

The BCG logo is displayed in a white, serif font against a dark green background. The letters are bold and well-spaced.

THE BOSTON CONSULTING GROUP

Strategic Due Diligence and Synergies Identification in M&A

NOVEMBER 12TH 2018



Who is BCG and our offering in M&A

Recent trends in M&A market

Target identification and strategic due diligence





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Who we are: BCG, global leader in strategic consulting

BCG in the World



Over 50 years of experience

Topic leader in strategy, corporate development, innovation, implementation and change management

- e.g. BCG Matrix portfolio, ...

~11 000 people in the world

- of which ~7 000 consultants
- 80+ offices in 40+ countries

Focus on industry leader clients

- Fortune 500
- Top 500 in Europe and Asia

Committed to concrete strategy implementations

- Mixed group of work BCG-Clients
- Continued interactions with top-management

2nd place in Fortune Magazine Survey “100 Best US Companies to Work For”

BCG in Italy



Established some 25 years ago

Currently with ~400 people employed (of which ~300 in the Consulting Team) between Milan and Rome

- Yearly double digit growth in the last 5 years

Diversified client portfolio

- By industrial sector
- By client type: multinational companies, large enterprises, SMEs, PE funds, category associations, etc.

Large alumni network

- ~500 alumni in Italy

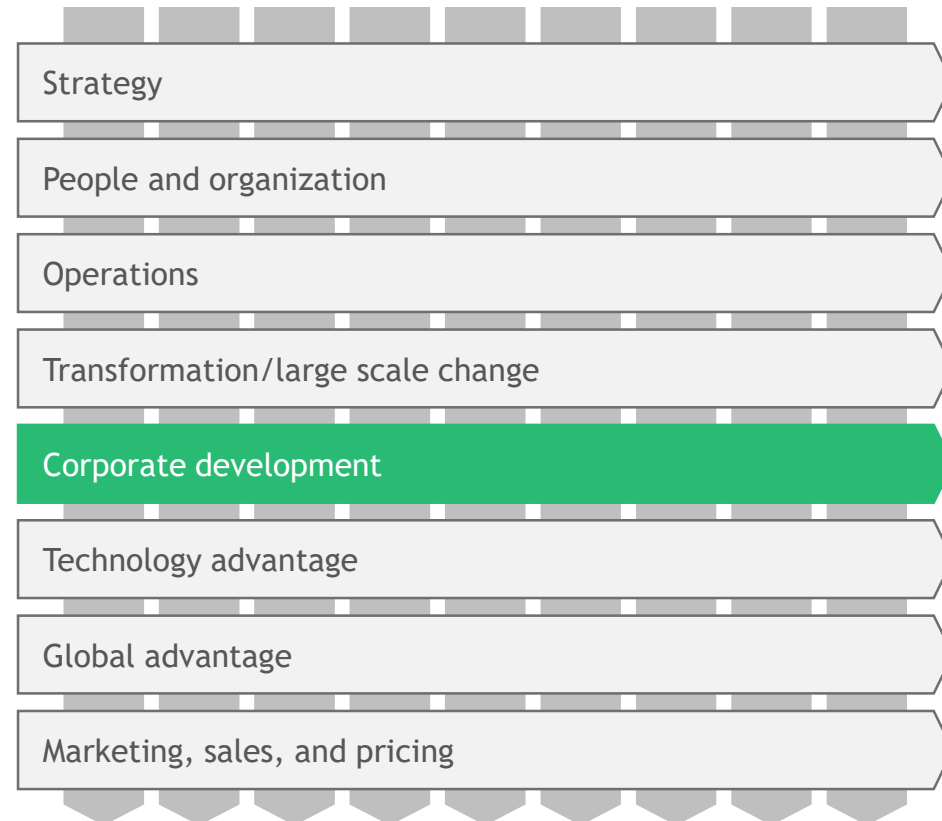
Relevant social commitment through pro bono cases

- World Food Program
- Palazzo Strozzi Foundation
- Save the children

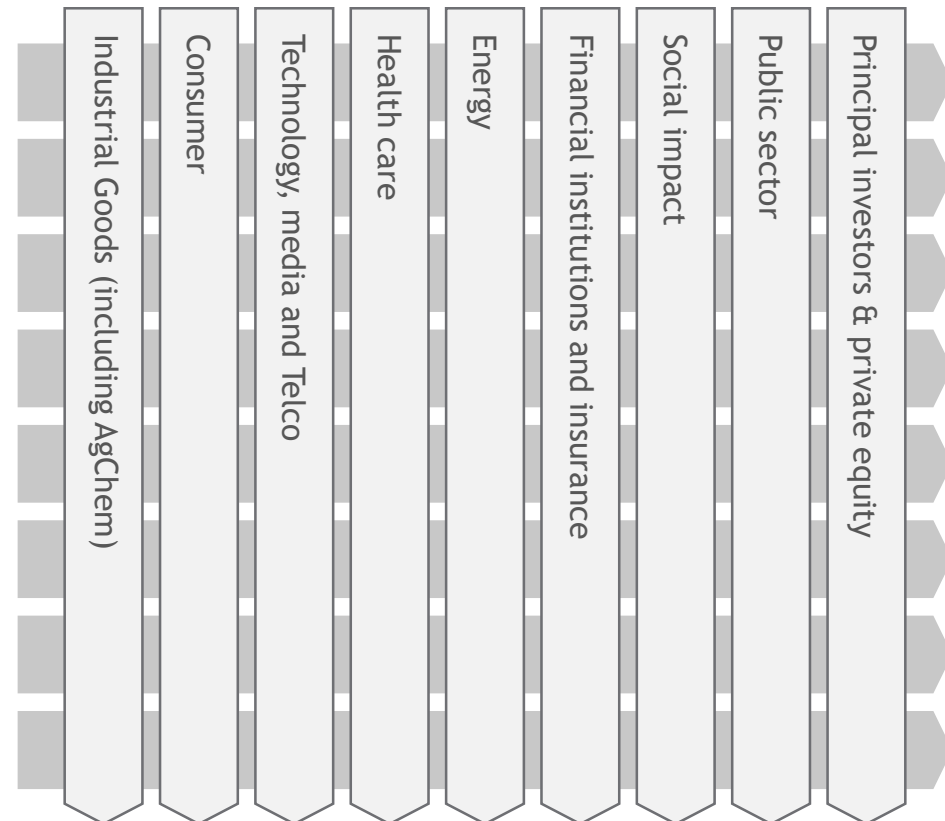
Corporate development: One of our worldwide practice areas

BCG is organized along functional capabilities and industry practice areas

Functional capabilities



Industry practice areas



BCG's corporate development practice—our topic map

Driving value through strategy

Corporate strategy



Corporate mission and vision

Industry landscaping

Portfolio strategy

Growth strategy

Parenting strategy

Capital allocation

Corporate strategy process

Corporate governance

Shareholder value



TSR strategy

Investor strategy

Equity story

Shareholder activism

Financial strategy

Ownership culture

Value patterns

Transactions



Target search

M&A execution

Due diligence

Organizing for M&A

Pre-MI and Clean teams

Corporate venture capital

Takeover and activist defense

Divestitures

Vendor due diligence

Carve-out

Spin-offs

Initial public offering

JV and alliances

CFO excellence



Finance transformation

Finance organization

Value-based management

Planning and forecasting

Performance management

Risk management

Finance technology and process

Restructuring & Recovery



Restructuring concept

Going concern prognosis

Liquidity management

Restructuring execution

(Pre-)insolvency support

BCG's thought leadership in corporate development

Selected CD PA thought leadership publications and articles

BCG's value creator series (1999-2016)



BCG reports on specific corporate finance topics



BCG's perspectives and working papers





Who is BCG and our offering in M&A

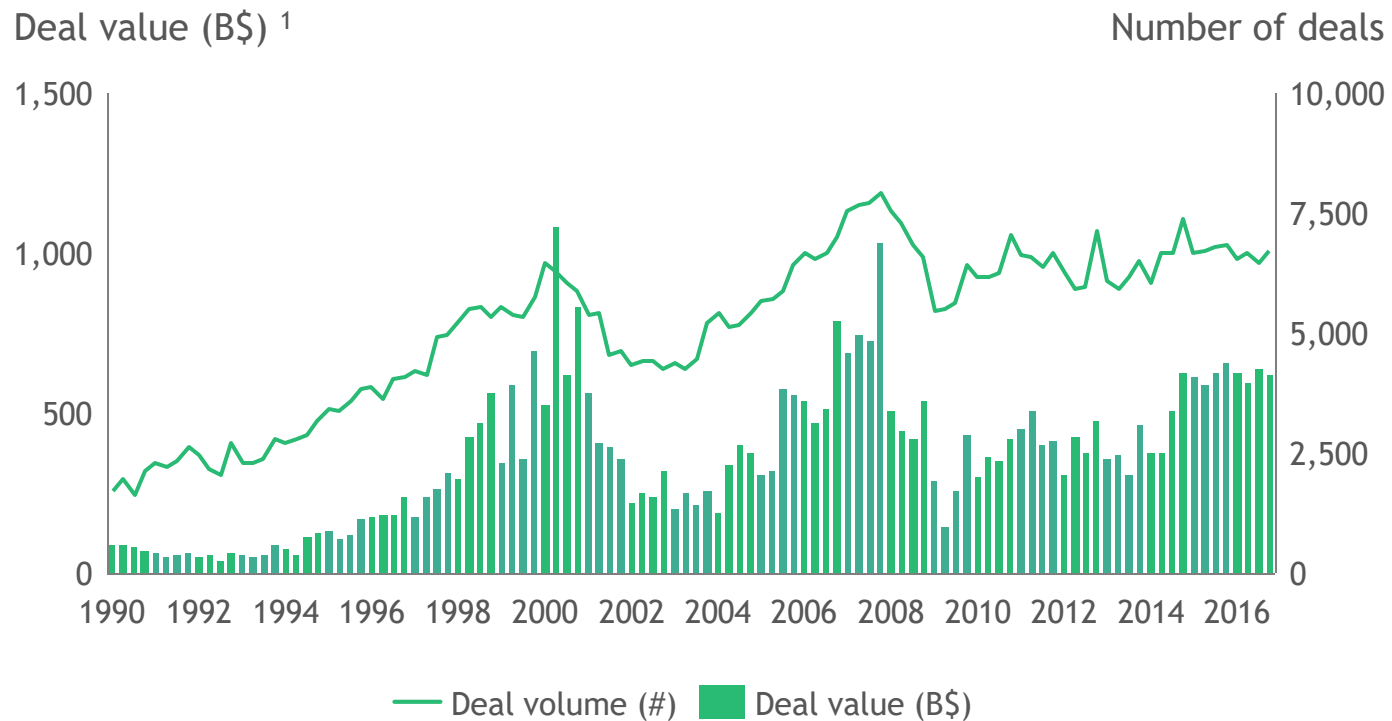
Recent trends in M&A market

Target identification and strategic due diligence

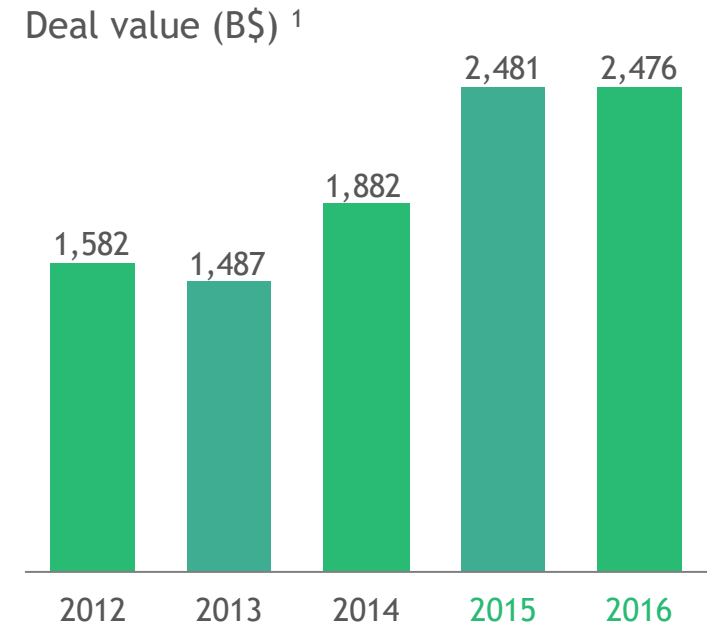


Global M&A activity remained strong in 2016

M&A activity remains near all-time highs



Deal value of completed deals in 2016 is on par with 2015



1. Enterprise values include the net debt of targets

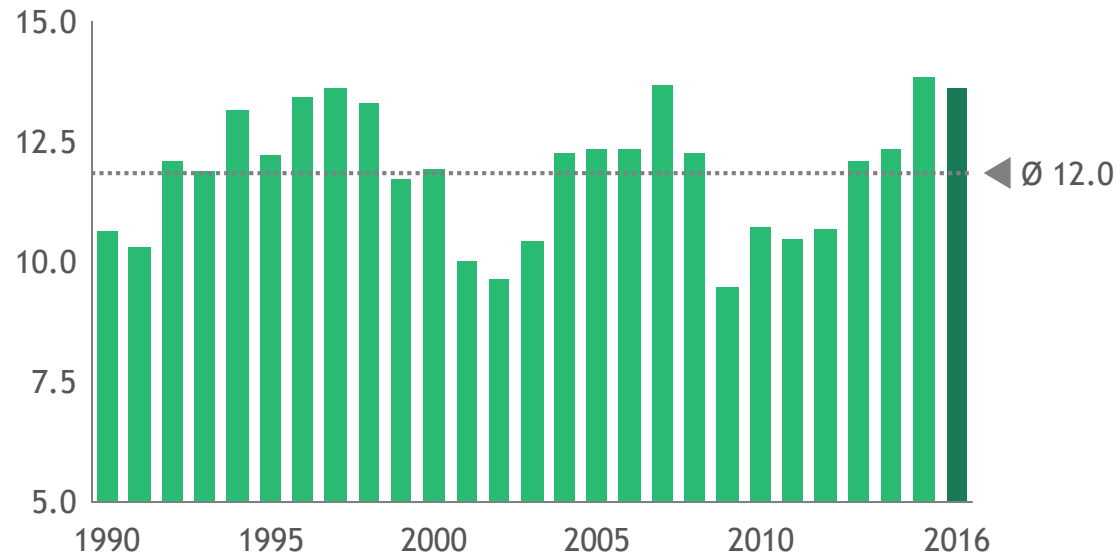
Note: The total of 555,131 M&A transactions comprises completed and unconditional deals announced between 1990 and 2016, with no transaction-size threshold. Self-tenders, recapitalizations, exchange offers, repurchases, acquisitions of remaining interest, minority stake purchases, privatizations, and spinoffs were excluded.

Source: Thomson ONE Banker; BCG analysis

Above-average valuation levels persist

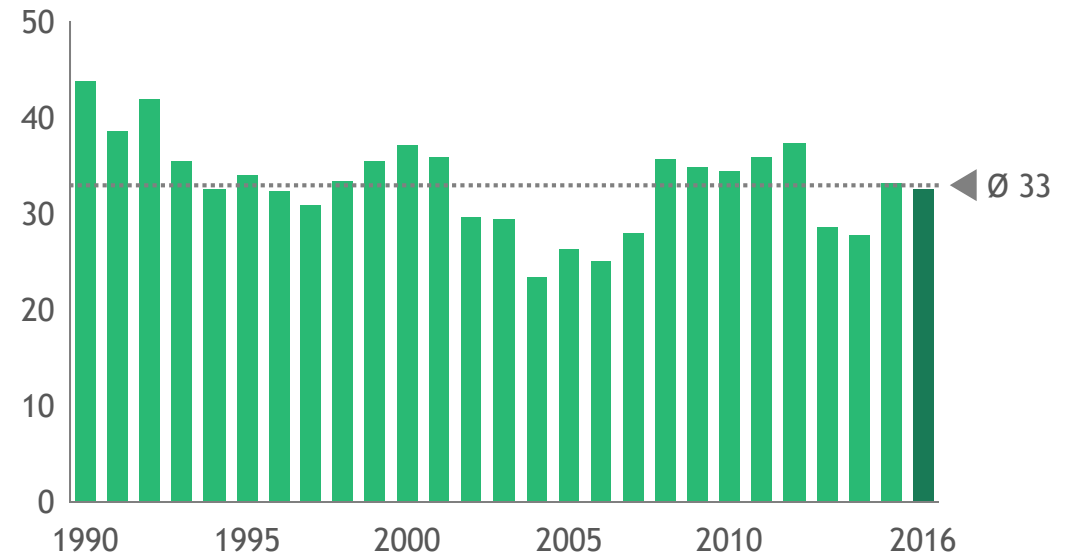
Valuation levels are comparable with previous years ...

Median EV/EBITDA acquisition multiple (x)



... while deal premiums are slightly below the long-term average

Average one-week deal premium (%) ¹



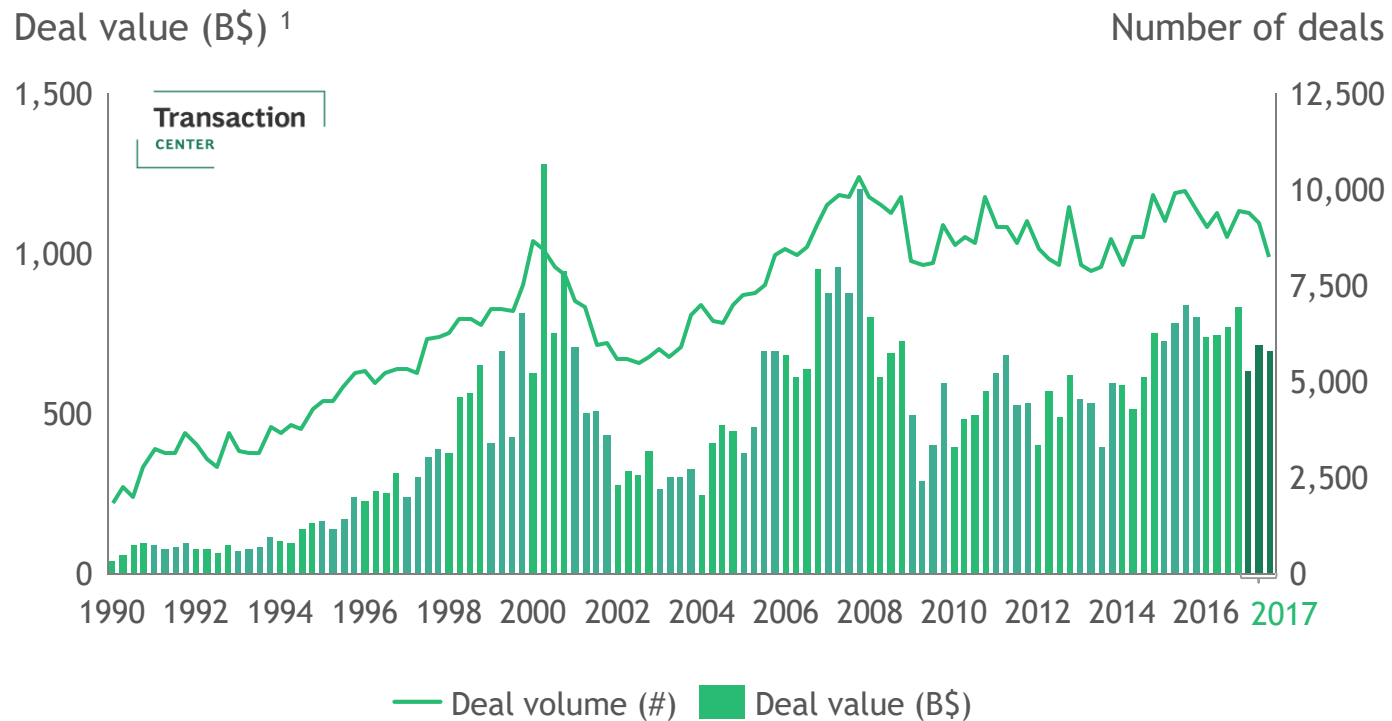
1. The acquisition premium is the amount by which the target's offer price exceeds its closing stock price one week before the original announcement date; the top 2.5% of deals were excluded to reduce distortion by outliers

Note: The total of 18,493 M&A transactions comprises completed, unconditional, and pending deals announced between 1990 and 2016, with transactions of at least \$25M and at least a 75% share transfer. Self-tenders, recapitalizations, exchange offers, repurchases, acquisitions of remaining interest, minority stake purchases, privatizations, and spinoffs were excluded. Only deals with a disclosed deal value were considered

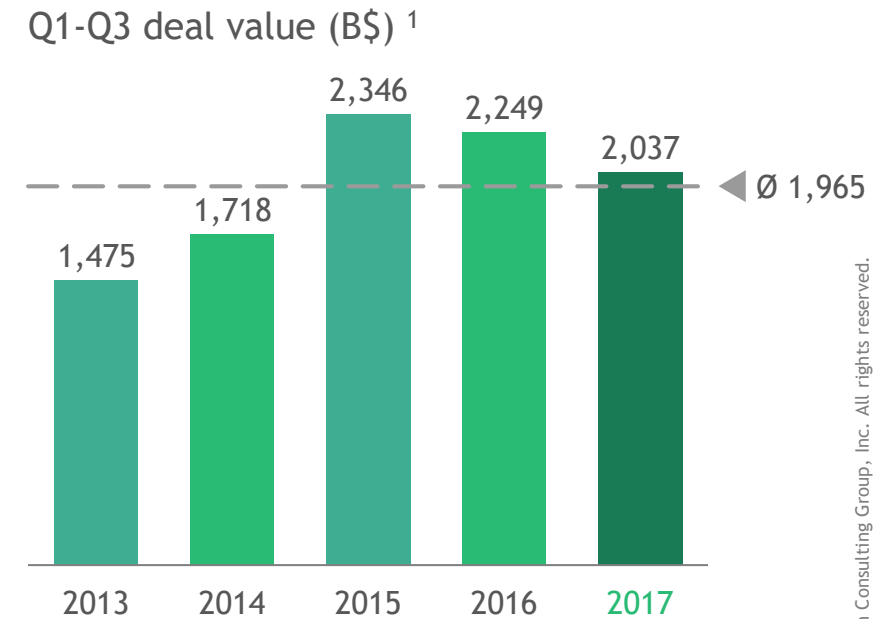
Source: Thomson ONE Banker; BCG analysis

Global M&A activity in 2017 healthy but slowing down

Recent M&A activity continues on (less) elevated levels



Slow-down of announced deal value since two years



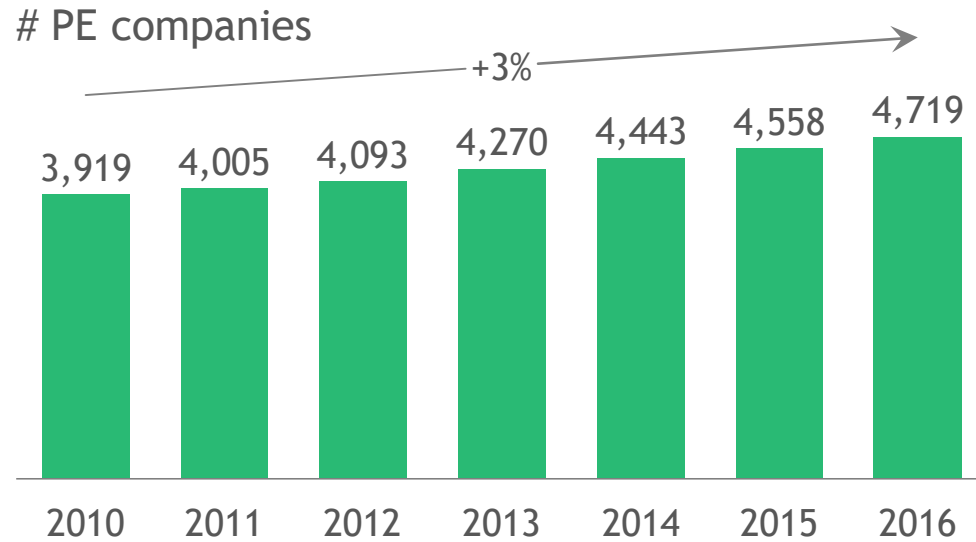
1. Enterprise values include the net debt of targets.

Note: The total of 764,146 M&A transactions comprises all announced deals (completed, unconditional, pending and withdrawn) published between Q1-1990 and Q3-2017, with no transaction-size threshold. Self-tenders, recapitalizations, exchange offers, and repurchases were excluded

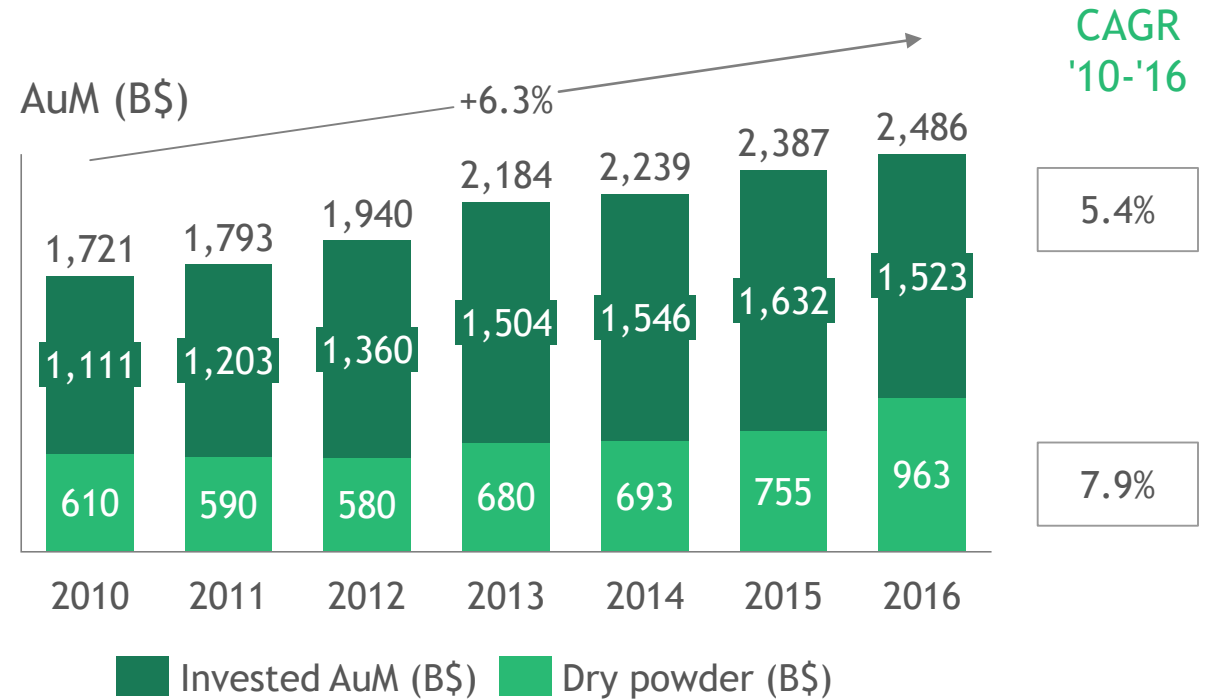
Source: Thomson ONE Banker; BCG analysis.

Private equity is posting continued high spending and fundraising

Number of PE companies



Fundraising at historical highs



Dry powder is growing faster than the deployed capital



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Target identification and strategic due diligence

M&A scan to be completed over three phases



Phase 1: Target identification

Define opportunity space for search

- E.g., business and/or value chain segments, services and products, geographies, other limiting factors

Generate long list of potential targets

- E.g., press/web search, market reports, expert interviews, bloomberg, capital IQ

Refine targets to create short-list

- Group and prioritize into themes/segments
- Apply K.O. criteria
- Assess at high level via desktop research



Phase 2: Target prioritization

Assess target value through financial, intangible and fit lenses

- Initial internal evaluation of attractiveness to divide ideas between priority targets (~10) and non-priority targets (~20)

Prioritise short-list in client workshop

- Prepare one-pagers on shortlisted targets
- 3-5 targets prioritized by client based on value and fit



Phase 3: Target assessment

Conduct DD on priority opportunities by refining and quantifying view of

- Need state
 - Demand space, evolution and users
- Right to win
 - Ability to capture market share
- Financial potential
 - Standalone revenue and profitability
- Intangible benefits
 - Data, channel access and capabilities
- Fit with acquirer
 - Capability, culture and product fit
 - Acceleration potential



Who is BCG

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Target identification and strategic due diligence

- Phase 1 and 2: Target identification and prioritization
- Phase 3: Target assessment





Approach: BCG and client should agree on parameters for target search

BCG led kick-off discussion

BCG to lead kick-off discussion with client to agree on

- Business and/or value chain segments acquirer should play in
- Services and products acquirer should target
- Geographies acquirer should focus on
- Other limiting factors



Illustrative output: Definition of opportunity space

Initial view on target “Opportunity space”
Full B2C value chain within North America

What existing business segments should we examine?

Segment #1 Segment #2 Segment #3

Where in the value chain should we play?

Daily routine
• E.g. everyday products, supplies and apps

One-off issues
• E.g. advice, booking services and software platforms

What services and products should we target?

B2C Connected products
• Product type #1
• Product type #2
• Product type #3

B2C Consumer software
• Mobile applications
• Digital services

B2C Digital channels
• Subscription retailers
• Online retailers

B2B Digital services
• Payment platforms
• Appointment software

What geographies should we focus on?

North America Europe Priority growth markets R.O.W.

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Draft



Approach: Value of each of target to be assessed through three lenses



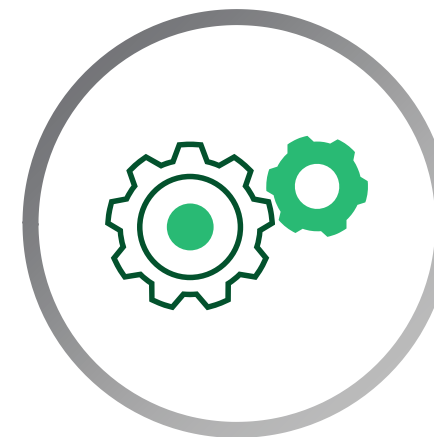
Financial value

Financial value of an enterprise
in its own right



Intangible value

Intangible benefits (data,
relationship, capabilities)



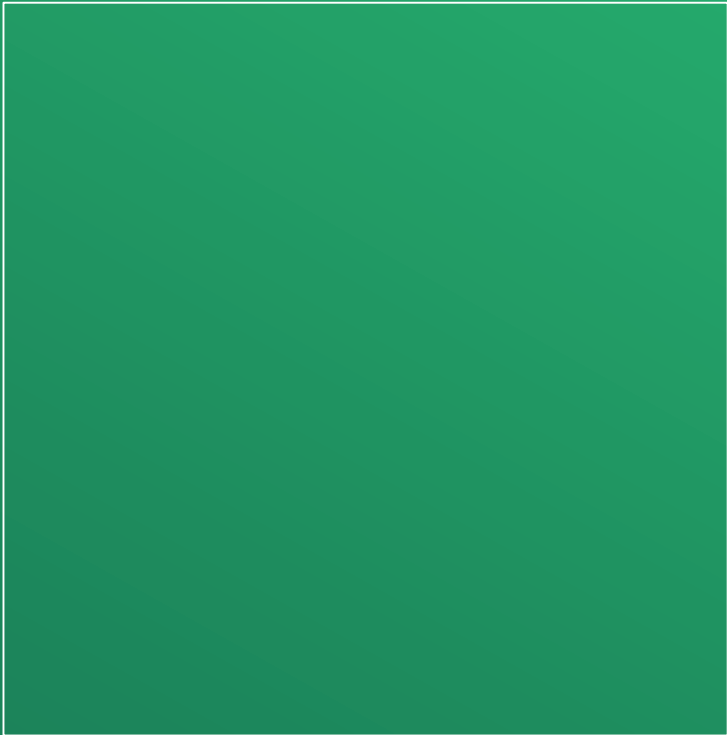
Fit for Acquirer

Acquirer's ability to accelerate
the enterprise or use
enterprises capabilities



Approach: Five key dimensions to assess financial & intangible value and fit of digital companies to corporate acquirer

	Key questions (example for Digital target)	Financial value	Intangible value	Fit for Acquirer
Need state	Addressable population: How large is the addressable population?	✓		
	Friction/need: How significant is the current consumer friction?	✓		
Right to win	Product Strength: How technically advantaged is the product?	✓	✓	
	Competition: How defensible is the position/new entry risk?	✓	✓	
Financial potential	Current users: How large is the current user base?	✓		
	Value per user: What is the current financial value of each user?	✓		
Intangible benefit	Data granularity: How granular is the data gathered by each user?		✓	
	Relationship: How strong are relationships with each user?		✓	
	Capabilities: Can acquirer leverage assets capabilities?		✓	
Fit	Synergies: Does the target offer any synergies to acquirer's existing portfolio?			✓
	Ability to accelerate: Can acquirer accelerate the growth of the target?			✓



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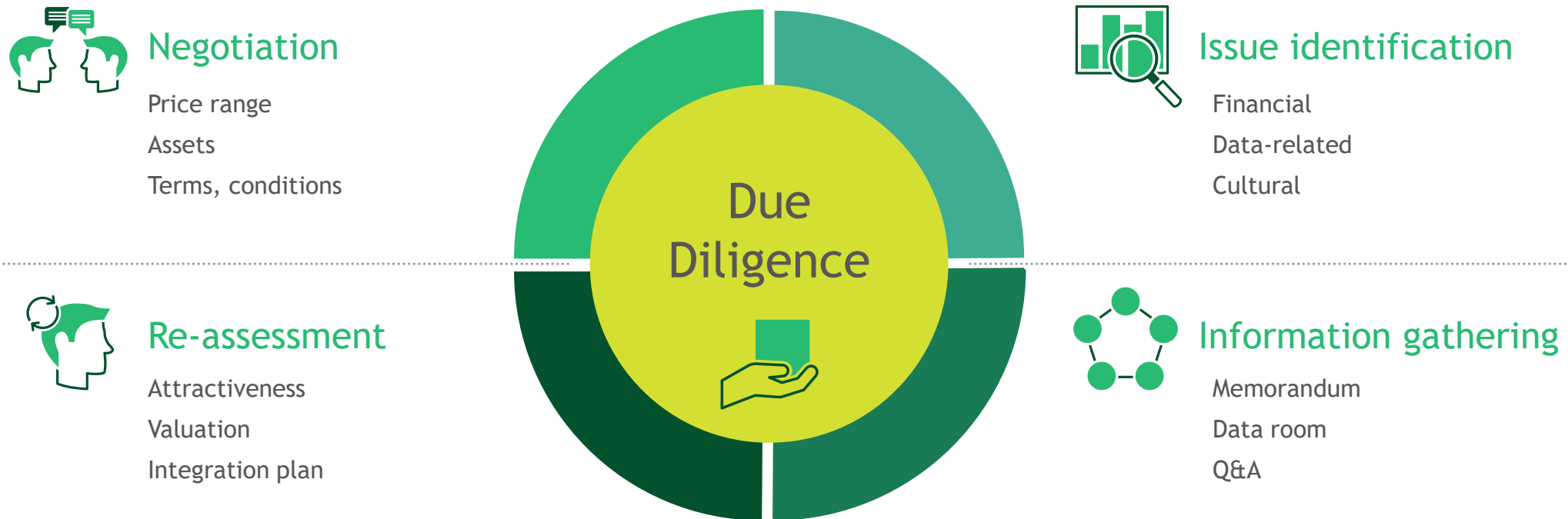
- Phase 1 and 2: Target identification
- Phase 3: Target assessment and due diligence





Due diligence can be seen as an iterative process of raising and then addressing critical questions

“Occasionally, the buyer’s final due diligence effort uncovers a golden nugget of value, but in my experience, the opposite generally occurs. Final, intensive due diligence inevitably reveals negative items that diminish the seller’s value by a considerable amount”¹



1. Jeffrey C. Hooke; M&A guidebook
Source: BCG experience



Strategic due diligence evaluates target attractiveness

Typically four or more teams running in parallel

	Strategic due diligence	Financial due diligence	Legal due diligence	Technological/environmental due diligence
Objectives	<ul style="list-style-type: none">• Assessment of growth and profitability potential for financial valuation	<ul style="list-style-type: none">• Determination of offer price• Deal structure• Certification of accounts	<ul style="list-style-type: none">• Draft of investment agreement• Legal go-ahead for deal	<ul style="list-style-type: none">• Assessment of technological risks• Assessment of environmental risks
Tasks	<ul style="list-style-type: none">• Evaluation of market dynamics<ul style="list-style-type: none">- Sustainable growth- Customer needs- Segmentation- Competition• Sources of competitive advantage• Internal operations turnaround potential• Mgmt. plan assessment	<ul style="list-style-type: none">• Financial analysis• Various valuation models• In-depth review of accounting information	<ul style="list-style-type: none">• Scrutiny of contractual risks• Assessment of regulatory risks• Formulation of investment agreement	<ul style="list-style-type: none">• Delivery of technological expert opinion• Delivery of environmental expert opinion
Responsible	<ul style="list-style-type: none">• Strategy consultants• “Gray haired gentlemen”	<ul style="list-style-type: none">• Accountants• I-banks• (Strategy consultants)	<ul style="list-style-type: none">• Lawyers	<ul style="list-style-type: none">• Specialized consultants, scholars

Note: Other advisors may be involved for a tax or pension due diligence
Source: BCG experience



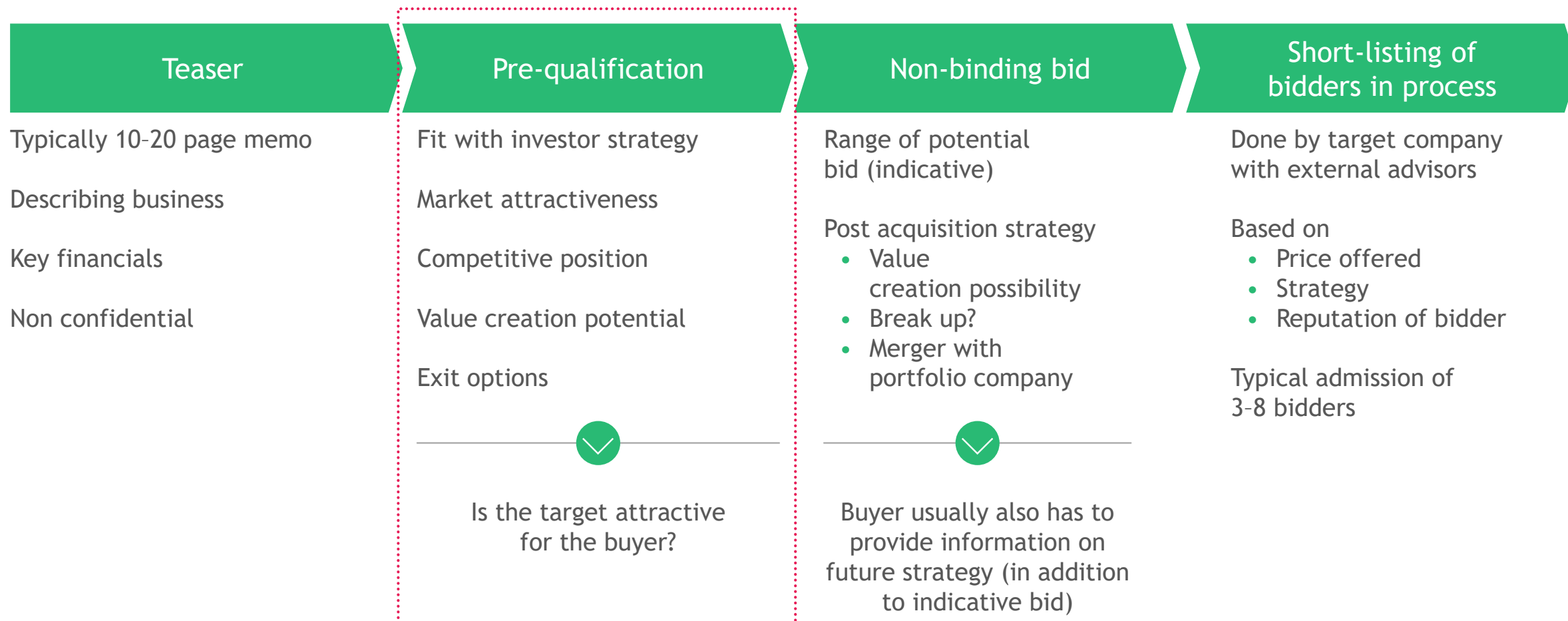
Overview of a typical strategic due diligence process



1. Occasionally done in large transactions based on desktop research and interviews
Source: BCG corporate finance task force

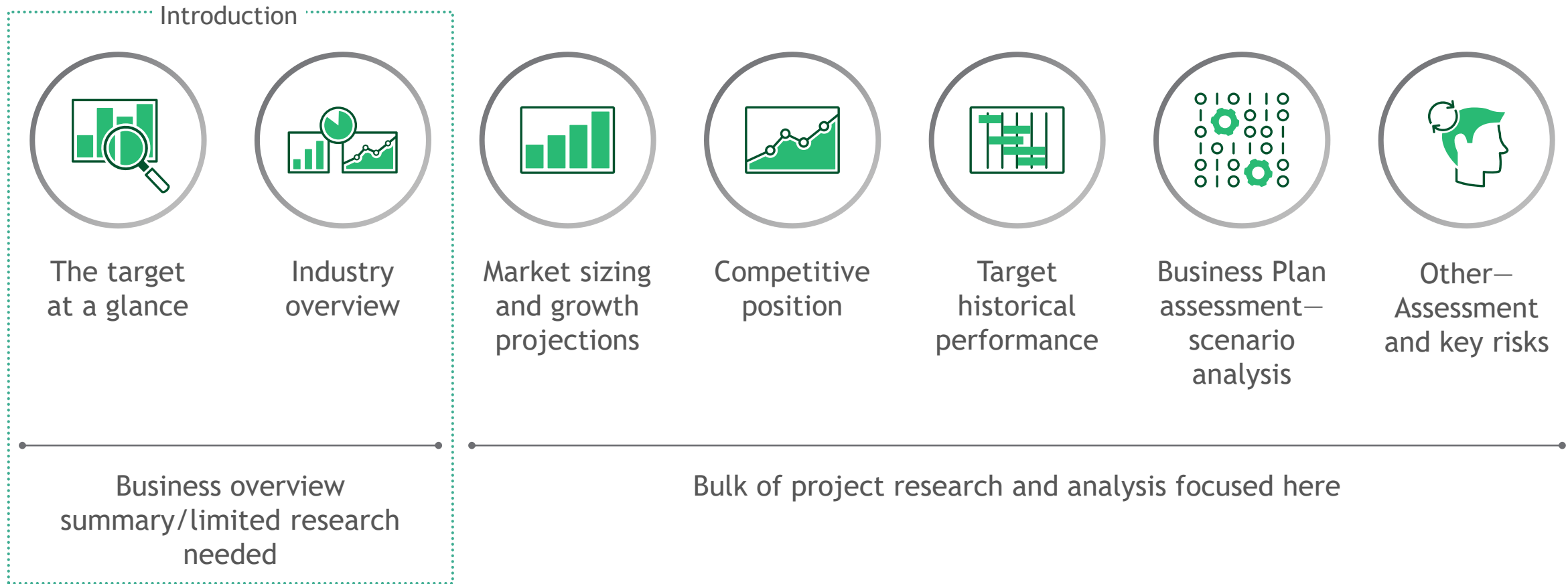


Pre–(qualification) due diligence can determine “back-of-the-envelope” target attractiveness





Typical chapters of a strategic due diligence document



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A close-up photograph of a lit sparkler against a dark background. The sparkler is the central focus, with numerous bright, golden-yellow sparks radiating outwards in all directions. The sparks vary in length and intensity, creating a dynamic and celebratory atmosphere. The background is dark, which makes the bright sparks stand out prominently.

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