



Lisbon School
of Economics
& Management
Universidade de Lisboa

Mergers, Acquisitions and Restructurings of Companies



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Course Syllabus

- 1. Overview of mergers, acquisitions and corporate restructurings | M&A Fundamentals:** We will start with the basics, understanding the rationale behind mergers and acquisitions, the different types of transactions, and the role they play in Corporate Finance and in Economies.
- 2. Valuation Techniques:** Different valuation methods will be addressed for assessing the value (Enterprise Value and Equity Value) of target companies, from discounted cash flow analysis to Market comparable based approach or Relative valuation.
- 3. Due Diligence:** We will explore the intricate process of due diligence, which is crucial for uncovering hidden risks and opportunities in M&A deals.
- 4. Negotiation techniques and strategies:** This is a critical component of the M&A process to succeed in closing the deal.
- 5. Deal Structuring:** Learn how to structure deals effectively, considering financial, tax, and legal aspects.



Course Syllabus (cont.)

6. **Financing the M&A and other corporate restructurings:** In a time when interest rates are increasing it is crucial to define an appropriate financing structure for the company acquisition.
7. **Corporate governance models and M&A:** Discover how effective corporate governance shapes M&A strategies and outcomes.
8. **Post-Merger Integration:** Discover the challenges and strategies involved in integrating two organizations successfully after a merger.
9. **Real-world Case Studies:** We will analyze real-world M&A cases to apply theoretical knowledge to practical scenarios, enhancing problem-solving skills.
10. **Ethical Considerations:** Understand the ethical dimensions of M&A transactions and the responsibilities of Corporate Finance professionals.



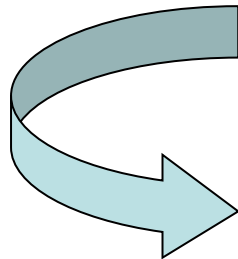
1. The importance of Mergers, Acquisitions and Restructuring of Companies

The importance of MAR

Advantages of the processes of Mergers, Acquisitions and Restructuring

Global Perspective

- 1) Earnings through Synergies and Scale Economies
- 2) Optimization of the cost structure
- 3) Sharing of technology and know-how among companies
- 4) Sharing of information



Increasing of competitiveness

Renewal of the business environment

-
- 1. *Types of Mergers and Acquisitions***
 - 2. *Why a merger and acquisition process***
 - 3. *Global perspective about a Merger and Acquisition process - methodology***
 - 3.1. Steps of an acquisition process
 - 3.2. Steps of a sale process



2. Types of Merger and Acquisitions

Mergers

It is a strategy which follow two companies that agree to incorporate their operations in the same one.

Situations where the companies, independent from the point of view of the rights of the property, that come to belong to the same company.

Types of companies' combinations (mergers and acquisitions)

1. Horizontal
2. Vertical
3. Conglomerates
4. Concentrics

Types of Mergers and Acquisitions

1. Horizontal

They are mergers and acquisitions among companies that operate in the same activity sector or industry.

Two main perspectives about what the horizontal mergers and acquisitions are for.

- Theory of the maximization of the value
- Theory of the management

Types of Mergers and Acquisitions

1. Horizontal

Theory of the maximization of value

The theory of maximization of value in mergers and acquisitions (M&A) is a fundamental principle that guides companies when they engage in M&A activities.

This theory posits that the primary objective of M&A transactions should be to increase the overall value of the combined entity (i.e., the merged or acquiring company) for the benefit of its shareholders.

In essence, it emphasizes that M&A should create **more value for shareholders** than **if the companies** were to **remain separate**.

Types of Mergers and Acquisitions

1. Horizontal

Theory of the maximization of value

This theory is based in the:

- Increase of the efficiency in the production and distribution
- Increase of the market power
- Increase of the dealing capacity
- Reconfiguration, rationalization, improvement in the use of core competencies
- Scale economies

Types of Mergers and Acquisitions

1. Horizontal

Theory of the management

- Management “not enough” of the target company

Types of Mergers and Acquisitions

1. Horizontal

Example of a horizontal merger:

Travelling agencies

Reasons for the merger

- Enlargement of the distribution channel -the branch network with national coverage
- Increase of the dealing capacity with suppliers (tour operators, hotels, etc)
- Rationalization of processes and more efficient use of the human resources
- Internacionalization



Types of Mergers and Acquisitions

2. Vertical

They are mergers and acquisitions among companies that operate in **different phases of the value chain** of a product or service. It is found potentially in a supplier-customer relation.

When a company buy another company that is located upstream or downstream in the value chain.

The vertical integration has effects on the capital cost, operational cost, associated risks and effectiveness of the coordination.

Types of Mergers and Acquisitions

2. Vertical

Reasons for the existence of the vertical mergers

- Participation in stages of the value chain with higher value added
- Guaranteed access to other markets
- Technology economies
- Elimination or decrease of the cost of researching, publicity, communication, coordination of the production, billing and other transaction costs
- Improvement in inventory and production planning due to the more efficient information flows
- Decrease the cyclic or seasonal aspects and uncertainty at the search
- Decrease the duration of the market failures affecting to the company
- Higher proximity of the real customers

Types of Mergers and Acquisitions

2. Vertical

Example of vertical merger

Firm Foundations and Geotechnical and metalworking company – vertical merger with upstream integration

Reasons for the merger

- Entry into a new market segment that shows synergies with current business
- Decrease the risk inherent to inactivity periods due to breakdowns in the material
- Cost economy in the components acquisitions
- Higher control of the value chain



Types of Mergers and Acquisitions

3. Conglomerate

They are mergers and acquisitions among companies that operate in **markets without any relation**, making a diversification strategy.

Types of Conglomerate

- ❖ Financial control
- ❖ Enterprises, strategies, or of management

Advantages

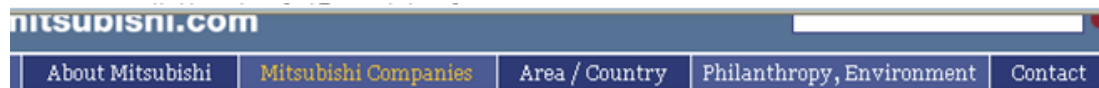
- Taking advantage of the business opportunities in different sectors of activity
- Flexibility and opportunity
- Security/ strength
- Risk management through the diversification of activities

Types of Mergers and Acquisitions

3. Conglomerate

Examples of conglomerate

- Mitsubishi
- Siemens
- General Electric
- ...



The Mitsubishi Companies Web Site Search

The options below apply to Mitsubishi Directory searches only :

By Alphabetical Order												
A	B	C	D	E	F	G	H	I	J	K	L	M
N	O	P	Q	R	S	T	U	V	W	X	Y	Z

By Industry			
Banking & Securities	Foods	Nonferrous Metals	Services
Chemicals	Hotel	Organizations	Steel Products
Commerce	Incorporated Foundations	Precision Machinery	Temporary Work Services
Construction	Information, Communication & IT	Pulp & Paper	Textiles & Apparel
Consulting & Research	Insurance	Real Estate	Transport Equipment
Elderly Care	Machinery	Resources & Energy	Travel & Recreation
Electrical Machinery	Metal Products	Rubber Products, Ceramics & Glass	Warehousing & Transport
Environments	Mining		

Types of Mergers and Acquisitions

4. Concentrics

The Concentrics mergers and acquisitions are carried out among companies that operate in **different markets**, they have as a goal the attainment of earnings coming from common situations.

In special, these situations are the markets, the processes and the technologies that both use.

The most typical example of these types of merger is the case of bank and insurance sector:

- The banks employees try to sell the services of the insurance companies and vice versa.



Exercise 1

***Examples of different Types
of Mergers and Acquisitions***

Exercise

Presentation of the next points by the class **working groups**:

- Example of a vertical merger/acquisition
- Example of a horizontal merger/acquisition
- Example of a conglomerate merger/acquisition
- Example of a concentric merger/acquisition

Additionally, it should be done

Reasons for the realization of this type of operation.



3. Why a merger and acquisition process

Reasons for the operations of business concentrations

Reasons for the mergers

❖ Market power

❖ Decrease of the competitors

Mergers can decrease the competitors in the market among the companies that performed the merger and the rest of the companies of the industry allowing higher earnings for the companies that made the merger. There is a higher probability of practices of “*concerted action*”.

❖ Change of the market structure

The effect that produces a merger is, in some cases, that companies decide to set **higher prices**, and, in this way, they do not need to generate a so high turnover to achieve earnings.

Ex. Bus transportation of passengers Lisbon-Algarve

- Decrease on the number of available schedules/hours
- Increase of the price of the tickets
- Decrease in the quality of service

Reasons for the operations of business concentrations

Reasons for the mergers

❖ Operational efficiency

Many times, the operations of business concentration are carried out in order not to increase the market power but to increase the production efficiency.

Mergers may seek to obtain increases in operating efficiency, i.e., a profit maximization and minimization of costs of the companies involved.

The main causes of these increases of efficiency are:

- Scale economies
- Faster recovery effect experience curve

Reasons for the operations of business concentrations

Reasons for the mergers

❖ Management efficiency

❖ Financial earnings

Due to the possibility of the resulting company of the merger finances itself at an average lower cost than an individual company, this advantage will result in financial earnings / improvement.

In case there are a company with positive earnings and another with negative earnings, there may be a tax advantage.

Reasons for the operations of business concentrations

Reasons for the mergers

❖ Acquisition of undervalued assets

Due to the fact that in specific situations the market value of some companies can be considered lower than its potential value which drives the maximization of the company acquirer.

For example:

If the **seller is inefficient**:

economic value (*owner value*) < market value

If the specific **buyer has scale/synergies economies**:

economic value (*intrinsic value*) > market value

❖ More optimistic Valuation of the target company

Mergers can happen when the buyer, having into account the uncertainty that exists, makes a more optimistic valuation of the company than the seller.

Reasons for the operations of business concentrations

Acquisitions

It is a strategy which consists in the acquisition of a control participation of a company by another company with the intention of transforming the acquired company in a subsidiary company inside of its business portfolio.

The **Takeover** is a special kind of strategy in which the management of the target company was not heard/agreed with the proposition of company acquisition by the acquiring company (*).

(*) Note: There are several strategies of defense on the part of the target company.

Reasons for the operations of business concentrations

Reasons for the Acquisitions

- **Cost of development of new products or services** – The acquisition of a company makes return more predictable, a fast entry into the market and a fast access to new capacities.
- **Overcoming barriers to entry** – The acquisition of a company already set will be able to provide a more efficient way of coming into the market as a competitor, at the same time, that provides to the acquirer company an immediate access into the market.
- **Learning and development of new competences** – With the acquisitions, the company can acquire new aspects that it did not have.
- **Dimension** – Increase of efficiency inherent to the scale economies and higher market power.
- **Managers clearly focused on acquisitions** – The managers of the acquiring company concentrate exaggeratedly their attention in the acquisition process what can create a perspective of short term.

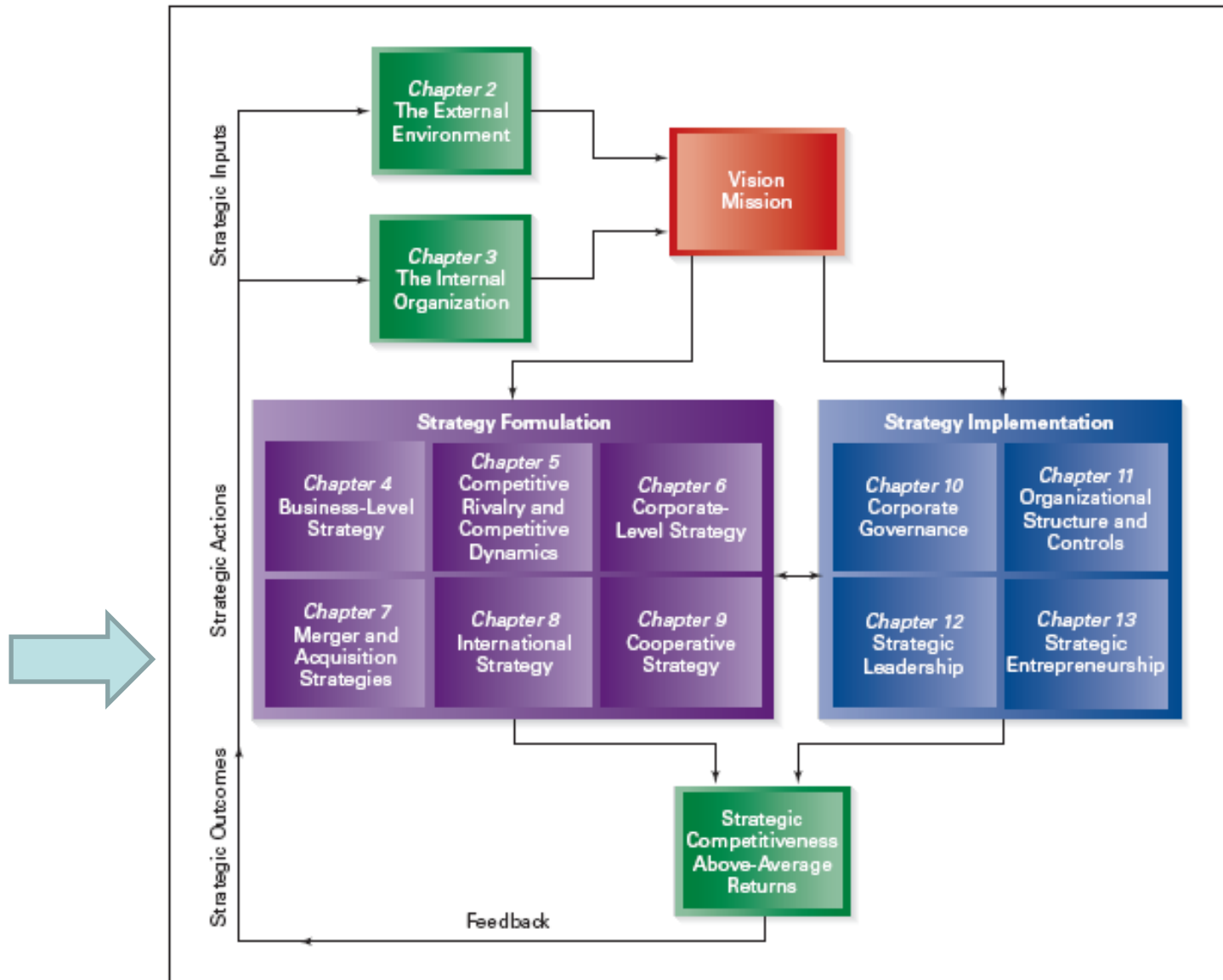
Reasons for the operations of business concentrations

The importance of the process of merger, acquisition and restructuring in the modernization of the economy

The mergers and acquisitions, if they **succeed** in the implementation permit:

- Increase the earnings and the value of the companies involved
- A possible increase of the profitability and the market share
- Regeneration of the business environment
- Sharing of information
- Sharing of technology and, therefore, development of it
- Increase of competitiveness

The Strategic Management Process





***4. Global perspective
concerning a process
of merger or
acquisition -
methodology***

Making a purchase or sale operation

A significant part of the operations of purchase and sale of companies fail.

Some of the reasons which they **fail**

- Insufficient planning of the operation
- Lack of methodology
- Unexpected situations appear during the process
 - Accounting problems
 - Tax contingences
 - Legal contingences
- No agreement concerning the price or purchase conditions
- Withdrawal of the counterparty
- Lack of specialized support

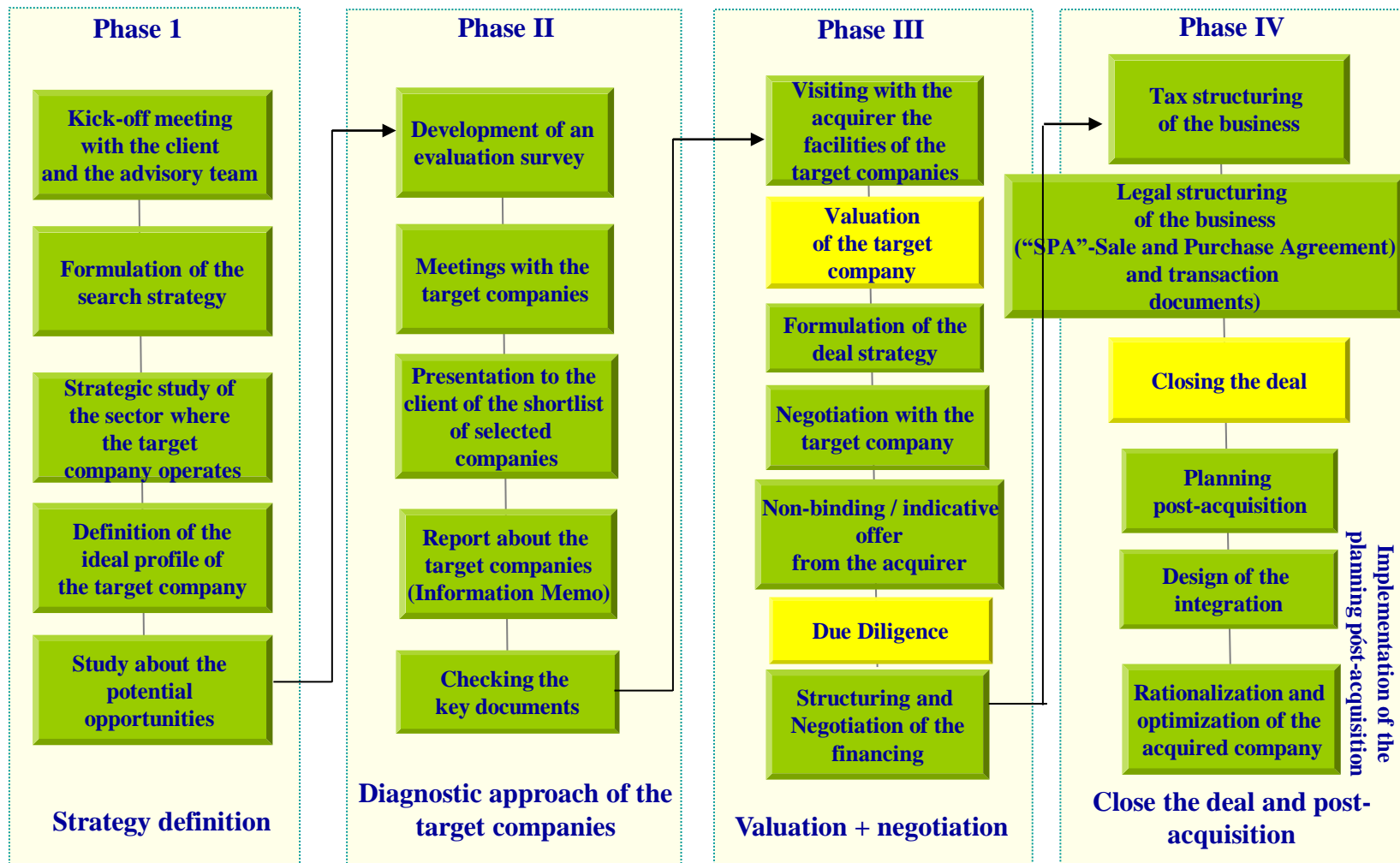


In order to **reduce the probability of unsuccessful** in a purchase or sale operation it should be followed a working **methodology** that consists in several steps.



4.1. Stages of a process of **acquisition**

Stages of an acquisition process



Exercise

Identify recent cases of M&A operations in Portugal or in your home countries, the amount involved and the rationale for the operation

Recent M&A Deals

Year	Acquirer	Acquirer's industry	Target	Target's industry	Enterprise Value/Equity [Mio.]	Rational
2023	Siemens Energy	Energy	Siemens Gamesa Renewable Energy (SGRE)	Energy	In 2022, a voluntary cash tender offer was made to all outstanding shares (approx. \$4.300 million)	Merged company can benefit from significant cost and sales synergies to stop the downward trend at the Spanish subsidiary (SGRE)
2021	BBVA	Banking	Garanti Bank	Banking	\$ 2 600	Expansion to turkish market
2022	Advent International (60%) LANXESS (40%)	Investment Fund Chemistry	DSM Engineering materials	Specialty materials manufacturing	\$ 3 700	Creating a global player in sustainable plastics
2019	Accessbank	Banking	Diamond bank	Banking	\$ 235	Acquisition of a stronger bank
2022	Internaco Enterprises Group	Forestry industry, Gardining sector	Maunça	Agricultural machine distributor	Not disclosed	Market expansion into Iberian market
2023	Panoro Energy	E&P (Exploartion and production company, focus on oil)	Beender's stake in Sfax Petroleum	Oil	\$ 18,2	Growth strategy. Acquisition materially increases the interest of Panoro in the production of TPS assets (five low-cost oil fields in Tunisia and an 87.5% stake in the Sfax offshore exploration permit)

STRATEGIC ASSESSMENT

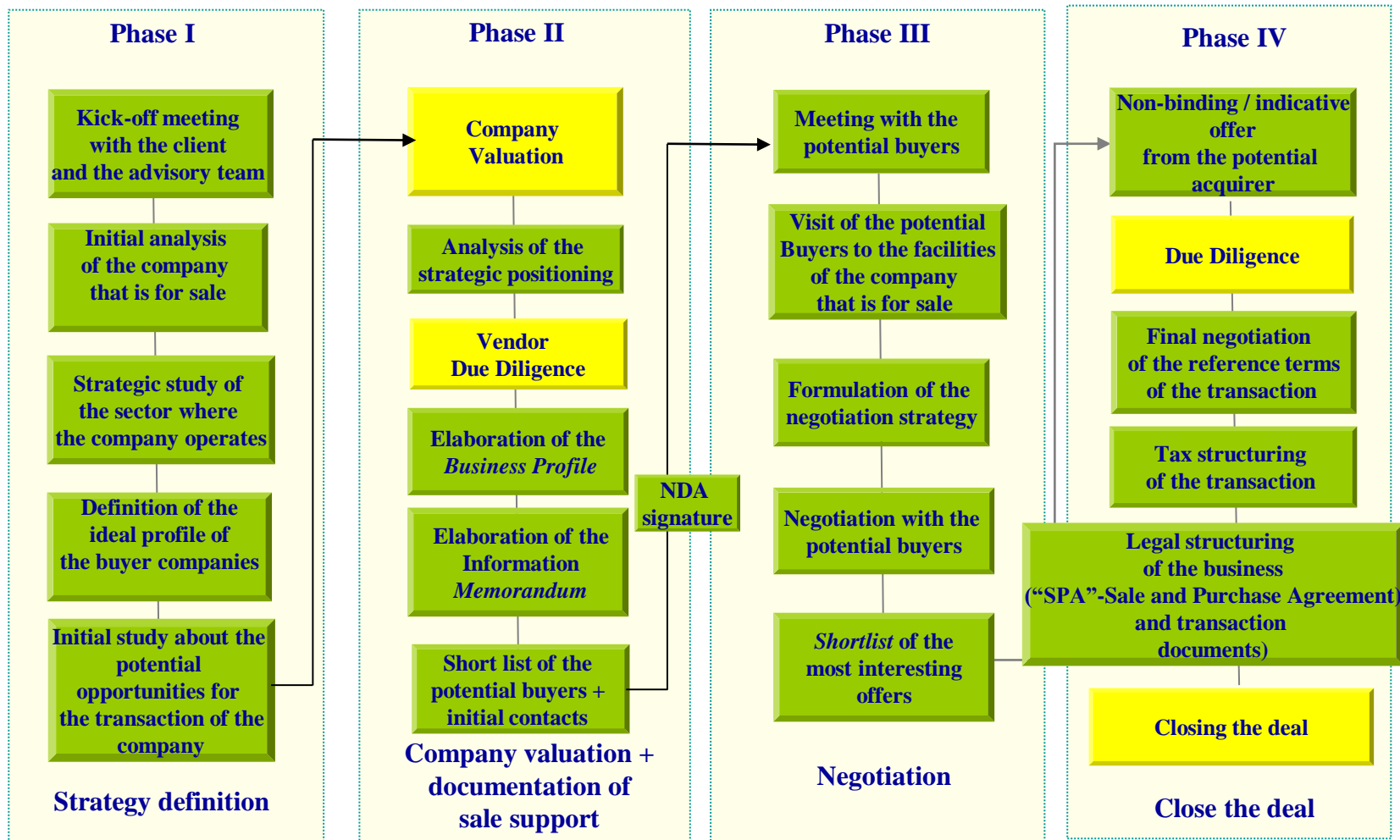
EIGHT KEY QUESTIONS FOR STRATEGIC ASSESSMENT

1. What is the **strategic logic** behind the acquisition? Why this company?
2. Is the target **industry attractive**? What are the key segments? What is the prognosis for industry evolution?
3. Is this an **international acquisition**? What are the key differences and performance implications?
4. Does an **analysis of the target** indicate it is healthy and viable?
5. How well does the **company fit** with our company? What are the expected benefits? What **risks** might occur?
6. How will the organization be **integrated** – how will it be organized?
7. Have **alternative scenarios** been considered? What is the best case/worst case scenario?
8. Is the **valuation reasonable**?



4.2. Stages of a **sale** process

Stages of a sale process



Making a purchase or sale operation

Some of the stages shown at the previous diagrams may not happen exactly in that order, taking place situations in which can and must be developed in parallel or in another sequence to the presentation.



Exercise 2

M&A Trends

Exercise

M&A Trends

1. What are the major trends for the current year and next year concerning M&A?
2. What are the sectors with higher potential for M&A operations internationally? And in Portugal? Why?
3. Identify some job offers in M&A activity currently open. What are the main requests for the position? What is the salary offer?

Restructuring strategies

- **Three restructuring strategies**

More detail in chapter 11 (Gaughan, Patrick A.)

- 1. Downsizing**

Reduction in the number of firms' employees (and possibly the number of operating units) that may or may not change the composition of businesses in the company's portfolio.

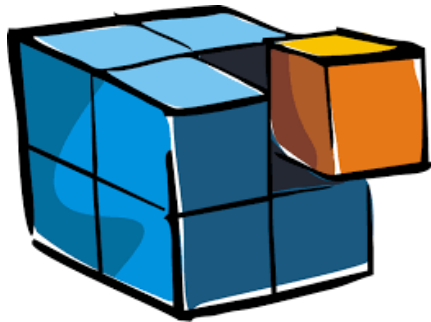
- 2. Down scoping**

Eliminating businesses unrelated to firms' core businesses through divestiture, spin-off, or some other means.

- 3. Leveraged buyouts (LBOs)**

A leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition.

The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.



Exercise 3

- i) Identify 2 examples of recent spin-offs***
- ii) Present the rationale for those spin-offs***
- iii) On the sequence of the COVID-19 pandemic and now with the war in Europe what can be the expectations concerning spin-offs?***

Rationale for some Spin-offs

Name of Parent Company	Name of Spin Off	Year	Reasons of Spin off
Mercedes Benz	Daimler AG	2021	Improve profitability
			Rebranding Mercedes
			Accelerate research and investments
IBM	Kyndryl	2021	Growing
			Shifting their focus on the portfolio
Smith & Wesson	American Outdoor Brands	2020	Focus on the own portfolio
			Different locations
			Parent company could focus on the core business
Warner Media LLC	Warner Bros Discovery	2022	Market position
			Higher return for shareholders because attractive expected results of the new company
Altria Group	Philip Morris International	2008	Regulatory and legal constraints for the parent company
			Different markets
L Brands	Victoria Secret	2021	Bad financial performance of the spin off company
			Strong competition
Siemens Group	Siemens Energy AG	2020	Focus on the core business
			Improve of operational performance of the parent company
Walt Disney Company	Century Fox	2019	
Ebay	Pay Pal	2014	Focus on the core business
			Flexibility

March 2022

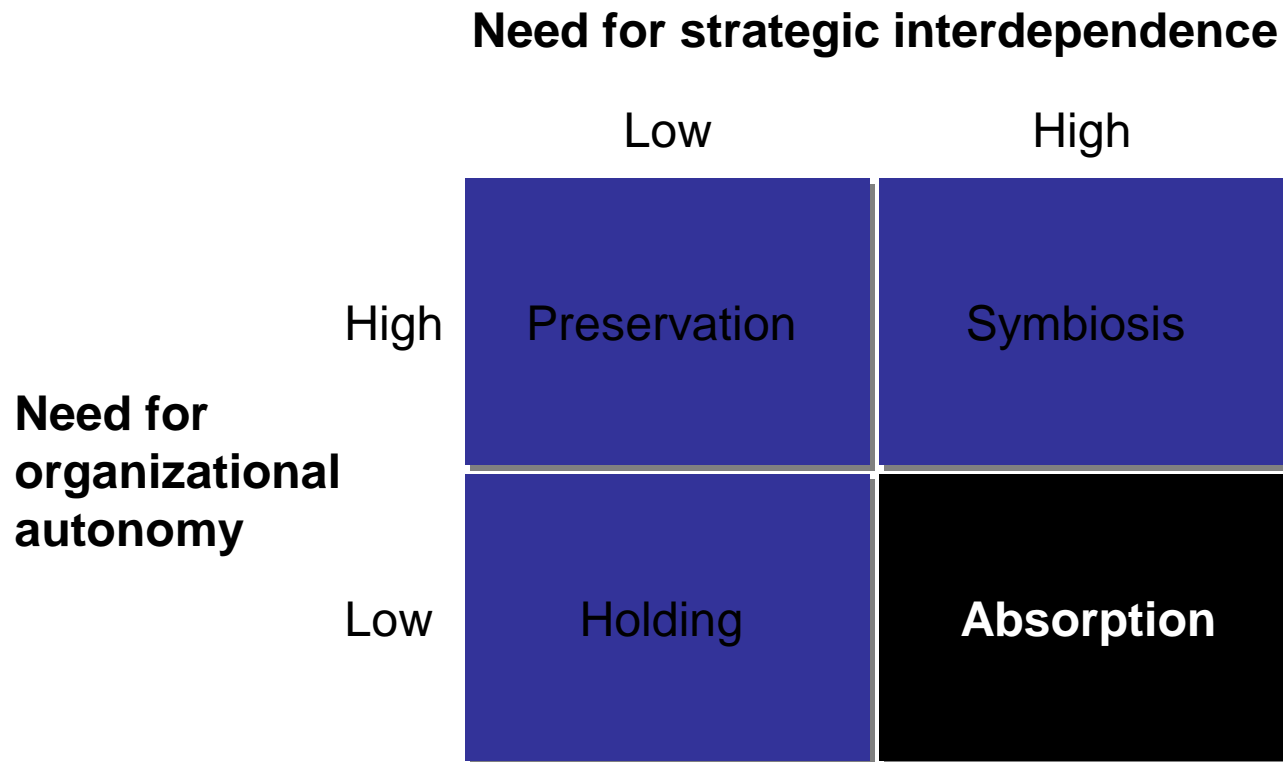
Rationale for some Spin-offs

Name of Parent Company	Name of Spin Off	Year	Reasons of Spin off
Abbott Laboratories	Abbvie		Disparate directions of the business
Vodafone	Vantage Towers	2021	Paying debt of the parent company
			Spin off company undervalued
Tencent	JD.com	2022	Growth of the company
			Sector sanctions in China
CNH	IVECO	2021	Focus on sectors
			Optimize costs and capital structure
DELL	VMWare	2021	Focus on core business
			Increase efficiency of capital structure and allocation
			Better scoring for parent company
Zimmer Biomet	ZimVie	2022	Focus on the business
			Different management strategies
Exelon	Constellation Energy	2022	Tax benefits for the Spin off
			Different organizational culture, vision & mission

March 2022

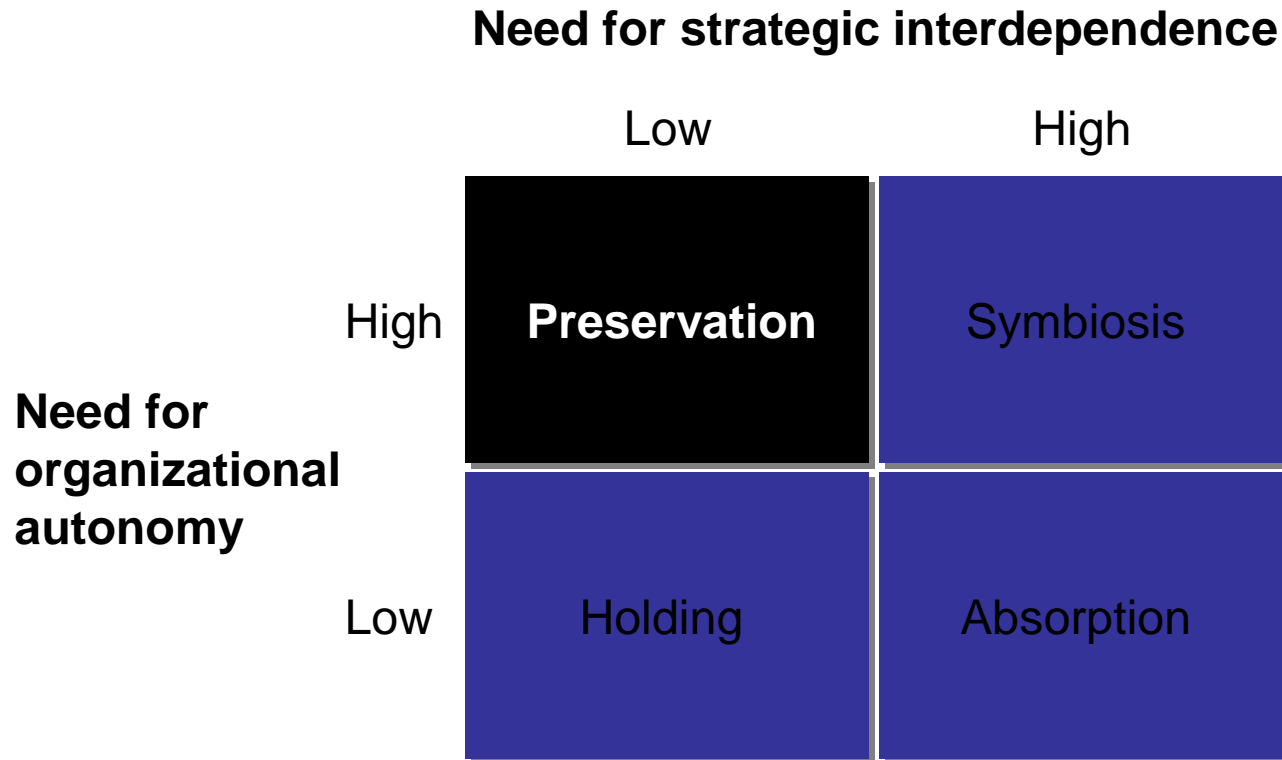
M&A STRATEGIES

Absorption

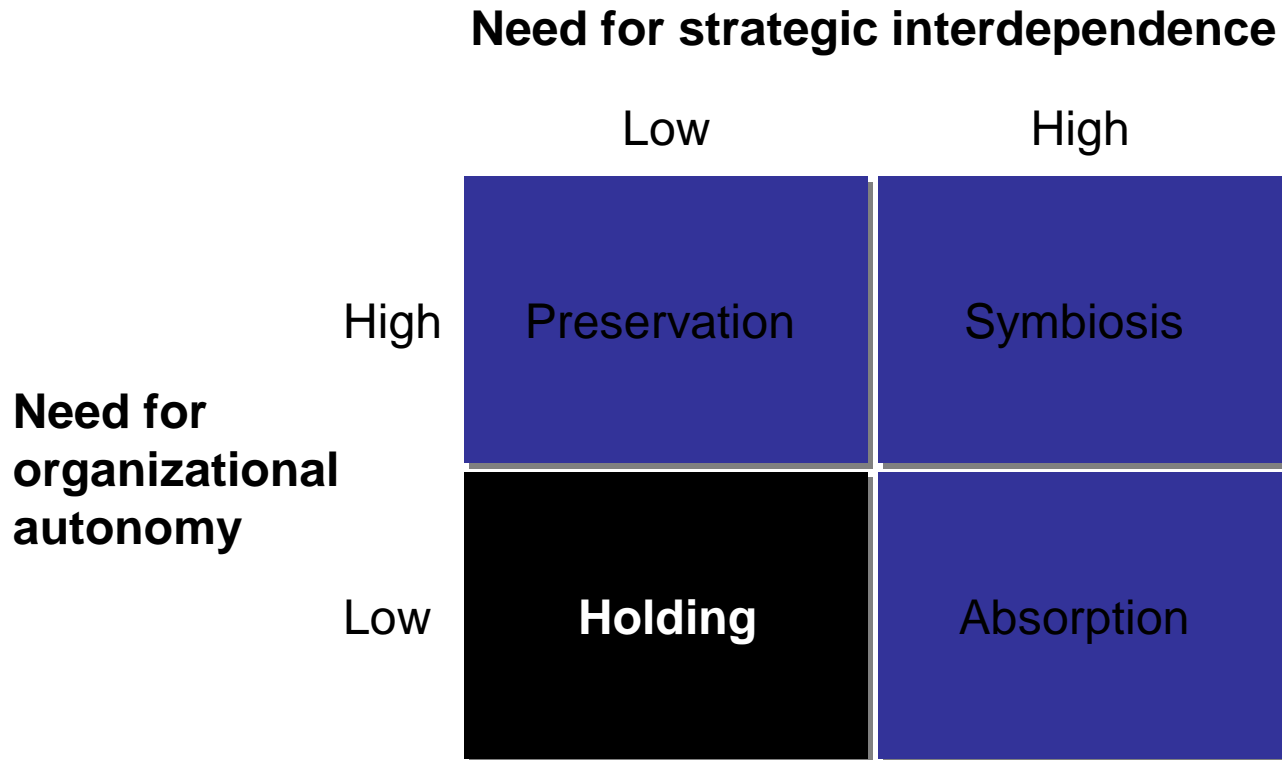


Acquiring company completely absorbs the target company. If the target company is large, this can take time

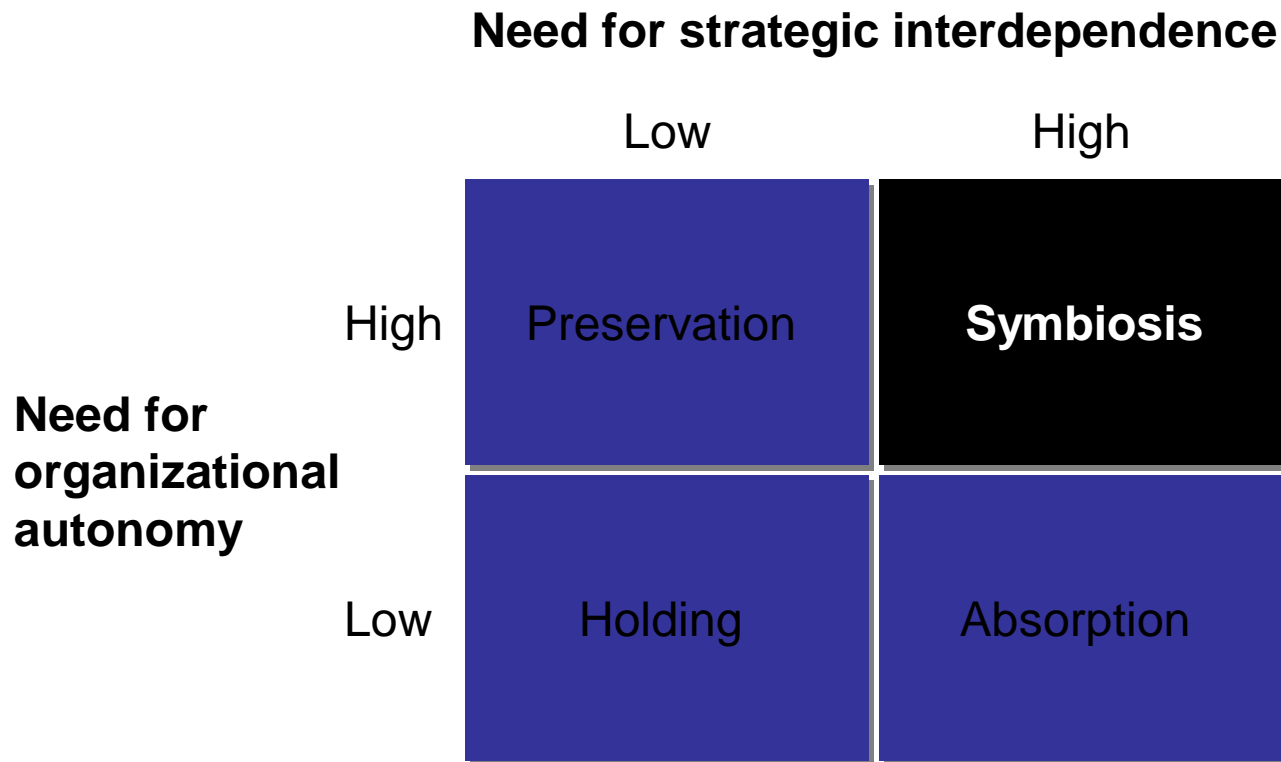
Preservation



The acquiring company makes very few changes to the target, and instead learned from it in preparation for future growth (e.g., many of Wal-Mart's early international acquisitions)



The acquiring company allows little autonomy - yet does not integrate the target into its businesses (e.g., Bank One's acquisitions of local banks)



The acquiring company integrates the target in order to achieve synergies - but allows for autonomy, for example to retain and motivate employees. This is possibly the most difficult to implement (e.g., Cisco's acquisitions which cost the firm \$1 million per employee on average)

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