Mergers & Acquisitions 2013
Trends & Best Practices
M&A Leaders Forum
M&A Leaders Forum

Who are we and what will I be covering in the next 30 min.
• SG - Sustainable Growth specializes in maximizing the potential and minimizing the risks of our clients’ growth processes. We achieve these results by leading strategic processes that focus on M&A strategy, targeting, assessment before acquisitions, PMI Planning and execution, structural realignment, turnaround processes and more.

• SG’s experts have vast experience working with leading companies in Israel, USA, Latin America and Europe.

• SG has the accumulated more experience in successful M&As than any other Israeli consulting company.
Selected clients

- Flash Networks
- GAT Foods
- Applied Materials®
- Biosense Webster®
- CIDnetworks
- YCD Multimedia
- Nestlé
- Bodegas Chandon
- ACT Telecom
- HP
- PLASSON
- SanDisk
- GINEGAR Plastic Products Ltd.
- MobiXell
- ACE
- Getter Graphics
- General Mills
- Gilat
- Ness
- NDS
- Cicso
- Palram
- Hazera Genetics
Global PMI Partners

- International network of consultancies
- Specialised in Pre and Post-Merger integration advisory services
- advice on integration or separation of cross-border acquisitions and divestitures
- comprised of individual local member firms which work seamlessly together as one organisation
- Start to finish services, from training courses through to setting up and handing over global integration programmes
- the only global consulting network dedicated to merger and acquisition programmes
- top tier consultancy backgrounds and deep industry experience
- we tailor our team to cover the specific needs of your integration
- we work alongside our international clients and with their advisors (legal, banks, transaction advisory teams, legacy advisors)

For more information please visit: [www.gpmip.com](http://www.gpmip.com)
MergerID –2012 in a glance

A secure online, user generated M&A platform matching buyers and sellers in the middle market from around the world.

- Total number of firms: 3310
- Total number of live projects: 7878
- Total Value of Sale Mandates: 67.4 B$
- More than 80 countries worldwide
- On average more than 700 deals progress off-line every month

By Geography

Total of: 7,878

<table>
<thead>
<tr>
<th>Region</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>3750</td>
</tr>
<tr>
<td>Americas</td>
<td>2401</td>
</tr>
<tr>
<td>Asia</td>
<td>1727</td>
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In a Nutshell

- What happened in the world in the last year
- The Global M&A Arena 2012-2013
- The Israeli Market in a Glance
- M&A Best Practices and lessons learned
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So...What happened in the past year?
Facebook went public. Expectations did not meet reality.
The 2012 US presidential election turned into the most expensive campaign in history.
And the Middle East kept erupting.
But no crisis was big enough to stop the London Olympics...
...or the Queen from having fun
South Korea gave the world Gangnam Style...
...while North Korea gave us Kim Jung Un.
Mayan Calendars gave 2012 a bad rap.
The eurozone kept having its crisis
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And in the Global M&A Arena?
Global M&A in 2012 was on par with 2011 (US$ 2,243bn).
2012: Energy, Materials (mining), Financials - leading industries

### Global M&A by targeted sector - 2012

#### Announced M&A by target sector - 2012 YTD

<table>
<thead>
<tr>
<th>Sector (YoY % change)</th>
<th>Value - $ billion</th>
<th>Top sector deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and Power (-28%)</td>
<td>187.9</td>
<td>ConocoPhillips-Refin...</td>
</tr>
<tr>
<td>Materials (-23%)</td>
<td>141.3</td>
<td>Xstrata PLC...</td>
</tr>
<tr>
<td>Financials (-41%)</td>
<td>117.9</td>
<td>Banco Financiero y d...</td>
</tr>
<tr>
<td>Industrials (-22%)</td>
<td>96.4</td>
<td>Cooper Industries PL...</td>
</tr>
<tr>
<td>Real Estate (-31%)</td>
<td>87.9</td>
<td>Corporate Ppty Assn...</td>
</tr>
<tr>
<td>High Technology (-26%)</td>
<td>78.2</td>
<td>Alibaba Group Holdin...</td>
</tr>
<tr>
<td>Healthcare (-37%)</td>
<td>72.8</td>
<td>Actavis Group...</td>
</tr>
<tr>
<td>Consumer Staples (-26%)</td>
<td>61.4</td>
<td>Pfizer Nutrition...</td>
</tr>
<tr>
<td>Consumer Prod. &amp; Serv (-2%)</td>
<td>51.8</td>
<td>TNT Express NV...</td>
</tr>
<tr>
<td>Telecommunications (-34%)</td>
<td>39.3</td>
<td>MegaFon...</td>
</tr>
<tr>
<td>Media &amp; Entertainment (-50%)</td>
<td>37.2</td>
<td>Astral Media Inc...</td>
</tr>
<tr>
<td>Retail (-22%)</td>
<td>29.3</td>
<td>Alliance Boots GmbH...</td>
</tr>
</tbody>
</table>

#### Source: Thomson Reuters
2012: 35% of transactions are Cross border
2012: Do you remember?

"The Marker, 15.6.2012"

"TheMarker"

"TechTime, 15.6.2012"

"TechTime"

"Globes, 21.6.2012"

"Globes"

"Calcalist, 12.6.2012"

"Calcalist"
2012: Global managers said... the world is on its way to crisis

2012: Global managers said... the world is on its way to crisis

Expected changes in global economy, in 6 months

- Substantially better
- Moderately better
- The same
- Moderately worse
- Substantially worse

June 2012, n = 1,349
- 19
- 32
- 42
- 6

Mar 2012, n = 2,060
- 3
- 45
- 31
- 18

Dec 2011, n = 2,299
- 25
- 31
- 39
- 5

Sept 2011, n = 1,321
- 22
- 29
- 38
- 8

June 2011, n = 1,720
- 44
- 36
- 17

Mar 2011, n = 1,566
- 3
- 50
- 31
- 15

(June 2012)
2013: Will this year be promising?

“Activity has been noticeably quieter in the new year. In January and February, there were 1,540 deals globally, with a value of US$293.3bn.

Compared with the first two months of 2012, this represents a 30% and a 3% drop in volume and value, respectively.

Despite this, there are signs of a more hospitable deal-making climate and returning confidence”.

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Mergers Slowed to a Snail’s Pace in the First Quarter, the Fewest Since 2003

**MERGERS AND ACQUISITIONS**

Quarterly activity

- **Worldwide**
  - $1.5 trillion
  - 2000: 1.2
  - 2004: 0.6
  - 2008: 1.1
  - 2012: 0.3

- **U.S.**
  - 2000: 0.3
  - 2004: 0.2
  - 2008: 0.4
  - 2012: 0.1

**Market share, 1st qtr. 2013**

- Rest of world: $273 billion (50%)
- U.S.: $269 billion (50%)

**Total: $543 billion**

**Worldwide deals by industry, 1st qtr. 2013, in billions**

- Computers and peripherals: $54
- Oil and gas: $49
- Food and beverage: $48
- Nonresidential real estate: $28
- Real estate investment trusts: $27
- Transportation and infrastructure: $24
- Metals and mining: $24
- Space and satellites: $18
- Broadcasting: $17
- 68 other industries: $232 billion

*The New York Times*
Near future is not clear, we hope the best is yet to come!
GLOBAL M&A GEOGRAPHIC BREAKDOWN YTD 2013

Most deals:
Value ($) and Volume (#) (1) North America, (2) Europe
GLOBAL M&A SECTOR BREAKDOWN YTD 2013

Value ($): Consumer, Energy mining & Utilities, Media
Volume (#): Consumer, Business Services, Industrials & Chemicals
2013 outlook: Will this year be promising?

On one hand:
- HIGH LEVEL OF UNCERTAINTY CONTINUES, both political based and macro economic based.
- There’s still low confidence in global markets leading to LOW willingness to take risks.

On the other:
- Growth indicators are high (S&P 500, consumer confidence, etc.).
- Cash is king! And there’s money out there.

But transactions are not back yet!
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M&A activity in Israel
M&As In Israel: Some Facts

- In 2012 there were **70 M&A deals** at a value of **USD 6.09bn**, including 25 cross-border deals worth USD 4.56bn.

- Israeli M&A activity to remain **stable** in 2013

- Foreign investors’ interest in Israeli **technology** and **energy companies** among multinationals remains high.

- **Foreign PE funds** such as Blackstone and KKR **could make buys** in 2013.

- Israel's hi-tech sector is stable and M&A is expected to grow as companies mature and foreign companies look to open **R&D centers** in Israel

- **Mobile, Internet and semiconductor** companies continue to attract attention.

In collaboration with:
M&A in Israel: Some Facts

- In the energy sector, companies in oil and gas, especially in exploration, continue to look for money from foreign infrastructure funds and strategic buyers.

- Conglomerates and other large companies are expected to continue to sell off assets that conflict with anti-concentration legislation and.

- Although inbound M&A will continue to dominate, Israeli companies and investors are expected to look increasingly abroad in 2013.
M&A Activity in Israel... Big EXITs 2012
M&A Activity in Israel... Few Acquisitions 2012
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If you happen to lead an M&A process KNOW that...
you don’t really need to be good doing M&As – you need to be GREAT
This is the generic M&A lifecycle

M&A Strategy Development → Target screening & Identification → Due Diligence and Projected Synergies

Negotiation → Integration Planning → Deal Close

Integration Implementation → Second wave Implementation

SOMETHING CAN GO WRONG IN ANY ONE OF THESE STEPS
Where and what can we do better?

Avoiding the usual statistics...

50%-80% of mergers... FAIL
M&A Readiness

- **Develop your M&A strategy:** this strategy derives from your corporate strategy and should deal with questions such as what are the company’s future growth engines, in which areas we’d like to cooperate, which geographic areas are of interest to us, etc.

- **Deal’s milestones:** Define clear milestones and go/ don’t go decision points. Consider aspects such as deal profitability, complexity of the deal, integration approach, KPI’s and measurements, etc.

- **Management agreement and BOD approval:** it’s essential to get aligned and agree upon the M&A strategy, milestones and indicators, otherwise it can become a chaos.

- **M&A Methodology and process:** Create your company’s M&A Booklet, define governance, project management capabilities, Roles & Responsibilities, etc.
While planning don’t forget to pay extra attention to the following aspects:

- **Clients:** provide them constant updates, create a clear client retention plan, check clients’ satisfaction (from service, time to respond, etc.)

- **Communication:** Provide a clear picture to employees, partners, stakeholders. Deal with employees morale issues and fears. Deal with organizational culture and changes to be made due to the merger.

- **Workers:** assessment and selection of most suitable employees in both companies, retention of key employees and managers, handling payroll issues, Org chart, new management team, new aligned compensation systems, layoffs, etc.
While planning don’t forget to pay extra attention to the following aspects:

- **Sales**: conduct thorough evaluation of sales team, sales streams, products, etc. Evaluate cross sales, up-sales, synergies, etc.

- **Definition of Business and Operational targets**: management of business objectives alongside with operational and organizational aspects to reach defined synergy.

- **Planning and management of the integration process**: project management skills and governance, drill down and cover all details.
Timing is an issue!

- **Some activities should be executed at once, some could be delayed:** Invoices, paychecks, financial and HR aspects should be taken care of immediately.

- **There’s no Absolute pace:** The organization’s ability to absorb changes from one company to the other. Sometimes, some activities should be postponed.

- **Creating value to shareholders:** measuring value is crucial, determining time to reach value is crucial as well. The main question is how time and planning influence value creation for the shareholders.
Plain DD is not enough, 360 degrees DD

- **Legal and Financial DD** are important but *not enough!* PMI aspects are more likely to focus on non Legal and Financial areas.

- **360 DD = synergetic DD**, get down to the bottom of things and how they influence other areas.

- Manage your DD properly, *manage it as a project.*

- Use *data room* or any other tools that help your organization being organized, methodical and consistent.
Organization Health Indicators

Check these indicators in both companies
Sometimes you need to run as fast as you can... Abandon this merger!

- **Business and Organizational Culture:** when you can’t Bridge fundamental gaps in this area... Run away!

- **Company’s orientation:** when one company is product oriented and the other is project oriented and you don’t speak each other’s language and cross sales is more than just a challenge... Run Away!

- **What are we really buying (or alternatively who is really buying us)?** Sometimes the motivations for M&A are different to what is presented to the other side. If that’s the case the gap can not be closed... Run away.

- **Falling in love with the deal:** when you fell in love- don’t run away! Stop, think, think again, consult, decide.

- **Turnaround deal:** when you need to turnaround the business you bought and you don’t have the capabilities, think twice! If you understand that you can’t deliver...Run away.
Doing it RIGHT will lead to success
S.G.- Sustainable Growth

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