

# Implications of FCFF in Post-Acquisition- A Case Study of Dell Technologies Private Limited

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**Abstract-** In present days, the concept of merger and acquisitions are more common and an important term for every business to reduce their risks and to get more profits with the different strategies. The purpose of this study is to know the impact of changes in FCFF of firm's profitability in post-acquisition of EMC by Dell technologies private limited. The study used descriptive statistics and financial (mean, standard deviation, kurtosis and skewness) and T-test as the statistical tools and free cash flow to the firms as financial tool. The study period consisting the 4 years from 2014 to 2017.

**Index Terms-** Mergers and acquisition, profitability, T-test, statistical tools, financial tools, FCFF.

## 1. INTRODUCTION

In the dynamic business scenario, mergers and acquisition is one of the best process of corporate restructuring that has gained substantial prominence in both developed and developing nations. Reviewing published literature in the area of M&A gives a deeper insight on whether empirically it can be supported that M&A's are useful tools of corporate restructuring. Studies of post-merger performance usually follow one of the two general approaches of share-price movement analysis or analysis of operating performance to see the merger related gains.

Mergers and acquisition are increasingly becoming strategic choice for organizational growth and achievement of business goals including profit, empire building, market dominance and long term survival. The ultimate goal of this strategic choice of inorganic growth is, however, maximization of shareholder value. The phenomenon of M&A activity is observed world over across various continents, although, it has commenced much earlier in developed countries, and is relatively recent in developing countries. In India, the real impetus for

growth in M&A activity had been the ushering of economic reforms introduced in the year 1991, following the financial crisis and subsequent implementation of structural adjustment program under the aegis of international monetary fund. In recent times, though the pace of M&A's has increased significantly in India too and varied across various economic sectors.

The term mergers and acquisition encompasses varied activities of stake acquisition and control of assets of different firms. Besides, there are several motives for different types of mergers and acquisition seen in corporate world.

## 2.BACKGROUND OF THE CASE

**Abstract** The Dell-EMC merger presents a massive technology merger that will likely have an impact on many different markets. This paper uses this merger in order to test three commonly used methods of determining abnormal stock returns and finds that the three methods do not significantly differ. In addition, event study methodology is employed to evaluate share price reactions of competitors of Dell and EMC in response to categorized merger announcements leading up to the acquisition. It is determined that although some competitor returns move in a direction that could imply anti-competitiveness, these results are likely caused by occurrences unrelated to merger. Antitrust Action Against Microsoft Created Value in the Computer Industry? In their March 2000 paper DOS Kapital: Has Antitrust Action Against Microsoft Created Value in the Computer Industry? George Bittlingmayer and Thomas Hazlett determine that financial markets can provide strong evidence in determining whether or not a firm is practicing anti-competitive behavior [ They do this by analyzing 54 antitrust investigations made against Microsoft by

both the Federal Trade Commission and the Department of Justice between 1991 and 1997. They evaluate share price reactions for Microsoft and 159 other computer firms to determine if antitrust enforcement initiatives affected the stock market value of Microsoft or its alleged victims. During the time period of the study, Microsoft had a very large market share, a high rate of return and was anticipating unusually high future earnings. Defenders of Microsoft explained this somewhat abnormal success by saying that Microsoft was able to out-compete its rivals by expanding output and lowering prices.

### 3.LITERATURE REVIEW

Harari (1997) analyzed on cost efficiency, economies of scale, and the scope of the Taiwanese banking industry, specifically focusing on how bank mergers affect cost efficiency, and concluded that bank merger activity is positively related to cost efficiency. Weston and Mansinghka (1971) carried out an analysis on “Tests of the Efficiency Performance of Conglomerate Firms” and studied the pre- and post-merger performance of conglomerate firms, and found that their earning rates significantly underperformed in those control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. Ikeda and Do (1983), in a study “The Performance of Merging Firms in Japanese Manufacturing Industry during 1964 – 1975” examined the financial performance of 49 merging corporate firms in the Japanese manufacturing industries over the period from 1964 to 1975. The study performance was tested on parameters, such as, profitability, efficiency, firm growth, and research and development. Sankar and Rao (1998) made an empirical study entitled “Takeovers as a Strategy of Turnaround” and analysed the implications of M&As from the financial point of view with the help of certain parameters like liquidity, leverage, profitability and more. They observed that if a sick firm is taken over by a good management and makes serious attempts, it is possible to turn it around successfully. Heron and Lie (2002) carried out an analysis entitled “Operating Performance and the Method of Payment in Takeovers” wherein they investigated the relation between the method of

payment, earnings management, and OP. The study depended on a sample of 959 M&As (mergers and tender offers) announced and completed between January 1985 and December 1997, where current and long-term accumulations have been separately used to detect any earnings management. Ming and Hoshino (2002), in an article “Productivity and Operating Performance of Japanese Merging Firms: Keiretsu-related and Independent Mergers” examined the effects of M&As on the firms’ OP using a sample of 86 Japanese corporate mergers between 1970 and 1994. The success of M&As was tested based on their effects on efficiency, profitability, and growth. The results reveal insignificant negative change in productivity, significant downward trend in profitability, significant negative effect on the sales growth rate, and downsize in the workforce after M&As. Beena (2004), in a work “Towards Understanding the Merger Wave in the Indian Corporate Sector – A Comparative Perspective” analysed the pre-and post-merger performance. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period for the acquiring firms. Ehsan et al. (2005), in their study “Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post-Merger Period?” assessed the effect of M&As activity on the performance of USA firms. The study findings indicated that the managerial efficiency of a majority (82%) of sample firms had improved in the post-merger period. Pazarskis Collins et al. (2006), in a study entitled “Exploring the Improvement of Corporate Performance after Mergers. The study used financial and non-financial characteristics, and the post-merger performance of 50 Greek firms, listed at the Athens Stock Exchange that executed at least one merger or acquisition from 1998 to 2002. Vanitha and Selvam (2007) sample of 30% of firms from the total population (that is 17 firms out of 58). Kumar and Bansal (2008) analyse whether the claims made by the corporate sector while going for M&As to generate synergy are being achieved or not in the Indian context. Lau et al. (2008), in a work entitled “Accounting Measures of Operating Performance Outcomes for Australian Mergers”. Performance measures used in the study were profitability, cash flow, efficiency, leverage, and growth. Such

measures were used to proxy for the success of the M&As, which is defined in terms of an improvement in each merged firm's industry adjusted OP between the pre-and post-merger period. The study provided some evidence that M&As improved post-merger OP.

4.OBJECTIVES OF THE STUDY

- To measure the impact of change in FCFF on firms profitability.

5.RESEARCH METHODOLOGY

5.1 Type of Research- The research design study is conducted by descriptive research design to analysing the existing employee motivation and descriptive in nature.

5.2 Sources of data:

The bases on data collection remained explained now detailed below as well as shown on table. The study has majorly data collected from essentials information and supportive information.

Secondary data- The secondary data can be available from other than the primary data, i.e. form journals, books, articles, past records of the company, websites, and etc.

5.3 Sampling design: It is a part of the target population, which can be an individual element or group from within a statistical resident to estimation the characteristics of the entire population.

Sample:

Acquiring	Acquired	Type of activity	Deal value	Year of occurrence	Strategic motives
DELL	EMC	Computer hardware computer software	\$ 60 billion	2015	Night mare scenario that would be strategic

1.4

Tools for the study:

- I) Statistical tools-
  - (i) Descriptive statistics – These are used to describe the basis features of the data in a study. They provide simple summaries about the sample and the measures.

- (a) Mean – Simple or arithmetic average of a range of values or quantities, computed by dividing the total of all values, also called Arithmetic mean.
- (b) Standard deviation – It is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean.
- (c) Skewness - Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the centre point.
- (d) Kurtosis - Kurtosis is a measure of whether the data are heavy-tailed or light-tailed relative to a normal distribution.

- (ii) T test – A t-test is an analysis of two populations means through the use of statistical examination; t-test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variance of two normal distributions are not known.

II) Financial tools –

Free cash flow of firm - Free cash flow to the firm is the cash available to pay investors after a company pays its costs of doing business invests in short-term assets like inventory and invests in long-term assets like property plants and equipment. The firm's investors include both bondholders and stockholders.

1.5 Hypothesis of the study:

H<sub>0</sub> :There is no impact of changes in FCFF in post-acquisition.

5.DATA ANALYSIS AND INTERPRETATION

The following study is to analyse the impact of changes in FCFF in post-acquisitionDell technologies private limited. The study has consisting the period from 2014 to 2017. The study use both statistical and financial tools for data analysis and interpretation.

Table 6.1 Calculation of FCFF (Amount in 000's)

Years	EBIT * (1-Tax Rate)	Cap Ex- Depreciation	Chg. Working capital	FCFF
2014	20054	20054	6940	13114

2015	12959	12959	6217	6742
2016	8387	8387	(9921)	(1534)
2017	8896	8896	6252	2644

Source: Authors calculations: Annual report Databases

The above table 6.1 shows that the EBIT of the company is significantly decrease in every year compared to 2014 to 2017, i.e. 20054 to 8896. The ex-depreciation of the company is also decreasing in every year from 2014 to 2017, i.e. 2005 to 8896. The company have sufficient current assets for its day to day activities, i.e. 6252. And the free cash flow of the firm is 2644.

Table 6.2 Descriptive Statistics

Descriptive	2014	2015	2016	2017
Mean	12574	12574	2372	5241.5
Standard Deviation	5390.03	5390.03	1	2
Kurtosis	0.79943	0.79943	3.96804	-
	1	1	1	0.32612
Skewness	1.25764	1.25764	-	0.44606
	8	8	1.99003	4
Minimum	8387	8387	-9921	-1534
Maximum	20054	20054	6940	13114

Source: Authors calculations: SPSS Databases

The mean of the firm is frequently decreasing from 2014 to 2017, i.e. 12574 to 5241.5. The change in percentage of the firm is increased from 2014 to 2016, and in 2017 it has 6241.85. The kurtosis is positively high from 2014 to 2016, and in 2017 it has negative value, i.e. (0.32612). Skewness of the firm is positively skewed in 2014, 2015 and 2017, and in 2016, it negatively skewed. The minimum value of the firm is in 2014 and 2015 is 8387, 2016 is (9921) and in 2017 is (1534). And the maximum value of the firm is in 2014 and 2015 is 20054, in 2016 is 6940 and in 2017 is 13114.

Table 6.3 One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
EBT	4.764	3	.018	15040.50	4993.51	25087.48
DEP	5.188	3	.014	9719.25	3756.81	15681.68
CWCAP	.301	3	.783	1329.75	-12735.2	15394.75

					5	
FCFF	4.507	3	.020	6672.00	1961.19	11382.80

The above table 6.3 the represents the calculation of one sample T test considering the study period of 2014 to 2017. The above table shows that all the variables of the t-test are positive. The degree of freedom of the company is constant, i.e. 3. The mean differences in all the descriptive are have highly positive values. In EBT, DEP and in FCFF, the hypothesis (H<sub>0</sub>) is rejected, and there is an impact of changes in FCFF of post-acquisition. And in CWCAP, it has more than the standard value, hence hypothesis is accepted, and there is no impact of FCFF in this case.

## 6. FINDINGS AND RECOMMONDATIONS

- Compared to 2014 to 2017, the EBIT of the firm is positively decreased year by year.
- The FCFF of the company is highly changes after the acquisition. And there is a highly decreased in it.
- The maximum value of the firm is also very decreased in 2014 to 2017
- There is a highly impact in FCFF of the firm after the acquisition
- There is a poor working capital in their business activities
- There is a negative impact in the working capital of the firm
- There is a huge difference in mean of the company, i.e. from 12574 to 5242
- The degree of the freedom is constant in all the cases
- In 2017, FCFF has the positive values, but when compared to 2014, it is highly decreased and the firm may not able to pay the interest and all to their investors
- The company is need to maintain their current assets and current liabilities to manage their day to day business activities properly.
- The company is need to select the best method of capital structure to pay the interest and dividends to their investors
- From the overall, the study observes that there is a highly negative impact in FCFF of the firm in post-acquisition

## CONCLUSION

The concept of merger and acquisitions are an important part in the current world. The above study helps to know the impact of FCFF in post-acquisition in Dell technologies private limited. In this study, there is a negative impact of the FCFF in post-acquisition of EMC by Dell technologies private limited. The company have to maintain an effective and best method of capital structure, to pay the interest and dividend to their investors and to run their businesses smoothly.

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