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WHY DO COMPANIES MERGE WITH OR ACQUIRE OTHER COMPANIES?

M&A is a general term used to refer to the consolidation of companies. But a merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Mergers and acquisitions are strategic methods to grow business, migrate into other channels of business, influence in some markets and a way to protect profitability while reducing operating costs.

Successful mergers and acquisitions companies stress the importance of quick wins as a way of demonstrating that the new combination is already producing added value.

Mergers and acquisitions are often planned as a strategic market expansion during periods of stable economic conditions.

Bringing two companies together is an enormous task. The main aim of M&A is external growth. It is often typical for companies that in its internal growth they achieved the maximum, therefore they are looking for external ways: merging with companies in a particular sphere of business.

Researches of Ukrainian market have shown the tendency of increasing mergers and acquisitions deals. So, a similar activity has been occurred in banking sphere, telecommunication, metallurgical and food branches.

The main range motives and aspects of mergers and acquisitions in overseas and domestic business
<p>1. To increase market share</p> <p>Mergers can give the acquiring company an opportunity to grow market share. The company-buyer will be absorbing a major competitor and thus will increase its market power to set prices and increase its market share.</p>
<p>2. To increase the size of business</p> <p>Businesses may wish to expand for the following reasons:</p> <p>a. Benefit from economies of scale – lower unit costs due to an increase in</p>

size

- b. A larger market share (selling more products than before). They can charge higher prices and gain more profit
- c. A competition with other growing businesses

3. Activities for synergies

The combined company can often reduce its fixed costs by removing some departments or operations, performance will increase and costs will decrease. A business can eliminate a level of costs.

4. Business diversification

This is designed to smooth the earnings results of a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can take several forms, including:

- a. new, related products or services to existing customers
- b. new markets for existing products
- c. new products for new markets

Businesses may wish to diversify because:

- Diversification helps spread the risks across a number of products. If one product fails due to market conditions then other products in different markets should not be affected.
- Good way of expanding if present market seems already full.
- Gives the business fresh objectives and may act to motivate managers and staff.

5. Purchasing of undervalued assets

When buying undervalued assets the benefits are greatest to the purchasing firm. Because the book value of current assets has to be reevaluated at the new market rate, this creates a downgrade of the assets which also lowers the taxable income for the firm. This creates a nice tax shelter for the purchasing company.

6. Tax benefits

A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability.

7. Exit strategies

Mergers or acquisitions are common exit strategies in business. If a larger corporation purchases your business, you will be able to exit your business and typically reap a strong financial reward.

8. Personal motivation

Managers want to get some financial benefits from buying competing companies .

For example, company SCM owns and controls assets in mining and metallurgy, energy, telecommunications, banking, insurance, media, as well as in retail and real estate.

SCM Group includes companies:

- Metinvest Holding (consist of coal, ore-mining and steel-businesses),
- Energy holding DTEK
- Telecommunications group Vega
- Media group Segodnya Multimedia and TRK Ukraina

- Ukrainian Retail and others.