*“Yorkshire polyhalite mine: Investors may lose money”*

*BBC News (2020)*

The proposed takeover of Sirius Minerals by a mining giant Anglo American has recently been addressed by BBC News in the article "Yorkshire polyhalite mine: Investors may lose money". Sirius Minerals is a British fertiliser development business that has centred its operations on constructing the polyhalite mine in North Yorkshire. The company encountered financial difficulties in 2019 and had to slow down the construction work following a dramatic plunge in share prices. The British multinational organisation Anglo American has agreed to acquire Sirius Minerals for £405 million (5.5 p a share), which is substantially lower than the price shareholders paid for their shares. The only viable opportunity for Sirius Minerals is to accept the rescue bid from Anglo American. Otherwise, it is most likely to face administration or liquidation withinweeks.

In this essay, the article is analysed and evaluated in the context of existing relevant literature on mergers and acquisitions (M&A).

A takeover is a form of mergers and acquisitions (M&A), which involves a partial or total purchase and absorption of operations of one firm by another, where the purchasing company is referred to as the acquirer, but the purchased one as the target (Junni and Teerikangas, 2019). An acquisition is a situation where a big and financially sound organisation acquires a smaller company, which can either be fully integrated within a parent company or run as a subsidiary (Taneja and Saxena, 2014). The takeover is considered friendly, providing that the deal is endorsed by the company’s shareholders and management, in the opposite case initiation of the takeover is hostile (Malik et al., 2014).

M&A types are classified as horizontal, vertical and conglomerate according to the business structure of merging firms. A horizontal acquisition is a firm-merging type of two direct competitors, who share the same industry, generally produce similar goods or services and are at the same production stage (Motis, 2007). The horizontal integration allows an acquirer to benefit from utilising economies of scale and decrease the competition in the sector (Arora and Kumar, 2012). An M&A transaction is regarded as vertical if a business buys another company and they share the same product lines and markets but are at a different level of production (Motis, 2007). Vertical M&A are performed to take advantage of economies through forwarding or backward integration (Arora and Kumar, 2012). A conglomerate integration refers to a merger or an acquisition of firms operating in unrelated markets and have no business lines in common, thus is performed for diversification purposes (Motis, 2007). Motta (2015) states: horizontal M&A may evoke more substantial antitrust concerns than the conglomerate type because, in horizontal integration, firms may eliminate competition and facilitate higher prices.

M&A is an instrument used by companies to implement corporate and business strategies. According to Porter’s five forces model, firms make acquisitions to benefit from increasing market power, improving economies of scale and cost savings, which arise from internalising vertically-bound operations (Sudarsanam, 2010). A resource-based view, postulated by Prahalad and Hamel, assumes a bidding firm tends to search for a target with complementary resources and capabilities, which, in turn, may enhance competitive advantage through leverage with the capabilities and resources of the acquirer (Prahalad and Hamel, 1990; Sudarsanam, 2010). Furthermore, motives behind M&A may vary, including synergistic financial and operational gains, increasing efficiency, agency motive and managerial overconfidence, but all of them stem from the main acquirer’s objective**:** generate financial value from the takeover transaction (Malik et al., 2014).

M&A transactions tend to change the characteristics of risks and returns of the investment owned by equity and debt holders in the merging companies. Assuming both the acquirer’s and the target’s net operating earnings are less than perfectly positively correlated, M&A can decrease the probability of the company facing liquidation or bankruptcy (Adeleke et al., 2018; Frear, 2001).

The City Code regulates takeovers of public companies in the United Kingdom on Takeovers and Mergers, where the Takeover Panel has laid down the set of rules and general principles for the acquisition process. The Code requires that a takeover of a public company is arranged either through a contractual offer to target shareholders or through a statutory scheme approved by the court. The contractual offer is a takeover proposal made directly to shareholders of the company, who then individually approve or reject it. However, the bidder will gain 100% control over the acquired company if obtains more than 90% of the value and voting rights of the target company’s shares. The scheme is a statutory process, which requires 75% of shareholder voting in favour of the recommended takeover and the court’s sanction to get implemented. Under the scheme procedure, a target company controls the process, and it needs to reach an arrangement with its members (Broke and Sarch, 2019).

Sirius Minerals’ liquidation or administration will cause massive job loss throughout the North Yorkshire region. In order to avoid the adverse impact on society, the company’s shareholders should accept the deal in a forthcoming vote. Besides, the acquirer is determined to secure jobs and create even more by committing funding resources to finish development of the biggest mine near Whitby. Also, an injection of Anglo American’s financial and technical resources into the suspended Woodsmith mine project will generate jobs and boost the regional economy. The positive implications of this takeover are that it does not only safeguard the current employment in the local area but also benefits potential workers by creating more jobs in the long-term.

In the beginning, the Sirius Minerals’ project was mainly supported by small private and local investors with no real investment expertise, who invested their pensions and savings into a local opportunity to help their retirement. Unfortunately, the returns of 5.5 p per stock offered by Anglo American are far below what existing stockholders initially invested in the company, meaning significant financial losses for investors. Nevertheless, if the company gets liquidated, it is highly probable that, shareholders may lose the entire investment. Notwithstanding private individual holders are worse off from the planned takeover at this stage, Anglo American may still complete the construction successfully and increase shareholder value eventually by compensating stockholders with higher net returns.

Ultimately, Anglo American is a larger business seeking a takeover of a smaller company, Sirius Minerals. Anglo American undertakes M&A in a friendly takeover manner as it is subject to shareholder approval and mutual agreement between two parties. Therefore, the acquisition will take place only if the acceptance conditions are fulfilled. It is highlighted in the article, Anglo American has offered a full acquisition of Sirius Minerals, which reconciles with Taneja and Saxena’s (2014) theory: the target is likely to be absorbed within the parent company.

Referring to the City Code on Takeovers and Mergers, the acquisition bid made by Anglo American to Sirius Minerals is regulated under a court-approved scheme of the arrangement, and it is consistent with the mechanics of the acquisition process established by the Takeover Panel. Thus, for the takeover to be successful, it is required that the offer is endorsed by the majority of those shareholders that represent at least three-quarters of voting members' value of the shares, and the court must sanction it.

Anglo American's planned takeover of Sirius Minerals aligns with the economic theory of horizontal M&A, which implies that two firms operating in the same industry and producing similar goods will be combined in one legal entity providing the acquisition is approved. According to Motta (2015), horizontal M&A may raise antitrust concerns and harm consumer welfare; however, the article does not justify this. Conversely, it would be unambiguous if Sirius Minerals were to forego the recommended offer. In the end, the company would face administration and liquidation, giving rise to regional unemployment and harming society.

Although the motive behind the takeover is not explicitly discussed in the BBCarticle, the acquisition is likely to be explained by the resource-based model, proposed by Prahalad and Hamel (1990). Anglo American must have seen getting access to the polyhalite deposit in North Yorkshire and potentially developing the market for the fertiliser as value-creating.

BBC News and Danny Savage, BBC North of England correspondent have provided important background information on the causes and consequences of this takeover in the article. The event has been studied, and its positive and negative implications of Anglo American’s bailout package have been analysed. It is impossible to quantitatively prove whether this acquisition will be profitable or valueless for both firms, because the information on demand functions and marginal costs is not provided by the author.

The article assumes the outcome of the takeover is unknown due to the fact that: the offer is still under consideration by shareholders of Sirius Minerals, and it has not been authorised by the court either. However, this transaction is clearly recommended from the perspective of the Sirius Minerals’ board. Evaluating the consequences of accepting or preceding the offer, it can be inferred that Sirius Minerals are likely to approve the takeover and proceed with the acquisition within weeks after that.

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