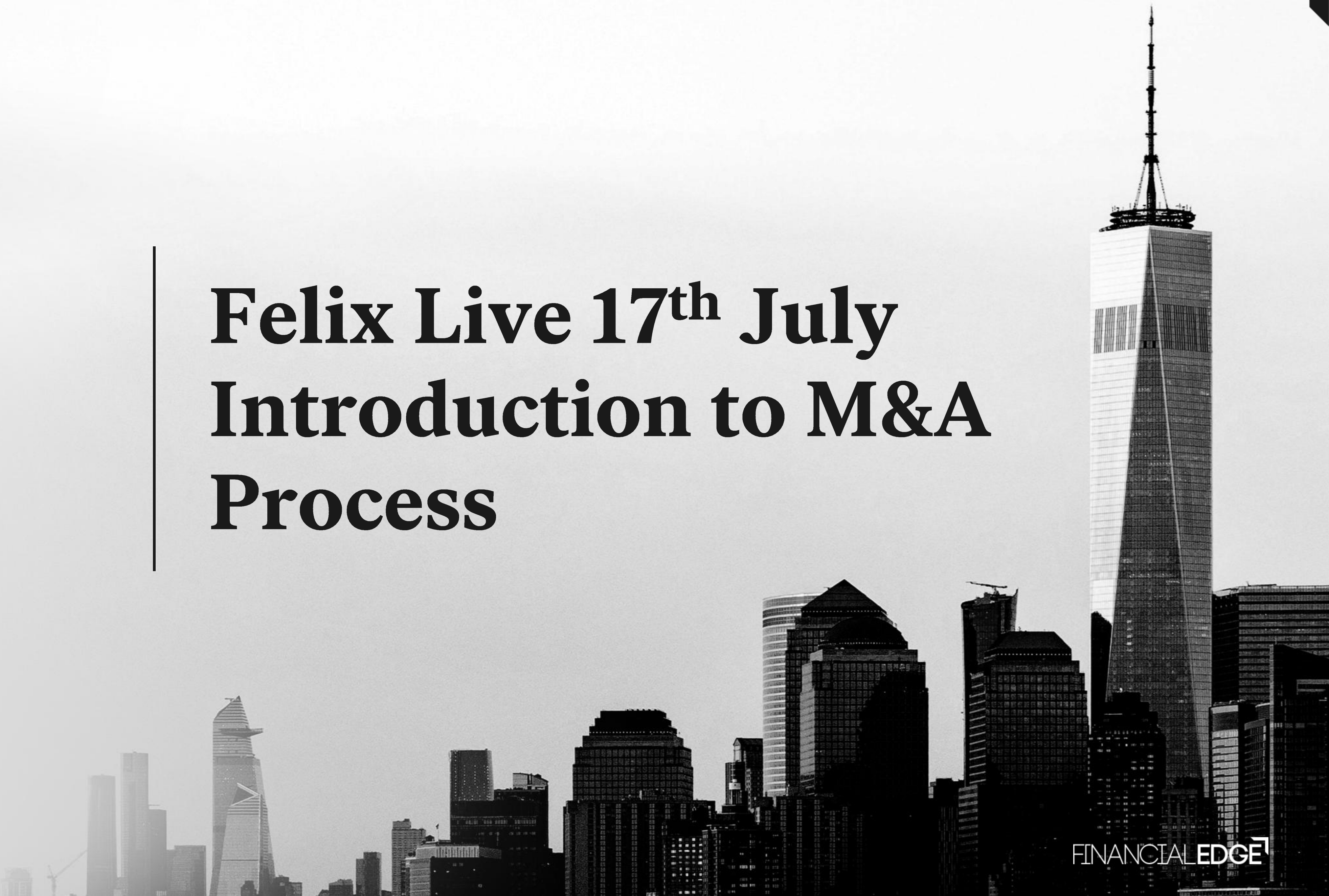
Felix Live 17th July Introduction to M&A Process



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M&A Players

Strategic Buyer

- Relatively quick unless regulatory issues
- Control premium will reflect synergy value
- Accelerating growth through acquisition
- Tax and cost of funding issues
- Mainly stock deals
- Confidentiality important

Financial Buyer

- Target needs to have predictable cash flows
- Need for good management
- Limited opportunity for synergy value
- Consideration generally in cash
- Due to financing considerations – timing can be longer
- Tax considerations – asset deals
- Dependent on credit markets and funding costs

Wealth Funds

- Generally interested in established companies
- Keen to invest outside home markets and to diversify portfolio

M&A Strategy – Buyside

Further corporate strategy

Vertical integration (acquire suppliers or customers)

Horizontal integration (acquire competitors)

Synergies particularly with **horizontal integration** (consolidation)

Enter **new geographical markets**

Reduce **threat of substitution / technological disruption**

Accelerate expansion (buy versus build)

Financially viable transactions

Earnings enhancing – but be careful with this. Not all earnings **are the same quality**

Return on invested capital **higher than target's WACC**

Financing meets the long-term capital **structure objectives and credit rating goals**

Control premium < than the present value of the post-tax synergies

M&A Strategy – Sellside

Reasons for divesting

For Corporates:

- Business is **non-core to strategy**
- Disposal due to **competition issues**
- Corporate is **highly geared / in distress** and needs to **repay debt**

For Private Equity Funds:

- Private equity model requires regular **"churning" of assets – typical holding period is 3 –7 years**
- Divestment of the business is critical to **achieving returns,** as often **minimal or no dividends paid** during **holding period**
- Outright sale captures control premium

For Family or Individual Owners:

- **To provide liquidity / exit**
- **Succession planning**

For Governments:

- **Privatisation**
- **Raising cash**

Seller's objectives

- Maximisation of **sale proceeds**
- Certainty of **successful execution**
- **Speed of execution**
- Minimise dissemination of **confidential information**
- Minimise **disruption to management & company's operations**
- Minimise potential for **ongoing liability** relating to the **business**
- If a minority stake retained, **preserve potential** for **future upside**

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M&A – Options

Single party negotiation	Limited auction	Full auction	IPO
Discussions exclusively with a **single party** - typically less **formal process structure**	Discussions with a small **group of "high probability" candidates**	Approach large group of **strategic and financial buyers**	Conduct an IPO of the business, **effectively selling** to a **wide range of institutional** and **other investors**
✓ Minimize leakage of **confidential information**	✓ Only involves **"high probability" strategic buyers**	✓ Theoretically should **maximise value**	✓ Depending on **market conditions**
✓ Minimise disruption to **operations**	✓ Control dissemination of **confidential or competitive information**		✓ Particularly if no obvious **strategic buyers,** and **private equity interest is limited**
✓ **Shorter process,** if successful	✓ Limit disruption to **operations**		✓ Introduces a **new, diversified investor base**
✓ **Highly flexible,** e.g. asset swap	✓ Shorter process than **full auction**		
✗ May not realize **full value**	✗ May not realize **full value**	✗ Will be most **disruptive to operations**	✗ IPO of 100% difficult – market will normally require seller to **retain a stake** in order to **achieve a decent valuation**
✗ May exclude **potential buyers**	✗ May **exclude potential buyers**	✗ Will be **difficult** to maintain **process confidentiality**	✗ In most cases, if strategic bidders with synergies exist, or **PE demand is strong, trade sale will be the preferred route**
		✗ Discloses **competitive / confidential information** to low probability buyers	

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Sellside – Auction Process

Preparation	Non-binding bids	Due diligence	Negotiation
Approx. 2 months	Approx. 2 months	Approx. 1 month	Approx. 2-3 weeks
Kick-off meeting / management sessions	Informal approach to buyer universe of players (calls, teaser)	Select [2-3] buyers for final round	Negotiation / signing of SPA and other transaction documents
Legal and tax restructuring	Assess initial soundings / price indications	Data room open / Q&A	Anti-trust clearances
Preparation of business plan and sign-off	Sign NDA	Management presentation / site visits	Other closing conditions
Gather information for dataroom	Provide info pack to selected buyers (IM, process letter)	Provide draft SPA to bidders	Closing / payment
Preparation of teaser and information memo	Submission of indicative bids	Submission of final round firm bids and marked-up SPA	
Identify potential buyers			
Preparation, **due diligence, valuation** and **decide on sale process**	**Indicative offers**	**Final offers**	**Signing and closing**

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Main Documents in M&A

Engagement letter

Confidentiality agreement

Teaser / information memorandum

Working Group list

Process letters

- Process sets out terms for due diligence and data room
- Sent out with teaser / information memorandum
- Sets out process for submitting questions
- Requirements of bid letter

Bid letters

- Indicative in first round / Firm in second round

Due diligence request list, data room & site visits

Management presentation

Letter of Intent

Sale & purchase agreement or offer document (if public company)

SEC filings (if US public company), Fairness Opinion

Media announcements

Public Company – Takeover Panel Rules

- Acting in concert or being a 'concert party'
- Equal treatment for all shareholders – for both offers and information
- Restrictions on stakebuilding
- Mandatory bid at a 30% shareholding
- Information must be accurate
- No 'frustration' action by target's management
- Strict timetable
- Restrictions following offers

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