



Training Material

## Deal Making Process

- An Overview of the Deal Life Cycle

*Disclaimer:*

- *This presentation captures the personal views / approaches / understanding of the presenter and does not necessarily represent the views of any organization.*
- *This presentation is illustrative training material for informational purposes only and should not be copied, disclosed or circulated or referred to in whole or in part in any correspondence or discussion or in any document or anywhere without prior written consent of Unithos Business Advisors Private Limited. Reader should complete its own research and due diligence to the extent it considers necessary for any use or taking any action based on this presentation.*
- *No copyright infringement is intended.*
- *Unithos Business Advisors Private Limited shall not be liable to anyone for any reason and under any circumstances.*



**1** Conventional drivers of M&A transactions (“Deal”)

**2** Economics underlying a Deal

**3** Deal making process – An Overview

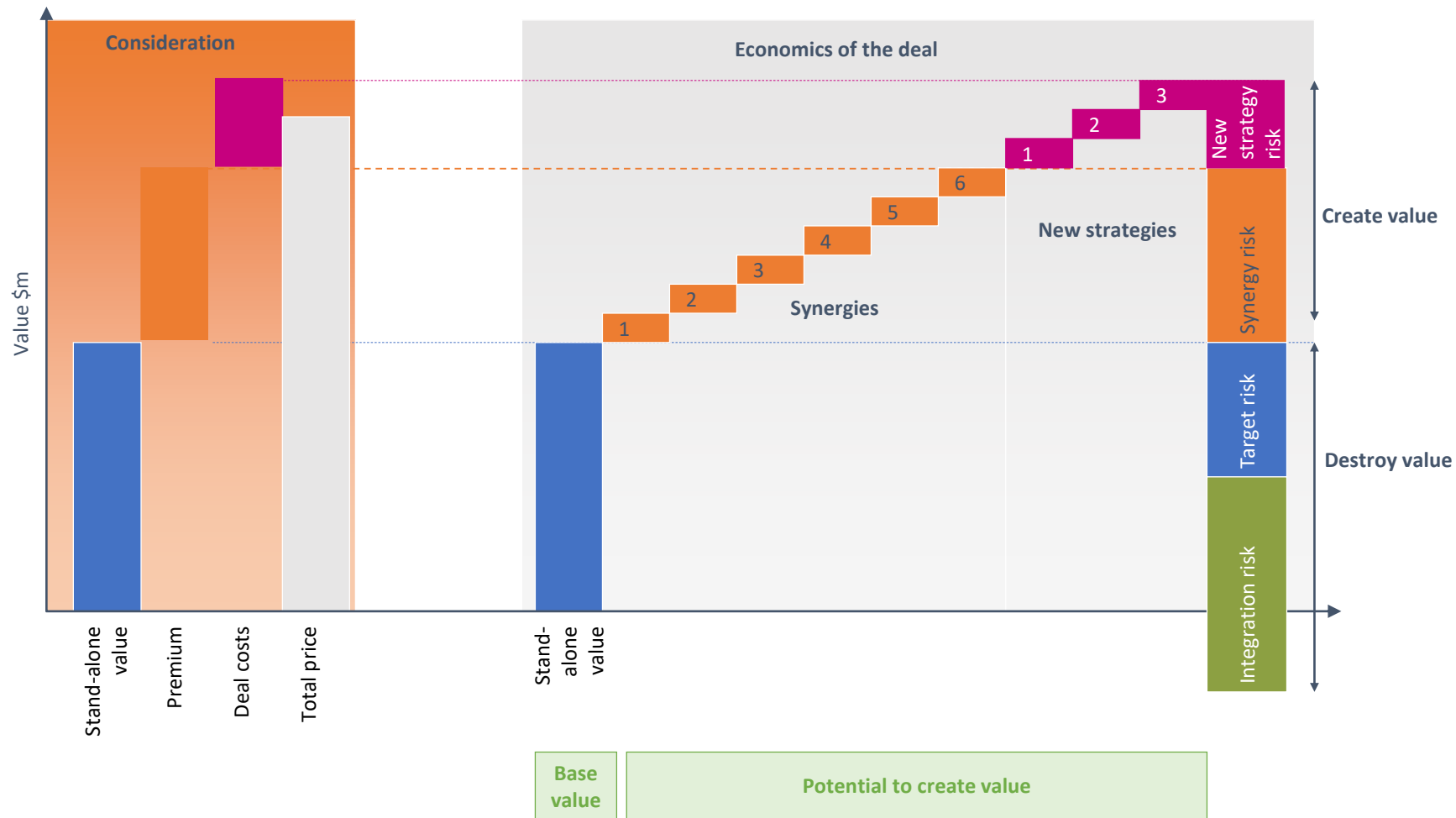
Indian outbound activity has been on the rise backed by a strong GDP growth, easy access to cheap finance, growing investor confidence and changing perception of entrepreneurs to go global

*Conventional drivers of transactions include..*

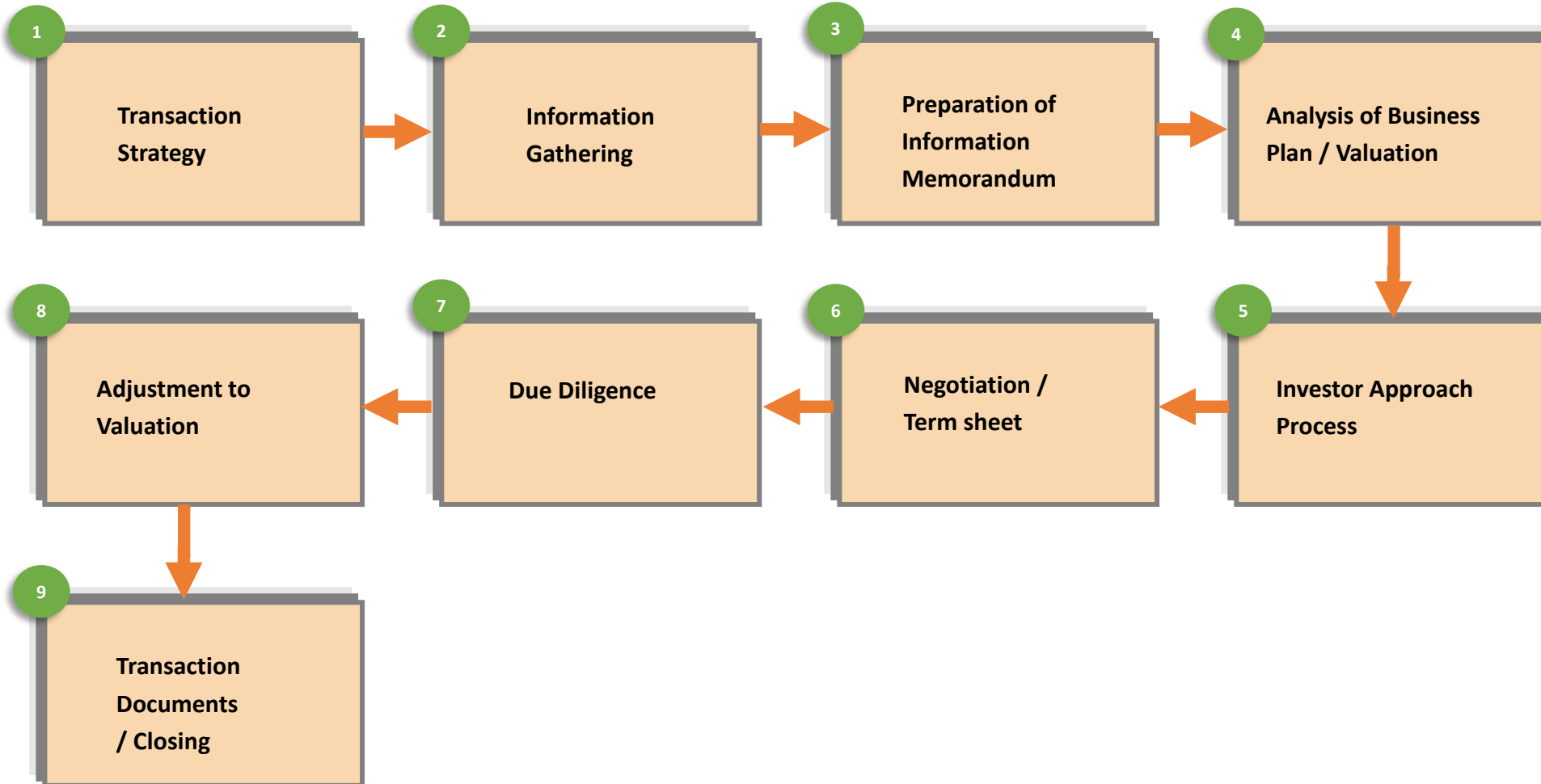
- Strategic opportunities to scale up operations, access developed markets, vertical integration and derive value from synergies
- Acquisition of ‘state of art’ manufacturing assets, technologies/patents etc
- Access to natural resources (in Eastern Europe and Africa)
- Establishing footprint in newer markets and widen customer-base
- Enhancing product portfolio / service offerings

...However, there has been an increasing number of deals executed to meet ‘peer pressure’ or ‘expectations of the capital market’.

# Economics underlying a Deal



# Deal making process – An Overview



## 1 Transaction Strategy

- Deal size;
- Prevailing market in the sector;
- Promoter mind set;
- Proposed usage of funds;

### 2 Information Gathering for the purpose of the Information Memorandum and Financial Model

- Gain an understanding of the following:
  - Group structure;
  - Operations of the Company;
  - Product Line / Service portfolio;
  - Financial performance;
  - Capital structure;
  - Key relationships such as bankers etc.
- Preparation of a Teaser (to be sent to target set of Investors)



## 3 Preparation of Information Memorandum

### Executive Summary

- Opportunity
- Business description
- Key financial metrics of the Company
- Summary financials

### Group / Company Overview

- Group Structure
- Brief description of the Promoters and Promoter Bio data
- Evolution of the Group

### Business Description

- Products and brands
- Customers
- Sales, marketing and distribution
- Manufacturing process
- Raw materials and suppliers

### Typical Structure of an Information Memorandum

### Management and Employees

- Organisation chart
- Bio Data of Senior management team and board
  - Responsibilities
  - Experience

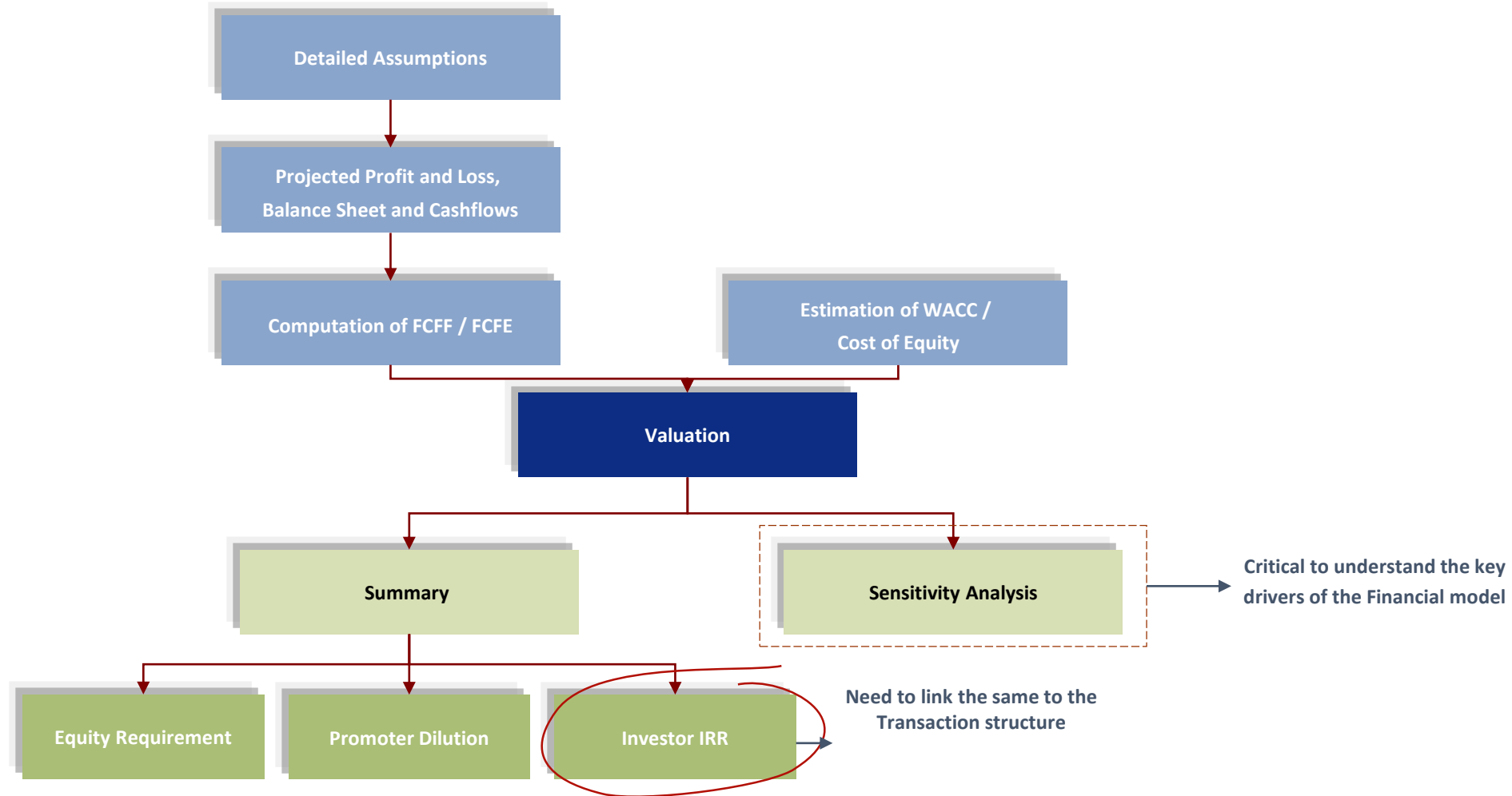
### Financial Overview

- Historical financials
  - 3-5 years
  - Commentary
- Projections for 5 years
- Clearly indicate drivers of sales / EBITDA growth

### Industry Overview

- History
- Competitive landscape
- Market characteristics and structure
- Government regulation
- Key trends and statistics

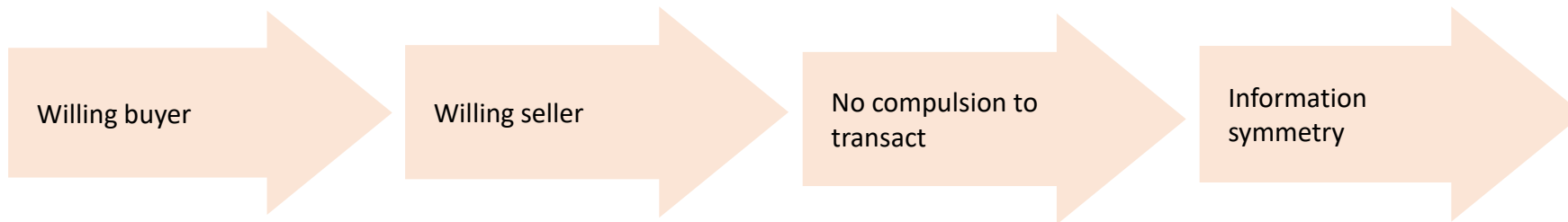
## 4 Analysis of Business Plan and Valuation



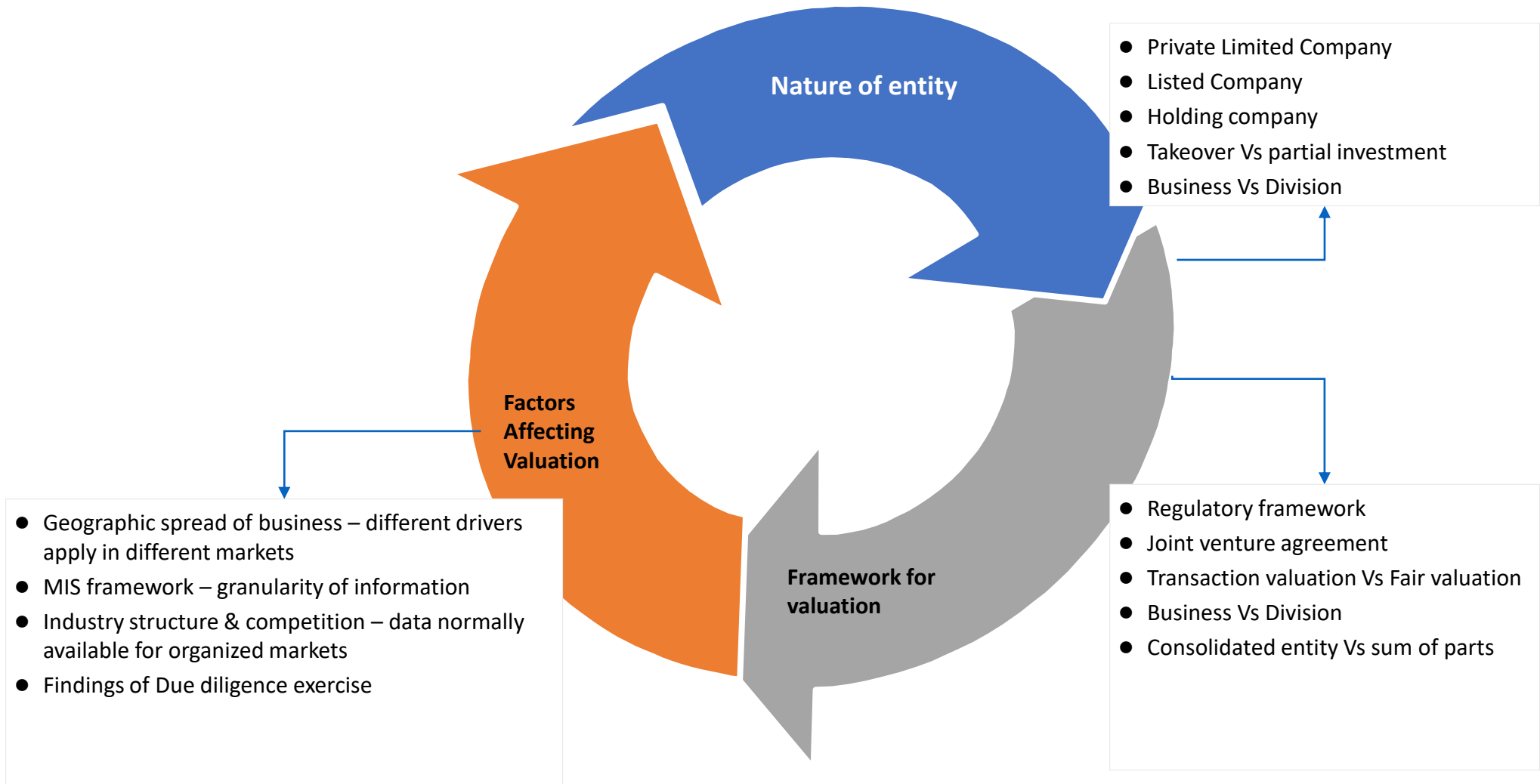
## Fair Valuation

“The price at which an entity would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of all relevant facts.”

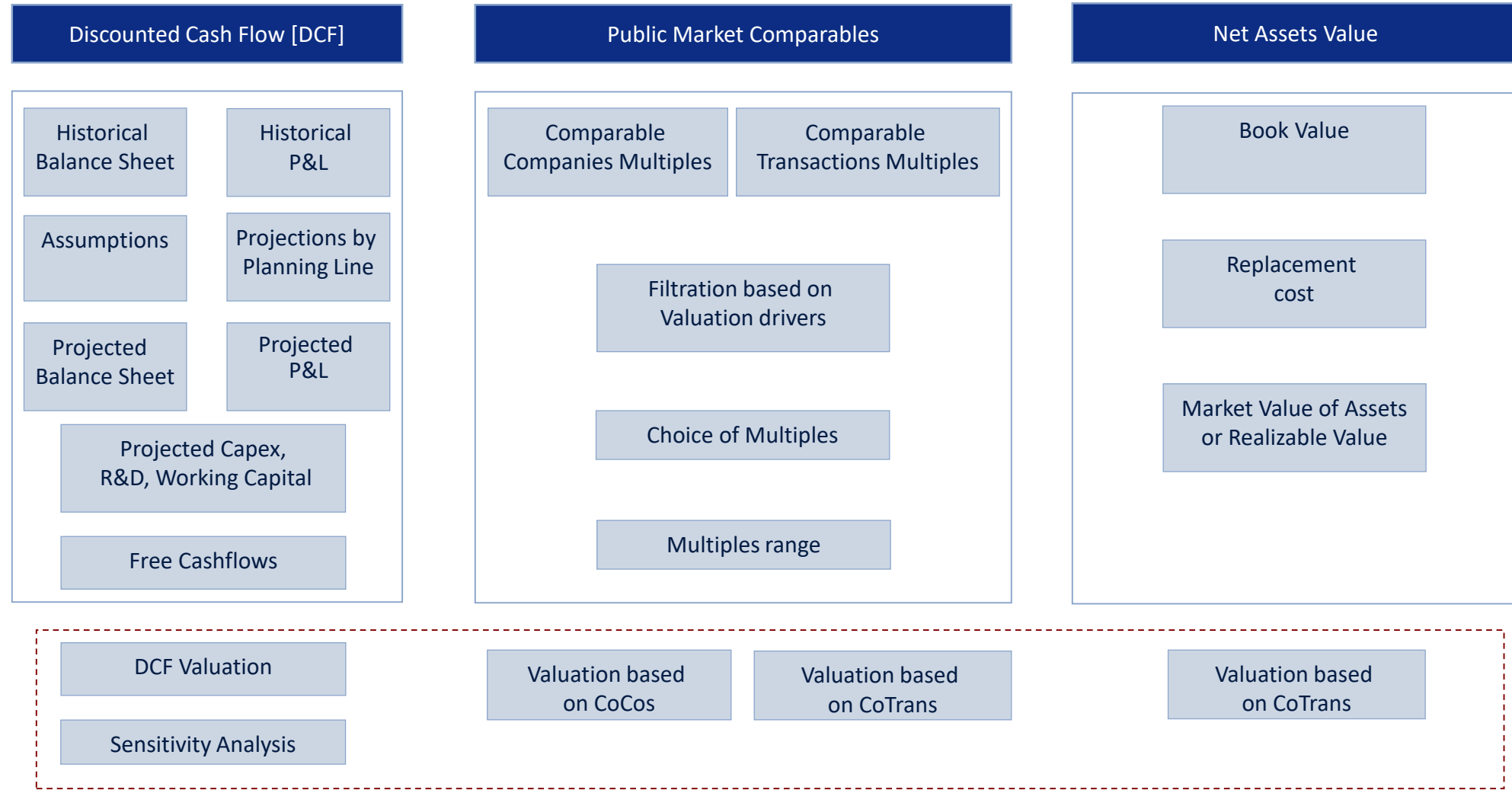
## Key requirements of fair valuation



**Important point to note** – fair value is the intrinsic value of the Target entity before including any synergies or adjusting for incremental costs which might accrue as part of the transaction.



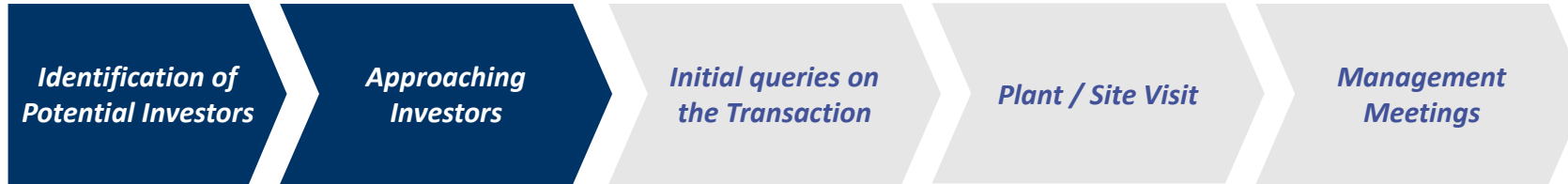
# 4 Deal making process – Valuation Methodologies



## Key considerations

- Determine the Future Maintainable Earnings
- Strategic Vs PE Managed Asset
- Selecting the right Multiple
  - EBITDA
  - Revenue
  - PAT
  - Book Value
- Discount rate
- Impact of normalized working capital
- Net Debt
- Integration challenges
- Synergies
- Capital market considerations

## 5 Approaching Investors: The Process



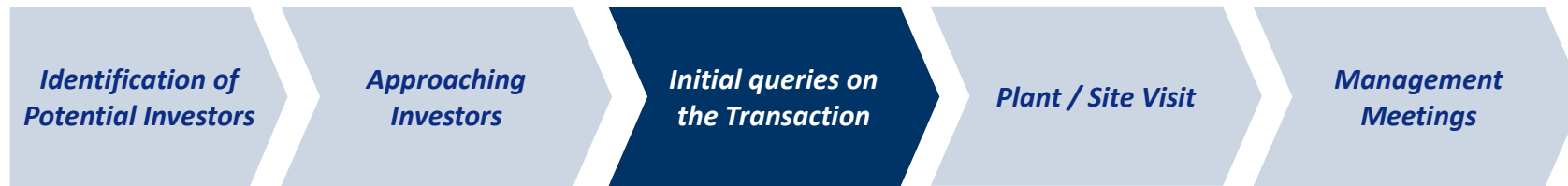
### Identification of Potential Investors

- Exhaustive list of Investors. Consider
  - Past investments
  - Competing investments
  - Type and tenure of fund
  - IRR expectations of the Fund
  - Funding structure
- Short list investors and discuss with the Promoter
- Segregate as Tier 1 and Tier 2

### Approaching Investors

- Execution of Confidentiality agreements with prospective Investor, including indemnity clauses
- Sending of the Information Pack (IM and Model) to potential Investor
- Setting up meetings with prospective Investors

## 5 Approaching Investors: The Process



### Initial queries on the Transaction

- Conference calls and meetings to discuss the opportunity. Address queries on:
  - Size of the business, revenues, KPIs
  - Working capital, Capex,
  - Current debt and market cap
  - Proposed deployment of funds
  - Background / past experience of the Promoter and succession plan
  - Valuation and dilution
  - Proposed Investment Structure - Straight equity / structured equity with waterfall mechanism / preferred returns / ratchets / CCDs

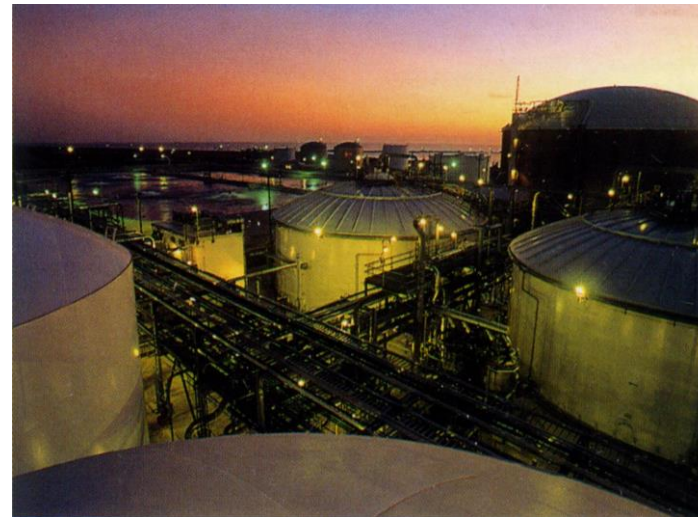


## 5 Approaching Investors: The Process



**Plant / Site Visit**

- Investor may propose a plant / site visit to
  - Understand the status of operations and manufacturing process
  - Meeting with the labour and site personnel
  - Understanding the market and competitive landscape
  - Other soft factors

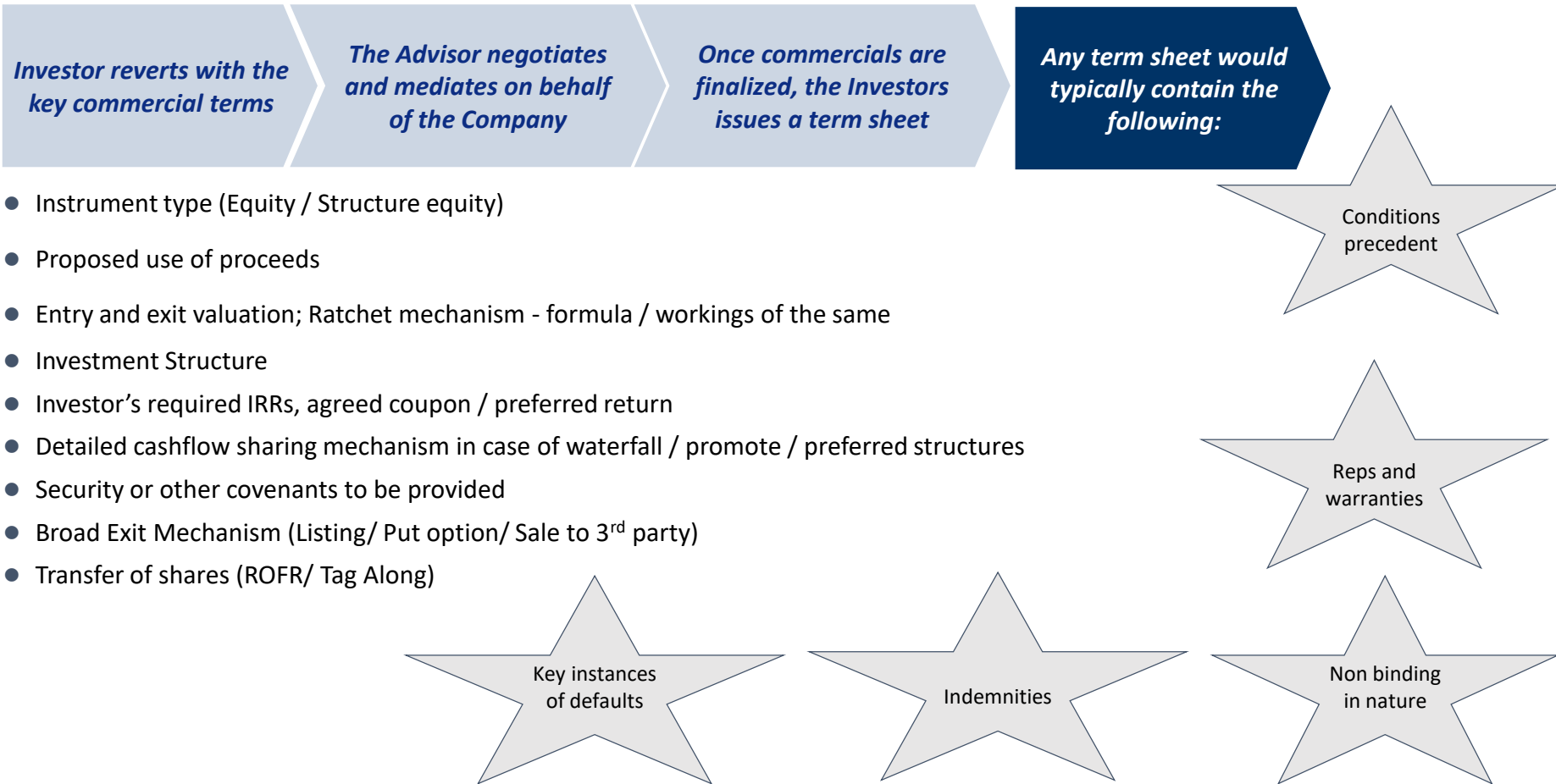


## 5 Approaching Investors: The Process



Management Meetings
<ul style="list-style-type: none"><li>● Promoters get a background of the fund (key investments etc)</li><li>● Discuss the business plan/ timelines / revenue growth / EBITDA margins</li><li>● Investors get an understanding of<ul style="list-style-type: none"><li>– The operations</li><li>– Road map for product launches</li><li>– Future plans / strategy</li><li>– Proposed deployment of funds</li></ul></li></ul>

## 6 Term Sheet

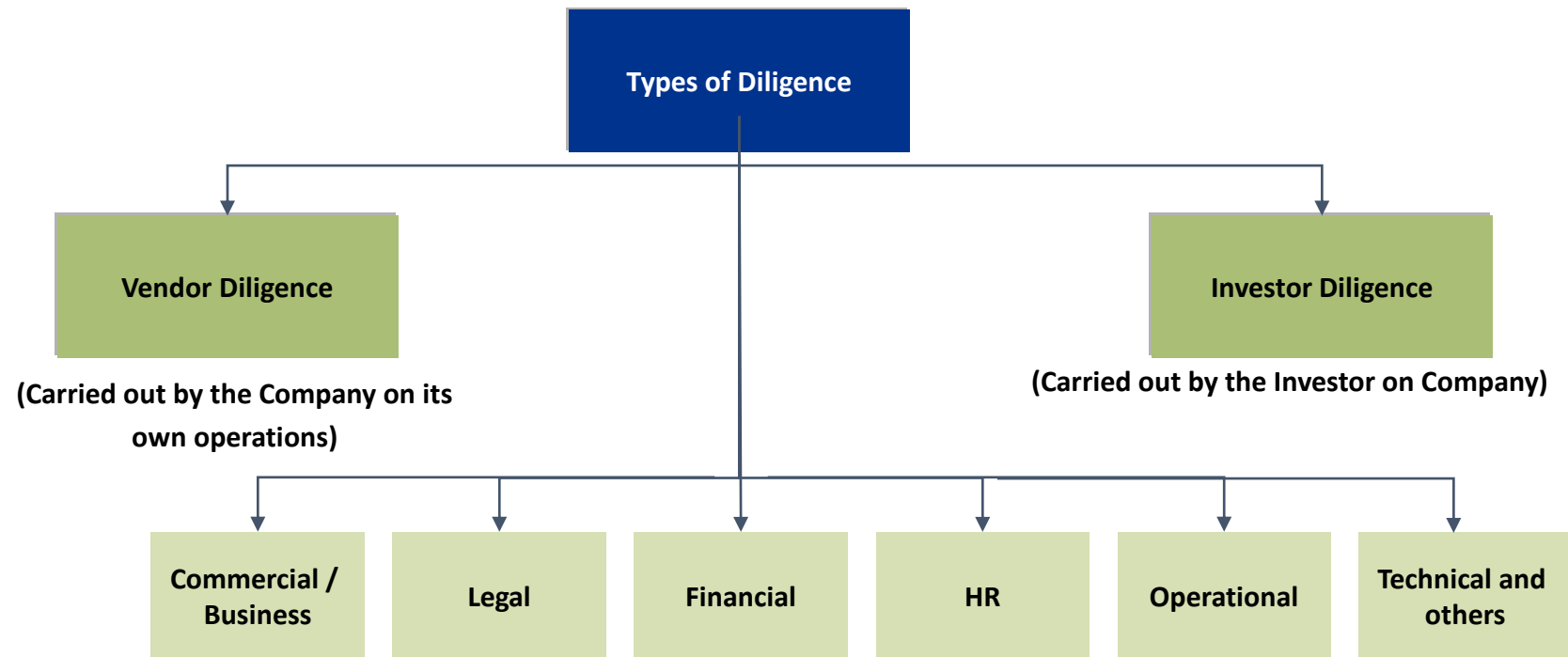


## 7 Due Diligence

### Objective: **Caveat Emptor – “Buyer Beware”**

- Understand financials and pickup red-flags
- Provide for Representations and Warranties
- Financial / other covenants of the Group

- What are we really buying?
- What are the key drivers to a target’s standalone value?
- What synergies does the deal offer?
- What new strategies are possible?
- What premium are we prepared to pay?



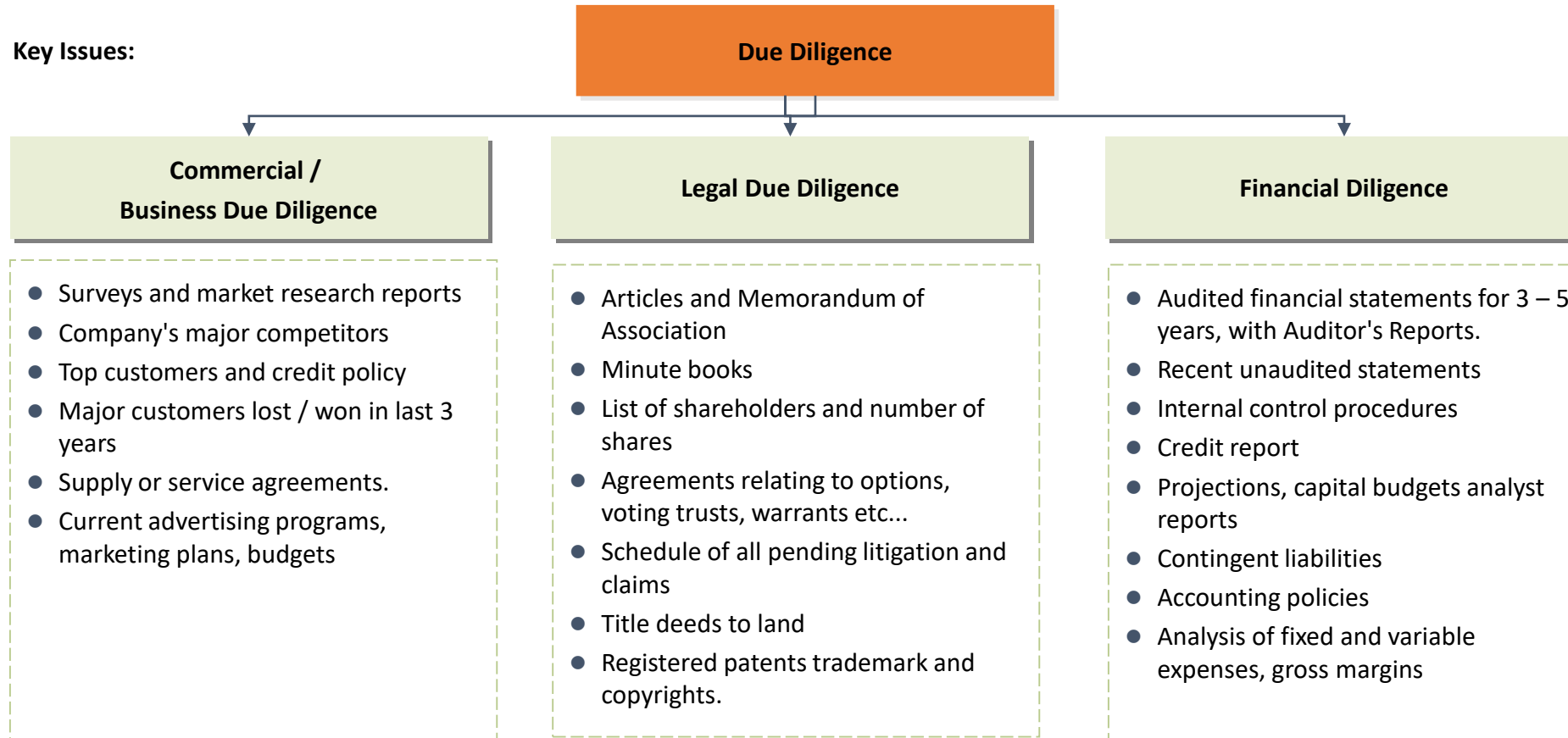
## 7 Due Diligence

1. What are the underlying earnings?
2. What are the key drivers of growth or financial performance?
3. What is the current trading performance of the business?
4. Are forecasts achievable and what are the risks and sensitivities?
5. Does historical investment (eg. capital expenditure / R&D costs) meet the future needs of the business?
6. Are any assets materially overstated or liabilities materially understated?
7. What are the working capital requirements?
8. What are the cash flow characteristics?
9. Are the numbers right?
10. How well controlled is the business?



## 7 Due Diligence

Key Issues:



Typical timeframe: 10 days to 3 weeks based on the business and how detailed the DD shall be (red flag / full blown)

## 7 Due Diligence

### HR Due Diligence

- Analysis of HR profile positions, salaries and bonuses, employee vintage
- Employee agreements, labour union agreements
- Retirement plans and accrual of key costs
- Labour disputes, collective bargaining agreements, Employee problems in the last 3 – 5 years
- Stock option plans

### Technical Due Diligence

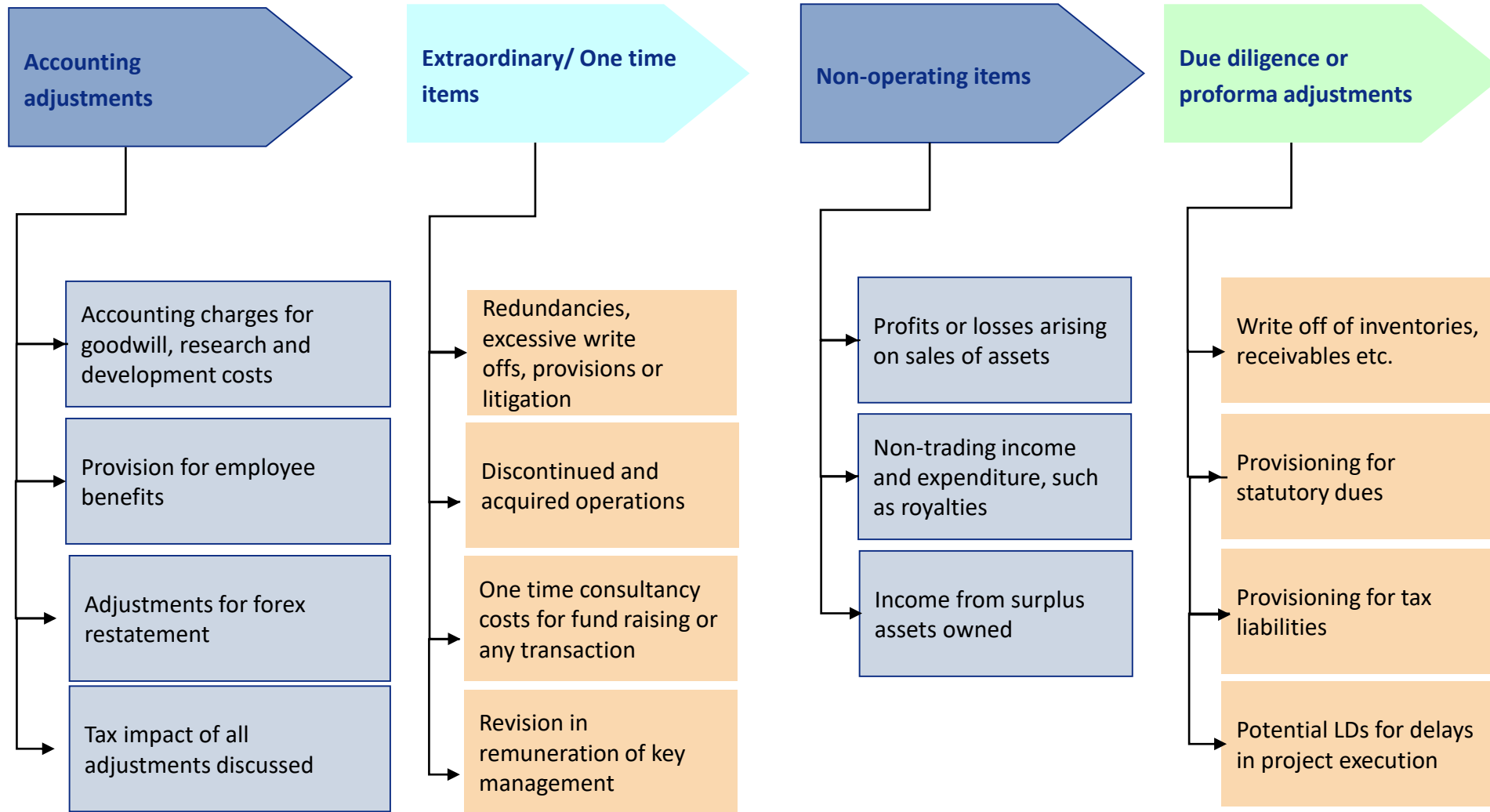
- Technical know-how, production technologies
- Fixed assets and factory profile
- Environmental Issues, audit results

### Operational Due Diligence

- Production, Condition of plant and machinery, Capital expenditure plans
- Work ethic, work centers, material flows, etc
- Research and development and Technical know how
- Environmental compliances

### Tax Due Diligence

- Income tax returns for the last three years
- Central, state, sales, excise tax returns for the last three years
- Carried forward losses

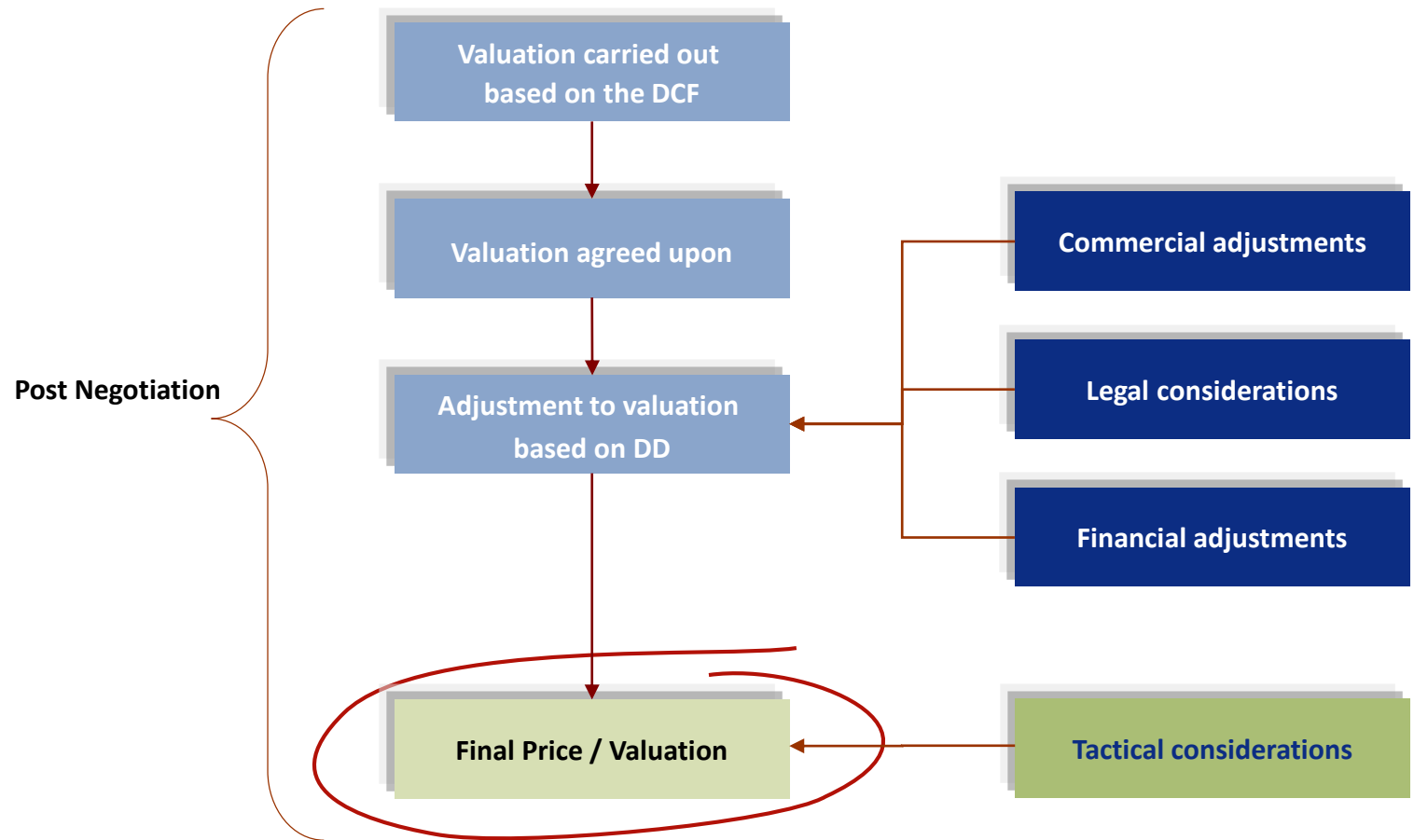




# Deal making process – Adjustments to Net Debt from DD findings



#	Adjustments to reported net debt	31-Dec-2009
	<b>Reported debt</b>	<b>300</b>
	Less : Available cash and bank balances	(50)
	<b>Adjustments ( based on information provided )</b>	
1	Unfunded employee benefits (pensions, post retirement plans, etc)	40
2	Mark to market liability on interest swap arrangement	20
3	Known site restoration exposure for specific facilities (Germany, Italy, Spain)	20
4	Outstanding letters of credit (off-balance sheet financing)	30
5	Accrual for re-structuring costs	10
6	Loan prepayment penalty (should the transaction consummate)	20
7	Open tax litigations	10
	<b>Adjusted net debt</b>	<b>400</b>
	<b>Other adjustments not yet quantified</b>	
1	Incremental liability, if any on re-evaluation of pension assumptions	NQ
2	Deferred maintenance capex	NQ



Post negotiation and finalization of the valuation, the deal moves into the next stage: Documentation

## 9 Transaction Documentation

- Definitive agreements are drafted and negotiated by the respective legal counsels
- Agreements include:
  - Share purchase agreement / Share subscription agreement (SPA / SSA)
  - Shareholders agreement (SHA)
  - Other ancillary agreements such as Debenture agreement etc

### Share Subscription Agreement to include

#### Subscription Details

- How much
- In what denomination
- By when
- What do we do with the money

#### Representations and Warranties

- Promoters/ directors vested with the power of authority
- No additional liabilities other than those disclosed
- No related party transactions other than those disclosed
- All laws and statutory requirements have been complied with
- No pending litigations or arbitration proceedings that could hinder this agreement
- No encumbrances/ off balance sheet arrangements on present/ future assets

## 9 Transaction Documents: SSA

### Indemnities

- Any breach of representation contained in the document
- Any transaction taxes payable
- Any losses prior to transaction date

### Termination

- Termination on mutual agreement
- In case of default by one party
- Force majeure

### Dispute Resolution

- Escalation process
- Buy out clauses
- Governing Law
- Confidentiality
- Arbitration

### Condition Precedents

- Amendment to Memorandum / Articles of Association
- Approval of proposal by the investment committee
- All Requisite corporate and statutory approvals
- Execution of definitive agreements
- Preparation of business plan

## 9 Share Holders Agreement to include

### Board of Directors / Management

- Representation on the Board/ key committees
- Appointment of key management (CEO / COO / CFO)
- Appointment of auditor

### Affirmative Rights

- Amend constituent documents, modify business plan, changes to the board
- Sell assets/ subsidiaries not in consonance with the business plan
- Issue equity or declare dividend
- Incur indebtedness in excess of defined levels
- Liquidate or dissolve

### Covenants

- Maintain complete / accurate books of accounts
- Periodically circulate financial statements and MISs
- Investor permitted to inspect books of accounts, tax records at any given
- Details of any litigations, notices etc
- Non Compete

### Other matters

- Transfer of shares
- Exit options
- Events of default and remedies

## 9 Transaction Documents: SSA

### Exit Options

- Listing by way of an IPO
- Listing of the SPV on any overseas exchange / REIT listing
- Promoters to buy out Investor stake at fair market value (determined by an independent valuer)
- Put option on the Promoters beyond a certain time frame
- Drag along / Tag along option in case sale of Promoter stake to any 3<sup>rd</sup> party
- Right to sell to a 3<sup>rd</sup> party / Private Equity Investor except to a competing business

### Events of Default

- Breach of any of the covenants
- Material breach by any Party of any material term or obligation contained in this Agreement
- Occurrence of an Insolvency Event with respect to a Shareholder.
- Failure of the Investor to make the tranche payment in the Company in accordance with the terms hereof

### Remedies

- Structured discussion between the 2 parties
- Buy out of Investor at 125% of the total investment amount in case defaulting party is the Company or buy out of Investor at 75% of the total investment amount in case the Investor is the defaulting party
- Arbitration
  - Most time consuming and painful process

**In my personal view, Valuation is not an  
"Art" or a "Science" but more of an "Applied  
Science" .....**



**Vikas Suresh Kumar**  
Founder & Director

**Unithos Business Advisors Private Limited**

Prestige Meridian - 1

Unit #812, 8th Floor

#29, M G Road

Bangalore 560 001, India

Website: [www.unithosgroup.com](http://www.unithosgroup.com)

Tel. : +91 80 4377 9014

Mobile : +91 98402 13110

Email : [vikas@unithosgroup.com](mailto:vikas@unithosgroup.com)

**Bangalore | Mumbai**

**Registered Office:**

#812, Prestige Meridian  
8<sup>th</sup> Floor,  
No 29 M G Road,  
Bangalore 560001.

**CIN: U74990KA2018PTC119002**  
**GST: 29AACCU3424D1ZK**