



Felix Live 22nd August 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**

M&A – Options

Single party negotiation

Discussions exclusively with a **single party** – typically less **formal process structure**

- ✓ Minimize leakage of **confidential information**
- ✓ Minimise disruption to **operations**
- ✓ **Shorter process**, if successful
- ✓ **Highly flexible**, e.g. asset swap
- ✗ May not realize **full value**
- ✗ May exclude **potential buyers**

Limited auction

Discussions with a small **group of “high probability” candidates**

- ✓ Only involves **“high probability” strategic buyers**
- ✓ Control dissemination of **confidential or competitive information**
- ✓ Limit disruption to **operations**
- ✓ Shorter process than **full auction**
- ✗ May not realize **full value**
- ✗ May **exclude potential buyers**

Full auction

Approach large group of **strategic and financial buyers**

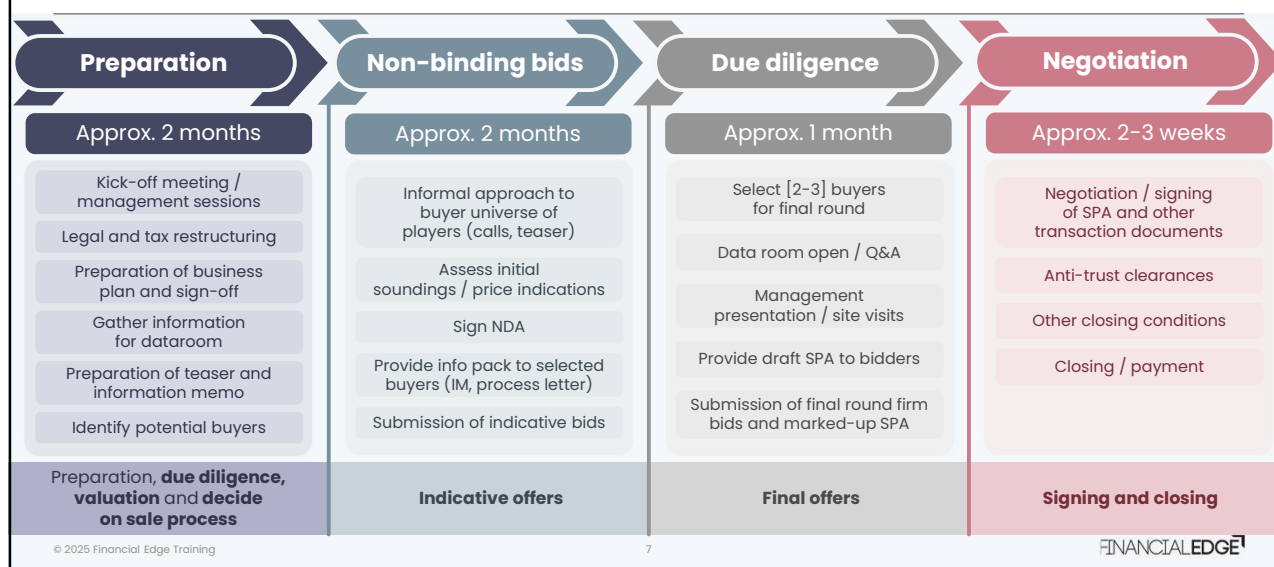
- ✓ Theoretically should **maximise value**
- ✗ Will be most **disruptive to operations**
- ✗ Will be **difficult** to maintain **process confidentiality**
- ✗ Discloses **competitive / confidential information** to low probability buyers

IPO

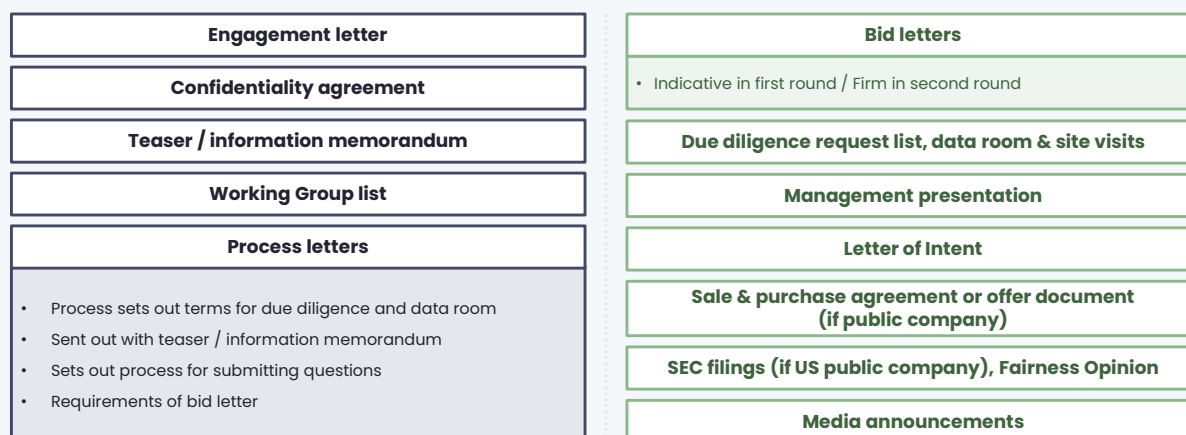
Conduct an IPO of the business, **effectively selling** to a **wide range of institutional and other investors**

- ✓ Depending on **market conditions**
- ✓ Particularly if no obvious **strategic buyers**, and **private equity interest is limited**
- ✓ Introduces a **new, diversified investor base**
- ✗ IPO of 100% difficult – market will normally require seller to **retain a stake** in order to **achieve a decent valuation**
- ✗ In most cases, if strategic bidders with synergies exist, or **PE demand is strong**, **trade sale will be the preferred route**

Sellside – Auction Process



Main Documents in M&A



Examples of Key Ownership Thresholds

For more **detailed information** consult with **legal team**

| | Mandatory disclosure | Mandatory offer | Squeeze out |
|------------------|--|---|---|
| U.S. | > 5% of any class of equity securities | None, but might be required under state laws | Depends on state laws |
| U.K. | On holding or ceasing to hold 3% of voting rights | 30% or more of voting rights | 90% tender offers, 75% for schemes of arrangement |
| Hong Kong | 5% or more of voting shares | 30% or more of voting rights | 90% within 4 months |

Types of Public M&A Transactions

Tender offer*

Bid for a publicly quoted company

Strict rules for process and information flow

Mandatory bid $\geq 30\%$

90% squeeze out

Scheme of arrangement

Bid for a public company through the courts

Only in UK and some Asian countries

75% squeeze out

*Note: tender offers are often converted to a scheme of arrangement.

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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