M&A Practice Group

"A pessimist sees difficulties in every opportunity, an optimist sees an opportunity in every difficulty."

Sir Winston Churchill

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Some Terminology...

Mergers & Acquisitions

…abbreviated **M&A**) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Acquisition

An acquisition, also known as a **takeover** or a **buyout** or "merger", is the buying of one company (the ‘target’) by another. An acquisition may be friendly or unfriendly, i.e., hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's BOD has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one.

Upside of M&A for the client (1)

Economies of scale

Reduction of fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

Economies of scope

Gain in efficiency primarily associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution, of different types of products.

Increased revenue & market share

The buyer absorbs a major competitor and thus increases its market power (by capturing increased market share) to set higher prices.

Upside of M&A for the client (2)

Cross-selling

Example: a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts.

Or, a manufacturer can acquire and sell complementary products using same distribution channel and targeting existing client base.

Synergy

Example: managerial economies such as the increased opportunity of managerial specialization.

Or, purchasing economies due to increased order size and associated bulk-buying discounts.

Upside of M&A for the client (3)

Taxation

A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In many countries, however, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

Geographical or other diversification

This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company.

Upside of M&A for the client (4)

Resource transfer

Resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.

Downside of M&A for the client

Unsuccessful M&A

Achieving acquisition success has proven to be very difficult, while various studies have shown that 50% of acquisitions were unsuccessful → advantages were overstated!

Cultural impact

M&A can destroy leadership continuity in target companies' top management teams for at least a decade following a deal. Empiric studies found that target companies lose some 20% of their executives each year for at least 10 years following an acquisition – more than double the turnover experienced in non-merged firms!

Complexity of Acquisition process

Proper fit of buyer and target? HR? Clients? Suppliers? Legal & tax issues? Long-term!(execution takes years)

The globalized world – the future:

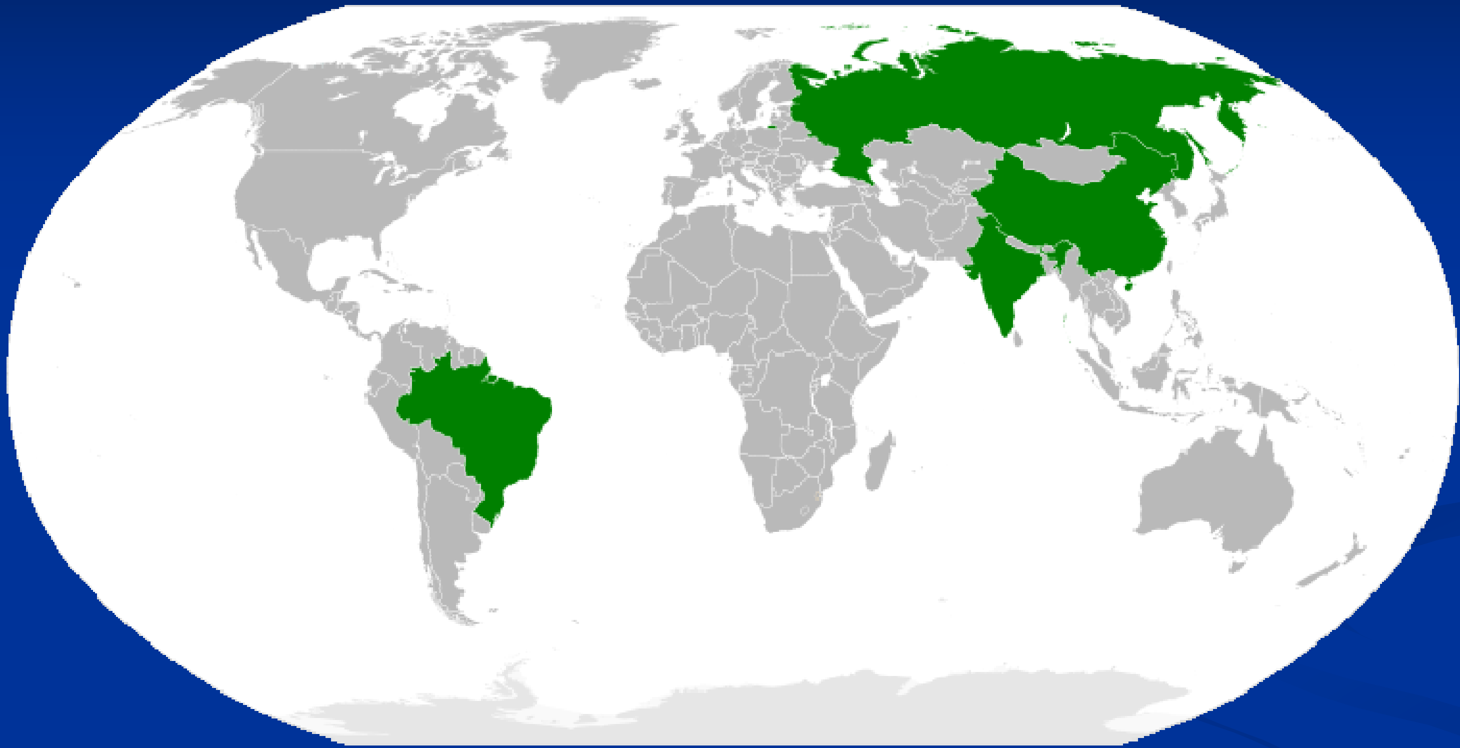
- Cross-Border and intercontinental M&A
- "Arbitrage" of values & prices on global scale
- GGI is the perfect platform
- Your involvement and active role for more profit

G7 / EU

- Mature companies
- Change of generation
- Technology driven
- International focus
- Higher cost of production


BRIC

BRIC



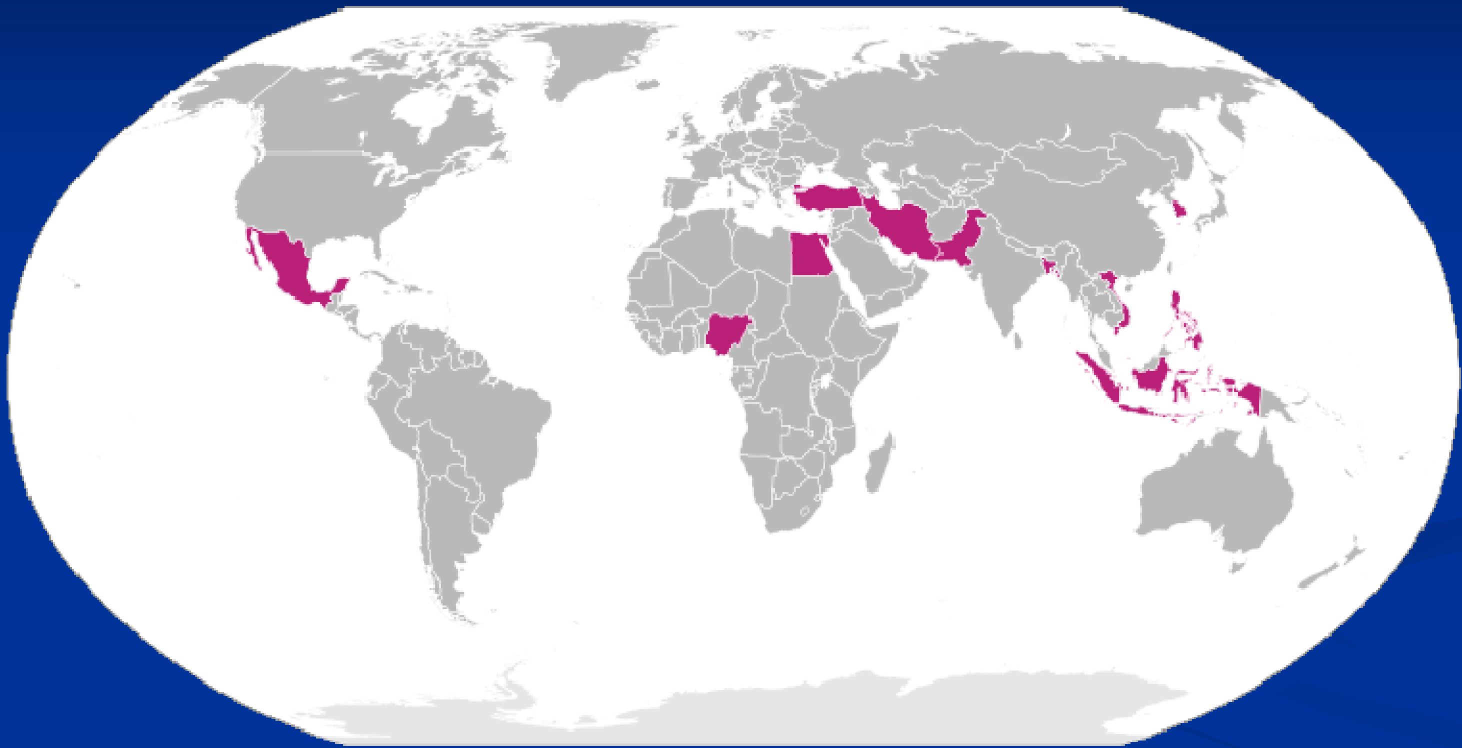
Brazil, Russia, India and China

BRIC

- Expanding economic interests worldwide (e.g. China in Africa, Swedish car-maker VOLVO)
- Acquisition of technology, i.e. know-how transfer (e.g. Russia in Europe)
- Need for geographic diversification
- Lower risk of failure as “Next 11”
- Strong economic growth


Next 11

Next 11

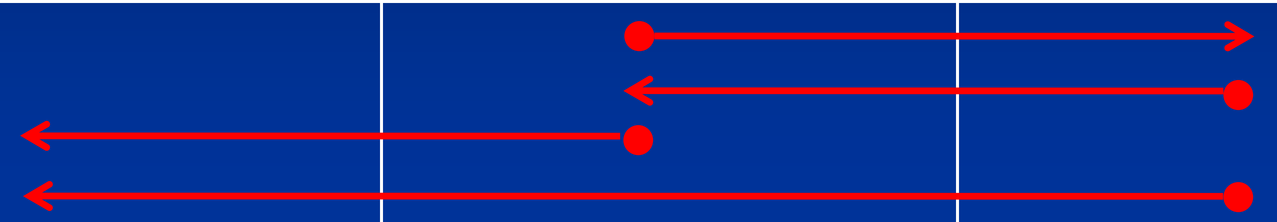


Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam

Next 11

- The future „BRIC"?!
- Low cost producer
- Strong, but still volatile economic growth
- Higher risk of failure than BRIC

M&A Drivers

Next 11	BRIC	G7
		
▪ The future „BRIC"?! ▪ Low cost producer ▪ Strong, but still volatile economic growth ▪ Higher risk of failure than BRIC	▪ Expanding economic interests worldwide (e.g. China in Africa, VOLVO) ▪ Acquisition of technology, i.e. know-how transfer (e.g. Russia in Europe) ▪ Need for geographic diversification ▪ Lower risk of failure as "Next 11" ▪ Strong economic growth	▪ Mature companies ▪ Change of generation ▪ Technology driven ▪ International focus ▪ Higher cost of production

How to get involved (1)

- **Screen your client base** and identify potential candidates: succession, MBO, MBI, Spin-off, acquisition for diversification (horizontal, vertical, diagonal), merger (objective: bundle resources along value chain → synergies; economies of scale "double up = cost reduced by 30%"; reducing number of market participants

- Prepare a fact-sheet to **show post-M&A-situation** to your client: key figures of P&L, i.e., sum of turnover incl. sales price increase (→ oligopoly), cost-savings through streamlined support, lower purchase prices, substantially increased net profit/ROE

How to get involved (2)

- **Talk to your client** long before succession, retirement, strategic crisis (→ lack of growth, pressure from market or competitors); get client acquainted to the fact to be able to "let go", keep client confronted with issue on repeated occasions.
- Prepare a fact-sheet to **show post-M&A-situation** to your client: key figures of P&L, i.e., sum of turnover incl. sales price increase (→ oligopoly), cost-savings through streamlined support, lower purchase prices, substantially increased net profit/ROE.
- Prepare an agreement showing **rules of engagement** (issues, timing, cost) – don't allow "fishing expeditions"

Money talk

- Listing fee, retainer (e.g., EUR 30-50k), daily rates
- Success fee of transaction value, e.g. decreasing from 5% to 1%
- Entitlement to success fee even after contract expiration

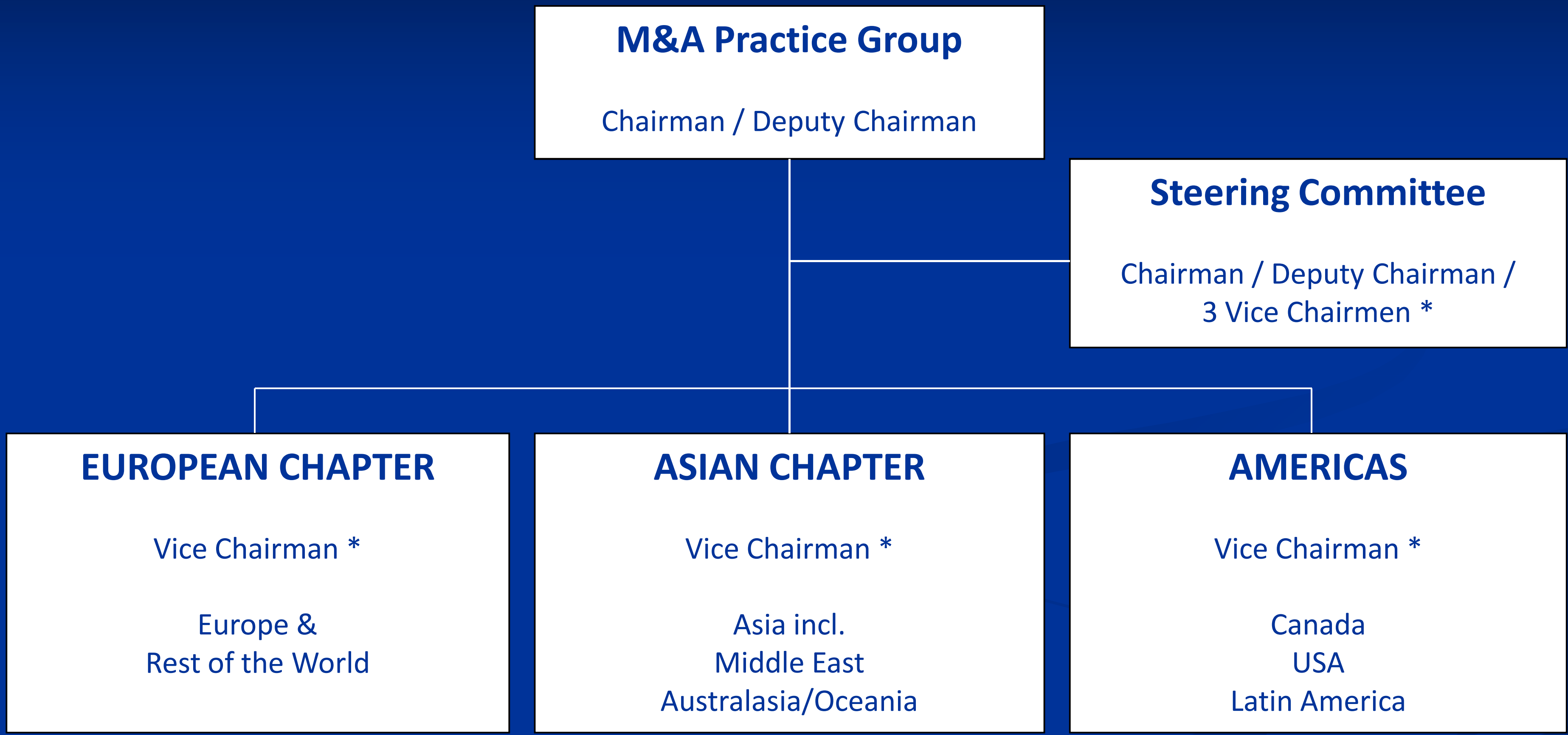
What‘s next?

- Increase activity level in M&A practice group
- Set web-based supporting structure for efficient interaction
- Create a permanently active M&A network within GGI

Why?

- To create wealth for our clients
- To generate more and extra-ordinary revenues for our firms

Chart of Organization (DRAFT)



Note: all definitions in singular & masculine are also valid for plural & feminine

Conclusion

- Please contact me during this conference
- send me an e-mail at mgw@wtz.ch
- get involved in the M&A Practice Group!

Thank you!