Reorganising shareholder’s equity

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More than USD 380 Billion mergers and acquisition have already failed this year. The latest is the USD 160 Billion takeover of Pfizer by Allergan.

Earlier this year, in France, Orange gave up the buy-out of Bouygues Telecom. As a consequence the latter is now completely isolated on the French telecom market. The story od Its shareholder’s equity was already complicated. Further to a dead end in its discussions with EDF and Lyonnaise des Eaux Dumez, Telecom Italia has arised as a strategic partner … before withdrawing a few years later.

On the other side, ChemChina may finally succeed in taking over Syngenta, yet subject to competitions authorities’ approval, after months of discussions, twist and turns.

The common point between these three news: re-organising shareholder’s capital is definitely touchy!

Strategic, managerial and organizational milestones go along with companies’ development. Ownership structure is no exception to the rule. A local company enjoying organic growth would not meet the same requirements as an expanding, internationally growing corporation or an established multinational group. The questions which arise when addressing the ownership composition issue are manifold and complex. They include governance, strategic vision, management culture and style, technical expertise, distribution network, targeted profitability... and of course financing.

A sizable issue: does one really need to touch capital? The answer needs to be qualified. It depends on the risk aversion of current shareholders. Assuming any position bears its fair share of risks, the first step lies in the identification of the risks that shareholders are willing to take. Taking odds on foreign markets or staying in a well-known but slackening domestic market? Pursuing a new customer basis or enduring attacks by foreign competitors with superior resources? Venturing out of the thoroughly mastered niche or seeing a substitute technology make ones offer obsolete? The answers to these questions are far from straightforward. They depend on the company's skills, shareholders risk aversion and management horizon. A family wishing to pass on a heritage over several generations and an individual willing to make quick money may clearly have different approaches to such topics.

This analysis is the cornerstone of a strategic project. Once done and the operational dimensions set (market, concept, technology, positioning ...) come new questions: financing and complementary know-how to acquire in order to achieve strategic goals. Opening capital can offer a tremendous growth accelerator ... But, what about governance? Will one still be the master of its own house, once a family outsider has become a shareholders? Will it be possible to impose permanently its strategy? The choice of the partner becomes crucial. Is the alignment of visions perfect? If so, how about maturity? The cultural compatibility of values and behaviours, more than nationalities, is of paramount importance.

Once the decision has been made to resort to external resources, modalities of the association must be carefully devised. Several levels should be considered: holding company, subsidiary or ad-hoc joint-venture, or even simply points of sale. Let's have a quick look at the toolbox of financial packages. Take the participation of an "industrial" partner with optional mechanisms, leverage buy out type transactions with a professional financial investor, mezzanine, franchise (as franchisee, but also franchisor) ... Solutions are many. They may vary according to needs and evolve over time.

To sum up, the evolution of a company’s shareholder’s equity and ownership is a key point of its development. It needs to be devised and managed with the utmost care. In order for the desired transformation to take place harmoniously, a considerable number of parameters must be taken into account. First and foremost the deep personal aspirations of shareholders and / or managers.