

8. Acquisition Structure: Maintaining Operational Independence



How Acquisitions Differ From Mergers

- An acquisition keeps two separate legal entities after closing.
- The buyer becomes the parent company with full ownership and control.
- The target continues operating as a subsidiary under its own structure.
- Unlike mergers both companies exist independently after acquisition.
- The buyer purchases shares directly from target shareholders.
- The purchase agreement is signed between buyer and selling shareholders.
- For public firms the buyer launches a tender offer.
- For private firms the buyer negotiates with majority or all owners.



Two Primary Acquisition Types

- A stock purchase transfers ownership by buying target shares.
- The buyer assumes all assets and liabilities through ownership.
- The target continues operating with existing legal contracts.
- Customer supplier and license agreements remain automatically valid.
- An asset purchase transfers selected assets to the buyer.
- The buyer chooses assets acquired and liabilities assumed.
- This structure shields buyers from unknown legal liabilities.
- However contracts require individual assignment and third-party consent.



Accounting Treatment

- Both structures apply purchase accounting under IFRS and US GAAP.
- The buyer records acquired assets at fair value on acquisition date.
- Goodwill equals purchase price minus fair value of net assets.
- Subsidiaries consolidate financially but retain separate legal books.
- Asset purchases allow tax basis step-ups increasing depreciation deductions.
- Stock purchases usually provide no step-up without special elections.



STOCK DEAL vs. ASSET DEAL: WHAT ARE YOU BUYING?

OPTION A: STOCK DEAL

(Buy the "Container")



TARGET COMPANY

(You buy 100% of Shares)



You inherit ALL Liabilities
(Good & Bad History)

(Good & Bad History)

OPTION B: ASSET DEAL

(Buy the "Contents")



Factory (✓ Yes)

Trucks (✓ Yes)



Lawsuits (No)



You select ONLY Assets you want

(Leave bad debts behind)

8. Acquisition Structure [Part 2]

📌 When Companies Choose Acquisitions Over Mergers

- Acquisitions preserve operational independence when separation creates more value than full integration.
- Several strategic situations favor acquisitions over complete merger integration.

💎 Brand Value Preservation

- Companies acquire strong brands and keep operations independent to protect customer loyalty.
- Procter and Gamble acquired Gillette for \$57 billion in 2005.
- Gillette operated as a subsidiary because its brand supported premium pricing.
- Consumers associated Gillette with male grooming expertise, not household products.
- Full integration would dilute brand identity and weaken pricing power.
- The acquisition allowed procurement synergies while preserving brand equity.

🏢 Unrelated Business Portfolio Diversification

- Conglomerates acquire companies across industries and operate them autonomously.
- Berkshire Hathaway owns insurance railroads utilities retail and manufacturing businesses.
- Each subsidiary maintains independent management teams and operating systems.
- Full integration adds no value because businesses lack operational overlap.
- The holding structure enables specialized management to optimize each business.

👤 Founder And Management Retention

- Acquisitions preserve leadership continuity when founder talent drives target value.
- Google acquired YouTube for \$1.65 billion in 2006.
- YouTube founders and engineers continued leading product development independently.
- Google provided infrastructure and advertising expertise without cultural disruption.
- This structure retained entrepreneurial talent sustaining YouTube's competitive advantage.

⚖️ Regulatory And Antitrust Considerations

- Maintaining separate entities can ease regulatory approval under antitrust scrutiny.
- Regulators may approve acquisitions but block mergers eliminating competition.

🏗️ STRATEGY: WHEN TO KEEP THEM SEPARATE (ACQUISITION)



8. Acquisition Structure [Part 3]

Integration Approach And Control

- Acquisitions grant buyers authority without coordinating with management.
- The parent company board controls subsidiaries through ownership rights.
- Subsidiary boards include parent appointees ensuring strategic alignment.
- This governance removes shared decision complexity slowing merger integration.

Selective Integration Strategy

- Buyers decide which functions integrate and which remain separate.
- Back-office functions like treasury tax and legal consolidate for cost savings.
- Customer operations remain independent to preserve brand identity.
- This selective integration captures synergies without destroying target value.
- Facebook integrated infrastructure while product teams remained autonomous.

Speed Of Value Capture

- Acquisitions enable faster synergy capture because buyers control decisions.
- Parents implement changes immediately without negotiating with target management.
- Integration proceeds at buyer pace without consensus requirements.
- Private equity favors acquisitions because speed drives investment returns.
- Implementing improvements within 100 days creates rapid measurable value.

Common Acquisition Success Factors

- PwC identifies 3 factors predicting acquisition success.
- Maintaining target management continuity prevents operational disruption.
- Defining integration scope pre-closing avoids synergy delays.
- Balancing parent authority with subsidiary expertise ensures execution effectiveness.

