Strategic Mergers & Acquisitions: A Disciplined Approach

3 Days | Wall Street Expert | Impacting Learning Experience
Investment Rs 195,000 per person
Introduction

The fundamentals of target firms – how they generate revenues, their costs, and their use of capital to generate returns – will first be reviewed. The workshop will then explore how corporate managements and investment bankers use discounted cashflow analysis to value firms, with forecasts of free cashflows, projected terminal values, and estimated discount rates. The DCF approach will in turn be checked against comparable firm and comparable transaction analyses – the methodologies used by most public market investors – in which comparable publicly-traded assets provide valuation metrics to price similar assets.

This valuation analysis will also incorporate analysis of anticipated synergy effects. The distinction between revenue, cost, financing, and tax synergies will be made. The estimation process for anticipated synergy assumptions will be scrutinized. The likely impact of different synergy capture levels on post-transaction firm performance and valuation will be projected. The issue of diversification, and its impacts on firm valuation, will be addressed.

The funding of proposed transactions will then be examined. The use of capital structure to unbundle risk and mobilize diverse sources of capital, while maximizing shareholder value, will be explored.

Finally, attention will be directed to the M&A and capital markets processes – how M&A transactions are executed, and how debt and equity claims on firms are structured, documented, and marketed to institutional investors.

Who Should Attend

- Corporate Strategy and Business Development Executives
- Delegates from M&A units
- Finance Directors involved in M&A structuring
- Commercial Bankers
- Investment Bankers
- Investment Management Professionals
- Company Legal Officers
- Accountants
- CFO’s
- Auditors

Timing, Materials, and Pedagogy

The workshop will be delivered over three days. The workshop will be centered on a series of cases and conceptual notes. These include:

Note on M&A Process
B&S Foods: Growth via Acquisition
Korea Tobacco and Ginseng: A Mature Firm Needing Restructuring
Kraft Foods Acquisition of Cadbury Schweppes: Due Diligence and Synergies
TSE Purchase of Yates Valves: DCF Valuation
Pepsico/Quaker Oats Merger
TNT Exits China with Sale via LBO
Blackstone: The Orangina LBO
PT Medco Energi Tbk: Debt Restructuring and Management Buy-out
Patel Food and Chemicals: Funding Growth
A Socratic approach, with active participation and exercises, will be used. Computers will be used to analyze Excel forecasting and valuation models in real-time.

**Participation Profile**

Participants should have a basic knowledge of accounting, financial analysis, and forecasting. Familiarity with the basic features of Excel will be presumed. The workshop will require a high level of commitment in terms of evening case study preparation, individual study, and group contribution.

**Day 1 AM Session: Motivations and Fundamental Analysis in M&A Contexts;**

- Motivations for Acquisitions/Disposals
  - Strategic Issues
  - Growth
  - Diversification
  - Restructuring: Spin-offs, Carve-outs, Share Buybacks, Tenders, Exchanges, Special Dividends
  - Activist Investors and Financial Distress
- Fundamental Analysis of Target Firms: Measures of Firm Performance
  - Growth: Topline
  - Profitability: Margins
  - Returns: ROE, ROIC, ROA
  - Cashflow: EBIT, EBITDA
  - Capital use: Capital requirements in different businesses
- Discipline in Acquisitions
  - Acquiror Cost of Capital vs. Pre-Synergy ROIC for Target
  - Acquiror Cost of Capital vs. Post-Synergy ROIC for Target

**Day 1 PM Session: Synergies, Due Diligence, and M&A Process**

- Synergies and Due Diligence
  - Cost Synergies: Contexts to Judge Materiality and Probability of Realization
  - Revenue Synergies: Contexts to Judge Materiality and Probability of Realization
  - Financing Economies
- Due Diligence
  - Types: managerial, commercial, financial, legal, operational, IT
  - Confidentiality Agreement
  - Confidential Information Memorandum
- M&A Process
  - Candidate Screening: Picking Likely Candidates
    - Capital Structure, Industry Evolution, the Four D’s
  - Client Engagement: Signing ‘Em Up
    - Letter of Engagement, Letter of Agreement
  - Valuation
    - Preliminary/Indicative, Detailed
Day 2 AM Session: Cost of Capital and Discounted Cashflow Analysis in an M&A Context

- Cost of Capital
  - Returns to Investors: Weighted Average Cost of Capital
  - The Impact of Leverage on WACC

- DCF Valuation
  - Forecast Evaluation
  - Terminal Values
  - Discounting
  - Leveraged/Equity DCF Analysis

- Capital Structure and Shareholder Value
  - Optimal Capital Structure: Theory and Practice
  - Impact of Leverage on Valuation
  - Use of Leverage and Shareholder Value

- Diversification and Its Impact on Firm Valuation and Returns to Capital

- Estimating the Cost of Capital for
  - Private Firms
  - Business Units within Larger Firms
  - Firms in Emerging Markets

Day 2 PM Session: Relative Valuation in Change-of-Ownership Transactions; Anticipated Synergies and Their Impacts on Valuation

- Basics of Relative Analysis
  - Comparable Firm Analysis
  - Public Market Valuation
  - Private Market Valuation
  - Control vs. Minority Status

- Public Market/Relative Valuation
  - The Balance Sheet Metrics: P/BV, NAV
  - The Income Statement Metrics: P/E, DDM, Dividend Yield
  - A Key Investment Decisionmaking Principle: Price-to-Growth
  - The “Economic” Metrics: EV/EBIT, EV/EBITDA, EV/Revenues
- The “Operational” Metrics: EV/Customer, EV/Unit of Resource, EV/Unit of Capacity

- Valuation in Change-of-Control Transactions
  - Comparable Transactions
  - Control Premia
  - Liquidity Discounts

- Anticipated Synergies and the Rationalization of Control Premia
  - Types of Synergies: Revenue, Cost, Tax, Financing
  - The Synergy Estimation Process: Probability of Ultimate Realization/Capture?
  - Impacts of Synergies on Firm Financial Performance
    - Accretion
    - Dilution
  - Impacts of Synergies on Firm Valuation
    - Multiple Expansion
    - Multiple Contraction

**Day 3 AM Session: Transaction Structuring and Funding**

- Internally-Generated Funds vs. External Financing
  - “Pecking Order”
  - FRICTO analysis
  - Impacts on Financial Performance and Valuation: Dilution vs. Accretion

- External Funding: Debt and Equity Capital Markets Instruments
  - Bank Credits
  - Bonded Debt Funding
  - Preferred Equity
  - Equity Funding Instruments
  - Securitized and Structured Funding
  - Hybrids: Convertibles, PIK Securities

- Specialized Debt and Equity Funding
  - Mezzanine Debt
  - Strategic Equity

- Sources of Debt and Equity Funding
  - Debt: Banks, Insurers, Pension Funds, Investment Managers, Specialized Lenders
  - Equity: Investment Managers, Pension Funds, Insurers, Non-Profits, Private Equity Sponsors

- Transaction Structure
  - Form of Consideration: All-Cash, All-Stock, Assumed Debt, Combinations
  - Accounting Treatment
  - Tax Issues
  - Contracts
Day 3 PM Session: Leveraged Transaction Structuring

- Leveraged Deals: Combining modest business risk with large financial risk in pursuit of levered equity returns, generally measured absolutely (IRR basis)

- Uses of LBOs and MBOs: Asset Disposals

- Leveraged Buyouts: Candidate Screening
  - Fundamental characteristics:
    - non-cyclical
    - recurring revenues
    - leveragable asset base
    - lowish ongoing investment
    - lack of current investor enthusiasm
    - capable management and possible for post-closure improvements
    - likely exits
  
  - Financial characteristics: Conservative existing capitalization and substantial debt capacity

- Valuation: Entry, Exit, Non-core Assets

- Flipping the Capital Structure
  - Maximizing collateralized debt
  - Utilizing bonded unsecured debt
  - Possible mezzanine debt
  - Minimize equity investment

- Traditional Mezzanine Debt
  - Hybrid structure: typically convertible bonds or bonds with warrants
  - Primarily a credit exposure
  - Plus an “equity kicker”

- “Growth Equity” Mezzanine
  - Hybrid structure: typically convertible bonds or preferred stock, often with warrants as well
  - Primarily an equity exposure
  - Structured as a hybrid to provide seniority and some current return

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Trainer Andrew Regan

Andrew Regan brings to the training task experience in finance in both the practical and academic spheres. Mr. Regan spent six years as a practitioner in the securities industry. He started in public finance at Merrill Lynch (Bank of America), serving as a financial advisor to municipal entities and directing their efforts in raising public capital in the tax-exempt debt markets. After receiving his MBA from Harvard Business School, Mr. Regan became Retailing Analyst at Donaldson, Lufkin, and Jenrette in New York, where he counseled large institutional investors on their retail sector holdings. In addition to these conventional sell-side duties, he was centrally engaged while at DLJ in a number of banking transactions involving merchants, including LBOs, IPOs, primary and secondary equity offerings, and private placements.

Mr. Regan returned to HBS as a Charles M. Williams Fellow and Dean's Doctoral Award Winner. His research interests included the performance of LBOs, privatization in emerging markets, competition in the securities markets, and capital availability in the airline industry. In 1994-95 Mr. Regan served as secretary to Professor Hayes, Warren Buffet, GE Chairman John Welch, former Merrill Lynch Chairman Daniel Tully, and other members of the Compensation Practices Committee, a panel of securities industry experts appointed by SEC Chairman Arthur Levitt to look at remuneration in the retail brokerage business.

Mr. Regan provides pedagogical support to financial service organizations looking for training in the theory and practice of corporate finance and financial markets. His specialty is valuation in the public and private equity markets. This includes both the "sell-side" process of such activity (advisory, M&A, and equity capital markets) as well as the concomitant "buy-side" analysis (investors and their analytical approaches). His other interests are portfolio management and real estate valuation.

Mr. Regan was also a contributor on valuation issues to tech journal The Industry Standard, and serves as a trustee for several endowment funds.

Mr. Regan received his A.B. magna cum laude in Modern European History from Harvard College in 1983, his M.Sc., with Distinction in West European Politics from the London School of Economics in 1986, and his M.B.A., with High Honors, from HBS, where he was a George F. Baker Scholar, in 1988. He is a member of the Association for Investment Management and Research and holds the CFA Charter. Mr. Regan lives in Jersey City, New Jersey.
For Registrations

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