



# Master in Finance

## Mergers, Acquisitions and Corporate Restructuring 2018-2019 (sessions 1 and 2)

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## Teachers

- João Carvalho das Neves
- Telmo Francisco Vieira

### João Carvalho das Neves

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

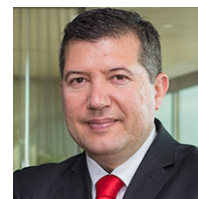


- **Biography:**

- **Academic Training:** Ph.D. Business Administration, Manchester Business School; MBA and MSc in Management, ISEG University of Lisbon.
- **Executive Training:** San Diego University (*MBSR Certified Teacher*), SIYLI - Search Inside Yourself Leadership Institute (*Graduate to teach Mindfulness and Emotional Intelligence*), Manchester Business School, INSEAD, IMD, HEC, N.Y. Stern University, MCE, Wisconsin University Madison, International Centre for Monetary and Banking Studies (*Banking, Finance & Control*), Harvard Kennedy School - Harvard University, London Business School, Creative Leadership Center (*Leadership and Business Coaching*).
- **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.
- **Management Practitioner:** President of Central Administration of the Health System during the Troika intervention (2011-2014). Board Member (CFO) SLN and BPN as member of the team of Miguel Cadilhe. Turnaround Manager of Torralta, Casino Hotel de Tróia and TVI. Associate Consultant Coopers & Lybrand (now PWC). General Director CIFAG/IPE. Controller Assistant Cometna Metalúrgica e Metalomecânica. Consultant for major corporations: SONAE, SIBS, UNICRE, CAIXABANK, CGD, CIMPOR, SECIL, SEMAPA, etc.
- **Author.** 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. Articles in several scientific journals of management and finance.

### Telmo Vieira

- MBA and MSc in Management, ISEG
- Doctoral Student in Management, ISEG
- Assistant Professor in Management, ISEG.
- Director of Studies – Post-graduation in Management & Business Consulting and Business Entrepreneurship, IDEFE/ISEG
- Certified Auditor
- Partner, Premivalor Management Consultant: Corporate Finance, Project Finance and Strategy
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## Topics

- Overview of mergers, acquisitions and corporate restructurings (JCN)
- The M&A strategy (JCN)
- Valuation for M&A (JCN)
- Negotiation styles and strategies (JCN)
- The Due Diligence (TFV)
- Financing the M&A and other corporate restructuring (TFV)
- Accounting and taxation of M&A and other corporate restructuring (TFV)
- Other forms of restructuring (TFV)
- Integration of mergers and acquisitions (TFV)

## The focus of our course

- How to create value for stakeholders and particularly shareholders 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**

## Why M&A happens

- Different forms of synergies
  - Economies of scale
  - Economies of scope
  - Complementary technical assets and skills
  - Financial synergy
- Growth / Diversification
  - New products to current markets
  - Current products to new markets
  - New products and new markets
- Strategic realignment
  - Technological change
  - Regulatory and political change
- Hubris
- Undervalue assets (Q ratio)
- Managerialism
- Tax issues
- Market power
- Misvaluation



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9

## 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

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10

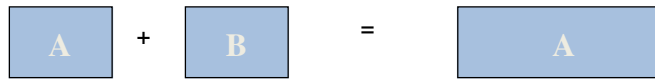
## B. TYPES OF MERGERS AND ACQUISITIONS

## Types of mergers and acquisitions

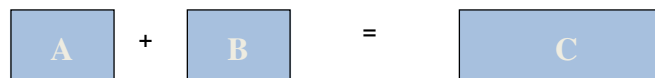
- From the point of view of the equity status:
  - Private negotiation
  - Public offer
- Based on the reaction of the Board of the target company:
  - Friendly takeover
  - Hostile takeover
- From a legal point of view (M&A):
  - Acquisition
  - Merger
  - Consolidation
- From a strategic point of view: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

## The two types of mergers

### Merger

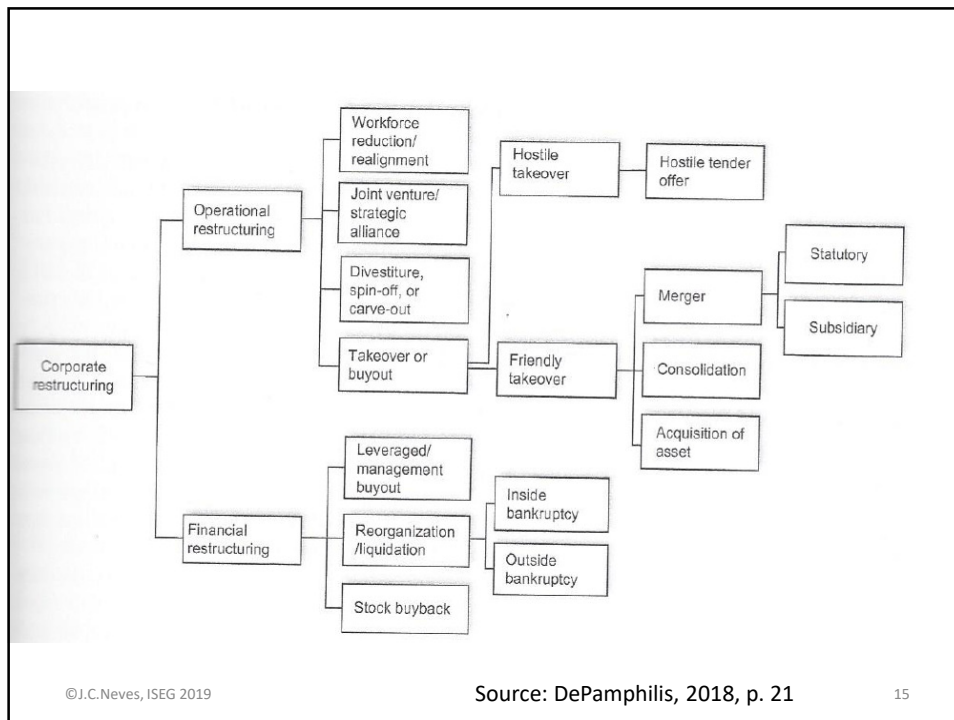


### Consolidation



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



## Spin-offs and equity carve-outs

- SPIN-OFFS (Cisões)
  - Split-offs (the holding continues)
  - Split-up (the holding disappears)
- DIVESTMENT
  - 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 MERGER WAVES



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17

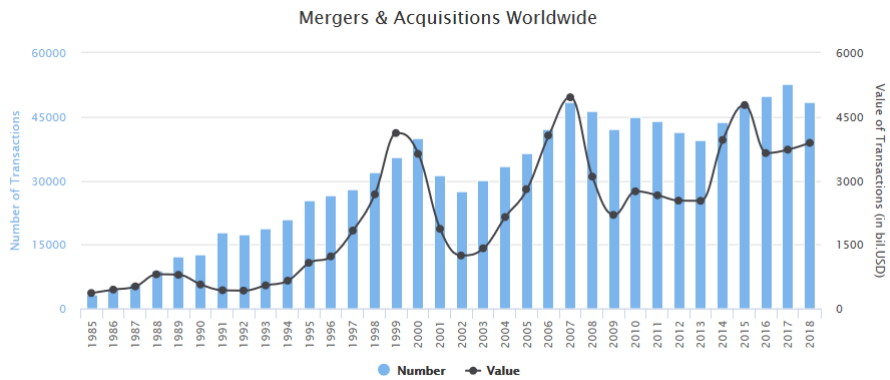
## Phases of M&A

- 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 (IN EUROPE – Not mentioned by DePamphilis)
  - 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 \* RETRENCHMENT ERA
  - Break-up of conglomerates
- 1981-89 \* MEGAMERGERS – CONCENTRATION AND TRANSNATIONAL MERGERS
  - Hostile and speculative
  - Deregulation – Airlines, Banking, etc.
  - Appearance of Raiders, Activism
- 1990'S \* TRANSNATIONAL AND TRANSCONTINENTAL MERGERS
  - Deregulation; Political changes; Technological changes

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18

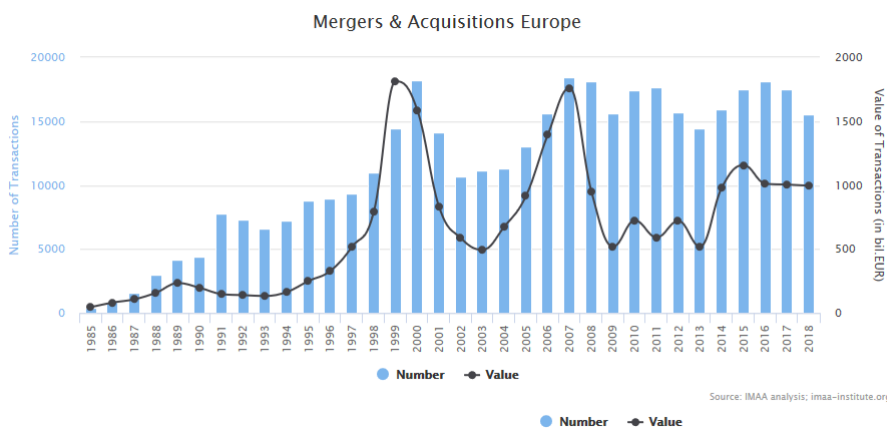
# M&A Waves Worldwide



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

Since 2000, more than 790'000 transactions have been announced worldwide with a known value of over 57 trillion USD. In 2018, the number of deals has decreased by 8% to about 49'000 transactions, while their value has increased by 4% to 3.8 trillion USD.

# M&A in Europe



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

## Factors contributing to increasing M&A activity

- Shocks (e.g., technological change, deregulation, and escalating commodity prices)
- Ample liquidity in the financial markets/banking
- Low interest rates
- Overvaluation of acquirer share prices relative to target share prices
- Improving business confidence

## 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

## Why it is important to anticipate merger waves?

- Rule to make money: Buy low, sell high
- Buying late in the cycle is too expensive and those acquirer would show lower returns
- M&A activity is grounded on economic fundamentals

## **E. PARTICIPANTS**

## Participants besides bidder and target

- Regulators
  - Stock market regulators and antitrust. Industry specific: banking, insurance, energy, transportation, etc.
- Providers of specialized services
  - Investment banks, lawyers, accountants/auditors, public relations firms
- Institutional Investors and Lenders
  - Commercial banks, Investment banks, Private equity, Venture capital, Sovereign wealth funds, Angels investors
- Activist investors
- M&A arbitrageurs

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

## M&A PROCESS

**Strategy &  
Business Plan**

**Search & Screen**

**Valuation**

**Negotiation and  
closing contracts**

**M&A  
Integration**

**Post M&A  
Audit**

## CRITICAL SUCCESS FACTORS

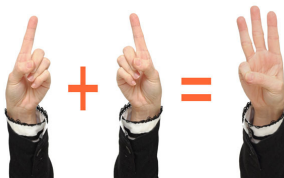
- CONSISTENCY WITH THE STRATEGY*
- THE MANAGEMENT TEAM EMPOWERED TO CRITICAL DECISIONS*
- IDENTIFICATION OF VALUE CREATION POTENTIAL*
- ECONOMIC RIGOR*
- CREATION OF A POSITIVE ENVIRONMENT FOR NEGOTIATION*
- PROGRAMS FOR VALUE CREATION*
- PLANNING THE INTEGRATION*
- INCENTIVE SYSTEMS COHERENT WITH VALUE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

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

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

- Synergy absorbed by the Target Company (A)

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

- 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?

