

MERGERS & ACQUISITIONS

DON'T SELL ... GET BOUGHT!!!

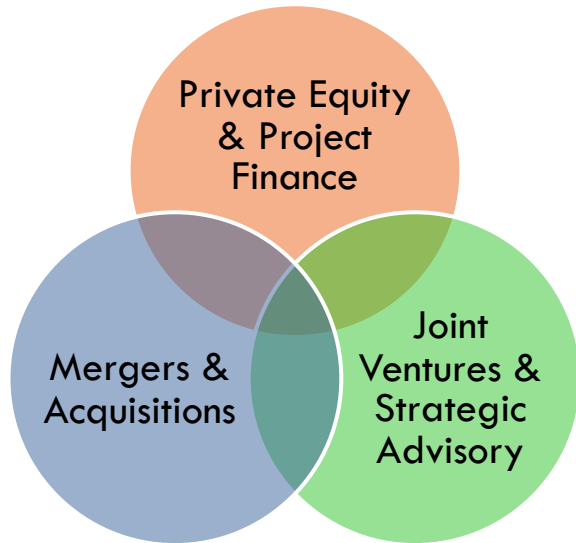
PRESENTED AT:
TIE AHMEDABAD WORKSHOP ON
MERGERS & ACQUISITIONS

Encito Advisors

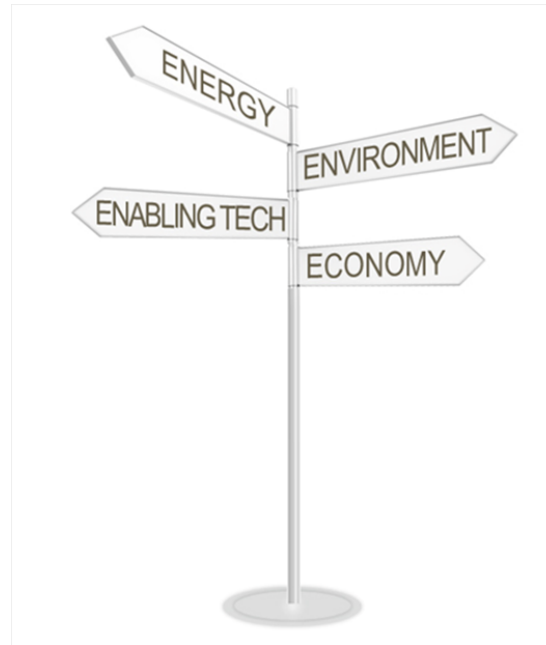
Strategic & Financial Advisory Services

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Services



Focus



Expertise



Cross Border Deals



Water



Waste



Solar



Wind



Hydro



Biomass
/Biofuels



Energy Efficiency

Merger of Fedex + UPS ... merged company name is
FedUP

How does one sell a small business
Buy a big one and wait

Focus of this presentation is on
Indian SME M&A

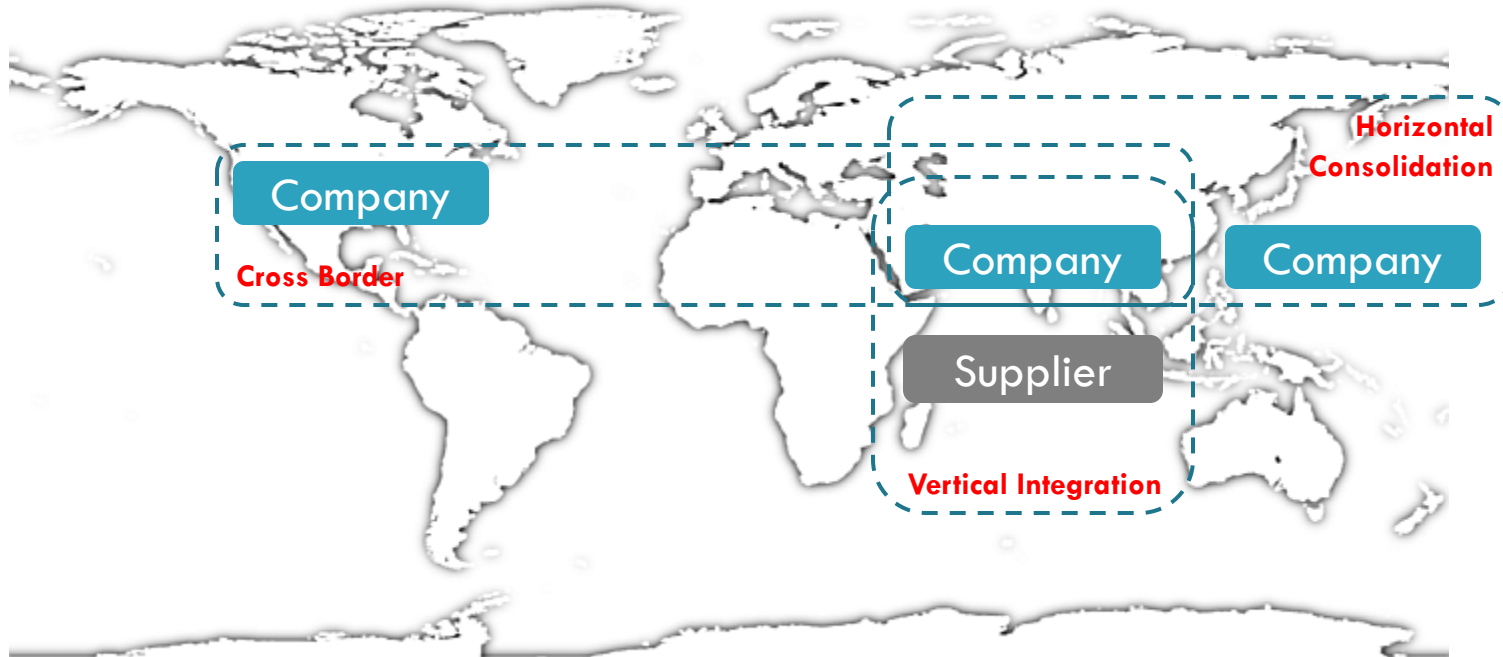
Types of Mergers & Acquisitions

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Approaching the Seller	Friendly	Extensive dialogue with management, possibly a win-win transaction	
	Hostile	Promoter opposes the transaction. Rarely happens in private companies	
Seller Ownership	Publicly listed company	Predefined processes exist for public and state-owned companies	
	State owned		
	Privately held	Negotiated process depending on buyer and seller	
Structure of Transaction	Merger	Assets	Merger is amongst equals
	Acquisition	Company	Larger company acquires the smaller company
	Divesture	Minority	Group may sell one of their business
	JV / Alliance	Majority	Partnership between two companies
Process	Auction	Driven by seller	
	Negotiated	Process agreed upon by both parties	
Consideration	Cash, Shares of Combination Upfront or earnouts	Ensure tax implications are thought through	

Types of M&A

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M&A Drivers – Seller

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- ❑ Monetize value created in the business
- ❑ No succession plan
- ❑ Leverage incoming investor / buyer strengths
 - ▣ Capital, technology, systems and processes, global reach
- ❑ Strengthen balance sheet or reduce BG burden
- ❑ Want to focus on another business

Critical to know why you are selling but also important to focus on what buyer is getting

M&A Drivers – Buyer

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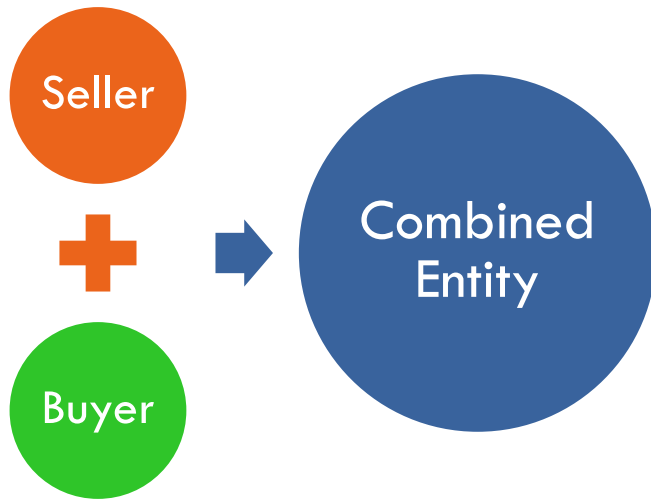
- India entry platform
- Product or service expansion
- Customer or resource acquisition
- Market consolidation
- Scaling business
- Empire building

Synergy – Key Driver for M&A

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Synergy

Two or more entities functioning together to produce a result independently not obtainable



Synergy must be described in **Strategic terms** and quantified in **Financial terms**

Identifying Synergies

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- New market access or customer acquisition
- Economies of Scale
 - Combining both companies revenues & customers
 - Reducing cost per unit produced
- Economies of Scope
 - E.g. Producing & selling complementary products via targets channel
- Complementary Strengths
 - E.g. Leveraging stronger brand of one company and cost structure of another
- Human resource, intellectual property and technologies
- Tax benefits

Building Value

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Steps taken for building business will also help building value during a sale

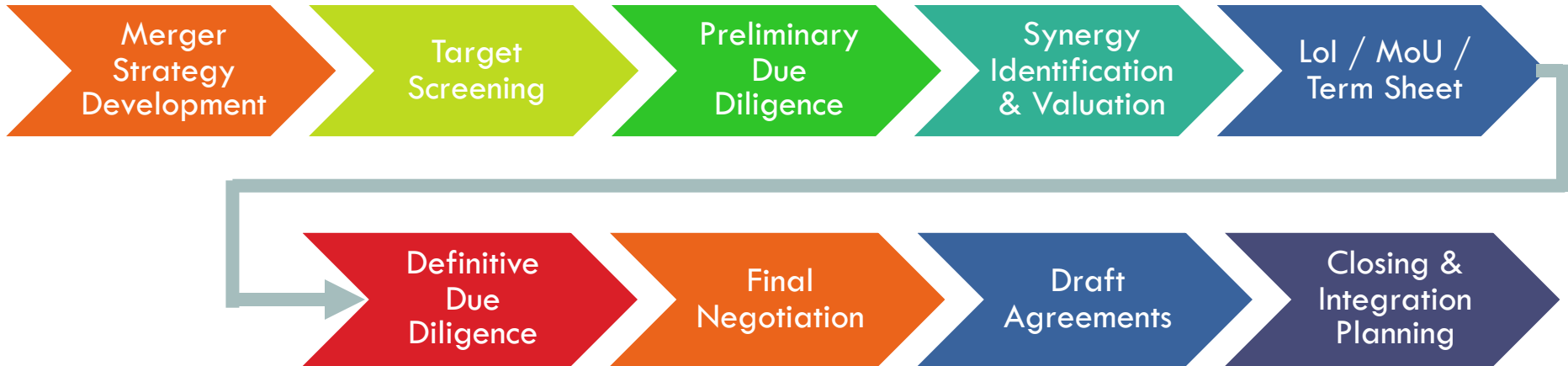
Focus on

- ❑ Strategy: verticals served, pricing, economies of scale / scope, market strategy, resource allocation, alliances, geographies
- ❑ Sales: marquee customers, increasing order values
- ❑ Financials: revenue, EBITDA, cash flows, margins
- ❑ Operations: R&D, quality, people, systems & processes

Having multiple exit options significantly increases value

M&A Process – Buy side Process

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M&A Process – Sell side Process

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Preparing the Company

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- Think about it long term and take time to prepare
 - ▣ Get financials in order ... must reflect business operations
 - ▣ Robust, defensible projections in business plan
 - ▣ Set up professional management team
 - ▣ Compartmentalize the business for sale
 - ▣ Understand tax implications
 - ▣ Setup very good systems and processes
 - ▣ Good governance is critical
 - ▣ Keep the overall process HIGHLY CONFIDENTIAL

What is my valuation?

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Fair market value (FMV) is the highest price obtainable in an open and unrestricted market between knowledgeable, informed and prudent parties acting at arm's length, with neither party being under any compulsion to transact.

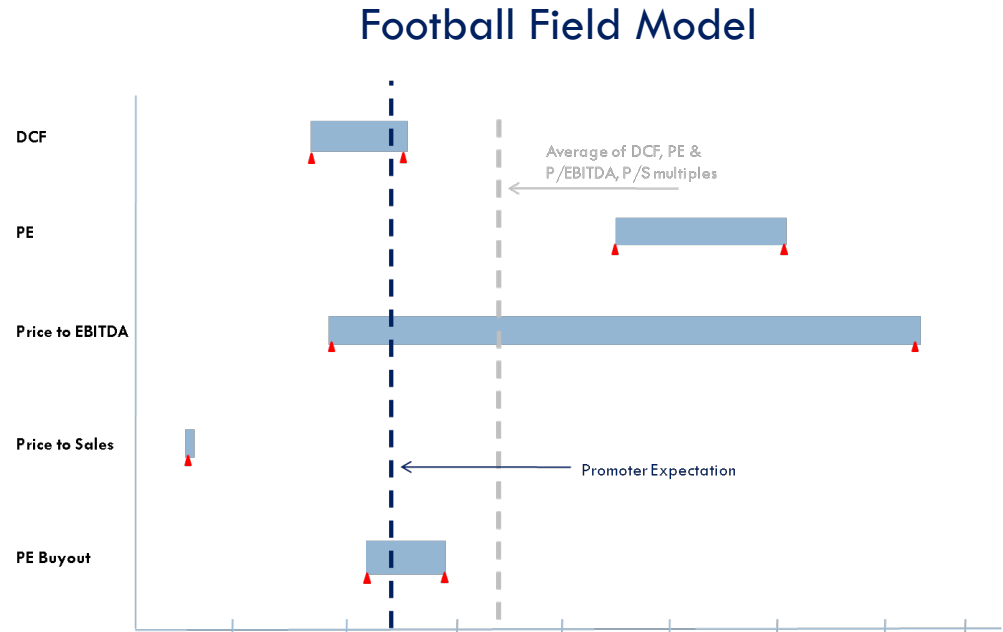
But for a private company there isn't an open market and we always want the highest value possible

Many models exist that give a guideline for valuation so a meaningful discussion can occur between parties

Commonly Used Valuation Models

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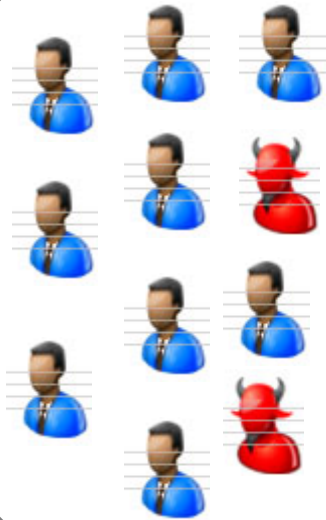
- ❑ Discounted Cash Flow
- ❑ Multiples based
 - ❑ P/E, P/S, EV/EBITDA
- ❑ Comparables
 - ❑ Listed Intl' & domestic
 - ❑ Private equity investments
 - ❑ Buyouts
- ❑ Book value
- ❑ Economic profit model
- ❑ Dividend discount model



INR Crores

Example Buyer Selection Criteria

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Appreciates value

Operational value-add

Willing to pay value

Strategic value-add

Can fund transaction

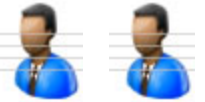
Conservative vs roadmap focused

Strong cultural match

Can retain employees

Well established synergies

Can invest in growth



Shortlisted
Suitors

Legal Issues

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- Due Diligence
 - Material contracts
 - Title to properties & assets
 - Statutory Dues
 - IPR protection
 - Tax Compliance
- Regulatory issues
- Board representation
- Fiduciary duties
- Deadlock resolution
- Non-compete
- Indemnity
- Rights – Participation vs protective; special rights

A Few Common Issues in Closing a Deal

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- ❑ Lack of trust between parties
- ❑ Not a win-win situation
- ❑ Buyer doesn't believe my business plan
- ❑ Valuation mismatch
- ❑ Sell Majority (i.e. 51%) or 100%
- ❑ Upfront cash vs earnout structures
- ❑ Promoter involvement in future / non-compete
- ❑ Governance issues
- ❑ Key management and team retention

Softer Aspects of Negotiating the Deal

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- ❑ Build trust with the buyer's team
- ❑ Deliver consistent message of win-win
- ❑ Run a transparent & collaborative process
- ❑ Respect the buyers team and expertise
- ❑ Remember it is our job to educate buyer of our value
- ❑ Don't react emotionally to buyers "tactics"
- ❑ Pulling "fast ones" sounds good in novels and books, but rarely works in real world. Don't risk it.
- ❑ If you have multiple buyers, don't flaunt it, but do subtly let the buyer know
- ❑ Maintain credibility and integrity throughout the process

And Above ALL ... continue BUILDING THE BUSINESS ...

Don't Sell ... Get Bought!!!
Thank you ...



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