M&A mandates
Buy Side and Sell Side
November 2007
How an M&A idea is generated

- Industrial/Sector team
- “Rumours”/“Gossip” on the market
- Other M&A processes
- Clients
- Public Authority

M&A Department

M&A Deal

Sell side
- Shareholders/Parent Company
- Target Companies

Buy side
- Buyer
### Acquisition rationale

<table>
<thead>
<tr>
<th>Rationale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration</td>
<td>- Horizontal/lateral integration</td>
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<tr>
<td></td>
<td>- Same customer</td>
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<tr>
<td></td>
<td>- Same product</td>
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<tr>
<td></td>
<td>- Geographic expansion</td>
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<tr>
<td></td>
<td>- Vertical integration</td>
</tr>
<tr>
<td></td>
<td>- Acquisition of supplier</td>
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<td>- Acquisition of customer</td>
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<tr>
<td>Diversification</td>
<td>- Product/technology expansion</td>
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<td>- Different product/technology</td>
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<td>- Same customers</td>
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<tr>
<td></td>
<td>- Conglomerate (new products, new customers, possible new location)</td>
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<td></td>
<td>- Financial sponsors</td>
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<tr>
<td>Defensive</td>
<td>- Acquisition of direct competitors</td>
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<td>- Enlarge company size</td>
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<td></td>
<td>- Anticipate competitors move</td>
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</table>

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.
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

- **Target Company**
  - Sell Side:
    - Seller (Shareholders Parent Company)
    - Legal Advisors
    - Auditors
    - Target Management
    - Specialist Advisors (optional)
  - Financial Advisors
- **Buy Side**:
  - Financial Advisors
  - Legal Advisors
  - Lending Banks
  - Auditors
  - Buyer Management

**Buyer/s**
Roles & responsibilities

**Team members**
- Top management
- BoD members
- Corporate development

**Responsibilities**
- Operative coordination of internal resources
- Involvement in the final phases of the negotiation

**Seller**
(Parent company)
- Top management
- BoD members
- Corporate development
- Divisional functions
- Finance and Control function
- Seller/Target auditors

**Target**
- Top management
- Divisional functions
- Finance and Control function
- Seller/Target auditors

**Buyer**
- Top management
- BoD members
- Corporate development
- Business insight/analysis
- Jointly with Financial Advisor define target approach and solve financing issues
- Involvement in final negotiation
Roles & responsibilities (continued)

<table>
<thead>
<tr>
<th>Team members</th>
<th>Responsibilities</th>
</tr>
</thead>
</table>
| **Financial Advisors**  
(relationship with Seller & Target)  
Industry team (sector expertise)  
M&A team coordinates procedure  
Professional from global network to identify potential bidders/partners | Approach potential buyers  
Definition of transaction structure  
Coordinate procedure and due diligence  
Assist negotiation phase jointly with legal advisors |
| **Financial Advisors**  
(relationship with Buyer)  
Industry team (sector expertise)  
M&A team valuation | Analyse transaction structure  
Coordinate due diligence  
Valuation  
Assist negotiation phase jointly with legal advisors |
| **Legal advisors**  
Professional team specialized in these kind of transactions | Transaction structure and timetable  
Legal due diligence report  
Negotiation activities  
Finalisation of the SPA  
Fulfilment of Authorities’ requests |
### Roles & responsibilities (continued)

<table>
<thead>
<tr>
<th>Team members</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional team specialized in these kind of transactions</td>
<td>Accounting and tax due diligence reports</td>
</tr>
<tr>
<td></td>
<td>Preparation of pro-forma figures (usually for the closing)</td>
</tr>
<tr>
<td></td>
<td>Identification of optimal tax structure</td>
</tr>
<tr>
<td>Lending/Leveraged finance team</td>
<td>Transaction structure analysis (buyer and target figures)</td>
</tr>
<tr>
<td></td>
<td>Negotiate financing terms and conditions with buyers (i.e. covenants)</td>
</tr>
<tr>
<td></td>
<td>Drafting of reliance letters</td>
</tr>
<tr>
<td></td>
<td>Issuance of financial commitment / resources</td>
</tr>
<tr>
<td>Professional team specialized in these kind of transactions</td>
<td>Specific issues analysis (i.e. real estate, IT)</td>
</tr>
<tr>
<td></td>
<td>Assessment of assets quality</td>
</tr>
<tr>
<td></td>
<td>Business due diligence report release</td>
</tr>
</tbody>
</table>

**Tax and accounting advisors**
- Professional team specialized in these kind of transactions

**Lending Banks**
- Lending/Leveraged finance team

**Specialist Advisors (strategic/operational real estate)**
- Professional team specialized in these kind of transactions
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

<table>
<thead>
<tr>
<th>Private negotiation</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                     | - Perfect in presence of a “preferred” bidder  
|                     | - Guarantee of exclusivity  
|                     | - Easy to control  
|                     | - Relatively easy to be interrupted  
|                     |      | - Lower probabilities to maximize the price  
|                     |      | - It could need more time than expected  
|                     |      | - Lower seller’s negotiation power because of lack of competition  

<table>
<thead>
<tr>
<th>Few parallel private negotiations</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                                   | - 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  
|                                   |      | - 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**
- 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

**Cons**
- Process difficult to be interrupted
- Risk of information leakage

**Private auction**

**Pros**
- Open to all potential buyers
- Highest probability of price maximisation
- High perception of “fairness”

**Cons**
- Risk of damaging business’s reputation if the sale is not successfully completed
- Lack of flexibility to interrupt the process

**Public auction**
Procedure selection process (continued)

<table>
<thead>
<tr>
<th>Unsolicited Offer (Friendly)</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
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<tr>
<td>Negotiations efforts with only controlling counterpart/s</td>
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<tr>
<td>Price offered previously agreed with controlling shareholders</td>
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<tr>
<td>Price solely fixed by Buyer on the basis of its objectives</td>
<td></td>
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<tr>
<td>Possibility of conditional bid</td>
<td></td>
<td>Poison Pills</td>
</tr>
<tr>
<td>Certainty of acquiring desired control threshold (debt push-down)</td>
<td></td>
<td>Risk of interlopers and counterbids</td>
</tr>
<tr>
<td>If successful likely probability of take-private or free float restoration</td>
<td></td>
<td>Uncertainty of results until the end of the bid period</td>
</tr>
<tr>
<td>Delicate to be executed</td>
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</tbody>
</table>
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

- 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

Idea

Target analysis
- Strategic fit
- Business analysis
- Anti-trust issue
- Poison pills
- Valuation
- Synergies

Impact on buyer analysis
- Financial analysis
- Likely consideration
- Financing/credit
- Accretion/Dilution

Target availability analysis
- Management team assessment
- Shareholding analysis
- “Informal” sounding

Proposal
Hostile vs Friendly target approach

Hostile:
- Offer to shareholders
- Shares pledged/acquired
- Target acquisition

Friendly:
- Due diligence
- Negotiation
- Board involvement
- Shares pledged/acquired
- Target acquisition
Value vs price: a quick lesson to learn

Target price

Enterprise Value
NFP
Other liabilities
Fair value
Market cap/Valuation
Synergy with buyer
Strategic/control premium
Buyer bargain power
Price paid

Over valuation
Under valuation
**Timetable**

**Regulatory steps**

1. **Informal meeting with Consob and Antitrust**
2. **Prospectus deposited with Consob**
3. **Consob approves prospectus**
4. **Issuer’s opinion (same day of OPA’s start)**

**Market steps**

1. **Prospectus published and delivered to issuer**
2. **OPA starts**
3. **Deadline for counter offer**
4. **OPA closes**
5. **Payment tendered shares**

**Timeline**

- **Disclosure requirements Meeting with Borsa Italia**
- **15 – 30 days**
- **5 days**
- **Between 15 and 45 working days (to be decided with Consob)**
- **5 days of open stock exchange**
- **5 days**
- **5 days**

**Announcement of acquisition of tendered shares**
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)

**Preparation and planning**
- 4 – 6 weeks

**Auction period**
- 3 – 4 weeks
- 4 weeks

**“Non-binding” phase**
- Distribution of Information Memorandum
- Distribution of procedure letter
  - SPA
  - management presentation
  - data-room material
- Delivery of non-binding preliminary offers

**“Binding” phase**
- Analysis of different offers (advisor and seller’s management)
- Selection of potential buyers to be admitted to the “binding” phase
- Distribution of the contract to acquirors
- Data room
- Visits of production sites and facilities
- Management presentation
- Delivery of final binding offers
**Timetable (auction)**

- **Preparation and planning**: 4 – 6 weeks
- **Auction period**: 3 – 4 weeks
- **Selection & closing**: 4 weeks

**Final Phase and closing**
- Selection of bidder/s
- (Possible competitive auction)
- (Possible final choice of the buyer)
- Internal approval
- Final negotiations
- Signing of SPA
- Press release
- Antitrust approval

**Closing**
Example: main steps of an auction process – sell side

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

**Key success factors**
- Wide coverage of market
- Professional approach
- Contacts with acquirers
- In-depth knowledge of the sector with easy access to potential buyers
- Sector knowledge
- Effective interaction with all the acquirers involved in the process
- Management of press and of institutional interests
- High quality Info Memo in terms of analysis and presentation
- High discretion
- High control of the due diligence phases
- Involvement of right candidate

**Advisor contribution**
- Involvement of right candidate
- Involvement of right candidate
Example: main steps of an auction process – sell side

**Rationale**
- Interests check
- Control of interaction between management and potential buyers
- Allow the acquirers to test management and to visit the company

**Key success factors**
- Management of the process
- Experience in negotiations

**Advisor contribution**
- Tailored approach according to acquirers and sector features
- Coordination with lawyers and auditors
- Coordination of management presentation

**Delivery of preliminary offers and meetings with management**
- Check of contract format and content
- Key element for negotiations
- Minimization of time period between acquirer selection and signature of the contract

**Drafting of sale contract**
- Maximise competition and forces interested acquirers to maximise price
- Perception of a fair and correct process
- Provide clear rules on procedures

**Binding offer**
- Clear management of auction process
- Excellent reputation in fair management of potential buyers
- Capability to settle different positions
Possible Timetable
## Timetable - Procedure

<table>
<thead>
<tr>
<th>Date</th>
<th>Kick-off meeting</th>
<th>Steering Committee</th>
<th>Equity investment committees</th>
<th>Submission of binding offer</th>
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</thead>
<tbody>
<tr>
<td>10</td>
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</table>
# Timetable - Due diligence

<table>
<thead>
<tr>
<th>Date</th>
<th>Task</th>
<th>Date</th>
<th>Task</th>
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<tbody>
<tr>
<td>10</td>
<td>List of attendants sent to advisor</td>
<td>21</td>
<td>Data room</td>
</tr>
<tr>
<td>13</td>
<td>Clarifications on data room contents sent to advisor</td>
<td>22</td>
<td>Management presentation</td>
</tr>
<tr>
<td>14</td>
<td>Data room and daily meeting</td>
<td>23</td>
<td>Circulation of draft due diligence reports</td>
</tr>
<tr>
<td>15</td>
<td>Management presentation</td>
<td>24</td>
<td>Indicative model inputs</td>
</tr>
<tr>
<td>16</td>
<td>Circulation of draft due diligence reports</td>
<td>25</td>
<td>Comments to draft due diligence reports</td>
</tr>
<tr>
<td>17</td>
<td>Indicative model inputs</td>
<td>26</td>
<td>Data room</td>
</tr>
<tr>
<td>18</td>
<td>Comments to draft due diligence reports</td>
<td>27</td>
<td>Final due diligence reports</td>
</tr>
<tr>
<td>19</td>
<td>Data room</td>
<td>28</td>
<td>Site visits</td>
</tr>
<tr>
<td>20</td>
<td>Final due diligence reports</td>
<td>29</td>
<td>Circulation of site visits report</td>
</tr>
<tr>
<td>21</td>
<td>Site visits</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>
## Timetable - Business Plan/Valuation

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-13</td>
<td>Circulation of model template</td>
</tr>
<tr>
<td>14-16</td>
<td>Meeting to agree on model structure</td>
</tr>
<tr>
<td>20-21</td>
<td>Data room output into the model</td>
</tr>
<tr>
<td>22-23</td>
<td>Update model template following data room review</td>
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<tr>
<td>27-28</td>
<td>Circulation of preliminary valuation results</td>
</tr>
<tr>
<td>30-31</td>
<td>Valuation upd. (final due diligence/financing terms)</td>
</tr>
</tbody>
</table>
**Timetable - Legal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Task Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/13</td>
<td>Legal due diligence</td>
</tr>
<tr>
<td>13/16</td>
<td>Circulation of first draft of legal due diligence report</td>
</tr>
<tr>
<td>14/17</td>
<td>Legal due diligence</td>
</tr>
<tr>
<td>15/18</td>
<td>Circulation of final due diligence report</td>
</tr>
<tr>
<td>16/19</td>
<td>Receive SPA from seller</td>
</tr>
<tr>
<td>17/20</td>
<td>Mark-ups SPA</td>
</tr>
<tr>
<td>19/22</td>
<td>Finalise SPA</td>
</tr>
<tr>
<td>22/25</td>
<td>Drafting/mark-ups of the offer letter</td>
</tr>
</tbody>
</table>