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Mergers & Acquisitions

LECTURE 1: INTRODUCTION

Managerial Strategies

Operational Strategy

- Revenue Growth (organic)
- Expense Management
- Hiring Talent
- Marketing the Product

Financial Strategy

- Raising Equity
- Raising Debt

Social Responsibility

- Governance
- Shareholders/ Employees /
Government / Community

Transactional Strategy

- Merger
- Acquisitions
- Joint Ventures
- Strategic Alliances
- Greenfield Investment

Slide 2

- CD1** JOKE -Dig holes, closed holes - no one in the middle to plant the tree
Christakis Droussiotis, 10/7/2018
- CD2** The rush of a startup idea is like nothing else (often even better than the exit), but an idea is just that. It requires capital, and while bootstrapping is almost always the right way prior to raising capital from outside sources, the process can oftentimes be futile and complex.
Christakis Droussiotis, 10/7/2018
- CD3** Enron Scandal, Worldcom accounting scandal - Sarbanes-Oxley
Christakis Droussiotis, 10/7/2018
- CD4** Banks - Patriot Act - KYC, AML
Christakis Droussiotis, 10/7/2018

M&A Ecosystem

THREE MAIN PARTIES:

- SELLER
- BUYER
- THIRD PARTY



RETAIL
INVESTORS

INVESTMENT
& ACCRETION
ANALYSIS

CORPORATION

BALANCE SHEET

ASSETS	LIABILITIES
	Trade
	Payables
	Loans
	Bonds
	EQUITY
	Preferred
	Common

INCOME STATEMENT

Revenue	
Gross Profit	
EBITDA	
Net Income	

CASH FLOW STATEMENT

Working Capital	
Investment Activities	
Financing Activities	

FINANCIAL &
VALUATION
ANALYSIS



INVESTMENT
BANKS

LBO
ANALYSIS



PRIVATE
EQUITY FIRM



COMMERCIAL
BANKS

CREDIT
ANALYSIS

MERGERS &
ACQUISITIONS
ANALYSIS



COMPANIES

Why do M&A Happen?

Using Numbers - No words:

➤ $1 + 1 = 3$

➤ $1 + 1 + 1 + 1 + 1 + 1 + 1 = 7$

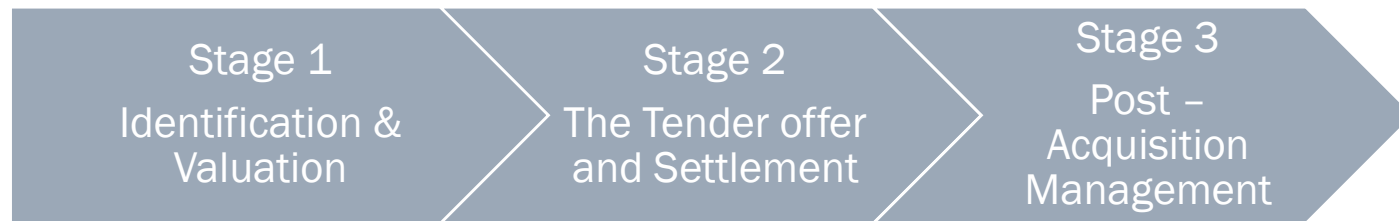
➤ $2 (0.20) + 2 (0.80) = 0.4 + 1.6 = 2$

Why do M&A Happen?

Using Words – No numbers:

- Synergy
 - Operating Synergy
 - Financial Strategy
- Diversification
- Strategic Realignment
 - Market Power
 - Cross-Border
 - Tax Considerations
 - Defensive Strategy

PROCESS OF ACQUIRING the target company



PROCESS OF ACQUIRING the target company



Stage 1
Identification &
Valuation

- Well Define Corporate Strategy
- Public vs Private Company
- Quantify the Return (ROI) and Risk
- Valuation Methodologies
- Accretion vs Dilution Analysis

PROCESS OF ACQUIRING the target company



Stage 2
Identification &
Valuation

- Well Define Corporate Strategy
- Public vs Private Company
- Quantify the Return (ROI) and Risk
- Valuation Methodologies

PROCESS OF ACQUIRING the target company

Stage 2
Tender Offer & Settlement
(after the Target has been identified)

- Securing the approval of the management and ownership of the target company to government and regular bodies (friendly vs hostile takeover)
- Settlement compensation – payment to the shareholders of target company
 - Cash or Common stock
 - Accretion vs Dilution Analysis
 - Various factors for determining the methods used for settlement availability of cash, size of target firm
 - Access to Capital

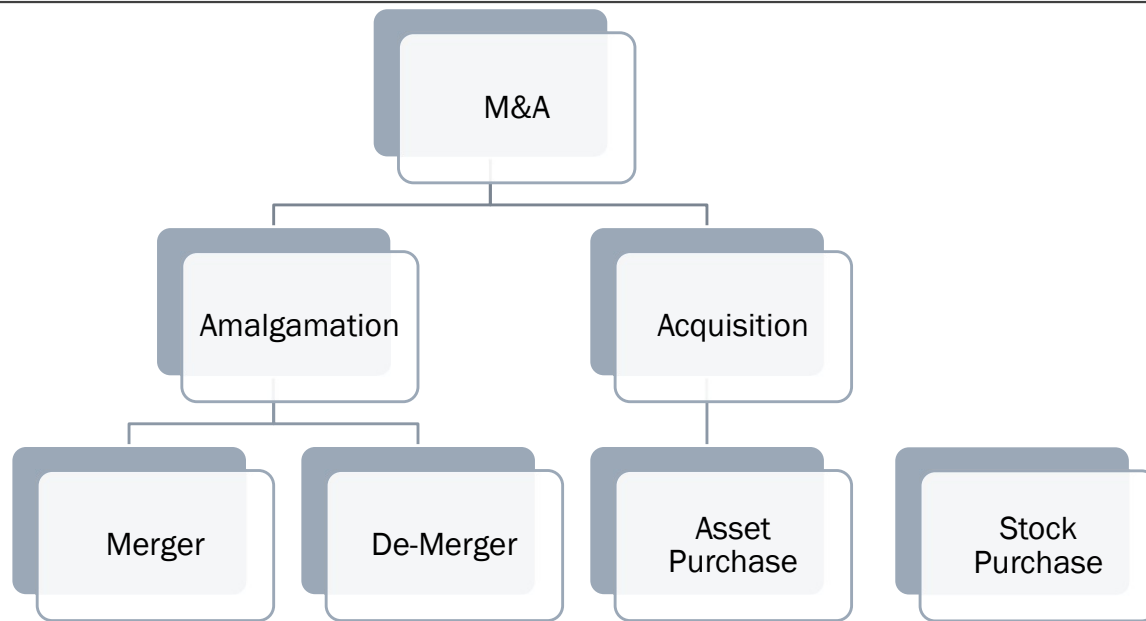
PROCESS OF ACQUIRING the target company



Stage 3
Post-Acquisition
Management

- This is very important stage because it will determine is relatively quick order the success or failure of the acquisition
- The objective is to create shareholder value
- Problems identified earlier including the failure of meeting synergies, high cost of integration and difficult corporate culture

Modes of Mergers & Acquisitions



U.S. Regulations on Public Targets

Proxy Statements

Schedule TO/Schedule 14D-9

Registration Statement/Prospectus (S04. 424B)

Schedule 13E-3

8K / 10K / 10Q

U.S. Regulations on private Targets

Not required to public filing of documents

When a public company buys a private company (or a division/subsidiary of a public company) it may require to file certain disclosure documents

Issuing shares in excess of 20%

LBOs – accessing public bonds – file with the SEC (S-4)

Primary SEC filings in M&A transactions

SEC Proxy Statements	Description
Prem 14A / Defm 14A	Preliminary/definitive proxy statement relating to an M&A transaction
Prem 14C / Defm 14C	Preliminary / definitive information statement relating to an M&A transaction
Schedule 13E-3	Filed to report going private transactions initiated by certain issuers or their affiliates

SEC Tender Offer	Description
Schedule TO	Filed by an acquirer upon commencement of a tender offer
Schedule 14D-9	Recommended from the target's board of directors on how shareholders should respond to a tender offer

SEC Registration Statement Prospectus	Description
S-4	Registration statement for securities issued in connection with a business combination with a business combination or exchange offer. May include proxy statement of acquirer and/or public target
424B	Prospectus

M&A USE CASE:

Drivers of Cross Border M&A

Globalization and openness of financial markets

Geographical diversification

Deregulation of markets

Company efficiency

Hedging on Trade and Tariffs

Increase production

Technology and Innovation boom across cultures

Natural progression for A growth company

- 1 • Companies started a domestic production
- 2 • Companies started to export to the foreign markets
- 3 • Companies established a subsidiary in overseas market
- 4 • Companies started strategic alliances – customer acquisition
- 5 • Companies started a Greenfield project – build manufacturing facility
- 6 • Companies started to acquire other companies in foreign markets

Benefits of cross border M&A

Acceleration of business

Accessing capital

Synergies

Technology

Tax planning

Mitigation of trade and foreign exchange costs

Challenges of cross border M&A

Legal

Accounting

Strategic

Technology

Integration

Human Resources

Cultural

Challenges of cross border M&A

Legal Issues

- Acquirer need to understand all the legal provisions of the foreign country
- After understanding the local laws, the acquirer many find that these provisions are incompatible, resulting to lengthy process and company policy changes
- Ex-pat and HR laws / Visa issues
- Labor laws
- Sarbanes & Oxley – Laws on publicly traded companies

Challenges of cross border M&A

Accounting Issues

- Merging entities have different internal controls
- Absence of uniformity of internal controls could lead to mismanagement
- Accounting Standards (International Vs US GAAP)
- Merger accounting – adjustments to the Balance Sheet could result to overvalue or undervalue

Challenges of cross border M&A

Technological Differences

- Integration challenges due to different technology platforms

Strategic Issues

- Achieving synergies can be challenging including
 - cost savings
 - plant rationalization
 - Labor issues
 - IT integration
 - marketing integration
 - management changes

Challenges of cross border M&A

Cultural Differences

- Corporate Governance
- Job Security
- Regular and external environments
- Customer Expectations
- Operating styles due to different backgrounds
- Country culture and different values

Challenges of cross border M&A

Human Resources Issues

- Motivation & Morale
- Layoffs and voluntary leave
- Employee stress due to uncertainty
- Career paths of each employee could be altered
- Organizational changes