Mergers and acquisitions playbook

Community Business Bureau
salary packaging | business consulting

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Community Business Bureau

About the author

Michael Elias

Chief Executive Officer, CBB

Michael joined CBB in October 2020, excited to work towards our mission to support the capacity and sustainability of the not for profit sector.

With extensive executive leadership, financial management, governance, and risk management experience in the not for profit, disability, and aged care sectors, Michael brings a wealth of expertise to CBB. His resume includes roles such as Director of Business Commercialisation, Disability & Reform at the Department of Human Services; as well as Group Chief Financial Officer for a large South Australian aged care and retirement organisation. He is particularly proficient at leading large multi-disciplinary teams through complex and diverse environments, driving commercial outcomes, and enhancing customer experience.

Michael's many qualifications equip him with the skills to manage and grow CBB's business and social impact. He holds a Bachelor of Accountancy and a Master of Business Administration, during which he received a Golden Key International Honour Society award. Additionally, Michael has completed the Company Directors Course from the Australian Institute of Company Directors and is a Fellow Certified Practicing Accountant, a Prosci Certified Change Practitioner, and a Justice of the Peace in South Australia.

Continuing his service to the community, Michael has served as non-executive Director and Chair of the Finance & Audit Committee for Clayton Church Homes since 2019.

Michael is passionate about making a difference and is committed to maximising CBB's impact for our fellow not for profits.

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1.0 Key Objective

Your strategic plan may be accelerated more successfully through Mergers and Acquisitions (M&A). This playbook provides a framework and a disciplined approach to completing successful M&As. As an overview, the process consists of 2 phases and 10 stages which will be discussed in detail in this playbook:

Phase 1: Evaluate & price

Phase 2: Acquire/Merge & integrate

2.0 What to do before any offer is made or received

Any invitation made to anyone within your organisation, either management or a Board member, no matter how formal or informal, must be taken to the Board as soon as practicable for Board consent, discussion, and assessment. The Board will then provide direction to the CEO as to the appropriate next steps which may or may not involve the gathering of further market intelligence and/or convening a meeting of the M&A Team. An M&A Team comprised of Senior Executives (i.e. CEO, CFO, General Managers), Board Member(s) and external advisors (as determined by the Board), will be responsible for steering the organisation through Phase 1.

2.1 Investment Thesis

M&A can only succeed if it supports the organisation's strategy. Therefore, an Investment Thesis will need to be developed that describes a concrete benefit(s) rather than a vaguely articulated strategic view.

Every deal your organisation proposes to make, no matter the size, needs to start with a clear statement as to how that particular deal would create value for your organisation. The M&A Team will develop the Investment Thesis and identify the service goals or objectives in relation to a potential merger or acquisition. This may be in response to an expression of interest from another organisation, an investor, or as an initial step in exploring the appropriateness of merger or acquisition for the organisation. Questions to assist with this discussion are:

- Does this create a strategic opportunity in line with the organisation's vision/mission statement?
- Does this create an opportunity to fulfil the organisation's mission more effectively?
- Could this facilitate improved service provision, or a wider range of services?
- Could this secure and/or enhance the sustainability of service delivery?
- Will the organisation be able to retain its core values?
- Does this facilitate reduction of overall costs by decreasing or eliminating elements of duplication?

2.2 Review options against established criteria

Any potential options or expressions of interest received by the M&A Team can be tested against the following criteria. A risk rating for each of these criteria will be assigned as appropriate for the opportunity being evaluated.

Financial

- ☐ ROI, NPV, Payback
- ☐ Impact on Balance Sheet (ICR, Debt Service Cover)
- ☐ Reduced dependency on Government revenue

Service

- ☐ Maximisation of client value
- ☐ Extend capability in service offering

Capability

- ☐ Thought leadership
- ☐ Staff profile and skills mix
- ☐ Market dynamics (competitive advantage)
- ☐ Cultural fit

Systems

- ☐ Return on effort – ease of integration

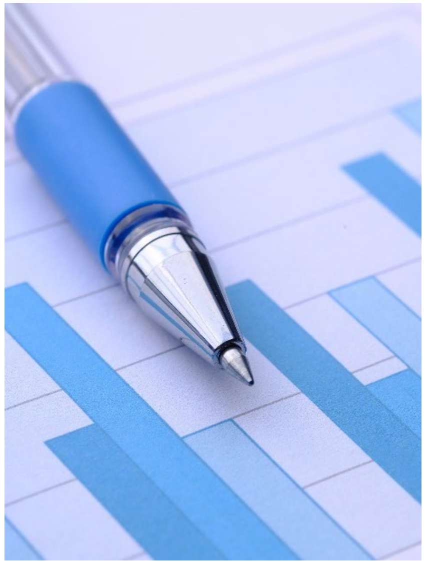
2.3 Develop Merger & Acquisition Candidate List

Identify the specific organisations/companies that you are interested through:

- Market research
- Public research/analysts
- Recommendations from employees
- Referrals from investment bankers
- Board members, investors

Then, develop a summary profile for each that includes:

- ☐ Target markets
- ☐ Key products/services
- ☐ Revenues
- ☐ Profitability
- ☐ Enterprise value
- ☐ Geographic footprint
- ☐ Management
- ☐ Systems
- ☐ Size
- ☐ Partnerships
- ☐ Brand
- ☐ Acquirable (i.e. not attached)



2.4 Rate/Rank Candidates

Now ask: how do various M&A candidates rank in terms of impact to business and feasibility of closing merger or acquisition?

With this complete, compelling reasons for moving to next stage (Due Diligence) should be established. Once done, approval for the M&A Team to enter into phase 2 must be obtained from the Board.

3.0 Governance Model

3.1 Establish a Steering Group to agree on the process

This is a group that will typically comprise the CEO, Executive Team, a Board member(s), external advisor(s) as determined by the Board. The group is chaired by the CEO, though chair duties may be delegated from time to time to the CFO.

3.2 Aims of the Steering Group

- To establish a vision and goals for a possible merger/acquisition
- Receive and review all market intelligence and all approaches
- To develop a sound Investment Thesis for Board approval
- Manage the due diligence process
- Manage the development of a merger/acquisition plan including integration scenario planning, synergy, funding and bid price
- To establish next step recommendations and a final report that identifies whether the merger or acquisition is recommended to the Board
- To ensure successful integration
- To develop and monitor a communication plan

3.3 Cessation of Steering Group

The Steering Group will cease to exist at the point of legal combination, or prior if no acquisition or merger takes place. The task of leading the implementation of the change management plan will then be transferred to the M&A Team.

3.4 Decision making approach

The Steering Group will make decisions and recommendations by consensus. If consensus *cannot* be reached, this needs to be stated in their final report.

3.5 Membership

- Members of the group will be the CEO, Executive, and Board representative(s)
- Members can have substitutes provided they are well-versed and updated regarding the process, though the group should aim for continuity of representation.
- Non-members cannot attend the meeting unless approved by the CEO.

3.6 Criteria for Members of the Group

Members should be able to attend weekly/fortnightly meetings and be positioned to:

- Make decisions
- Provide information on their service in relation to the due diligence process
- Commit to membership of the group for a minimum period (depending on the circumstance)

3.7 Format of Meetings

An agenda will be formulated by the Chair and sent to all members prior to the meeting. Additions to the agenda should be sent to the Chair prior to the meeting.

3.8 Chairperson & Minutes

The chair will be the CEO and may be delegated from time to time to the CFO. Minutes will be taken by a nominated member and be distributed by email one week after the meeting.

3.9 Code of Conduct

- Members of the group will undertake the tasks assigned to them in the agreed time.
- It is acknowledged that at times members may disagree and that conversations may be difficult. In these instances, members should articulate their needs and provide a clear rationale for these, as well any areas where negotiation can occur.

3.10 Confidentiality

Communications will be undertaken as stated in the communication strategy. No member of the group should discuss any of the content of the discussions with external stakeholders or staff of either service.

3.11 Evaluation of Project

The project's success will be judged on whether each aim has been met and a final agreement has been reached.

4.0 Nominate and document Project Office (including any external advisors)

A M&A Project Office will be established reporting to the M&A Team and comprising the following:

- Project Director
- External Expertise – Legal, Valuation, Real Estate Advisory Services, Financial, Funders, Auditors
- CEO, CFO

Key responsibilities of the Project Office include:

- Undertaking the Due Diligence

- Synergy, Funding and Bid Price
- Integration Scenario Planning

5.0 Determine Information Flow (how should the organisation make or receive offers)

5.1 Making Offers

All offers would normally be delivered by one of the following methods, to be determined on a case-by-case basis as determined by the Board:

- CEO to CEO; or
- Chair to Chair; or
- External advisor to target company

5.2 Receiving Offers

All offers and/or approaches made to your organisation will be received by the Board. All market intelligence and approaches (in or out) need to be channelled through the Board.

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6.0 What not to do

6.1 When making an acquisition

Watch what you say	**Confidentiality is paramount** Even the smallest leaks can cause severe embarrassment and can lead to potential value-adding transactions being stalled or falling over. **Stick to the script** Do not deviate from the agreed communication plan. Innocent statements made outside of the plan can be detrimental to achieving a mutually agreeable outcome.
Watch what you do	**Be impartial and disciplined** Becoming emotionally involved in any acquisition target, or becoming overly invested, reduces the ability to be impartial. Often the best acquisition is the one that you do *not* complete. Walk away from any acquisition if it does not: - Fit the reason for doing M&A - Achieve the desired outcome of M&A - Meet a satisfactory number of evaluation criteria **Do your due diligence** Don't commit to anything before proper due diligence has taken place – identify and understand the risks involved with the transaction. Also, don't place significant value on assumed synergies as the quantum and timing of synergies are often unknown until the transaction takes place. **Have an integration plan** Understand the steps required to integrate the businesses post-transaction.
Be cautious in relying on forecasts	Do not make decisions based on forecasts. Assets may have values different to those in the accounts of the target and may be supported by additional legal or financial information. Be mindful of restrictions placed on forecasts provided which prohibit target management from providing comment. Always test assumptions though due diligence and recreating forecasts through accurate business modelling or valuation techniques.

6.2 If someone makes an offer for your organisation

Watch what you say	**Be straight** Do not make statements such as "this business is not for sale at any price". Such statements can be used against Directors. Worst of all, such statements may result in your clients, staff and community being worse off, as it could deny them a potentially value creating opportunity. Also, always be honest - there are potentially severe penalties for making statements that are inaccurate; even general comments can be caught. **Let the Board do its job** Do not accept or reject offers or provide guidance until the Board has given the direction to enter into negotiations. **Confidentiality is paramount** Even the smallest leaks can cause severe embarrassment and can lead to potential value-adding transactions being stalled or falling over. **Stick to the script** Do not deviate from the agreed communication plan. Innocent statements made outside of the plan can be detrimental to achieving a mutually agreeable outcome.
Watch what you do	**Business as usual** Be very careful in taking actions that may frustrate or defeat an offer. The decision regarding an appropriate response to an offer rests with the Board. Also, run the business in the ordinary course without considering the potential transaction because many transactions fall over. Be mindful of any personal or non-business transactions which may be incurred by the organisation. **Determine the transaction perimeter** Don't leave it until bidders are asking questions to determine the transaction perimeter - you may like to consider various scenarios. Prepare to be flexible to bidders' needs, don't automatically reject a suggestion that was not in the original script (but don't accept, either). Involve the Board if necessary. Any major restructure of the business contemplated in anticipation of a transaction should ideally be performed well in advance of a proposed divestment. Consider a restructure or change in internal procedures which would simplify a carve-out transaction and add value - but will not otherwise adversely impact business as usual. Weigh up the associated risks and rewards, then consider if the restructure can wait or is imperative to a successful transaction. **Be impartial and disciplined** A potential sale transaction should be measured using the same criteria as for an acquisition. Reject the offer if it does not: ‣ Fit the reason for doing M&A ‣ Achieve the desired outcome of M&A ‣ Meet a satisfactory number of evaluation criteria.

Do not mention forecasts	Do not make forecasts or say that assets have values different to those in the accounts unless you have cleared them first with your legal and financial advisors. It is best to avoid all discussions of forecasts or asset values and rely solely on existing forecasts. Very often it is useful to be able to use the existence of restrictions as an excuse not to comment on forecasts.

7.0 Evaluation Process and Response Plan (Acquisition)

7.1 Phase 1 - EVALUATE & PRICE

Phase 1 is made up of 5 stages:

1. Development of an Investment Thesis (see 2.1 for more detail)
2. Due Diligence
3. Synergy, Funding and Bid Price
4. Integration Scenario Planning
5. Offer made

7.1.1 Stage 2 - Due Diligence

Commercial Due Diligence

The aim of the Due Diligence process is to test the Investment Thesis from the bottom up. Does the Acquisition meet the strategic priorities that the investment is designed to address? Ask:

- What is the deal's stand-alone value based on a rigorous analysis of cash flow under a range of scenarios?
- What is the true value of synergies – build cooperative relationships with the target to ensure in part that the Due Diligence phase is thorough and productive?

Confirmatory Due Diligence

Confirm that all key risks are covered (legal, financial, taxation, environmental, property valuation). Ask:

- What are the skeletons?
- What is our walk away price?
- What are we buying?

Throughout the Due Diligence phase, test what you are learning against predetermined 'walk-away' criteria. In addition, the following questions should also be further addressed within this phase:

- How will this impact on staff? Costs? Service delivery? Sustainability?
- Are there any difficulties, issues from the past, or aspects of the organisation's history that should be shared?
- What are the critical success factors for successful implementation?
- What are the drivers of and barriers to successful completion?
- What are the elements of the change management plan and timeline?
- How will we evaluate the work in this phase?

A change management plan should be developed based on the findings of due diligence. Following review of the information from due diligence, the Board will decide whether to proceed or not.

7.1.2 Stage 3 – Synergy, Funding & Bid Price

Ultimately, the key success in acquiring another organisation is understanding the maximum price your organisation can pay and then having the discipline not to pay a penny more. The synergy value can be determined by considering:

- Cost savings
- Revenue enhancements
- Process improvements
- Financial engineering (improved borrowing capacity or rate reduction)
- Strategic fit
- Transaction structure (Funding & Bid Price)

It is also important to determine financing constraints

Mergers and acquisitions can be funded multiple ways: cash, private equity, and debt. Consider how you would fund the deal and what returns must be achieved.

- Understand the size of your 'war chest'
- How much surplus cash and untapped credit facilities are available?
- How much untapped equity is available and what is its value?
- How much new equity can we raise?
- How much new debt can we raise?
- ROI hurdles
- Debt terms
- Impact on balance sheet (ICR, Debt Service Cover Ratio, Debt/Debt +Equity)
- ROI
- NPV
- Payback

There are 3 keys to success in this stage:

1. Needs to be rigorous and use realistic assumptions.
2. Ensure that your organisation pays no more than it should - no matter how strategic the deal is.
3. Take the emotion out of the analysis.

7.1.3 Stage 4 - Integration Scenario Planning

This stage is about planning for ownership - you need to ensure that the integration plan is consistent with the Investment Thesis and the challenges of ownership. Focus on getting the most important facets of integration right, so you need to work out where it is really required:

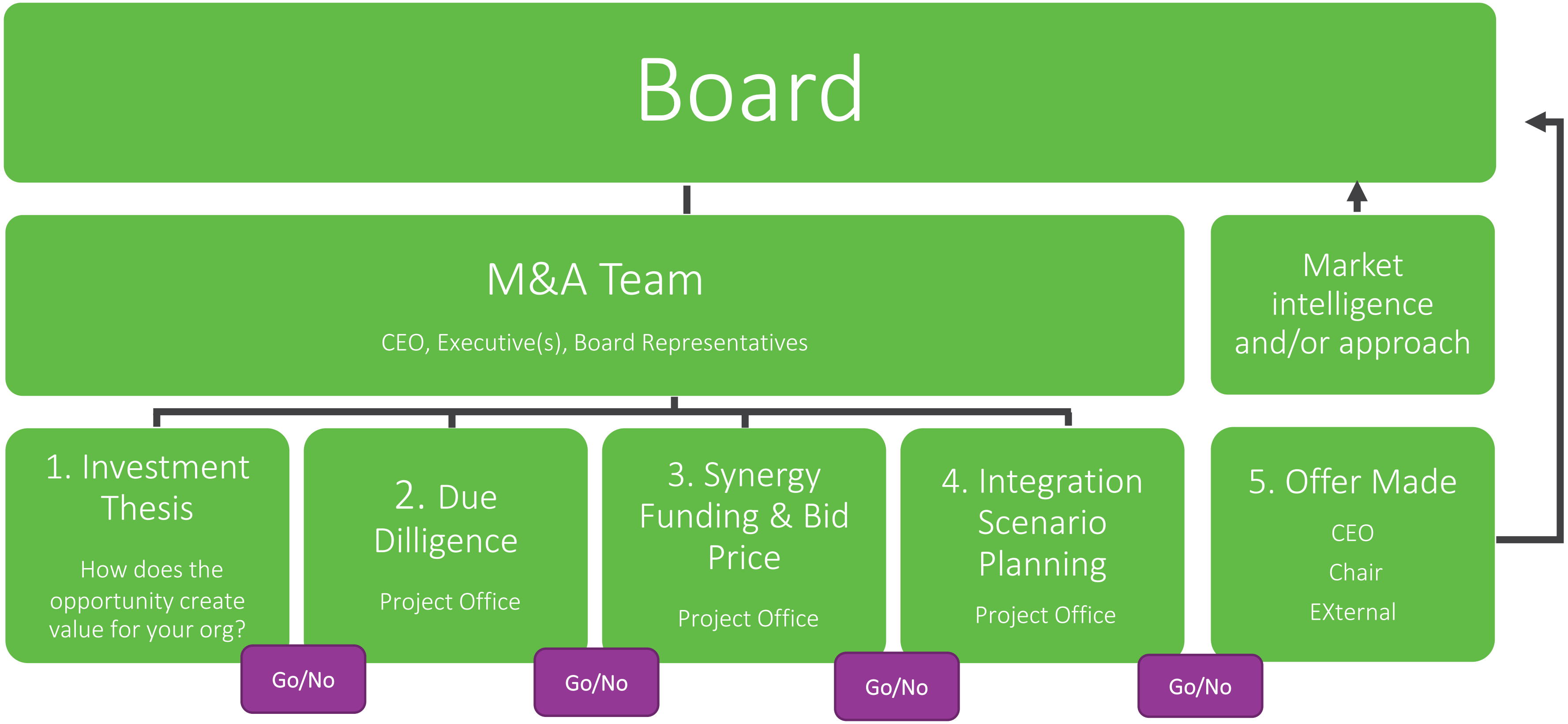
- Articulate a value-creation road map
- Plan to integrate where it matters – nail the short list of critical actions that we need to get right
- Build a repeatable integration model
- Make integration a core competency

This is also where you should explore and prepare for several alternative futures; examine the outcomes under a variety of operating strategies and economic conditions with 'what if' scenarios.

7.1.4 Stage 5 – Make the Offer

The Board can delegate the responsibility of making the offer to the Chair or CEO.

Evaluation Process and response plan - Summary – Evaluate & Price Phase (Stages 1 – 5)



7.2 Phase 2 – ACQUIRE & INTEGRATE

This phase consists of the following stages which collectively can be termed as Change Management:

- Project Implementation
- Cultural Path
- Synergy Extraction
- Structural Integration
- Review – Lessons Learned

This phase will be managed through the Implementation Governance Team (IGT) consisting of 'Integration Leaders' and reporting to the M&A Team.

- Project Director
- General Managers
- Heads Of

The IGT will be responsible for laying out the road map and managing the organisation to ensure that each decision is made by the right people at the right time with the best available information. The communication strategy is critical here. The Project Director (utilising his/her strong strategy and content skills) will have the authority to make triage decisions, coordinate task forces and set the pace.

7.2.1 Change Management Process

An acquisition or merger brings together two separate work cultures. A change management plan with staff assigned to deliver and monitor the success of the plan's implementation is fundamental to the success of a merger or acquisition. The aim of change management is essentially the integration of two cultures and the maintenance and improvement of work undertaken. The process should involve assessment of existing cultures and staff needs, as well as a plan for on-going integration and support.

The change management process should begin once a decision is made for a merger or acquisition to take place, and should centre on supporting staff through the transition. This should continue up to 18 months after the completion of the merger/acquisition. As part of the change management process, it may be beneficial to:

- Develop a new organisation chart with clear lines of reporting.
- Continue revising and implementing communications plans.
- Acknowledge achievements and future plans - this may involve the publication of material or a celebratory event. This is a useful opportunity to outline the positive aspects of the acquisition to key stakeholders moving forward.

- Support your staff: M&A can be difficult for staff, clients and other stakeholders. Therefore, change management strategies will be thoughtful, thorough, and administered with due sensitivity. Communication should be proactive, occur as soon as possible, and allow for people to voice concerns and issues in a solutions-focused way.
- Assess the policies of each organisation and plan for required policy development. Which policies need to be developed by the new service? Which existing policies will be taken on by new areas of the organisation?
- Provide training in revised or new policies and procedures.
- Undertake an alignment of systems.
- Develop a consolidated operational plan with clear targets.
- Change signage and branding, if necessary.
- Evaluate the change management process
- Administer staff surveys to measure the performance of the organisation throughout the first 18 months of the integration process. Feedback can be provided back to senior management and should inform the ongoing integration process.

7.2.2 Ongoing Integration and Review

This includes the process from 18 months to up to three years following the close of transaction. The following questions may support monitoring and evaluation of this phase.

- Have the goals and objectives of the change management plan been achieved?
- What is being done to support continued integration?
- Are there staff/service user/other stakeholder concerns that still need to be addressed?
- Do staff have on-going development needs? If so, how are they being met?
- Have responsibilities been effectively handed over to local management?
- Has alignment of systems been achieved?
- How will we evaluate our work in this phase?

Evaluation Process and response plan - Summary – Acquire & Integrate Phase (Stages 6 – 10)

M&A Team

Implementation Governance Team

Project Director, GMs, Heads of

6. Project Implementation

Project Director
Operations Staff
Communication Strategy

Go

7. Cultural Path

Workforce GM
Workforce Team

8. Synergy Extraction

Operations GM
Heads of

9. Structural Integration

Operations GM
Heads of

10 Review - Lessons learned

Project Director

8.0 Evaluation Process and Response Plan (Merger/Divestment)

8.1 Phase 1 - EVALUATE & PRICE

Phase 1 is made up of 5 stages:

1. Development of an Investment Thesis (see 2.1 for more detail)
2. Due Diligence
3. Synergy, Funding and Price
4. Integration Scenario Planning
5. Offer accepted/rejected

8.1.1 Stage 2 - Due Diligence

Commercial Due Diligence

The aim of the Due Diligence process is to test the Investment Thesis from the bottom up. Does the Merger/Divestment meet the strategic priorities that the investment is designed to address? Ask:

- What is the true value of synergies?

Confirmatory Due Diligence

Confirm that all key risks are covered (legal, financial, taxation, environmental, property valuation). Ask:

- What are the skeletons?
- What is the reputational impact?
- What is our walk away price?
- What are we merging/aligning with?

Throughout the Due Diligence phase, test what you are learning against predetermined ‘walk-away’ criteria. In addition, the following questions should also be further addressed within this phase:

- How will this impact on staff? Costs? Service delivery? Sustainability?
- Are there any difficulties, issues from the past, or aspects of the organisation’s history that should be shared?
- What are the critical success factors for successful implementation?
- What are the drivers of and barriers to successful completion?
- What are the elements of the change management plan and timeline?
- How will we evaluate the work in this phase?

A change management plan should be developed based on the findings of due diligence. Following review of the information from due diligence, the Board will decide whether to proceed or not based on a recommendation from the M&A Team.

8.1.2 Stage 3 – Synergy, Funding & Bid Price

Ultimately the key success in merging with another organisation is understanding the synergy value that can be derived from the merger. Is it better than your organisation's standalone value? The synergy value can be determined by considering:

- Cost savings
- Revenue enhancements
- Process improvements
- Financial engineering (improved borrowing capacity or rate reduction)
- Strategic fit
- Transaction structure (Funding & Bid Price)
- Impact on Balance Sheet (ICR, Debt Service Cover Ratio, Debt/Debt +Equity)
- NPV

There are two keys to success in this stage:

1. Needs to be rigorous and use realistic assumptions.
2. Take the emotion out of the analysis.

8.1.3 Stage 4 - Integration Scenario Planning

This stage is about planning for a merger/divestment - you need to ensure that the integration plan is consistent with the Investment Thesis and the challenges of ownership. Focus on getting the most important facets of integration right, so you need to work out where it is really required:

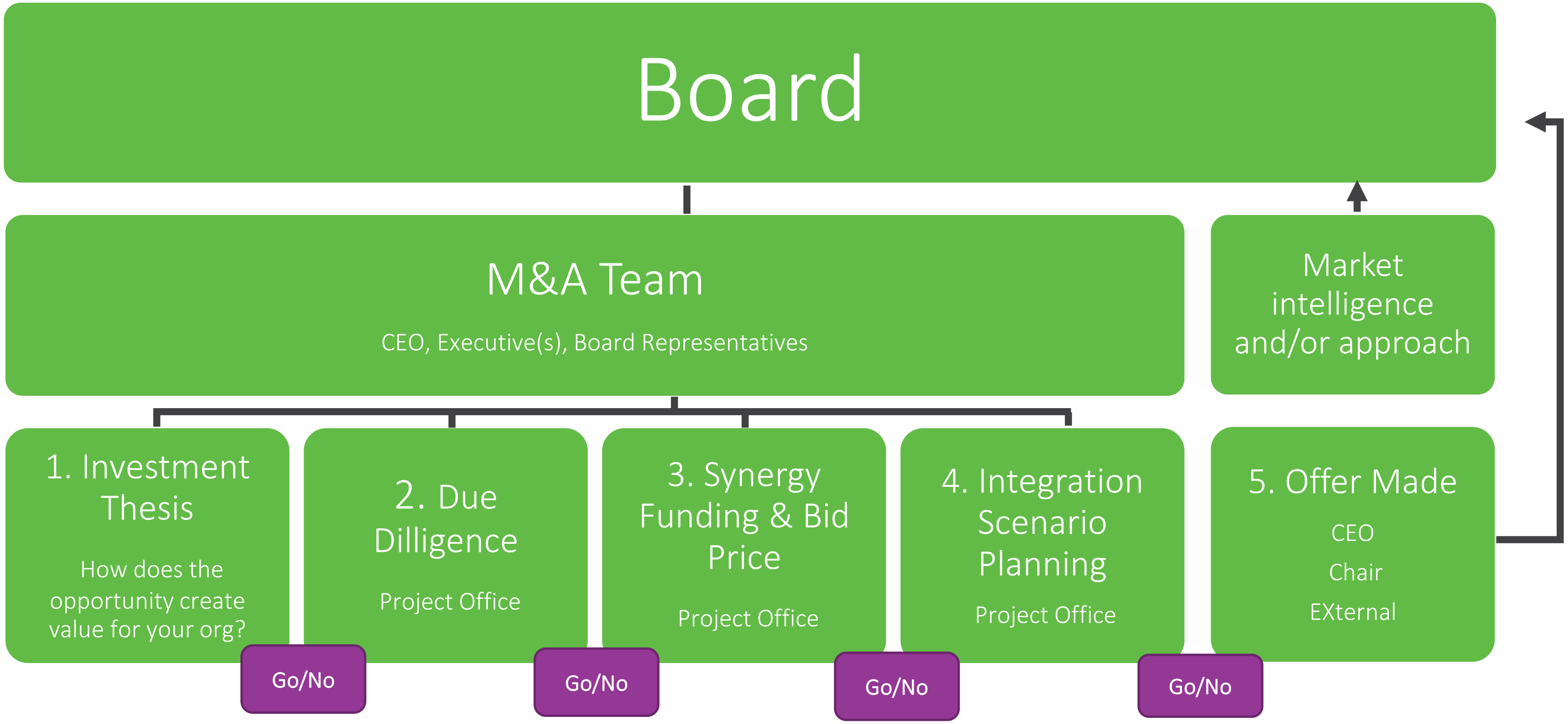
- Articulate a value-creation road map
- Plan to integrate where it matters – nail the short list of critical actions that we need to get right

This is also where you should explore and prepare for several alternative futures; examine the outcomes under a variety of operating strategies and economic conditions with 'what if' scenarios.

8.1.4 Stage 5 – Accept/reject the Offer

The Board can delegate the responsibility of accepting or rejecting the offer to the Chair or CEO.

Evaluation Process and response plan - Summary – Evaluate & Price Phase (Stages 1 – 5)



8.2 Phase 2 – MERGE & INTEGRATE

This phase consists of the following stages which can collectively be termed as Change Management:

- Project Implementation
- Cultural Path
- Synergy Extraction
- Structural Integration
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This phase will be managed through the Implementation Governance Team (IGT) consisting of 'Integration Leaders' and reporting to the M&A Team.

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- Heads Of

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8.2.1 Change Management Process

A merger/divestment brings together two separate work cultures. A change management plan with staff assigned to deliver and monitor the success of the plan's implementation is fundamental to the success of a merger or divestment. The aim of change management is essentially the integration of two cultures and the maintenance and improvement of work undertaken. The process should involve assessment of existing cultures and staff needs, as well as a plan for on-going integration and support.

The change management process should begin once a decision is made for a merger or divestment to take place, and should centre on supporting staff through the transition. This should continue up to 18 months after the completion of the merger/divestment. As part of the change management process, it may be beneficial to:

- Develop a new organisation chart with clear lines of reporting.
- Continue revising and implementing communications plans.
- Acknowledge achievements and future plans - this may involve the publication of material or a celebratory event. This is a useful opportunity to outline the positive aspects of the merger to key stakeholders moving forward.

- Support your staff: M&A can be difficult for staff, clients and other stakeholders. Therefore, change management strategies will be thoughtful, thorough, and administered with due sensitivity. Communication should be proactive, occur as soon as possible, and allow for people to voice concerns and issues in a solutions-focused way.
- Assess the policies of each organisation and plan for required policy development. Which policies need to be developed by the new service? Which existing policies will be taken on by new areas of the organisation?
- Provide training in revised or new policies and procedures.
- Undertake an alignment of systems.
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- Change signage and branding, if necessary.
- Evaluate the change management process
- Administer staff surveys to measure the performance of the organisation throughout the first 18 months of the integration process. Feedback can be provided back to senior management and should inform the ongoing integration process.

8.2.2 Ongoing Integration and Review

This includes the process from 18 months to up to three years following the close of transaction. The following questions may support monitoring and evaluation of this phase.

- Have the goals and objectives of the change management plan been achieved?
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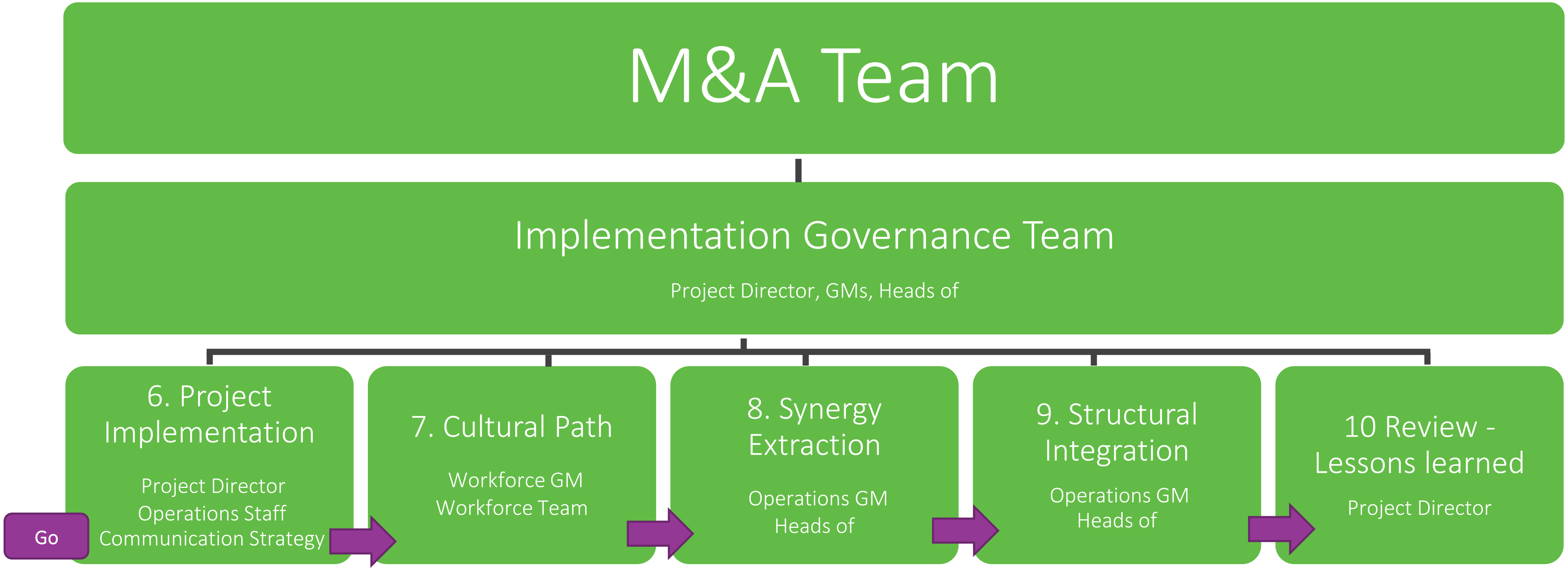
- Are there staff/service user/other stakeholder concerns that still need to be addressed?
- Do staff have on-going development needs? If so, how are they being met?
- Have responsibilities been effectively handed over to local management?
- Has alignment of systems been achieved?
- How will we evaluate our work in this phase?

Evaluation Process and response plan - Summary – Merge & Integrate Phase (Stages 6 – 10)



9. Indicative process timetable

9.1 Buy-side process timetable

Month 1	Month 2	Month 3-5	Month 5	Month 6	Month 7
1. Assess opportunity	2. NBIO	3. Due diligence	4. Offer	5. Negotiation	6. Close
• Assess opportunity in line with organisation's evaluative criteria • Sign confidentiality agreement • Appoint financial and legal advisors	• Receive Information Memorandum (IM) • Conduct site visits • Corporate structure and tax review • Submit NBIO	• Access data room • Perform financial due diligence • Perform legal due diligence • Assess synergies and perform operational due diligence • Perform business valuation and modelling • Attend management presentations	• Submit binding offer	• Negotiate transaction documentation • Enter exclusivity arrangements • Perform top-op due diligence	• Final commercial and legal negotiations • Execute • documentation • Prepare for integration

9.2 Sell-side process timetable

Month 1-2 → Month 3-4 → Month 5-6 → Month 6-8 → Month 9 → Month 10

1. Strategy	2. Divestment readiness	3. Preparation	4. Marketing	5. Bidding	6. Negotiation and close
• Assess opportunity using organisation's evaluative criteria • Soft market soundings • Develop go-to-market strategy	• Legal due diligence • Refine business systems • Review processes • Corporate structure and tax review	• Process, timetable, and strategy • Prepare Information Memorandum (IM) • Agree buyers list • Financial vendor due diligence • Data room preparation	• Position the opportunity with buyers • Prepare management presentation • Prepare management to present best case • Issue IM to market under confidentiality	• Receive indicative offers, compare, and negotiate • Shortlist bidders: – Management presentation – Issue vendor due diligence (if required) – Site visits conducted – Support due diligence and SPA process	• Receive final offers from shortlisted bidders • Grant exclusivity on a short basis if necessary • Final due diligence • Final commercial and legal negotiations

10. Glossary

Bid Price

The highest price at which the acquirer is prepared to pay.

Debt Service Cover

The debt service coverage ratio (also known as "debt coverage ratio") is the ratio of cash available for debt servicing to interest, principal, and lease payments. It is used in the measurement of an entity's ability to produce enough cash to cover its debt payments. The higher this ratio is, the easier it is to obtain a loan.

Due Diligence

A comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.

Interest Cover Ratio (ICR)

The interest coverage ratio is used to determine how easily a company can pay interest expenses on outstanding debt. The ratio is calculated by dividing a company's earnings before interest, taxes, and depreciation/amortisation (EBITDA) by the company's interest expenses for the same period. The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is only 1.5 or lower, its ability to meet interest expenses may be questionable.

Integration Scenario Planning

Planning for ownership. Exploration and preparation for several alternative futures – examination of outcomes under a variety of operating strategies and economic conditions, and application of 'what if' scenarios.

Investment Thesis

A statement of how a particular deal will create value for the merged company. The most compelling investment thesis is one that explains why and how an acquisition stands to improve the existing core business.

Mergers and Acquisitions (M&A)

Transactions in which the ownership of companies, other business organizations or their operating units are transferred or combined. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, and change the nature of their business or competitive position.

Net Present Value (NPV)

The net present value is a measurement of the profitability of an undertaking that is calculated by subtracting the present values (PV) of cash outflows (including initial cost) from the present values of cash inflows over a period of time.

Offer

An offer is when one party expresses interest to buy or sell an asset from another party. The offering price is often the highest the buyer will pay to purchase an asset, and the lowest that the seller will accept.

Payback

The length of time it takes to recover the initial cost of a project, without regard to the time value of money.

Return on Investment (ROI)

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio.

Synergy Extraction

The concept that the value and performance of two companies combined will be greater than the sum of the separate individual parts. Synergy, or the potential financial benefit achieved through the combining of companies, is often a driving force behind a merger. The expected synergy achieved through M&A can be attributed to various factors, such as increased revenues, combined talent and technology, or cost reduction.

Synergy Funding

Leveraging the combined balance sheet strengths of the two combined entities to fund growth, debt, equity, or hybrid.