

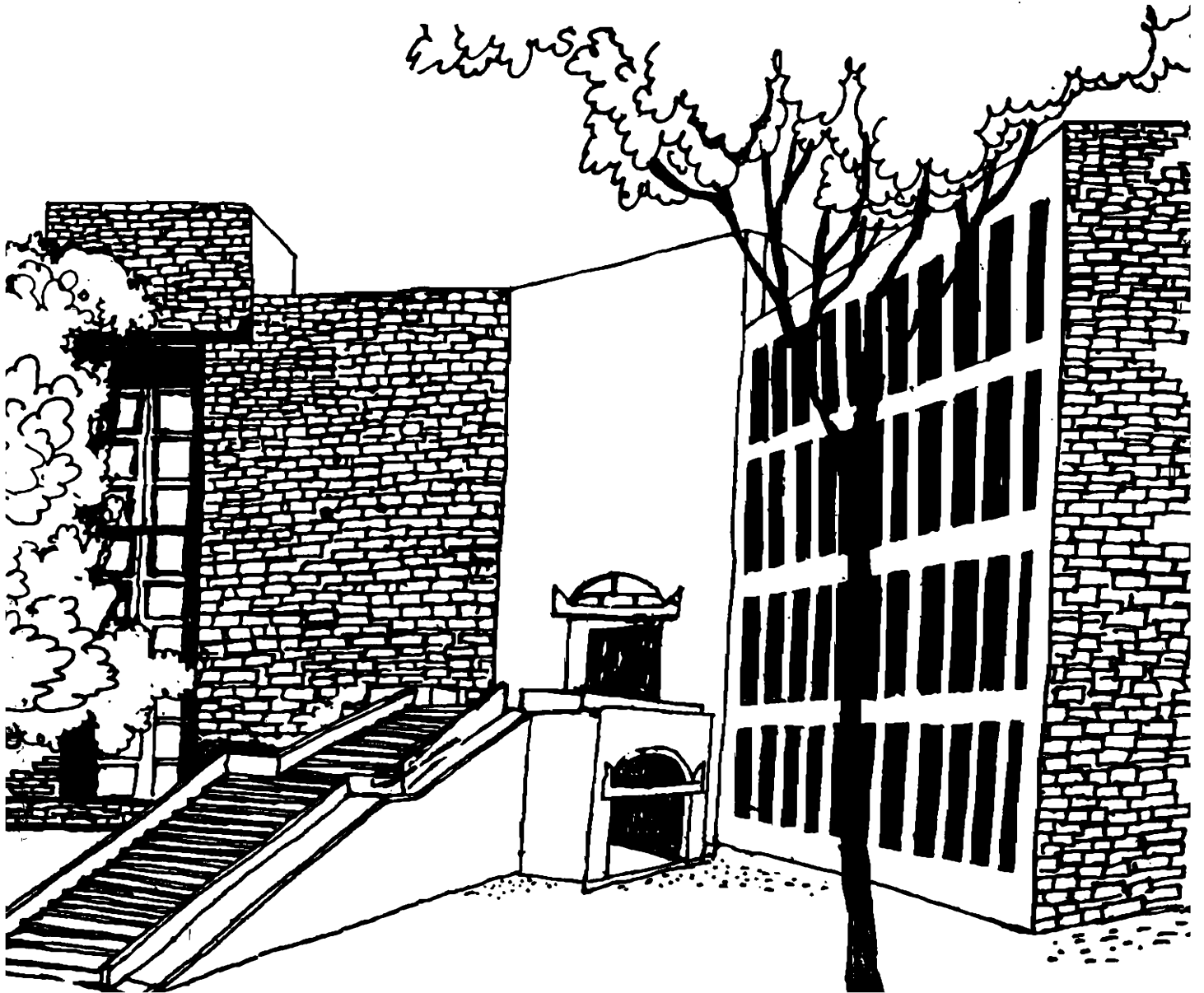


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# Working Paper



MERGERS AND ACQUISITIONS IN THAILAND:  
CASE STUDIES OF TWO THAI COMPANIES

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**MERGERS AND ACQUISITIONS IN THAILAND:  
CASE STUDIES OF TWO THAI COMPANIES**

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**ABSTRACT**

*Countries in both developed and developing regions are placing more importance on the role of Mergers and Acquisitions (M&A) in the growth of companies, and thereby to the economic development of their countries. M&A activities are becoming popular in many Asian countries. In Thailand as well the companies want to grow fast and become competitive through M&As. This study finds out the important motives that lead to M&As in Thailand. Analysing the experiences of two Thai companies, this study investigates the process of acquisition and the factors contributing to the success and failure of mergers in Thailand.*

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## INTRODUCTION

Mergers and acquisitions (M&As) represent a dominant economic activity in the current financial and economic environment all over the world. M&A issues have assumed strategic importance in public and corporate policies, particularly for corporate control (Jensen & Ruback, 1983; Jarell, Brickly and Netter, 1988). The speed of business combinations has been high in developed countries since the second world war, and it has not slowed down yet (Weston, Chung & Hoag, 1990). With the fall of economic barriers and growth of regional wealth, M&A activities are expected to speed up in Asian and other developing countries (Fannin, 1995; Perton & tine, 1993; Asiamoney, 1991).

The secrecy and mystery surrounding many of M&A activities in Thailand have not only seized the interest and attention of the investors and business owners and management, but also attracted the scrutiny of Thailand's Securities and Exchange Commission (SEC). There are many M&As currently at work in Thailand and no firm is regarded safe from take-over possibility. Even the banks in Thailand are preparing to merge to boost competitiveness. Not only the banks, other business firms in Thailand are also beginning to become aware of the benefits of merging with or acquiring the other companies<sup>1</sup>. To have more and more M&As in Thailand and thereby, to enhance the competitiveness of companies and industries and to enjoy economic growth, strategic factors contributing to the improved performance of the companies after merger need to be studied. At the same time, the companies should be aware of the actions leading to the failure of the company after merger. This research study attempts to document M&A experiences in Thailand.

We have carried out this study using case research approach. The two Thai companies used as case studies include a listed company - Sikarin Public Co., Ltd. in hospital business and an unlisted company in hotel and tourism business, whose name has been disguised to maintain confidentiality (referred as "A" Hotel Limited in this study). The case analyses are conducted on the basis of the data and information obtained from the company reports, and interviews with the financial advisors and the executives of the companies. Copies of annual reports of the selected companies and stock prices were also gathered from the Stock Exchange of Thailand (SET) library. In addition to the case studies, a survey to find out the general practices of M&As in Thailand was also conducted.

The article is divided into four parts. Part one gives the introduction and the objective of the study. Part two presents the results of the survey and briefly describes the M&A practices in Thailand. In part three, we discuss the motives, valuation process and success and failure factors of M&As with the help of two case studies. Part four presents the conclusions of the study.

### M&A ACTIVITY IN THAILAND

SEC has documented 78 M&A deals in Thailand from 1992 to 1998 (Table 1). More than half of these deals have occurred in two years - about 40 per cent in 1994 and 16 per cent in 1995. These deals have generally spanned over a number of business sectors, but two sectors, building and furnishing materials and textiles clothing and footwear, accounted for about 25 per cent of the deals. M&A activity in Thailand is in its very early stage. The traditional view among businessmen in Thailand is that true entrepreneurs build their businesses up themselves and hold on to them life long. The concept of buying and selling a business is very new and alien to Thai businessmen. They see it as more than selling a business; it is also selling a heritage. The new generations of Western educated Thai executives, however, are more receptive to the idea of acquisitions. Unlike in some other Asian countries, the Thai corporate financiers expect more inbound M&A than outbound, because Thai companies are not financially strong enough to buy abroad (French, 1994). Also Thai managers lack the confidence to manage overseas companies. Acquisitions as a means of controlling ownership interests, are more common than the complete mergers in Thailand.

Table 1

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<sup>1</sup> The data for this study were collected much before Thailand faced the financial crisis. Significant restructuring of businesses, particularly the financial sector, has taken place in Thailand since then.

M&A activity of listed companies depends on the regulations of SEC and SET. It is believed in Thailand that if SEC loosens regulations, there ought to be more and more M&A deals. But at the same time it is feared that most of them may be of stock manipulation type. Such take-overs would leave the minority shareholders at a disadvantage against the major shareholders. Therefore, SEC has strict regulations on disclosure of information whenever the deal is done through SET. Many take-over deals in the past in Thailand were made with the intention of obtaining backdoor listings; purchasers or the acquirers who are not already listed often buy other companies simply for their listing on the stock exchange. Further, in Thailand, through acquisitions, many foreign companies want to set up nominee shareholding arrangements to get around the legal requirement on maximum foreign ownership limit. Nominee shareholding can be arranged by acquiring or forming a joint venture with a Thai company. By using Thai company as a nominee, the foreign investors can indirectly acquire other Thai companies.

### **Results of the Questionnaire Survey**

We sent a questionnaire to 78 companies involved in M&A deals during 1992 to 1998. The responses were received from only 11 companies (Table 2). The 11 respondents belonged to different sectors of business in Thailand. Although the response rate was only 13 per cent, yet the analysis of data provided important insights on the behaviour of Thai businessmen vis-à-vis M&A activities.

Table 2

Table 3 summarises the analysis of the survey results. In Thailand, friendly take-overs dominate the business scene. Generally the buyers and sellers know each other and deals take place because of the mutual trust. The hostile take-overs have not gone smoothly. Conglomerate mergers are more common in Thailand. The main objectives of M&A activities are to increase profitability and to achieve diversification. M&A activities are perceived to contribute a great degree of growth to companies. If a target company is a problem company, or it lacks managerial skills, the gap is considered to be closed by the acquirer possessing such skills. The idea of merging usually gets generated from the top management, and more often, the investment bankers. M&A issue is perceived as a strategic issue by all parties involved in the deal; therefore, the top management is generally the first to influence the M&A decision making. Multiple valuation methods are used to value the target companies. However, net asset value (NAV) is the most common method used in valuing the target company. The other commonly used methods include DCF, P/E analysis and sensitivity analysis. The final price depends on the negotiation between the acquirer and the target, by looking at the calculated values together with the satisfaction of both parties. Unlike in the Western countries, the target companies are not bought and sold at high premium in Thailand. Only half of the respondent Thai companies paid premium (over the market price) and the level of premium ranged between 10% and 40%. The most common ways of financing M&As in Thailand are equity and conventional loans. The debenture/bond markets are not well developed and efficient in Thailand. As regards the post-merger effect on the share prices of target and acquirer, most respondents said that the share prices increased after the merger. The reasons for the success of mergers in most situations were attributed to efficient post-merger management, clear corporate objectives and efficient negotiation process. Poor post-merger integration was considered as the major reason for the failure of the unsuccessful mergers.

Table 3

### **ANALYSES OF CASE STUDIES**

We have chosen a listed company - Sikarin Public Company Limited (formerly known as Vitacor) and an unlisted company - "A" Hotel Company Limited - for analysis. In this section, we shall describe the background of the companies, their pre- and post-merger performance, the motives for merger and the valuation and negotiation process. For the listed company, the behaviour of the share price before and after merger is also analysed. The factors responsible for the successful mergers of the two companies are also discussed in this section.

## **Sikarin Public Company Limited**

### ***Background and Performance***

Sikarin Public Company Limited has been operating for more than 15 years since March 15, 1980 under the name Samrongkarnphaet Hospital. The company had registered capital of 16 million baht in 1980. Over the years, the company has been raising its registered capital for future investment projects; it was 500 million baht at the time of the company's acquisition. Of 500 million baht share capital, 450 million was paid up capital. In 1994, the structure of shares significantly changed when Juldis Develop Public Company Limited bought 48 percent of shares which were originally owned by a group of Taiwanese.

The company has been generally profitable since the year 1990 till 1994 - the year in which it was acquired. The profitability of the firm, however, started declining in 1993 largely as a result of higher cost. Specially the depreciation expense has been very high resulting from the acquisition of assets. The company's liquidity reached its worst in the years 1992 and 1993, but it turned out to be satisfactory in 1994. Its leverage ratio has not been very high although it increased to a small extent in 1993. The efficiency of fixed assets has decreased over the years.

### ***Acquisition Attempt by the Taiwanese Group***

Without the knowledge of the company, a group of the Taiwanese raiders for almost two years tried to break into Vitacor and acted clandestinely in concert in order to buy company's shares since 1991. In 1993, they have built up their stake in the hospital firm to around 41 percent through nominee shareholding without informing SEC of their combined holdings. After SEC found out that the Taiwanese shareholders in Vitacor belonged to the same group, SEC forced them to reduce their stake to less than 25 per cent - a percentage beyond which an acquirer must file a formal take-over. The Taiwanese shareholders had no choice but to liquidate their holdings. Vitacor had the fear of being taken over by an unknown company in the wake of the dilution of the Taiwanese shareholders holding. Vitacor sought advice from its permanent financial advisor, Securities One. After talking to two or three interested buyers, Securities One suggested Juldis Develop Group. Securities One also happened to be the financial advisor to Juldis.

### ***Juldis Develop Group as a White-knight***

Real estate developer, Juldis Develop Group, was in the process of seeking partners to help develop large-scale projects with the objective of long-term returns on investment. Vitacor appeared to have long-term prospect for high profit as it was investing heavily in market expansion by constructing hospitals and health care centres in some of the provinces of Thailand. This fitted well with the business interests of Juldis. As a diversification strategy and as to support its desire to expand its business into health care service, and on the recommendation of the financial advisor, Securities One, Juldis thought that Vitacor was a profitable business to acquire.

The primary motive for Vitacor was to use Juldis as a white-knight against a possible hostile take-over bid. Joining with Juldis was an advantage to Vitacor as it could strengthen the company's operations and give the opportunity for expansion in the future. Juldis owned many properties in some provinces of Thailand, so it was easier for the Vitacor to have a long-term growth through market expansion in the future.

### ***Valuation and Negotiation***

Once both Vitacor and Juldis agreed in principle for the merger, the directors of the two companies appointed Securities One as the financial advisor to assess the value of Vitacor. Various valuation methods such as DCF approach, P/E analysis and market value-book value analysis were used.

Sensitivity analysis was also used in deciding the value of Vitacor. After the valuation, the agreed price turned out to be 145 baht per share. According to a senior executive in the merged firm, "The value paid for Vitacor's acquisition also depended on the negotiation process, and the satisfaction of the buyer and the seller."

The last trading price of Vitacor's shares in SET prior to the announcement was 159 baht per share. The offer price by Juldis was only 145 baht per share. Thus, instead of a premium, a discount of 14 baht per share was paid or in other words, the discount of 8.81 % was received by the Taiwanese shareholders, as most of the shares were held by them. The reason for the discount was the market overestimation of the information on the Juldis acquisition. The share price of Vitacor increased just one day before the announcement of acquisition. The average share price of Vitacor one month before the announcement was 145.3 baht per share, ranging between 143 baht to 150 baht per share. So, the value paid for the acquisition was considered to be fair which was approximately equal to the average fair market value of the company one month before the acquisition.

The total number of shares really transacted was 36.96 % of the outstanding shares of Vitacor. The number of outstanding shares at the time of acquisition was 7.5 million. So, the number of shares acquired was  $7,500,000 \text{ shares} \times .3696 = 2,772,000 \text{ shares}$ . At the offer price of 145 baht per outstanding share, the total value paid amounted to 401,940,000 baht.

### ***The Share Price Behaviour***

The Juldis offer for Vitacor was announced on May 18, 1994. The due diligence process took around one month and the tender offer announcement was made on June 17, 1994. The tendering price for Vitacor was 145 baht per share. One month before the announcement (April 18 - mid of May 1994), the share price of Vitacor had fluctuated in a very narrow range around 145 baht per share ranging from 143 baht to 150 baht (Fig. 3). One week before the announcement of acquisition, due to the take-over rumours in the market, the share price fluctuated a little, reaching the peak of 159 baht on May 16, 1994. During the due diligence (evaluation) process (May 18 - June 17, 1994), the share price of Vitacor decreased from 150 baht to 145 baht. The decrease in share price was contributed by the market perception on the deal and the over-valued share price. Following the announcement of tender offer (June 17 - July 4, 1994), the share price increased gradually reaching the peak of 160 baht at the end of tender offer period in the anticipation of successful operation after the acquisition. After the tender offer process (July 4 - August 4, 1994), share price increased gradually reaching the peak of 228 baht per share on August 1 and the closing price for August 4, 1994 was 220 baht. The reasons for increase in price of Vitacor shares can be attributed to the expectation and anticipation of the investors. Investors perhaps believed and hoped that the new management would be able to improve the company's performance and would try to find ways to further the growth and efficiency of the company.

Fig. 3

### ***Post-merger Performance***

The new management turned-around the company within two years after the acquisition. Because of the significant increase in revenue, the company could generate net profit in 1996 after two consecutive years of losses. The liquidity ratios improved in 1995, but declined in 1996 and 1997. Leverage ratios remained at satisfactory levels. In fact, the debt ratio decreased slightly in 1995 and 1996. The asset utilisation improved significantly in the years 1995 and 1996. The fortunes of the company again had a dip in the year 1997 due to the economic crisis in Thailand which unfavourably affected all business sectors.



## **"A" Hotel Company Limited**

### ***Background and Pre-merger Performance***

"A" Hotel Company Limited has been operating since 1991 with an initial capital of 500 million baht. In 1992, the registered capital was raised to 638 million baht. The company has been in operation for two years at the time of its acquisition. During these two years, the performance of the company has not been very encouraging. The profitability of the company was not satisfactory at all. With increased revenues, the expenses increased at a higher rate leading to losses during the first two years of operation. In fact, the company had been generating losses every month due to high costs and lack of control on the spending. Liquidity was also quite bad with the current ratio of only 0.15 in 1992. The company's profitability and liquidity was further pressurised due to heavy debt burden resulting in high interest expenses. One favourable point was that the asset utilisation of the company showed significant increase. Because of its high potential for growth and profitability with improved management, the company was a good acquisition target. The only hope for the company to survive was the infusion of an efficient management team which could turnaround it.

### ***Exigency to Sell***

In 1993, the stock market of Thailand collapsed due to stock manipulation. When the stock market collapsed, the liquidity of the securities trading in the market decreased. The stocks of a finance company, FCI (First City Investment), turned out to be one of the stocks included in manipulation. Further, the loans and the deposited money of FCI were not real since the owner had pulled out some of it to play in the stock market. Since FCI's stocks were manipulated and FCI management had appeared to have involved in manipulation, shareholders of FCI panicked and started to sell their shares causing the price to go down further. The problem of FCI was worsened by lack of confidence from the public who began withdrawing their money from the start of the year. Thus, there was a serious liquidity problem for FCI. The owners of FCI had to borrow money from the central bank - Bank of Thailand (BoT) - to solve its problem of impending insolvency. The owners had to use the assets as collateral for obtaining soft loans from BoT. They had to freeze the assets whenever there was a need to save the company or to recover the losses to the depositors. So the owner started to sell some of the assets she had. The owner of FCI was holding many businesses, and "A" Hotel Company Limited was one of the companies that she wanted to sell.

### ***Acquirer's Motives***

The acquirer was an individual buyer, who was holding majority shares of a holding company. Asset Plus Securities Company Ltd., the advisor to the acquirer, got to know that "A" Hotel Company Ltd. would be an interesting target for the acquirer as the owner of the company was facing financial difficulty. One of the most important motives for the acquirer was that he had a long-held interest in tourism with the aim of becoming a significant, Thai-based, regional hotel chains. His objective was to be fulfilled through acquisition of existing hotels at strategic locations throughout Thailand.

### ***Valuation and Negotiation***

Asset Plus, the financial advisor, worked out the value of the target company. The valuation method that the financial advisor used was mainly the NAV method. Asset Plus also looked at other financial statements such as profit and loss statement and the other useful financial ratios. The company was not a listed company and P/E ratio analysis was, therefore, not carried out.

The asked price by the target, equal to the value of net fixed asset (approx. 1 billion baht) in the balance sheet of that company at the time of acquisition, was very high. Besides the price to be paid for the acquisition, the acquirer was required to be responsible for the liabilities. An independent auditor was hired to do a special audit on the deal. The fixed assets of the company were appraised to the true market value. The following items of the balance sheet were examined in the valuation of the company:

- Accounts receivable of approximately 16 baht million were found to be owed by the management of the company and it was fully deducted from the balance sheet.
- Prepaid expenses of approximately 9.16 baht million turned out to be the service income received from the customers for the staff of the company. Even though that service income had already been recorded in the profit and loss statement, the company has not paid that income to the staff. The acquirer considered that these expenses were the responsibility of the owner of the target company. Therefore the total amount was deducted from the balance sheet.
- Prepaid operating expenses of 112.3 baht million were not found to be qualified as business transactions. So they were not considered.
- Accrued management fees of 18.35 million baht was the consulting fee payable to the owner's group. The acquirer was not sure whether the consulting service was really provided by the group to the company and wanted to drop the total amount of the fees from the value calculation. But the owner did not agree.
- Loans from associated companies of approx. 400 million baht were borrowed on long-term basis by the company to buy fixed assets. The net total value of fixed assets in the balance sheet was 1.48 billion baht which was considered as overvalued, specially the cost of buildings was very high as compared to the current market price. The appraising firm assessed the value of net fixed assets about 1 billion baht. Thus, the loan from the associated companies was not considered in the valuation.

The initial asked price of the seller was very high, but the buyer could bid it down significantly. The gross value of assets of 732 million baht was adjusted for the above referred items and brought down to 287 million baht. In addition, the buyer would be responsible for liabilities (after adjustment) of 714 million. Thus the total consideration was about 1 billion baht. The offer price was very low compared with the asked price. But considering the liabilities that the buyer would have to pay and making adjustment to non-business items, the price that the buyer paid for was fair.

The reasons that the acquirer was able to reduce the price were: (a) the acquirer would have to assume the risk if the creditors submit the bankruptcy case; (b) the buyer had the risk of bearing the tax liability if there were any hidden tax payments; (c) the buyer would be responsible for the payment of liabilities; (d) the owner's willingness to sell the company was very high; and (e) the owner was facing net losses every month and if she kept the company for some more time, there would be more trouble for her.

### ***Post-merger Performance***

The performance of the merged firm improved one year after the merger. There was increase in the company's revenues and the profitability ratios also improved; expenses decreased gradually 1994, resulting from decrease in both administrative and interest expense. The liquidity ratios and asset utilisation ratios also improved. Further, there was an increase in equity capital in the year 1994 which helped to improve of debt-to-equity ratio of the merged firm.

### **Factors Contributing to the Success of the Acquisitions**

The new managements of the two merged Thai companies, thought that their mergers were successful. The following factors may be attributed for success of these mergers:

- ***Industry characteristic:*** Both companies - Sikarin and "A" Hotel - were operating in growth markets. At the time of acquisition, Sikarin has already been in operation for fourteen years and "A" Hotel for two years. Both companies had not performed very well before the acquisition, but both had very favourable growth prospects in the future. It is a characteristic of the hotel business that it starts earning revenue and getting growth in business approximately after two years of operation. So, it was a right time for the acquisition of "A" Hotel. By acquiring businesses that were already in operations, the acquiring company's management could immediately have the revenue-generating hotel, which could facilitate rapid expansion.

- **Right target:** The major motivation for the acquirer to choose "A" Hotel was its location which occupied the central city location and was surrounded by some of the city's best shopping and business centres. Sikrin's attraction to its acquirer lied in its fixed assets investments which could be converted into profitability by improving management and its synergy with the acquirer's business.
- **Excellent negotiation process:** In both the cases the meticulous due diligence and well-planned negotiation turned the deal to the satisfaction of both parties. The advice of the financial and tax consultants played an important role in the entire negotiation process. Because of the positive bargaining power and the experienced negotiation, the acquirers were able to get a good deal.
- **Well-Established Post-Merger Activities:**
  - \* **Revenue generation:** The acquirer of "A" Hotel generated more revenue through renovations and attractions, public relations and promotional programmes, and strong marketing efforts (with the help of Swissotel). The new management of Sikrain focussed on increasing the efficiency of assets to increase revenues.
  - \* **Cost reduction:** Both companies made efforts to reduce costs, but cost reduction was needed much more in the case of "A" Hotel. The new management reduced costs through decrease in the management fees, reducing interest expense with the roll over of high interest loans, and downsizing.
  - \* **Financial control:** As "A" Hotel had high debt burden, no additional borrowing capacity was created after the acquisition. The hotel got the co-operation of financial institutions in restructuring the whole financial package. A sound reporting system on the financial condition of the company was introduced and the periodic review of the financial performance was made a regular practice.
  - \* **Human resource management:** The new management teams restructured the whole benefit scheme for the staff. In "A" Hotel the management also introduced new benefits plan such as the life insurance, accident insurance and health insurance as a motivation for the staff. A training centre was opened and multifunction skill concept was introduced.

Thus, the rigorous valuation process, well-thought out negotiation, and post-merger management improvements and integration were the main factors that could turn-around the performance of the merged companies.

## CONCLUSIONS

Until recently Thailand had a booming finance industry, and there existed a number of financial and investment services advisors. The M & A activity in Thailand took its roots in such a favourable environment. It is expected that the recent financial crisis will further accentuate the need for M&As as a means to corporate restructuring and recovery. However, there does not exist clear understanding of rules and regulations governing M&A deals in Thailand. Also, the rules and regulations enforced by SEC and SET are complex. Many M&As in Thailand are not for strategic reasons; they are many times used for listing purposes, stock manipulation or indirect control by foreign companies. The major problem in the development of M & As in Thailand, besides attitudes, is the lack of financing avenues for M&As.

M&As are considered as a means of external growth that should be undertaken only when they are expected to enhance share value. In reality, it takes a long time for the merging companies to get the benefits of the merger. Like in developed countries, it is believed in Thailand as well that through mergers and acquisitions, companies could become stronger in terms of size and managerial skills and thereby, they could become more competitive. Thai businessmen do realise that there are several steps - before and after the merger- for the success of mergers (Drucker, 1981), and that every step was important. They have learnt that the process of acquisition should start with pre-acquisition planning and should be carried out with an excellent valuation and negotiation process. Further, they also consider the post-merger management and integration as crucial for the post-merger success of the merged companies.

## Further Research

Generally researchers face considerable difficulties in conducting a case research study in emerging markets where disclosure of information is not sufficient, business deals are not very transparent and businesses are conducted in a highly secretive way. This is specially so in Thailand where information is very difficult to obtain without any proper connection. We were able to get co-operation of two companies. As conclusions from the two case studies may not represent the general practice of M&As in Thailand and the survey results, due to a low response rate, may be considered tentative, it will be beneficial to have further detailed studies on more M&A deals so that there will be a more thorough understanding of M&A practices in Thailand.

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**Table 1: Sector-wise Distribution of M&A in Thailand  
(Listed Companies as of June 1998)**

<b>Industry Sector</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>Total</b>
Agribusiness		1		1			1	3
Building & Furnishing Materials		1	6	1	1	1	1	11
Chemicals & Plastics			1		1			2
Commerce	1		1					2
Communication		1	1					2
Electrical Products & Computer		1						1
Electronic Components		1	2				1	4
Entertainment and Recreation				1	1			2
Finance & Securities	1				1	3	1	6
Food & Beverage			2	4		1		7
Health Care Services			1		1			2
Hotels & Travel Services			2	1				3
Household Goods			1				1	2
Insurance		1	2	2				5
Mining					1			1
Packaging	1			1	1		1	4
Printing & Publishing	1		1			1		3
Property Development		2	2		1	1		6
Pulp & Paper			2	1				3
Textiles, Clothing & Footwear	2	1	5	1				9
<b>Total</b>	<b>6</b>	<b>9</b>	<b>29</b>	<b>13</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>78</b>

*Source: Securities and Exchange Commission (Thailand)*

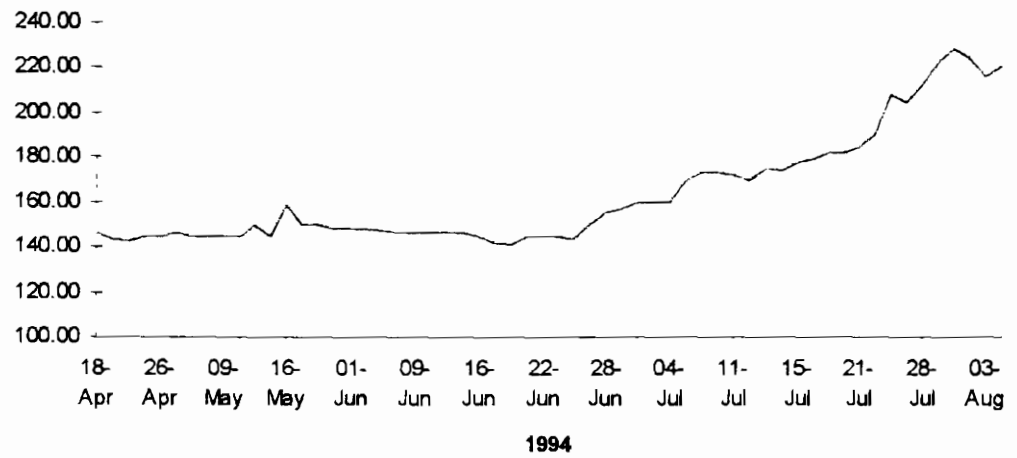
Table 2: Result of The Questionnaire Survey

#	Description	Tot	#	Description	To t.
1	<b>Type of merger</b>		7	<b>Financing of Mergers</b>	
	Friendly take-over	11		Conventional loans	3
	Hostile take-over	0		New shares	6
2	<b>Kind of Merger</b>			Share exchange	0
	Horizontal	3		Debentures	0
	Vertical	3		Short-term finance	1
	Conglomerate	5	8	<b>Target's Post-merger Share Price</b>	
3	<b>Objectives of Merger</b>			Increase	5
	Limit competition	1		Decrease	2
	Market power	3		No change	2
	Profitability	7	9	<b>Target's Post-announcement Share Price</b>	
	Diversification	8		Increase	6
	Economies of scale	1		Decrease	1
	Access to foreign market	1		No change	2
	Synergy	4	10	<b>Acquirer's Post-announcement Share price</b>	
	Secure supplies	2		Increase	6
	Cost reduction	3		Decrease	1
	Gain technical expertise	1		No change	3
	White knight	1	11	<b>Level of Premium</b>	
4	<b>Benefits from Merger</b>			<10%	0
	Growth	10		10-40%	4
	Profitability	6		>40%	1
	Economies of scale	1	12	<b>Success Factors</b>	
	Synergy	7		Pre-acquisition management	3
	Diversification	3		Screening	6
	Decrease tax liability	1		Synergy	10
	Market power	2		Negotiation process	6
	Cost reduction	2		Post-merger management	
	Business network	2	13	Clear picture	4
5	<b>Source of Idea Generation</b>			<b>Failure Factors</b>	
	Top management	7		Over-paid	6
	Investment bankers	4		Over estimation of synergy	1
	Market/Industry conditions	2		Over optimistic appraisal	9
	Target's status	1		Over-bidding	1
	Majority shareholders	1		Poor post-merger management	
6	<b>Valuation</b>			Pressure from competitors	
	DCF	6			
	P/E	5			
	NAV	7			

**Table 3: Questionnaire Analysis**

<b>Item</b>	<b>Description</b>	<b>Weight</b>	<b>Observations</b>	<b>Recommendations</b>
Type of take-over	- Friendly	11/11	- Hostile take-overs uncommon	- Hostile take-over should be allowed for improving management and shareholder value creation
Type of integration	- Conglomerate	5/11	- Diversification, risk averse	- Should be on the set objective of integration
Objective	- Diversification - Profitability - Synergy	8/11 7/11 4/11	- Risk averse	- The objectives should be to maximise the long term benefit (value) of the company taking into account the market and industry condition
Benefits	- Growth - Synergy - Profitability	10/11 7/11 6/11	- M&As contribute a great extent to the growth of companies after merger	- In any strategic stake, the merger should contribute to the growth of the companies - Stick to M&As only for strategic reasons
Idea generation	- Management - Financial Advisors	7/11 4/11	- M&A is a strategic decision for the companies	- Management should make the decision and careful analysis
Valuation	- NAV - NPV (DCF) - P/E	7/8 6/8 5/8	- NAV is applied most - Most companies use all the methods and do sensitivity	- Target and acquirer should know valuation methods and should also consider the derived value when determining the price
Financing	- New shares - Conventional loans	6/8 3/8	- Information is disclosed - Long procedure - Inefficient bond market	- Efficient bond market an exit for easier access to financing
Share price:	- increased	5/9 6/9 6/10	- Expectations of investors for the successful operations after acquisition	
Premium (60%)	- 10-40%	4/5	- Premium paid is quite high	- Should calculate on extent of contribution
Success factors	- Post-merger mgt - Negotiation - Clear Picture	10/11 6/11 6/11	- Post-merger integration is important	- Need for efficient management after merger - Need for experienced negotiator - Careful pre-merger plan is necessary
Failure factors	- Poor post-merger management - Over estimated synergy - Over-optimistic	9/11 6/11 6/11	- Post-merger integration is important	- Need for efficient management after merger - Careful pre-merger plan is necessary

**Sikarin Public Co., Ltd.**



*Source: Stock Exchange of Thailand (Library)*

**Figure 1: Share Price Movement of Vitacor**

