



TRANSACTION SERVICES

# Cross Border M&A

A practitioner's perspective

30 May 2008

ADVISORY

# Signpost

---

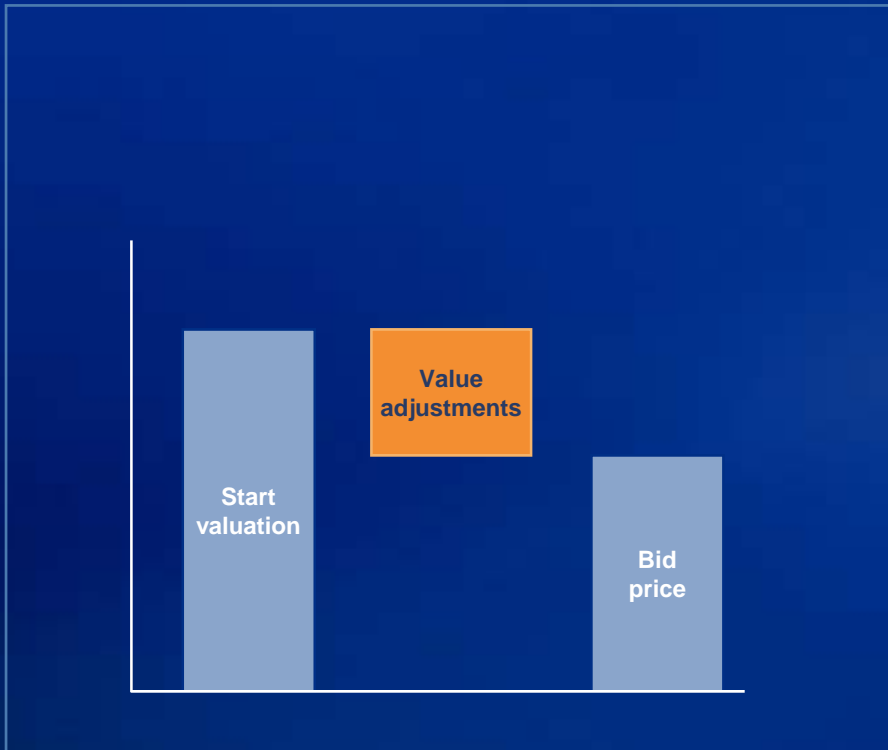
- Introduction
- Buy side
- Sell side
- Emerging markets example
- Closing comments

# 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

# Signpost

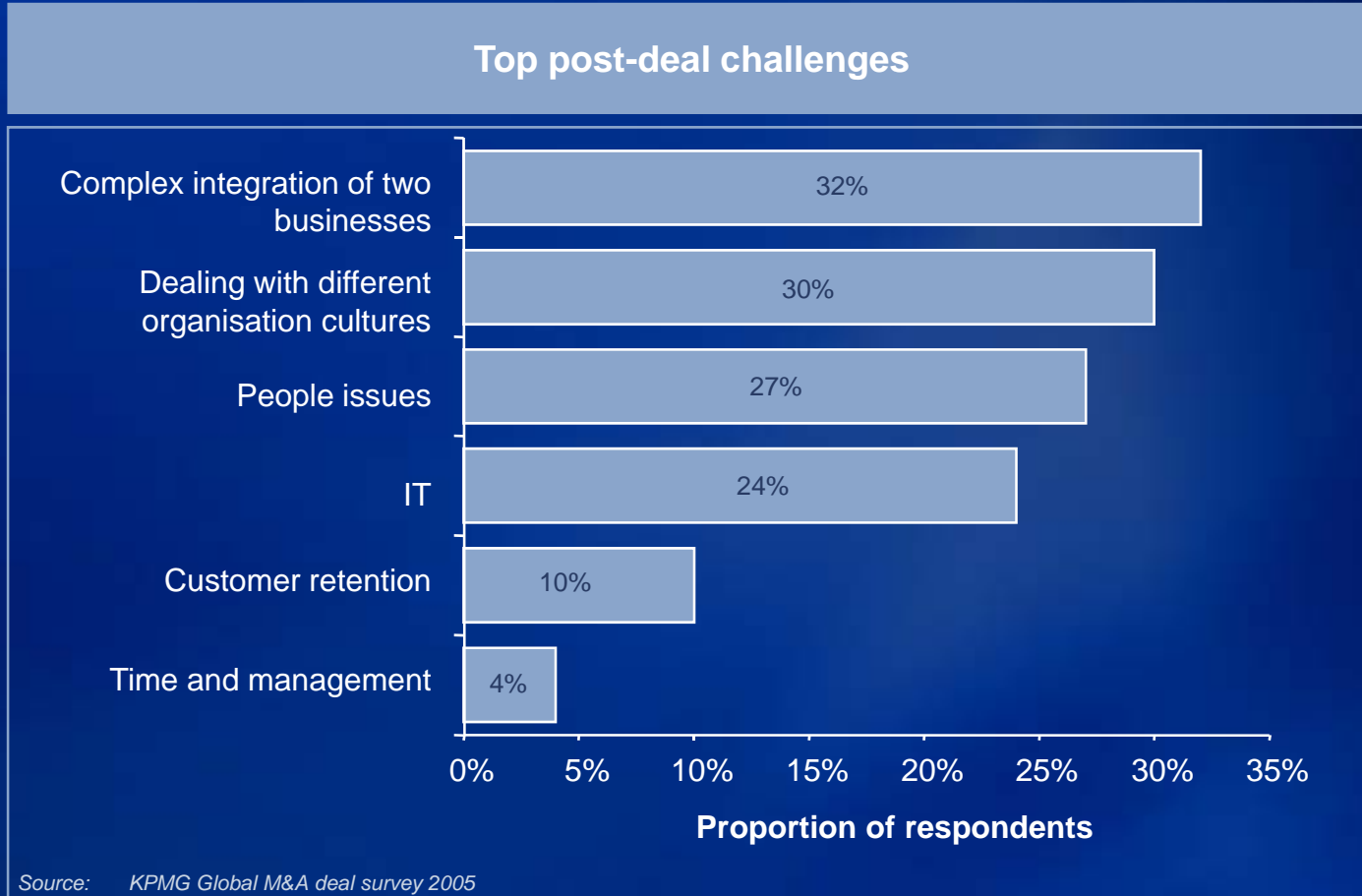
- Introduction
- Buy side
- Sell side
- Emerging markets example
- Closing comments

# KPMG buy-side research

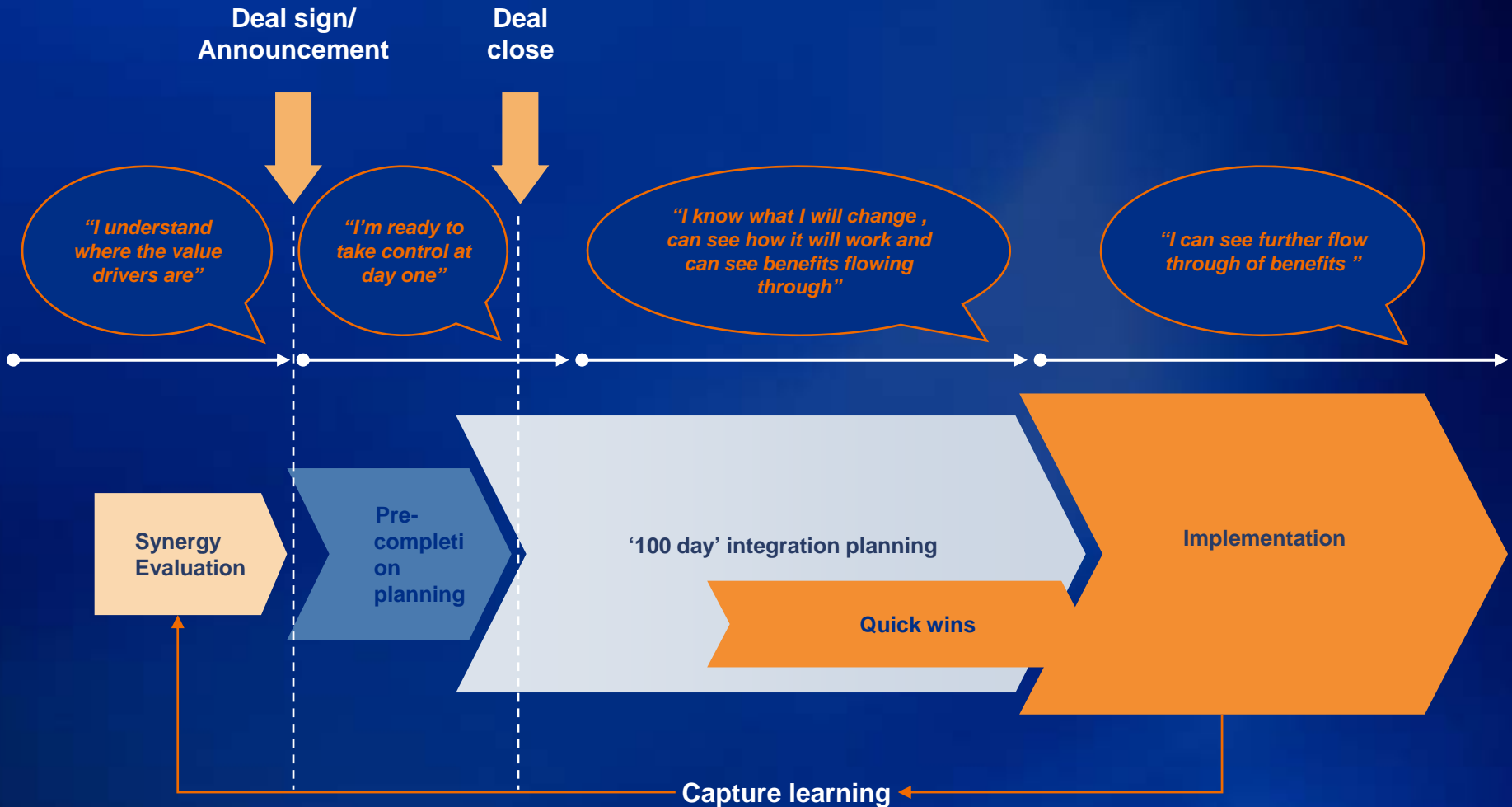
---

- 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’!**

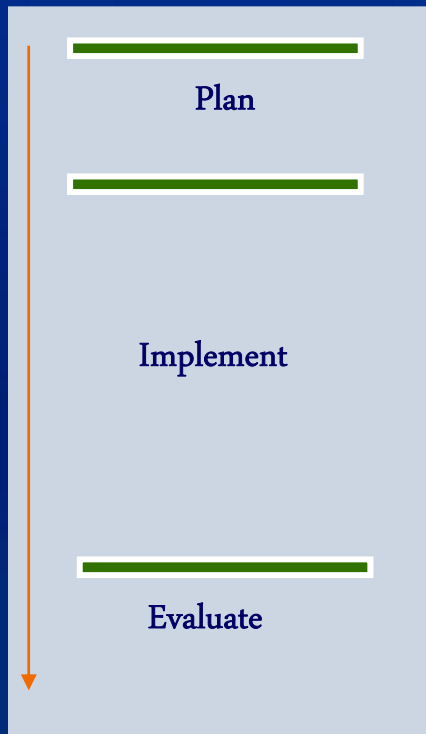
# Pre-completion planning is all about rapidly mobilising the business ...



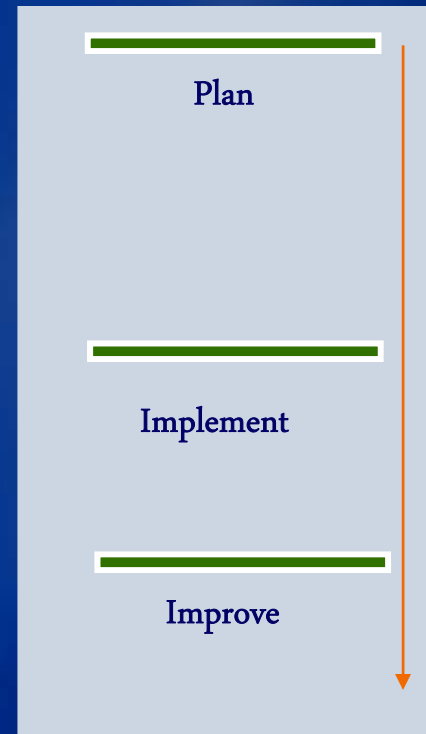
... and getting ready to take control

# Project planning – not always easy!

German way



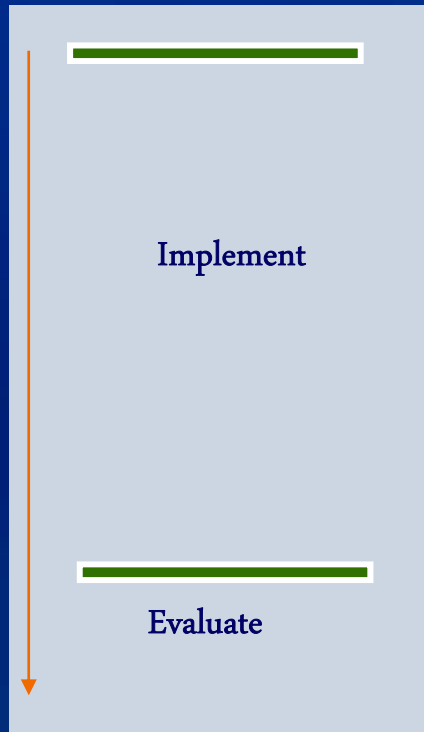
Japanese way



Invest time in clarifying definitions and their meanings

# Project planning – not always easy!

American way

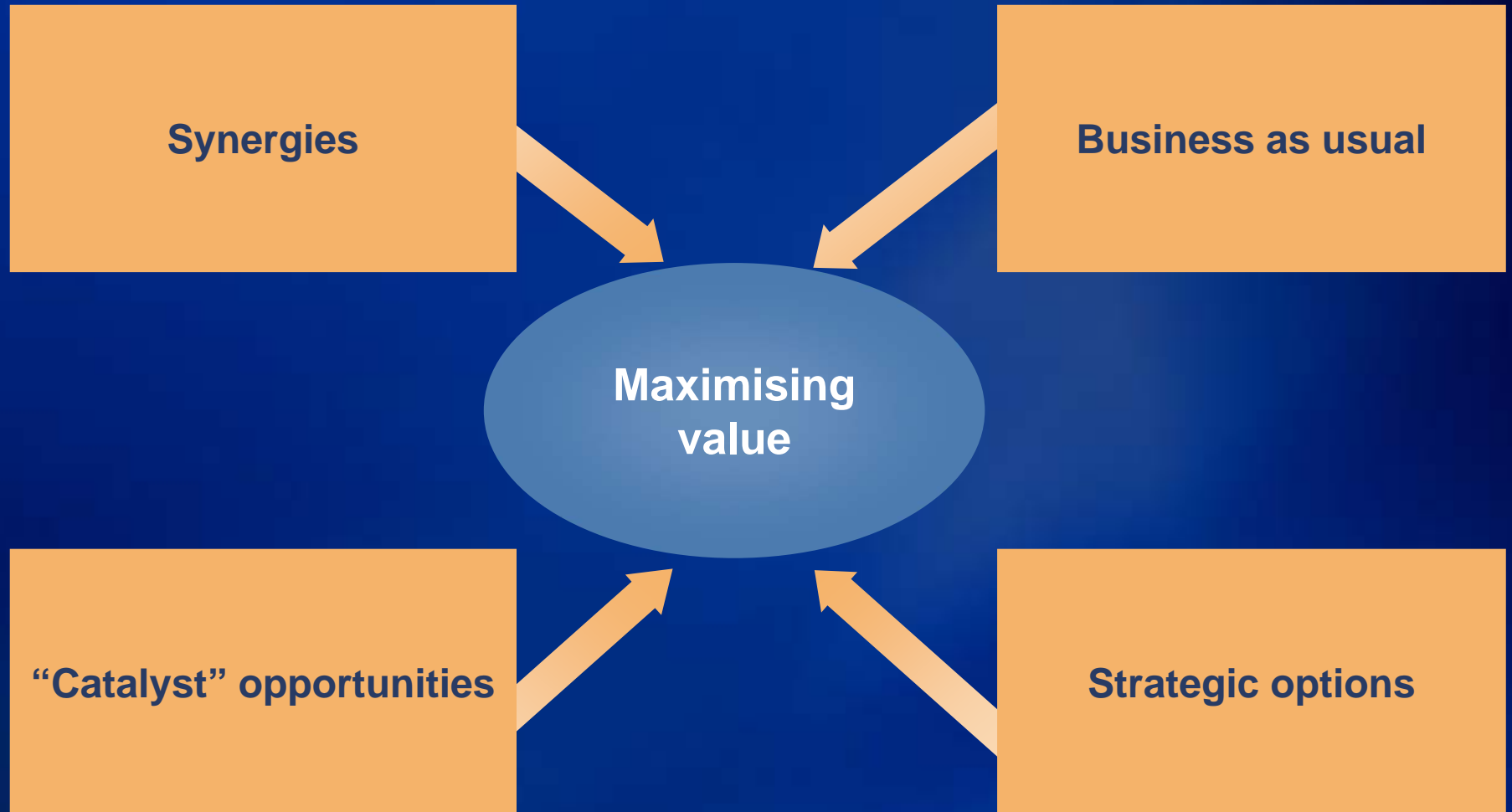


British way

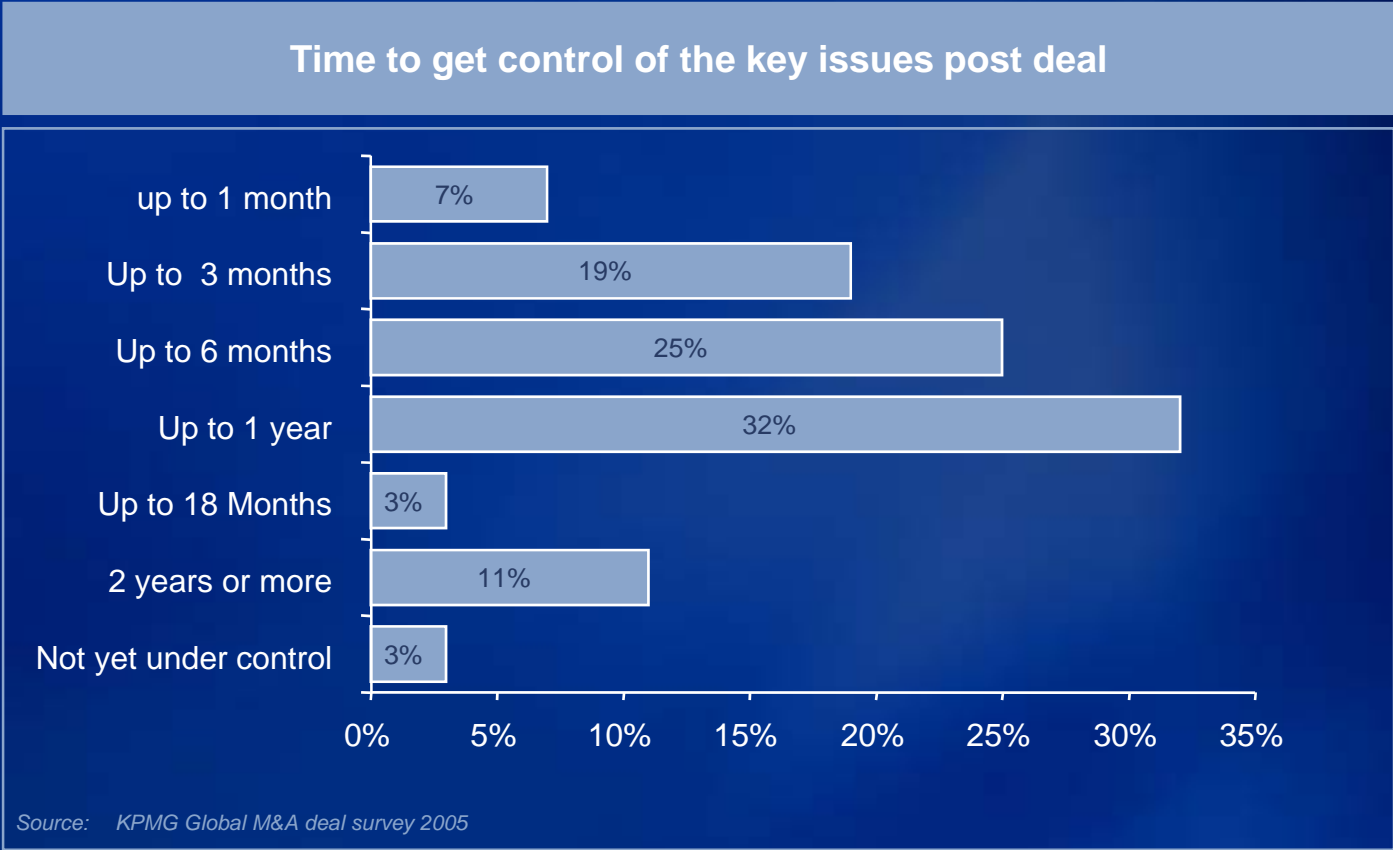


Invest time in clarifying definitions and their meanings

# Four components of value should be addressed by the integration programme

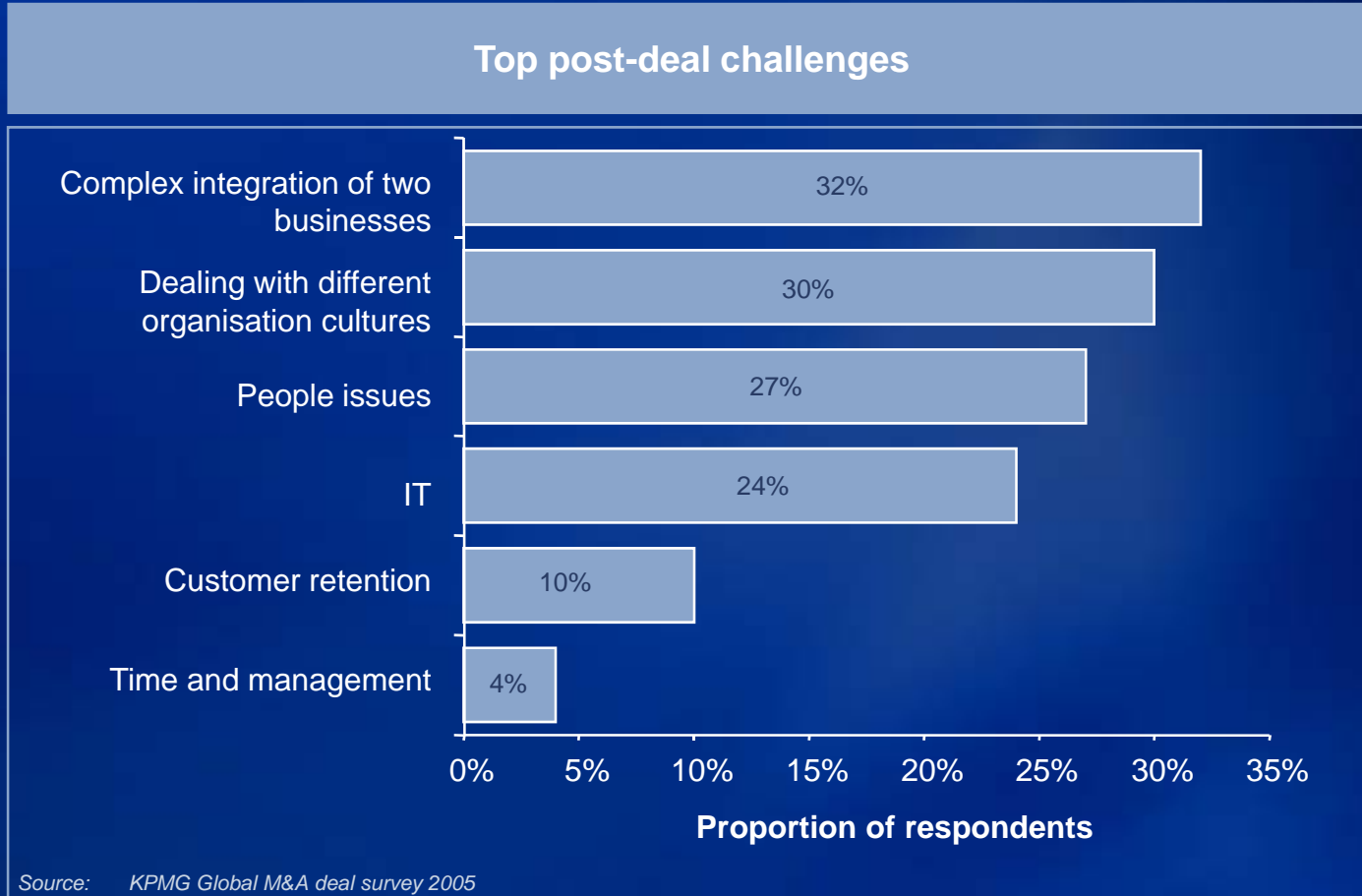


# Companies took longer to get control than anticipated

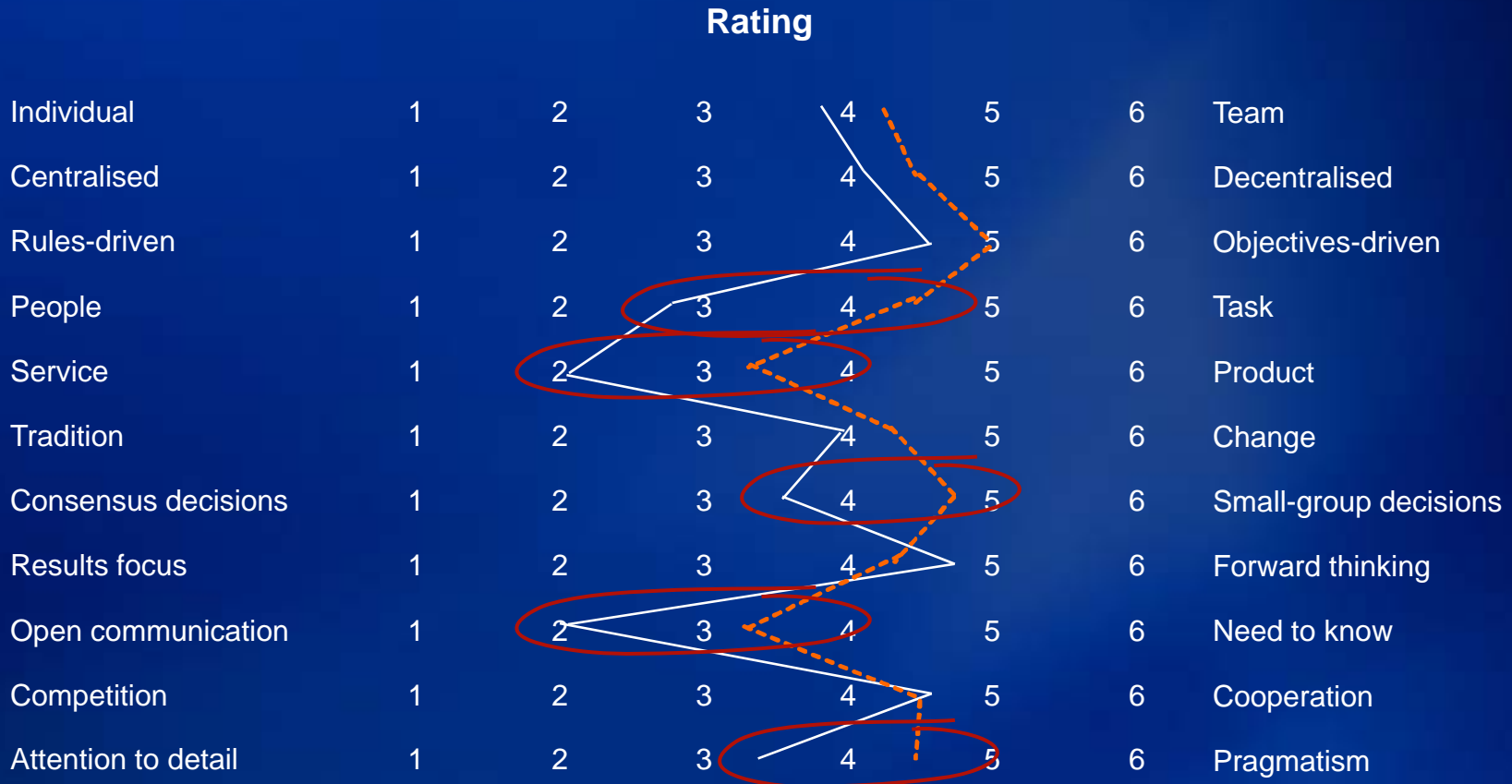




# Our research shows that addressing people issues proactively is key to deal success



# Addressing the cultural differences



# 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

# Signpost

---

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

# 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

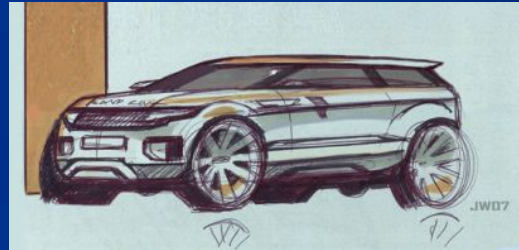
# JLR businesses closely integrated with Ford

## 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

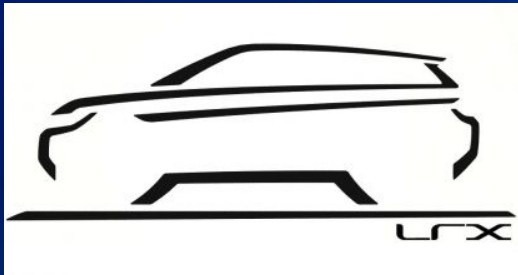
- Product development
- Technology
- Parts sourcing
- IT and systems
- Human Resources
- Finance
- Credit control
- Global sales and marketing

# 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

# Signpost

---

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

# 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

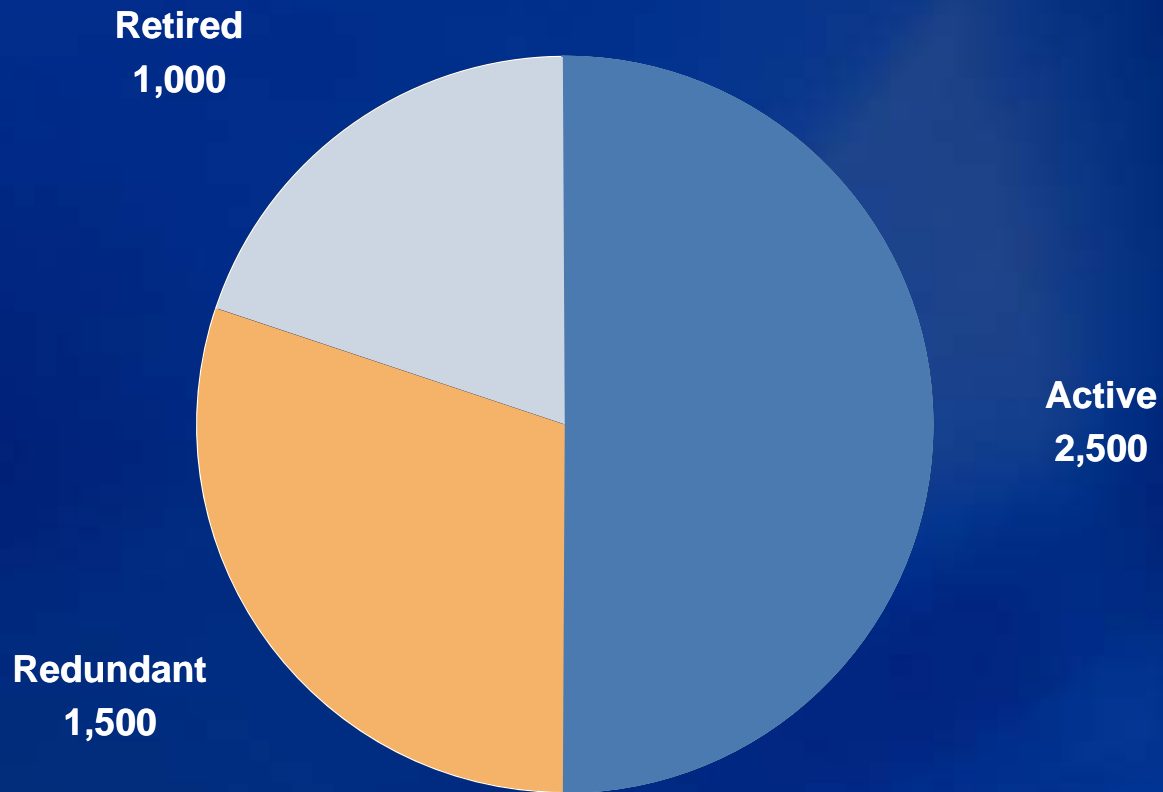


# Sizing the market incorrectly



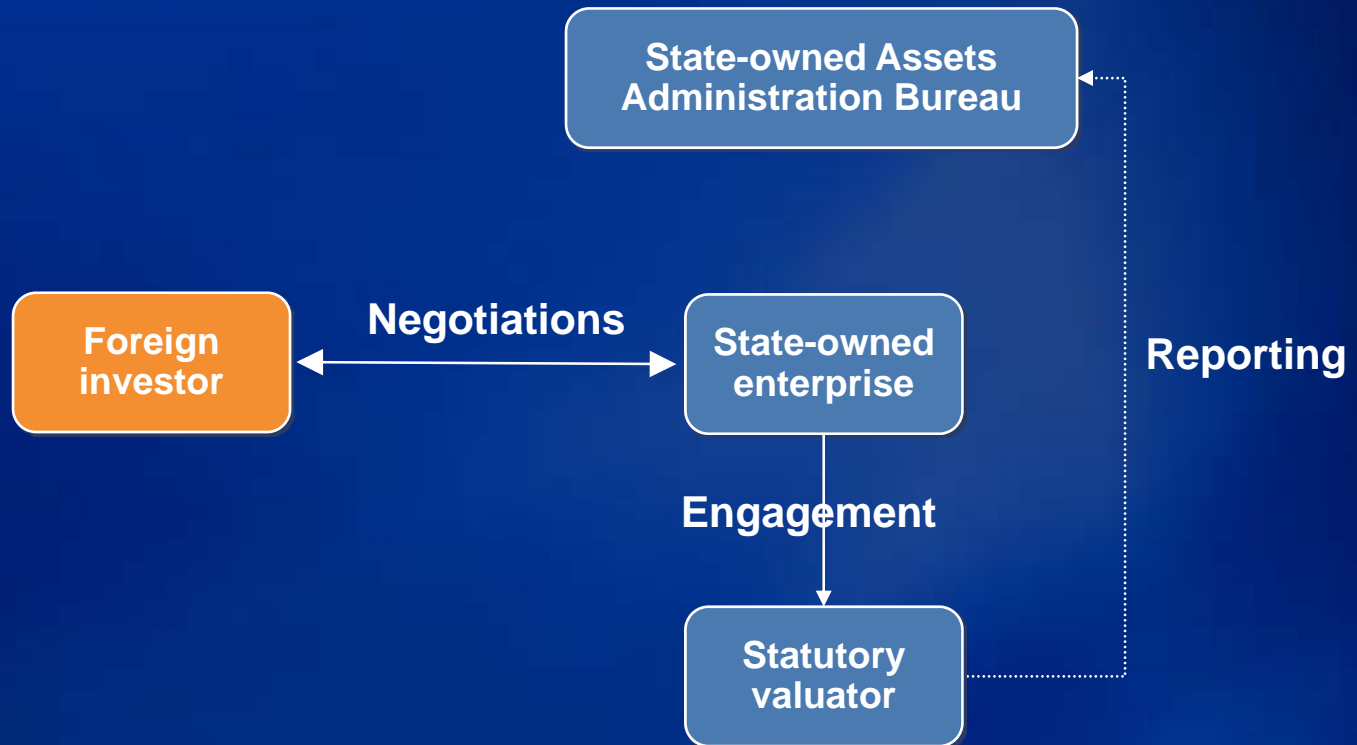
# Not realizing the extent of HR issues

Example SOE headcount

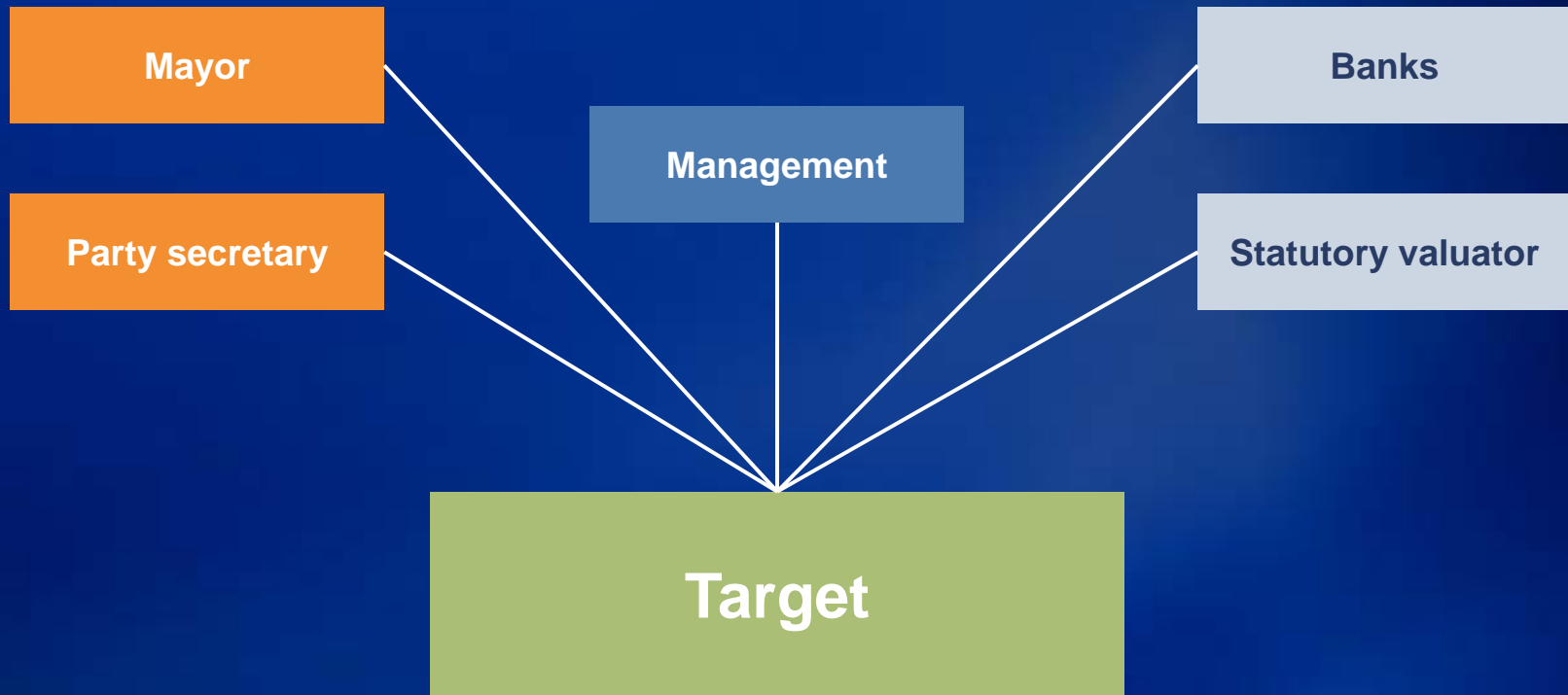




# Not understanding the Chinese valuation mindset



# 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**

# Signpost

---

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



## **Presenter's contact details**

**David Gascoigne**

**Partner, Transaction Services**

**KPMG Europe LLP**

**Tel: +44 161 838 4069**

**Email: [david.gascoigne@kpmg.co.uk](mailto:david.gascoigne@kpmg.co.uk)**