

MERGER AND ACQUISITION'S PRACTICE IN UKRAINE

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Modern tendencies of the world economy reveal themselves in its globalization, technological progress, diversification, liberalization of markets. Combination of this factors causes the need to make the forecasts of corporation`s own assets all over the world. Globalization of the economy confronts corporations around the problem of survival in heavy competition, forcing them to look for new ways to improve their positions in the worldwide market. A large number of corporations reach this goal through different kinds of transformations, such as merger, acquisition and corporate restructuring of a company.

It also should be stressed that processes of acquiring control over the company and its reorganization processes are a new and rare phenomenon for Ukraine. Throughout the entire period of Ukraine's existence as a state there were observed series of transactions, which are in accordance with the legal framework can be attributed specifically to the processes of merger-acquisition (conglomerate, horizontal, vertical, both friendly and hostile nature) [3]. The history of the largest companies and financial-industrial groups in Ukraine, such as SCM (System Capital Management), Privat and others, is a good example of mergers and acquisitions [4].

In the modern Ukrainian theory of corporate finance, the terms "merger", and "acquisitions" do not have clear distinction and are commonly used together. Globally accepted term M&A (Mergers and Acquisitions) is equal to the definition of companies "mergers and acquisitions". As we have already mentioned, the leading economists in corporate finance and company valuation have no consensus on the definition of the terms "merger" and "acquisition", therefore, to form a personal attitude to this issue, and further research we analyzed the existing opinions and identified those that meet the objectives of our study [1].

Thus, analyzing the existing definitions and opinions in the economic literature under the “M&A” companies it will be understood the process that has the goal of which is to expand the area of influence and economic power by one company (company-initiator) through taking control over another company (the target company), the acquisition of full or partial ownership of its assets, improving the welfare of shareholders and the protection of their rights, be able to change the riskiness of the cash flows of the combined company and achieve competitive advantage in the market.

Patrick A. Gaughan has a very meaningful opinion concerning to the problem of determining the following terms. He define merger as “a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence” [2]. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Sometimes the term statutory merger is used to refer to this type of business transaction. It basically means that the merger is being done consistent with a specific state statute.

It should be noted that merger differs from a consolidation, which is a business combination whereby two or more companies join to create an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate. In consolidation, the original companies stop to exist and their stockholders become stockholders in a new company.

One way to look at the differences between a merger and a consolidation is that with a merger $A+B=A$, where company B is merged into company A. In a consolidation, $A+B=C$, where C is an entirely new company. Despite the differences between them, the terms merger and consolidation, as is true of many of the terms in the M&A field, are sometimes used interchangeably. In general, when the combining firms are approximately the same size, the term consolidation applies; when the two firms differ significantly by size, merger is the more appropriate term.

Another term that is broadly used to refer to various types of transactions is “takeover”. “Takeover” is a synonym of the term “acquisition” This term is vaguer, sometimes it refers only to hostile transactions, and other times it refers to both friendly and unfriendly mergers.

By implementing strategy of merger and acquisition, the company provides, on the one hand, the protection of its interests, on the other - the realization of competitive advantages. Considering it important to understand that the merger-acquisition is a process of change in ownership or ownership structure, as the final link in the process of restructuring.

An activation of mergers and acquisitions in the post-crisis period in Ukraine is a logical consequence of world situation reform work. Increasing the number of M&A is observed since 2013, so the number has grown from 30 in 2012 to 150 in 2013, and in 2014 reached 160. In monetary terms, the increase in 2014 is approximately \$8 billion, which is several times higher than the result in 2013, which amounted to \$2.81 billion.

However, it should be noted that this increase was due to two major transactions: the sale of Inter Media Group to Group DF structures for more than \$2 billion and resale of "Ukrtelecom" to SCM structures for \$1.3 billion [4]. These transactions are accounted for half of the total volume of transactions. Therefore, we can say that there is a growth trend in the number of transactions, with a relative decrease in the size of transactions in monetary terms.

An increase in potential of the market for mergers and acquisitions in Ukraine associated with low consolidation of particular sectors, such as agro-industry, where the one of the growth factors is a further increase in prices for raw materials, as well as the ability of large companies to compete on domestic and foreign markets.

Important factors that affect the development of the domestic market and M&A growth in M&A transactions in Ukraine are also privatization of several state companies; increase in the number of transactions carried out by private equity funds and foreign investors and aimed at attracting investment and improving the investment climate in Ukraine; growth in the number of acquisitions of strategic assets of large Ukrainian business groups by big foreign business.

References:

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