



Master in Finance

Mergers, Acquisitions and Corporate Restructuring 2019-2020

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Teachers

- João Carvalho das Neves
- Telmo Francisco Vieira

João Carvalho das Neves

Actual: Professor of Business Administration (ISEG) Director 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
- Major sectors: Health, Energy, Security

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Topics

- Overview of mergers, acquisitions and corporate restructurings (JCN)
- The M&A strategy (JCN)
- Financial Modeling and Valuation for M&A (JCN)
- Negotiation styles and strategies (TFV)
- 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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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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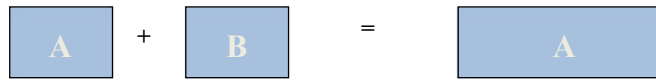
B. TYPES OF MERGERS AND ACQUISITIONS

Types of mergers and acquisitions

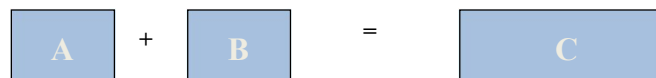
- From the point of view of the equity status:
 - Private negotiation
 - Public offer
- Based on the reaction of the Board of the target company:
 - Friendly takeover
 - Hostile takeover
- From a legal point of view (M&A):
 - Acquisition
 - Merger
 - Consolidation
- From a strategic point of view:
 -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

The two types of mergers

Merger

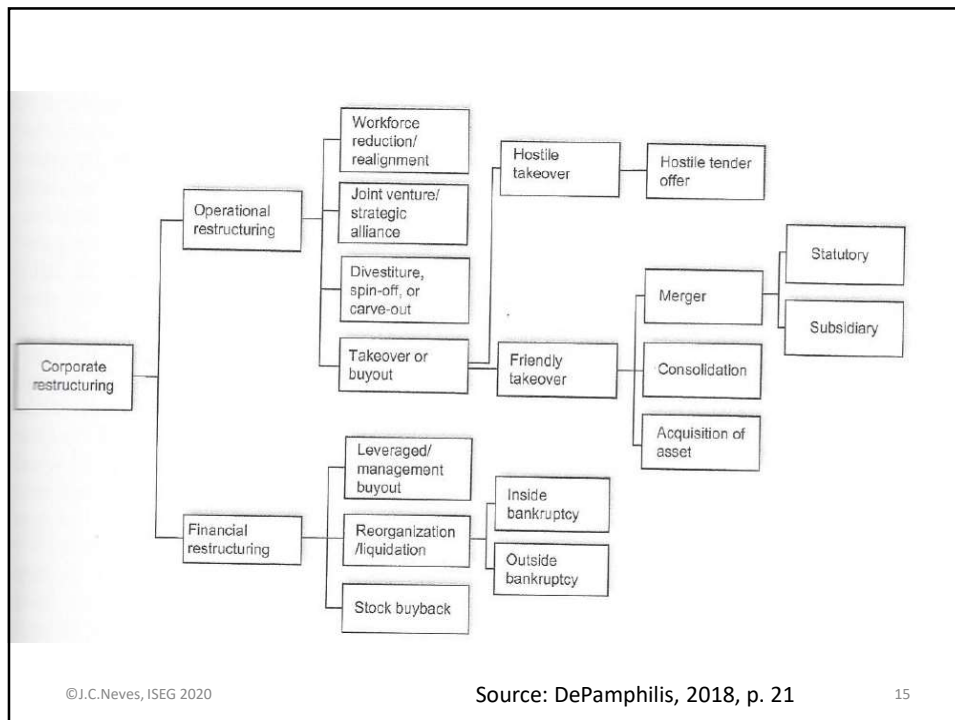


Consolidation



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 (art^o 99^o do CSC – companies code)

D. HISTORY OF MERGER WAVES



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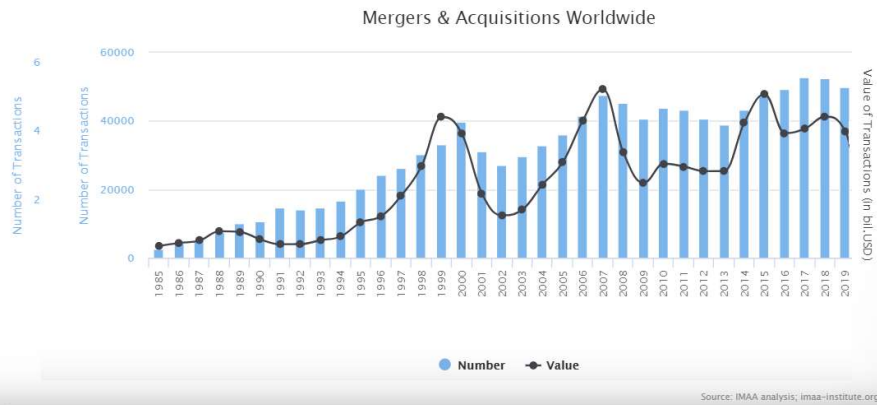
Phases of M&A

- 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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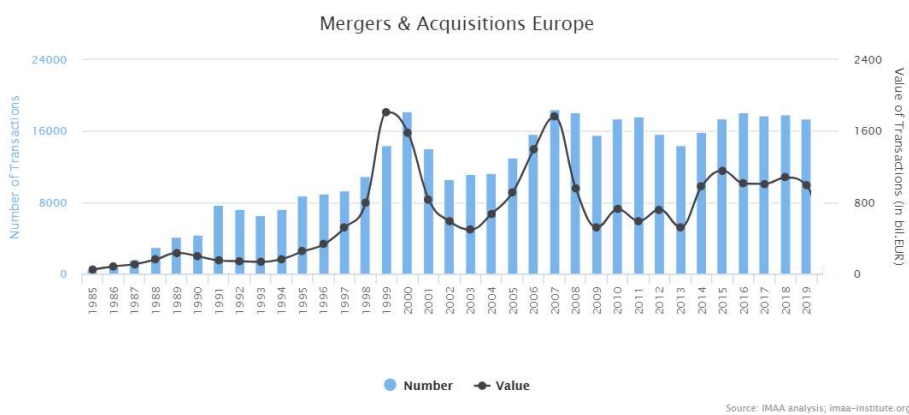
M&A Waves Worldwide



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?

