Navigating the COVID-19 Outbreak

M&A Considerations
10 June 2020

Agenda

1. Introduction
2. Why M&A?
3. Key Areas to consider and typical mitigation
4. Key Takeaways

Key Summary of the Current Covid-19 situation and possible scenarios

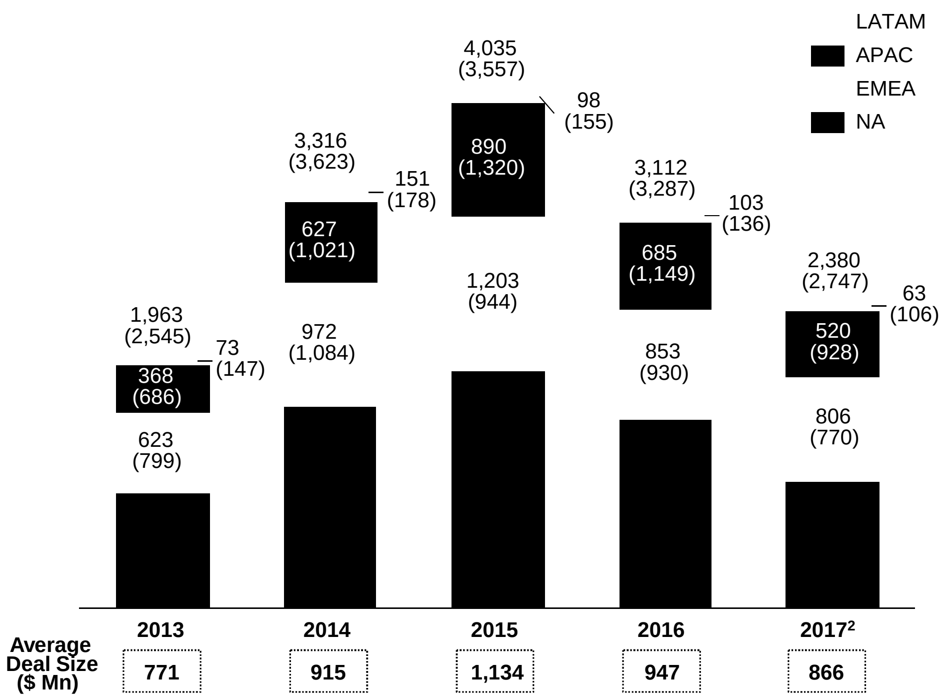
1. COVID-19 has been going on for a few months now and has financially impacted many companies and organisations

2. In times of crisis and flux, there will be an increase in opportunities whereby distressed companies are looking for investments and capital injections

3. Companies that are keen to ramp up inorganic activity need to consider the increased uncertainty and risks that stem from this crisis

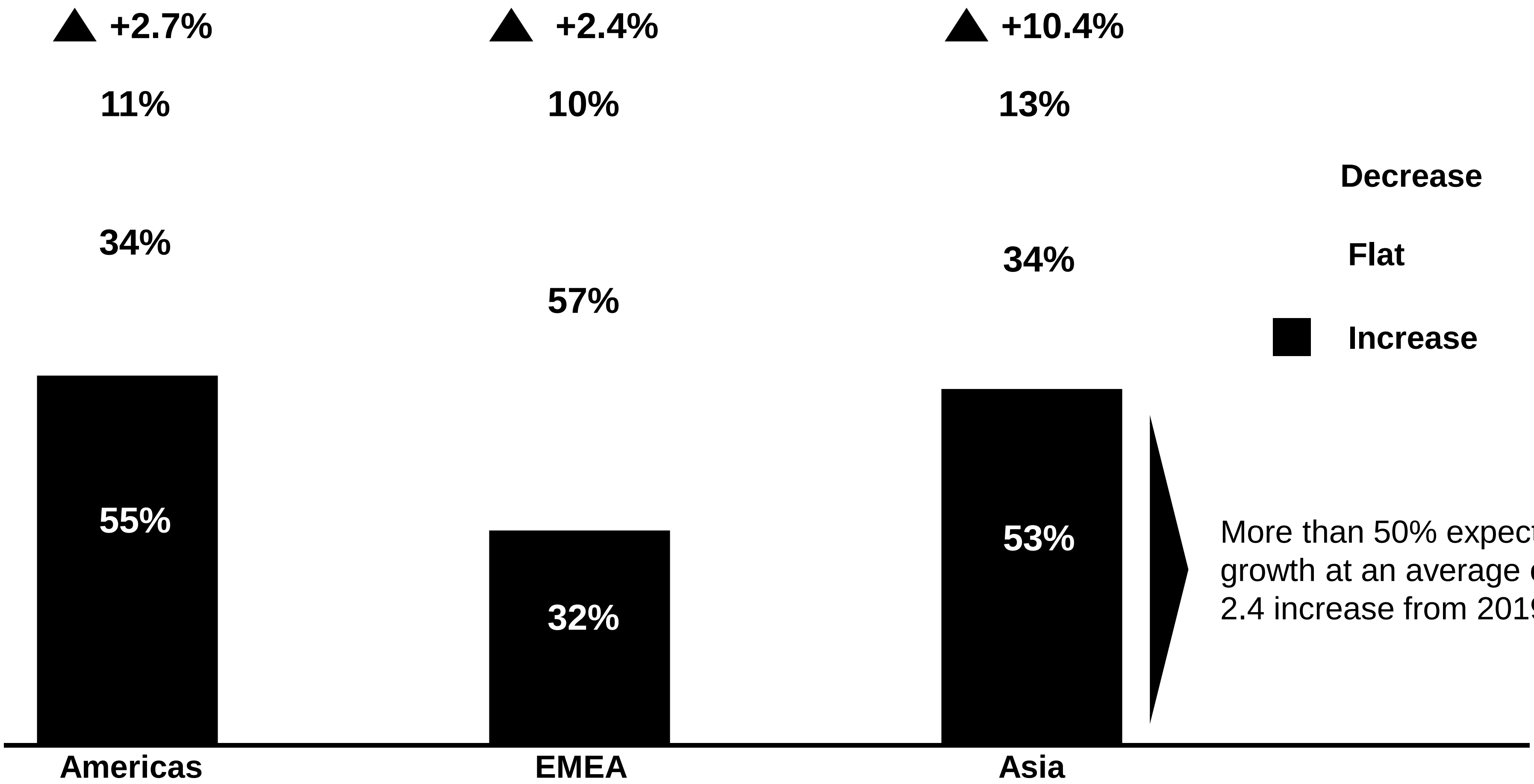
Deal activity has been on a decline since 2015 levels

Global M&A size (Bn) and volume[1] (2013 to 2017 – excluding December 2017)



1. High valuations
2. Macro-economic and geopolitical uncertainty
3. Commodity industry slump

However, surveys indicate that there's an increase in positive M&A sentiment in Asia – which we expect as well



More than 50% expect market growth at an average of 10.4%, 2.4 increase from 2019

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Typical Reasons for M&A

Deal focus shift to "right"

Large

Size of acquired company relative to acquirer

Small

Scale

- Present fundamentally similar product offering
- Create economies of scale
- Expand market presence

Opportunity for clear cost synergies, some growth and channel access.

Transformation

- Use deal to transform the way the industry works
- Create new value proposition
- Create economies of scale
- Expand market presence

Opportunity to enter new markets and grow through new capabilities.

Tuck-in

- Transfer core strengths to target business

Opportunity for lower cost of operating new business; potential to increase revenue by leveraging brand strength.

Strategic growth

- Expansion of market offering and/or geographic reach
- Seek skill transfer into new and/or noncore business

Opportunity for growth and channel access; revenue synergy potential also exists. High-risk option value and ability to act in market space.

How value is realised

Stand-alone cost improvements	Cross-selling existing products	Building new customer relationships	Create New Products	Build new business

Low
Short-term cost synergies

High
Long-term top-line synergies

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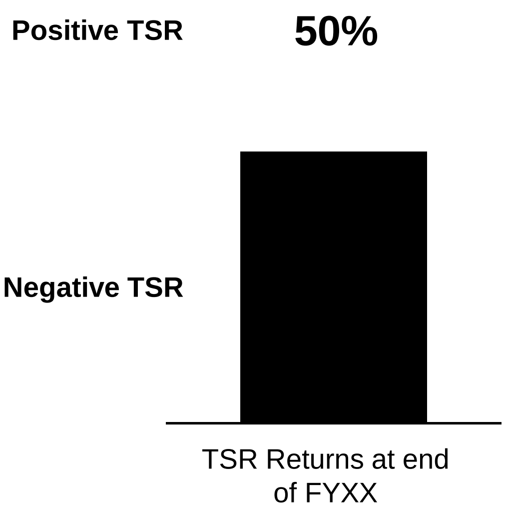
Typical Reasons for Deal Failure

50% of the deals result in loss of shareholders value

40+ companies



66% of all merger failures can be attributed to failure in integration

Reasons for loss of deal value

20%	**Failure in Strategy**	• Lack of deal strategy / low strategic fit
14%	**Failure in M&A Deal**	• Synergies not achieved
66%	**Failure in integration**	• Lack of integration plan / philosophy • Failure to de-risk the asset • Lack of communication • Organization misalignment

Source:CapitalIQ, Mergermarket, EY Analysis

TSR: Total Shareholder Return, TSRs for each company weighted against its Market Cap for the year.

A list of deals based on deal value and which got completed between FYXX and FYXX were identified. This was further segregated based on their post acquisition change in TSR and separate list were created for deals with positive and negative TSRs based on which further analysis were conducted

Typical M&A related risks and Mitigation Strategies – Buy Side

	Description and Impact	Possible Mitigation
1 Overpaying for deals	• Insufficient Financial due diligence rigor • Insufficient Operational due diligence rigor • Bidding and price war with competitors • Inaccurate synergy calculations	• Rigor in synergy quantification • Rigor in due diligence activities (Financial, Operational and Legal)
2 Misaligned Strategy & Deal Rationale	• Inability to extract synergies post-deal • Acquisition targets do not align with the buyer's strategic objectives	• Ensure that acquisitions are in line with the company's strategic objectives • Ensure that strategic vision and objectives are set for short, medium and long run
3 Deal Failure due to Integration Challenges	• Cultural challenges • Lack of an Integration plan • Insufficient integration activities	• Have a strong Post Merger Integration Plan from Day-0 • Set-up Integration Management Office to manage integration activities
4 Legal & Regulatory Challenges	• Weakly drafted SPA • Non-compliance with regulatory regimes • Insufficient legal or contract protection	• Rigor in legal due diligence activities • Contractual negotiations • Engage reputable law firms with proven experiences in transactions and deals advisory
5 Post Deal Loss and Liabilities	• No warranties given • Limited time warranties • Tax and other fraud-related liabilities surfacing, post deal	• Rigor in operational due diligence activities • Avoid transactions that • Consider W&I insurance to transfer liabilities and risks to a 3rd party

From an investee perspective - Corporate Governance and Disclosure is key to attracting potential investors

Local Myanmar companies are struggling to provide the basic level of assurance needed to attract investors and close deals

Financial	Operational	Legal
• Disclosure of financial statements • Quality of financial statements • Audited? • Internal Controls • Prudent Financial Management	• Capability of target company management team • Employees and Culture • Cost and Assets • IT Systems • Business Processes	• Compliance with international regulations (e.g. GDPR) • Complete due diligence documents

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Key Takeaways

1. Industries are in flux and this provides the optimal conditions for M&A activities

2. For companies that are looking to acquire, need to ensure alignment with strategy, de-risking of assets and Integration Strategy – **<u>most deals fail because of integration failure</u>**

3. For companies looking for investments – how to position yourself to attract potential investments? – Good Corporate Governance and providing the necessary assurance to investors

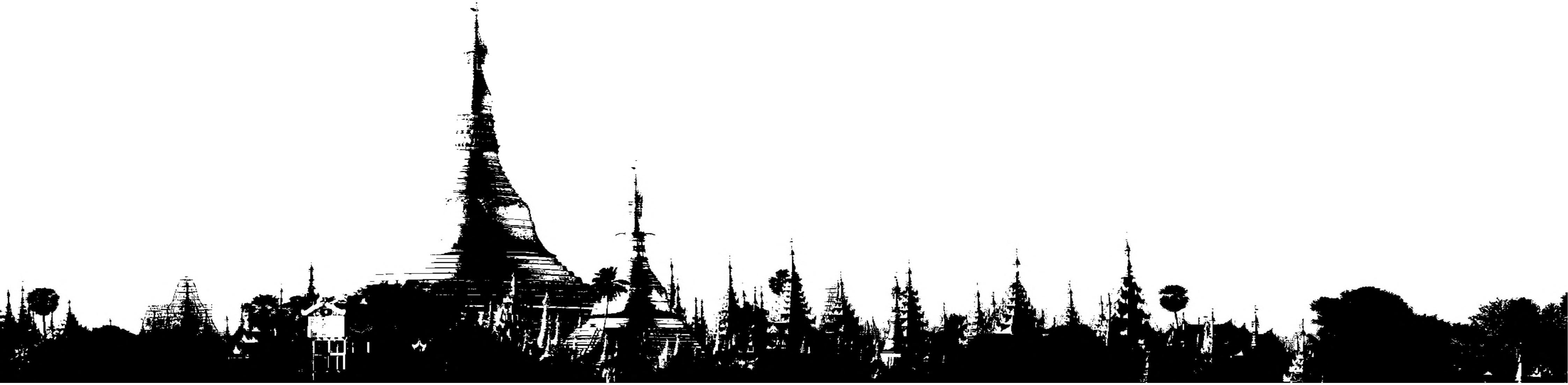
M&A – Navigating the Pandemic

Due Diligence – key considerations

- Supply Disruption
- Performance of contracts
- Insurance
- Employment issues
- Solvency risks

M&A – Navigating the Pandemic

- Warranties – shifting sands
- Pre-closing undertakings – new exigencies
- Walk away
- Force majeure
- Material adverse change
- Signing and Closing



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