

Слияние и поглощение как путь избежание банкротства компаний

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Аннотация

В статье рассматривается слияние «Red Wings» и «Нордавиа» в условиях сложной финансовой ситуации обеих компаний. Детально описана информация о сделках слияния и поглощения в России, а также финансовая информация компаний «Red Wings» и «Нордавиа». В статье представлено влияние сделок слияния и поглощения на бизнес в целом и финансовые показатели. Идея слияния компаний была дискуссией разных специалистов, но авторы представляют свою версию, основанную на анализе.

Ключевые слова: слияние и поглощение, бизнес, расширение, сектор, финансовый показатель, банкротство.

The merger and acquisition as a way of how to avoid bankruptcy of companies

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Annotation

This article is devoted to Red Wings and Nordavia merger under difficult financial situation of both companies. There described the detailed information about M&A in Russia as well as financial information of Nordavia and Red Wings. Introduced the impact of M&A on business and financial performance. The idea of company's merger is discussed by different specialists but authors decided to present own version based on analysis.

Keywords: merger and acquisition, business, expansion, industry, financial performance, bankruptcy.

How to avoid the bankruptcy? Where the financial resources to take from? — the questions owners care about the most. Bankruptcy is a procedure, the main tasks of which are to repay debts to creditors, as well as to restore the person's ability to pay. When it comes to choose the way of preventing bankruptcy, all the companies in the world face the same dilemma: the gradual repayment of debts — with their own assets, primarily through increasing the market share, or extensively — through entering the market of corporate control and involvement in the processes of mergers and acquisitions.

Taking into consideration the tough economic situation both in the world and in Russia especially, the majority of companies prefer the second, extensive way of avoiding bankruptcy.

Mergers and acquisitions transactions (M&A transactions) represent the process of business consolidation in order to save production costs and optimize the production process of enterprises. In accordance with Russian law, the merger of enterprises is the transformation of several legal entities, where the rights and obligations of each are transferred to the newly created legal entity.

The appearance of the new legal entity is an obligatory condition for the execution of the merger transaction, while all the rest must be liquidated. It takes all the assets and liabilities to customers under its control and management. Worth to say that merger does not involve controlling one entity over another: the shareholders retain their rights to the shares after the merger.

As for acquisition, it can be defined as the establishment of control by one company over another one and management of the latter with the acquisition of full or partial ownership without forming a single company. So, acquired entities stop their activities and transfer all the rights and obligations to the acquirer.

Thus, mergers and acquisitions represent a procedure of changing the owner or changing the ownership structure of the company, being the final link in the system of measures for restructuring. M&A enable companies to solve many strategic tasks such as gaining economies of

scale, expanding the geography of activities, access to advanced technologies, strengthening market positions or improving the financial situation moving to new sectors. Consequently, the purpose of M&A can be understood as to seize corporate control and achieve competitive advantages in the market.

In Russia the market of corporate control is developing very dynamically. The real boom on the M&A market was in 2014, when the total value of deals increased by 44% achieving 621 transactions, which is only 11% less than the peak value recorded in 2007. However, in value terms, the volume of transactions in 2012 was a record one achieving \$ 136 billion, thanks to the megadeal — when Rosneft acquired TNK-BP for \$ 56 billion [1].

This year, 2017, the rapid growth of M&A transactions involving Russian capital stopped at the end of the third quarter of 2017. In September, the statistics of the M&A market included only 25 deals with a total value of \$ 669.2 million — 3.1 times less than in the same month of 2016. First of all, this is due to the lack of megadeals in September, as well as the saturation of the market due to the atypically high activity in the summer of 2017. Analysts of the Market expect recovery of activity in the IV quarter, as the closing of a number of transactions was postponed to November-December. The graph below shows the quantity of deals made on the Russian M&A Market.

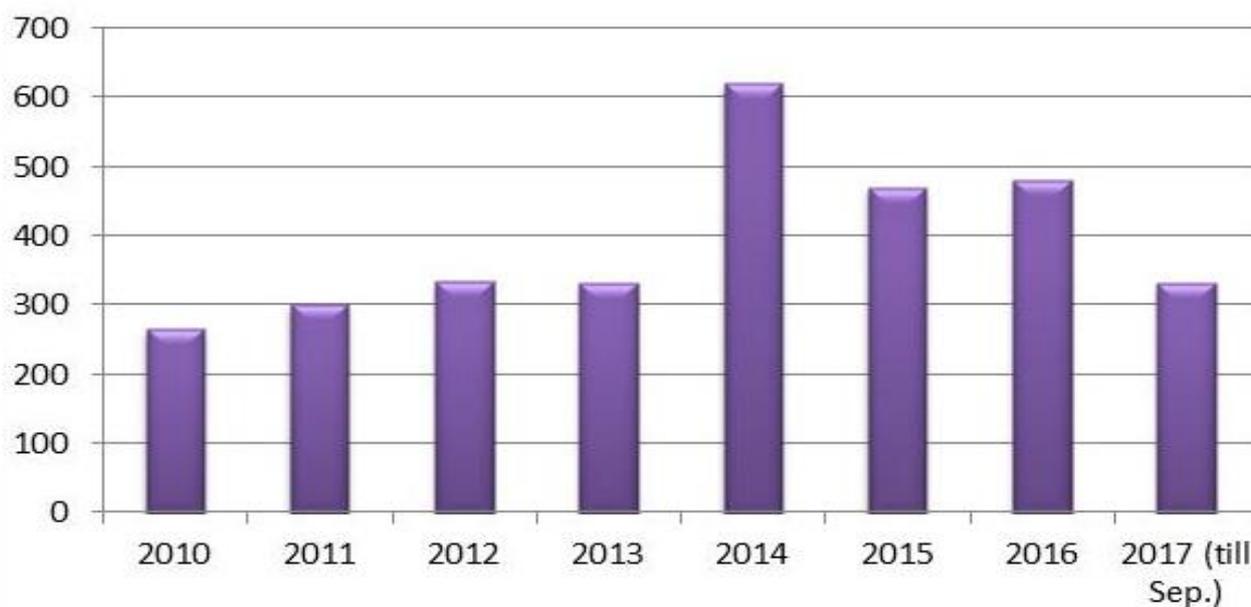


Fig. 1. Number of committed mergers and acquisitions in Russia (2010-2017) [7]

Practice shows that business growth through mergers and acquisitions has allowed many companies to become successful in their industries, enabling them to make greater use of their competitive advantages. In order to find out the truth — whether M&A is always a good entrepreneurial decision or not — authors will consider two Russian companies, who have just decided to consolidate and become a new legal entity. Let us talk about two airlines Red Wings and Nordavia.

Red Wings Airlines is the Russian airline that belongs to the structure of leasing company Ilyushin Finance. The airline is based in Moscow at the Domodedovo airport and carries out year-round regular and charter flights to the most popular tourist destinations and it is the largest commercial operator of planes Tu-204s in Russia. Today Red Wings ranks 13th in terms of traffic volume among Russian airlines.

Nordavia Airlines is a Russian airline formed in 2004 and based in Arkhangelsk. From March 23, 2011 to April 15, 2016 it belonged to the MMC Norilsk Nickel. April 15, 2016, Norilsk Nickel completed the sale of a 100% stake of Nordavia to Sky Invest [2]. The airline carries out regular and charter passenger transportation. The airline performs regular and charter flights mainly in the North-West region of Russia, primarily between Moscow, St. Petersburg, Arkhangelsk, Murmansk, Naryan-Mar and Syktyvkar, as well as the Black Sea resorts. Nordavia occupies 17th place in the market.

October, 2017 the shareholders of Nordavia and Red Wings decided to merge the two airlines. Preparations for consolidation into a single holding company have already begun. At the first stage of the merger, each of the companies will continue to fly under its brand, but later the holding company will have a new name.

Actually Nordavia and Red Wings have some experience of working together. They created an alliance more than a year ago, when Norilsk Nickel sold Nordavia to Sky Invest, controlled by Sergei Kuznetsov, who was then a co-owner of Red Wings. According to the RosAviation data, in 2016 the airlines transported 1.88 million people jointly. However, then due to debts, 100% of Red Wings went to LLC Airline Asset Management, a subsidiary of Ilyushin Finance Co. In 2018, the holding's traffic may exceed 3.5 million people, according to the release [3].

The idea to combine the two air carriers was announced back in 2016. The airlines wanted to unite in one alliance to work in low-cost transportation and compete with the only Russian low-cost airline Pobeda, part of the Aeroflot group.

The goal of creating a new structure with a single management company is to expand the business. Such step will increase the financial stability of operators and will allow to carry out a full-fledged upgrade of the aircraft fleet, create a single routing network and improve the efficiency of the enterprise, shareholders believe. Evgeny Klyucharev, the chairman of the board of directors of Nordavia and general director of the airline Red Wings, believes that a new powerful player, included in the top-10 Russian airlines, should appear on the market as a result of the merger [4].

However, many experts do not believe in success of Nordavia and Red Wings merger and acquisition deal. For example, the general director of Pobeda, Andrei Kalmykov, commented on the news about the merger of the two airlines this way: «Two turkeys won't make an eagle» [5].

In the article we have made our own analysis of Nordavia and Red Wings performances and the effect of their merger and acquisition deal. Let us show what we have and finally answer the question: Merger and acquisition — worth it or not?

First of all, let us look at the financial performance of each of the companies for the previous year. As a result of 2016, Red Wings showed revenue at the level of 2015 at 6,1 billion rubles. The company's net loss decreased from 389,6 thousand to 193,6 thousand rubles. It follows from the database of SPARK-Interfax [6].

The airline "Nordavia" in 2016 received revenue of 6,4 billion rubles. (in 2015 - 4.86 billion rubles.), net profit of 1,7 billion rubles against the net loss of 2,3 billion rubles a year earlier. However, the main reason for the merger is bad financial situation of both companies, since there are huge problems with debts. According to the SPARK database, the uncovered loss of Red Wings for 2016 exceeded 2,5 billion rubles and accounts payable – 3,1 billion rubles [7].

With "Nordavia" the situation is even worse. According to the same SPARK database, the airline's uncovered loss for 2016 exceeded 10 billion rubles and accounts payable for the past year amounted to just over one billion rubles. The question is whether the merger of two debtors will make their performance better? The table below shows the main figures, taken from balance sheets and profit and loss accounts of the companies.

Table 1. Comparison of the financial performance for 2016 and 2015 years [7]

Comparison of the financial performance for 2016 and 2015 years				
Indicator	Nordavia 2016	Nordavia 2015	Red Wings 2016	Red Wings 2015
Revenue (rub)	6 427 072 000	4 860 319 000	6 103 017 000	6 140 661 000
Profit from sales	348 903 000	-584 274 000	-46 146 000	-579 633 000
Net profit	1 724 519 000	-2 267 643 000	-193 598 000	-389 655 000
Accounts payable	1 044 539 000	705 990 000	3 148 225 000	4 599 803 000
Accounts receivable	870 407 000	432 808 000	1 100 912 000	1 436 769 000

From this table, it cannot be clearly seen, which company will definitely win from the merger, since the results are controversial. Companies have close amount of total revenue, which mean that they play probably the same role on the market. “Red Wings” has negative profit from sales for both 2016 and 2015, while “Nordavia” has negative profit only for 2015, the same situation here is for net profit. Moreover, “Red Wings” has its accounts payable more than twice bigger than accounts receivable, and “Nordavia” also has exceeding outstanding liabilities.

Definitely, that companies are going to merge to save costs, improve financial stability and competitiveness in a still weak market. Aviation industry is a heavy, highly competitive business, which depends on many external factors. In these conditions the merger is a logical union, which will make it possible for companies to stay in the game.

Red Wings - the 13th passenger carrier of the Russian airline, in January-August increased transportation by 52% to 1 million people, "Nordavia" - the 17th, increased transportation by 28% to 799 000 people. According to the total passenger flow, the holding could claim the 10th place in the list of the largest airlines. In 2018, the holding's traffic may exceed 3,5 million people, according to the release. In 2016, the airlines carried in the amount of 1,88 people [8]. The enlargement of the business will provide an opportunity to increase the financial stability of companies, to carry out a full-fledged upgrade of the aircraft fleet, to create a unified route network and increase efficiency.

Though both airlines have over the last years experienced serious economic hardship, the ambitions are very high. The company will have a combined fleet of 19 aircraft, among them Airbus A320 and 321, Boeing 737-500 and Russian-made Tu-204-100. Several more planes are in the pipeline. Red Wings has ordered 10 aircraft, including Tu-2014SM and 16 MS-21-300 (Yak-242), the new mid-distance Russian plane.

To make some analysis of the merger, we would consider financial performance of the companies, based on calculation of following indicators:

1. Liquidity
2. Solvency
3. Profitability.

A criterion of evaluating the financial performance of the company is its liquidity and solvency. All these mentioned KPI and its main ratios serve the reference points that any industry tries to follow.

The liquidity of the company is the ability to cover company's payment obligations at the expense of own funds and by borrowing. Liquidity of balance influences on solvency of the organization, the values of which are determined by the form and conditions of commercial transactions, the possibility of obtaining a loan, that is, the ability to timely and fully meets its payment obligations. The assessment of the company's liquidity is done mainly on the basis of past data contained in its balance sheet. Evaluating the liquidity of companies perform through a system of financial ratios, which allow comparison of the value of current assets having a different degree of liquidity, with the amount of current liabilities [9].

Table 2. Liquidity indicators for “Nordavia” [4]

Liquidity indicators for “Nordavia”			
Indicator	By years		
	2016	2015	2014
Current ratio	0,66	0,51	0,05
Quick Ratio	0,55	0,37	0,03
Cash ratio	0,13	0,03	0,005

Looking at the data above, it can be clearly seen, that “Nordavia” has every liquidity indicator far below normal value. Current ratio provides the basic information regarding the coverage level of current debts by current assets [10]. In 2016 only 60% of current liabilities can be covered via “Nordavia” current assets. We should note, that although indicators are below healthy level, they become better with each year. For instance, only 5% of liabilities could be covered with “Nordavia” current assets in 2014. However, quick ratio lower than 1 means that the company is not able to pay off its obligations without having to sell off any long-term or capital assets. Cash ratio is very close to 0 for all three periods, which only proves that “Nordavia” has serious problems with its liquidity.

Table 3. Liquidity indicators for “Red Wings”

Liquidity indicators for “Red Wings”			
Indicator	By years		
	2016	2015	2014
Current ratio	0,59	0,48	0,48
Quick Ratio	0,34	0,30	0,31
Cash ratio	0,005	0,002	0,0005

The situation is even worse with “Red Wings”. Company has significant problems with its cash liquidity, since all the indicators are very close to 0. Moreover, all three ratios are worse than those of “Nordavia” except for 2014 year. As a conclusion, we can say that both companies are not able to cover its outstanding liabilities and thus, can be considered as companies with low liquidity level. The solvency of “Nordavia” and “Red Wings”:

Table 4. Solvency indicators for “Nordavia”

Solvency indicators for “Nordavia”			
Indicator	By years		
	2016	2015	2014
Equity ratio	-3,84	-5,97	-4,86
Debt-to-Equity Ratio	-1,25	-1,16	-1,20
Debt ratio	4,84	6,97	5,86

From the solvency indicators, we can conclude that the major problem of “Nordavia” is connected with its debts. For example, in 2016 total debts of the company are 4 times bigger than its

total assets, and in 2015 almost 7 times bigger. Moreover, all equity ratios are negative because since 2014 “Nordavia” has huge uncovered profit, estimated to be more than 10 billions in 2016, which is unaffordable for the survival in the airline industry. Presumably, it is “Nordavia”, who is interested in the merger rather than “Red Wings”.

Table 5. Solvency indicators for “Red Wings”

Solvency indicators for “Red Wings”			
Indicator	By years		
	2016	2015	2014
Equity ratio	-0,55	-0,44	-0,40
Debt-to-Equity Ratio	-2,81	-3,25	-3,47
Debt ratio	1,55	1,44	1,40

In terms of solvency “Red Wings” performs better, however, as “Nordavia” it has the same problem with uncovered profit, which is estimated to be over 1 billion in 2016. Nevertheless, its debt ratios are more close to the normal value than those of “Nordavia”. From these tables we can conclude that both companies are experiencing severe times because of enormous debts and both companies are completely insolvent, although the performance of “Red Wings” is not that bad.

Short-term liquidity or solvency of the company is affected by its ability to generate profit. It deals with an aspect of the business as profitability.

Table 6. Profitability indicators for “Nordavia”

Profitability indicators for “Nordavia”			
Indicator	By years		
	2016	2015	2014
ROA	0,612	-1,07	-2,96
ROE	-0,15	-0,18	-0,609

The higher the ROA number, the better, because the company is earning more money on less investment. The same rule is for ROE. “Nordavia” profitability indicators are not favorable for investors, because it shows that the company not properly manages its assets to generate profit out of it.

Table 7. Profitability indicators for “Red Wings”

Profitability indicators for “Red Wings”			
Indicator	By years		
	2016	2015	2014
ROA	-0,05	-0,10	-0,28
ROE	-0,10	-0,22	-0,69

“Red Wings” have negative net income for the last three years, which is reflected in negative profitability indicators. Moreover, the company has negative total equity because of

uncovered profit, as well as “Nordavia” does, meaning that both companies employ its resources the wrong way and have serious liquidity, solvency and profitability problems.

Considering all the facts above, we can conclude that both companies have financial problems and calculated financial indicators shows it. Nevertheless, some indicators such as liquidity, solvency, profitability and others have become better from 2014 to 2016. But the main problem still exist – uncovered profit, which both companies have. The merge would make companies’ business more attractive, because together they could take around 3-3,5% of domestic air market. The passenger turnover of the aviation holding created on the basis of the association in 2018 may exceed 3.5 million. Currently, there is no disclosed information considering the cost of the deal and companies’ current values due to revaluation processes. Authors suppose that this is a very competent decision. Both airlines are professional and have highly qualified flight and engineering personnel. The merger of airlines, when all the resources – both technology and airlines – are combined into one bag, opens completely different possibilities, for example, to have backup aircraft. Thus, despite of all negative indicators companies will be able to overcome this, as the expansion of the business allows to increase financial stability of airlines, renew their park of planes and improve the efficiency.

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