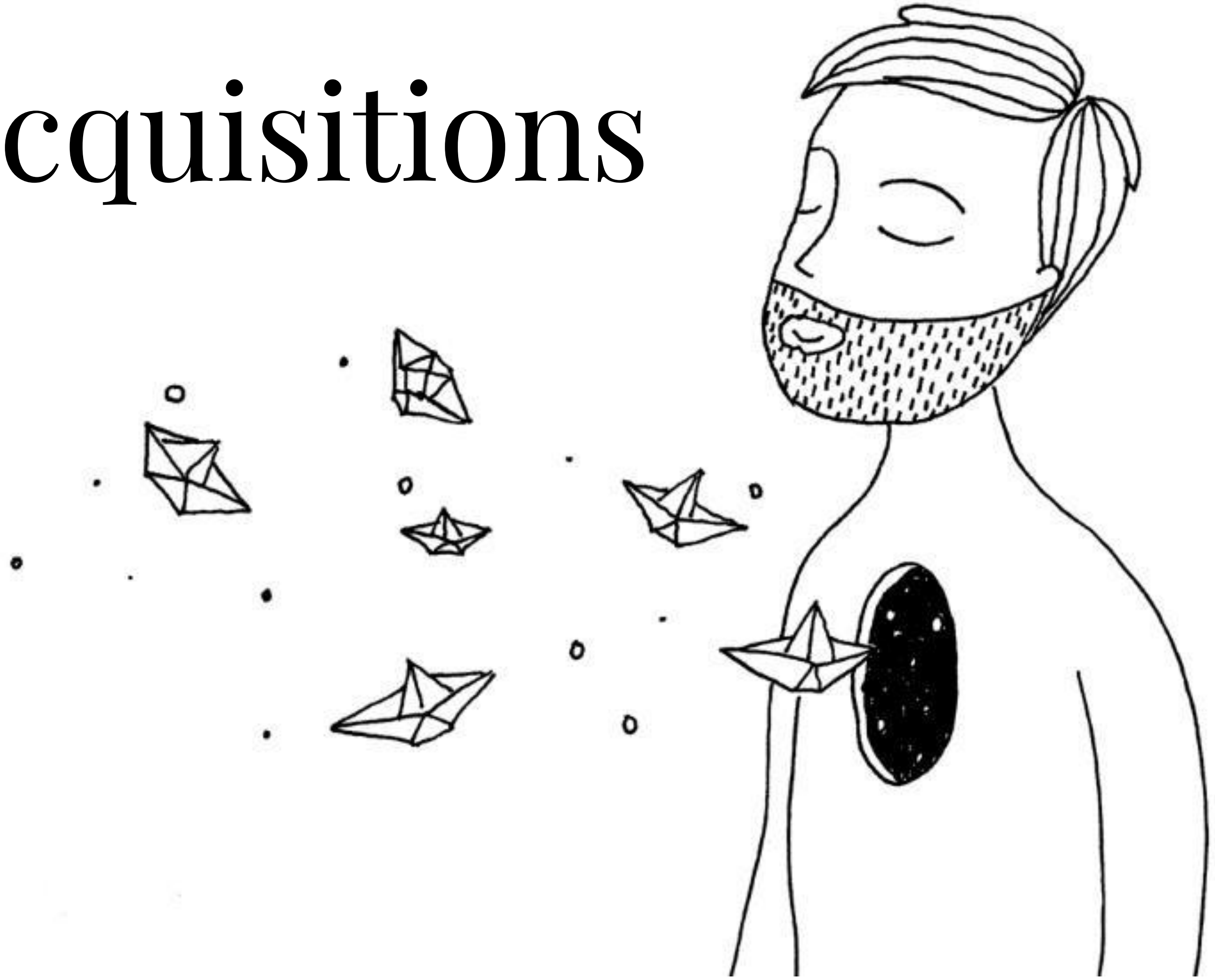
Video
Lecture

Mergers and Acquisitions



ADVANCED FINANCIAL MANAGEMENT

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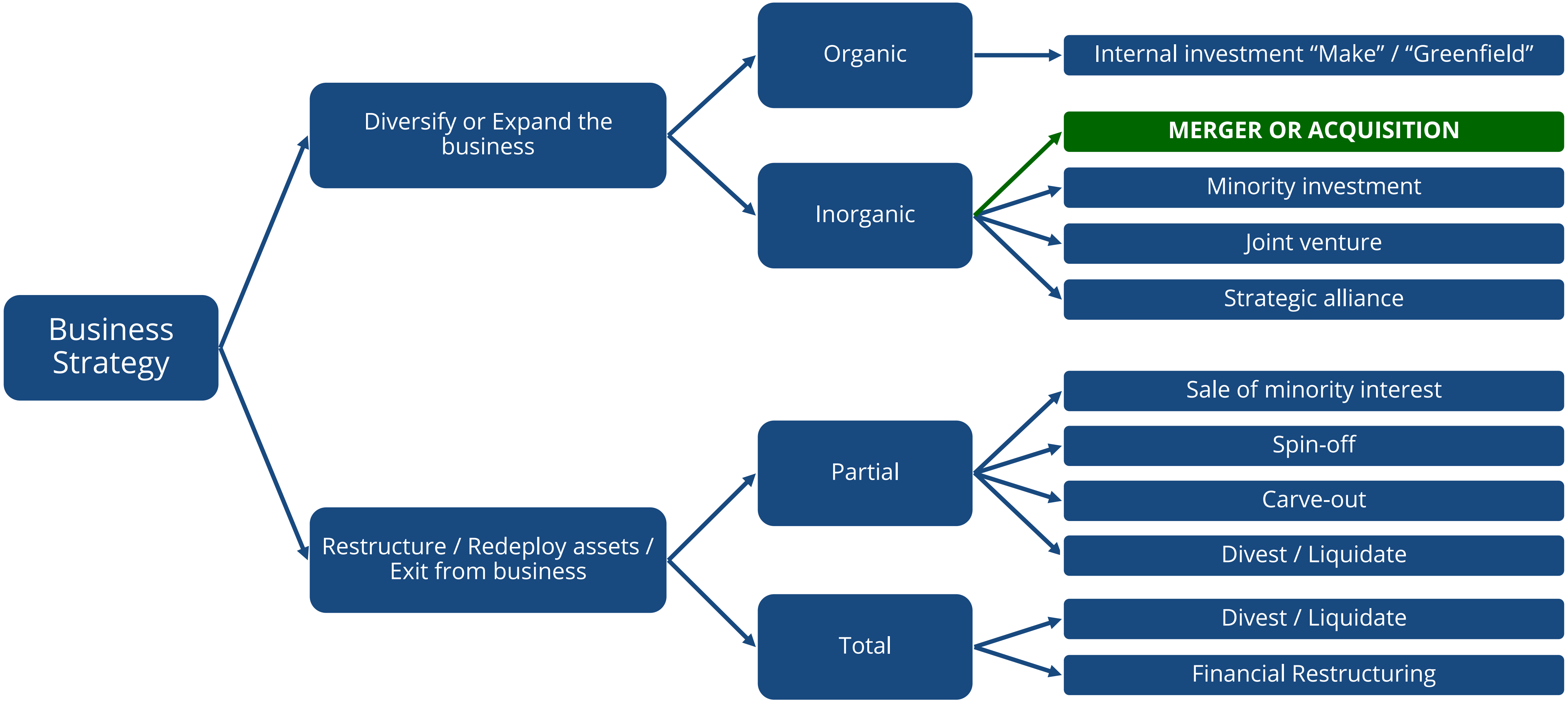
Context


Business Strategy
Diversify or Expand the business
Restructure / Redeploy assets / Exit from business
Organic
Inorganic
Partial
Total
Internal investment "Make" / "Greenfield"
MERGER OR ACQUISITION
Minority investment
Joint venture
Strategic alliance
Sale of minority interest
Spin-off
Carve-out
Divest / Liquidate
Divest / Liquidate
Financial Restructuring

Definitions

A firm can be acquired by…

- **…another firm**
  - **A Merger**
    Target firm becomes part of acquiring firm, stockholder approval needed from both firms
  - **B Consolidation**
    Target firm and acquiring firm combine to become a new firm, stockholder approval needed from both firms
  - **C Tender offer**
    No shareholder approval is needed for a tender offer. Target firm continues to exist as long as there are dissident stockholders. Successful tender offers ultimately become mergers. Target managers tend to resist and there are some anti-takeover measures (e.g. poison pill, white knight, milking the cow…)
  - **D Acquisition of assets**
    Target firm remains as a shell company, but its assets are gradually transferred to the acquiring firm. Ultimately target firm is liquidated
- **…its own managers and outside investors**
  - **E Buyout**
    Target firm continues to exist. If it was a publicly listed company, it then becomes private – it is usually accomplished with a tender offer

Merger process

Strategic Planning and Search	Negotiation	Closing the deal	Post merger integration
▪ Search focused on public data ▪ Typically with a small corporate development team (or advisers hired for the purpose) ▪ Culminates in an internal pitch to the CEO for approval to proceed with approaching	▪ First proposal is done to target company ▪ Confidentiality and Standstill Agreement are built upon common interest in the deal ▪ Information is exchanged. ▪ Negotiations to set the board outline of the deal and work toward a LOI – Letter of Intent: basic agreement on social issues, price and form of payment ▪ Detailed due diligence and negotiation of terms of the deal	▪ Results in board vote and signing ▪ Intense involvement of lawyers in drafting the agreement and financial advisers to prepare fairness opinions ▪ Preparation of fillings to antitrust and securities regulators and to exchanges ▪ Detailed post-merger integration planning ▪ Shareholder Meeting to Vote	▪ Resources integration phase according to the initial plan (Operational, Human Resources, Legal,…) ▪ Continuous monitoring of integration success and communication with stakeholders to adapt to change

Acquisition types and synergies

Types of acquisitions

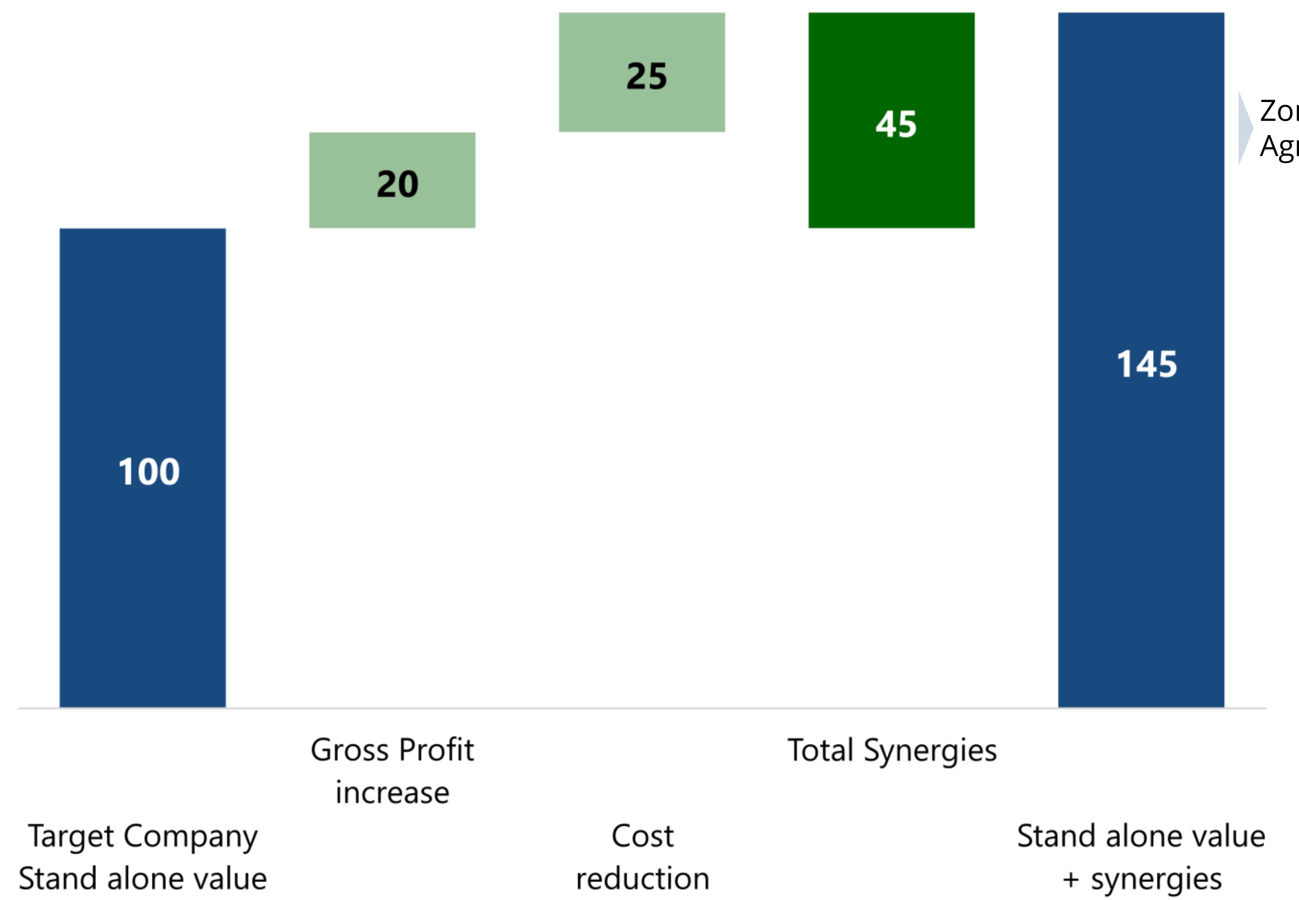
Horizontal integration	▪ Both the acquirer and the acquired firm are in the same stage of the value chain of a certain industry
Vertical Integration	▪ Here the two merged companies are operating in the same value chain but in different stages ▪ An upstream vertical integration occurs if a company acquires another company that produces the raw materials for its production ▪ A downward vertical integration occurs if a company acquires another company that will be a sales channel
Conglo-merates	▪ A company acquires another company that is not in the same industry and activities are not directly related

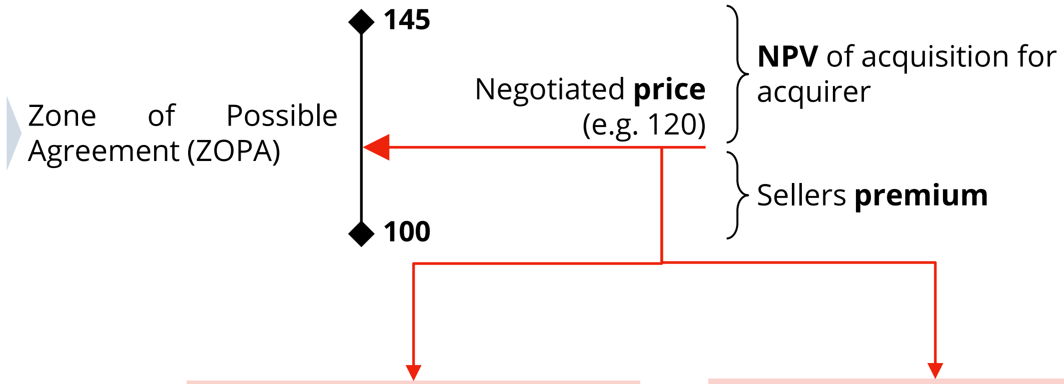
Type of synergies

Revenues	▪ Selling **price** can be higher due to higher bargaining power ▪ **Marketing** can be more effective due to optimization of distribution channels ▪ **Cross-selling** might arise within the joint portfolio of products ▪ Some **strategic options** in the future might arise to enter new markets or launch new products
Costs	▪ Due to the **economies of scale** both firms together can get rid of some **redundant costs** (e.g. overheads) and have enhanced **bargaining power** with suppliers (e.g. negotiating raw materials) ▪ A merger allows also **Technology and Process transfer**, and both firms together benefit of the best practices and better efficiency ▪ **Complementary resources** allows also to generate benefits from shared capacity usage
Reduced capital require-ments	▪ Some **assets are redundant** upon a merger and thus can be sold (e.g. plants, warehouses, offices) ▪ **Feasibility of future investments** is also eased due to proportionally lower capital requirements
Debt capacity	▪ The acquired company can have unused debt capacity (e.g. due to lack of knowledge or risk aversion of old managers) ▪ Both firms together may have a higher debt capacity due to the reduction of uncertainty in cash-flows

Negotiation

Enterprise value estimation





Cash payment

- Target sellers receive cash for their holdings in the target company
- The buyer carries the entire risk of synergies completion
- It might be more difficult to achieve if the deal size is big

Stock payment

- Target sellers will receive shares of the merged company
- The risk of synergies completion is shared
- It does not require cash, but rather only a stock issuance which might be useful in large deals

Key takeaways

01 **Mergers and Acquisitions represent one key type of investments for companies to generate growth and improve the enterprise value**

02 **The enterprise value might benefit from M&A due to the creation of synergies that can arise from revenues, costs, assets management or debt capacity**

03 **Ultimately, the price of the acquisition will depend on the valuation of the target company, the estimated synergies and the negotiation process**