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ENRICHING INVESTORS

Impact Of Mergers & Acquisitions Is Widespread

By Robert E. Caplan, MBA, CFA

Depending on your relationship with the companies, the announcement of a corporate merger or acquisition (M&A) can have a number of implications.

In every corporate merger or acquisition there are both beneficial and detrimental implications for key stakeholders. Shareholders, customers, employees and communities are all impacted, in their own way, when two companies combine into one. The end results depend on whether you are affiliated with the "big fish" that has taken over another or the "small fish" being swallowed up.

Justifications for mergers and acquisitions range from the synergies of a larger entity, overall growth, acquisition of unique capabilities or diversification. Each strategy presents its own set of challenges and win-win outcomes are not necessarily the norm.

Although they might not agree with the M&A strategy, shareholders of both companies have the ability to decide whether they want to participate in the future of the new entity. Essentially, they must make the choice to hold their shares or divest. If holding stock in the company that is being acquired, the decision is whether to take cash or the acquiring company's stock. This decision can have meaningful tax implications. Shareholders of the buying entity must decide if they think the result will move their company forward. If so, they may hold on to the stock or buy more. If they are not so sure, they may decide to sell.

Another group that has the ability to determine their continued involvement with the combined company are customers. Ideally, the acquisition will result in an expansion of products and services available to customers. Things will be different, but, when well executed, the essential customer experiences can be maintained or improved. If customers experience a degradation of service levels, or other changes that they are not happy with, they can take their business elsewhere.

Two stakeholder groups that bear the largest impact and yet have little or no recourse are employees and the local community. The acquisition of a local company by a national or regional entity has implications for jobs in the community and the potential loss of support for non-profit organizations.

For employees of both companies, mergers can be concerning. Employees, whose fates are being decided amidst M&A negotiations taking place behind closed doors, may have little or no say in their professional fate. Cost cutting is a part of most acquisition strategies, meaning that targeted employees will soon be forced to find a new job.

A double whammy for employees who are terminated is not only must they find new employment, but they will need to make decisions about how to handle retirement plan assets they have accumulated. These important decisions, which must be made during a time of duress, can have lasting implications for an individual's retirement planning efforts, as well as, immediate tax consequences.

Additionally, if an employee is a shareholder, either directly, or through a company sponsored ownership or stock option plan, they face additional important financial decisions. These employees must make the same decisions previously discussed as other shareholders do. A complicating factor is that employee shareholders must also be aware of potential concentration risk if a significant portion of their savings are in the company's stock.

The loss of a job and other life changing situations often require recalibration of an individual's financial and investment plan. We recommend taking time to sit down with your financial advisor to reevaluate your situation.