



TRANSACTION SERVICES

Cross Border M&A

A practitioner's perspective

30 May 2008

ADVISORY

Signpost

- Introduction
- Buy side
- Sell side
- Emerging markets example
- Closing comments

Cross border amplifies the issues



It's all about value creation ...

'Due diligence to lose'



'Due diligence to win'



Source: KPMG Global M&A deal survey 2005

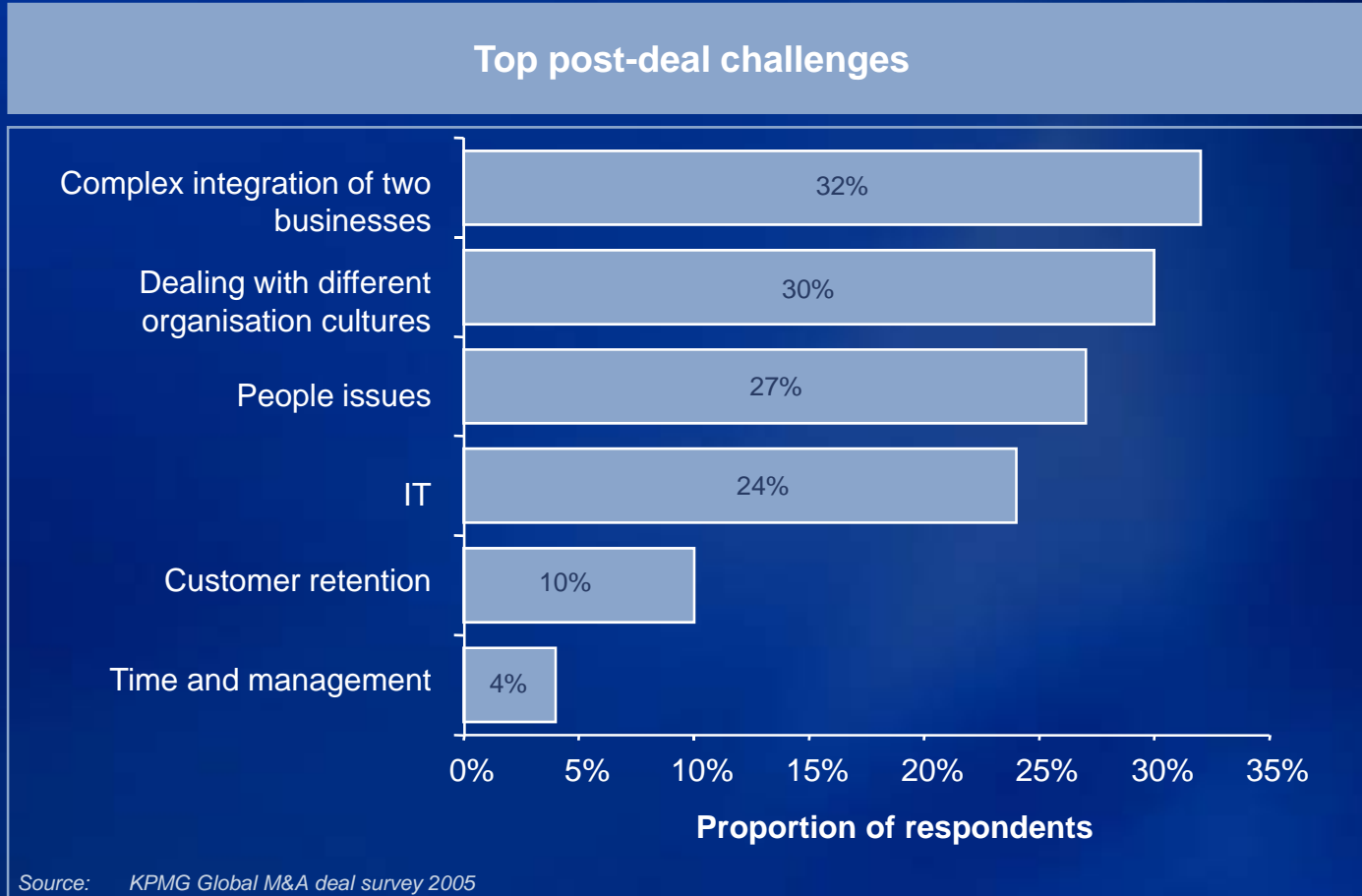
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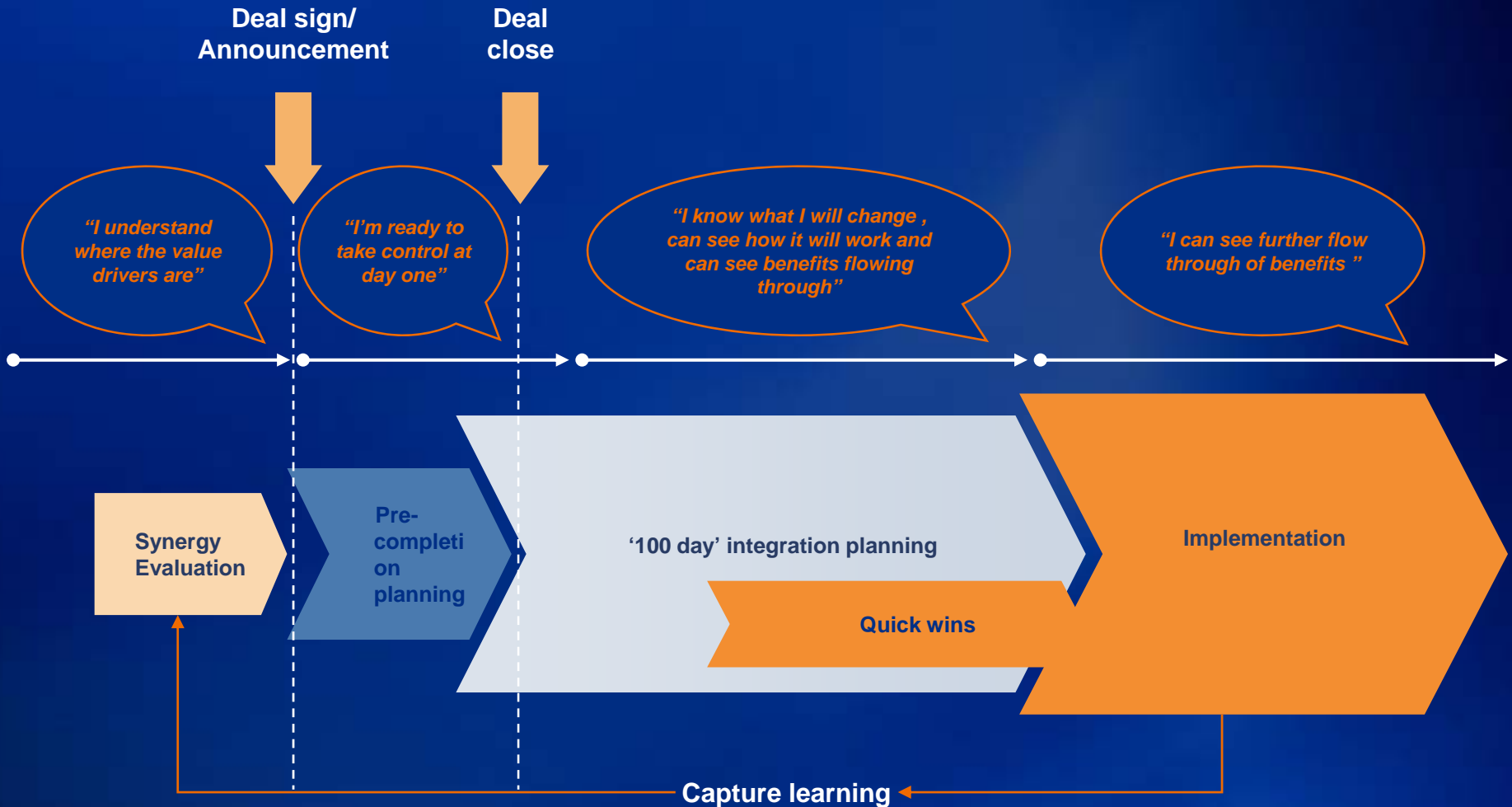
KPMG buy-side research

- 2006: Only 31% of deals enhanced shareholder value
- 2008: Only 25% of deals enhanced shareholder value

Our research shows that addressing people issues proactively is key to deal success



We think of buy side integration in four phases



Cross border amplifies the issues



Synergy evaluation is now critical to win ...



Source: KPMG Global M&A deal survey 2005

... but 43% of synergies are paid in the transaction price

We see eight elements to robust synergy analysis

1. Clear integration principles
2. Significant input from operational management
3. Benefits range (low / high)
4. Costs of change
5. Phasing
6. Comprehensiveness - full breadth and depth of benefit potential
7. Clear articulation of assumptions and audit trail to sources
8. Evidence of achievability

And avoid ‘conservatism cubed’!

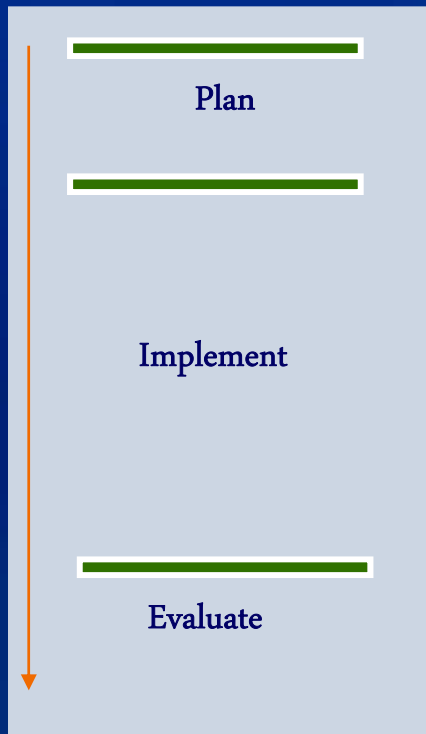
Pre-completion planning is all about rapidly mobilising the business ...



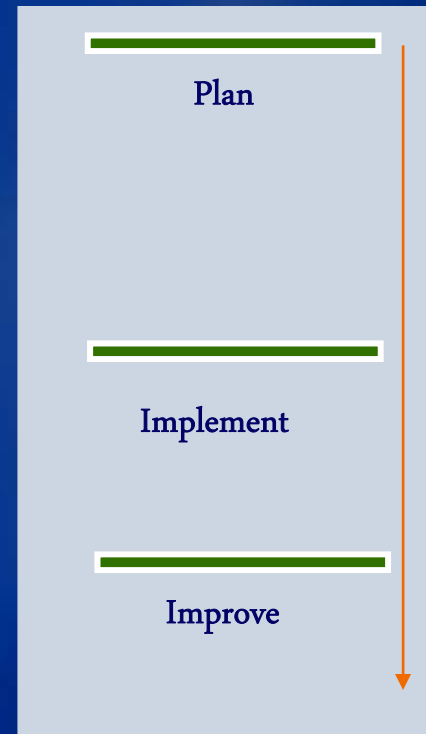
... and getting ready to take control

Project planning – not always easy!

German way



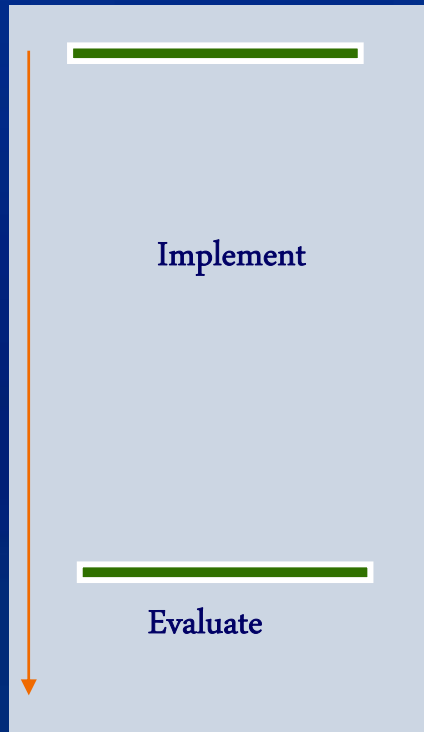
Japanese way



Invest time in clarifying definitions and their meanings

Project planning – not always easy!

American way

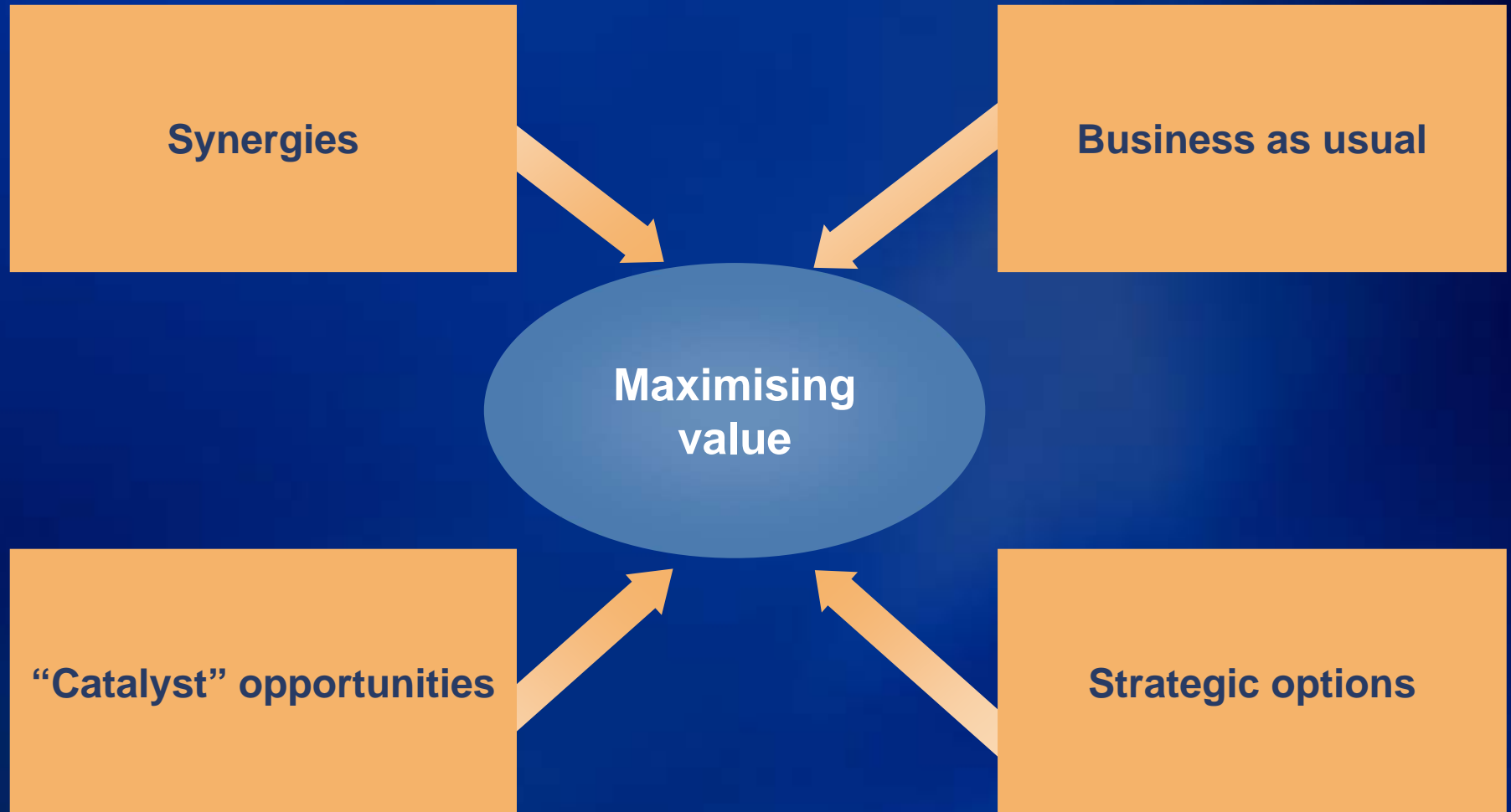


British way

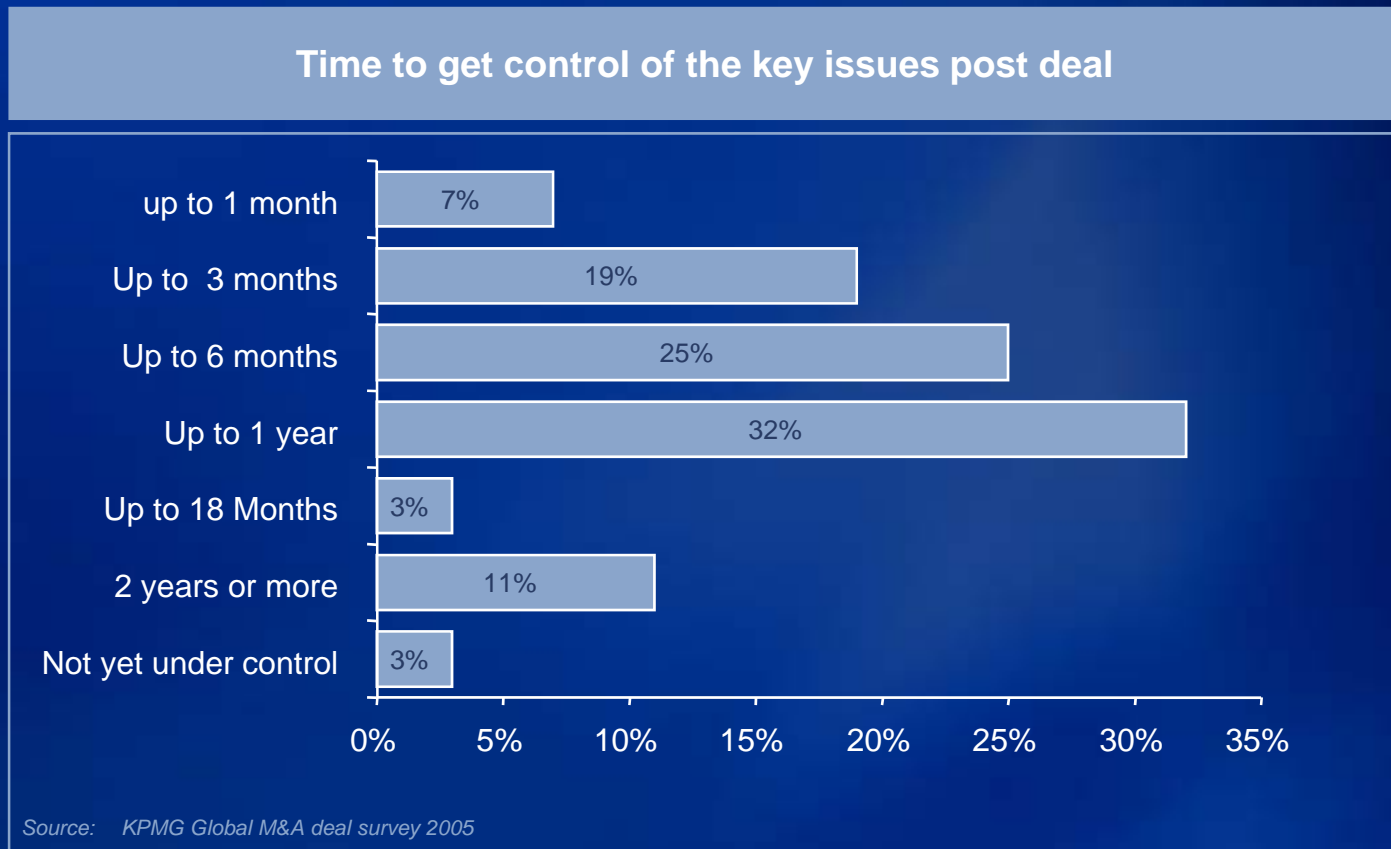


Invest time in clarifying definitions and their meanings

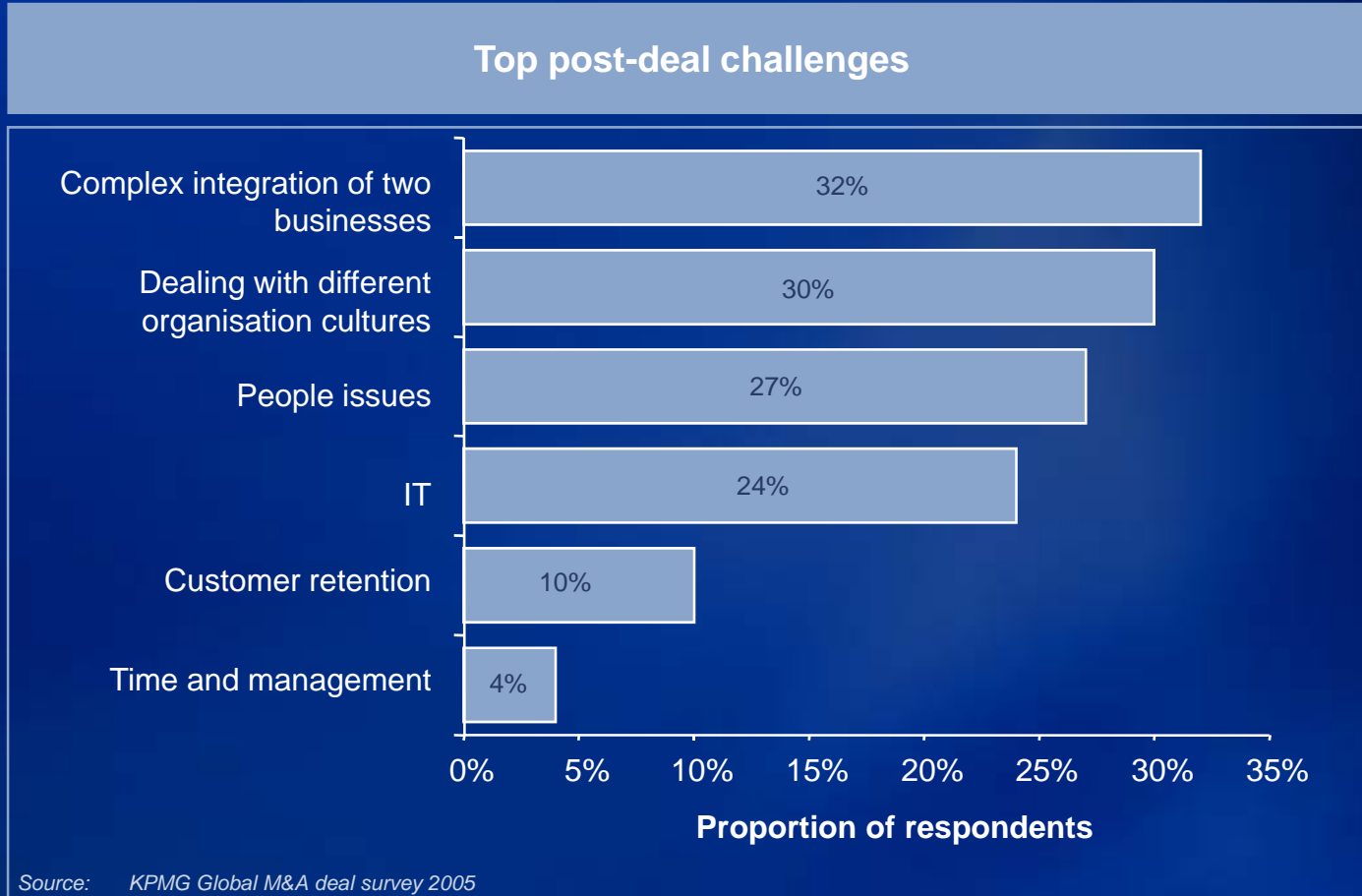
Four components of value should be addressed by the integration programme



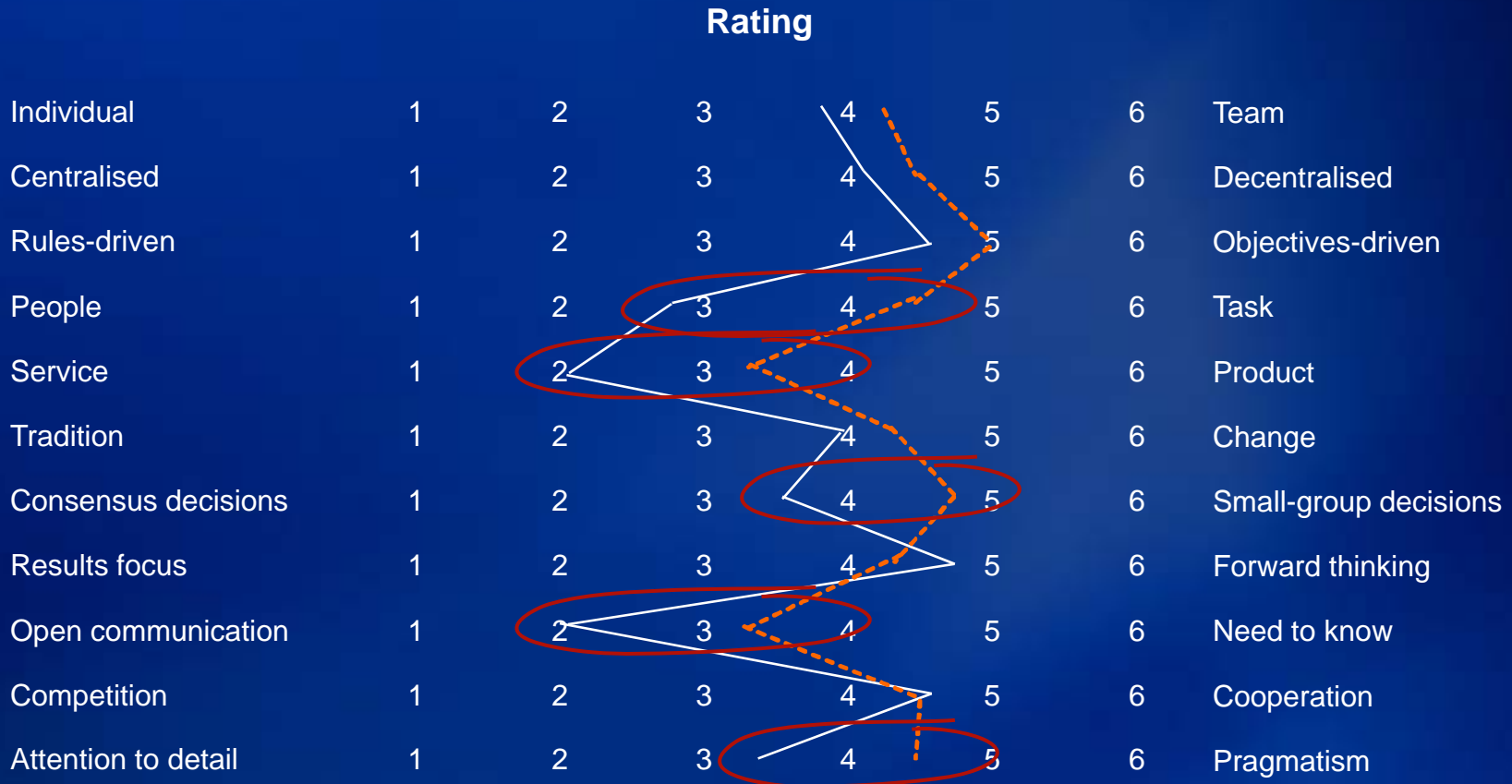
Companies took longer to get control than anticipated



Our research shows that addressing people issues proactively is key to deal success



Addressing the cultural differences



— [acquirer]
 - - - [target]

We need to consider the implications of culture for our own behaviour.

Those from the UK Firm should:

- Remember their colleagues are working in a second language
- Show respect by learning a little about modern Germany, and a little German language
- Be conscious about the impact when making fast decisions
- Consider what a 'longer term perspective' might look like
- Remember the importance that German culture (and clients) attach to a rigorous and robust approach
- Listen, then talk
- Remember it may be uncomfortable for German colleagues to discuss different views in open forum especially outside of direct peer groups
- Respect the education levels of our colleagues
- Reserve the most important decisions for face-to-face meetings
- Remember German Partners may not use objectives and incentives as a first resort to change behaviours
- Be conscious of our imperial tendencies!
- See that the German side has extra talents to bring to the table

Those from the German Firm should:

- Remind British colleagues to speak slowly and use less jargon
- Remember Brits can be a little 'vague' in their language 'quite good' means 'great'; 'interesting . . ' means 'no'
- Pay respect by learning a little about modern Britain
- Prepare for some discomfort when asked to take decisions quickly on the basis of limited information
- Actively look for broader business opportunities
- Be prepared to have open and frank discussions about differences
- Respect the client experience of our UK colleagues, even when they are younger
- Be prepared that in the UK, partners work very closely with manager and staff
- Remember the UK Partners don't think in 'structural' terms as much
- Come to terms with the fact that lunch can just be a sandwich at a desk
- See that the UK-side has extra talents to bring to the table

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KPMG sell side research

- 2004: 30% of vendors faced a 20% “price chip”
- 2007: 48% (corporates) and 24% (PE Houses) failed to maximise value on their last disposal

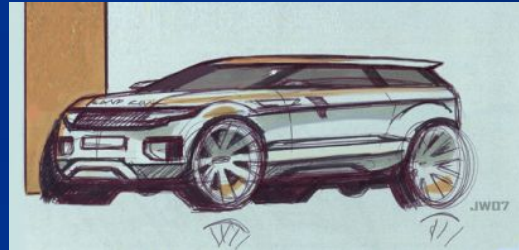
JLR businesses closely integrated with Ford

Jaguar

- 71,000 cars – \$3 billion sales
- 871 dealers in 64 markets
- Four models
- Significant losses 2004-2006

Land Rover

- 192,000 cars – \$9 billion
- 1,276 dealers in 138 markets
- Five models
- Returned to profit in 2005



Ford

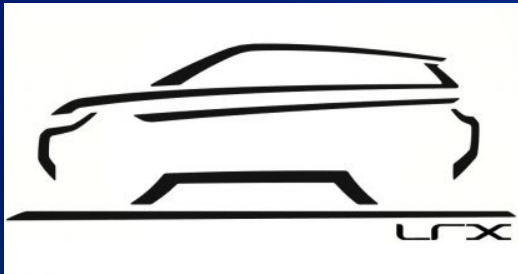
- Product development
- Technology
- Parts sourcing
- IT and systems
- Human Resources
- Finance
- Credit control
- Global sales and marketing

What was the approach to adding value?

Creating
value

Containing
value

Capturing
value



How was value created?

Creating
value

Containing
value

Capturing
value

- Establish project governance and define the separation principles
- Prepare complex and innovative 'straw man' deal structures for the sale all supported by robust scenario analysis
- Identify the different information and deal structure requirements of prospective private equity and trade buyers
- Identify the separation issues and resolution by preparing of a separation plan
- Identify stranded costs and mitigating actions
- Prepare robust, consistent 'stand alone' financial statements which align to key strategic messages
- Develop, test and substantiate the Business Plan

How was value contained?

Creating
value

Containing
value

Capturing
value

- Prepare robust supporting information for the Vendor Due Diligence (VDD) team and the data room
- Resolve complex outstanding issues with the tax authorities to provide confidence to bidders over JLR's tax position, thereby minimising value erosion through the sale process
- Complete extensive VDD in 8 weeks, including Financial, Operations, Separation, Tax and Pensions, using a separate KPMG team
- De-risk the separation issues: providing support on detailed separation planning and implementation
- Prepare detailed Transitional Service and Long Term Supply Agreements

How was value captured?

Creating
value

Containing
value

Capturing
value

- Provide input to the Share Purchase Agreement (SPA) and review the impact of bidder mark-ups
- Review pension covenants and facilitate transfer of pension schemes
- Support on vendor tax structuring and planning
- Meet with bidders to answer VDD questions
- Support Ford in preparation, advice and thought process for key meetings and areas of value
- Plan for the completion accounts process

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Cross border amplifies the issues, e.g. imperfect information

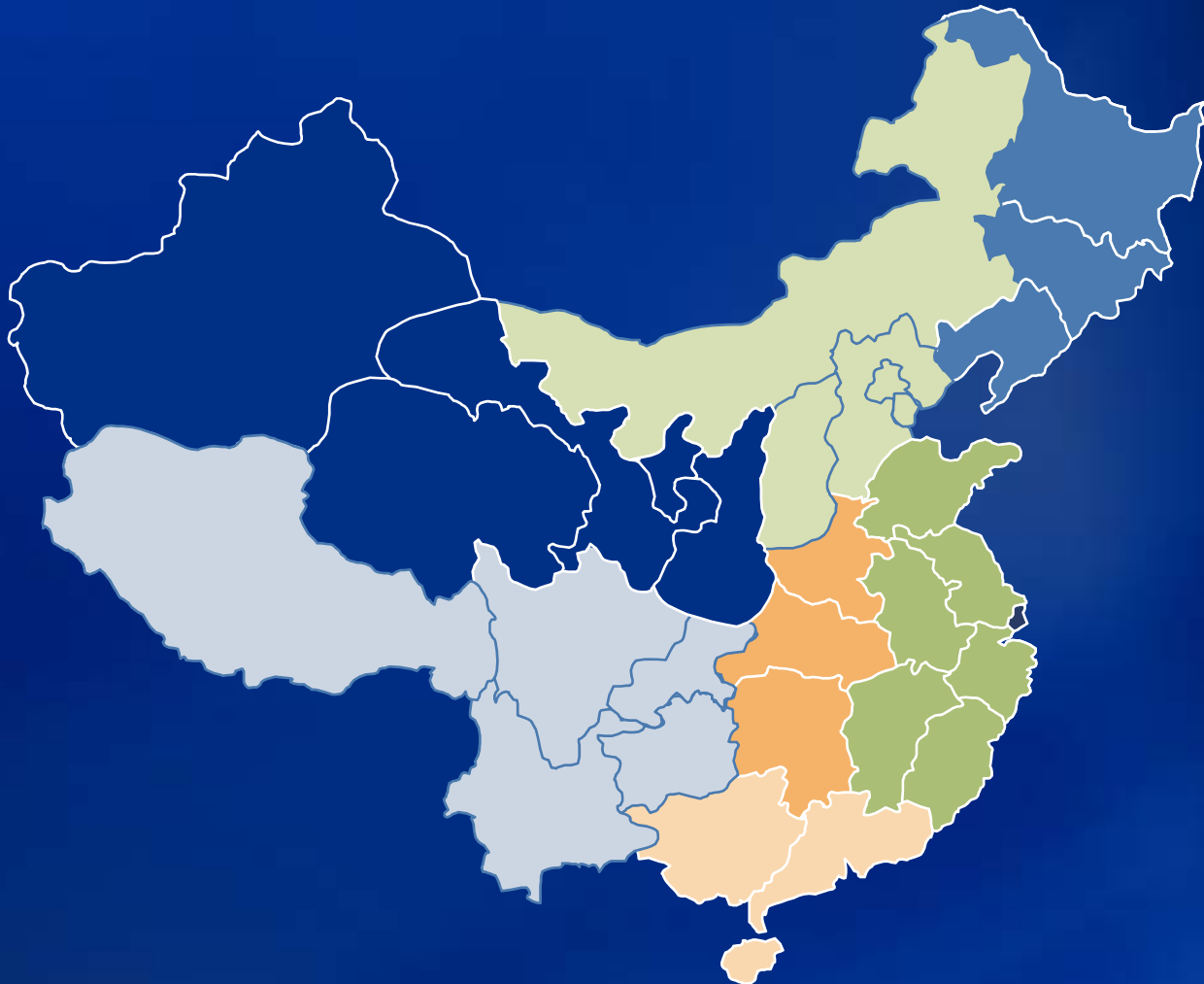


- China: common pitfalls for the unwary investor

Making an investment when the valuation does not justify it

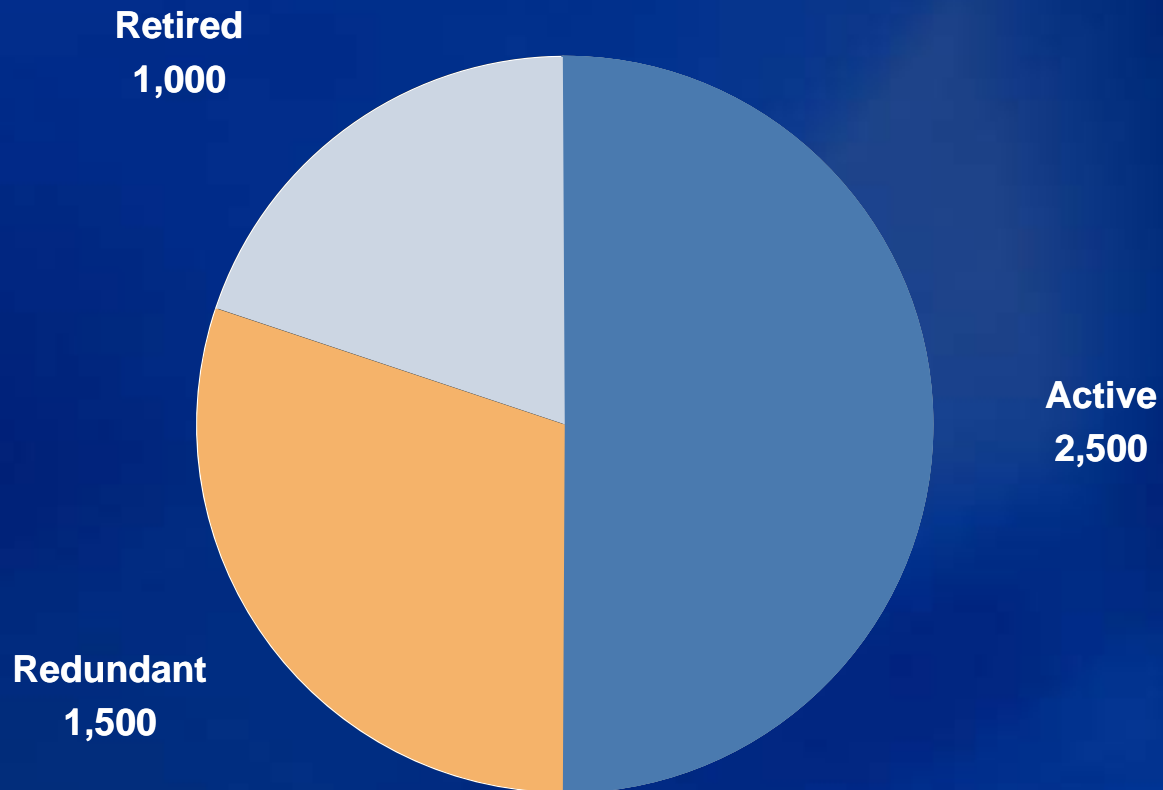


Sizing the market incorrectly

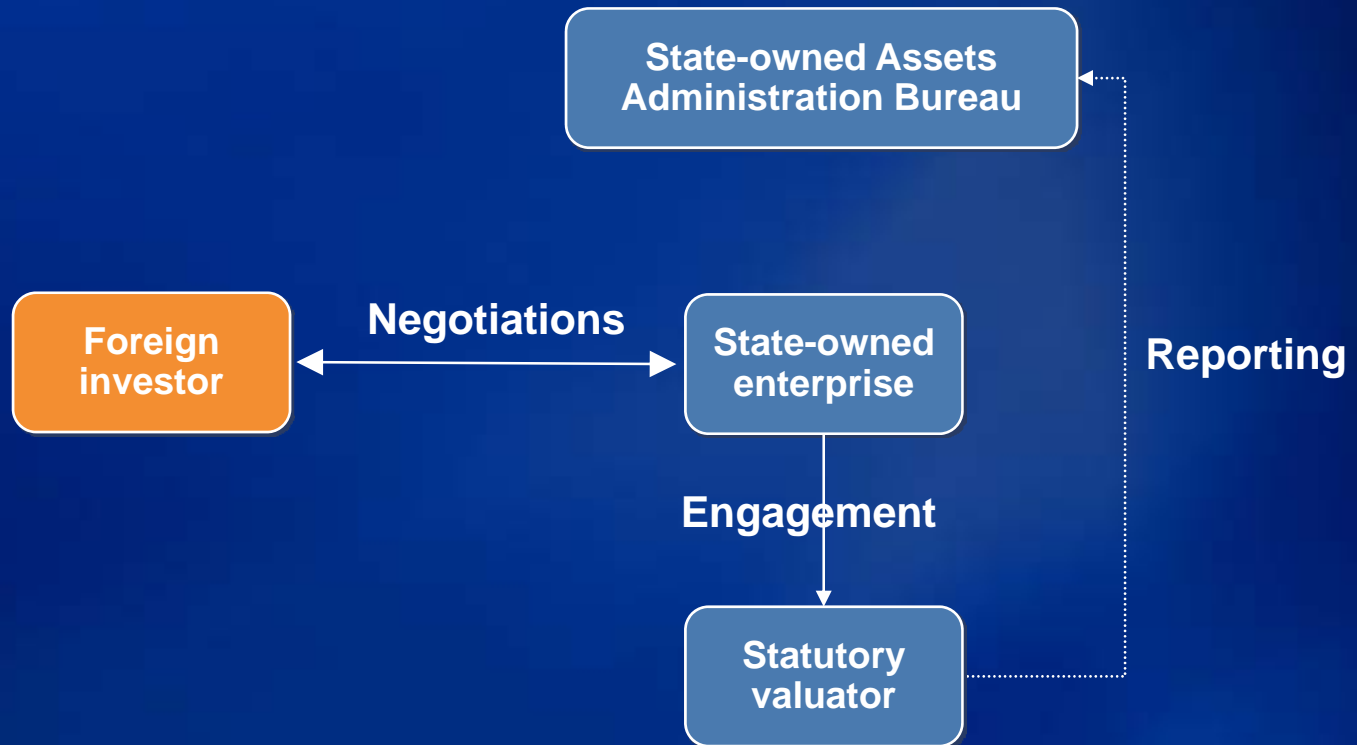


Not realizing the extent of HR issues

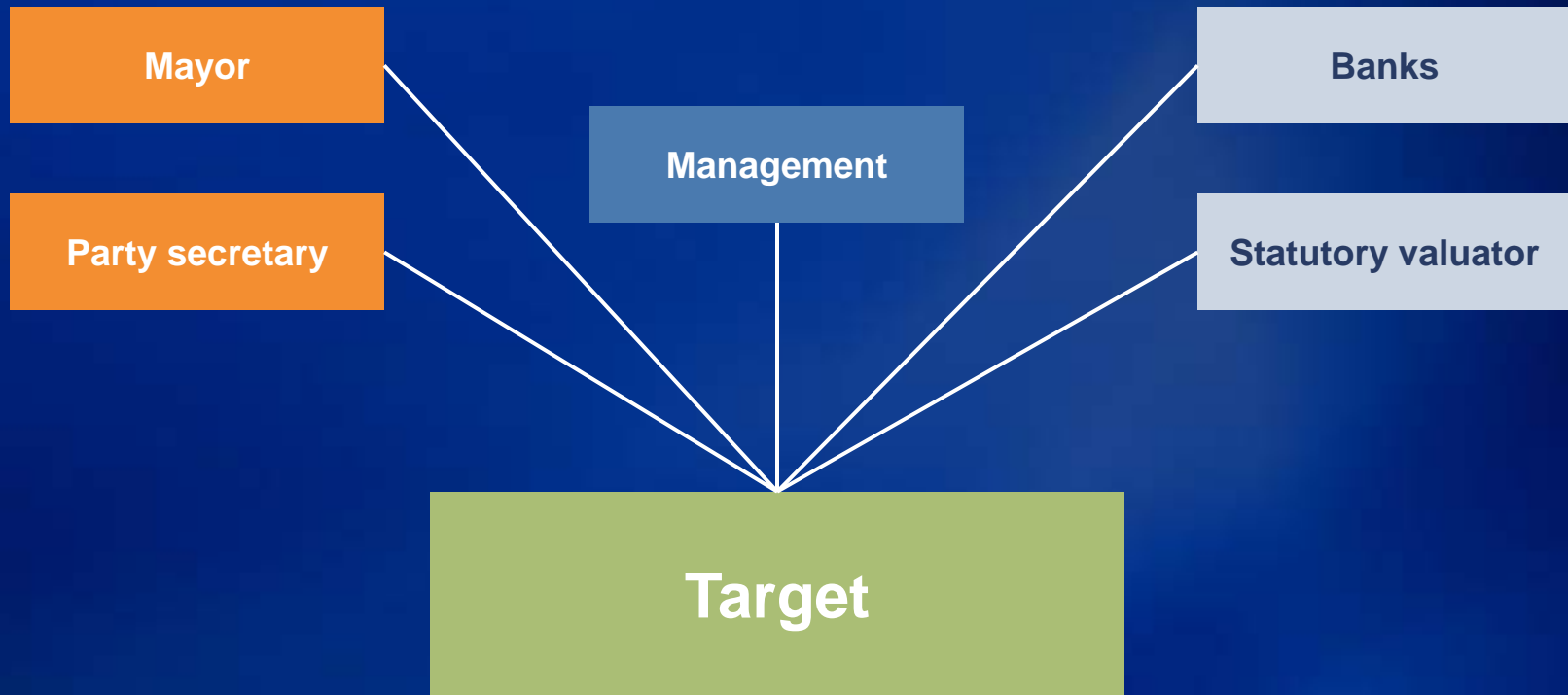
Example SOE headcount



Not understanding the Chinese valuation mindset



Negotiating with multiple decision makers



Other Issues

- Labour
- Infrastructure and distribution
- Intellectual property
- Corruption & bureaucracy

Perspective is still needed

Common pitfalls for multinationals

- Lack of market understanding
- Unrealistic expectations
- Short-term perspective
- Lack of local connections
- Wrong choice of partner
- Wrong product
- Unexpectedly strong competition
- Regulatory changes

Why deals fail

- Related-party transactions
- Under-reporting of tax and customs liabilities
- Unreliable financials and personnel
- Obsolete stock, redundant assets and bad debts
- Under-productive staff and non-funded pension liabilities
- Very weak internal controls
- Unreasonable statutory valuation results
- Land-use rights and title to properties
- Insufficient due diligence

Ten “Golden Rules”

- Do your homework
- Cultivate important relationships
- Send your best people early
- Be patient
- Be prepared to walk away
- Have clear contract terms
- Know your partner well
- Do your due diligence thoroughly
- Recognise developing country problems, be pragmatic
- Seek out good advice

Trusted advisors are of paramount importance

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