The Role of the Financial Advisor in an M&A Transaction

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# My background

<table>
<thead>
<tr>
<th>Year</th>
<th>Company/Position/Internship</th>
<th>Location</th>
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<td>2017</td>
<td>EY Investment Banking Advisory</td>
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<td>2013</td>
<td>Vitale&amp;Co Investment Banking Advisory</td>
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<td>2004</td>
<td>Eidos Partners Investment Banking Advisory</td>
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<td>2001</td>
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<td>2000</td>
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<td>1999</td>
<td>J.P. Morgan Investment Banking</td>
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<tr>
<td>2000</td>
<td>LUISS University Guido Carli Degree in Business</td>
<td>Rome</td>
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</table>
1. The Parties Involved

2. From Kick-Off to Closing

3. Strategic Variables & Valuation Metrics
The activities of a financial advisor

The financial advisor devises and executes M&A transactions and other corporate finance projects

- IPO Advisory & Fund Raising
- Mergers & Acquisitions
- Tender offers / De-listings
- Spin-offs
- Financial Restructuring
- Valuations
- Fairness Opinions
- Joint Ventures & Partnerships
M&A: a broad spectum of transactions to work on

The definition of M&A goes beyond “mergers & acquisitions” and typically includes a broad range of activities:

- Mergers / De-Mergers
- Acquisitions and Divestitures
- LBOs & MBOs
- Voluntary and mandatory tender offers / De-listing
- Joint Ventures and Partnerships
- Fairness opinions and valuation of companies / assets

The deals we will refer to in the following pages
The main parties involved in an M&A deal

- M&A transactions can be complicated and typically involve numerous players
- Both buyer and seller typically have their own team of advisors (in addition to their internal team)
- In order to make everything work well, **all advisors must act in concert**
For example, in a recent private equity deal...

**Buyers**
- Bain Capital
- Advent International
- Clessidra

**Target**
- ICBPI

**Sellers**
- Creval, Banco Popolare, BP Vicenza, Veneto Banca, BPER, ICCREA, BP Cividale, UBI, BP Milano, Banca Sella, Carige

**Financial Advisors**
- Vitale&Co
- Rothschild
- HSBC

**Lawyers**
- BonelliErede
- Weil
- d’Urso Gatti Pavesi Bianchi
- Kirklan & Ellis

**Tax Advisors**
- Pirola Pennuto Zei & Associati
- Tremonti Vitali Romagnoli Piccardi e Associati

**Strategic Advisors**
- BCG
- PwC
- First Annapolis

**Communication**
- Community
Advisors are in charge of building a successful deal

- Each advisor needs to provide relevant analyses and answers to its client, during the whole deal

- Each advisor is in charge of specific activities and all of them must act together, towards a smooth and successful deal

- In brief, a deal is successful when:

  **For the seller**
  
  - Gets the highest possible valuation
  
  - Deal is completed in the shortest amount of time
  
  - Confidentiality is guaranteed
  
  - Post-closing risks are minimised

  **For the buyer**
  
  - Pays the lowest possible price
  
  - Expected results (e.g. synergies, financial results, etc.) are achieved
  
  - Post-closing risks are minimised

The Financial Advisor plays a pivotal role during the whole transaction
The tasks of Financial Advisor on a buy-side engagement

- Devise a transaction and discuss / assess feasibility with the client
- Approach the seller (or its advisor)
- Assess the value of the target in each round of the deal (e.g. preliminary assessment of the deal, non-binding offer, binding offer, etc.)
- Coordinate and supervise the activity of all the advisors / professionals involved in the transactions
- Provide all relevant support to the client during the due diligence
- Assist the client in defining the most appropriate financial and corporate structure for the transaction
- Assist the client in negotiating:
  - The economic conditions of the transaction
  - The relevant contracts (e.g. Share Purchase Agreement, Asset Purchase Agreement, Shareholders agreement, etc.) and terms & conditions of the deal
- Support the buyer in negotiations with lending institutions
The tasks of Financial Advisor on a sell-side engagement

- Identify, screen and finalise a list of potential buyers (strategic and financial) – together with the client
- Contact potential buyers
- Prepare and distribute the information material (e.g. teaser, information memorandum, management presentation) and support the client in the preparation of the data room
- Coordinate and supervise the activity of all the advisors / professionals involved in the transactions
- Support the client in agreeing the scope of vendor due diligence reports
- Provide all relevant support to the client during the due diligence
- Assist the client in responding to potential buyers’ enquiries, during the due diligence
- Advise the client on the relative merits, advantages and disadvantages of all offers received, and prepare a shortlist of the preferred bidders to proceed to subsequent rounds
- Assist the client in defining the most appropriate financial and corporate structure for the transaction
- Assist the client in negotiating
  - Economic conditions of the transaction
  - Relevant contracts (e.g. Share Purchase Agreement, Asset Purchase Agreement, etc.) and terms & conditions of the deal
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The steps to a typical M&A process

1. Assessment of strategic alternatives / Design of the process
2. Preparation of marketing materials
3. Execution of marketing programme
4. Due diligence
5. Final bids, negotiation and selection of buyer
6. Signing & Closing

On average, M&A processes take 4 – 8 months to execute
The types of process for an Acquisition / Disposal

A Merger typically falls in this space:
- 2 parties involved
- Time frame can be influenced by various things

TIME FRAME

LONG

LOW

NUMBER OF BUYERS

LOW

SHORT

HIGH

A. Pre-emptive deal
B. Targeted solicitation
C. Controlled auction
D. Public auction

A Merger typically falls in this space:
- 2 parties involved
- Time frame can be influenced by various things
Pre-emptive process: overview

**Description**
- Screen and identify most likely buyer

**Rationale**
- Very clear sense of most logical buyer
- Confidentiality is critical
- Seller in strong negotiating position

**Pros**
- ▲ Maximum confidentiality
- ▲ Speed of execution
- ▲ Minimum business disruption

**Cons**
- ▼ May not maximize value
- ▼ Tied to result of one negotiation
A Pre-emptive process: indicative timetable

Month-1
- First interactions between parties
- NDA
- Preliminary information
- Indicative offer / Letter of intent

Month-2
- Due diligence
- Management presentation
- Draft of contracts
- Preliminary information
- Indicative offer / Letter of intent

Month-3
- Negotiation of contracts
- Additional due diligence
- Binding offer

Month-4
- Signing

Closing will depend on a number of factors (e.g. authorisation from regulatory authorities)
B Targeted process: overview

Description
- High-level approach to selected potential buyers
- No public disclosure

Rationale
- Credible buyers have expressed serious interest
- Only few logical buyers
- Key objectives: confidentiality and limiting any business disruption

Pros
- Speed of execution
- Limited business disruption
- Sense of competition enabled
- Avoids perception that the business is being “shopped”

Cons
- Risks missing buyers
- May not maximize value
- Potential for disruption due to rumours
**Targeted process: indicative timetable**

- **Month-1**
  - Prepare info package
  - Approach buyers

- **Month-2**
  - NDA
  - Distribute info package
  - Prepare data room
  - Indication of interest?

- **Month-3**
  - Data room
  - Management presentation
  - Draft of contracts

- **Month-4**
  - Binding offers
  - Final negotiations
  - Signing

Closing will depend on a number of factors (e.g. authorisation from regulatory authorities)
**Controlled auction: overview**

**Description**
- Range of logical buyers contacted and pre-sounded
- Typically involves formal guidelines on sale process
- Public disclosure not required

**Rationale**
- Larger group of potential buyers
- Provides good balance between confidentiality and value

**Pros**
- Accurate test of market price
- High degree of control over process
- Creates strong sense of competition

**Cons**
- Risk of public leak
- May “turn off” some buyers
- May lengthen sale process
Controlled auction: indicative timetable

1st Round: Non-Binding Offers
- Prepare data room and management presentation
- Distribute teaser and NDA
- Prepare
  - Pre-marketing material
  - Vendor Due Diligences
  - Information memorandum
- Distribute Info Memo to those who signed NDA

2nd Round: Binding Offers
- Data room
- Management presentation
- Draft of contracts
- Final negotiations
- Signing

Month-1
Month-2
Month-3
Month-4
Month-5
Month-6
Month-7

Closing will depend on a number of factors (e.g. authorisation from regulatory authorities)
**Public auction**

**Description**
- Widest range of potential buyers contacted
- General public disclosure through press release

**Rationale**
- Uncertain buyer group
- Transparent sale process

**Pros**
- ▲ May identify unexpected buyers
- ▲ Can heighten sense of competition among buyers

**Cons**
- ▼ Delay in execution
- ▼ May result in “high-traffic” that interferes with business and destabilises management

**Timetable can depend on many different factors**
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Marketing materials

**Teaser**
- ▲ First marketing material
- ▲ No confidential information disclosed
- ▼ No particular risks

**Info Package**
- ▲ Limits the disclosure of confidential information
- ▲ Compresses the timetable
- ▼ Risks positioning the story in sub-optimal fashion

**Info Memo**
- ▲ Optimises positioning of investment thesis, highlighting selling points
- ▲ Helps buyers in understanding the story
- ▼ Discloses information to competitors / clients
- ▼ Absorbs management time

*The Info Memo is the key marketing instrument in most M&A deals*

**An example of Table of Contents**

1. Executive summary
2. History & Ownership
3. Industry
4. Business & Strategy
5. Organisation
6. Other administrative information
7. Financial information
Vendor Due Diligences ("VDD")

**Business VDD**
- Not interesting for trade buyers
- It can help private equities, but much less of a priority than in pre-2008 sale processes
- Private equities tend to be focused on understanding the business and the drivers of growth during the due diligence, alongside the management team

**Accounting VDD**
- Helps both trade buyers and private equities during the due diligence
- Limits the flow of questions that would absorb management time
- Shortens the timetable
- Would help to negotiate reps & warrs

**Legal VDD**
- Can support both trade buyers and private equities, shortening the timetable
- But, post-2008, buyers tend to be much more careful, also in this space

**Tax VDD**
- Lowest priority for both trade buyers and private equities

**Environmental VDD**
- Would give preliminary comfort to buyers and would help to negotiate reps & warrs
- Depends on how significant environmental issues are in the deal
Data room

**Virtual Data Room**

▲ Multiple due diligence at the same time, making data room available for a longer period
▲ Availability 24/7
▲ Optimises involvement / commitment of international buyers
▲ Monitoring the interest of potential buyers, real-time reports

▼ Risk of diffusion of the documents

**Physical Data Room**

▲ Higher level of control on the documents
▲ Can be an add-on to virtual data room, limited to selected information only

▼ Binding offers likely to be subject to supplementary due diligence
▼ Time inefficient
# Bidding rounds

<table>
<thead>
<tr>
<th>One bidding-round process</th>
<th>Two bidding-rounds process</th>
</tr>
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<tbody>
<tr>
<td>▲ Speed / Efficiency</td>
<td>▲ Maximizes competitive tension</td>
</tr>
<tr>
<td>▲ Pre-emptive value captured</td>
<td>▲ Ability to screen buyers</td>
</tr>
<tr>
<td>▲ Confidentiality maximized buyers</td>
<td>▲ Manage information flow more effectively</td>
</tr>
</tbody>
</table>

▼ Risk of missing bidders
▼ Limits ability to manage information flow
▼ Issues on getting financed bids
▼ Time-consuming
▼ Risk of tactical first round bids
Valuation metrics

- Discounted Cash Flow models
- M&A transactions
- Trading comparables
- Leveraged Buyout (LBO) returns analysis
- EPS accretion / dilution

**Standard market practice**

**Key for private equities**

**Typically used by listed companies**

The business plan, both for the seller and the buyer, plays a key role during the whole M&A transaction and it is the key instrument for valuing a business
How is the M&A market performing in Italy?
Global M&A activity in 2017 to-date ($2.2tn)

Source: Mergermarket
M&A activity in Italy – In 1H2017, it reached its peak post crisis (by deal value)

2017YTD has been an exceptional year for Italian M&A: 232 deals (Italian targets) worth €37.7bn vs 277 deals worth €31.6bn in 2016

The same “fewer but larger deals” trend is characterizing the European market

The most targeted sector was Consumer Goods: 47 deals worth €25.2bn (67% of the total Italian M&A value), but largely influenced by the €24bn tie-up between Luxottica and France based Essilor

Industrial & Chemical sector, with 90 deals worth €5.2bn (14% of the total Italian M&A value), recorded a significant growth reaching its highest H1 deal count

Source: Mergermarket Trend Report 2011 – 1H2017
Family owned companies – They continue to play a key role in Italian M&A

**Inbound & outbound deals in Italy (2011–1H2017)**

- Inbound & outbound analysis reflects the same trend for the whole Italian market: a lower number of deals, but a higher deal value.
- Outbound M&A activity recorded 47 deals worth €31.8bn, the largest 1H deal value since 2011.

**Origination of deals (2011-2016)**

- One of the most important traits of the Italian market is the high concentration of family owned businesses: on average, 50-60% of deals in Italy originate from the family decision to sell. A number of important transactions in 2016 originated from the family decision to sell: e.g. Beta Utensili, Deltatre, Gotha Cosmetics, Philippe Model, Somacis, Valtur, etc.

In 1H2017, PE activity suffered a slight decrease by deal value, both for buyouts and exits.
On the opposite, the number of buyouts recorded its peak YTD figure since 1H2008.

The largest sector was Transport, mainly affected by the €1.5bn acquisition of a 10% stake of Autostrade per l'Italia by Allianz Capital Partners, DIF, EDF Invest and Silk Road Fund.
Consumer and Industrial & Chemical sectors continue to represent the lion's share, with more than €2bn of PE deals.

Source: Mergermarket Trend Report 2011 – 1H2017
Thank you!