PERFORMANCE EVALUATION IN POST-MERGER - A CASE STUDY AT AT&T AND TIME WARNER COMPANY

Sunitha P[1], Dr. Manoj Kumara N V[2]

[1]*Research Student, Department of Management Sciences, Maharaja Institute of Technology-Mysore.*
[2]*Associate Professor. Department of Management Sciences, Maharaja Institute of Technology-Mysore.*

Abstract- **Reforms implemented by telecom regulatory authority of India and Department of telecommunication post liberalization have drastically altered the business environment in the Indian telecom sector. This sector has emerged as a significant performer in the Indian services domain. The focuses of our study is to measures the change in performance levels of the companies. Is any in the post-merger phased to the pre merge ones through selected HR and Financial parametric like Human capital return on investment, compensation of employees to PAT ratio, EPS and market share. The finding indicates the mixed outcomes.**

Index Terms- **Ratios, Descriptive analysis.**

I. INTRODUCTION

The main objective of every company is to get maximum profit every year to increase the wealth of shareholders by giving them high dividends, every organization adopts different techniques and tools to maximize its profit and can be able to survive in the fast growing market.

Mergers and acquisition are not the same terminologies but often it is used interchangeably. In acquisition one organization purchase a part or whole another organization. While in merger two or more than organization constitute one organization. The people are defined in different angel to the merger and acquisition. Merger is the legal activity in which two or more organization combine and only one firm survive as a legal activity (Georgios 2011) in a merger two or more firms approaches together and become a single firm while acquisition big and financially sound firm purchase the small firm.

Merger and Acquisition important tool for the expansion of business in different countries and the researchers from all over the world are taking interest to work in this field. For the last three decades, firms have been intensively used merger and acquisition as strategic tool for corporate restructuring.

II. BACK GROUND OF THE CASE

Dallas, texas and NewYork, New York, Oct 22, 2016
AT&T and Time warner announced they have entered into a definitive agreement under which AT&A will acquire Time Warner in a stock – and - cashtranscation valued at $107.50 per share. The agreement has been approved unanimously by the boards of directors of both companies.

The deal combines time warner's vast library of content and ability to create new premium content that connects with audiences around the world, with AT&A's extensive customer. Relationships, world's largest pay TV subscriber base & leading scale in TV, mobile & broad band distribution.

Time Warner share holders will receive $107.50 per share under the terms of the merger, comprised of 453.75 per share in cash & $53.75 per share in AT&T stock. The stock portion will be subject to a collar such that time warner shareholders will receive 1.437 AT&T shares if AT&T's average stock price is below average stock price is below $37.411 at closing & 1.3AT&T shares IT AT&T's average stock price is above $ 41.349 at closing.

Competition level of both companies
1. Sony
2. CBS Corporation
3. Fox
4. Viacom
5. The walt Disney Company
6. Com Cast

III.   LITERATURE REVIEW

Cybo – ottone and murgia (2000) also employed an event study methodology to examine a sample. Over the decades, there have been several extant studies conducted on effect of M&A activities.**holmstrom (2001)** found that mergers and acquisitions of acquiring firms improved not only productivity but the corporate governance mechanism of U. S firms. **Olinger (2006)** found that mergers and acquis ions in the **U. S. Kemal (2011)** found that the effects of M&A activities on the acquiring firm including a worsening of financial ratios. **Chatterjee (2011)** also notes a reduction in security prices of acquiring firms in the U. S. **altunbas and ibanes(2004)**, on the other hand, found evidence of improvement in acquiring firms return ratios and security prices. **Hu (2009)** examines post – acquisition periods of acquiring firms and finds mixed financial results with some acquiring the firms. **Girma (2008)** who finds post – acquis ion security prices higher for predominantly larger firm. **Mantravadi and Reddy (2008)** found evidence that acquiring firm's experience**. Hayward and hambrick (1997)** pre – merger profitability stream of research focuses on the study. **Mueller (1980)** in his summary of the results on company performance and the probability of being taken over.**Agrawal (1992)** this implies that acquiring firm ofter pay large amounts for target firms gaining little or nothing

from the announcement. **Huizinga** examined the performance effects of European banks M&A using samples. **Beitel and schiereck (2001)**. **Diaz Olalla and azofra (2004)** examined the bank performance derived from both the acquisition.**Lepetit, patry and rous (2004)**examined stock market in terms of changes in expected returns to bank M&A. **dunis and klein (2005)** considered an acquisition as an option of potential benefits.

IV.   OBJECTIVE OF THE STUDY

To examine the relationship between operational and financial performance.

V.   RESEARCH METHODOLOGY

5.1 Type of Research:
This study is considered by Descriptive Research design because of the mergers and acquisition is existing nature problems faced by companies and it's descriptive in nature.

5.2 Sources of data:
I have used to collect data regarding my study only used secondary data. It means where the data which is already existed. Which is collected by other researcher for other purpose? This is already available on hand. It's collected through:

- Company website
- Journals
- Articles
- Company profile

5.3 Sample design

SL. No	Acquiring	Acquired	Type of Activity	Deal Value	Year ofAccordance	Strategic Motives
1	AT &T	Time Warner	Acquisition	$5.4billion	22-10-2016	Combined company position to new customer choice from content creation & distribution to firt experience that personal and social.

5.4 Hypothesis of the study:
There is no significance change in relationship between operational and financial performance of the pre and post-merger.

5.5 Tools for the study:
1. Statistical Tools :
Descriptive statistics: In this study using of the statistical tools for to identifying the companies mean, standard Deviation and the covariance of the study.

a.   **Mean –** Simple or arithmetic average of a range of value of qualities, computed by dividing the total of all values, also called Arithmetic mean.

b.   **Standard deviation –** it is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean.

c. **Kurtosis & Skewness –** Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the centre point.
Kurtosis is a measure of whether the data are heavy – tailed or light – tailed relative to a normal distribution.

d. **T Test:** it is the statistical hypothesis test in which the test statistic follows a student's t-distribution under the null hypothesis.

2. Financial Tools:
Ratios: In this study to analysing the ratio analysis using the companies consolidation balance sheet and income statement for both the companies.

VI. ANALYSIS AND INTERPRETATION

The following study ascertain the To examine the relationship between operational and financial performance of the both companiesAT&T after acquiring the Time Warner considering the period grom 2013-2017. The study using both statistical and financial tools.

Table no 6.1

Particulars	2013	2014	2015	2016	2017
Operating Margin	22.27	24.72	26.02	25.55	24.5
EBT Margin	17.10	19.37	17.72	19.01	17.64
Net Margin %	13.94	13.59	13.35	16.72	17.28
Asset Turnover(average)	0.42	0.44	0.45	0.46	1.78
Return on Assets %	5.81	6.01	6.03	7.74	0.47
Financial Leverage (average)	2.58	2.70	2.71	2.44	8.09
Return in Equity %	14.02	15.89	16.33	19.84	2.31
Return on Investment Capital %	9.86	9.82	9.97	12.13	19.73
Receivable Turnover	3.51	3.72	3.64	3.46	3.35
Inventory Turnover	8.52	9.36	8.59	7.91	8.90
Fixed Assets Turnover	8.44	10.71	11.48	11.99	12.09
Asset turnover	0.42	0.44	0.45	0.46	0.47

Sources- Authors calculation annual report database

The above table shows that the company have the operating margin to maintain their, i.e.it shows that the ratio is increase from 22.27 to 24.5. when compared to EBT margin, ther is increase from 17.10 to 17.64. Net margin shows that there is decrease in 13.94 to 17.28. Then compare to asset turnover 0.42 less than 1.78. The ratios in return on assets decrease 0.47 than 5.81. Financial Leverage increase 8.09 than 2.58. There is also in return in equity decrease 2.31 than 14.02. Return on investment capital increase 19.73 than 9.86.

DISCRIPTIVE STATISICS
Table: 6.2

	Operating Margin	EBT Margin	Net Margin %	Asset Turnover	Return on Asset	Financial Leverage
Mean	24.612	18.168	14.976	0.71	5.212	3.704
Standard Deviation	1.446675	0.971324	1.870035	0.598331	2.76319	2.454288
Kurtosis	1.928248	-2.37008	-2.96467	4.987844	3.73887	4.960752
Skewness	-1.27012	0.399338	0.602846	2.232642	-1.76178	2.224888
Minimum	22.27	17.1	13.35	0.42	0.47	2.44
Maximum	26.02	19.37	17.28	1.78	7.74	8.09

Sources- Authors calculation annual report database

The above table shows that the descriptive analysis of the study and comparison of the mean value of the companies operating margin and EBT margin is 24.612 and 18.168 respectively and the net margin and asset turnover ratios are the value of 14.976 and 0.71 respectively. The return on assets and financial leverage is 5.121, 3.704. standard deviation is the 1.446675, 0.971324 and 1.870035 respectively and the 0.598331, 2.76319 and 2.454288 is increase the values they will comparatively and the kurtosis value of the organization is operating margin 1.928248 and negative occur in 2.37008 and 2.96457 in both EBT and net margin ratios respectively and 4.987844, 3.73887 and 4.960752 are positive values in asset turnover, return on asset and financial leverage. The Skewness value of the organization is the negative in operating margin and return on asset like 1.27012 and return on asset. 0.399338, 0.602846, 2.232642 and 2.224888 these are for the other ratios. The minimum of the operating margin, EBT margin, net margin and asset turnover ratios value are 22.27, 17.1, 13.35, 0.42 respectively. Then for the return on assets and financial leverage is 0.47 and 2.44. The maximum value of operating margin is 26.02, EBT margin is 19.37, net margin 17.28, asset turnover 1.78, return on assets is 7.74 and financial leverage is 8.09.

Table: 6.3

Statistics	Return in Equity %	Return on Investment Capital %	Receivable Turnover	Inventory Turnover	Fixed Assets Turnover	Asset turnover
Mean	13.678	12.302	3.536	8.656	10.942	0.448
Standard Deviation	6.694115	4.265169	0.14639	0.532569	1.501622	0.019235
Kurtosis	3.33936	3.888172	-1.21191	0.689852	2.379088	-0.02191
Skewness	-1.67463	1.972436	0.061489	-0.1504	-1.58194	-0.59013
Minimum	2.31	9.82	3.35	7.91	8.44	0.42
Maximum	19.84	19.73	3.72	9.36	12.09	0.47

Sources- Authors calculation annual report database

The above table shows that the descriptive analysis of the study and comparison of the mean value of the companies return in equity and return on investment capital is 13.678 and 12.302 respectively and the receivable turnover and inventory turnover ratios are the value of 3.536 and 8.656 respectively. The fixed assets turnover and asset turnover is 10.942 and 0.448. Standard deviation is the 6.694115, 4.265169 and 0.14639 respectively and the 0.532569, 2.76319 and 0.019235 is decrease the values they will comparatively. kurtosis value of the organization equity and return on investment capital ration is 3.33936 and 3.888172 and negative occurs of 1.21191 and 0.02191 in both receivable turnover and asset turnover ratios respectively and 0.689852 and 2.379088 are positive values in rest of inventory assets and fixed asset turnover. The Skewness value of the organization is the negative in return in equity, inventory turnover, fixed asset turnover and asset turnover like 1.67463, 0.1504, 1.58194 and 0.59013.equity and return on investment capital and Receivable Turnover is positive value 1.972436 and 0.061489 . The minimum of thereturn in equity, equity and return on investment capital, receivable turnover and inventory turnover value is 2.31, 9.82, 3.35 and 7.91 respectively. Then for the fixed assets turnover and asset turnover is 8.44 and 0.42. The maximum value of return in equity is 19.84,return on investment capital is 19.73, receivable turnover 3.72, inventory turnover 9.36, fixed assets turnover is 12.09 and asset turnover is 0.47.

Table: 6.4 ONE- SAMPLE TEST

	t	df	Sig. (2-tailed)	Mean Difference	95% confidence Interval of the Difference	
					Lower	Upper
OPM	38.042	4	0.00	24.612	22.816	26.408
EBITM	41.824	4	0.00	18.168	16.962	19.374
NPM	17.907	4	0.00	14.976	12.654	17.298
AATOR	2.653	4	0.06	0.71	-0.033	1.453
ROA	4.218	4	0.01	5.212	1.781	8.643

FL	3.375	4	0.03	3.704	0.657	6.751
ROE	4.569	4	0.01	13.678	5.366	21.990
ROI	6.449	4	0.00	12.302	7.006	17.598
DTOR	54.011	4	0.00	3.536	3.354	3.718
ITTOR	36.343	4	0.00	8.656	7.995	9.317
FATOR	16.294	4	0.00	10.942	9.077	12.807
ATOR	52.079	4	0.00	0.448	0.424	0.472

Source-authors calculation SPSS Database

The above table 6.5 that represents the calculation of one sample T-test considering the study period 5 years. The study found that all the variables of T-test have both positive values with the degree of freedom at 4. This table shows the mean differences of the company are very high in the both DTOR and ATOR. So Ho is excepting AATOR 0.06 remaing all rejected. Therefore there some significance change in return in asset, financial leverage and return in equity.

VII. FINDINGS AND RECOMMENDATIONS

- In the circumunstance there is changes in pre and post acqusition operating margin like 25.5 then 24.5 and EBT margin ratios like 19.01 comapare to 2017 ratio of 17.64 not having changes. It shows that there is no performance will be increase otherwise there is decreases.

- Subsequently there is a decrease value of the ratio in the company after pre and post acquisition of AT&T and time warner companies.

- There is some changes in asset turnover ratio like 0.46 in 2016 and 1.78 in 2.17 compare to pre and post acquisition of the company.

- According to sweeness there is negative value should be there in operating mergin--1.27012, return on assets -1.76178, return in equity -1.67463, inventory turnover -0.1504,

- There is no negative value arise in minimum and maximum value of descriptive analysis of the givin above table.

- The one sample test will resulted in the there is significance change in the context of pre and post acquisition.

VIII. CONCLUSION

The overall project about the merger andaqusition of the above company. AT&T acquiring the company of Time Warners. Time Warner share holders will receive $107.50 per share under the terms of the merger, comprised of 453.75 per share in cash & $53.75 per share in AT&T stock. To examine the relationship between operational and financial performance.

There is signisicance changes no increase values in the ratio of the company compare to pre and post acquisition. Ho define that there is no significance change in relationship between operational and financial performance of the pre and post-merger9 There is no negative value in mean, standard devation, minimum and maximum of the t-test.

BIBLOGRAPHY

1. International Journal of Accounting and Financial Reporting, ISSN 2162-3082, 2014, Vol. 4, No. 2.
2. Khan, A. A. (2011). Merger and Acquisitions (M&As) in the Indian Banking Sector in Post Liberalization Regime. International Journal of Contemporary Business Studies, 2(11), 31-45.
3. Hayn, C. (1989). Tax attributes as determinants of shareholder gains in corporate acquisitions. Journal of Financial Economics, 23(1), 121-153.
4. Hayn, C. (1989). Tax attributes as determinants of shareholder gains in corporate acquisitions. Journal of Financial Economics, 23(1), 121-153.
5. A Conceptual Review. Available from: https://www.researchgate.net/publication/2830 44556_Mergers_and_Acquisitions_A_Concept ual_Review [accessed Jun 20 2018].
6. Chatteriee R (2011). Merers and acquisition: the impact on share price. J. Inst. Of manag stud. 11:123-148
7. Yen T, Andre P (2010). The effects of ownership structure of acquiring firms. J. Bus. Policy Res.5:59-76.

8. Rau, P.R., and T. Vermaelen (1998) 'Glamour, Value and the Post-Acquisition Performance of Acquiring
Firms', Journal of Financial Economics 49.2: 223-353.

9. Mitchell, R.K., B.R. Agle and D.J. Wood (1997) 'Toward a Theory of Stakeholder Identification and
Salience: Defining the Principle of Who and What Really Counts', Academy of Management Review 22.4: 853-86.

10. Shimela, P. (1991) 'Corporate Environmental Policy in Practice', Long Range   Planning 24.3:10-17

11. Town, R. (2001) 'The Welfare Impact of HMO Mergers', Journal of Health Economics 20.6: 967-90.

12. Waddock, S.A. (2006) Leading Corporate Citizens: Vision, Values, Value Added (New York: McGraw-Hill, 2nd edn).