A Paper Entitled:
“Mechanics of Mergers & Acquisitions”

DELIVERED AT THE WORKSHOP ON
MERGERS & ACQUISITIONS: HOW NOT TO GO WRONG

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Introduction

Definition

Merger

- A merger is the combination of two or more separate firms into a single firm
- The firm so formed can take any of the new identities:

Scenario	Identity
Acquirer + Target =	Acquirer
Acquirer + Target =	Target
Acquirer + Target =	New identity

Introduction (Cont'd)

Acquisition

- An acquisition takes place where a company takes over the controlling shareholding interest of another company

- At the end of the process there exists 2 separate companies

- The target company becoming a division or subsidiary of the acquiring company

Factors influencing a potential acquirer/buyer

a) Economies of scale ;

b) Growth in market share;

c) Wish to enter a new, generally more growth-oriented market

d) Desire to invest excess capital (usually the worst of all reasons for an acquisition - Companies with excess capital, which do not know what else to do with it, are often tempted to pay fancy prices for glamorous acquisitions!)

Factors influencing a potential seller

a) Lack of management succession;

b) Inability to keep up with change e.g technology;

c) Regulatory concerns / pressures; and,

d) Perceived opportunity to cash out at a high price.

Analysing a Possible Acquisition - The Buyer's Challenges (Cont'd).

a) Developing an acquisition profile: - to define clearly and precisely the criteria for a potential acquisition and to ensure that these criteria are strictly adhered to;

b) Due Diligence: The single most important consideration is certainly the **need for a thorough and professional due diligence**;

c) Valuation; and,

Analysing a Possible Acquisition - The Buyer's Challenges (Cont'd).

d) Non – financial consideration – `cultural fit' an elusive, immeasurable, non-quantifiable concept but the key to success or failure in an acquisition.

Preparing a Company For Sale - The Seller's Challenges

a) **Developing a sales strategy:**

a) Why do I want to sell this company?

b) Who are the likely purchasers and how do I best approach them? (Know your enemy);

Preparing a Company For Sale - The Seller's Challenges

c) What is the company likely to be worth? How do I value it? Who do I need to advise me on the sale (know your friends)!

b) Financial Consideration – single most important factor for a seller – **the process of preparing the company for sale.**

Due Diligence

- Due diligence is the level of judgement, care, and prudence that an entity would reasonably be expected to undertake in order to evaluate any business proposition.

- In mergers and acquisitions, due diligence is a critical element. It seeks to confirm the material facts and figures provided by the seller.

- The acquirer therefore has the opportunity to identify subtle but important background details that will impact on the eventual value placed on the business.

Due Diligence (Cont'd)

Objectives of Due diligence

- ✓Provides an accurate assessment of the target by highlighting key trends/characteristics;
- ✓Uncovers hidden competitive threats/liabilities;
- ✓Ensures disclosure of adequate information to enable the potential acquirer take informed decisions; and,
- ✓Determines a fair value that is satisfactory to all parties involved.

Negotiation

- ## An Art ?

Negotiating a merger or an acquisition demands complete attention to detail, mental dexterity and co-ordination skills.

Closing

Closing is the event through which the relevant parties consummate the transaction by the execution and delivery of the appropriate documentation, and if applicable, the transfer of funds;

It is also important to always remember that while closing may be the end of the transaction, it represents the beginning of something even more important - the creation of a new company!!

The Hardest Challenge Of All – Making it Work!

Once an acquisition has been completed, the professional advisers (accountants, investment bankers, lawyers etc.) collect their fees and move on to the next transaction!

BUT: The hardest part is yet to come - the integration of the two companies and the achievement of the synergies (i.e. cost savings!), which are intended to justify the premium that has probably been paid for the acquisition!

- THIS IS THE SOLE RESPONSIBILITY OF THE TWO COMPANIES' MGTS

The Hardest Challenge Of All – Making it Work! (cont’d)

Companies' managements may call in as many consultants as they wish to advise them on the integration process, but, ultimately, the buck stops with them and if the integration process does not produce quick results, shareholders will know where the responsibility lies!

HENCE: the importance of the acquisition search, the “cultural fit” and the due diligence process, all referred to above:

-A thorough acquisition search should have identified a company which is a suitable “cultural fit”;

The Hardest Challenge Of All – Making it Work! (Cont'd)

-A thorough due diligence should have identified any potential problems in advance and should prevent any nasty, post-acquisition surprises.

In addition, a proper post-acquisition integration plan is essential, which should have been prepared well in advance of the bid and which should indicate clearly who is responsible for managing the integration process.

REMEMBER: if all the best managers are managing the integration process, who is left to manage the Company and earn income for the shareholders?!

The Hardest Challenge Of All – Making it Work! (Cont'd)

So - a clear demarcation line between those managing the integration and those managing the company!

Key areas in the integration process:

a) Staff - almost inevitably there will be surplus staff. What are the plans to ensure that retrenchment will be carried out as fairly and

The Hardest Challenge Of All – Making it Work! (Cont’d)

harmoniously as possible? What are the attendant financial costs?

Need to ensure that only those staff who have been identified for retrenchment actually go since competitors will inevitably be trying to “cherry-pick” many of the staff that the company wants to keep!

The Hardest Challenge Of All – Making it Work! (Cont'd)

b) Information technology - minefield of problems!!!The more sophisticated the systems used by the two companies concerned, the harder the integration process will be;

c) Operations - pose similar integration problems to those of I.T;

The Hardest Challenge Of All – Making it Work! (Cont'd)

All companies have slightly different processes for everything they do - from accounting procedures, to authorising major new capital expenditure

Successful integration requires that a rapid choice is made between the different processes used in the companies involved, pre-merger, and harmonization carried out as rapidly as possible. However, this is usually easier said than done!

M&A Transactions in Nigeria

Acquirer	Target	Financial Advisers
Unipetrol Plc	Agip Plc	FCMBCM / IBTC
Ocean & Oil	Unipetrol	FCMBCM
Blue Circle inc	WAPCO	FCMBCM
Total Nigeria	Elf oil	FCMBCM / IBTC
United Nig Tex.	Nichemtex	FCMBCM / IBTC
NBC Plc	Sapanda Ltd	FBN MB / IBTC
PZ	Thermocool Nig	FCMBCM / IBTC
British American Tobacco	Nigerian Tobacco	Sectrust / Citibnk

M&A Transactions in Nigeria (cont'd)

Acquirer	Target	Financial Advisers
Unilever ltd	LBN Plc	TRIUMPH / IBTC
Nestle S.A	Nestle Nig Plc	FCMBCM / NAL
Wasco ropes	Nig Ropes Plc	Nig Stckrs / NAL
A.G Leventis	Leventis Stores	Centre-Point Inv
PZ, Ekopak	Grove Properties	IBTC
Topfeeds Nig	Seepc Nig Ltd	FCMBCM

Conclusion

- M & A is not rocket science. The basic principle is boosting post merger or acquisition shareholder value.
- No substitute for a thorough due diligence and a disciplined approach. Caveat emptor reigns supreme.
- Overpayment/hidden liabilities remains the buyers principal risk.
- Growth of future EPS is an important yardstick.
- M & A is an exciting field attracting some of the brightest minds in business, combining vision, glamour and big money. Its scope is exceptionally broad and initiative and creativity are handsomely rewarded. However, M & A is a lot of hard work, involving painstaking due diligence for dozen of bidders. On balance however, the rewards usually outweigh the risks.