



# Reverse Takeover-RTO



- ▶ Reverse Takeover or Reverse Merger represent a legitimate good technique to take private companies to public without undergoing the process of IPO(Initial Public offer).
- ▶ In traditional route the company gets listed on stock exchanges through IPO route.
- ▶ The traditional IPO route is time consuming, lot of compliances to be full filled and lot of paperwork. The success depends on market conditions.
- ▶ For small companies, the IPO market is not there, therefore the alternative route is, this technique which is in existence for many years in USA.

# How It Works



- ▶ **Management of the private company intending to go to the public, identifies a public shell which is currently listed on BSE.**
- ▶ **Due diligence will be carried out by the professionals.**
- ▶ **Both Companies promoters will negotiate the consideration payable to the public share holders.**
- ▶ **The consideration depends on the valuation of the company. Usually the company shall be a shell without any Assets or Liabilities.**
- ▶ **The consideration will be paid by Cash ,Equity or both.**
- ▶ **The Acquirers thereafter appoints Merchant Banker to get the open offer document approved by SEBI.**

# How It Works



- ▶ Once the statutory formalities are completed, the original promoters and Directors of Public Company are replaced with the new management.
- ▶ The Private company becomes a Subsidiary to the Public Company.
- ▶ The shares of promoters of private company unlocked with the Public company shares.

# Advantages and Disadvantages



## ► ADVANTAGES

- Quickly completed. 4 to 6 Months time.
- Existence of a Shareholder Base.
- Immediate Trading of Shares.
- Ability to use stock to attract Key Managerial Personnel.(ESOPS)
- Ability to use stock to acquire businesses.
- Ability to use stock to access investors and capital markets.
- Unlock the value of shares of private company.
- Liquidity to shareholders --- By sale or Financing.
- Long term and Short term capital gain benefits.

## DISADVANTAGES

- Immediate cash cost.
- Not a capital raising transaction.
- Undisclosed liabilities/litigations if any.



Thank You!