laws and procedure in place can only be obvious in the light of future experience. As for now the logical conclusion that might be reached is that the few mergers and acquisitions consummated in the last few years appear to have been conducted by all concerned adhering to the highest ethical standards.

2.3 Finance Considerations

2.3.1 General

Financing a merger or an acquisition upon a successful bid is one of the major factors to be considered in mergers and acquisitions proposals. Before determining the form

of financing however, the question of 'fair price' for the bid is usually tackled first. Every party to the bid would like to make 'a good deal' even to avoid situation that could result in selling too cheaply or buying to dear.

Thus every merger or acquisition transaction has a natural cycle which begins with an assessment of whether the deal is fair or not. Next there is the examination of what actually is on offer and whether hidden liabilities, as well as assets, lie beneath the corporate scene. This examination leads to an evaluation of the company for sale and the suggested structure the transaction should take.

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"Price is an important matter", write Earl and Fisher "but its negotiation should not crowd out other considerations which are equally fundamental to a deal". The importance attached to discussion on price is anchored by the fact that it (price) is the single element which subsumes and, of course, quantifies all other tangible and intangible aspects of a merger or acquisition transaction.

Amplifying this position, Earl and Fisher write further that;

> Price is often the most important bargaining point for a seller. As long as the issue of price is still outstanding, the purchaser has yet to make a deal. Alternatively, once this key is resolved, most buyers will attempt to climb into the driver's seat and dictate terms for the remainder of the negotiation. Rightly or wrongly, the cash buyer frequently asserts the maxim of the golden rule: he who has the gold makes the rules.

Whatever happens fair price determination is normally proceeded by valuation of the company's worth indeed the aspect of valuation in mergers and acquisitions generates different thought and opinion. According to Earl and Fisher, this is probably because

every one wants to buy or sell at the right price. Moreover, it is one area amenable to sophisticated mathematical analysis. Hence there are a number of highly complex so-called pricing models. Set against those sophisticated approaches are equally numerous rules of thumbs which are justified by their proponents as though they were articles of religious faith.

The consideration for a merger or acquisition can be paid in cash, shares, loan stock (convertible or otherwise) or some combination of these, either together or in the alternative.

The importance of each financing method fluctuates with market conditions and, to some extent, with fashion. The strength (or otherwise) of the purchaser's share price, his existing and prospective gearing structure, his cash resources and tax position are important determinants of the form of consideration used. Equally the tax position of the vendor will frequently have an important bearing on the final choice. Normally, an important part of the skill required from any merchant bank or other financial adviser appointed by the acquiring company is to devise an appropriate consideration "package". Ideally this should meet the financial and tax requirements of both the acquiring company and the vendor shareholders. The most important considerations governing each financing method are set out below:

i Cash

It is the simplest form of finance consideration. The seller has greatest

security and the legal documentation can be reduced to a minimum. There may be reasons, however, why both buyer and the seller prefer another form of payment. For instance, the payment of cash may endanger a buyer's liquidity and force upon him a type of accounting treatment for a merger he may wish to avoid. Cash sales by the seller may, equally, give rise to adverse tax consequences. It is at this point that imagination is needed to devise a compensation formula which optimises benefits for both parties to the transaction.

The fact that cash transactions are simple, quick and certain does not of course imply that the complexities associated with share issues can necessarily be avoided. Begg (1986) writes that on a really large transaction the purchaser may have had to carry out a substantial and complex fund raising exercise in advance (e.g. a rights issue or a Eurodollar fund-issued) to ensure that the cash resources are in place to do the deal.

Similarly, the amount that the acquiring company can borrow, and for how long, will depend on its financial condition, the levels and maturities of its existing borrowings, the security it can offer, and the existing (or intended) relationship between its debt and equity capital.

ii Equity

With equity financing, a major veritable in determining the values of the merging companies are their relative price/earning ratios. A company with a

Company A in the post merger books.

Equity consideration (i.e. exchanging shares in the buyer company for shares in the seller company) in mergers and acquisitions tends to be popular when the value of shares rise in the Stock Exchange Market, whereas cash consideration tends to be used when the market is at a low ebb. Quoting Begg again:

> The unprecedented surge of takeover activity which gathered momentum in 1983 (with bids for household names like Thomas Tilling, UDS and P & O and which has continued unabated in 1985 (with bids for Dunlop, House of Fraser, Bells, Distillers, Plesey, Imperial Group, and remarkable pace of the full market for equities. Many share prices have been running at very high levels in the wake of two conservative election victories and as certain sectors of the industry have appeared to be emerging from the worst of the recession. The shares of certain other companies damaged by the recession have remained depressed and the temptation has been for companies enjoying a high market rating to use their shares to acquire assets at a discount to their potential worth.

According to Earl and Fisher, the use of equity is also encouraged because it defers the tax bill of the seller (by preserving his original cost basis) and allows the buyer to use 'pooling accounting'. However, these are disadvantages too. Ordinary shares are mere paper. If the buyers' share price falls, the seller may find that he has sold his business for next to nothing. This possibility is exacerbated by the fact that shares issued in the course of a merger or acquisition may have limited marketability.

iii Debt Instruments

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conducted. In essence, the buyer can refuse to pay the seller what he is owed to the extent that the target company was over-valued. This option can be spelled out in explicit terms by providing a right of set-off. A deferral of payment gives the buyer time to run his new company to find out where problems lie. Table 2.2 below indicates various forms of financing merger and acquisition transactions with their relative advantages and disadvantages:

Table 2.2: *Forms of financing mergers and acquisitions transaction.*

S/NO	METHOD	ADVANTAGES	DISADVANTAGES
1.	Share	No cash required Accounting Benefits possible	Dilution of control Earnings per share Dilution Dividend cost
2.	Excess Cash	Little Cost	Often inadequate for the total funding Impact on liquidity
3.	Earn-out	Frequently easier to get than third party debt Less risky-keeps seller committed	Keeps seller involved
4.	Borrowing: a) Under Existing Lines	Easy and convenient Low transactions cost	Impact on liquidity Risk of bank line Reduction Debt-service burden on future cashflow
	b) Obtain third party funding	Matches assets and liabilities	Inflexible Requires amortisation Debt-service burden on future cashflow
	c) Asset-based package	Highest leverage permitted Low cash investment Cash inflexibility	May carry higher interest costs security interest.

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Source: *Adapted from Nigerian Corporate Policy & Strategic Management - Text and Cases, 2nd Edition, CAMD, Nigeria, p. 70.*

2.3.2 Nigerian Environment

In the case of six (6) out of the twelve (12) successful mergers and acquisitions in Nigeria, cash was used for settlement by the acquiring companies involved. The companies are John Holt Limited Vs Bauchi Bottling Company Limited, Hanein Spinning Mills Limited Vs International Textile Industry Limited, Intra Motors (Nigeria) Limited Vs West Coast Fisheries Limited, SCOA Nigeria Limited Vs Motor Services Engineering Limited (MOSEL), 7-Up Bottling Company Limited Vs John Holt Limited, and Nigeria Bottling Company Limited Vs Nigerian Soft Drinks Limited.

Shares exchange consideration was used in the case of five (5) successful mergers. The mergers involved are the ones between A.G. Leventis & Company (Nigeria) Limited Vs Leventis Stores Limited, Lever Brothers Nigeria Limited Vs Lipton Nigeria Limited, John Holt Limited Vs John Holt Investment Limited, Standard Breweries Nigeria Vs United Beverages Limited, and Lever Brothers Nigeria Limited Vs Cheseborough Products Industries Limited.

It was only in the case of the acquisition of United Match Nigeria Limited, Star Match Limited and Safer Splints Limited by Niger Match Company Limited that debt instrument financing was used.

By and large, it is seen that Nigeria has witnessed all the forms of financing mergers and acquisitions transactions. Appendix II provides details on settlement options.

2.4 Accounting Considerations

2.4.1 General

One of the major considerations in a merger or acquisition transaction, is accounting. Accounting is the language of business - the means by which economic realities of an enterprise are communicated to managers, investors, customers, suppliers, government regulators and tax collectors. Given this significance, accounting is often the focus of sharp scrutiny and heated debate.

One difficulty is that, rather like a language accounting consists of concepts and symbols which, like words, communicate reality. There is no one scientific truth, just different approaches to and versions of the truth. As a result, accounting standards vary from country in the same way that language or cultures change. At times the differences can be very wide.

For example, in Japan companies are not obliged to consolidate their subsidiaries for either financial or tax accounting purposes. By contrast, in USA it is generally accepted that consolidated accounts give a more realistic picture of the operations of a company. The effect of such diametrically opposed policies is that similar enterprises in both parts of the world can appear to be quite different.

The differences in accounting from one country to another have a marked impact on merger and acquisition transactions. Some of the differences are so significant as to

rule out buyers in particular country from considering certain types of acquisitions in another. For example, in countries where goodwill (the amount by which purchase price exceeds the net asset value of an acquisition) is required to be amortised over a period of years, with a depressing effect on net income, companies are discouraged from making acquisitions where a premium might have to be paid for strategic market position, undervalued or hidden assets or exceptional earnings performance. Alternatively, a German company, which is not required to consolidate its foreign subsidiaries may be free to make its decisions on the basis of the investment's economics alone.

One of the most constructive approaches to locating a trans-national merger partner is first to identify countries where accounting policies treat such a transaction in the most favourable way.

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After a merger transaction is closed, the acquiring company will have to take some final decisions about how to account for the transaction in its books. Usually, the purchaser would have given this treatment careful consideration from the early days of negotiations. The intended accounting treatment may, in fact, have been one of the motivations for doing the deal and certainly one of the key factors in deciding the ultimate structure of the transaction.

There is a wide range of methods for accounting for mergers and acquisitions. These are purchase or acquisition accounting and pooling or merger accounting.

(a) Purchase Accounting

Under the purchase accounting approach, the acquisition of a company is treated in a similar fashion to the purchase of a piece of machinery.

The acquisition is recorded in the books of the acquirer at the fair value of the assets purchased. Any excess of purchase price over this fair value is termed goodwill and either recorded in the purchaser's books as an intangible asset or treated as a reduction of shareholders' funds. Earning from the acquired company are include in the profit and loss statement of the purchaser from the date of transaction is closed.

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The determination of the fair value of acquired assets can be a complicated task and depends in part on the intention of the buyer. For example, if the buyer plans to dispose of certain assets soon after the acquisition is completed, these are valued at their expected realisable sales price. Alternatively, if the equipment is to be retained within the business, its valuation is based on replacement cost adjusted for depreciation (reflecting the age of the equipment and its new cost basis). Liabilities are also revalued. Long-term debt, for instance, is restated as the present value of the amounts of principal and interest to be paid in the future, discounted at the appropriate current interest rate.

After the fair valuation is completed, the net worth of the acquired company is determined as fair assets less fair liabilities. In purchase accounting, net worth

is calculated in the valuation process and net carried over from the historical accounts of the target company.

Purchase accounting takes into consideration not only the fair value of the assets/liabilities which are acquired but also the purchase price paid. Therefore, if the purchase price exceeds net fair asset value, the premium is reflected in goodwill account. As mentioned earlier, this account is either recorded as a intangible asset (and amortised against income over maximum of 40 years, as in USA) or treated as a reduction of the net worth of the acquirer. The net fair value of a company may be higher rather than lower than the purchase price paid. This gives rise to 'negative' goodwill and, in case where a bargain purchase is considered to have occurred, this is typically reduced from the fixed asset value of the acquired company. If, however, the low price paid reflects anticipated losses or reduced profits, then 'negative' goodwill is held as deferred income and added to income as the new subsidiary's losses are realised.

(b) <u>Pooling or Merger Accounting</u>

Partly to avoid goodwill and other associated difficulties, an alternative concept called pooling or merger accounting has been introduced for the accounting treatment of mergers and acquisitions. This new approach, popularised in the USA only after World War II and only recently in the UK, views business combinations not as the purchase of one company by another but rather as a contribution of assets by two business entities (a pooling of resources) to carry

on their activities as a unified, merged company. Because the two businesses are viewed as surviving in the merged corporate form, there are no major alterations made to the historical accounts of either company. Assets and liabilities are not adjusted for their fair value and cost (depreciation) basis. Equally, because no acquisition has taken place there can be no excess price over net worth, hence no goodwill.

The concept of pooling accounting relies on the fact that there is a continuity of interest (or ownership) from the two old companies into the newly merged entity.

Consequently, pooling accounting is generally reserved for those mergers where there is an exchange of shares in one company for substantially all (typically 95% or more) of the voting stock of another. In such circumstances, the shareholders of the two companies are united and carry on as investors in the merged entity.

Because pooling accounting avoids goodwill (and a higher depreciation basis for assets) which can reduce earnings, it is frequently preferred over purchase accounting. An additional advantage is that earnings for the entire accounting period are transferred in full to the merged profit and loss account or income statement. under purchase accounting, earnings from the acquired company can only be included from the date of closing the transaction.

2.4.2 Nigeria Environment

In accounting for mergers and acquisitions in Nigeria, the International Accounting Standard (IAS) No. 22 (given as Appendix V) applies. The standard describes the two approaches discussed above giving conditions under which one method should apply instead of the other (see Appendixes VI and VII).

In order to appreciate the difference between the two approaches appendix VIII is given as illustration of the consequence of adopting the purchase (acquisition) and the pooling of interest (merger) accounting methods.

2.5 Current Trend

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2.5.1 General

Beyond 1983, the trend in merger and acquisition activities take a new dimension: Management buy-outs, demergers, acquisition by companies of their own shares, and acquisitions from receivers came to dominate the scene. We examine this trends in sequence.

Management Buy-Outs

A management buy-out which results in the management or employees of a company acquiring substantial equity stake in the company sprang up mid 1980s. This trend

has been anchored on the need to curb growing disenchantment between owners and managers of business by allowing employees participate more closely in decision making process. The trend also enables small scale industries play greater role in regenerating economic activities, enhancing efficiency, and creating employment. A management buy-out is seen as a noble alternative to closure and redundancy in the wake of depression or when a company fails to turn-around.

Management buy-outs could be opted for not only in the context of potential closure or receivership, but also where the business concerned is apparently healthy and prosperous.

For example, fresh funding may be required to meet a rapid growth rate projected for a subsidiary or division at a time when the parent group is unwilling or unable to find additional cash. Begg (1986) exemplified another advantage of management buy-outs thus:

> A company may have acquired a substantial corporate group containing business which do not fit with the aspirations of the acquiring company. In such circumstances a management buy-out of the unwanted elements may well be perceived as a less anti-social activity than a straight forward on sale to another independent party. For example Hanson Trust, following its acquisition of the UDS group for 265M Pounds Sterling in April 1983, promptly sold the William Timpson shoe chain to its management for 40.4M Pounds Sterling and then announced proposals to sell the John Collier and Richard shops chains to their management for 104M Pounds Sterling.

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This trend in mergers and acquisitions would likely generate many similar deals in

future years with peripheral or loss-making business being identified as suitable for spinning off to local management.

A direct purchase of the equity of the company concerned by a financing institution and management is possible. However, the operation is normally carried out by forming a new company. The equity stake to be held in this new company the managers/employees and the level of gearing are matters on which there are no fixed rules. Obviously a great deal depends on the financial resources of the managers in relation to the total finance required. However, a common feature of management buy-outs is that the managers contribute a relatively small part of the total financing requirement while acquiring a relatively larger part of the equity

Demergers

A demerger is also a kind of 'buy-out', but in this case a buy-out by the existing shareholders (or some of them) rather than by the existing management.

The most important merit of a demerger is the opportunity for shareholders to invest directly in two separate parts of a business which may or may no longer be held together by any natural affinity. Investors prefer to diversify on their own account and a demerger may enable them choose between fundamentally different businesses which in reality were only integrated by an accident of history. For the company itself, a demerger may provide the opportunity to reshape itself in a way which reflects the commercial and financial realities of the way in which the business is run.

Acquisition By Companies Of Their Own Shares

A radical innovation, introduced by the UK Companies Act, 1981 enables companies to purchase their own shares and to issue redeemable equity shares. American and Continental Companies have long been able to do this, but it was prohibited in the UK on the basis that it would amount to a reduction in capital which is prohibited (except in special circumstances) in order to protect outside creditors of a company.

Begg (1986) reports that since the Act became law, over 1,000 British companies have repurchased shares in themselves. Begg further reports concerning the acquisition of company of their own shares that:

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> In the USA the right to repurchase shares had led to a number of notorious abuses associated with takeover activities. One of these is the phenomenon which has come to be known as "green mail". This colourful term refers to the practice whereby a shareholder builds up a significant stake in a target company and threatens to amount to a full bid. The management of the target company, anxious to protect their own jobs, thereupon arranges for their company to buy back the share stake at a substantial premium. In this way a single privileged shareholder obtains an unfair return which is denied to the majority. To avoid abuses of this sort some substantial safeguards were built into UK Legislation.

The financing of share repurchase is a matter of some complexity on which professional advice is normally sought. Whereas a public company can only redeem or purchase share out of distributable profits, or out of the proceeds of a fresh issue made for the purpose, private companies can pay for their shares out of capital to the

extent that such other sources are insufficient. The conditions on which a "permissible capital payment" of this sort may be made are very similar to those under which a private company is authorised to give financial assistance for a purchase of its own shares. The main stipulations are the need for a statutory declaration by the directors (reported on by the auditors) concerning the future solvency of the company, rules for giving due publicity to the scheme and rules for dealing with objections by members of creditors.

Even if all these conditions are satisfied, a shareholder receiving payment out of capital may have to repay it if the company goes into liquidation within one year of the payment and if the company's assets are insufficient to meet its debts.

Acquisition From Receiver

Where a company get into trouble its bankers usually appoint a Receiver to salvage the bank's funds out of the assets of the company. Theoretically, the Receiver is supposed to be a sort of temporary caretaker who manages the business for short period in the interest of his client before returning into the hands of its proper managers. In practice, however, receivership tends to be the first step in the process of liquidation.

Receivers have choice between selling off various assets piecemeal to individual buyers or selling the trade itself as a going concern. The later alternative seems to be

preferred as this enable s the receiver to quicken the disposal thereby protecting the goodwill and custom of the business on sale. The idea of taking (buying) a business on receivership is another version of mergers and acquisitions currently.

Management buy-outs, demergers, acquisition by companies of their own shares and acquisition from receiver are the current trends in developed economies that record a long history of mergers and acquisitions activities.

2.5.2. **Nigerian Environment**

Nigeria is not left out in one of the current trends associated with mergers and acquisitions around the world. Recently the Shell Petroleum Development Company Nigeria Limited work-force (union) has acquired a subsidiary of the company slated for divestment. This is Nigeria's first management buy-outs experience. It could be adduced from this experience that future management buy-outs especially involving companies with foreign affiliation like the Shell Petroleum Development Company Limited would take place.

A noteworthy trend of mergers and acquisitions activities in Nigeria however, is that the exercise involves manufacturing more than any other sectors of the economy. Out of the fifteen (15) merger and acquisition applications handled by the SEC, nine (9) involved manufacturing companies, four (4) involved trading and merchandising companies, while service industry and construction industry were involved in only one instance each.

The current rend in Nigeria underscores the relative under utilisation of the mergers and acquisitions strategy in the country compared with advanced countries of the world.

2.6 Chapter Summary

A conceptual framework highlighting the existing literature and concepts in this research area is very important. Mergers and acquisitions strategy is discussed in the light of history, conditions for applications and criteria for selecting a target. The chapter highlights rationale for growth through the strategy and discusses relevant legal, finance and accounting considerations associated with the strategy in general and with specific reference to Nigerian environment. The chapter also discusses the global current trends in mergers and acquisition activities.

On the whole, the chapter provides information about the present state of affairs in mergers and acquisitions arrangements in Nigeria vis-à-vis what obtains in the developed world economies.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

Research may be defined as fundamentally a careful enquiry or examination to discover new information or relationships and to expand and verify knowledge. According to encyclopedia of Social Science, research is "the manipulation of things, concepts or symbols for the purpose of generalising and to extend, correct or verify knowledge, whether that knowledge aids in the construction of a theory or in the practice of an act". On the other hand, methodology is said to be the way of doing something to satisfy a purpose. In this regard, therefore, a research could be viewed as a method of investigation, a systematic approach to finding answers to questions raised in one's desire to examine relationship between and among different variables in a person's environment. Thus, research may be defined as simply the process of arriving at dependable solutions to problem through the planned and systematic collection, analysis and interpretation of data.

The research in focus is descriptive survey which involves the collection data for the purpose of describing and interpreting existing conditions, prevailing practices, on-going process, etc. The main purpose of descriptive research is to discover fact using available information. In descriptive research, attempt is usually made to know the current status of an event or phenomenum, and the factors that lead to the

development. An extensive review of conceptual frame-work on the subject matter of the study has been presented in Chapter Two.

3.2 Research Design

Kerlinger (1973) defines research design as "the plan, structure and strategy of investigation conceived to answer research questions as variably, objectively, accurately and economically as possible". Thus, research design sets up the framework for `adequate' test or relations among variables.

The importance of research design is underscored by the fact that it allows for:

- The determination of the type of data required; 85
- The manner of collecting the data;
- The method of analysing and measuring the data;
- The identification of how to delimit the study under consideration; and
- The establishment of the extent to which the result of the study may be generalised.

In cognisance with the above, the basic data used to determine the effect of mergers and acquisitions on business growth in Nigeria is the published annual accounts and reports of the companies selected supplemented with other financial information. It is conceded that the quality of observations furnished by these accounting data is adequate since the information content is usually carefully prepared for use by all

interested parties. As well as often being the best information on company's activities available to shareholders, creditors and sometimes management too, the information resulting from published annual accounts and reports serve as the ultimate source of information on which company tax assessment and much of national income accounting are based.

3.2.1 The Population

Population may be defined as the entire group whose characteristics are to be estimated while a sample is referred to as a limited number of elements selected from a population (group) which is a representatives of the group being studied.

In this connection, the research sample was drawn from a total population of fifteen (15) merger and acquisition bids as described in chapter one under Scope Delimitation. The sample drawn from the total population is non-random. However, the representativeness of the sample size is taken to be adequate. Moreover, the cases selected satisfy the following conditions that are considered necessary for the validity of the study conclusion.

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- That relevant information is obtained on the merger or acquisition exercise; and
- That in each case, neither the acquiring nor the target company acquired or merged with any other company in the pre-merger or post-merger reference period (see figure 4.1). This condition means that changes in growth is more readily attributed to a single exercise during the reference period.

3.2.2 The Data

Data are defined as fact and figures that would be processed in a pre-determined manner to generate information. It is therefore imperative to collect and process relevant data to find the effect of mergers and acquisitions on the growth of a company. Data from two (2) major sources are used for the study thus:

Published Annual Accounts and Reports

The Nigerian Stock Exchange (NSE) and Messrs. Agusto & Company – Industry Analysts and Financial Consultants provided this secondary data for the purpose of the study. Some published accounts and reports were collected from the former 's Kano office while others were obtained from the latter.

Typical annual accounts and reports contain the following:

i. Balance Sheet
ii. Profit and Loss Account or Income Statement
iii. Source and Application of Fund Statement
iv. Cash flow statement
v. Value Added Statement
vi. Comments in the Chairman's report and directors' report
vii. Auditors Report
viii. Explanatory notes to the accounts
ix. Any other noticeable features of the accounts and reports, such as post balance sheet events, contingent liabilities, a qualified auditors' reports, the company's

taxation position, current and future developments in the companies market, recent marger acquisition or disposal of a subsidiary and so on.

x. Five year financial summary.

The annual accounts and reports presented on fundamental assumption regarding; Cost principle, Going concern, Prudence, Accrual/Matching, Consistency, and Substance over form.

These assumptions add credence and validity to the dominant source of data relevant to the study.

The ratio analysis approach employed to test for profitability and generate other information on the selected sample derives data from the published annual accounts and reports.

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Questionnaire

Questionnaire is a written list of questions to be answered by people to provide information for a survey or report. In this context, an open-ended questionnaire in the form of a letter was administered to the entire population considered for the purpose of this study with a view to facilitating the derivation of both quantitative and qualitative data. (See appendix III). The open-ended questionnaire gives the respondent an opportunity to reveal his motives or attitudes and to specify the background or the provisional conditions upon which their answers are based. The disadvantage of this form of questionnaire lies in the fact that when the respondent has no clues to guide his thinking, he may unintentionally omit important information or

fail to note sufficient details.

This questionnaire (i.e. primary data source) was administered by post and supplemented with telephone call follow-ups. Mails were directly sent to the Chief Executives of the companies concerned while telephone calls were made for follow – ups and collation of responses.

The researcher's workplace (bank) has aided the dispatch of mails via dedicated courier services. The researcher was also able to reach out to relevant persons for follow-up and response collation courtesy of his privileged position as a banker. In addition, Nasir A. Muhammad of NICON Trustees Limited, a former colleague and a close friend residing at Lagos assisted greatly in collecting written responses from the Head Offices of sampled companies.

The result of the questionnaire administered was encouraging as relevant information was obtained on six (6) out of nine (9) sampled cases involving public companies (see details in Appendix II). This represents about 70 per cent response. Hence, there is presumption that reliance could be placed on the result of the questionnaire administered.

3.3 Selection of Growth Indicators

The measure of performance used to analyse the effect of mergers and acquisitions on growth in this study is profitability. Indeed some measure of profitability is conventionally used as a performance index for particular companies and other things equal, an improvement in the growth of a company (defined in the context of this study as efficiency leading to a reduction in the resource actually used to produce a given output). But, in a world of imperfect competition, an improvement in growth is not necessary for a rise in profitability, and so the existence of the former may not be inferred from evidence of the latter, profit gains could arise from, for instance, improved bargaining power.

However, it is assumed here, that it is reasonable to infer changes in growth from changes in the profitability on the basis of expectations about changes in the market. Thus some growth conclusions might be inferred from results of profitability alone. In this regard, Meeks (1977) argues that "the ideal would be to compare the profitability achieved by a company after merger with the weighted average profitability that would have been achieved by the participant companies had the merger not taken place". But given that the target companies involved in the three cases of merger and acquisition exercise selected for this study were private companies that did not make their annual accounts public, this `ideal comparison' remains elusive.

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Consequently, it is noted here that two types of adjustment could be made to the conventional measures of company's profitability in order to allow for systematic influences on profit other than merger or acquisition, and hence hold other things as near equal as possible.

First, allowance could be made for changes in the company's environment during the period when profitability is measured. This is because the average level of profitability is known to vary with trade cycle, and some industries are known to be more sensitive than others to these cyclical fluctuations. The source of data for this adjustment is ideally, the Federal Office of Statistics (FOS) that has the responsibility for keeping track of movements in the economy including fluctuations due to trade

cycle. Unfortunately, this data is not obtainable from the FOS. This adjustment is therefore practically not feasible.

The second adjustment is to remove the accounting bias which frequently arises after acquisition in the conventional measure of profitability. This occurs because acquirers often pay more for targets, and record the assets in their own books at higher valuation, than the figure at which they appear prior to acquisition. This inflates the net assets of the amalgamation compared with the joint total of acquirer's and target's net assets prior to the exercise (and had the exercise not occurred), thereby deflating the profitability measure (which has net assets as its denominator). Hence, the goodwill (in whole or in part) is excluded in calculating the net asset of the amalgamation.

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Profitability is measured through ratio computation. Ratios are a means of presenting information in the form of *ratio* or *percentage*. Ratios assess in a simplified form, the trading results and financial condition of a company as shown by its accounts. Ratios are of value if they are used as a basis of comparison either internally (with the company's results of previous periods) or externally (with the results of other companies in similar industries). The various components of profitability considered for this study are:

a) <u>Return on Assets</u>

This is the most commonly used measure of the profitability of a business and

is sometimes known as the *primary ratio*. It defined as operating profit expressed in terms of the assets used in earning it. Based on book values of assets and liabilities, it can be computed in many different ways, but a logical approach is:

$$\frac{\text{Profit Before Interest and Tax}}{\text{Year - End Assets Employed}} \times 100$$

Assets employed is taken to be the `total assets less current liabilities of the business. Assets employed is numerically equal to the capital employed in financing the business. Capital employed will encompass shareholders funds, loans, minority interests, deferred taxation and other provisions. Due to this correspondence, the ratio is often termed `return on capital employed'. The profit used in the numerator, is the profit before taxation and before loan interest because the loans, whether from banks or from loan stock and debenture holders, form part of the overall financing of the assets on which a rate of return is calculated. The object is to ensure comparison to be made of `gross' returns on assets employed, thereby ignoring the effect of different capital structures.

A complication arises over the treatment of overdrafts and short-term borrowings. Hence for the of computation, nature of borrowings are considered i.e. whether they are permanent, semi-permanent, or transient feature of the company's capital structure. The computation is consistent according to the circumstances of each case. Where bank overdrafts and short-term borrowing are *included* in capital employed, the profit is taken *before*

charging bank overdraft and short-term loan interest. This treatment conforms with the principle that the return to be used in the calculation is that before charging remuneration for anything included in capital employed. Conversely where capital employed *excludes* bank overdrafts and short-term borrowings, the profit figure taken is *after* charging the bank overdrafts and short-term loan interest.

From the starting point of profitability, i.e the rate of return on assets employed, the next step is to ask why the return on assets stands at the rate to be calculated. Two further ratios may indicate possible lines of inquiry.

b) **Assets Turnover**

This represents the number of times in the year end assets employed are `turned' over in the annual sales value. Generally, the higher the multiple the better. The ratio measures a company's ability to generate sales revenue in relation to the size of the asset investment. Non – operating assets are excluded in computing the assets turnover.

The formula for calculating this ratio is given thus:

$$\frac{\text{Sales}}{\text{Assets Employed}}$$

c) **Gross Margin on Sales**

This measures the amount of profit which is earned on each N1 of sales value.

The formula for computing this ratio is:

$$\frac{\text{Profit Before Interest and Tax}}{\text{Sales}}$$

d) **Fixed Assets Turnover**

An increase in the fixed asset figure may result from the sales replacement of an asset at an increase per Fixed Assets or the purchase of an additional asset intended to increase production capacity. The latter transaction may result in increased sales whereas the former would more probably be reflected in reduced operating costs. The Fixed Assets Turnover is calculated using this formula:

$$\frac{\text{Sales}}{\text{Fixed Assets}}$$

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e) **Earnings Per Share (EPS)**

A company's EPS is generally of interest to management and to current or prospective shareholders. The EPS represents the number of Naira earned on behalf of each outstanding ordinary share. It is closely watched by the investing public and is considered an important indicator of corporate success. The price of a corporate security is, of course, a function of many things, but importantly it is a function of the expected value of the present value of future earning of the company.

However, a company's future income stream is not known with certainty. What is usually known are the earnings of the company in the years past, rather

than the years ahead. Nevertheless, today's price could still be treated as a multiple of present or past earnings. Thus it is common to regard variable future expectation about a company's EPS (and about its price per share) as embodied in an appropriate price-earning ratio.

Furthermore, the EPS embodies all the `market' subjective feelings about a company's future. A company whose EPS has been rising, tends to be valued more highly than one which has not, presumably because the market extrapolates past trends. Similarly, rising share market prices, high or rising rates of return on equity, all are taken as good indicators. It could be said therefore that EPS is a reasonable summary concept for the whole congeries of things that lead to variable expectations of future events. The price of a company's share at time T is by definition the products of its price earning ratio at time T, and its EPS at time T.

The EPS of the sample companies selected for this study is therefore considered relevant in arriving at the conclusion on the effect of mergers and acquisition strategy on the growth of the companies.

EPS is calculated as follows:-

$$\frac{\text{Earnings Available for Ordinary Shares}}{\text{Number of Ordinary Shares}}$$

It is pertinent to state here that in considering the relevance of ratios of

profitability, conventional accounting measurements introduce limitations. First, is the limitation of timing differences in the acquisition of assets, which results in the aggregation of assets of differing money value.

Second, is the limitation of historical cost measurements, which results in arbitrary allocations, e.g. allocations of stock to cost of sales. The validity of these ratios should therefore be considered in the light of these limitations.

3.4 Chapter Summary

This chapter discusses the procedure used in carrying out the study in focus. The characteristics of the sample used in the study has been described along with the method of data collection. Attempt has been made to justify the selection of profitability as a measure of growth in the study. The various profitability ratios identified are defined and the objective of each ratio is given.

The chapter also highlights the various adjustments that could be made to accounting data in order to enhance their relevance.

Reference has also been made of the justification for selecting the sample used for the study as explained in Chapter One and the limitation placed on the use of ratios as measure of profitability.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

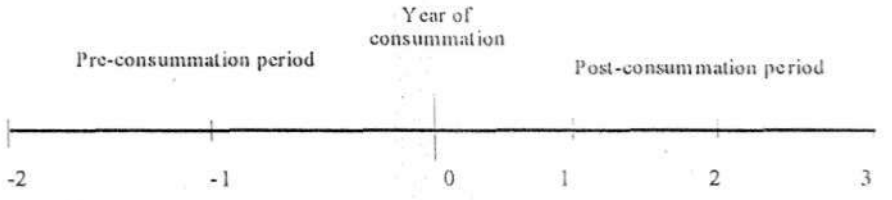
This chapter aims at presenting the data derived from the computation of various ratios (discussed in chapter three) for analysis and comment.

The chapter is organised in to three sections: Section 4.2 presents the data on the profitability indicators selected to answer the research question relating to the effect of mergers and acquisitions on business growth. Section 4.3 presents the analysis and comment on the data while Section 4.4 discusses findings in relation to the research questions.

4.2 Data Presentation

The computation of relevant ratios to determine profitability and consequently growth of the companies selected for the study spans effectively for five (5) years: two (2) years before the exercise (i.e. pre-consummation period) and three (3) years after the exercise (i.e. post-consummation period). The year of consummation is excluded. Figure 4.1 below presents the period considered:

Figure 4.1: *Period for analysing effect of mergers and acquisitions on growth of selected sample*



The data computed for the analysis is presented in five (5) different tables, each representing the five different ratios that are chosen to measure the profitability of the companies involved in this study as follows:

Table 4.1: *Return on Operating Assets Result for Selected Sample*

EXERCISE	PRE-CONSUMMATION PERIOD						POST-CONSUMMATION PERIOD		
	YEAR 1			YEAR 2			YEAR 1	YEAR 2	YEAR 3
	INDIVIDUAL		COMBINED	INDIVIDUAL		COMBINED			
	A	T		A	T				
Intra Motors	29.67%	NA	29.67%	15.76%	NA	15.76%	14.80%	9.04%	13.61%
7-Up	31.79%	NA	31.79%	21.02%	NA	21.02%	12.86%	14.30%	10.80%
LBN	43.45%	NA	43.45%	44.75%	NA	44.75%	32.10%	20.60%	22.20%

Source: *Published Annual Accounts and Reports*

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Table 4.2: *Asset Turnover Result for Selected Sample*

EXERCISE	PRE-CONSUMMATION PERIOD						POST-CONSUMMATION PERIOD		
	YEAR 1			YEAR 2			YEAR 1	YEAR 2	YEAR 3
	INDIVIDUAL		COMBINED	INDIVIDUAL		COMBINED			
	A	T		A	T				
Intra Motors	3.67	NA	3.67	0.40	NA	0.40	0.42	0.27	0.37
7-Up	3.10	NA	3.10	2.30	NA	2.30	1.60	1.10	1.70
LBN	2.07	NA	2.07	2.49	NA	2.49	1.20	0.92	0.85

Source: *Published Annual Accounts and Reports*

Table 4.3: *Gross Margin on Sales Result for Selected Sample*

EXERCISE	PRE-CONSUMMATION PERIOD						POST-CONSUMMATION PERIOD		
	YEAR 1			YEAR 2			YEAR 1	YEAR 2	YEAR 3
	INDIVIDUAL		COMBINED	INDIVIDUAL		COMBINED			
	A	T		A	T				
Intra Motors	3.47%	NA	3.47%	16.40%	NA	16.40%	15.52%	12.90%	15.92%
7-Up	10.40%	NA	10.40%	9.11%	NA	9.11%	7.80%	13.00%	7.60%
LBN	21.01%	NA	21.01%	17.95%	NA	17.95%	33.30%	31.80%	35.40%

Source: *Published Annual Accounts and Reports*

Table 4.4: *Fixed Asset Turnover Result for Selected Sample*

EXERCISE	PRE-CONSUMMATION PERIOD						POST-CONSUMMATION PERIOD		
	YEAR 1			YEAR 2			YEAR 1	YEAR 2	YEAR 3
	INDIVIDUAL		COMBINED	INDIVIDUAL		COMBINED			
	A	T		A	T				
Intra Motors	3.76	NA	3.76	3.45	NA	3.45	3.18	2.52	3.84
7-Up	3.07	NA	3.07	2.76	NA	2.76	3.23	2.98	3.77
LBN	2.85	NA	2.85	3.17	NA	3.17	2.22	1.98	1.54

Source: *Published Annual Accounts and Reports*

Table 4.5: *Earnings Per Share Result for Selected Sample*

EXERCISE	PRE-CONSUMMATION PERIOD						POST-CONSUMMATION PERIOD		
	YEAR 1			YEAR 2			YEAR 1	YEAR 2	YEAR 3
	INDIVIDUAL		COMBINED	INDIVIDUAL		COMBINED			
	A	T		A	T				
Intra Motors	15k	NA	15k	8k	NA	8k	7k	4k	7k
7-Up	33k	NA	33k	37k	NA	37k	26k	27k	34k
LBN	33k	NA	33k	43k	NA	43k	77k	54k	73k

Source: *Published Annual Accounts and Reports*

It is to be noted that:

I. Intra Motors: The combination was consummated in 1985. Hence the relevant pre-consummation years considered were 1983 and 1984 while the post-consummation years considered were 1986, 1987 and 1988.

II. 7-Up: The acquisition bid was concluded in 1987. The relevant pre-consummation years considered were 1985 and 1986 while the post-consummation considered were 1988, 1989 and 1990.

III. LBN: This merger was consummated in 1988. Consequently, the relevant pre-consummation years were 1986 and 1987 while the post-consummation years considered were 1989, 1990 and 1991.

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IV. Letters 'A' and 'T' depicted in the tables represent 'Acquiring Company' and 'Target Company' respectively. No value was assigned in any of the tables for the target company in each of the three- (3) exercises due to non-availability of data. However, it is taken that values for the acquiring companies are the most

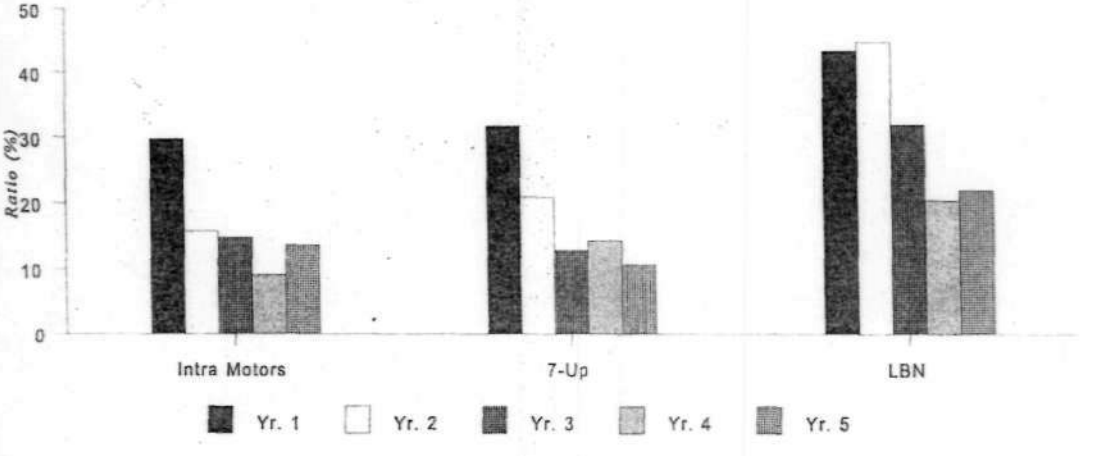
relevant since the analysis for growth relates to them only. Moreover, the companies selected for analysis were responsible for the decision to apply the merger and acquisition strategy for their growth.

4.3 Data Analysis and Comment

This section is concerned with growth elements i.e. those that arise from the productive and sales activities of the selected companies.

It has been established that the growth effects, of the kind the capital market expected to recognise are related to *profitability* of the combined company relative to the profitability of its components. Enhanced profits, whatever their source, are likely to be a basis for rising share prices. This idea is embodied in analysing the data s in tables 4.1 to 4.5 in Section 4.2 above. Five (5) different Charts (Figures 4.2 to 4.6) are used to analyse the data thus:

Fig 4.2: Growth Element I - Return on Asset



Source: *Published Annual Accounts and Reports – Data from Table 4.1*

4.3.1 Return On Asset Result

The objective of the result is to determine the profitability of the core business in normal terms and provides a basis for comparison with alternative investment. Comparing this result with pre-tax yield on treasury bills indicates whether or not the core business provides an adequate return on the asset invested. A premium needs to be added on the pre-tax yield on treasury bills to reflect the relative risk of a particular business.

Intra Motors decided to diversify its spheres of operation and investment. Hence, it ventured into sea fishing. It took over West Coast Fisheries Nigeria Limited. A year after the consummation, i.e. in 1986, the Chairman of the company cautioned (1987 Chairman's statement) that the diversification into fishing business might result into slight initial loss. This prediction came true as the company incurred an overall loss in the sea-fishing project at the end of 1987 financial year. However, the company remained optimistic about encouraging results in the years ahead. Evidence from the chart suggests that the company began to show promising results in 1988.

7-Up opted to acquire the Beverage Franchise of John Holt Limited ostensibly in response to the successful takeover (1987) of Nigerian Soft Drinks Company, holders of the Schweppes Franchise in Nigeria, by Nigerian Bottling Company Limited. 7-Up consummated the acquisition in late 1987. The objective was to foster growth and improve market share. Evidence from the Chart suggests that the outcome of company's decision did not yield positive Return on Asset during the period of review.

For LBN, Cheseborough Products Industries Limited (CPI) Vaseline and pond□s brands were virtually household names in Nigeria before the merger event. What prompted the combination was the difficult trading condition and restriction on raw materials import. CPI was cash squeezed; it paid no dividends in the two- (2) years before the merger and its interest expense was absorbing a large part of its earnings due to increased reliance on bank financing.

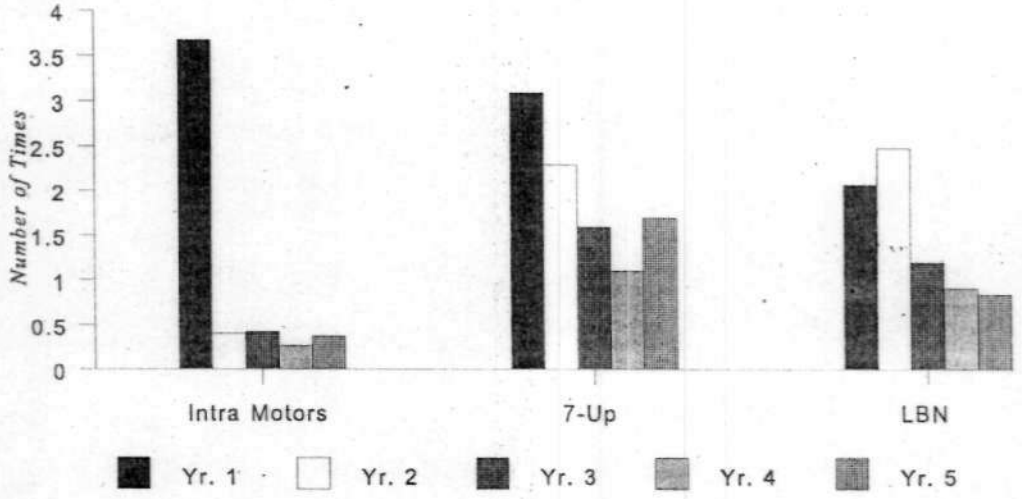
Sales for CPI's champion product, Vaseline, is seasonal. Its other product lines were contributing very little to the bottom line. The merger was therefore embarked upon to optimise LBN's resources and asset utilisation, by developing an integrated manufacturing strategy and stemming duplication of effort. LBN's financial condition was expected to eliminate CPI's cash problem. With the merger, CPI shareholders had earned 43k dividend on each LBN share allotted then as per the agreed inter changed ratio. CPI shareholders would have received nothing based on its penultimate record and forecast before the merger.

Disappointingly, LBN's Return on Asset dropped from 44.75% in the penultimate year of consummation to 32.10%, a year after the merger. The ratio further dropped to 20.60% and 22.20% in 1990 and 1991 respectively.

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The result was generally not impressive for the three (3) companies.

Fig 4.3: Growth Element II - Asset Turnover



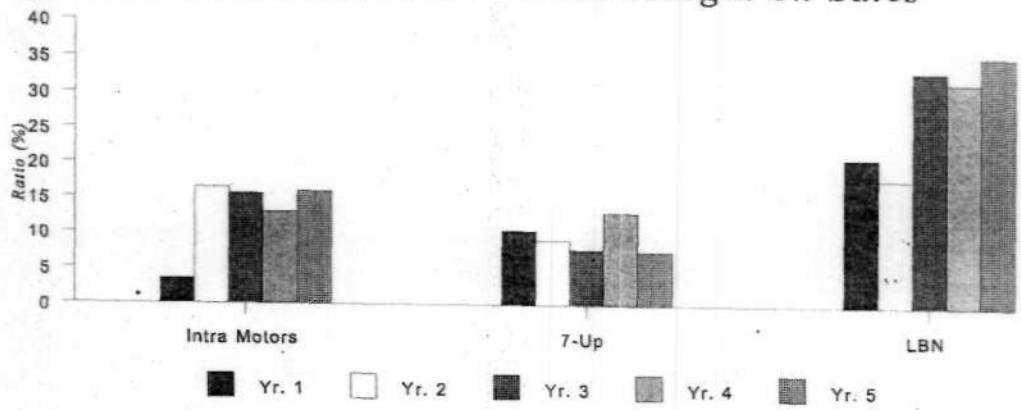
Source: *Published Annual Accounts and Reports – Data from Table 4.2*

4.3.2 **Asset Turnover Result**

The objective of this result is to show the intensity of asset utilisation and revenue generating power of asset. Generally, the higher the multiple, the better. Asset Turnover on growth element here presents discouraging results for the selected sample. Each of the companies involved in the study viz. Intra Motors, 7-Up and LBN show a declining trend in the first two (2) years after consummation. LBN's result worsened in the third year after the merger while it improved slightly for Intra Motors and 7-Up.

It is evident from the above Chart that each of the companies was saddled with some idle assets as a result of the merger and acquisition exercise.

Fig 4.4 Growth Element III- Gross Margin on Sales



Source: *Published Annual Accounts and Reports – Data from Table 4.3*

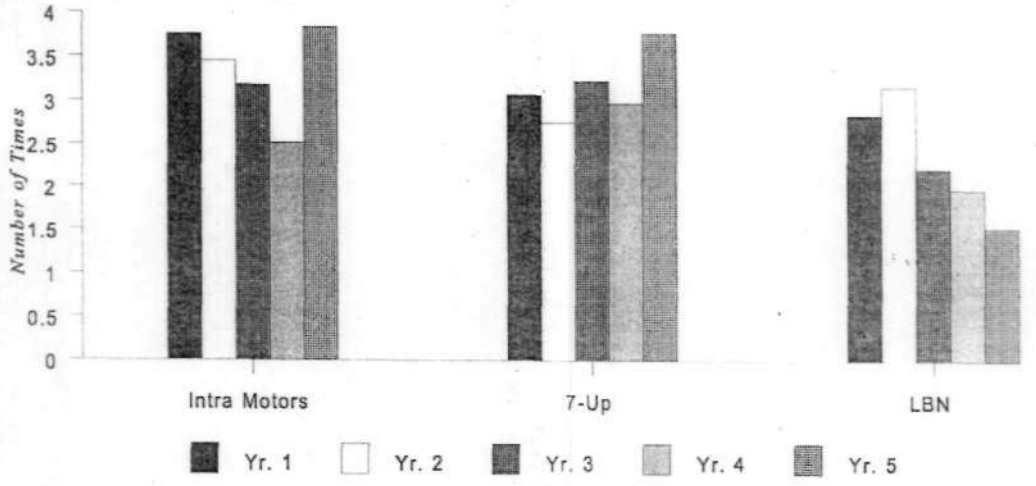
4.3.3 **Gross Margin On Sales Result**

The objective of Gross Margin on Sales is to analyse the growth element number III selected for the study. The result determines basic product profitability and highlights the product strength in the market place. It is used to compare between years of operation for the sample. The Chart presents an upliftment during the two (2) post-activity period for Intra Motors and 7-Up. The Chart also reveals that the result significantly improved for LBN after the consummation. Its result rose from 17.95% in the penultimate year before the merger to 33.30% a year after. Subsequent two (2) year result suggests that the trend was sustainable. This is a remarkable achievement for LBN.

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This result generally indicates a major contribution to bottom-line of the companies as a result of the merger exercises.

Fig 4.5: Growth Element IV - Fixed Asset Turnover

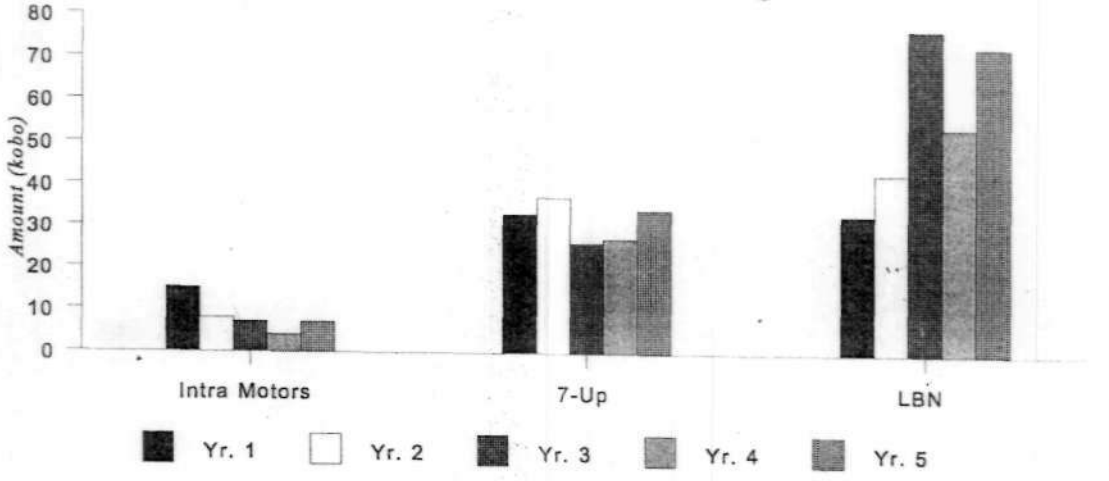


Source: *Published Annual Accounts and Reports – Data from Table 4.4*

4.3.4 **Fixed Asset Turnover Result**

Like Asset Turnover, the objective of this result is to highlight the intensity of fixed asset utilisation and the direct revenue generating power derivable therefrom. Fixed Asset is excluded from total assets because merger and acquisition activity often result in reduction of combined relative value of fixed asset. The result specifically aims at eliminating the distortion that may be introduced by assets turnover. For Intra Motors and 7-Up, third year post consummation total reveals improvement over second year result. LBN's position suffered relative decline. Generally, the post-consummation results were attractive and reveal quantum positive growth in this regard.

Fig 4.6: Growth Element V - Earnings Per Share



Source: *Published Annual Accounts and Reports – Data from Table 4.5*

4.3.5 **Earnings Per Share Result**

The EPS result has the objective of determining earning attributable to ordinary shares assuming a normal value of shares is 50 kobo. The higher the amount the better. The result for the selected sample presents mixed picture. EPS for LBN improved by about 80% during the post consummation period. However, the result for 7-Up and Intra Motors show a varying level of decline. Except for LBN therefore, this growth element is negative for the other two companies.

The importance of the EPS cannot be over-empasised. The market perception about a company, which is largely derived from the EPS result could make or mar its strategic decisions.

From the analysis/comment under the five (5) Charts above, LBN's merger exercise reveals relative growth especially in relation to internal development underscored by about 100% improvement on Gross Margin on Sales, and external development underscored by over 80% rise in EPS. 7-Up's merger exercise reveals relative growth underscored by improved Gross Margin on Sales and Fixed Asset Turnover. The same revelation applies to the Intra Motors' merger exercise.

4.4 Findings in Relation to the Research Questions

On the question relating to the effect of mergers and acquisitions as a strategy for business growth, the following findings are revealed (as per figures 4.2 - 4.6 on pages 94-100):

Exercise I: Intra Motors Nigeria Limited Vs West Cost Fisheries Nigeria Limited

Declining growth in terms of analysed profitability indicators was recorded for the company during the relevant period under consideration. However, evidence from the analysis suggests positive future growth when the gains from the exercise are fully entrenched.

Exercise II: Seven-Up Bottling Company Limited Vs John Holt Nigeria Limited (Beverage Franchise)

This merger revealed relative positive growth. Analysed profitability indicators recorded an upliftment during the relevant period under consideration

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This merger yielded positive growth. Growth in terms of analysed primary profitability indicators characterised the relevant post-consummation period.

The extensive literature review in chapter two has provided answers to the remaining three (3) research questions (see pages 36-72).

The question relating to legal considerations

Although the merger and acquisition strategy application in Nigeria is at its infancy, the established legal framework is found to be adequate. Future regulations and modifications could take care of emerging trends and specific situations.

The question relating to finance consideration

This study has shown that different financing options including share exchange, cash payment and settlement by debt are used in consummating mergers and acquisitions transactions in Nigeria.

The question relating to accounting consideration

It was established that Nigeria has adapted the International Accounting Standard (IAS) 22 on Accounting for Business Combination. The two main variants of the IAS 22 i.e. the purchase method and the pooling of interest methods are employed variously by combing businesses in Nigeria. Appendix IV presents the details of the IAS 22, Appendix V compares the purchase and pooling of interest methods Appendix VI highlights criteria

for the adoption of the pooling of interest method. Appendices VII and VIII present the consequence of adopting the purchase (acquisition) accounting method and the pooling of interest (merger) accounting method respectively.

It is noted that the accounting method being employed to handle merger and acquisition transaction in Nigeria conforms to international standard in that regard.

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CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Summary

The objective of this study include:

(a) To determine the effect of merger and acquisitions as a strategy for business growth among selected companies in Nigeria.

Three (3) successful mergers and acquisitions transactions were selected viz. Intra Motors Nigeria Limited Vs West Coast Fisheries Limited, Seven-Up Nigeria Limited Vs John Holt Nigeria Limited (Beverage Franchise), and Lever Brothers Nigeria Limited Vs Cheseborough Products Industries Limited as sample for the study.

(b) To discuss the major considerations in mergers and acquisitions transactions and the conditions necessary for application of the strategy .

(c) To highlight the advantages associated with the strategy.

The above highlights are presented in Chapter One. The chapter also discusses significance of the study, research questions, and scope of the study among other relevant issues.

A conceptual framework highlighting the existing literature and concepts in the chosen area of study is presented in Chapter Two. The chapter provides information about the present state of affairs and mergers and acquisitions arrangements in Nigeria vis-a-vis what obtains in the developed world economies. The basis for conclusion on three (3) research questions pertaining to legal framework, finance, and accounting considerations was established in this chapter.

Chapter Three presents the procedure for carrying out the study. The chapter describes the characteristics of the sample used in the study along with the method of data collection, justifies the use of profitability as measure of growth in the study, and

highlights the various adjustments that could be made to accounting data in order to enhance their relevance.

In Chapter Four, collected data for the study, comment/analysis, and findings in relation to the research questions are presented. Relevant tables and charts are employed for clarity and ease of presentation in the chapter.

This chapter (i.e. Chapter Five) summarises and concludes the study. Factors that limit the full realisation of the study are also discussed. Recommendations are made while further research areas are identified accordingly.

5.2 Conclusion

The literature on the 'growth' concept amplifies the objective of corporate behaviour generally and mergers and acquisitions strategy applications specifically. The literature tends to emphasise power, prestige, or influence as motives for mergers and acquisitions rather than profit growth. The fact that salaries and perquisites of executive management seem to vary with size of organisation also supports this thinking.

However, the expectation that profit growth motivation play a significant role in applying the mergers and acquisition strategy can be accepted on the basis of this study. Growth in sales and in assets is positively correlated with profit and with speculative opportunities.

Notwithstanding any other commission or omission to the growth concept, and on the basis of the findings made and presented in Chapter Four of this study the following conclusions are made:

One Mergers and acquisitions strategy foster growth among businesses in Nigeria.

Two The legal framework governing mergers and acquisitions arrangement in Nigeria is very effective and adequate.

Three Mergers and acquisitions transactions in Nigeria are financed via Cash Payment, Equity Exchange, Debt Instruments.

Four Mergers and acquisitions in Nigeria are accounted for in line with the provisions of the International Accounting Standard (IAS) 22 on Accounting for Business Combination.

5.3 Limitations

The factors that limit the full realisation of the study are mentioned hereunder:

First, mergers and acquisitions decision is a top management affair. There was reluctance on the part of management to disclose information about the internal activities and operational strategies of their organisations. Consequently, effort made to obtain relevant non-financial data for a 'fact behind the figures' analysis of how mergers and acquisitions affected the growth of the companies selected was frustrated.

Second, given that mergers and acquisitions are still a virgin strategy for application in Nigeria, there was scepticism about the purpose of the study. There is little awareness about this veritable growth strategy.

Third, the study was based on historical data. The result derived therefrom will have to be re-tested for validity in the near future.

Generally, conventional accounting measurements often introduce limitations. One, is the limitation of timing differences in the acquisitions of assets of differing value. Two, is the limitation of historical measurements, which results in arbitrary allocations, e.g. allocations of stock to cost of sales.

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Fourth, the data records for the selected sample was presented in chapter four as if the activity occurred during the same period of time. Variations due to relevant period (years of occurrence) for each company, introduces economic cyclicality and change in regulatory environment limitations.

Fifth, it was difficult to make general analogy on the basis of findings from the selected sample. Unlike in 'pure' science where statistics is used to interpret results of experiments thereby proving or disproving some theory, the value of statistics in social science is in summarising and explaining past and predicting future events.

Despite the above limitations, it is presumed, in the absence of contrary evidence, that the result of the study may apply to other mergers and acquisitions exercises among similar companies operating under similar conditions.

5.3 Recommendations

The following recommendations are pertinent in order to maximise the gains and contributions of this study:

- More businesses in Nigeria should employ the mergers and acquisition strategy for growth purposes. It is evident that the strategy is a veritable source of growth and its application is viable.

- The Nigerian finance sub-sector should use the strategy to:
  i. Remain in business. Banks and other financial institutions in distress situation could pull their resources and market share together to achieve minimum capitalisation and enhance opportunity for survival in the current harsh economic condition; and
  ii. Explore dominance opportunity. Banks and other financial institution that are adjudged strong and healthy could acquire those that are relatively weak with a view to tap their resources thereby becoming stronger and dominant.

  There is no report of mergers and acquisitions in the Nigerian finance sub-sector yet.

- Government should be pro-active in introducing necessary regulations and modifications that would take care of emerging trends and specific situations. Currently, the SEC and other regulatory authorities are competent and could effectively handle an unusual bid. This posture should be maintained via objective review of policies.

- No restrictions are imposed on which financing option (share exchange, cash payment, or settlement by debt) may be employed in consummating mergers and acquisitions transactions in Nigeria. It is therefore instructive to recommend that the SEC should come up with clear guidelines on the application of each financing option, which will be in tune with prevailing financial markets situation and monetary policy. The guideline need not, however, be an imposition; parties to every mergers

and acquisitions transaction should be free to choose the option that promises optimum result.

- Information and knowledge about practical cases of mergers and acquisitions strategy application is minimal. Not many business/finance students and managers are acquainted about the efficacy and relevance of the strategy. This gap should be addressed via
  i. Seminars and conferences involving the organised private sector of Nigerian economy; and
  ii. Inclusion of mergers and acquisitions as a course in the Business/Finance graduate's curriculum of universities handling such programmes.

5.5 Areas For Further Research

On the whole, because of the validity limitation embedded in data, it is apt to recommend additional future research in this area of study such that:

⇒ The limitation embedded in the data to be used could be better refined. This way, the acceptability for the growth concept conclusion on mergers and acquisitions strategy can be enhanced.

⇒ Improvements on the legal, financing, and accounting issues could be suggested for possible review and modifications by relevant regulatory authorities.

⇒ Changing realities could be monitored. As Nigeria migrates towards the free market economy, mergers and acquisitions strategy for growth is likely to gain prominence.

It is also recommended that further research should be embarked upon to determine what incentives might be used to resolve conflicts between shareholders and management during mergers and acquisitions arrangements. Such conflicts are acute when a company is an acquisition target, as incumbent management is likely to be displaced.

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Appendix I

Conditions that Influence Type of Growth Strategy

	Sources of Corporate Growth		Form of Transaction	
	External Acquisition	Internal Development	Cash	Stock
Late 1960s				
Moderate liquidity				
High P/E ratios				
Liberal accounting rules				
Buoyant economy	+	-	-	+
Early 1970s				
Low liquidity				
Moderate P/E ratios				
Conservative accounting				
Major political and economic				
Uncertainties (Watergate,				
Oil embargo, wage and				
Price controls)	-	+	+	-
Today				
Relatively low P/E ratios				
Conservative accounting				
Relatively high liquidity				
(Selective)				
Inflation concerns	+	-	+	-

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Source: *James W. Bradley and Donald H. Korn, "Acquisitions and Mergers: A Shifting Route to Corporate Growth," Management Review, March 1979, p.47*

Appendix II

Recent Mergers and Acquisitions Arrangements in Nigeria

S/No	Activity	Year	Successful/ Unsuccessful	Sampled/ Not sampled	Response - Fully/partially / Not at all	Settlement Option	Remark Public/Private
1.	**A.G. Leventis Company Ltd. Vs Leventis Stores Ltd.**	1983	Successful	Sampled	Partially	Shares	Public
2.	**Lever Brothers (Nigeria) Ltd. Vs Lipton (Nigeria) Ltd.**	1984	Successful	Sampled	Fully	Shares	Public
3.	**John Holt Ltd. Vs Bauchi Bottling Company Ltd.**	1985	Successful	Sampled	Partially	Cash	Public
4.	**Scoa Nigeria Ltd. Vs Nigerian Automobile Components Ltd.**	1985	Unsuccessful	Not sampled	N/A	N/A	Public
5.	**Hanein Spinning Mills Ltd. Vs International Textile Industry Ltd.**	1985	Successful	Sampled	No at all	Cash	Private
6.	**Intra Motors Nigeria Ltd. Vs West Coast Fisheries Ltd.**	1985	Successful	Sampled	Fully	Cash	Public
7.	**Niger March Ltd. Vs United March /Star March /Safer March Ltds.**	1985	Successful	Not sampled	N/A	Debt	Private
8.	**Scoa Nigeria Ltd. Vs Mosel Ltd.**	1986	Successful	Sampled	Fully	Cash	Public
9.	**John Holt Ltd. Vs John Holt Investments Ltd.**	1987	Successful	Not sampled	N/A	Shares	Public
10.	**7–Up Bottling Company Ltd. Vs John Holt Ltd. (Beverage franchise)**	1987	Successful	Sampled	Fully	Cash	Public
11.	**Standard Breweries Ltd. Vs United Beverages Ltd.**	1988	Successful	Not sampled	N/A	Shares	Private
12.	**Nigerian Bottling Company Ltd. Vs Nigerian Soft Drinks Ltd.**	1988	Successful	Sampled	Fully	Cash	Public
13.	**R.T. Briscoe Vs Coconut Industries Ltd.**	1988	Unsuccessful	Not sampled	N/A	N/A	Public
14.	**Nalin Industries Vs Food Oils Ltd.**	1988	Not determined	Not sampled	N/A	N/A	Private
15.	**Lever Brothers Ltd. Vs Cheseborough Products Nigeria Ltd.**	1988	Successful	Sampled	Fully	Shares	Public

Appendix III

DEPARTMENT OF ACCOUNTING
INSTITUTE OF ADMINISTRATION
AHMADU BELLO UNIVERSITY
KONGO CAMPUS - ZARIA

August 15, 1990

Thro:

The Head of Accounting Department
Faculty of Administration
Ahmadu Bello University
Kongo Campus - Zaria

473712

Dear Sir:

MERGERS AND ACQUISITIONS AS A STRATEGY FOR BUSINESS GROWTH IN NIGERIA

Subject above is the approved Dissertation topic for my M.Sc. (Accounting & Finance) Programme in the Department of Accounting, Ahmadu Bello University, Zaria (please see attached letter of introduction).

In a bid to obtain relevant and necessary data to carry out research for the Dissertation, I wrote to the Securities & Exchange Commission (SEC) requesting for, among other things, list of all Companies that have been involved in Mergers and Acquisitions activities in Nigeria. Your Company is one of those included in the list obtained from the Commission.

In the light of the foregoing, Sir, I humbly request you to please assist me by responding to the following questions:-

1. What was the Scheme of Arrangement in connection with the merger/acquisition?

2. What was the motive behind the merger/acquisition?

3. What was the outcome of the merger/acquisition bid?

4. What factors contributed to the outcome in (3) above?

5. What specific effect did the merger/acquisition have on the following business growth indicators?

a) Share value (market price) of the Company;
b) profitability;
c) Earnings Per Share;
d) Dividend Paid;
e) Solvency;
f) Turnover;
g) Economy of Scale;
h) Operational Efficiency;
I) Market Share; and
j) Management of the Company.

I will appreciate if you kindly provide me with available pre and post merger/acquisition Annual Reports and Accounts of the Company and any other relevant information along with the response to the questions above.

Please accept finally, Sir, the assurance to treat in confidence, the information/document you may send to me, and that I will use them only for the purpose of the Dissertation in focus.

Thanking you very much for your anticipated kind assistance and favourable response.

Best Regards.

I am yours faithfully,

MUHAMMAD SANI BELLO

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Appendix IV

International Accounting Standard 22

Accounting for Business Combinations

International Accounting Standard 22 comprises paragraphs 35-56 of this Statement. The Standard should be read in the context of paragraph 1-35 of this Statement and of the Preface to Statements of International Accounting Standards.

36. A business combination should be accounted for under the purchase method detailed in paragraphs 39-45, except in the rare circumstances when it is deemed to be a uniting of interests.

37. A business combination is deemed to be a uniting of interests only if the shareholders of the combining enterprises achieve a continuing mutual sharing in the risks and benefits attaching to the combined enterprise, and

    (a) the basis of the transaction is principally an exchange of voting common shares of the enterprises involved; and

    (b) the whole, or effectively the whole, of the net assets and operations of the combining enterprises are combined in one entity.

38. When a business combination is deemed to be a uniting of interests the pooling of interests method detailed in paragraphs 46-47 may be used.

The Purchase Method

39. The preparing consolidated financial statements, the identifiable assets and liabilities of the acquired enterprises should be re-stated to their fair values at the date of acquisition.

40. An enterprise should adopt one of the following policies for dealing with any difference (whether positive or negative) between the cost of acquisition and the fair values of the net identifiable assets acquired:

    (a) recognition in income in accordance with the procedures in paragraphs 41-42; or

    (b) immediate adjustment against shareholders' interests.

    In either case, paragraphs 43-45 apply.

Recognition in Income

41. Where the policy inn paragraph 409a) is adopted, an excess of the cost of acquisition over the fair values of the next identifiable assets acquired should be recognised as an asset in the consolidated financial statements as goodwill arising on acquisition and amortised to income on a systematic basis over its useful life. If it is found at any time that goodwill arising on acquisition is not supported by future income, it should, to the extent necessary, be charged immediately to income.

42. If the cost of acquisition is lower than the aggregate fair value of net identifiable assets acquired, it should either be treated as deferred income and recognised as income on a systematic basis, or allocated over individual depreciable non-monetary assets acquired in proportion to their fair values.

Other Procedures

43. The cost of acquisition should include any non-case element at fair value.

44. When the acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount should be included in the cost of acquisition if payment is probable and a reasonable estimate of the amount can be made. In all other cases the adjustment should be recognised as soon as the amount is determinable, in accordance with the provisions of International Accounting Standard 10, Contingencies and Events Occurring after the Balance Sheet Date.

45. A minority interest that arises on a business combination should preferably be stated at the appropriate proportion of the post-acquisition fair values of the net identifiable assets of the subsidiary. Alternatively it may be stated at the appropriate proportion of the pre-acquisition carrying amounts of the net assets of the subsidiary.

The Pooling of Interests Method

46. In applying the pooling of interests method, the assets and liabilities of the combining enterprises and their revenues and expenses for the period in which the combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprises as if they had been combined from the start of those periods.

47. The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount recorded for the share capital acquired should be adjusted against shareholder's interests.

Treatment of Taxes on Income

48. Permanent and timing differences between the recognition of incomes and expenses for financial reporting and for tax purposes should be death with in accordance with International Accounting Standard 12, Accounting for Taxes on Income.

49. Unless paragraph 40(b) was applied, benefits received from tax loss carry-forwards of an acquired enterprise that existed but were not recognised as an asset at the date of acquisition should be recognised as income in accordance with International Accounting Standard 12, arising on acquisition should be re-assessed to identify an content attributable to the benefits received, which should be charged to income. If paragraph 40(b) was applied, such benefits should be adjusted against shareholders' interests.

Disclosure

50. For all business combinations the following disclosures should be made in the financial statements immediately following the combination:

(a) names and description of the combining enterprises;
(b) effective date of the combination for accounting purposes; and
(c) the method of accounting used to reflect the combination.

Other disclosures are required by International Accounting Standard 3, Consolidated Financial Statements, and International Accounting Standard 5, Information to be disclosed in Financial Statement.

51. For business combinations accounted for under the purchase method, the following additional disclosures should be made in the first financial statements following the combination:

(a) the percentage of voting shares acquired;

(b) cost of acquisition and a description of the consideration paid or contingently payable; and

(c) the amount of any difference between cost of acquisition and the aggregate fair value of net identifiable assets acquired, and he treatment thereof, including the period of amortization of any;

52. For business combination accounted for under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the combination:

(a) description and number of shares issued, together with the percentage of each enterprise's voting shares exchanged to effect the combination;

(b) amounts of assets and liabilities contributed by each enterprises; and

(c) details of the results of operations of the enterprises prior to the date of the combination that are included in the net income shown by the combined financial statements. Details should include sales, other operating revenues, unusual items and net income.

Business Combinations After the balance Sheet Date

53. The financial statements of an enterprise should not incorporate a business combination to which the enterprise is a party if the date of the combination is after the date of the balance sheet included in the financial statement.

54. Business combinations which have been effected after the balance sheet date and before the date on which the financial statements on one of he combining enterprises are authorised for issue should be disclosed if the are of such importance that non-disclosures would affect the ability of the users of the financial statements to make proper evaluations and decisions (see International Accounting Standard 10, Contingencies and Events Occurring

After the balance Sheet Date). Disclosure should comprise such of the applicable details in paragraphs 50-51 of this Standard as can be estimated or, alternatively, a statement that no such estimate can be made.

Effective Date

55. This International Accounting Standard becomes operative for business combinations effected on or after January 1985.

Transitional Provisions

56. Retrospective application of this Standard is encouraged but not required. If the Standard is not applied retrospectively, enterprises are encouraged to deal with pre-existing goodwill arising on acquisition either by:

    (a) recognition in income in accordance with the procedure in paragraphs 41-42; or

    (b) immediate adjustment against shareholders' interests.

Source: *The symposium proceedings on Mergers & Acquisitions: The Nigerian Situation, SEC, 1985, pp. 60-70.*

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Appendix V

Comparison between Acquisition Accounting and Merger Accounting Methods in Treatment of certain items

	Purchase Method (Acquisition) Accounting	Pooling of Interest (Merger) Accounting
Basis of inclusion of acquired	Form effective date of acquisition only	As if the companies had always been combined
Pre-combination figures including comparative amounts	Those of acquired company are ignored	No distinction; included on combined basis.
Treatment of assets acquired	Their fair values at the date of acquisition are regarded as cost to the group	The existing book values are normally used. Adjustments ma however be made to ensure consistent accounting policies
Goodwill	Almost invariably arises (either positive or negative)	Never arises
Reserves	Only post-acquisition reserves of acquired company are included in group accounts	Re-merger reserves of the combining companies are combined. Adjustments are often made for any difference between nominal values of shares issued and received.
Premium on shares issued as consideration	Share premium account arises were applicable	Not required as nominal values are used.

Source: *The symposium proceedings on Mergers & Acquisitions: The Nigerian Situation, SEC, 1985, pp. 60-70.*

Appendix VI

Criteria For The Adoption Of The Pooling Of Interests Method Of Accounting For Business Combination

1. The United Kingdom – per paragraph 11 of Statement of Standard Accounting practice No. 23.

   Quote

   "(a) the business combination results from an offer to the holders of all equity share and the holders of all voting shares which are not already held by the offeror; and

   (b) the offeror has secured, as a result of the offer, a holding of (I) at least 90 per cent of all equity shares (taking each class of equity separately) and (ii) the shares carrying at least 90 percent of the votes of the offeree; and

   (c) immediately prior to the offer, the offeror does not bold (I) 20 per cent or more of all equity shares of the offeree (taking each class of equity separaely0, or (ii) share carrying 20 per cent or more of the votes of the offeree; and

   (d) not less than 90 percent of the fair value of the total consideration given for the equity share capital (including that given for shares already held) is in the form of equity share capital, not less than 90 percent of the fair value of the consideration given for the voting non-equity share capital (including that given for shares already held) is in the form of equity and/or voting non-equity share capital". Unquote.

II. United State of America per Managerial Finance Principles and Practice by Steven E. Bolten.

   Quote

   "1. The companies to be merged were autonomous and independent companies for at least two years prior to the merger.

   2. The merger is completed in a single transaction or within one year according o a fixed plan.

   3. The shares offered by the acquiring company are identical to those already outstanding.

   4. The acquiring company acquires at least 90 per cent of the voting shares of the acquired company.

   5. There have been no changes in the equity interest of the voting shares in contemplation of the merger.

   6. The acquired company's shareholders will maintain a proportional equity interest in the combined company.

   7. The former accounting basis is retained.

   8. No significant disposal of the acquired company's assets is planned by the merger company". Unquote.

   Source: *The Symposium proceeding on Mergers & Acquisition: The Nigerian Environment, SEC, 1985, pp. 60-70.*

Appendix VII

Consequence Of Adopting The Purchase (Acquisition) Accounting Method

Balance sheet

Companies	*C Limited* N	*D Limited* N		*CD Limited* N
Employment of Funds				
Fixed Assets	3,000,000	1,500,000		4,500,000
Goodwill	-	-	(1)	1,000,000
Current Assets	5,000,000	4,500,000		9,500,000
Total Assets	8,000,000	6,000,000		15,000,000
Current Liabilities	1,500,000	2,000,000		3,500,000
Bank overdrafts	500,000	1,000,000		1,500,000
	2,000,000	3,000,000		5,000,000
Net assets	6,000,000	3,000,000		10,000,00
Funds Employed				
Issued and paid up capital	5,000,000	1,500,000	(2)	9,000,000
Capital reserves	500,000	200,000		500,000
Revenue reserves	500,000	1,300,000		500,000
	6,000,000	8,000,000		10,000,000

1. Goodwill

Vale of B of C's shares allotted For Ever 3 shares of D Limited at N1 each	-	4,000,000
Less:		
Paid up capital of D Limited	1,500,000	
Capital reserve of D Limited	200,000	
Revenue reserve of D limited	- 1,300,000	3,000,000
		1,000,000

2. Issued and aid up capital of C Limited Pre-acquisition
Add 4,000,000 share of n1 each issued to Shareholders of D Limited and credit Fully paid — 4,000,000

9,000,000

	A Limited N	*B Limited* N	*AB Limited* N
Profit after tax	6,000,000	1,000,000	7,000,000
Number of shares	10,000,000	6,000,000	13,000,000
Earnings per share	60 kobo	20 kobo	54 kobo
Market (NSE) price	75 kobo	22 kobo	
Price/earnings ratio	1:25:1	1:32:1	

It is assumed that A Limited issued on eof its share in exchange for every two shares of the shares of b Limited.

Source: *The Symposium proceedings on mergers & Acquisition: The Nigerian Situation, SEC, 1985, p. 60-70.*

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Consequence Of Adopting The Purchase (Merger) Accounting Method

Balance sheet

Company	*A Limited* N	*B Limited* N	*AB Limited* N
Employment of Funds			
Fixed Assets	600,000	250,000	850,000
Current Assets (Net)	900,000	650,000	1,550,000
Total Assets	1,500,000	900,000	2,400,000
Current Liabilities	300,000	3500,000	650,000
Bank overdrafts	400,000	50,000	450,000
Total Liabilities	700,000	400,000	1,100,000
Net assets	800,000	500,000	1,300,00
Funds Employed			
Issued and paid up capital	500,000	300,000	700,000
Capital reserves	100,000	-	200,000
Revenue reserves	200,000	200,000	400,000
	8,000,0	8,000,000	1,300,000

We have assumed that two shares of A Limited are issued and credited as fully paid for every tree of the shares of B Limited

In the balance sheet of AB combined Limited since the net assets remain at N1,300,000 that is the combined net assets of A Limited and B limited, and since the AB Combined Limited's issued and paid up capital is N700,000 that is A Limited's N500,000 plus the N200,000 issued in exchange Limited is N600,000 that is N1,3000,00 less N700,00. In effect, N100,000 out of the issued and paid up capital is transferred to capital reserve of AB Combined limited.

Source: *The Symposium proceedings on Mergers & Acquisition: The Nigerian Situation, SEC, 1985, pp. 60-70.*

Appendix IX

Key Nigerian Economy Indicators 1988 – 1991

	1991	1990	1989	1988
Gross Domestic product* (at market prices) =N= 'bn	-	260.6	224.8	145.2
Average exchange rates* =N=/US $	9.909	8.038	7.365	4.537
Average discount rate ** On Treasury Bills	13.50%	17.29%	13.28%	13.73%
Consumer price inflation ** (official estimates)	54.5%	50.4%	7.4%	13.0%
Nigerian Stock Exchange + (NSE) Market Capitalisation at 31 December (=N='bn)	18.05	11.83	7.49	5.04
NSE index at 31 December +	784.0	513.8	325.3	233.6

Sources:
- * *Country Reports – Nigeria; Economist Intelligence Unit*
- ** *Annual Report 7 Accounts 1991, 1990, 1989: Central Bank of Nigeria.*
- \+ *Daily official List: Nigerian Stock Exchange*

KASHIM IBRAHIM LIBRARY