

An Analysis of Price Matrix in Post-Acquisition- With Special Reference to ITC and Fortis

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Abstract- From the last few decades, maximum studies focused to understand the importance of going into the deal of Mergers & Acquisitions (M&A). The current study examined the motivation to recognize either the assumed benefits of the deal of Mergers and Acquisitions have posted increase or not. The current study calculated whether the deal is beneficial or harmful for the organizations who want to enter into the deal of M&A. The study scrutinizes the issues by using the perspective of history, waves, motives and methods to determine Merger and acquisition value. The study focuses on the current Literature available on M&A from the recent past to portray unlike the methods used to gauge performance of M&A. Although field of M&A research is far too broad and more complex to be covered in a review paper, therefore, the study attempts to start covering some historical and background issues such as History, waves in M&A, Methods of measuring deals and M&A motives.

1. INTRODUCTION

In the dynamic business scenario, mergers and acquisition is one of the best process of corporate restructuring, that has gained substantial prominence in both developed and developing nations. Reviewing published literature in the area of M&A gives a deeper insight on whether empirically it can be supported that M&A's are useful tools of corporate restructuring. Studies of post merger performance usually follow one of the two general approaches of share-price movement analysis or analysis of operating performance to see the merger related gains.

Mergers and acquisition are increasingly becoming strategic choice for organizational growth and achievement of business goals including profit, empire building, market dominance and long term survival. The ultimate goal of this strategic choice of inorganic growth is, however, maximization of

shareholder value. The phenomenon of M&A activity is observed world over across various continents, although, it has commenced much earlier in developed countries, and is relatively recent in developing countries. In India, the real impetus for growth in M&A activity had been the ushering of economic reforms introduced in the year 1991, following the financial crisis and subsequent implementation of structural adjustment program under the aegis of international monetary fund. In recent times, though the pace of M&A's has increased significantly in India too and varied across various economic sectors.

2.BACKGROUND OF THE CASE STUDY

As part of the completion of the transaction, Joseph L. Welch announced his retirement, effective November 1, 2016, as President and Chief Executive Officer of ITC. Mr. Welch will remain Chairman of the ITC Board of Directors. Linda H. Blair will succeed Mr. Welch as President and ITC will continue to focus on delivering value for customers through modernizing the electrical infrastructure of the United States and other areas," Ms. Blair said. "I am confident in our leadership team and the ability to execute on our strategic goals and our long-term strategy of investing in transmission opportunities to improve reliability, expand access to power markets, allow new generating resources to interconnect to our transmission systems and lower the overall cost of delivered energy for customers." "I am pleased Joe will remain involved through his chairmanship of the ITC Board of Directors and his participation on the Fortis Board, and look forward to working with Linda and the rest of the ITC management team," said Mr. Perry.

Following a short transition period, the ITC Board of Directors will be comprised of a majority of independent directors, as well as representatives from Fortis and GIC.

As previously announced, ITC shareholders will receive US\$22.57 in cash and 0.7520 Fortis common shares per share of ITC common stock. Former ITC shareholders who continue to hold Fortis common shares on the upcoming record date will be entitled to Fortis' next quarterly cash dividend of 40 cents (\$0.40 CAD) per Fortis common share. This dividend was declared by the Fortis Board of Directors on September 27, 2016 and is payable to all Fortis shareholders of record at the close of business on November 18, 2016. The dividend to Fortis shareholders will be paid on December 1, 2016.

3.LITERATURE REVIEW

Literature Survey There have been numerous studies on merger and acquisitions (M&As) in India and abroad in the last few decades, and several theories have been proposed and tested for empirical validation by researchers. Researchers have studied the economic impact of M&As on industry consolidation, returns to shareholders following M&As, and the post-merger performance of firms. Whether or not a merged firm achieves the expected performance is the critical question that has been examined by most of the researchers, resulting in the proposal of several measures for analysing the impact and success of mergers. Such measures have included both short-run, as well as long-run impacts of merger announcements, effects on shareholders' wealth (SW) and more. Harari (1997) analyzed on cost efficiency, economies of scale, and the scope of the Taiwanese banking industry, specifically focusing on how bank mergers affect cost efficiency, and concluded that bank merger activity is positively related to cost efficiency. Weston and Mansinghka (1971) carried out an analysis on "Tests of the Efficiency Performance of Conglomerate Firms" and studied the pre- and post-merger performance of conglomerate firms, and found that their earning rates significantly underperformed in those control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. Ikeda and Do (1983), in a study "The Performance of Merging Firms in Japanese

Manufacturing Industry during 1964 – 1975" examined the financial performance of 49 merging corporate firms in the Japanese manufacturing industries over the period from 1964 to 1975. The study performance was tested on parameters, such as, profitability, efficiency, firm growth, and research and development. Sankar and Rao (1998) made an empirical study entitled "Takeovers as a Strategy of Turnaround" and analysed the implications of M&As from the financial point of view with the help of certain parameters like liquidity, leverage, profitability and more. They observed that if a sick firm is taken over by a good management and makes serious attempts, it is possible to turn it around successfully. Heron and Lie (2002) carried out an analysis entitled "Operating Performance and the Method of Payment in Takeovers" wherein they investigated the relation between the method of payment, earnings management, and OP. The study depended on a sample of 959 M&As (mergers and tender offers) announced and completed between January 1985 and December 1997, where current and long-term accumulations have been separately used to detect any earnings management. Ming and Hoshino (2002), in an article "Productivity and Operating Performance of Japanese Merging Firms: Keiretsu-related and Independent Mergers" examined the effects of M&As on the firms' OP using a sample of 86 Japanese corporate mergers between 1970 and 1994. The success of M&As was tested based on their effects on efficiency, profitability, and growth. The results reveal insignificant negative change in productivity, significant downward trend in profitability, significant negative effect on the sales growth rate, and downsize in the workforce after M&As. Beena (2004), in a work "Towards Understanding the Merger Wave in the Indian Corporate Sector – A Comparative Perspective" analysed the pre- and post-merger performance. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period for the acquiring firms. Ehsan et al. (2005), in their study "Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post-Merger Period?" assessed the effect of M&As activity on the performance of USA firms. The study findings indicated that the managerial efficiency of a majority (82%) of sample firms had improved in the post-

merger period. Pazarskis Collins et al. (2006), in a study entitled “Exploring the Improvement of Corporate Performance after Mergers. The study used financial and non-financial characteristics, and the post-merger performance of 50 Greek firms, listed at the Athens Stock Exchange that executed at least one merger or acquisition from 1998 to 2002. Vanitha and Selvam (2007) who carried out an analysis entitled “Financial Performance of Indian Manufacturing Companies during Pre-and Post-merger” took a sample of 30% of firms from the total population (that is 17 firms out of 58).

4. OBJECTIVES OF THE STUDY

- To ascertain price matrix in pre and post merger

5. RESEARCH METHODOLOGY

5.1 Research method:

the research design study is conducted by descriptive research design to analysing the existing employee motivation and descriptive in nature.

5.2 Sample design

The following sample design explained in detail below as shown in the following table:

5.3 Sample:

Acquiring	Acquired	Type of activity	Deal value	Year of occurrence	Statistic motive
ITC	Fortis	Acquisition	US \$ 11.3 Billions	22 ND ,June, 2016	To increasing the market share

5.4 Sources of data collection:

The bases on data collection remained explained now detailed below as well as shown on table. The study has majorly data collected from essentials information and supportive information.

Secondary data:

The secondary data can be available from other than the primary data, i.e. form journals, books, articles, past records of the company, websites, and etc.

5.5 Hypothesis:

There is no significant relationship between price metrics in pre and post merger.

5.6 Tools for the study:

1. Financial tools
 - a) Price matrix: The Price Matrix is a pricing function of the T-Quoter that allows you to

predetermine the price you would like to charge for a specific service.

1. P / EPS
2. P / S
3. P / CE
4. P / OP
5. P / BV

Price: a price is the quantity of payment or compensation given by one party to another in return for one unit of goods or services.

Earnings per share(EPS): Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. EPS is calculated as: $EPS = (\text{Net Income} - \text{Dividends on Preferred Stock}) / \text{Average Outstanding Shares}$.

Sales: A transfer of ownership of property or other assets to a buyer in exchange for money. In accounting, net sales refer to the operating revenues earned by a company by selling their products or services. The term 'sales' covers different concepts and depends on the specific context in which it's used.

Capital employed: Capital employed, also known as funds employed, is the total amount of capital used for the acquisition of profits. It is the value of all the assets employed in a business, and can be calculated by adding fixed assets to working capital or by subtracting current liabilities from total assets.

Operating Profit: Operating profit is an accounting figure that measures the profit earned from a company's ongoing core business operations, thus excluding deductions of interest and taxes. This value also does not include any profit earned from the firm's investments, such as earnings from firms in which the company has partial interest.

Book value: Book value of an asset is the value at which the asset is carried on a balance sheet and calculated by taking the cost of an asset minus the accumulated depreciation. Book value is also the net asset value of a company, calculated as total assets minus intangible assets (patents, goodwill) and liabilities. For the initial outlay of an investment,

book value may be net or gross of expenses such as trading costs, sales taxes, service charges and so on.

2. Statistical Tools

a) Descriptive statistics: These are used to describe the basis features of the data in a study. They provide simple summaries about the sample and the measures.

Mean: Simple or arithmetic average of a range of values or quantities, computed by dividing the total of all values, also called Arithmetic mean.

Standard deviation: Standard deviation is the measure of dispersion of a set of data from its mean. It measures the absolute variability of a distribution; the higher the dispersion or variability, the greater is the standard deviation and greater will be the magnitude of the deviation of the value from their mean.

Skewness: Skewness is a term in statistics used to describes asymmetry from the normal distribution in a set of statistical data. Skewness can come in the form of negative skewness or positive skewness, depending on whether data points are skewed to the left and negative, or to the right and positive of the data average.

Kurtosis: kurtosis is a statistical measure that is used to describe the distribution. Whereas skewness differentiates extreme values in one versus the other tail, kurtosis measures extreme values in either tail.

T test: A t-test is an analysis of two populations means through the use of statistical examination; t-test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variance of two normal distributions are not known.

6. DATA ANALYSIS AND INTERPRETATION

The following study ascertain the to analysis impact of merger and acquisition compare of price matrix of the ITC after acquisition the FORTIS considering in the year of 2016. The study using both statistical and financial tools.

Financial ratios:

Table 6.1

Ratios	P / EPS	P / S	P / CE	P / OP	P / BV
2013	28.50	0.64	1.14	8.17	10.98
2014	24.28	0.57	0.97	8.45	10.71
2015	22.35	0.53	0.83	7.15	8.50
2016	21.97	0.52	0.77	7.17	8.03
2017	31.95	0.48	0.57	8.50	7.51

Source: authors calculation: annual report database.

From the above table shows that the financial ratios 2013 to 2017 the P / EPS value will increasing after the acquiring (2016) compare to previous years, the P / S value will decrease compare to the pre-acquisition , the P / CE value will also decrease compare to pre-acquisition, the P / OP value is increase after the acquisition (2016) compare to pre-acquisition and the P / BV value also going to decrease after the acquisition compare to pre-acquisition.

Descriptive analysis:

Table 6.2

Descriptive	P / EPS	P / S	P / CE	P / OP	P / BV
Mean	9.88	8.99	7.87	7.69	9.80
Standard Deviation	11.32	9.64	8.86	8.71	12.93
Kurtosis	2.13	1.20	1.99	2.08	3.39
Skewness	1.43	1.14	1.37	1.39	1.78
Minimum	0.64	0.57	0.53	0.52	0.48
Maximum	28.5	24.28	22.35	21.97	31.95

Source: authors calculation: annual report database.

- In the above table P / EPS resulted with the descriptive mean value of 9.88, SD 11.32, kurtosis 2.13, skewness 1.43, minimum 0.64 and maximum 28.5.
- In the above table P / S resulted with the descriptive mean value of 8.99, SD 9.64, kurtosis 1.20, skewness 1.14, minimum 0.57 and maximum 24.28.
- In the above table P / CE resulted with the descriptive mean value of 7.87, SD 8.86, kurtosis 1.99, skewness 1.37, minimum 0.53 and maximum 22.35.
- In the above table P / OP resulted with the descriptive mean value of 7.69, SD 8.71, kurtosis 2.08, skewness 1.39, minimum 0.52 and maximum 21.97.
- In the above table P / BV resulted with the descriptive mean value of 9.80, SD 12.93, kurtosis 3.39, skewness 1.78, minimum 0.48 and maximum 31.95.

One sample test:

Table 6.3

	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
PE	13.41854	4	0.0002	25.81	20.470	31.150
PS	20.22705	4	0.0000	0.548	0.473	0.623
PCE	8.93608	4	0.0009	0.856	0.590	1.122
POP	26.07635	4	0.0000	7.888	7.048	8.728
PBV	12.83915	4	0.0002	9.146	7.168	11.124

Sources: authors calculation: spss database

From the above table represent the calculation of one sample t-test considering the study period of 5 years. Using different ratios of the firms. The study found, all the financial performance ratios variables t-test resulted positive with the degree of freedom at 4. The study find that all the ratios are less than the significance level 0.05 therefore it proven There is no significant relationship between price metrics in pre and post merger. Further, it observed that, all the ratios resulted p-value less than 0.05 significance level. Therefore H_0 is rejected. Hence forth, its proven that there is a significant impact of M&A on price matrix performance in pre and post acquisition.

7. FINDINGS AND SUGGESTIONS

- its proven that there is a significant impact of M&A on price matrix performance in pre and post acquisition because all the ratios p-value is less than 0.05 significance level.
- in the financial ratios states that P / EPS, P / OP is increased after the acquisition takes place.
- In the financial ratios state that P / S , P / CE, P / BV value will be decrease.
- in the year 2013 to 2017 the kurtosis value is positive.
- In the year 2013 to 2017 the skewness value is positive.
- Degree of freedom is 4.
- An combined with the two company they have to getting the high value of price of the company.
- There is no significant relationship between price metrics in pre and post-merger.
- The company should be given the as much as possible to implementing the new things in adopting the changes in the organization.

8.CONCLUSION

The current study examined the motivation to recognize either the assumed benefits of the deal of Mergers and Acquisitions have posted increase or not. The current study calculated whether the deal is beneficial or harmful for the organizations who want to enter into the deal of M& . i conclude that with the special reference of ITC acquired FORTIS the results shows under calculation of descriptive and t-test the hypothesis H_0 is rejected. Hence forth, its proven that there is a significant impact of M&A on price matrix performance in pre and post acquisition.

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