
Mergers and Acquisitions (M&A) Cheat Sheet



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In the dynamic world of business, companies constantly seek ways to grow, innovate, and stay ahead of the competition. One of the most transformative strategies they employ is **Mergers and Acquisitions (M&A)**. At its core, M&A involves the consolidation of two or more companies, allowing them to achieve greater market presence, diversify their offerings, or even enter entirely new markets. A **merger** usually occurs when the two businesses form a new entity whereas in an **acquisition**, one company purchases and absorbs the other into its operations.

Understanding M&A is crucial for several reasons:

- **Economic Impact:** M&A activities can reshape industries, influence stock markets, and impact economies at large;
- **Business Strategy:** M&A can be a pivotal strategy to accelerate growth, acquire new technologies, or eliminate competition;
- **Career Opportunities:** the M&A field offers a myriad of roles, from investment banking and legal counsel to management consulting and post-merger integration specialists;
- **Stakeholder Value:** Properly executed M&A can enhance value for shareholders, offer new growth opportunities, and provide consumers with improved products and services.



Types of Mergers & Acquisitions and Examples



Horizontal M&A

- Companies in the same industry combine to eliminate competition and achieve economies of scale. This often leads to increased market share.
- Example: Exxon and Mobil, two major oil companies, merged in 1999 to form ExxonMobil. This merger allowed the combined entity to consolidate resources and become one of the world's largest publicly traded oil and gas companies.



Vertical M&A

- A company merges with a supplier or distributor to streamline its supply chain, reduce costs, and ensure a consistent supply of materials or distribution channels.
- Example: In 2006, Google acquired YouTube. While both operated in the digital space, Google was primarily a search engine and advertising platform, while YouTube was a content provider. This merger allowed Google to integrate YouTube's video services into its advertising platform.



Conglomerate M&A

- Companies from unrelated industries combine, diversifying business operations and reducing risks associated with a single industry.
- Example: General Electric (GE) has historically been involved in numerous conglomerate mergers, acquiring companies in industries ranging from aviation to healthcare. This diversification strategy allowed GE to spread its risks across various sectors.



Market Extension / Geographic Expansion M&A

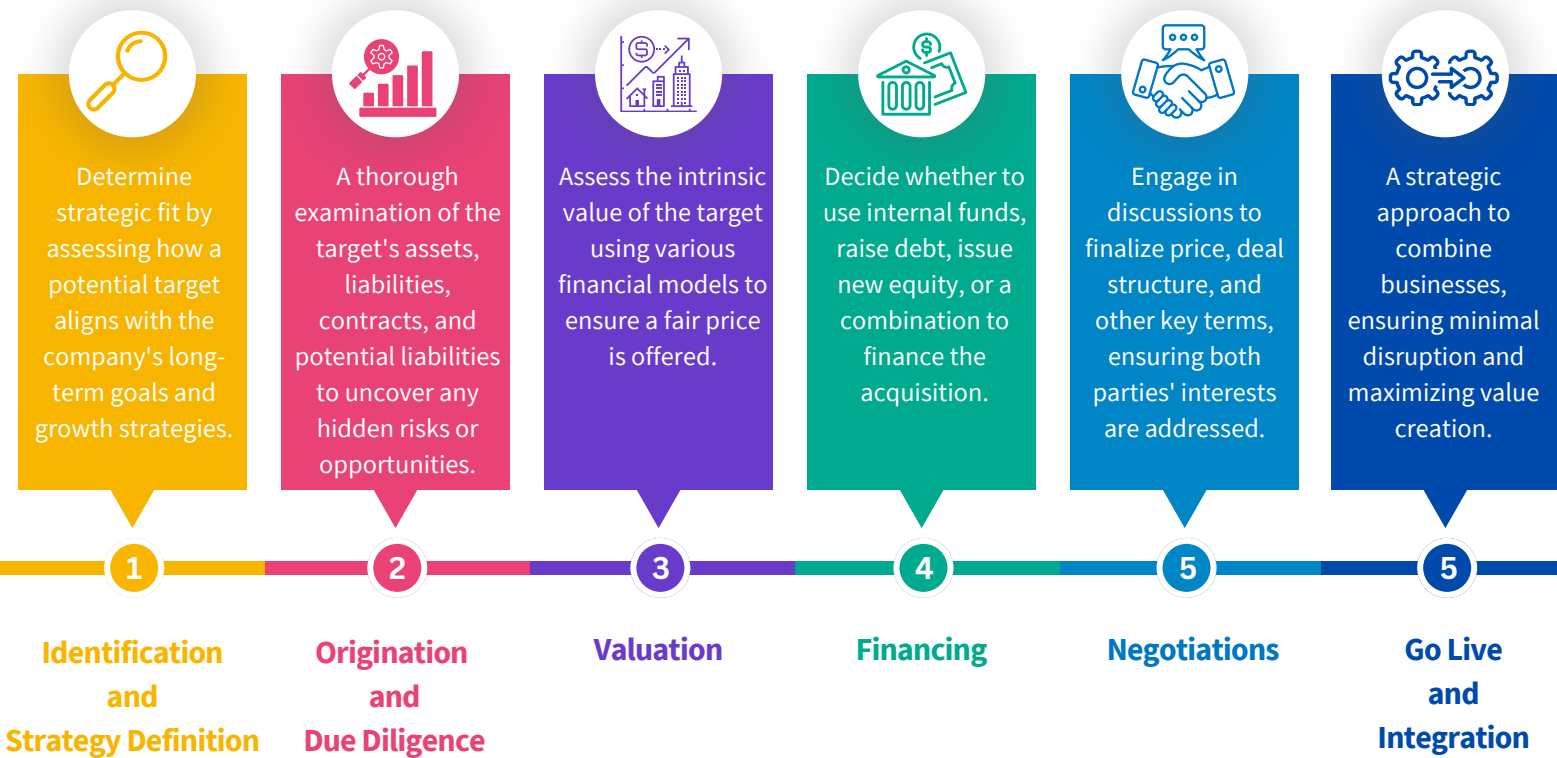
- Companies selling the same type of products but in different markets combine to access a broader customer base and expand their geographic reach.
- Example: The merger of Kraft Foods and Cadbury in 2010 is an example. While both were in the food industry, Kraft had a strong presence in the U.S., and Cadbury was well-established in the U.K. The merger allowed the combined entity to extend its market reach.



Product Extension M&A

- Companies in the same markets but with complementary products combine, offering a wider product range to the existing customer base.
- Example: When Procter & Gamble acquired Gillette in 2005, it was a product extension merger. Both companies targeted the same consumers but with different products. P&G was strong in household and personal care products, while Gillette was a leader in razors and other grooming products. The merger allowed for a broader product offering to the same customer base.

M&A Process and Timeline



- **Cultural Integration:** Address differences in company cultures and values to create a cohesive and unified work environment.
- **Operational Integration:** Merge IT systems, operational processes, and teams to achieve synergies and improve efficiency.
- **Financial Integration:** Combine financial reporting systems and processes to achieve a unified financial overview and meet regulatory requirements.
- **Strategic Integration:** Ensure the merged entity's align with the strategic goals set out at the beginning of the M&A process.
- **Risk Management:** Continuously monitor and address potential operational, financial, and reputational risks that might arise post-merger.

Valuations in M&A

Valuation is the heart of the M&A process. It's the method by which companies determine the worth of a potential acquisition target. Accurate valuation ensures that the acquiring company pays a fair price, neither overpaying nor missing out on a valuable opportunity. Here are the primary valuation methods:

- **DCF (Discounted Cash Flow)**
 - Description: This method involves estimating the future cash flows of the target company and then discounting them back to their present value using a chosen discount rate (often the company's Weighted Average Cost of Capital or WACC).
 - Significance: DCF provides a detailed intrinsic value based on the company's own financial projections, making it one of the most comprehensive valuation methods. However, it's also sensitive to the assumptions made, especially regarding future cash flows and the discount rate.
- **Comparable Companies Analysis (Comps)**
 - Description: Here, the target company is valued based on the valuation metrics (like P/E ratio, EV/EBITDA) of similar public companies.
 - Significance: Comps offer a relative valuation, giving a quick snapshot of how the market values similar companies. It's essential to choose truly comparable companies for an accurate valuation.
- **Precedent Transactions**
 - Description: This method involves analyzing previous M&A transactions in the same industry to derive a valuation multiple or range.
 - Significance: Precedent transactions consider the premium that acquirers have historically paid for similar companies, making it especially relevant when there's a surge in M&A activity in a particular sector.
- **LBO (Leveraged Buyout) Valuation**
 - Description: This estimates the value based on the return required by a financial buyer (like a private equity firm). It assesses how much the buyer could pay for the target, given a required rate of return, while financing the purchase primarily with debt.
 - Significance: LBO valuation is particularly useful when the acquirer intends to use significant leverage (debt) to finance the acquisition. It provides insights into the feasibility and attractiveness of the deal from a financial buyer's perspective.