

MERGERS & ACQUISITIONS



ELEMENTS AKADEMLIA

An IIM Alumni Venture

Disclaimer



- All material is based on publicly available information, including filings with SEC, SEBI and newspaper clippings

M&A 2008

- Not a very good year
 - 30% decline in FH 2008 vs. FH 2007
 - 2007 was 20% higher than 2006
 - 2006 was 30% higher than 2005
 - \$3.7 trillion... highest ever and 130IYA.
 - 37,000 deals
 - \$2.8 trillion in cash
 - 40% in US, 36% Europe
- Trends:
 - Private Equity deals plummeting
 - 77% decline
 - Strategic Deals/Consolidation
 - Race for market leadership, 88% of all deals
 - International Expansion
 - Emerging markets
 - Friendly Mergers
 - Hostile takeovers less than 1% volume and 13% value



India M&A

- Overall a very small player
 - Total India Overseas M&A at \$35bn
- Hot Topics:
 - Tata - Corus: Overseas acquisition
 - Emami - Zandu: Hostile takeover
 - Satyam - Maytas: Valuation/Corporate Governance
 - Wipro/TCS - Citigroup (Tech/Services): Consolidation
 - Jet - Sahara or Kingfisher - Air Deccan: Full offering



Hot Topic: US Mortgage Woes



- Bear Stearns bought by JP Morgan Chase & Co
 - Fed had guaranteed \$29bn of losses
 - \$10 per share price (Feb '08: stock traded at \$93 per share)
- Fannie Mae and Freddie Mac - US's largest mortgage finance companies - effectively nationalized
 - \$6 trillion balance sheet, \$200bn bailout by US Treasury
- Lehman files for bankruptcy.
 - Just last year, their current CEO paid \$22mn bonus
 - Share price down 94% behind \$8bn losses
- Merrill Lynch acquired for \$50bn by Bank of America.
 - Had posted >\$40bn of write-offs
 - All stock deal at \$29 per share: 70% premium vs. current share price (but latter was at \$70+ just 12 months ago)



Hot Topic: US Mortgage Woes



- **ALG seeks \$40 funding from Fed**
 - Fears of collapse if ratings fall
 - Share 80% off in 2008 itself
- **Consortium of 10 banks to form a \$70bn fund**
 - Loan to distressed financial firms
- **Citibank in distress - US government bails out**

- **Genesis: Cheap Money available (Fed rate cuts) -> Invested in Real estate (Sub-prime loans) -> Defaults -> Excess mortgage being auctioned -> Real estate collapse -> More defaulters amongst lenders**
- **Add: Securitization of Debt (Derivatives) -> Pass risk to investment banks and larger financial community**
- **India Angle: Largely emerged unscathed**

Agenda



- **Part 1: M&A Background**

Starts the discussion providing a rich historical flavour, the need for an M&A, when and how exactly is value created and some critical learnings.

- **Part 2: Pre-integration Process walkthrough**

Outlines the process of an M&A from the idea to the actual share exchange - including accounting and legal perspective.

- **Part 3: Synergies**

Exhaustive discussion on various sources of synergies. Includes potential "dissynergies" and a suggested process to find synergies.

- **Part 4: Illustration using P&G-Gillette merger (based on public info)**

Uses one of the largest successful acquisitions of recent years to show the process, rationale, synergies, accounting and stock price impact.

- **Part 5: Post-Merger Integration**

Guidelines to ensure a stellar integration (which is blamed for 70% of failed mergers). Includes key learnings.

- **Part 6: M&A Defence and Other Restructuring**

Quick look at various M&A defences like poison pill and also non M&A restructurings like Spin-offs, carve outs etc.





PART I. BACKGROUND

Types of Mergers



- Horizontal
 - Same line of Business
 - NationsBank-BankAmerica
- Vertical
 - Integrating suppliers or customers
 - Ford-Autolite
- Congeneric
 - Related enterprises
 - Citibank-Traveller's Group
- Conglomerate
 - Totally unrelated
 - Mobil Oil-Montgomery Ward



M&A Waves



- First (1893-1904)
 - Horizontal merger, Consolidation to fight new competition
 - Created giants in steel, telephone, oil, mining, railroad and other basic manufacturing/transportation industry
 - Concept of “trust” or a holding company
 - Example: Standard Oil Trust
 - Fall: Supreme Court judgment in 1904 against trusts
- Second (1919-1929)
 - Sherman Act 1890: restrict monopolies and anything that reduces competition
 - Clayton Act 1914 and the Federal Trade Commission (Section 7) - gave government more power
 - Anti trust mood - Breakup of AT&T (“Ma Bell”)
 - Resulting in Second Wave in 1920s
 - Vertical Mergers
 - Example: Ford integrated from finished car back through steel mills, railroads and ore boats to the iron and coal mines!
 - Fall: Great Depression/crash of 1929



M&A Waves



- Third (1955-1973)
 - Premise: Post war slow down in defense expenditure and resultant low growth rates.
 - Premise: “Good Manager” concept and mood
 - Conglomerate merger - acquirer often smaller
 - Financing usually through stock swaps
 - Fall: Conglomerate stocks crashed 1969-70 since benefits were never realized.
- Fourth (1974-1989)
 - William’s Act, Insider Trading
 - 1980s
 - Financial Innovation, Investment Banking
 - Emergence of Corporate Raiders
 - Use of debt to finance takeovers: Junk Bonds
 - Fall: Collapse of the Junk bond market

M&A Waves



- Fifth (1993-2000)
 - HHI index
 - Age of Deregulation, Globalization, Technology
 - 1992 Deals: \$342bn, 2000 Deals: \$3.3tn
 - “Bigger is Better”. 9 of world’s 10 largest deals between 1998-2000. “Merger of Equals”. Cross Border M&As.
 - Example: Citibank/Travelers, Chrysler/Daimler, Exxon/Mobil, AOL/Time Warner
 - Fall: Internet/Telecom stock collapse at end of 2000 (NASDAQ down 50%).
- Sixth Wave? (2003-)
 - Private Equity/Hedge Funds
 - 2006 M&A activity highest ever at \$3.7 trillion

Why M&A



- As a tool to support overall corporate strategy
 - Filling strategic holes that can't be filled as efficiently on an organic basis
 - Good companies generally use combination of acquisitions and organic growth to pursue strategy
- Tremendous Value Potential, *if done right*: E.g. Gillette merger is expected to deliver \$14-16bn in shareholder value, half of it for P&G (acquirer).
 - Financially, this is equivalent of delivering ~10% incremental revenue growth year on year, over and above analyst expectations!
- *Booz Allen Study*: While 53% of all mergers failed to create value, those that did helped acquirers grow shareholder value by upto 50%.
- *Mckinsey Study*: Of the Top 75 US companies, 33 had accumulated at least 30% of their market value through acquisitions.
- *Cisco (Consistent M&A top performer)*: 113 acquisitions since 1993. Market value up from \$10bn (1995) to \$165bn today



M&A Rationale

- Strategic
 - Adding Capabilities
 - Expanding Geographically
 - Buying growth
 - Consolidation/integration
 - Leveraging consumer base etc.
 - Innovation
- Leading to Financial Benefits: Cost & Revenue Synergies
 - Economies of Scale
 - Efficiencies
 - Higher distribution
 - Cross selling
- Other reasons?
 - Diversification
 - Size
 - Management Control
 - Management Incentive
 - Defending against competition
 - Tax Benefits

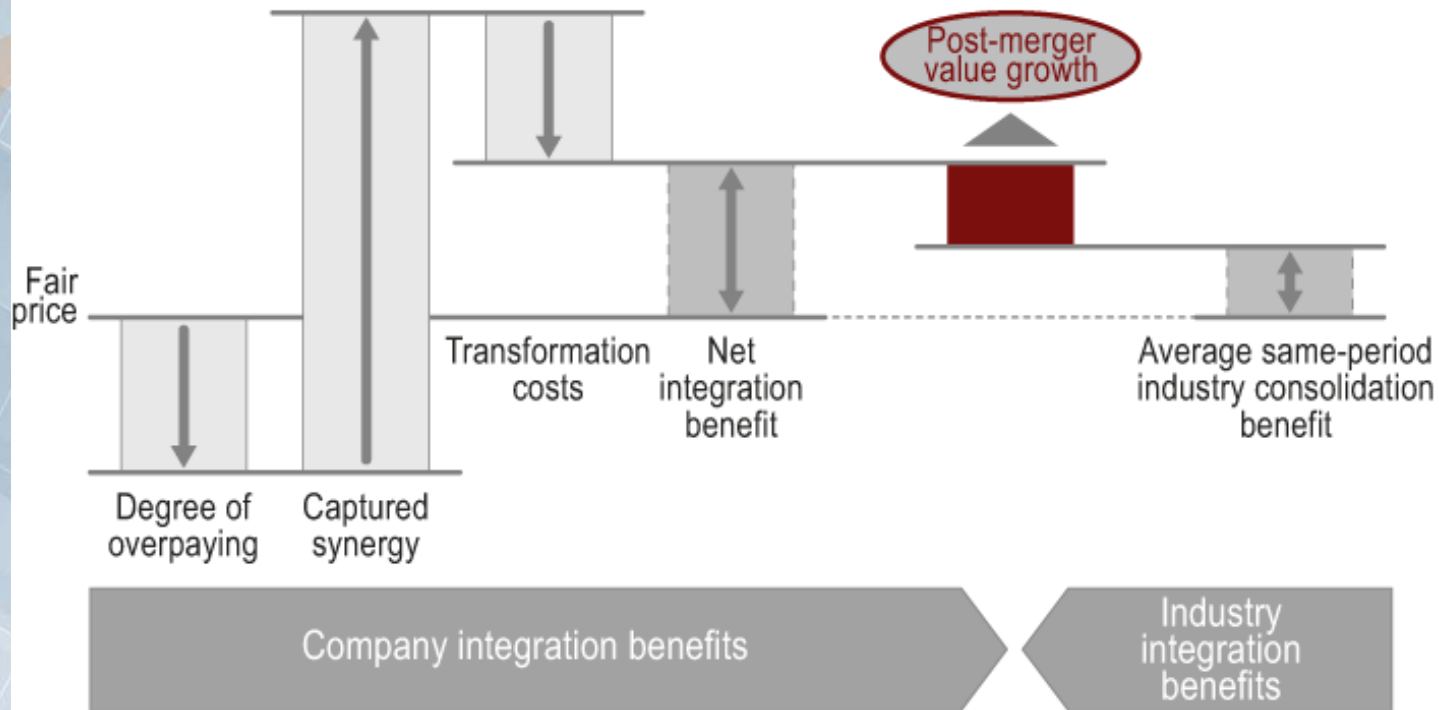


Real Value of a Merger



FIGURE 1

A merged company must outpace the leaders in its peer group



Source: A.T. Kearney

Learnings on M&A

[Bain and Co study]

- Expansionist vs. Transformative Deals
 - Scale benefit easier to accrue.
- First year accretion/dilution
 - Market doesn't care (?)
- Friendly vs. Hostile
 - Hostile mergers less likely to succeed.
- Large vs. Small
 - Target should be < 20% of acquirer.
- Frequency of Deals
 - Frequent buyers more successful.
- Timing of Synergies
 - Only 2 years to deliver synergies.
- Experienced M&A Team [*Mckinsey Study*]
 - 14 yrs at current employer vs. 4.7 yrs [M&A Teams at Successful vs. Unsuccessful Acquirers]





PART II. PRE-INTEGRATION PROCESS WALKTHROUGH

M&A Pre-Integration Process



- **Assessment Phase**
 - **Thorough Business Review**
 - Financial review
 - Business strategy and prospects; needs assessment
 - Competitive landscape review
 - **Develop Transaction Strategy**
 - Review potential acquisition targets, including possible distressed opportunities
 - Determine priority target(s) based on business goals
 - **Valuation**
 - Estimate purchase price through quantitative and market-based analysis (e.g. free cash flow differential between buy and build scenarios)
 - Is an Art and Science... Subject of another course
 - **Create Acquisition Plan**
 - Determine timetable and potential obstacles to executing (contingent liabilities incl. transaction insurance, complex share structure, etc.)

M&A Pre-Integration Process



- Execution Phase
 - Contact Acquisition Targets
 - Determine appropriate approach strategies (confidential vs. open; advisor vs. management)
 - Robust Confidentiality Agreement
 - Target Review and Analysis -- Due Diligence
 - Due Diligence Committee with Operational Heads
 - Preliminary financial review
 - Business strategy and prospects
 - Refer sample checklist (HR)
 - Negotiate Definitive Agreement
 - Review of definitive agreements, including working with legal and other advisors
 - Advise and consult on optimum deal structure and Forms of payment: Cash, Stock, Convertible Bonds, Contingent Payout, Collars...
- Closing and Transition Planning
 - Advise on closing terms and integration issues
- Shareholder Approval
- Filings/ Government Approvals
 - Any conditions in approval - e.g. Divestments
- Actual Share Exchange



Accounting of Merger...



- Purchase Price Method (Pooling-of-interest no longer allowed under FAS141... Note: In India, pooling-of-interest is still allowed).
- Price paid over and above identifiable assets is goodwill.
- Opening Balance Sheet combines the 2 balance sheets at their *net* value (assets/liabilities at “fair market value”, using external valuation if need).
 - All adjustments increase/decrease goodwill.
- Separately, an acquisition reserve is setup for integration related liabilities related to acquired company only.
 - Reduces overall book value, hence increase goodwill
- 12 months window to establish all adjustments, and a further 12 months to charge all costs against reserve.
- Goodwill is no longer amortized (FAS 142) - annual evaluation and impairment, only if warranted at a BU level. [Note: In India, goodwill continues to be amortized]



Purchase Accounting: Example...



	Historic Balance Sheet (Acquired Co)	Adjustments	Opening Balance Sheet
(1) Accounts Receivable	\$ 100M	\$ 0	\$ 100M
(2) Inventory	200M	10M	210M
(3) Net PP&E	350M	150M	500M
(4) Identifiable Intangible Assets		100M	100M
Goodwill	425M	(35)M	390M
(5) Acquisition Reserves		(200)M	(200)M
(6) Accounts Payable	<u>(75)M</u>	(25)M	<u>(100)M</u>
Net Assets	\$1000M	\$ 0	\$1000M

Accounting of One time costs



- Under Purchase Price method, certain costs - directly attributable to the target company - can be charged to the Acquisition reserve
 - Example: Severance of acquired company's employees
 - Adjusted against goodwill, no impact to P&L
- Other costs that cannot be charged to Acquisition reserve are charged to a specially created Restructuring reserve
 - Example: Severance of acquirer's employees, as part of field the best team.
 - Is a one time hit to Global P&L
 - Protects Operating Units
- Still other costs, that cannot be charged to any reserves under FAS146, are generally absorbed by the P&L
 - Example: Incremental Travel/Training
 - Operating units may or may not get budget relief
- “Surprises” - discovered late in the process - are a P&L hit



Legal Process of Merger



- Forward Triangular Merger
- Reverse Triangular Merger: Target survives.
- Take P&G-Gillette example (Reverse Triangular)
 - P&G formed a subsidiary Aquarium Corp
 - Aquarium Corp owned shares of P&G and then merged into Gillette
 - Gillette therefore survived and owned shares of P&G.
 - Gillette uses these shares to liquidate its existing owner's equity (giving out P&G shares for existing Gillette shares).
 - With this, Gillette's owner's equity is now what came from Aquarium - hence owned by P&G.
 - Thus Gillette becomes a subsidiary of P&G.
- Decision mainly driven by laws on surviving corporation
 - Licenses/Patents may not be transferred in forward
- Note: In India, buyback of shares of parent company by a subsidiary is not allowed.





PART III. SYNERGIES

What are Synergies?

- Ability of the combination to do better than sum of parts.
- $1+1 = 3$
- “How will the combination create value”
- Fundamental reason for the M&A



Synergies: Drivers

Across all value drivers/elements of the P&L

- Volume
- Pricing
- Distributor Costs
- Cost of Goods
- SG&A
- Marketing Expenses
- Tax
- Asset Efficiency
- Cost of Capital
- Etc



Volume



Evaluate Volume building proposals/initiatives

- Distribution Gains
 - New customers, expanded reach/channels
- Co-promotions
 - Leveraging consumer base of similar product
- In-store support
 - Stronger First moment of Truth
- New products
 - Leveraging technology of one company with the brand name of the other

Pricing

Are there realistic price up opportunities?

- Oligopoly - giving pricing power
 - Generally faces regulatory hurdles
- Leveraging existing equity/product
 - Through better total consumer experience after integration



Distributor Costs

Compare distributor costs of both companies

- Change in business models
 - Eliminating distributors by bringing work in house
- Scale benefit - lower customer margins
 - Power shifts to the company
 - Distributors still make higher \$ profits



Cost of Goods



Detailed benchmarking of costs

- Unutilized capacity
 - Especially in common RM/PM.
- Scale benefit on purchasing
 - On non-commoditized supplies
- Logistic Cost
 - Higher utilization of warehouses, delivery van etc.
- Cross learning
 - Best practices in production, packaging etc.
- Vertical integration
 - Ability to do work in house and eliminate supplier profits.





Design the new organization structure and then look at positions eliminated

- Leadership Layer
 - Generally contributing to the majority of savings.
- Scale benefit on organization
 - Especially in back room functions.
- Cheaper purchasing (e.g. travel, data etc.)
 - Scale benefit with suppliers.
- Cross learning
 - Best practices on managing overheads.
- Vertical integration
 - Bringing work in house



Marketing Cost



- Benchmark key costs of the two companies (e.g. media buying costs)
- More clout with agencies
 - Lower media buying cost
- Co-promotion is cheaper
 - Pay at cost vs. selling price
- Various revenue synergies
- Cross-ruffs
 - Leveraging each other's user base
- Cross-learnings
 - Best-in-class trial builders, consumer understanding, marketing mix etc.



Tax

- Thorough study of tax position
- Carried Forward Losses/Tax Credits
 - If unused/unusable in target company
- Change in Asset Base
 - Higher Depreciation
- Change in Business Models
 - Lower overall tax rate in new model
- Cross leanings/reapplications
- Impact on Personal Taxes of Shareholders
 - Deal Structuring... Deferring tax liability
- Caution: Tax Planning vs. Avoidance!



Asset Efficiency

- Capacity planning exercise - including future requirement
- Low Tobin ratio (market value/replacement value of assets)
 - Cheaper to buy company vs. asset
- Unutilized assets
 - Use or Sell (Corporate Jets!)
- Scale benefit
 - Lower overheads behind higher utilization
- Reapplications



Cost of Capital

- Benchmark current sources/cost of cash and future requirements/ size
- Ability to use existing cash
 - Valuation does not measure idle cash
- Internal Funds maximization
 - Higher ROI projects across the 2 firms
- Ability to take more loan
 - Leverage as market cap goes up
- Reduce Beta
 - More diversification, hence lower risk



Synergies: Process

- Estimates based on central analysis
 - Identify Baselines per organization
 - Ensure no “lost people”
 - Ensure no double counting
 - Do global due diligence with some countries as input, plus benchmarks
 - Use simplifying assumptions
 - E.g. 5% savings on global media costs
 - Process very similar to strategic planning/budgeting
- Allocate as targets to regional/ functional teams
 - To develop specific plans
 - To ensure sell-in and execution
- Tracking
 - Build the final number in annual targets/budgets



Dis-synergy: Often forgotten!

- Hurts coming behind integration
 - Revenue Dis-synergy
 - Disruption/Loss of focus
 - Business Model change
 - Competitive Challenges
 - One time costs
 - Severances
 - Relocations
 - Asset write-offs
 - Penalties
 - Poison Pills
 - Integration Costs
 - Investment Banker's cost
 - Regulatory costs (incl. need to spin-off)
 - Others



PART IV: ILLUSTRATION - P&G'S GLOBAL ACQUISITION OF GILLETTE



World's Largest Mergers



<u>Rank</u>	<u>Acquirer-Target</u>	<u>Announcement Date</u>	<u>Deal Value*</u>
1.	Vodafone AirTouch-Mannesmann	Nov. 14, 1999	\$179.86 bn
2.	America Online-Time Warner	Jan. 10, 2000	\$164.75 bn
3.	Pfizer-Warner Lambert	Nov. 4, 1999	\$89.17 bn
4.	Exxon-Mobil	Dec. 1, 1998	\$78.95 bn
5.	Glaxo Wellcome-Smithkline Beecham	Jan.7, 2000	\$75.96 bn
6.	Royal Dutch-Shell Transport	Oct.28, 2004	\$74.35 bn
7.	Traveller's Group-Citicorp	Apr. 6, 1998	\$72.56 bn
8.	SBC Communications-Ameritech	May 11, 1998	\$62.59 bn
9.	NationsBank-BankAmerica	Apr. 13, 1998	\$61.63 bn
10.	Vodafone Group-Air Touch	Jan. 18, 1999	\$60.29 bn
15.	Procter & Gamble-Gillette	Jan. 28, 2005	\$54.91 bn

**At date of announcement (Excludes Debt)*

P&G Gillette Deal - Financials



■ P&G Gillette

- \$57bn all stock deal
 - \$55bn equity (incl. options), \$2bn debt
- Gillette:
 - \$10.5bn sales (+13%), \$1.7bn profits (+22%)
 - Share price at \$45.8, 1bn shares outstanding
- P&G:
 - \$51.4bn sales (+18%), \$6.5bn profits (+25%)
 - Share price \$55.3, 2.8bn shares outstanding
- Deal [Exchange Ratio]:
 - 0.975 share of P&G for every Gillette share
 - Tax benefit (deferred liability) to Gillette shareholders (vs. option of paying cash)



P&G Gillette Deal - Financials



- Acquisition premium at 18% or \$8.1/share:
 - Acquisition valued at P/E of 32 (vs. P&G 24)
- Min. required synergy savings of \$8.1bn:
 - P&G expected to generate cost and revenue synergies with a present value of \$14 to \$16 bn.
- Market Reaction (initial):
 - Fear of paying too high a price...
 - P&G shares down \$1.5 or 3%
 - Gillette shares were up \$5.6 or 12%!
- P&G's response:
 - Buyback \$18-22bn of common stock during next 12-18 months.
 - Over time, therefore, deal financially structured as 60% stock and 40% cash.
 - Sends strong signals and reduces EPS dilution.



P&G/Gillette: The Why of Merger

[P&G news release Jan 28 2005]



- Scale:
 - 22 billion dollar brands.
 - Go-to-market strengths, esp. in developing world.
 - Cost Synergies - eliminating management positions and consolidation of business support functions.
- Similarities:
 - Culture of innovation
 - Best-in-class consumer products
- Complementary strengths:
 - Gillette deep knowledge of Male grooming vs. P&G's strength in Female branding
 - Technology platforms in Skincare and Oral care (e.g. Olay for Men, Oral-B paste with Crest technology)
 - Portfolio choice: Faster growing, higher margin, more asset efficient businesses for P&G.

<http://phx.corporate-ir.net/phoenix.zhtml?c=104574&p=irol-newsArticle&ID=871677&highlight=>

- Growth imperatives
 - M&A as a chosen vehicle for growth
 - Meeting expectations through organic growth alone tough, given large base



Synergy Expectations

[SEC 8-K Filing on Oct 3, 2005]



- **Cost Synergies: \$1-\$1.2bn annual before tax**
 - 75% from Removing duplicate costs... enrolment reduction of 6000 (4%), mainly in management layers
 - Remaining through Driving further efficiencies... in Marketing, Purchasing, Manufacturing and Logistics
 - Operating margin target of 24% by 2010 (vs. 18.5% in 2005).
- **Revenue Synergies: 1% (\$750mn) annual by 2008.**
 - 60% from Leveraging combined Go-To-Market capabilities.
 - Remaining through Applying P&G technologies to Gillette brands.
 - Top line Growth target increased from 4-6% to 5-7% for balance of decade (excluding forex impact).
- **EPS Dilution**
 - FY06: 20-26 cents, FY07: 12-18 cents, FY08: Neutral.



M&A Timelines

[Gillette Example]



- Pre announcement Negotiations/Due Diligence
 - We can only speculate!
 - Potential discussions in 2000 which were abandoned?
 - Due Diligence and Negotiations [P&G: ML, Gillette: GS/UBS]
- Announcement
 - Joint between P&G and Gillette
 - Jan 27/28, 2005
- Shareholder Approval
 - July 12, 2005
- Regulatory Approval [including required Action Steps]
 - EU: Jul 15, 2005.
 - FTC: Sep 30 2005. Conditional consent order, requiring companies to divest a variety of overlapping assets.
 - Under Sec 5 of FTC and Sec 7 of Clayton Act, merger would lessen competition in these overlapping categories.
 - P&G sold Crest SpinBrush to Church & Dwight Company.
 - Gillette sold Rembrandt at-home teeth whitening to J&J.
 - Gillette sold Right Guard men's AP/DO to Dial Corporation
- Day of Close (also called Opening Balance sheet date)
 - Oct 1, 2005
 - Share Exchange

Gillette Purchase Price Allocation (as submitted to SEC)



Amounts in millions	
Current assets	\$ 5,681
Property, plant and equipment	3,655
Goodwill	35,298
Intangible assets	29,707
Other noncurrent assets	382
Total assets acquired	74,723
Current liabilities	5,346
Noncurrent liabilities	15,951
Total liabilities assumed	21,297
Net assets acquired	53,426

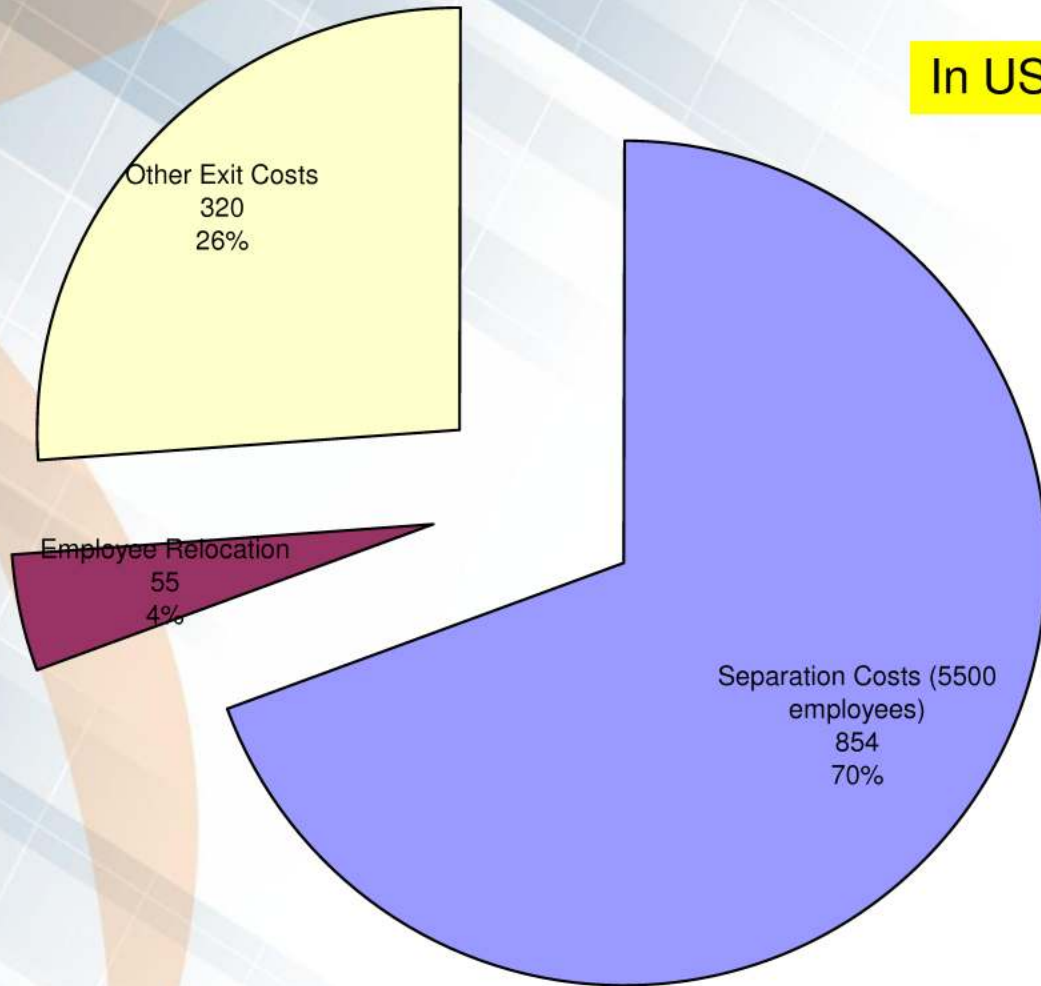
Dollar amounts in millions		Weighted average life
Intangible Assets with Determinable Lives		
Brands	\$ 1,627	20
Patents and technology	2,716	17
Customer relationships	1,436	27
Brands with Indefinite Lives	23,928	Indefinite
Total intangible assets	\$ 29,707	

**Duff & Phelps was hired by P&G to assist in the valuation*

Acquisition Reserve: \$1.23bn (as submitted to SEC)



In US\$mn

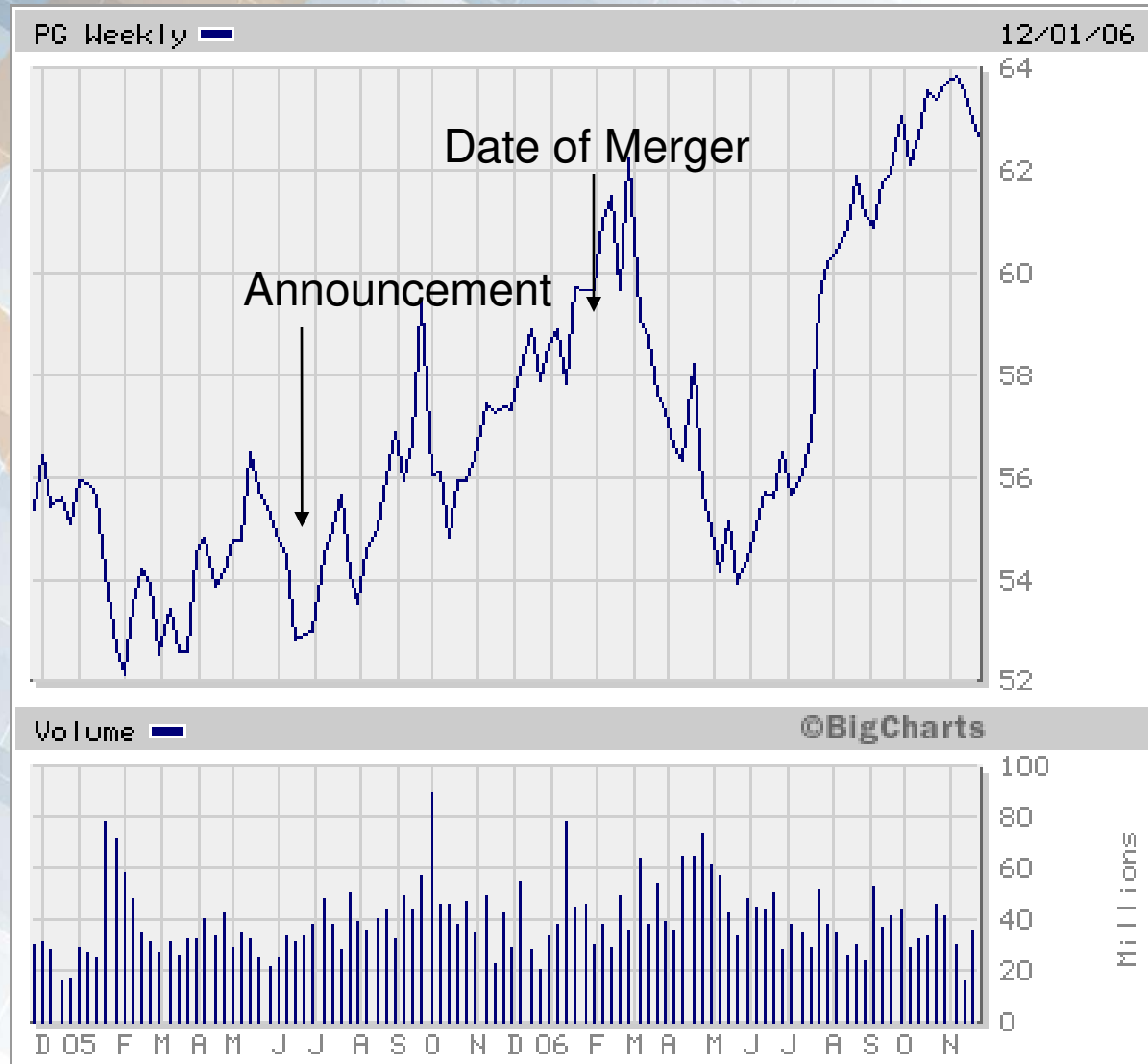


Example: Share Exchange Communication



- “Information on Exchange of Gillette Shares
On October 1, 2005, the merger of The Gillette Company and The Procter & Gamble Company was completed. As a result, each Gillette common share has been converted into the right to receive 0.975 shares of P&G common stock.
- Gillette shares held in the BuyDIRECT Plan, including dividend reinvestment shares, are being automatically converted into the P&G Shareholder Investment Program ("SIP") at the 0.975 rate, with resulting fractional shares credited to P&G SIP accounts. P&G shareholder account statements will be mailed confirming this automatic conversion. Information concerning this share conversion is being mailed to Gillette BuyDIRECT holders on or about October 7.
- Gillette shares held in the Direct Registration System ("DRS") are being automatically converted into whole shares of P&G common stock in DRS form. P&G shareholder account statements will be mailed confirming this automatic conversion. Checks for the cash equivalent of any fractional P&G share, if applicable, will be mailed under separate cover. Information concerning this share conversion is being mailed to Gillette DRS holders on or about October 7.
- Gillette shares held in certificate form must be surrendered to the Exchange Agent, along with a properly completed Transmittal Form, in order for holders to receive their P&G common stock. Following such surrender of Gillette common stock certificates, holders will receive whole shares of P&G common stock in DRS form and will be mailed an account statement confirming the P&G shares. If applicable, holders will also receive a cash payment in lieu of any fractional P&G share. Information concerning the exchange of Gillette stock certificates is being mailed to Gillette certificate holders on or about October 12.
- For more information on the exchange of Gillette shares, please view the following documents.

P&G Global Experience [Stock Chart]



Tata Corus Deal

- **Timelines:**
 - Announced Oct 20th, 06: 455 pence
 - Final Jan 31st, 07: 608 pence (CSN bid for 603 pence)
 - Day-of-close: Mid March 07
- **Deal Value:**
 - \$11.3bn, \$12.1bn fully diluted (7-9 times EBITDA)
 - \$13.6bn including Debt
 - 49% premium over pre-announcement Corus price
- **Share price Impact:**
 - Corus share price up 30%
 - Tata Steel 9% down (fear of paying too much)
- **Why:**
 - Industry wide consolidations (Mittal-Arcelor)
 - Tata Steel Strategic Intent: Top 2 Steel makers by 2012
 - Catapulted from 56th largest steel maker to 5th largest
 - Corus produced 18.2m tones of steel (Tata Steel @ 5.3m)





V. POST MERGER INTEGRATION

Key Challenges

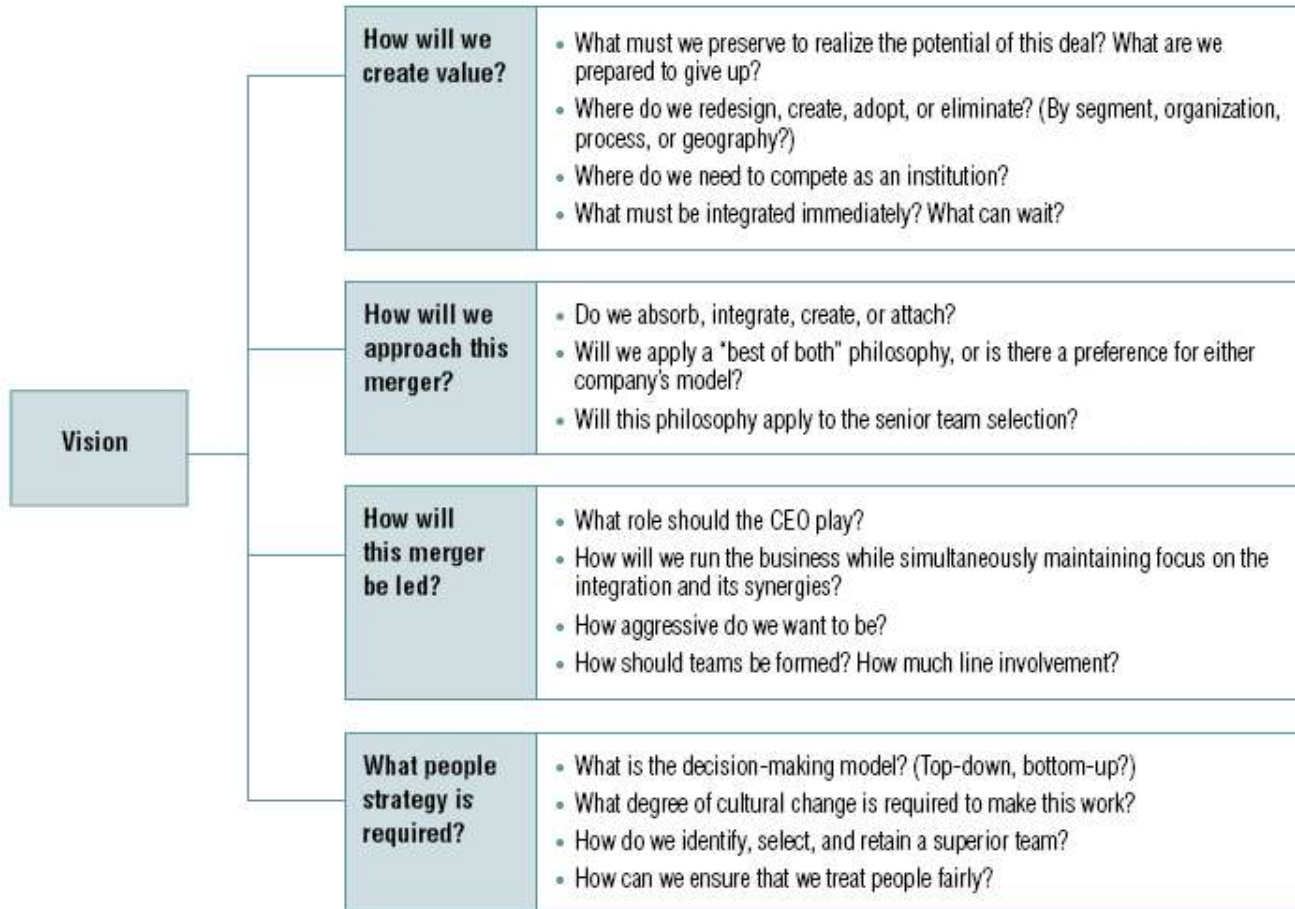


- Context: Poor post-merger integration is blamed for up to 70% of all failed transactions.
- Ensuring top-line growth
 - Esp. under various distractions.
- Delivering synergies
 - Taking hard calls
- Employee retention
 - Knowledge gets lost
- Avoiding disruptions
 - Systems integration
- Hidden risks
- Corrupting what's working
- Competitive Pressures
- Culture-Communication

Integration: The Starting Point



Exhibit 5. Fundamental Questions Drive Integration



Source: Booz-Allen & Hamilton

Key Integration Choices



Exhibit 6. Each Choice Entails a Trade-Off



How will we create value?	Source of Synergies
	Stakeholder Concessions

Cost Reduction	Selected Redesign	True Synergy Potential
Targeted, Measured		Generous

How will we approach this merger?	Integration Approach
	New Organization

Absorption	Best of Both	Transform
Choose One of Two	Harmonize	Clean Slate

How will this merger be led?	Synergy Prosecution
	Preclose Planning
	Decision-Making Involvement
	CEO Role

Conservative	Stretch, Fast-Paced
Conservative, Limited	Aggressive, Maximize Planning
Broad Involvement, Decentralized	Programmatic, Centralized
Selected Delegation	Integration Champion

What people strategy is required?	Leadership and Employee Selection
	Desired Culture
	Retention

Acquiring Team Dominates		Best Team
Emergent	Allow One to Dominate	Craft New Culture
Passive, Selective		Active, Targeted

Source: Booz-Allen & Hamilton



Leanings

[From various integrations]

- Project Management
 - Joint Planning
 - Who acts as mediator?
 - Top Management Support
 - Clarity on success, clear priority calls, “Top 10 issues”
 - Early Start
 - “Clean Team”
 - Ensuring good homework
 - Elaborate Project Management
 - Global-Regional-Local linkages
 - Elaborate Risk Management



Learnings [From various integrations]

■ HR

- Move planning - “Field the Best Team”
- Level harmonization - “Big fish in a small pond”
- Compensation/Benefits - “Hot Buttons”
- Office Relocation - The softer consideration
- Communication - Finding the “optimum level”
- Severances - The unintended consequence
- Separation Timings - Synergy vs. Continuity
- Trainings - Fast start vs. Overwhelming
- Organization Structure - New vs. Old
- Retaining “knowledge”



Learnings [From various integrations]

- Finance
 - Revenue Synergies
 - Cost Synergies
 - Restructuring Reserve
 - Acquisition Reserve
 - Audit
 - Accounting
 - Stewardship
 - Pre-integration liabilities/accruals
- Marketing
 - Marketing Model
 - Initiative Calendar
 - Activity Systems



Learnings

[From various integrations]

- **Systems**
 - One Transactional platform
 - Integration Timings
 - Master Data
 - Software Solutions

- **Sales and Distribution**
 - Distributor Disengagement
 - Inventory Correction
 - Sku optimization
 - Sales force focus
 - Customer Communication
 - Outsourcing vs. In house





PART VI: M&A DEFENSE AND OTHER RESTRUCTURINGS

M&A Defence

- Share repurchases
- Corporate Charter amendment
- White Knights
- White Squires
- Poison Pill/Put - People pill, Macaroni Defense
- Golden Parachutes
- Greenmail
- Standstill Agreements
- Pacman Strategy
- Crown Jewels Divestiture
- Creating Anti-Trust incompatibility
- Using ESOPs



Other Restructurings



- **Divestitures**
 - Selling part of the business
 - Need: Focus on core competence
 - Premise: Their value is higher with the buyer organization
 - Challenge: Valuing the business, negotiating price
 - Example: P&G (Spin brush), Hershey Foods (Friendly Ice-cream)
- **Equity carve-out**
 - Convert business into subsidiary
 - Sell a part (usually less than 20%) of the shares of a subsidiary
 - The parent still retains the remaining equity
 - Shares generally listed
 - Need: raising funds without losing control, Partnering
 - Example: Delphi Automotive segment of GM (17.7%)

Other Restructurings



■ Spin-Off

- Giving up 100% ownership of a BU (spin-off is an independent company)
- Often follows equity carve-out
- Shareholder's initially common (e.g. dividend as new company's share)
- Ensures focus - both for parent and subsidiary
- Example: Pepsi/Pizza Hut, DuPont/Conoco, A&T/7 Baby Bells

■ Tracking Stock

- Parent creates a new class of stock but focussed on a unique business
- Tracking stock is still a common stock of parent (e.g. with voting rights etc)
- Ensures focus but within the same board control - like a new subsidiary which happens to be listed.
- Applications: Leveraging internet valuations, Management evaluation
- Example: AT&T/Excite@Home, Disney/Infoseek, GM/EDS/Hughes



Other Restructurings



■ Split-Offs

- Rare form where shares of the subsidiary are offered to shareholders of parent firm
- Shareholders of parent now directly own the subsidiary, but cease to own parent
- Ensures equity base of parent goes down proportionally without an inflow of cash
- Example: Viacom/Blockbuster





- Homework:
 - Analyze an M&A in India on the following parameters -
 - Strategic Rationale
 - Category of Merger - implications on industry
 - Friendly or Hostile
 - Valuation
 - Post merger integration issues
 - Overall success or failure or too early to tell

Appendix: Nishant Saxena's Profile

- MBA (Strategy & Finance), IIM Lucknow
- Formerly Deputy CFO at P&G India Operations
- Before that, Regional M&A Manager at P&G Singapore
- Worked in Japan, Philippines, Singapore and India
- Visiting Faculty at IIM B and L, NUS Singapore, SP Jain Dubai
- Senior Consultant at Cadbury, Kraft, Nestle, Aircel, HT Media, Conagra, J&J, Macmillan, ICAI, ICSI etc.
- Has taught almost all major nationalities in 35+ countries
- Profiled by *Business World* as 'Leader in Making'. By *Outlook* as 'One of 50 Social Entrepreneurs... Making India Better'.

