MERGERS & ACQUISITIONS TRAINING

Introduction to M&A

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BNP PARIBAS

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Introduction to M&A

- M&A is the acronym for Mergers & Acquisitions
- Can be understood as simply as the buying or selling of companies or assets
- Generic terms for all type of transactions and structures involving the strategic purchase or sale of all or part of an equity interest in a company or in an asset
- M&A is often associated with the divestment or sale of the company. This refers to the partial or full disposal of a business unit through the process of selling the company's shares, subsidiary assets, investments, division of a company

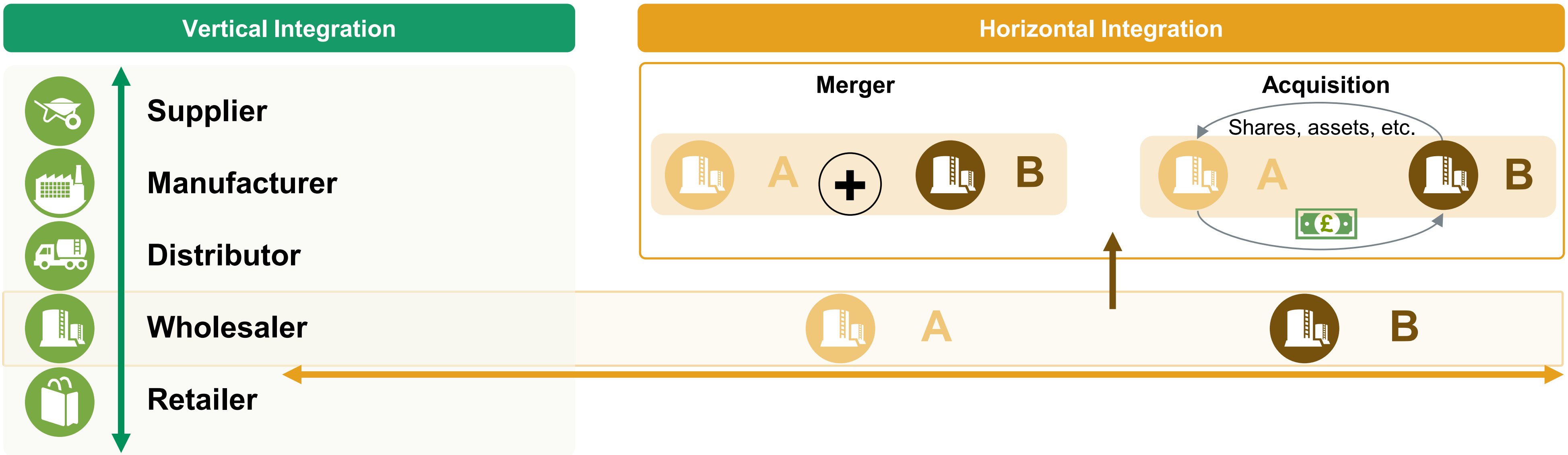
Merger

- Management of 2 different companies hold talks about **merging their companies together**
- Shares in the original businesses are canceled and **shares in a new corporation are created**
- Shareholders of the 2 original companies are **given proportional holdings of shares** in the newly-created entity

Acquisition / Divestment / Sale

- **Acquisition:** Buyer wants to make a deal to **acquire the shares of the target company**
- **Divestment:** Seller would like to **sell its shares, assets, etc.**
- All or some of the shares of the target are bought by the acquiring company and the **target becomes a subsidiary of the acquirer**

Types of M&A integration



Vertical Integration	■ Occurs when 2 or more stages of a production/supply chain that are normally operated by separate companies are combined under a single entity
	■ An example is the manufacturer would like to acquire their supplier in order to get priority and competitive raw material pricing
	    ■ Backward vertical integration: Company goes backstream its supply chain (e.g. manufacturer acquires supplier)
	    ■ Forward vertical integration: Company goes downstream along its supply chain (e.g. manufacturer acquires its distributor)

Horizontal Integration	■ Occurs when 2 companies at the same stage of a production/supply chain are combined into a single entity ■ Another way of achieving inorganic growth could be to acquire a competitor that produces the same products, which will reduce competitive pressure and may even help the company to increase margins
Diversification Integration	■ Occurs when a company acquires another company which engages in an unrelated business with the aim to grow outside its core business
Congeneric Integration	■ Occurs when companies are in the same or related industries or markets but feature different line of products. These companies may share similar distribution channels, providing synergies for the merger

Let's set the scene…

➔ The characters

A *(motivated)*	Buyer
A *(willing)*	Seller
An (*attractive*)	Target

➔ The story (…*Strategic rationale)*

- Growing an existing business
- Entering a new business or a new geography
- Complying with government regulation/requirement
- Simply making a financial investment
- Creating strategic partnership
- Reduce competition
- Selling a non-core business
- Raising funds to grow the Target business or other business in the Group
- Reaping the profits of a past investment
- Pay off debt or other obligations

Transaction synergies

Revenue Synergy

- Revenue synergies arise when the combined companies is expected to generate more cash flows than if the individual companies operate separately
- An example of revenue synergy:
    - **Complementary products:** individual companies have been producing complementary products pre-merger. Once both businesses are merged, the products can be bundled to produce higher sales from customers

Cost Synergy

- Cost synergies arise when the combined companies will have a cost-cut as a result of greater efficiency
- Examples of cost synergy:
    - **Supply chain efficiencies:** both companies can merge their supply chain process and cost savings will arise if either company has access to a better supply chain relationship
    - **Lower HR costs:** merged companies will have a smaller organization chart and can eliminate employee redundancies

Financial Synergy

- Financial synergies arise when there is an improvement in company's cost of capital – the costs the company needs to meet to secure the various funding sources it requires to finance its business
- An example of financial synergy:
    - **Improved capital structure:** typically, merging companies will lead to a better capital structure and cash flow to support borrowings from banks with a lower cost of capital

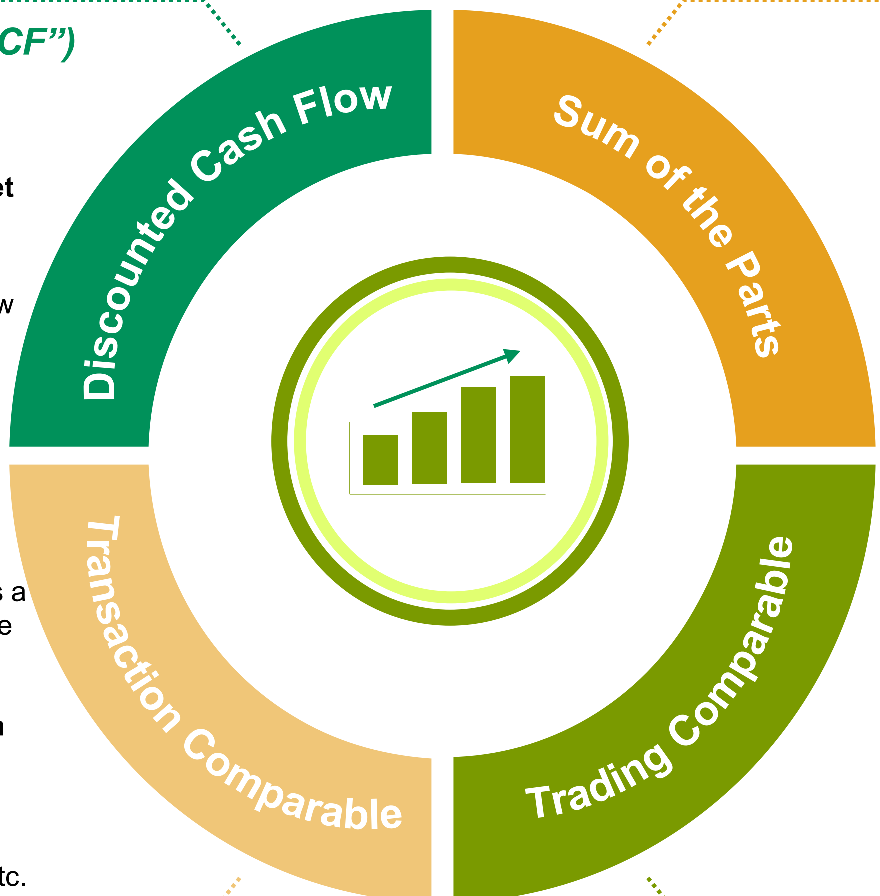
Valuation methodologies

Discounted cash flow ("DCF")

- DCF is based on **projections of future cash flows** by doing a financial model, which will be adjusted to get the **current market value of the company**
- Most suitable for **mature companies** with a stable cash flow

Sum of the parts ("SOTP")

- SOTP is a process of valuing the company by determining what its **separate divisions would be worth** if they were spun off or acquired by another company
- **Most suitable for conglomerate companies** that have different business units



Transaction comparable

- Precedent transactions analysis is a form of relative valuation where we **compare the target company to other companies** that have recently been **sold or acquired in the same industry**
- Most common form of multiples used are **Enterprise Value/Sales** and **Enterprise Value/EBITDA**, etc.

Trading comparable

- Comparable company analysis is another relative valuation method where we **compare the current value of target** company to other similar listed companies by **looking at listed companies' multiples**
- Most common form of multiples used are **Price/Net Income**, **Enterprise Value/EBITDA**, etc.

How long does it take?

	PREPARATION	PHASE 1	PHASE 2	NEGOTIATIONS	CLOSING
	c. 1 month	6-8 weeks	8-12 weeks	2-4 weeks	Variable
SELLER	Hire advisors Identify potential buyers Sale strategy Gather information Prepare marketing materials: teaser, IM, financial model, process letter I, vendor DD	Draft process letter II Prepare management presentation (MP) Draft SPA Prepare VDR	Shortlisting Q&A process Management presentation Site visit	Final buyer selection Price negotiation SPA negotiations Obtain Board approval	Shareholder approval Regulatory approvals
BUYER	Hire advisors	Hire advisors Review IM and financial model	Attend MP Access physical / virtual data room (PDR / VDR) Technical DD Commercial DD Financial and tax DD Valuation SPA review	Confirmatory DD SPA negotiations Obtain Board approval	Shareholder approval Regulatory approvals Raise financing
	Teaser, NDA, Process letter	Submission of non-binding offer (NBO)	Submission of binding offer (BO) and SPA mark-up	Signing of Sale and Purchase Agreement (SPA)	Completion Announcement

How do we communicate information on the Target?

MARKETING DOCUMENTS

➔ **Teaser**
High level and non-confidential information to pique the interest of the Buyer

➔ **Information memorandum (“IM”)**
Detailed information about the Target: investment highlights, market overview, operational, technical, commercial, HR, HSE, IT, historical financials. Should provide sufficient information for the Buyer to make a non-binding offer

➔ **Management presentation (“MP”)**
First official meeting between management of the company and prospective Buyer. Contents include high-level information on key investment highlights, company overview (mine operations details, etc.), financial highlights, business plans amongst others

➔ **Vendor Due Diligence (“VDD”) reports**
Third party reports (financial, tax, technical, commercial, legal, etc.) provided by the Seller in order to fast track the DD process

➔ **Seller financial model or financial projections**
Financial model or projections prepared by the Seller in order to guide the Buyer on the evaluation of the Target

How do we communicate between Seller and Buyers?

PROCESS DOCUMENTS

→ **Non Disclosure Agreement ("NDA")**

Agreement between the Seller and a Buyer to regulate the exchange of confidential information

→ **Letter of Intent ("LOI")**

One of the first documents negotiated by the parties is a LOI, which is a written expression of the parties' intent to enter into a transaction and a summary of the material terms of the deal. It is sometimes referred to as Termsheet or Memorandum of Understanding

→ **Process letters**

Standard letters sent to potential Buyers throughout the process explaining how the process is being run, particularly the timeline, and contents that the NBO and BO should contain

→ **Non-Binding Offer ("NBO")**

Letter sent by the Buyer at the end of Phase 1 stating its interest and rationale, indicative price, intended structure, DD requirements and funding capabilities

→ **Binding Offer ("BO")**

Letter sent by the Buyer pursuant to Phase 2 confirming its interest, binding price, acquiring entity and funding for the Transaction. Can be submitted jointly with a mark-up of the SPA

What are the key due diligence areas?

General Corporate Information

- Review on company's primary information with examples:
  - General company details (i.e. business operations, details of subsidiaries, etc.)
  - Organization structure (BOD, BOC)
  - Others

Operations

- Analysis on company's business operations with examples:
  - Reviewing project site details and conditions
  - Offtake agreements
  - Supply of raw material
  - ESG related topics

Commercial

- Analysis on company's market position and long-term viability with examples:
  - Reviewing business plan
  - Analyzing the market and company competitive advantage
  - Investigating product pricing vs competitors

Technical

- Review technical contracts and certifications with examples:
  - JORC report, Reserve and Resources report
  - Life of mine plan
  - Machine engineering documents and drawings
  - List of contractors and sub-contractors

Financial

- Typically review 3 years audited historical financial statements accounts in detail and its trends (profit margins, revenue growth, etc.)
- Additional focus on working capital and Capex
- Assessment of major customer accounts including order book and sales pipeline, etc.

Tax

- Focus on identifying key corporate tax risks
- Reviewing all tax the company is required to pay
- Confirming the tax audit and status of any tax pending/dispute with the tax authorities
- Examining documentation related to net operating losses for tax carryforward credits, etc.

Human Resources

- Analysis on company's human resources with examples:
  - Employment contracts with salaries and bonus
  - Division of employees (factories, mines, etc.)
  - Employee share option plan (if any)
  - Health benefits and welfare insurance policies

Information Systems

- Analysis on company's IT system with examples:
  - Software packages used for specific functions (i.e. on-site mining, office, etc.)
  - Disaster recovery plan for data storage

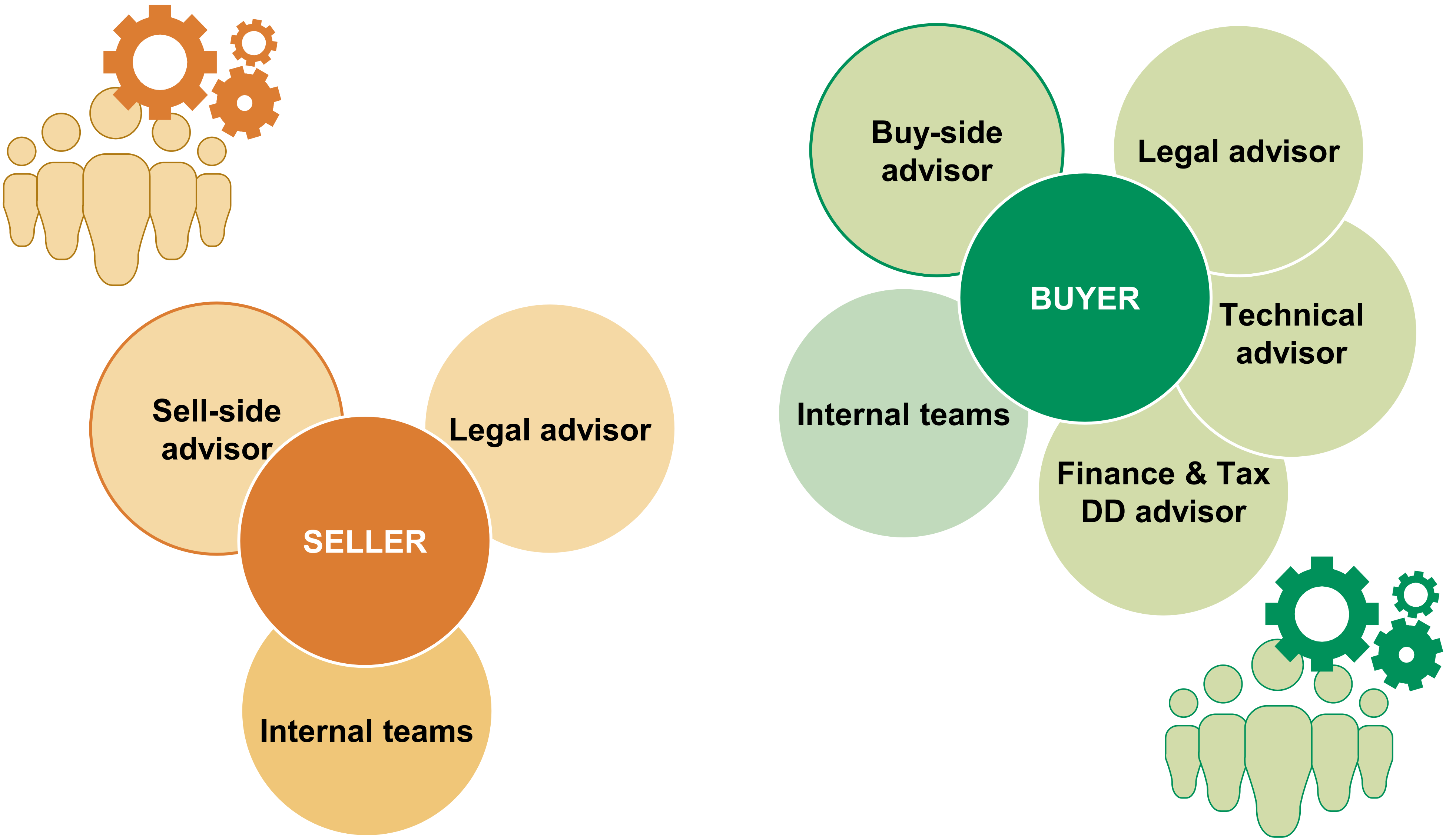
Legal/Litigation

- Examination of legal documents with examples:
  - Necessary mining licenses (IUP, etc.)
  - Memorandum and Articles of Association
  - Board meeting minutes
  - Shares certificate issued
  - Bank loan agreements, etc.

What are the key clauses of a Sale and Purchase Agreement?

Definitions	▪ Defines several words/clauses used throughout the Sale and Purchase Agreement document
Parties	▪ Defines the parties involved in the transaction, usually the buyer and seller along with its subsidiaries (if any)
Purchase price including deposit	▪ Defines the transaction price with deposit prerequisite (if any)
Timing	▪ Defines the timing of the key transaction dates (i.e. transaction closing, etc.)
Conditions precedent	▪ Significant points that need to be dealt with prior to closing of transaction. An example is that ensuring that the Buyer can secure either debt or equity financing that is suitable for the transaction
Seller's and Buyer's representation and warranties	▪ The Seller provides assurance that the business is worth the investment. Lawyers typically look for information on the legality of the business, accuracy of financial instruments, status of inventory, etc.
Claims and indemnification regime (limitation on liabilities)	▪ A provision in a contract that limits the amount of monetary exposure a company faces in the event a lawsuit is filed or another claim is made
Closing adjustments	▪ Closing adjustments refer to potential adjustments to the purchase price in a transaction. Examples are working capital adjustments, adjustments on closing cash, accounts receivable, inventory adjustments, etc.
Appendix, schedules and side letters	▪ Some examples include shareholders agreement, joint-operating agreement, material contracts, disclosure letter, financials at the effective date amongst others

Selecting the right team for a successful transaction



Sell-side advisor responsibilities

TASKS

SALE STRATEGY

- Formulate the terms, conditions and structure of the Transaction based on parameters and criteria specified by the Seller, together with the other professional advisors
- Examine the market to identify potential strategic partners and, use the sell-side advisor’s senior level contacts obtain preliminary feedback to establish interest from potential partners
- Evaluate feedback received from potential buyers

VALUATION

- Preparing and/or developing financial / valuation model with sensitivity analysis
- Advising, assisting and providing recommendations in determining the expected valuation in relation to the Transaction
- Providing industry benchmarks as well as price analyses for comparable transactions (where publicly available)

MARKETING MATERIALS / COORDINATION

- Preparation of marketing materials including a teaser, process letter, information memorandum, and management presentation
- Coordinating the flow of information between the Seller and potential Buyers, including the VDR and Q&A process

LEGAL / STRUCTURING

- Advising on and assisting in implementing an appropriate structure for the transaction
- Coordinating with the Seller’s legal / tax advisors’ advice, including:
  - General strategy for accomplishing the transaction
  - Structuring of terms and conditions to be included in the SPA
- Assisting in identifying the key conditions for completion and warranties related to financial issues of the transaction

INTERNAL PROCESS

- Preparing, advising and assisting in making written presentations concerning the transaction for internal purposes
- Includes materials to be presented to Commercial, Technical and other Peer Review committees, Senior Management and, if necessary, Board of Directors and shareholders

NEGOTIATIONS

- Advising as to the strategy and tactics for negotiations with potential Buyers and their financial advisors
- Assisting in negotiating the definitive SPA and other agreements, in conjunction with your legal advisors (assuming an agreement is reached in principle)

Buy-side advisor responsibilities

TASKS

ACQUISITION STRATEGY

- Formulating acquisition strategy of client and provide insightful market analysis. Criteria of target includes business model, scale of operations, value drivers, know-how, etc.
- Identifying a long list of potential targets with analysis of target's key business and financial data, along with assessing the suitability with the client's target criteria

TARGET APPROACH

- Approaching the owners of selected target companies (can be done via connections or cold calling)
- Buy-side advisor will then facilitate signing of the NDA and obtain information to evaluate the investment opportunity should the target company be interested to sell their business
- Facilitating question and answer sessions with target's management and client
- Preparation of LOI that will be directed to the target company given client wishes to proceed with the process

VALUATION

- Analysing synergies and cost savings between client and target company
- Developing financial model to assess target company's valuation with sensitivity analysis

LEGAL / STRUCTURING

- Advising on and assisting in implementing an appropriate structure for the transaction
- Coordinating with the legal / tax advisors' advice, including:
  - General strategy for accomplishing the transaction
  - Structuring of terms and conditions to be included in the SPA
- Assisting in identifying the key conditions for completion and warranties related to financial issues of the transaction

DUE DILIGENCE

- Facilitate the due diligence process in order to gain a true picture of the firm, with particular emphasis placed upon the firm's financial condition. Question and answer sessions between parties are usually held
- Several due diligence aspects include financial, legal, human resources, operations, technical, etc.

BINDING OFFER

- Analysing bidder's strategies and preparing own bidding strategy and terms (i.e. valuation, rights, etc.)
- Advising the strategy and tactics for negotiations with Seller and their financial advisors
- Assisting in negotiating the definitive SPA and other agreements, in conjunction with legal advisors (assuming an agreement is reached in principle)