

# Master in Finance

## Mergers, Acquisitions and Corporate Restructuring 2017-2018 (session 1)

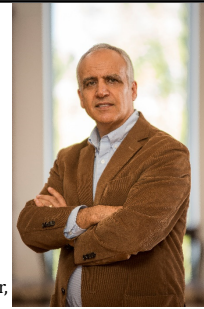
João Carvalho das Neves  
Professor of Business Administration, ISEG

## Teachers

- João Carvalho das Neves
- Telmo Francisco Vieira

### João Carvalho das Neves

Actual: Professor of Business Administration (ISEG) Diretor of the Post-Graduation of Real Estate Management and Valuation; Member of the General and Supervisory Board (EDP – Energias de Portugal SA); Member of Board (MONTEPIO VALOR); Management Consultant (ZENACTION)



#### • Biography:

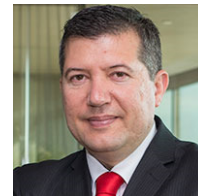
- Ph.D. Business Administration, Manchester Business School; MBA and MSc in Management, ISEG.
- Executive programs: SIYLI (Search Inside Yourself Leadership Institute), INSEAD, IMD, HEC, London Business School, N.Y. Stern University, Wisconsin University Madison, Harvard Kennedy School - Harvard University, 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.
- President of the Central Administration of the Health System during the Troika intervention (2011-2014). Board Member (CFO) SLN e BPN as member of the team of Miguel Cadilhe. Turnaround Manager and Trustee of Torralta, Casino Hotel de Tróia and TVI. Associate Consultant Coopers & Lybrand (now PWC). General Director CIFAG/IPE. Controller Assistant Cometa Industrial Metalurgia e Metalomecânica. Consultant for major corporations: SONAE, SIBS, UNICRE, CGD, CIMPOR, SECLIL, SEMAPA, etc.
- Author of several books: Análise e relato financeiro, Controlo de gestão, Avaliação de empresas e negócios, Avaliação da performance estratégica da empresa, ABC das fusões e aquisições, Análise de investimentos imobiliários, BPN: Estado a mais, supervisão a menos.

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### Telmo Francisco Vieira

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## Program

1. Overview of mergers, acquisitions and corporate restructurings (JCN)
2. Valuation for M&A (JCN)
3. The M&A strategy (TFV)
4. The Due Diligence (TFV)
5. Negotiation styles and strategies (JCN)
6. Financing the M&A and other corporate restructuring (TFV)
7. Accounting and taxation of M&A and other corporate restructuring (TFV)
8. Other forms of restructuring (TFV)
9. Integration of mergers and acquisitions (TFV)

## The focus of our course

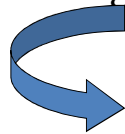
- Is how to create value through M&A and other forms of corporate restructurings

# **1. OVERVIEW OF MERGERS, ACQUISITIONS AND CORPORATE RESTRUCTURINGS**

## **A. 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

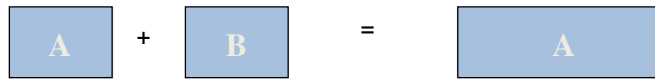
## B. TYPES OF MERGERS AND ACQUISITIONS

## Types of mergers and acquisitions

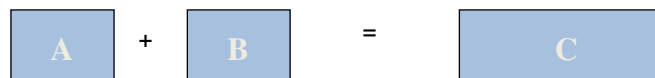
- From the point of view of the equity status:
  - Private negotiation
  - Public offer
- Based on the reaction of the Board of the target company:
  - Friendly takeover
  - Hostile takeover
- From a legal point of view (M&A):
  - Acquisition
  - Merger
  - Consolidation
- From a strategic point of view: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

## C. 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)



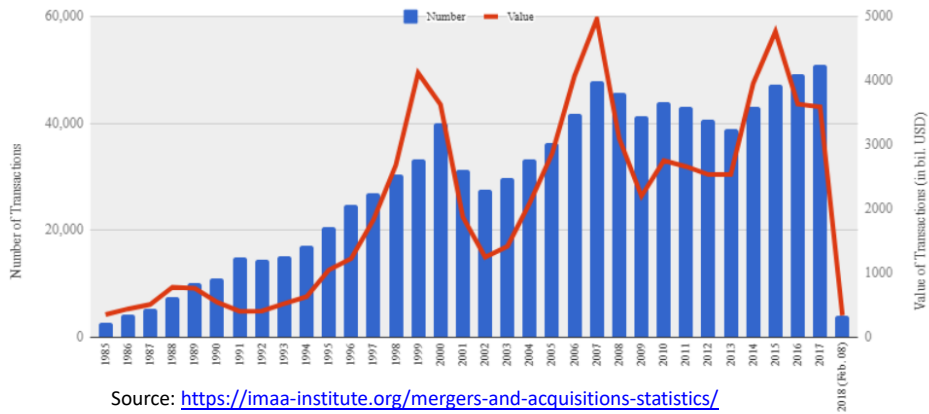
## D. HISTORY OF MERGERS AND ACQUISITIONS

### 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 ECONOMIC 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

# M&A Waves Worldwide

Mergers & Acquisitions Worldwide

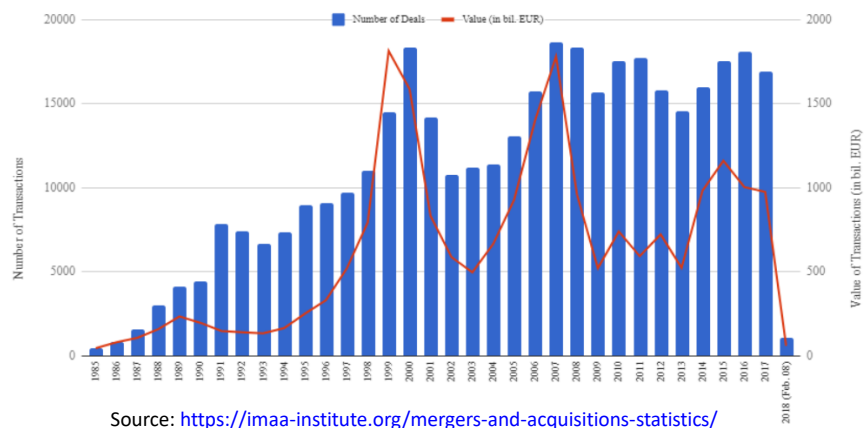


Source: <https://imaa-institute.org/mergers-and-acquisitions-statistics/>

In 2017, companies announced over 50600 transactions with a total value of more than 4.0 trillion USD. Compared to 2016, the numbers of deals grew by 2.9% while the value declined by 2.0%

# M&A in Europe

Mergers & Acquisitions Europe



Source: <https://imaa-institute.org/mergers-and-acquisitions-statistics/>

## 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

## **E. M&A PROCESS AND CRITICAL SUCCESS FACTORS**

## M&A PROCESS

**Strategy &  
Business Plan**

**Search & Screen**

**Valuation**

**Negotiation**

**M&A  
Integration**

**Post M&A  
Audit**

## CRITICAL SUCCESS FACTORS

- CONSISTENCY WITH THE STRATEGY*
- THE MANAGEMENT TEAM EMPOWERED TO CRITICAL DECISIONS*
- IDENTIFICATION OF VALUE CREATION POTENTIAL*
- ECONOMIC RIGOR*
- CREATION OF A POSITIVE ENVIRONMENT FOR NEGOTIATION*
- PROGRAMS FOR VALUE CREATION*
- PLANNING THE INTEGRATION*
- INCENTIVE SYSTEMS COHERENT WITH VALUE CREATION*
- 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

## F. FINANCIAL THEORY AND VALUE CREATION

## Synergy in M&A?



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

## Calculation of synergy sharing

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

$$\text{GAIN OF A} = P - V_B$$

- Synergy absorbed by the Target Company (A)

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

- Synergy absorbed by the Bidder Company (B)

## Question for study

How can you explain why a large number of M&A does not create value?

