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Chapter 1 : Corporate Restructuring | Duke University School of Law

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What is Corporate Restructuring? Corporate restructuring is one of the most complex and fundamental phenomena that management confronts. Each company has two opposite strategies from which to choose: While diversifying represents the expansion of corporate activities, refocus characterizes a concentration on its core business. From this perspective, corporate restructuring is reduction in diversification. Corporate restructuring is an episodic exercise, not related to investments in new plant and machinery which involve a significant change in one or more of the following Pattern of ownership and control Composition of liability Asset mix of the firm. It is a comprehensive process by which a company can consolidate its business operations and strengthen its position for achieving the desired objectives: Synergetic Competitive Successful It involves significant re-orientation, re-organization or realignment of assets and liabilities of the organization through conscious management action to improve future cash flow stream and to make more profitable and efficient. Meaning and Need for Corporate Restructuring Corporate restructuring is the process of redesigning one or more aspects of a company. The process of reorganizing a company may be implemented due to a number of different factors, such as positioning the company to be more competitive, survive a currently adverse economic climate, or poise the corporation to move in an entirely new direction. Here are some examples of why corporate restructuring may take place and what it can mean for the company. Restructuring a corporate entity is often a necessity when the company has grown to the point that the original structure can no longer efficiently manage the output and general interests of the company. For example, a corporate restructuring may call for spinning off some departments into subsidiaries as a means of creating a more effective management model as well as taking advantage of tax breaks that would allow the corporation to divert more revenue to the production process. In this scenario, the restructuring is seen as a positive sign of growth of the company and is often welcome by those who wish to see the corporation gain a larger market share. Corporate restructuring may also take place as a result of the acquisition of the company by new owners. The acquisition may be in the form of a leveraged buyout , a hostile takeover , or a merger of some type that keeps the company intact as a subsidiary of the controlling corporation. When the restructuring is due to a hostile takeover, corporate raiders often implement a dismantling of the company, selling off properties and other assets in order to make a profit from the buyout. What remains after this restructuring may be a smaller entity that can continue to function, albeit not at the level possible before the takeover took place In general, the idea of corporate restructuring is to allow the company to continue functioning in some manner. Even when corporate raiders break up the company and leave behind a shell of the original structure, there is still usually a hope, what remains can function well enough for a new buyer to purchase the diminished corporation and return it to profitability. Purpose of Corporate Restructuring To enhance the share holder value, The company should continuously evaluate its:

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Spin-offs and carve outs create new legal entities while divestitres do not. It has been wrested from the current board, the new managemt willl often embark on a full or partial liquidatin strategy involving the sale of assets. The leveraged buyout preserves the integrity of the firm as legal entity but consolidates ownership in the hands of a small groups. In the s, many large publicly tradedd firms went private and employes a similar strategy called a leveraged buyout or LBO. Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile and how it is announced. Synergy Synergy is the magic force that allows for enhanced cost efficiencies of the new business. Synergy takes the form of revenue enhancement and cost savings. By merging, the companies hope to benefit from the following: Staff reductions - As every employee knows, mergers tend to mean job losses. Consider all the money saved from reducing the number of staff members from accounting, marketing and other departments. Job cuts will also include the former CEO, who typically leaves with a compensation package. Economies of scale - Yes, size matters. Mergers also translate into improved purchasing power to buy equipment or office supplies - when placing larger orders, companies have a greater ability to negotiate prices with their suppliers. Acquiring new technology - To stay competitive, companies need to stay on top of technological developments and their business applications. Improved market reach and industry visibility - Companies buy companies to reach new markets and grow revenues and earnings. That said, achieving synergy is easier said than done - it is not automatically realized once two companies merge. Valuation matters Investors in a company that is aiming to take over another one must determine whether the purchase will be beneficial to them. In order to do so, they must ask themselves how much the company being acquired is really worth. There are, however, many legitimate ways to value companies. The most common method is to look at comparable companies in an industry, but deal makers employ a variety of other methods and tools when assessing a target company. Here are just a few of them: The acquiring company can literally order the target to sell at that price, or it will create a competitor for the same cost. Naturally, it takes a long time to assemble good management, acquire property and get the right equipment. Admittedly, DCF is tricky to get right, but few tools can rival this valuation method. Break Ups As mergers capture the imagination of many investors and companies, the idea of getting smaller might seem counterintuitive. But corporate break-ups, or de-mergers, can be very attractive options for companies and their shareholders. Advantages The rationale behind a spinoff, tracking stock or carve-out is that "the parts are greater than the whole. Most importantly, shareholders get better information about the business unit because it issues separate financial statements. With separate financial disclosure, investors are better equipped to gauge the value of the parent corporation. The parent company might attract more investors and, ultimately, more capital. Also, separating a subsidiary from its parent can reduce internal competition for corporate funds. For employees of the new separate entity, there is a publicly traded stock to motivate and reward them. Disadvantages That said, de-merged firms are likely to be substantially smaller than their parents, possibly making it harder to tap credit markets and costlier finance that may be affordable only for larger companies. And the smaller size of the firm may mean it has less representation on major indexes, making it more difficult to attract interest from institutional investors. Meanwhile, there are the extra costs that the parts of the business face if separated. When a firm divides itself into smaller units, it may be losing the synergy that it had as a larger entity. Restructuring Methods There are several restructuring methods: Each has advantages and disadvantages for companies and investors. All of these deals are quite complex. Sell-Offs A sell-off, also known as a divestiture, is the outright sale of a company subsidiary. The market may be undervaluing the combined businesses due to a lack of synergy between the parent and subsidiary. As a result, management and the board decide that the subsidiary is better off under different ownership. Besides getting rid of an unwanted subsidiary, sell-offs also raise cash, which can be used to pay off debt. In the late s and early s, corporate raiders would use debt to finance acquisitions. Then, after making a purchase they would sell-off its subsidiaries to raise cash to service the debt. Equity Carve-outs More and more companies are using equity carve-outs to boost shareholder value. A parent firm makes a subsidiary public through an initial public offering IPO of shares, amounting to a partial sell-off. A new publicly-listed company is created, but the parent keeps a controlling stake in the newly traded subsidiary. A carve-out is a strategic avenue a parent firm may take when one of its subsidiaries is growing faster and carrying higher valuations than other businesses owned by the parent. The new legal entity of a carve-out has a separate board, but in most carve-outs, the parent retains some control. Since the parent has a controlling stake, meaning both firms have common shareholders, the connection between the two will likely be strong. Carve-outs can also create unexpected friction between the parent and subsidiary. Problems can arise as managers of the carved-out company must be accountable to their public shareholders as well as the owners of the parent company. This can create divided loyalties. Spinoffs A spinoff occurs when a subsidiary becomes an independent entity. The parent firm distributes shares of the subsidiary to its shareholders through a stock dividend. Since this transaction is a dividend distribution, no cash is generated. Thus, spinoffs are unlikely to be used when a firm needs to finance growth or deals. Like the carve-out, the subsidiary becomes a separate legal entity with a distinct management and board. Like carve-outs, spinoffs are usually about separating a healthy operation. In most cases, spinoffs unlock hidden shareholder value. For the parent company, it sharpens management focus. Once they are set free, managers can explore new opportunities. Investors, however, should beware of throw-away subsidiaries the parent created to separate legal liability or to off-load debt. Once spinoff shares are issued to parent company shareholders, some shareholders may be tempted to quickly dump these shares on the market, depressing the share valuation. Tracking Stock A tracking stock is a special type of stock issued by a publicly held company to track the value of one segment of that company. The stock allows the different segments of the company to be valued differently by investors. Why would a firm issue a tracking stock rather than spinning-off or carving-out its fast growth business for shareholders? The company retains control over the subsidiary; the two businesses can continue to enjoy synergies and share marketing, administrative support functions, a headquarters and so on. Finally, and most importantly, if the tracking stock climbs in value, the parent company can use the tracking stock it owns to make acquisitions. Each share of tracking stock may have only a half or a quarter of a vote. In rare cases, holders of tracking stock have no vote at all. Review of Existing Literature Review of existing literature has a great relevance in the research of any project as it acts as a backbone for new studies. Review of existing literature includes the history of the study, previous studies that had already being done on the subject. It lets the researcher explore on all these dimensions which have remain untouched in previous studies on the said topic. Therefore, it provides a necessary base and acts as a broader frame work and guideline to give researcher a clear cut focus for the fresh attempt. Here are some of the views and studies by some of the researchers about the impact of corporate restructuring on shareholders value: Guru of corporate restructuring: Often that term meant disposal of non-performing assets. He describes five waves of mergers beginning in the mids: Porter attempted to study this relationship in a slightly different way. He took rate of divestment of new acquisitions by companies within a few years as an indicator of success or failure. He found that about 75 percent of all unrelated acquisition in the sample was divested after few years and 60 percent of acquisitions in entirely new industry. In , Aggarwal, Jaffe and Mandelkar studied post merger performance of the companies with a different perspective. A study done by J. Fred Weston and Samual C. Anslinger and Copeland studied returns to shareholders in unrelated acquisition covering the to and they found that in two third cases companies were failed to earn their cost of acquisition. Various studies have shown that mergers have failure rates of more than 50 percent. One recent study found that 83 percent of all mergers fail to create value and half actually destroy value. This is an abysmal record. Corporate India - Still counting costs of restructuring: Not one company has restructured itself in a way that could rekindle investor interest and improve valuations substantively. Wockhardt has come the closest: Restructuring, painful and protracted: Numerous companies -- big and small -- have traversed the restructuring route and shown some improvement in stock prices. But this aspect is only from the point of view of shareholders who had entered the stocks at lows, post No domestic company pursuing restructuring has shown conclusive and sustainable improvement in valuation in the long-term interest of the shareholders. As far as companies with a presence in a range of businesses go, though most have shed a few businesses, they still retain the profile of unfocussed business entities with limited competitive edge. And they are still in the process of restructuring despite having had a few rounds of mergers, de-mergers, asset sell-offs, one-time special dividend payments, stock buybacks and capital reduction.

Chapter 3 : Turnaround & Restructuring Club - MBA - Darden School UVA

Corporate restructuring is a term of wider importance and covers in its ambit restructuring or reorganising or financial restructuring of any organisation. Y Justice Dhananjaya has rightly regarded corporate restructuring as one.

Chapter 4 : What is Corporate Restructuring?

The "Corporate restructuring" is an umbrella term that includes mergers and consolidations, divestitures and liquidations and various types of battles for corporate control. The essence of corporate restructuring lies in achieving the long run goal of wealth maximisation.

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Chapter 6 : How To Make Restructuring Work for Your Company

Concept based notes Financial Management MBA-(II Sem) Corporate Restructuring, corporate social responsibility or general public.

Chapter 7 : Corporate Finance - NYU Stern

(iii) PROFESSIONAL PROGRAMME CORPORATE RESTRUCTURING, VALUATION AND INSOLVENCY Corporate Restructuring is a non-recurring exercise for an organisation but it has a lasting impact.

Chapter 8 : A Study of Different Modes of Corporate Restructuring

Corporate restructuring is the partial dismantling or otherwise re- organising a company for the purpose of making it more efficient and therefore, more profitable.

Chapter 9 : Meaning and various forms of Corporate Restructuring

MBA Course Descriptions FNCE - Corporate Finance (Course Syllabus) This course serves as an introduction to business finance (corporate financial management and investments) for both non-majors and majors preparing for upper-level course work.