

Mergers, Acquisitions and Corporate Restructuring

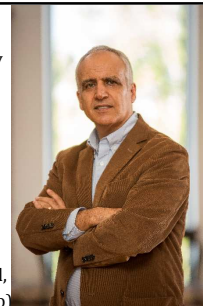
(session 1)

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 - Ph.D. Business Administration, Manchester Business School; MBA and MSc in Management, ISEG.
 - Executive programs: INSEAD, IMD, HEC, London Business School, N.Y. Stern University, Wisconsin University Madison, Harvard Kennedy School - Harvard University, Creative Leadership Center
 - Visiting Professor. International: HEC Paris, EM Lyon, Copenhagen Business School, Universidade Federal de Minas Gerais and Fundação D. Cabral (Brasil), CEM (Macao) Portugal: FEPorto, Universidade Católica, Universidade do Algarve, Universidade de Évora, Universidade de Coimbra.
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INTRODUCTION

Mergers, Acquisitions and Restructuring Activities?

- What is it?
- Why is it worth study and research?
- What is the relevance?



1. THE IMPORTANCE OF MERGERS, ACQUISITIONS AND OTHER CORPORATE RESTRUCTURING

Potential benefits of M&A

- Different forms of synergies
- Economies of scale and scope
- Reduction of cost structure
- Sharing of technology and know-how
- Sharing of information



Increase of competitiveness

Regeneration of the sector/industry

Potential losses

- Market power may impact on customers
- Restructuring may result in more unemployment
- Lost of focus on day-to-day operations
- Sometimes an Excess of Ego of Leaders, instead of focus in Shareholder's Value Creation

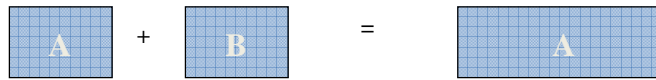
2. TYPES OF MERGERS AND ACQUISITIONS

Types of mergers and acquisitions

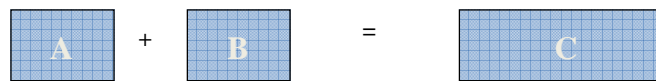
- From the point of view of the equity status:
 - Private negotiation
 - Public offer
- Based on the reaction of the Board of the target company:
 - Friendly takeover
 - Hostile takeover
- From a legal point of view (M&A):
 - Acquisition
 - Merger
 - Consolidation
- From a strategic point of view:
 - Horizontal
 - Vertical
 - Conglomerate

The two types of mergers

Merger



Consolidation



In Portugal an independent auditor (ROC) must give his opinion on the merger/consolidation project (artº 99º do CSC – companies code)

3. OTHER FORMS OF RESTRUCTURING

Other forms of exchange of control (takeover)

- Buy-back (*aquisições de ações próprias*)
- Initial public offer (*entrada em bolsa*)
- Delisting (*saídas de bolsa*)
- Tender offer (*OPA Ofertas públicas de aquisição*)
 - Cash offer
 - Exchange offer (*oferta pública de troca*)
- Public offer for sale (*ofertas públicas de venda*)
- Privatization
- Leverage buy-out
- Management buy-out
- Management buy-in

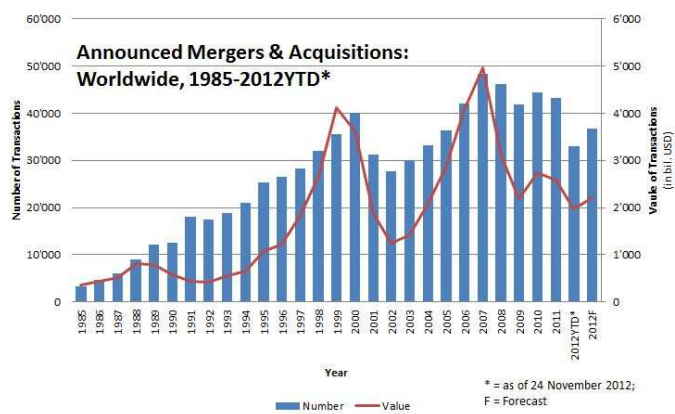
Other forms of restructurings

- SPIN-OFFS (*Cisões*)
 - Split-offs (the holding continues)
 - Split-up (the holding disappears)
- DINVESTIMENT
– Equity carve-out

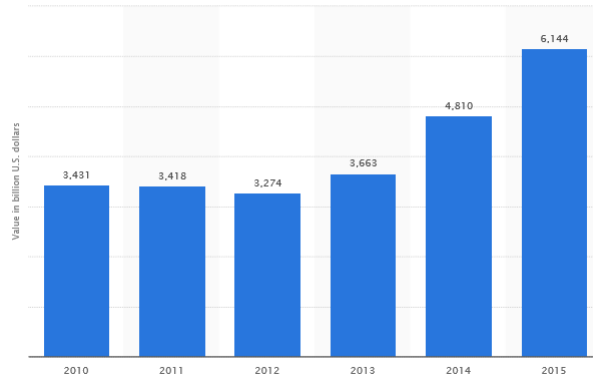
In Portugal an independent auditor (ROC) must give his opinion on spin-offs (artº 99º do CSC – companies code)

4. HISTORY OF MERGERS AND ACQUISITIONS

M&A Waves Worldwide



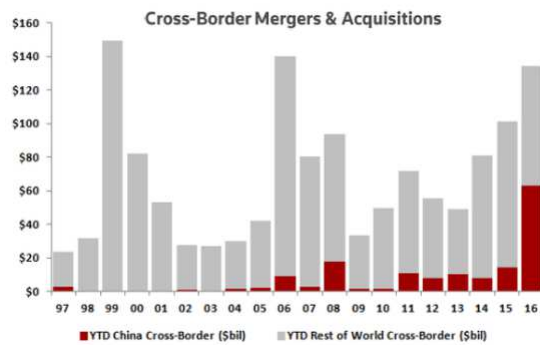
Value of mergers and acquisitions worldwide from 2010 to 2015 (in billion U.S. dollars)



Source: Statista – Statistics Portal

Cross-Border M&A hits 11 yr high

China involvement makes up 47% of YTD activity



Source: Thomson Reuters

Phases of M&A (in USA)

- 1897-1904 * HORIZONTAL AND REGIONAL - Monopolies
 - Mining & manufacturing
 - Infrastructures changes (railway) and production technologies changes
 - Generated monopolies, Economies of production and distribution
- 1916-29 * VERTICAL INTEGRATION AND SPECULATION - Oligopolies
 - Antitrust environment
 - Primary metals, Petroleum, Food and Beverage, Chemicals, transportation equipment
 - Appearance of radio, automobiles – segmentation and distribution
- 1940-47 * AFTER WORLD WAR REGENERATION
 - Large companies buy small companies
 - Regulations and tax relief
- 1965-69 * CONGLOMERATES
 - Companies with financial resources sought to expand
 - Diversification
 - P/E game
- 1981-89 * MEGAMERGERS – CONCENTRATION AND TRANSNATIONAL MERGERS
 - Hostile and speculative
 - Deregulation – Airlines, Banking, etc.
 - Appearance of Raider
- 1990'S * TRANSNATIONAL AND TRANSCONTINENTAL MERGERS
 - Deregulation; Political changes; Technological changes

The biggest mergers of all time

<http://finance.yahoo.com/news/15-biggest-mergers-time-175152979.html>

Theories that explain the merger waves

- Information theory
- Buy or build (q-Tobin ratio)
- Speculation
- Deregulation theory
- Innovation theory (Technology and Financial)
- Prosperity or business cycles

5. M&A PROCESS AND CRITICAL SUCCESS FACTORS

M&A PROCESS CRITICAL SUCCESS FACTORS

Strategy & Business Plan

❑ *CONSISTENCY WITH THE STRATEGY*

Search & Screen

❑ *THE MANAGEMENT TEAM EMPOWERED TO CRITICAL DECISIONS*

❑ *IDENTIFICATION OF VALUE CREATION POTENTIAL*

Valuation

❑ *ECONOMIC RIGOR*

Negotiation

❑ *CREATION OF A POSITIVE ENVIRONMENT FOR NEGOTIATION*

M&A Integration

❑ *PROGRAMS FOR VALUE CREATION*

❑ *PLANNING THE INTEGRATION*

❑ *INCENTIVE SYSTEMS COHERENT WITH VALUE CREATION*

Post M&A Audit

❑ *EVALUATE THE PROCESS AND LEARNING THE VALUE CREATION PROCESS*

Important issues to consider when buying a target company:

- Strategic evaluation is essential
- The purpose of the acquisition is shared by the management
- Assessment of specific risks and benefits
- Careful analysis of the organizational conditions and change management plan and implications
- Very specific programs with clear authority lines and deadlines for implementation
- Maximum price defined in advance

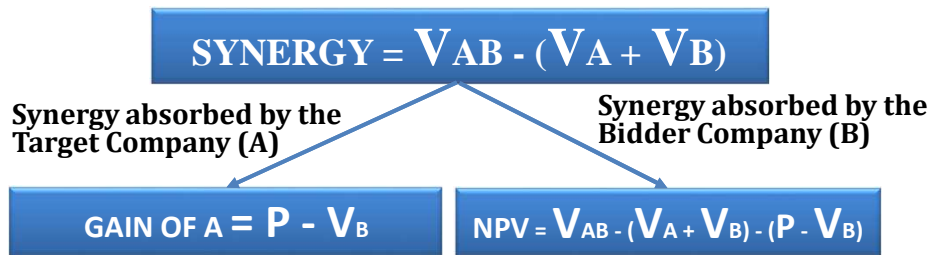
6. FINANCIAL THEORY AND VALUE CREATION

What is Synergy?



$$\text{SYNERGY} = V_{AB} - (V_A + V_B)$$

Calculation of synergy sharing



However empirical research evidences weak performance of M&A

- **MANAGEMENT APPROACH**
 - Managerialism (Reid, 1968; Mueller, 1969)
 - Agency (Jensen & Meckling, 1976)
- **RISK APPROACH** (Gort & Hogarty, 1980)
- **STRATEGIC RELATIONSHIP**
 - Horizontal and Vertical M&A show better performance (Chatterjee, 1986; Sing & Montgomery, 1987; Shelton, 1988)
 - Lack of cultural and strategic compatibility imply weaker performance (Kitching, 1967; Perry, 1986; Hunt, Lees & Vivian (1987)
- **PRICE**
 - Hubris (Roll, 1986)
 - Winner's Curse (Varaya & Ferris, 1987)
- **MANAGING THE PROCESS OF M&A**
 - (Mirvis, 1985; Jemison & Sitkin, 1986; Haspelagh & Jemison, 1991)
- **TIMING OF M&A**
 - (Neves, 1993)

The focus of our course

- Is how to create value through M&A and other forms of corporate restructurings