<u>Lecture Week Five</u>

Sell-side M&A

- Usually, M&As are analysed more on the buy-side, where company A decides that they want to buy a company (the assignment is based on the buy-side). It starts from the buyer.
- Sell side is when a company says, "we can't grow anymore, we need more capital and growth opportunities" and thus looks to sell their company to prospective buyers.
- The seller will go and try to find the buyer and say 'this is who I am, and this is what I think I am worth'.
- The buy side – when you go to buy a company, you don't care so much about the value of the company in itself. You care about the value when it is merged with your company itself.
- When Google bought YouTube, YouTube's value increased because of the opportunity for advertising.

Story of the week: Largest M&A Fee

- One of the largest fees ever went to Morgan Stanley – the sell-side advisor for Monsanto. The fee was $120 million.
- They were acquired by a buyer for $66 billion.
- This deal was an auction with other contenders – Bayer, Basf, Koch, Sinochem.
- Each one of these competitors all had investment banks working with them – investment bankers prefer working on the sell-side because you win either way. The company is going to be sold so you will get a fee.
- If you work from the buy side and you don't win the company, you don't get the deal.
- The gigantic fee is contingent upon the completion of the deal:
    - 24 million upon announcement
    - 24 million upon approval by Monsanto shareholders
    - 72 million immediately before deal closing
- Merging is expensive
    - Besides the 120 million to Morgan Stanley, Monsanto will have to pay
        - 45 million to a second financial advisor (Ducera)
        - 132 million to its own CEO (vesting of stocks holdings and stock options, 18 million for a change in control position)
- The Rainmaker
    - Investment banks compete a lot to get these deals
    - The deal was so successful that Lars Andersson (dealer in the above case) immediately left Morgan Stanley to form his own company
    - *Life outside the shackles of a big bank is more fun, more lucrative and to provide conflict-free advice.*
    - The more lucrative – If Lars Andersson did another deal like Monsanto's, this time he would get the entirety of the fee as opposed to simply receiving a huge bonus at the end of the year

Auction

- There is one company (one seller) and multiple buyers

- You want an auction because you want to be sure that you are receiving a fair price. The alternative is doing a private deal (going to the buyer immediately). If you do an auction, there is a chance you might receive a larger offer price.
- Auctions have disadvantages as well:
  - Information leakage – During the bidding process, you need to show a lot of confidential information to the bidders.
  - Negative impact on employee morale – Imagine you are renting a room in a house that is for sale, it isn't comfortable. They start thinking of whether or not they will still have your jobs.
  - Taint in the event of a failed auction – If no one shows up, it is a really bad signal of the market.
- Auctions are very expensive because it involves a very complicated process. Internally, you also need a lot of resources in preparing documents etc.
- Broad Auction – you auction to everybody.
  - Contacting dozens of potential bidders
  - Maximising the possibility of getting a high price
  - High cost
- Targeted auction – target only several bidders.
  - More confidential, easier, cheaper, faster
  - You may end up leaving money on the table because there may have been someone else in the market who was willing to pay more

Negotiated Sale

- There is only one buyer
- You do this when there is a natural strategic buyer – clear natural partner.
- Example: Uber China sold to their company to a Chinese version of Uber. That is a strategic partner because they were in similar industries, both growing and there was only one possible buyer.
- This is a much cheaper way because you don't have to partake in marketing activities.