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Case study

Company merger and acquisition

Two highly successful service industry companies, operating since the early 1980's established a joint venture in the mid 1990's. Each company was headquartered in different state capital cities with their own local and international connections. The joint venture offered, significant enhancement in national and international presence, complimentary skills, shared services, economies of scale and bulk purchasing discounts.

Each business continued into the joint venture with individual accounting systems and separate banking accommodation. Neither of the joint venturers bank's were prepared to fund the total accommodation of the joint venture and were wary of providing increases to individual facilities because of the presence of the other bank.

The joint venture experienced dynamic growth, however, the *success created its own difficulties*, primarily in funding working capital. While one member of the joint venture was dedicated to the core business the other assertively developed a "collage" of separate business. While these businesses were successful and most were complimentary to the core activity, they impinged on the management, administrative and financial resources of the joint venture. Furthermore, many of these businesses had partners or shareholders not related to the joint venture; this created uncertainty with the banking relationship in respect to the application of funds and securities; effectively restricted funding to the joint venture.

The directors resolved that the interests of the joint venture would be best served by merging into one company focussed on the core activity. The annual turnover of the individual businesses was in the vicinity of $40m each giving a combined turnover in excess of $80m per annum. Structure and systems were established to do so and a program commenced for the divestment of non core business activities.

Financial facilities were sought for the total accommodation of the new entity. While progressing towards the targeted structure the process had not been fully affected. Several banks were approached, however, the current position of the merger was not considered "bank ready"; the banks expressed interest in funding when the merger was fully achieved.

Approval was negotiated from an investment bank, which provided a current asset accommodation of $6,000,000 at bank overdraft comparative interest rates, funding to 80% of eligible accounts receivable. An equity contribution from a Venture Capitalist of $4,000,000 and a Commercial Property Loan of $2,600,000. The funds were used to retire existing bank debt and provide working capital for business development and acquisitions.

*Some details have been changed to protect privacy