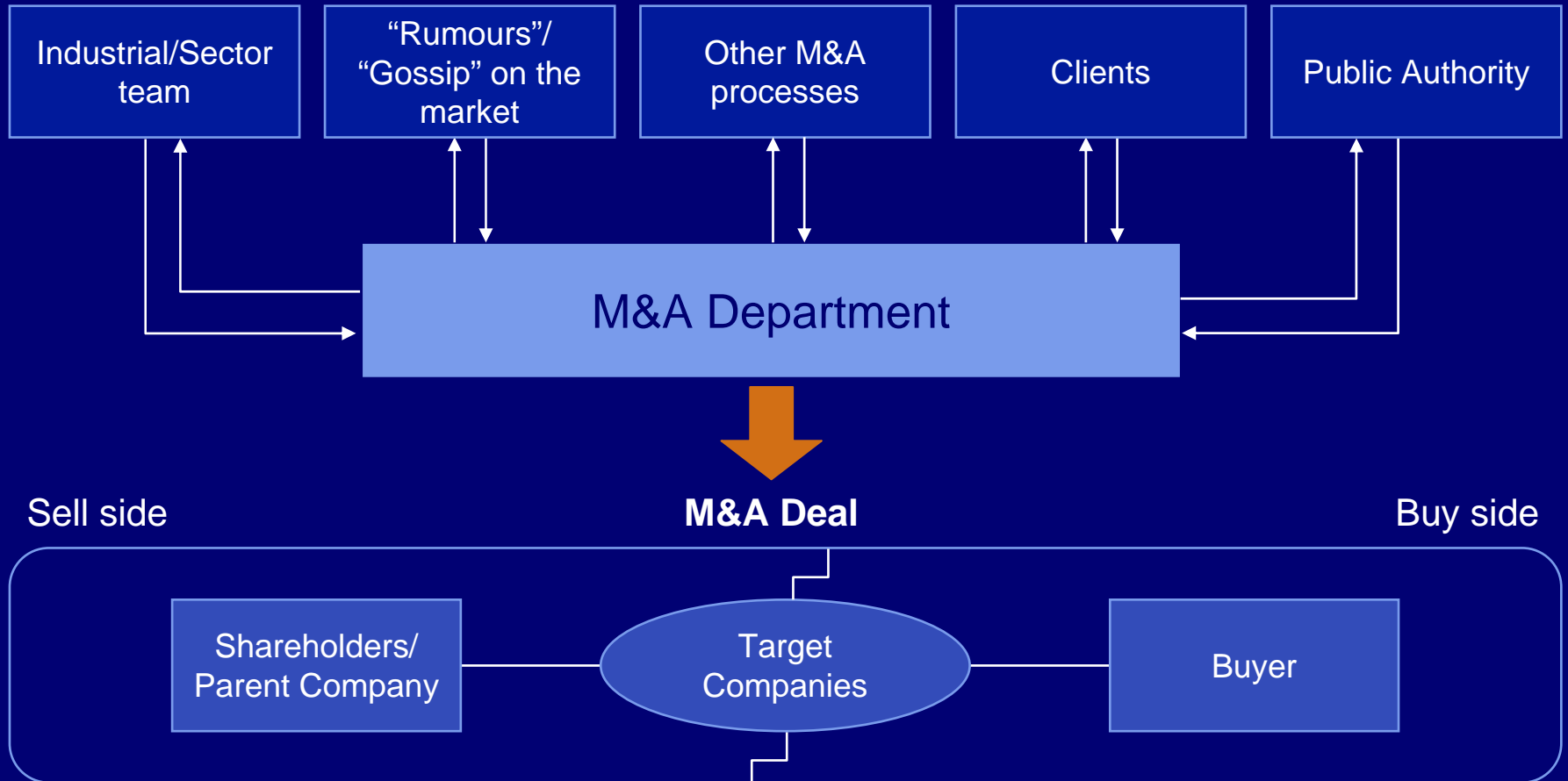




M&A mandates Buy Side and Sell Side

November 2007

How an M&A idea is generated



Acquisition rationale

Rationale	Description	
<p>Integration</p>	<ul style="list-style-type: none"> ■ Horizontal/lateral integration <ul style="list-style-type: none"> – Same customer – Same product – Geographic expansion ■ Vertical integration <ul style="list-style-type: none"> – Acquisition of supplier – Acquisition of customer 	<ul style="list-style-type: none"> ■ Galbani/Lactalis, Telecom Italia/AOL, Weather/Wind, Unicredit/HVB ■ AEM/Edison, Luxottica/Cole
<p>Diversification</p>	<ul style="list-style-type: none"> ■ Product/technology expansion <ul style="list-style-type: none"> – Different product/technology – Same customers ■ Conglomerate (new products, new customers, possible new location) ■ Financial sponsors 	<ul style="list-style-type: none"> ■ Saipem/Snam Progetti, Capitalia/Fineco, Erg/Enertad ■ Benetton/Autostrade, De Agostini/Toro
<p>Defensive</p>	<ul style="list-style-type: none"> ■ Acquisition of direct competitors <ul style="list-style-type: none"> – Enlarge company size – Anticipate competitors move 	<ul style="list-style-type: none"> ■ Gas Natural/Endesa (pending) ■ ENEL/Endesa
<p>Acquisitions are aimed at improving company profitability, defending competitive advantages, preserving business positioning and market share in the long term, creating additional value for the shareholders</p>		

Divestment rationale

- Debt overload (excess in company leverage)
- Change of strategy
 - Refocus of business
 - Refocus of strategy
- Succession issues / family disputes
- Assets swap
- Opportunism
- Regulatory / legal issues
- Financial sponsors activity

Participants role in a M&A deal



Roles & responsibilities

	Team members	Responsibilities
Seller (Parent company)	<ul style="list-style-type: none">■ Top management■ BoD members■ Corporate development	<ul style="list-style-type: none">■ Supervise the process■ Operative coordination of internal resources■ Involvement in the final phases of the negotiation
Target	<ul style="list-style-type: none">■ Top management■ Divisional functions■ Finance and Control function■ Seller/Target auditors	<ul style="list-style-type: none">■ Cooperation with advisors in initiation and execution■ Presentation of activities and economic financial data to advisors and potential bidders
Buyer	<ul style="list-style-type: none">■ Top management■ BoD members■ Corporate development	<ul style="list-style-type: none">■ Business insight/analysis■ Jointly with Financial Advisor define target approach and solve financing issues■ Involvement in final negotiation

Roles & responsibilities (continued)

	Team members	Responsibilities
Financial Advisors Seller	<ul style="list-style-type: none">■ Local professional team (relationship with Seller & Target)■ Industry team (sector expertise)■ M&A team coordinates procedure■ Professional from global network to identify potential bidders/partners	<ul style="list-style-type: none">■ Approach potential buyers■ Definition of transaction structure■ Coordinate procedure and due diligence■ Assist negotiation phase jointly with legal advisors
Financial Advisors Buyer	<ul style="list-style-type: none">■ Local professional team (relationship with Buyer)■ Industry team (sector expertise)■ M&A team valuation	<ul style="list-style-type: none">■ Analyse transaction structure■ Coordinate due diligence■ Valuation■ Assist negotiation phase jointly with legal advisors
Legal advisors	<ul style="list-style-type: none">■ Professional team specialized in these kind of transactions	<ul style="list-style-type: none">■ Transaction structure and timetable■ Legal due diligence report■ Negotiation activities■ Finalisation of the SPA■ Fulfilment of Authorities' requests

Roles & responsibilities (continued)

	Team members	Responsibilities
Tax and accounting advisors	<ul style="list-style-type: none">■ Professional team specialized in these kind of transactions	<ul style="list-style-type: none">■ Accounting and tax due diligence reports■ Preparation of pro-forma figures (usually for the closing)■ Identification of optimal tax structure
Lending Banks	<ul style="list-style-type: none">■ Lending/Leveraged finance team	<ul style="list-style-type: none">■ Transaction structure analysis (buyer and target figures)■ Negotiate financing terms and conditions with buyers (i.e. covenants)■ Drafting of reliance letters■ Issuance of financial commitment / resources
Specialist Advisors (strategic/operational real estate)	<ul style="list-style-type: none">■ Professional team specialized in these kind of transactions	<ul style="list-style-type: none">■ Specific issues analysis (i.e. real estate, IT)■ Assessment of assets quality■ Business due diligence report release

Available Process Typology

Driven by Seller

- Confidential negotiation
- Few parallel private negotiations
- Private auction
- Public auction

Driven by Buyer

- Unsolicited offers:
 - Friendly
 - Hostile (only public)

Procedure selection process

	Pros	Cons
Private negotiation	<ul style="list-style-type: none">■ Perfect in presence of a “preferred” bidder■ Guarantee of exclusivity■ Easy to control■ Relatively easy to be interrupted	<ul style="list-style-type: none">■ Lower probabilities to maximize the price■ It could need more time than expected■ Lower seller’s negotiation power because of lack of competition
Few parallel private negotiations	<ul style="list-style-type: none">■ It introduces competition in the process■ High level of uncertainty on the status of the process■ It allows to maintain confidentiality■ Relatively easy to be interrupted	<ul style="list-style-type: none">■ Lower seller’s negotiation power because of reduced competition■ Management of different bidders, who ask exclusivity, could result difficult to achieve■ Still low seller and advisor’s negotiation power because of lack of competition

Procedure selection process (continued)

	Pros	Cons
Private auction	<ul style="list-style-type: none">■ Perfect in case of numerous potential bidders■ Good chance to maximize value■ High control by the seller in negotiating terms of the agreement■ Rapid process	<ul style="list-style-type: none">■ Process difficult to be interrupted■ Risk of information leakage
Public auction	<ul style="list-style-type: none">■ Open to all potential buyers■ Highest probability of price maximisation■ High perception of “fairness”	<ul style="list-style-type: none">■ Risk of damaging business’s reputation if the sale is not successfully completed■ Lack of flexibility to interrupt the process

Procedure selection process (continued)

	Pros	Cons
Unsolicited Offer (Friendly)	<ul style="list-style-type: none">■ Negotiations efforts with only controlling counterpart/s■ Price offered previously agreed with controlling shareholders	<ul style="list-style-type: none">■ Execution risk - bidder may not reach optimum control threshold (i.e. debt push down)■ If target is public an unconditional mandatory offer could be required■ Certainty to acquire an identified stake of target
Unsolicited Offer (Hostile voluntary offer)	<ul style="list-style-type: none">■ Price solely fixed by Buyer on the basis of its objectives■ Possibility of conditional bid■ Certainty of acquiring desired control threshold (debt push-down)■ If successful likely probability of take-private or free float restoration	<ul style="list-style-type: none">■ Poison Pills■ Risk of interlopers and counterbids■ Uncertainty of results until the end of the bid period■ Delicate to be executed

Activity focus: due diligence

- Objectives
 - Verify operational aspects (synergies, integration, economic prospective results, etc..)
 - Definition of necessary contractual guarantees
- Data room preparation: documentation relating to operational, auditing, tax and legal aspects in order to allow potential buyers' analysis
- Bidders have generally access to data room for a limited period of time and rely on external advisors consultancy
- Visits and meetings with management

Buy Side

Financial advisory role

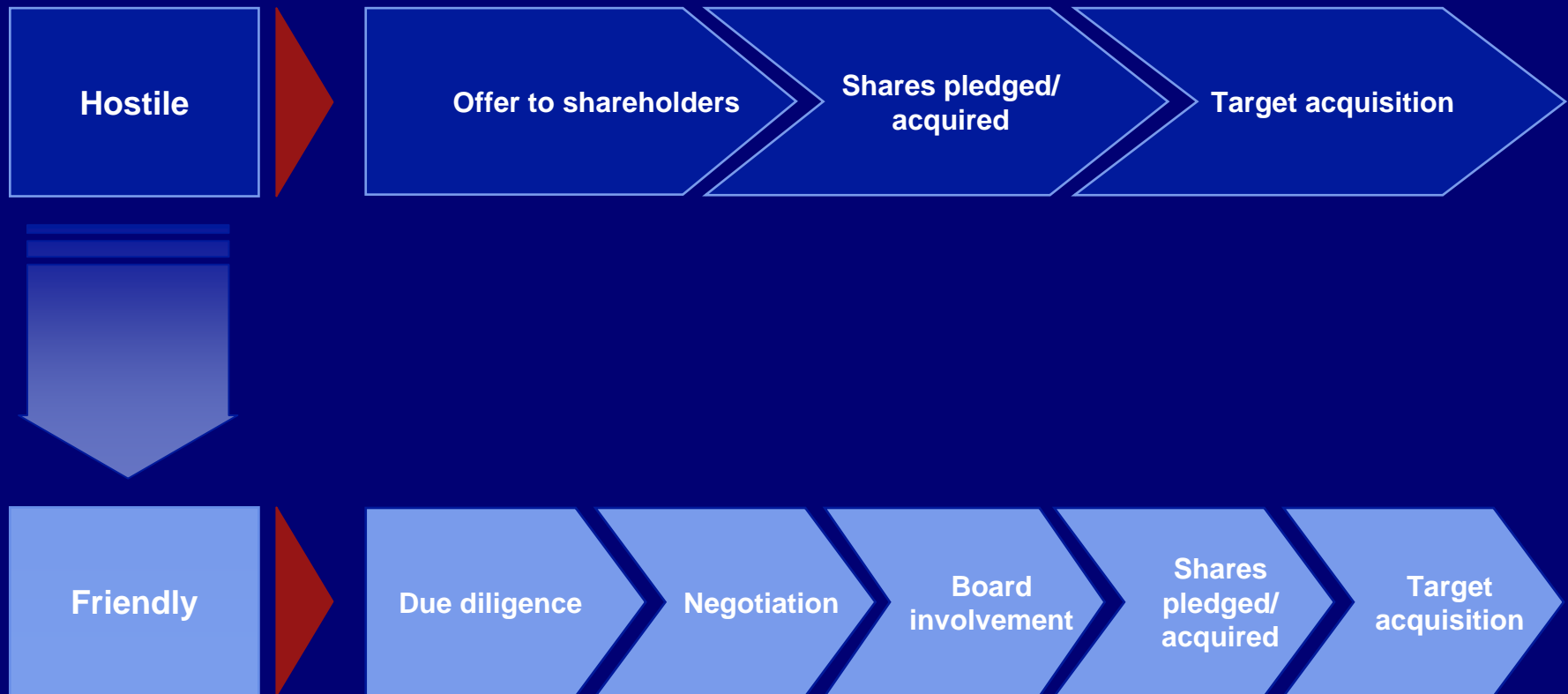
Advisor activities

- Strategic fit analysis
- Target valuation
- Synergies analysis
 - Value (economies of scale, organisational synergies, cross selling opportunities, etc.)
 - Timing
- Transaction execution activities
- Buyer's shareholders: value creation analysis (EPS accretion/dilution, etc.)
- Buyer re-rating post transaction

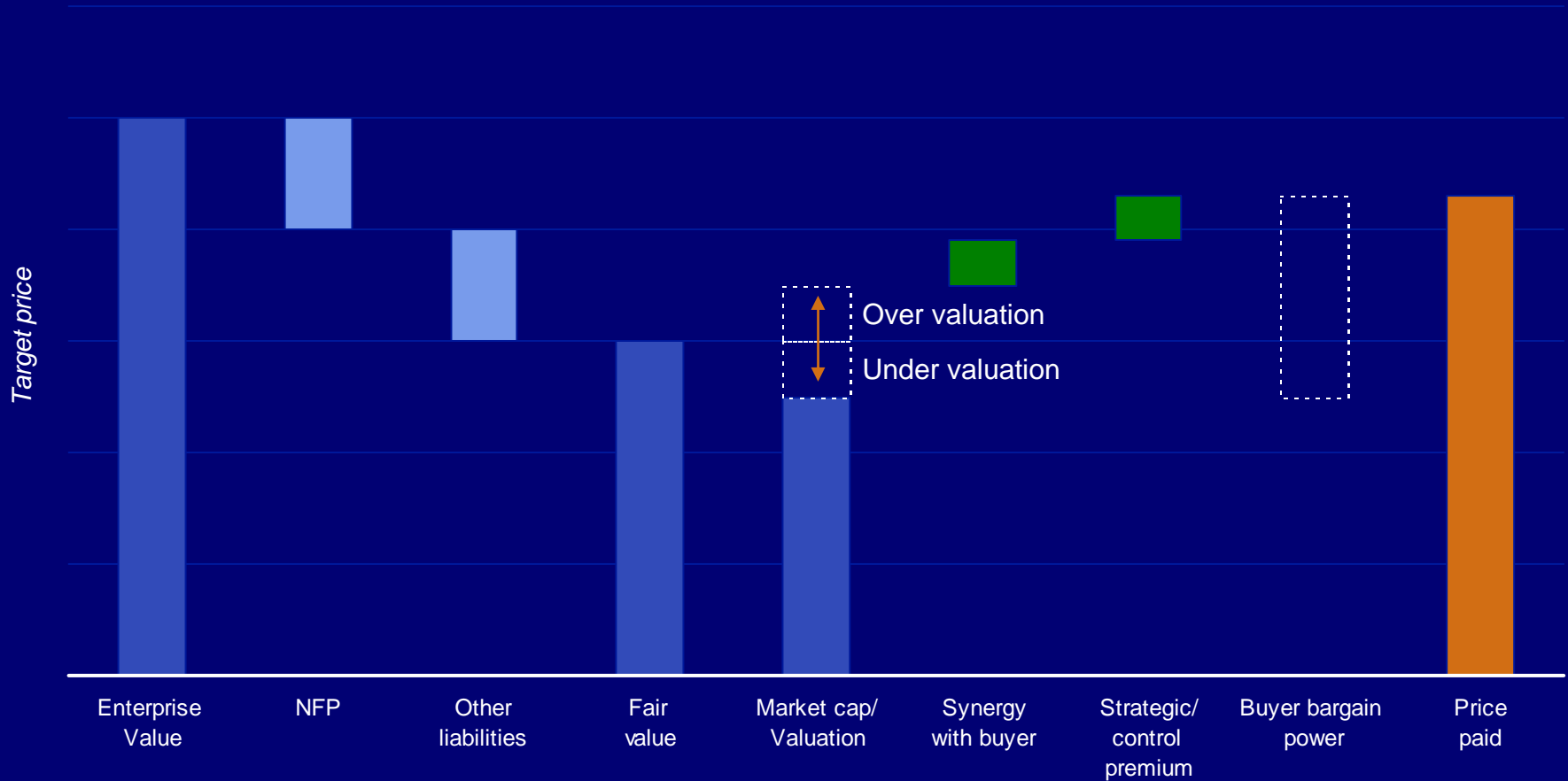
Unsolicited bid process



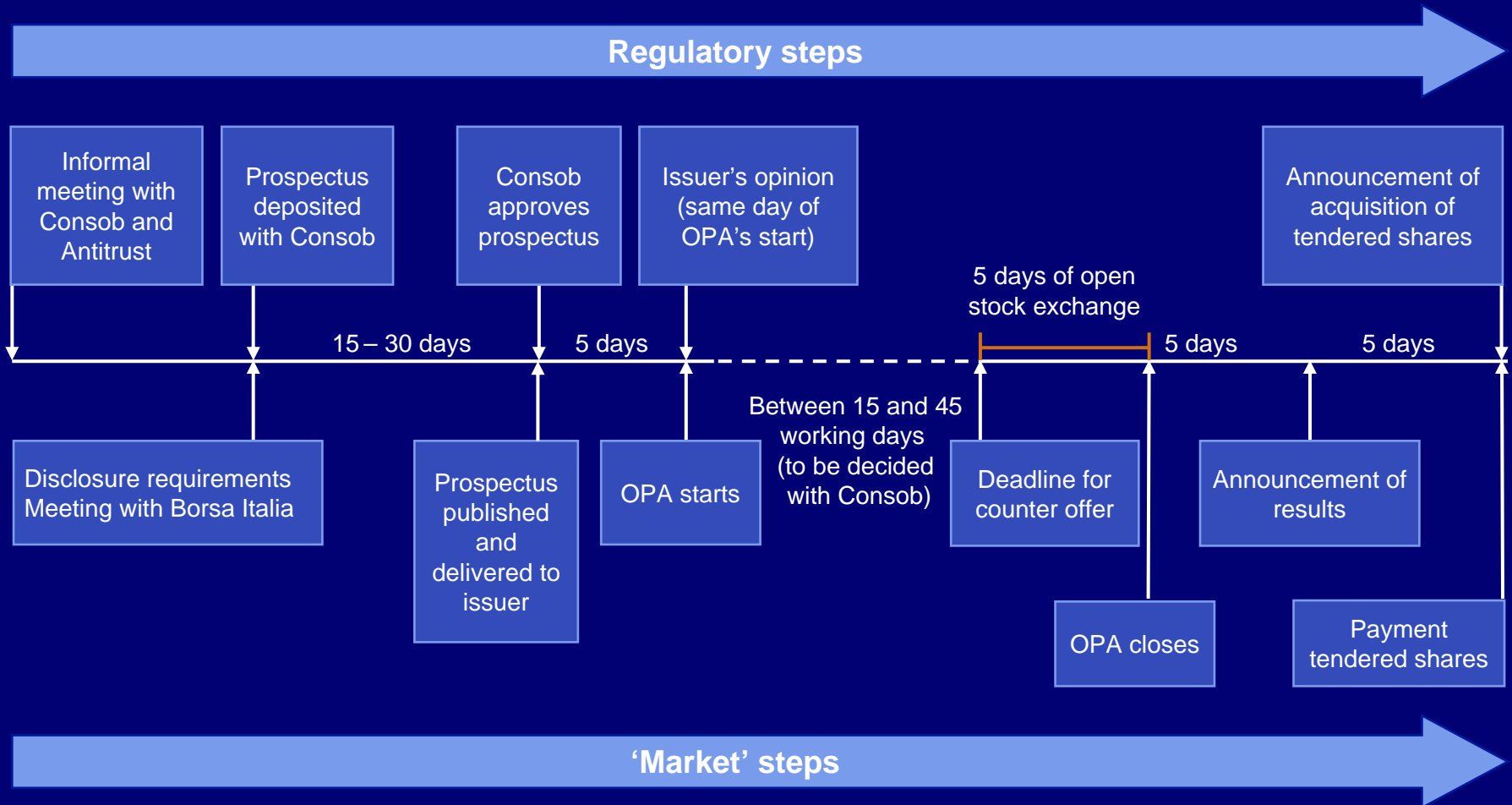
Hostile vs Friendly target approach



Value vs price: a quick lesson to learn



Timetable



Sell Side

Sell side: key issues to address

■ Key aspects

- Company nature (sale perimeter)
- Transaction structure (majority/minority stake, JV,...)
- Timing
- Specific elements to address in the industrial sector of reference
- Price
- Terms of payment
- Privacy
- Legal / tax aspects

Identification of potential buyers

- Trade buyers
- Private Equity funds (MBO,LBO,MBI,BIMBO)
- Institutional Investors
- Others

Timetable (auction)

4 – 6 weeks

Preparation and planning of the process

Preparation

- Company analysis
- Business comprehension
- Information gathering
- Preparation of Business Plan
- Preparation of Information Memorandum
- Company valuation
- Preparation of Data Room
- Draft of management presentation

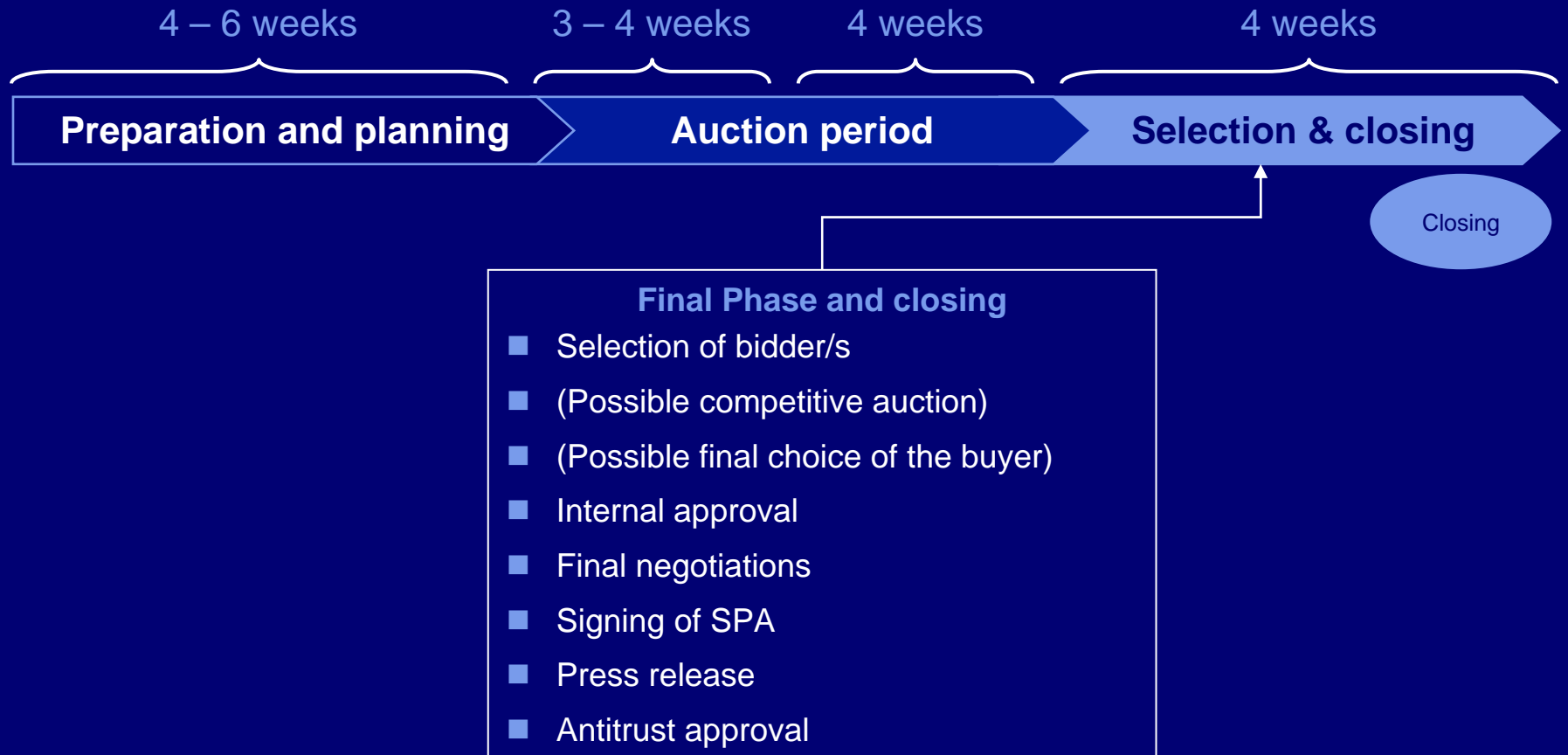
Planning

- Analysis of potential buyers and market sentiment
- Simultaneous approach of potential buyers (Teaser)
- Distribution and sign off of confidentiality agreement
- Draft of Sale & Purchase agreement
- Draft of due diligence rules
- Preparation of procedure letter

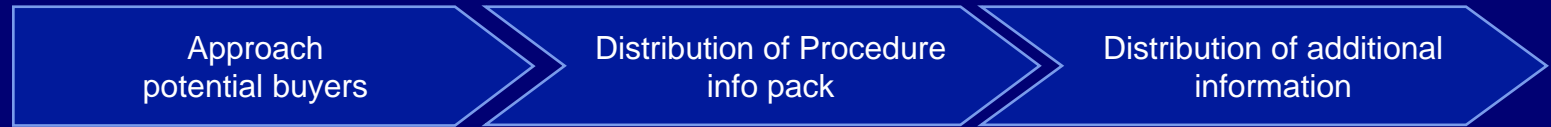
Timetable (auction)



Timetable (auction)



Example: main steps of an auction process – sell side



Rationale

- | | | | | | |
|---|--|---|---|---|---|
| ■ | Coverage of all potential buyers to maximize competition | ■ | Monitoring of confidential information flow | ■ | Monitoring of the flow and uniformity in the information distribution |
| ■ | | ■ | Availability of financial information necessary for a preliminary valuation | ■ | Minimize Management exposure to buyers' requests |
| ■ | | ■ | Clarification of procedure | ■ | It allows a systematic revision of information provided |
| ■ | | ■ | Minimization of document circulation | | |

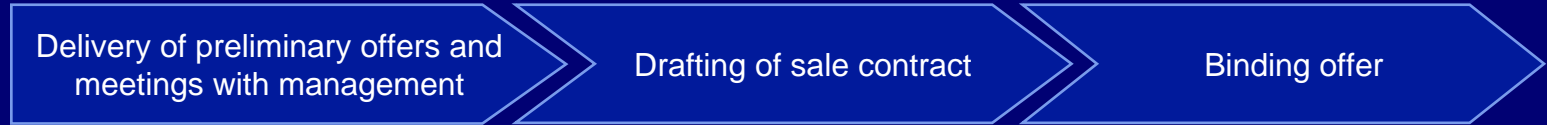
Key success factors

- | | | | | | |
|---|-------------------------|---|-----------------------|---|-------------------------|
| ■ | Wide coverage of market | ■ | Professional approach | ■ | Contacts with acquirers |
| ■ | | ■ | Sector knowledge | | |

Advisor contribution

- | | | | | | |
|---|---|---|--|---|--|
| ■ | In-depth knowledge of the sector with easy access to potential buyers | ■ | High quality Info Memo in terms of analysis and presentation | ■ | Effective interaction with all the acquirers involved in the process |
| ■ | Management of press and of institutional interests | ■ | High discretion | ■ | High control of the due diligence phases |
| | | ■ | Involvement of right candidate | | |

Example: main steps of an auction process – sell side



Rationale

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> ■ Interests check ■ Control of interaction between management and potential buyers ■ Allow the acquirers to test management and to visit the company | <ul style="list-style-type: none"> ■ Check of contract format and content ■ Key element for negotiations ■ Minimization of time period between acquirer selection and signature of the contract | <ul style="list-style-type: none"> ■ Maximise competition and forces interested acquirers to maximise price ■ Perception of a fair and correct process ■ Provide clear rules on procedures |
|--|--|---|

Key success factors

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> ■ Management of the process | <ul style="list-style-type: none"> ■ Experience in negotiations | <ul style="list-style-type: none"> ■ Clear management of auction process |
|---|--|---|

Advisor contribution

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> ■ Tailored approach according to acquirers and sector features ■ Coordination with lawyers and auditors ■ Coordination of management presentation | <ul style="list-style-type: none"> ■ Consolidated experience in similar transactions ■ Negotiation strategy planning ■ Solutions to “impasse” situations | <ul style="list-style-type: none"> ■ Excellent reputation in fair management of potential buyers ■ Capability to settle different positions |
|---|---|---|

Possible Timetable

Timetable - Procedure

	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F												
	10	13	14	15	16	17	20	21	22	23	24	27	28	29	30	31	3	4	5	6	7	10	11	12	13	14	17	18	19	20	21	24	25	26	27	28		
Kick-off meeting				■																																		
Steering Committee										■					■					■																	■	
Equity investment committees																																						
Submission of binding offer																																						■

Timetable - Due diligence

	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F								
	10	13	14	15	16	17	20	21	22	23	24	27	28	29	30	31	3	4	5	6	7	10	11	12	13	14	17	18	19	20	21	24	25	26	27	28			
List of attendants sent to advisor				■																																			
Clarifications on data room contents sent to advisor				■																																			
Management presentation						■																																	
Data room and daily meeting							■	■	■	■	■																												
Circulation of draft due diligence reports																		■																					
Indicative model inputs																		■																					
Comments to draft due diligence reports																			■	■	■																		
Data room																						■	■	■	■	■	■												
Final due diligence reports																																							
Site visits																						■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Circulation of site visits report																																							

Timetable - Legal

	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F	M	T	W	T	F							
	10	13	14	15	16	17	20	21	22	23	24	27	28	29	30	31	3	4	5	6	7	10	11	12	13	14	17	18	19	20	21	24	25	26	27	28		
Legal due diligence																																						
Circulation of first draft of legal due diligence report																																						
Legal due diligence																																						
Circulation of final due diligence report																																						
Receive SPA from seller																																						
Mark-ups SPA																																						
Finalise SPA																																						
Drafting/mark-ups of the offer letter																																						