



Merger And Acquisition of Vodafone and Mannesmann

Submitted by:

Rajvi Shah

BBA LLB(Hons.)

SVKM'S NMIMS

(deemed to be university)

Mumbai, India

ABSTRACT

This paper will focus on the Vodafone Airtouch-Mannesmann AG merger lawsuit. This Vodafone acquisition was aggressive. Vodafone launches the deal to grow in a rapidly changing European communications technology landscape. Mannesmann first declined. Nevertheless, Vodafone forced it to combine. This anticompetitive action infuriated other parties. They said the combining organisation would acquire market dominance, create entry hurdles, and reap economies of scale they could only dream of. This research paper will also discuss short term and long term effects of the merger and acquisition of Vodafone and Mannesmann and also will resonate the closure of the merger.

Keywords- Vodafone, Mannesmann, Merger-Acquisition

INTRODUCTION

Mergers are voluntary combinations of two firms into a single legal entity under similar terms. The merging firms have similar customer bases, sizes, and activities. Hence, "union of equals" is sometimes used. Most corporations combine to increase market share, cut operational costs, expand into new areas, unify their commodities, increase revenue, and increase profits for shareholders. After a merger, owners of both businesses get equal shares in the new company. Acquisitions occur when one business buys the majority or all of the shares of another to gain control. When an acquirer buys more than 50% of a target company's shares and other assets, they may make decisions without the other shareholders' consent. Business acquisitions may happen with or without the target company's consent. After authorization, a no-shop provision is usual. Mergers and acquisitions include the sale or amalgamation of enterprises, other businesses, or their operating divisions to another company or business organisation. Mergers and acquisitions (M&A) are financial agreements between organisations that consolidate enterprises or their main commercial assets. After 21 years, Vodafone-Mannesmann remains the largest merger ever. In 1999, British international telecoms corporation "Vodafone Air Touch PLC" of the Vodafone Group ("Vodafone") proposed to buy German telecommunications giant "Mannesmann AG" ("Mannesmann"). But, the German corporation Vodafone contacted denied their offer since the German government did not let foreigners to purchase large firms in Germany. Vodafone

proposed two additional plans to Mannesmann after it rejected the first, but the German business wasn't interested. Vodafone's long-running efforts paid off in February 2000 when Mannesmann approved Vodafone's \$180 billion deal after a 5% offer increase. The \$350 billion market valuation made it the biggest M&A deal in history. The Mannesmann board of directors accepted the offer on February 3, 2000, and each shareholder received 58.96 Vodafone shares, giving them 49.5% of the new corporation. At that time, Vodafone CEO Chris Ghent and Mannesmann chairman Klaus Esser agreed that Vodafone would hold 50.5% and Mannesmann 49.5% of the combined corporation. This deal gave Vodafone significant access to the European market and was the first hostile takeover of a large German organisation by a foreign company.

RESEARCH QUESTIONS

- What are mergers and acquisition and was the Vodafone- Mannesmann merger fruitful and of any significant importance?
- What are effects of acquisition and merger of Vodafone and Mannesmann ?
- What are the reasons for the closure for the merger?

RESEARCH OBJECTIVES

- To analyze the significance of merger of Vodafone and Mannesmann.
- To find out the reasons for the merger and effects and procedure after merger acquisition was established.
- To resonate the closure of the merger.

RESEARCH METHODOLOGY

The research methodology adopted by the author is - doctrinal research

The researcher will be undertaking the following methods to provide a comprehensive view on the topic:

1. Understanding and analysing the financial share distribution of both the companies.
2. Referencing the study material available on the topics at hand.
3. Analysing and understanding publications on Merger and Acquisitions.
4. Analysing available articles on the topic.

REVIEW OF LITERATURE

- Kumar, B. R., & Kumar, B. R. (2019). Vodafone Acquisition of Mannesmann. Wealth Creation in the World's Largest Mergers and Acquisitions: Integrated Case Studies, 17-29.0- Vodafone developed through partnerships and M&As. Vodafone Air Touch, the largest mobile phone carrier, attempted a share-exchange takeover of Mannesmann AG on November 13, 1999. The largest unsolicited takeover bid. On February 3, 2000, Mannesmann's board accepted Vodafone's proposal. Mannesmann stockholders received 58.964 Vodafone shares for 49.5% of the new entity. \$180 billion. The \$350 billion firm was new. The amalgamated company was fourth in market value behind Microsoft, GE, and Cisco. The merger created the world's largest mobile phone operator with 42.3 million subscribers in Britain, the US, Germany, Italy, France, and others. The biggest telecom horizontal merger. Vodafone-Mannesmann owned 10 European markets after combining. The combination gave Europe the most wireless coverage. Vodafone AirTouch battled with Mannesmann's culture and competence. Mannesmann shifted from industrial to service and telecoms. Mannesmann contract charges cost Vodafone £23.5 billion. Vodafone dominated the merger. Mannesmann quadrupled Vodafone. The chapter examines pre- and post-merger business and stock market repercussions during announcement.

- Garrett, C. S. (2001). Towards a New Model of German Capitalism? The Mannesmann-Vodafone Merger and its Implications. *German Politics*, 10(3), 83-102.- The Vodafone purchase of Germany's Mannesmann AG is affecting national dialogue on how to develop a new national consensus on the role of economic activity for the state, society, and the German citizen. Mannesmann and Vodafone's story highlights Germany's Old Economy-New Economy divide. The obvious issue is, "The first major hostile cross-border acquisition of German firms occurred in spring 2000. Vodafone owns telecommunications. As a spectacle, the demise of one of Germany's biggest industrial titans shows what the Germans want to bring into the new world." It makes the past-present divide harder to define.
- Höpner, M., & Jackson, G. (2006). Revisiting the Mannesmann takeover: how markets for corporate control emerge. *European Management Review*, 3(3), 142-155.- Shareholder orientation varies by company and country. Corporate control markets affect such inclinations in corporate governance frameworks. German corporate governance is sometimes described as a blockholder, stakeholder, or bank-oriented paradigm that ignores corporate control markets. Vodafone's aggressive 2000 purchase of Mannesmann AG illustrates how 1990s systemic changes lowered institutional barriers to acquisitions. Takeover regulations cannot explain the market for corporate control. Instead, banks, codetermination norms, corporate legislation, and business philosophy influence takeover markets. Corporate control markets influence a modest but significant share of German enterprises.
- Schulten, T. (1999). Vodafone's hostile takeover bid for Mannesmann highlights debate on the German capitalist model.- Vodafone AirTouch's aggressive purchase of Mannesmann in November 1999 raised questions about German capitalism's durability. German trade unions and the Mannesmann works councils strongly rejected Vodafone's desire to preserve the German corporate governance heritage of employee participation and co-determination. Vodafone responded to criticism by saying it will adopt the German industrial relations and corporate governance structure after acquiring Mannesmann. Although practically all major German political parties supporting employee viewpoints, this comment was made.

FINDINGS

Vodafone approached Goldman Sachs and Warburg Dillon on October 22, 1999, for financial advice on Mannesmann. Vodafone's sole alternative was to offer Mannesmann as Orange's deal with Mannesmann could not be dissolved. On November 14, 1999, Vodafone made a friendly offer to purchase Mannesmann for \$243.36 per share. 43.7 VOD shares were offered every Mannesmann share. Mannesmann clearly rejected the offer. Vodafone's second offer to Mannesmann was 53.7 shares for 1 on November 19, 1999. The purchase was worth \$276.66 per share, a 20% premium for the day. Vodafone also offered to split off Mannesmann's non-telecom businesses and deny Orange regulatory permission. It detailed this strategy. After analysing Mannesmann's stock performance during the Orange deal, Vodafone and Mannesmann exhibited good returns in the markets. The markets reviewed Mannesmann's stock performance during the deal before doing this. Mannesmann realised the purchase was a hostile takeover at this point. Mannesmann made it clear that it was a superior corporation, that each share needed to be valued at a minimum of \$417.67 (or €350 per share), and that Vodafone was not the right company to join with. Mannesmann unsuccessfully tried to ignore this merger. On January 30, 1999, Vodafone and Vivendi announced a combined mobile/internet site and gave Vivendi half of Mannesmann's 15% stake in French fixed-line operator Cegetel. Mannesmann then contacted Vivendi. Mannesmann abandoned this path. The Vodafone-Vivendi transaction was favourable, and the Vodafone-Mannesmann merger would better capitalise on new wireless potential than the Mannesmann-Orange deal, according to the markets. Mannesmann-Orange would have formed Orange. After three months, Mannesmann shareholders accepted Vodafone's bid on February 3, 2000. The modified deal valued the all-share transaction at \$180.95 billion (£224 billion). Each Mannesmann shareholder received 58.96 Vodafone shares, giving them 49.5% control of the merged corporation. The modified offer valued Mannesmann's share capital at €181.4 billion and each share at 350.5 euros. Vodafone's February 3, 2000 closing price provided these numbers. Esser and four other Mannesmann directors joined Vodafone's board. Vodafone appointed Esser executive director. Goldman Sachs was its main financial counsel. Vodafone operates globally. Morgan Stanley and Merrill Lynch advised Mannesmann. Vodafone's purchase of Mannesmann was the largest

international corporate deal. After the takeover, European companies became targets for takeovers, which impacted Europe's economy. Political impact in M&A reduced significantly. Vodafone's acquisition of Mannesmann demonstrated that a huge European business may push a German company's management to sell. Currency demand rose because Vodafone borrowed a lot to buy. Traders favoured mergers and acquisitions over the Central Bank. Vodafone is currently the world's biggest telecom company. Vodafone's value dropped due to its inability to meet its contractual requirements, and the disparity between its pre-acquisition and post-acquisition valuations was large. Cultural issues and Vodafone's inability to meet its pledges were drawbacks of the merger. Vodafone's difficult acquisition of Mannesmann has reinforced its relationship with the telecoms sector leader. As a result, Goldman Sachs was mandated to engage in many merger-related operations. This includes participating as a co arranger of a US\$30 billion Euro-bank loan, the biggest ever; a joint book runner on Vodafone's US\$5.25 billion global bond; and the largest stock block transaction in history, a US\$5.1 billion Vodafone move.

Cumulative Returns



Vodafone Acquisition of Mannesmann

Long-term effects: Vodafone was the world's largest mobile operator until China Mobile's all-Chinese customers overtook it. China Mobile's customers were domestic.

The "telecom crash" occurred when the dot-com bubble burst in 2002.

the late 1990s dot-com bubble burst, which killed many internet firms.

- By 2005, Vodafone stock was trading at \$2.78, and the company's market equity was below €100 billion.
- Vodafone's market equity dropped from € 154 billion in 1999 to € 90 billion in 2010. Vodafone persisted in its pursuit of global dominance.
- Vodafone lost \$41 billion in 2006 owing to poor financial performance.
- The corporation lost \$10 billion in the fiscal year that ended in March 2007, and as of 2009, its stock was 37% below its pre-merger peak. Yet, the merger helped Vodafone become the world's largest mobile carrier, which it maintains via global acquisitions and joint ventures.

Mr. Esser's "White Knight" strategy failed, prompting the takeover. White Knights can defend against hostile takeovers. The Vodafone-Mannesmann deal included obligations to maintain Mannesmann's integrated telecommunications strategy. Agreement provisions included: Vodafone promised not to sell Mannesmann Arcor and Infostrada subsidiaries.

Despite no formal commitment, there will be no mass layoffs. The Atecs engineering and automotive IPOs would continue without divisions.

Why Mannesmann shareholders expected a raise offer to gain from the takeover battle.

Vodafone did the following because the agreement's promises were broken:

- Vodafone made 14 billion Euros selling Mannesmann divisions.
- Sold Orange to France Telecom and conventional tubes business to Salzgitter, a global flat steel/heavy plate network, for 1 Euro.
- Siemens AG bought Mannesmann's businesses, notably Atecs engineering, promising an IPO.

Vodafone employed 10,124 employees in Germany in 2006, while Mannesmann employed 14,778.

- Esser's pay after losing office was debated.
- After his CEO impeachment, Esser received 30 million Euros. He can still earn this much from the share price gain.
- On September 3, 2003, a Düsseldorf District Court declared Esser and the supervisory board not guilty of fiduciary responsibility allegations.
- Corporations found it hardest to adapt to employee customs.
- Due to weak institutional hurdles to hostile takeovers, some observers concluded that Vodafone-Mannesmann did not show the formation of a German corporate control market. The lawsuit did not prove that Germany had a corporate control market.
- By 2005, Vodafone's market equity was less than €100 billion and its stock price was \$2.78. In 1999, Vodafone was valued 154 billion Euros; in 2010, it was worth less than €90 billion. The company lost big in 2006.

CONCLUSION

Vodafone has pursued strategic growth via M&As and partnerships. Vodafone AirTouch, the world's biggest mobile phone company based in the UK, offered to purchase Mannesmann AG, a German telecommunications and engineering corporation, on November 13, 1999, in return for shares. Vodafone AirTouch announced this acquisition. This was the largest unsolicited takeover bid. On February 3, 2000, Mannesmann's board accepted Vodafone's offer. Mannesmann shareholders received 58,964 Vodafone shares, giving them 49.5% of the new company. It cost 180 billion dollars. When publicly traded, the united company was worth 350 billion dollars. The amalgamated firm was the fourth-largest in the world behind Microsoft, General Electric, and Cisco at the time of the merger. UK, the US, Germany, Italy, and France had 42.3 million customers after the merger. The world's largest mobile operator. It was one of the biggest telecom horizontal mergers. Vodafone and Mannesmann dominated 10 European markets after merging. The merged company currently offers the most extensive European cellular coverage. Vodafone AirTouch struggled to embrace Mannesmann ideals and experience. Mannesmann's long-term plan was to become a services and telecoms provider from an industrial behemoth. Vodafone lost \$23.5 billion after acquiring Mannesmann due to one-time expenses. Vodafone was financially stronger than its competitors when they merged. Vodafone's size quadrupled after buying Mannesmann.

SUGGESTIONS

To keep the merger intact-

- To retain critical workers, due diligence must go beyond financials, procedures, and assets.
- Integration planning: Including important stakeholders in company merger choices.
- Communications planning: How and when important stakeholders—including workers, shareholders, and customers—will be informed of the merger and any adjustments.
- Organizational alignment: Merger-induced adjustments.
- This comprehensive due diligence can help you make better merger choices and engage with staff.
- Where feasible, critical individuals should be brought in as early as possible, and due diligence should outline how and when to do so.
- The last bullet point is crucial: Corporate cultures vary. Compare the buyer's management philosophy, leadership style, and operations to your organisation as you get to know them.

REFERENCES

- <https://www.studocu.com/in/document/national-law-university-jodhpur/ballb/vodafone-mannesmann-merger-case-study/35266611?origin=home-recent-1>
- Kumar, R. B. (2019). Vodafone Acquisition of Mannesmann. SpringerLink. https://link.springer.com/chapter/10.1007/978-3-030-02363-8_2?error=cookies_not_supported&code=a0ca93f9-7ae5-4fac-ae4d-f9e61a529cdb
- 2000: Vodafone Acquires Mannesmann in the Largest Acquisition in History. (n.d.-d). Goldman Sachs. <https://www.goldmansachs.com/our-firm/history/moments/2000-vodafone-mannesmann-merger.html>
- Business Bliss FZE. (2023, January 16). Merger Analysis Of Vodafone Airtouch And Mannesmann Ag Economics Essay. <https://www.ukessays.com/essays/economics/merger-analysis-of-vodafone-airtouch-and-mannesmann-ag-economics-essay.php>
- Kumar, R. B. (2019b, February 2). Vodafone Acquisition of Mannesmann. https://ideas.repec.org/h/spr/mgmchp/978-3-030-02363-8_2.html
- Vodafone's hostile takeover bid for Mannesmann highlights debate on. (n.d.). Eurofound. <https://www.eurofound.europa.eu/fr/publications/article/1999/vodafone-hostile-takeover-bid-for-mannesmann-highlights-debate-on-the-german-capitalist-model>
- <https://www.computerworld.com/article/2593563/mannesmann--vodafone-finalize-massive-telecom-marriage.html>
- <https://www.proquest.com/openview/6c20a0d3a97ace90f32a4657b5a1a92b/1?pq-origsite=gscholar&cbl=2039847>