

Online Seminar Series: Strategic Client Dialogues

MAKING M & A ADD UP

Identifying and Achieving Financial Synergies Before, During and After a Merger or Acquisition

September 29, 2010

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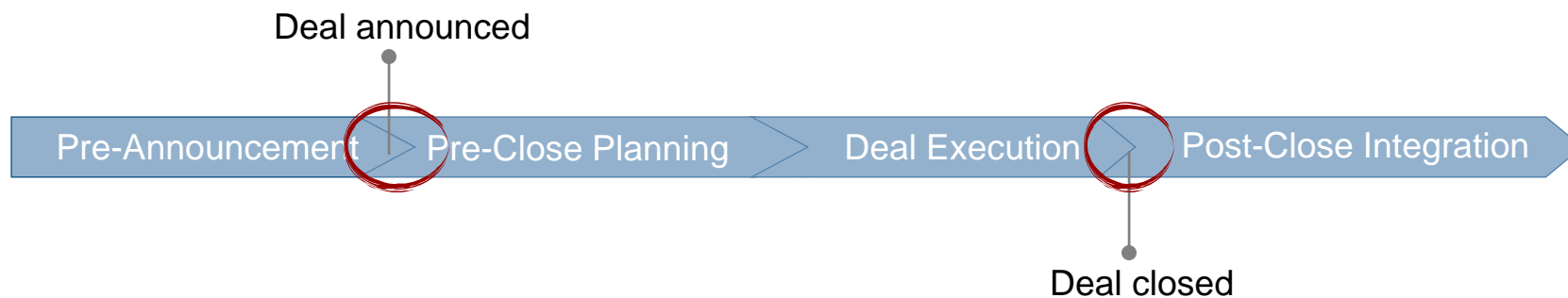
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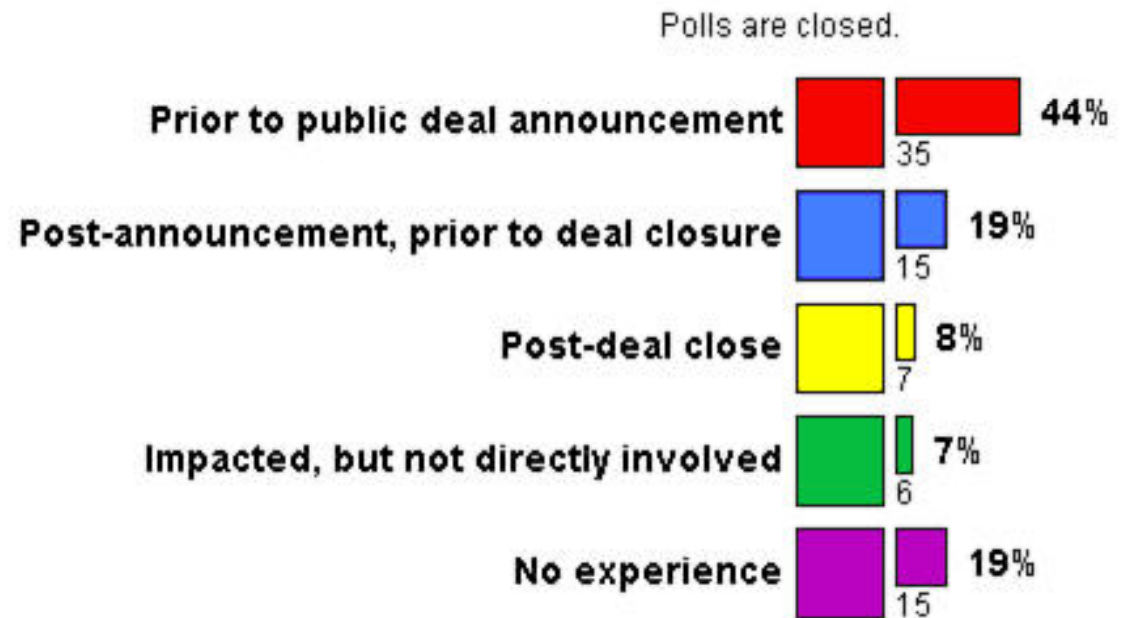
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Introduction

- Over the past year, merger and acquisition (M&A) activity globally has increased by 25% across all industries and sectors.
- Such transactions can often lead to decentralized and less efficient Treasury operations.
- Initially acquisitions and divestitures can result in fragmented accounts, platforms, systems, processes, and supply chain elements – negatively impacting cost, visibility, transparency and risk.
- Opportunity exists to actively manage these areas to achieve targeted merger synergies including cost savings, improved efficiency and competitiveness in your market.
- The session will highlight
 - Current issues and trends in the M&A marketplace
 - How you can prepare your Treasury to manage throughout the M&A process
 - How to best achieve financial synergies following a deal



What is the earliest stage of your involvement in an M&A transaction?

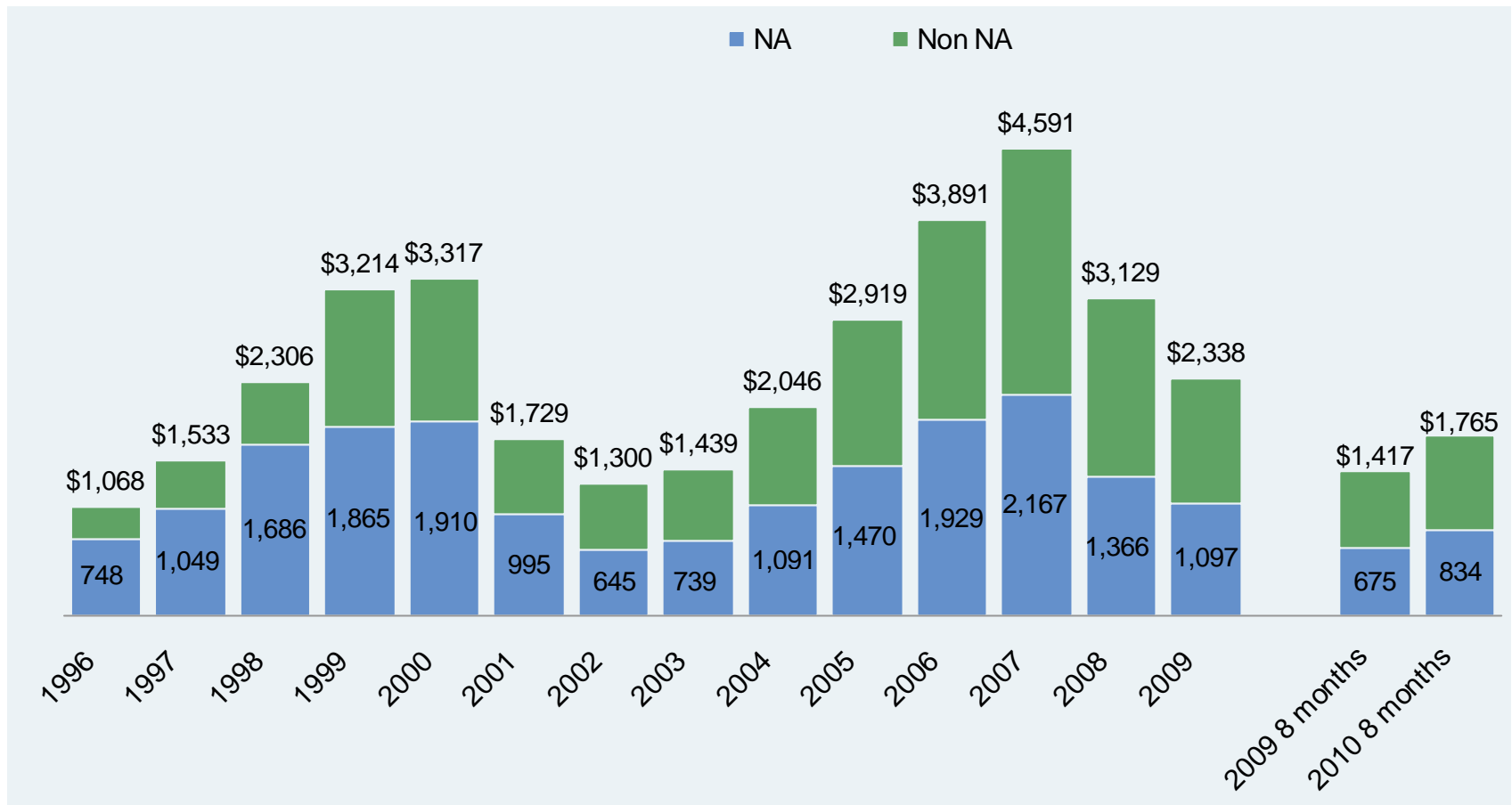


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M&A market (NA & Globally) is in the recovery phase with deal volume up approx. 25% year over year

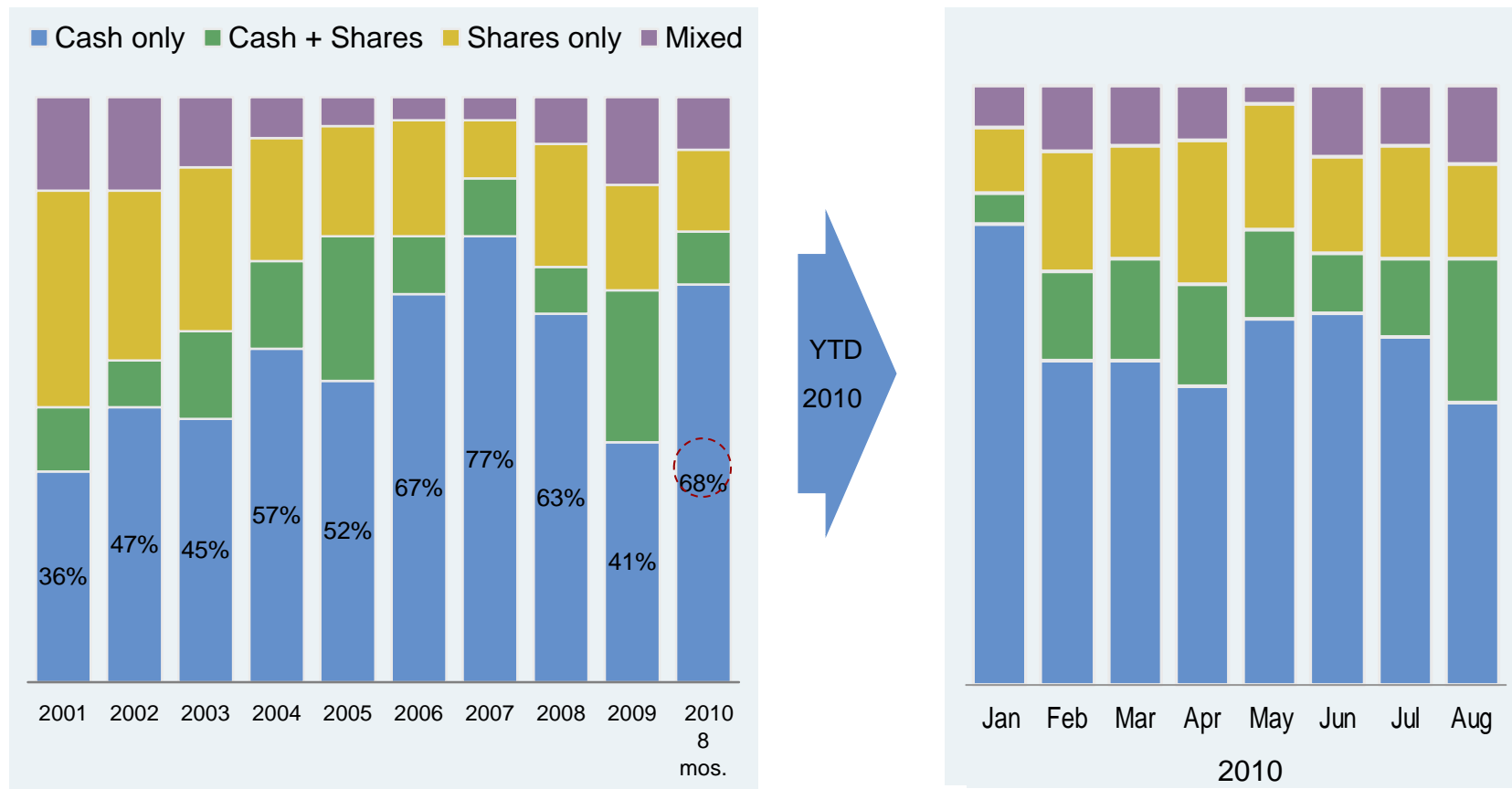
North America and Rest of World M&A volume, 1996–2010 8 months (\$bn)



Source: Dealogic (M&A Manager) as of August 31, 2010
 Note: Rank eligible deals with value greater than \$10mm

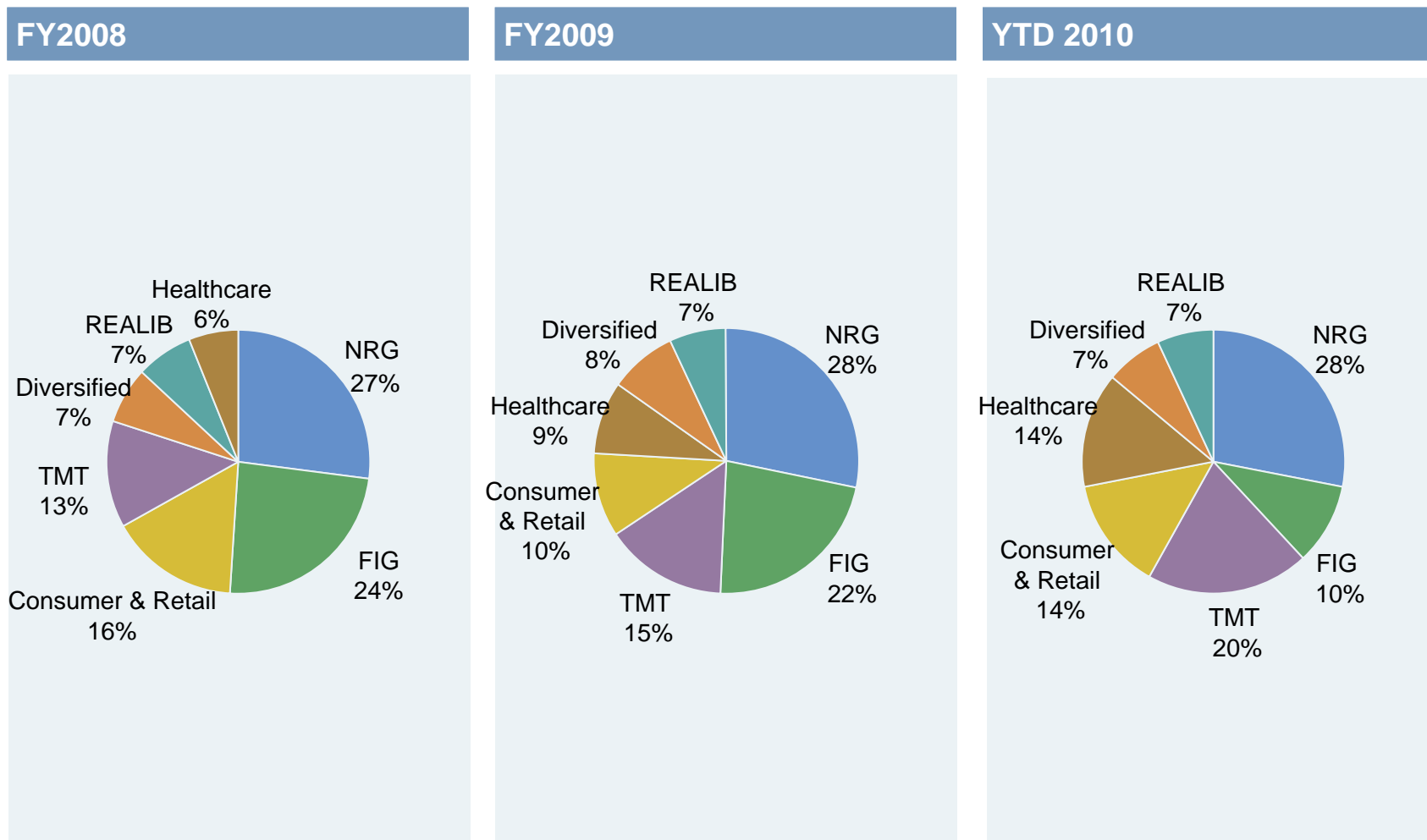
Cash has again become currency of choice reflecting strong corporate balance sheets and improving access to debt capital

Consideration¹ deal structure of NA M&A deals, (% of total deal value)



Source: Dealogic (M&A Manager) as of August 31, 2010
 Note: North America includes any North American party involved; deals greater than \$10mm
¹ Other mixed includes assumption of debt, assets, notes
 Target region involvement equals NA (US, Canada, and Bermuda)
 Consideration based on currency structure of deal

M&A activity by sector



Source: J.P. Morgan; Dealogic M&A Analytics as of December 31, 2009

Note: Based on target industry; rank eligible deals with value greater than \$10mm

NRG includes Metal/Mining, Oil & Gas, Utilities/Power, Chemicals and PP&BP

Diversified includes General Industries and Transport

TMT includes Technology, Media and Telecom

M&A market overview—key themes

2008 & 2009

- Economic crisis resulted in corporate mentality of “self-preservation”
- Global M&A activity declined significantly due to lack of confidence and liquidity constraints
- Private equity prospects for public-to-private LBOs were little to none
- Sellers’ premium expectations far exceeded buyers’ willingness to pay
- Legislative and regulatory concerns added more uncertainty

2010 & 2011

- CEO/Board confidence returning as belief that an economic recovery is underway
- Companies are improving liquidity and growing cash balances
- Acquisition funding for debt-financed cash deals generally available
- Buyer universe (both corporate and private equity) is strengthening/expanding
- Valuation gap between buyers and sellers continues to narrow
- Private equity buyers becoming more prevalent
- Continued growth in hostiles and shareholder activism

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■ Pre-announcement	
■ Pre-close planning	
■ Deal execution	
■ Post-close integration	
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Overview of typical M&A process



Note: Time periods are averages and can vary materially in any given transaction

* Timing depends on nature of business sold and approvals required

Pre-Announcement

Pre-Close Planning

Deal Execution

Post-Close Integration

An M&A holdback escrow manages financial uncertainties and allows deals to proceed

Holdback escrow

- **What is the top concern?**
 - Buyer seeks clear mechanism for reimbursement of damages from Seller
 - Also used to allow for purchase price adjustments including working capital or net asset adjustments
- **How does it work?**
 - Percentage of value of M&A deal placed in escrow account and held until terms of escrow agreement have been satisfied
 - Enables buyer to make claims against account and retrieve funds in event that seller fails to meet specific terms of sale and purchase agreement

Key highlights*

- **Escrow deposit size:** ~\$4.88MM on average, representing 10% of the average purchase price
- **Escrow lifespan:** ~19 months on average
- **Claims**
 - ~30% of escrow accounts have claims filed against them
 - On average, 78% of claims were ultimately paid out
- **Escrow fees:** Generally split evenly between buyers and sellers, indicating the mutual value to both parties

* Note: Based on J. P. Morgan U.S. based escrow transactions with publicly available acquisition information between July 2008 and December 2009. Sample size: 142 transactions of 516 total holdback escrows

Pre-Announcement

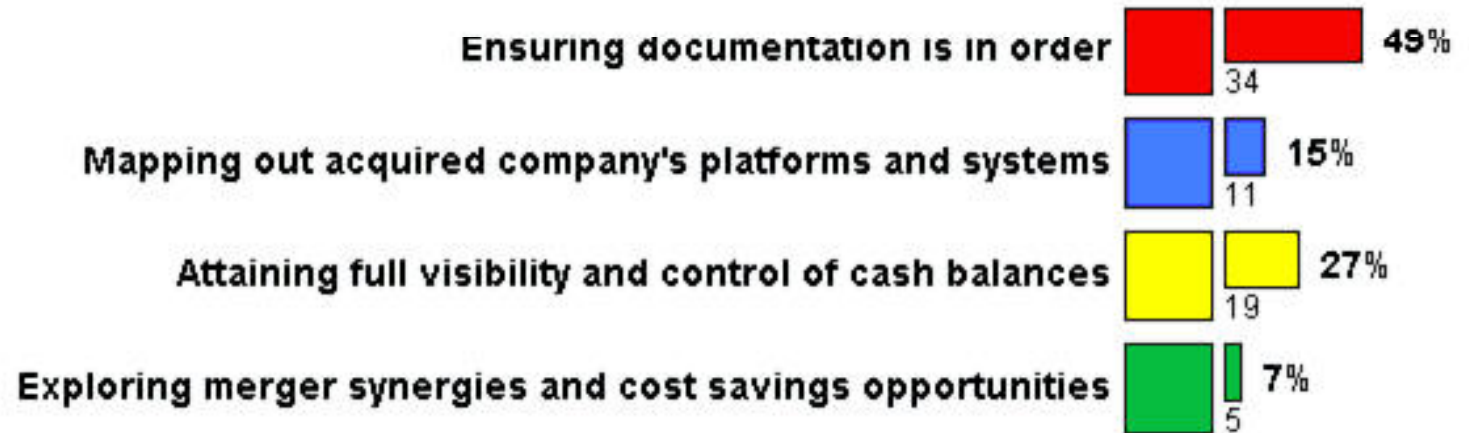
Pre-Close Planning

Deal Execution

Post-Close Integration

What would you consider to be the greatest challenge during the pre-close planning stage?

Polls are closed.



Planning for the close should begin early, engaging cross-functional partners, your target company colleagues and bank providers

Areas where your bank can assist you include attaining cash visibility, reviewing banking services and completing required documentation

Project Management

- Preparation of the documentation and implementation plans is needed to achieve smooth integration on Day 1
- Objectives
 - Full review of all necessary documentation needed to help ensure smooth Day 1 transition
 - Inventory documentation needs in advance to anticipate and minimize delays
 - Implementation project plans to help ensure integration is moving on schedule

Cash Visibility and Control

- Planning to assure cash balances are fully visible and secure on Day 1
- Objectives
 - Due diligence on cash flows
 - Mapping global account structures of both companies in advance of event
 - Determine best method of control through manual or automated concentration structure

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Implementing project management best practices will help ensure all necessary steps are taken in advance of Day 1 closing

Project management

- **Establish a Project Management Office (PMO):** Set up an internal organization to assess and manage the impact of merger across all lines of business.
- **Develop implementation project plans:** Document multiple hand-offs internally and across to your banking vendor.
- **Ensure documentation is complete:** Early on in the process, work with your banking vendor to source and complete all relevant documentation.

M&A documentation checklist

- CRA/Non-Standard Banking Resolutions
- Signature Card
- Certificate of Incumbency
- W-9 or applicable W-8
- Account Terms
- Service Terms
- Novation Letters

Planning for smooth transition requires creating structure internally to accommodate complexity of integration

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As “Chief Liquidity Officer”, Treasury needs to see and control cash from Day 1

Steps to achieve visibility and control of cash and investment balances

Step 1

- Map existing account structures and cashflows

Step 2

- Identify cash and investment balances

Step 3

- Arrange Day 1 reporting methodology

Step 4

- Arrange Day 1 concentration or investment process

Step 5

- Establish Day 1 authority over significant balances

Step 6

- Further improve and automate visibility and controls
- Consolidate accounts at strong global or regional bank

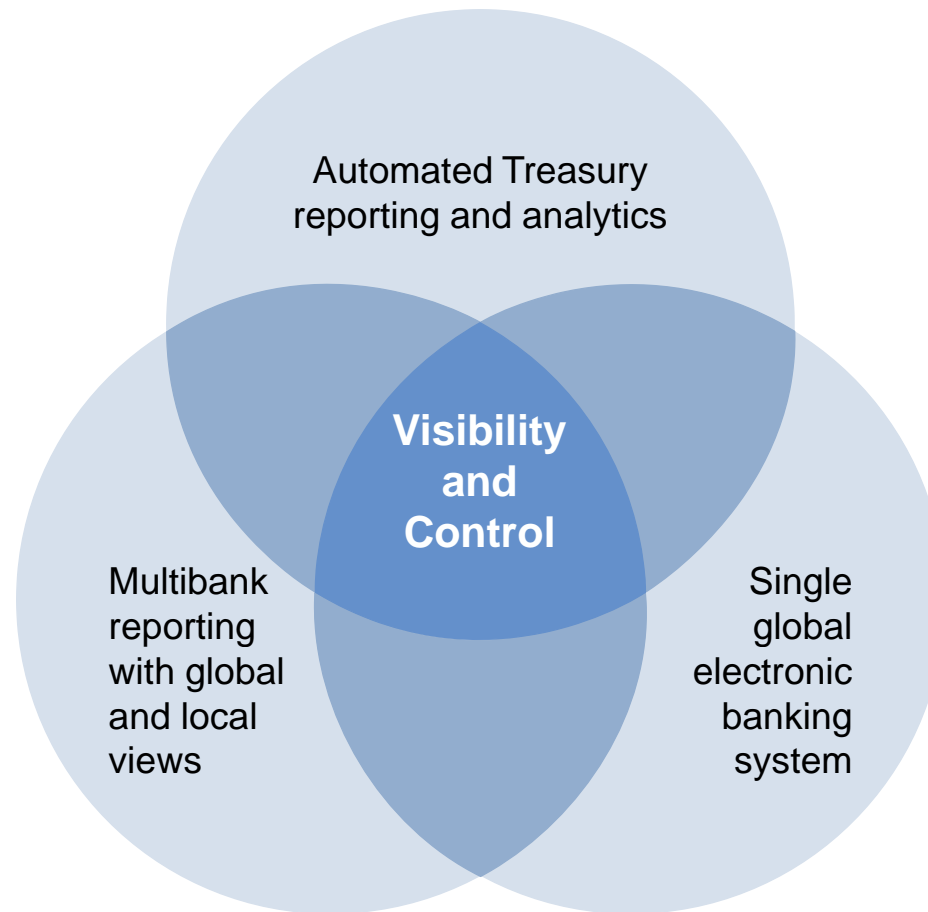
Pre-Announcement

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Tools to improve visibility and control



Pre-Announcement

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Global Pharmaceutical Company Merger

Case Study

Big pharma multinational acquisition of a like-sized competitor in a multi-billion dollar deal.

Challenges:

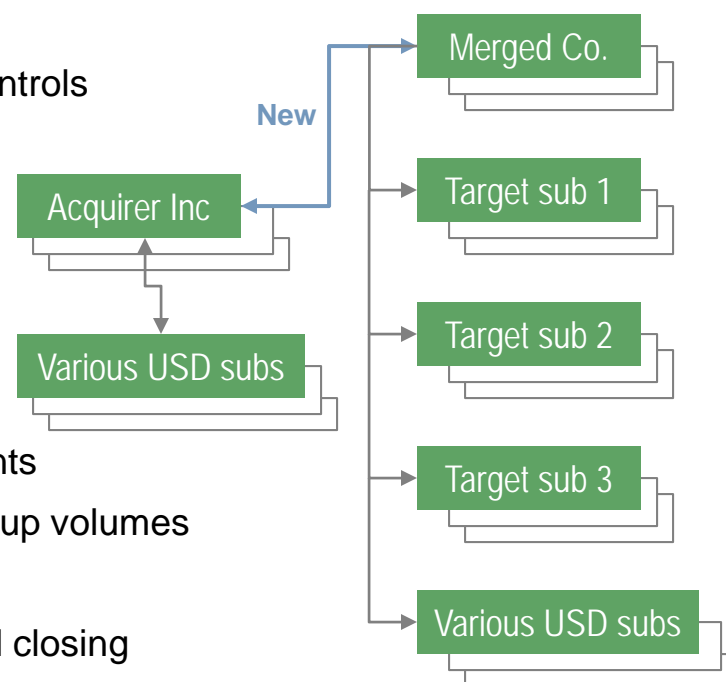
- Visibility to >\$5bn in cash and s-t investments
- Control of >50 global bank accounts and balances
- Company name changes, new signatories, fraud and security controls

Solution:

- Created comprehensive 50 item project task list executed over four months in conjunction with the acquirer, target and key financial providers
- Arranged account activity and investment balance visibility through an online banking portal
- Established automated sweep between key concentration accounts
- Reviewed and improved bank fee pricing based on increased group volumes

Results at closing:

- Completed M&A documentation > 1 month in advance of planned closing
- Real-time visibility to single concentration account holding ~80% of Merged Co. cash centrally
- Fully merged investment and cash management teams effective Day 1



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Merger closing date (deal execution) can be announced on short-notice requiring a series of complex, high-value transactions to flow and settle same-day

Closing day cash round-tripping complexities

- **Liquidity of invested and borrowed funds:** any pooled cash or funding to settle the transaction must be available from early in the day, to start the chain of settlement transactions
- **High-value transfers:** require large one-off intra-day credit lines on each account through which proceeds flow
- **FX conversions:** for foreign acquisitions, there may be an FX purchase required with late-day notice of amounts

Objectives for invested cash leading to close

- **Preservation of principal:** Primary importance - there can be no risk that the principal will eroded as balances must be maintained in order to settle shareholder transactions
- **Liquidity:** Regulatory and legal approval could create situation where one-day notice is all that is given for payout
- **Yield:** Earning competitive yield on significant balances is a secondary objective

Typical cash flows at settlement

- Proceeds
- Shareholder payout
- Capital injections
- Intercompany loans
- Debt / borrowings
- Investments

Global MNC Foreign Entity Divestiture / Acquisition

Case Study

Multinational manufacturer divested regional operations to a competitor in an emerging market transaction. Multi-billion dollar deal settled in multiple currencies.

Challenges:

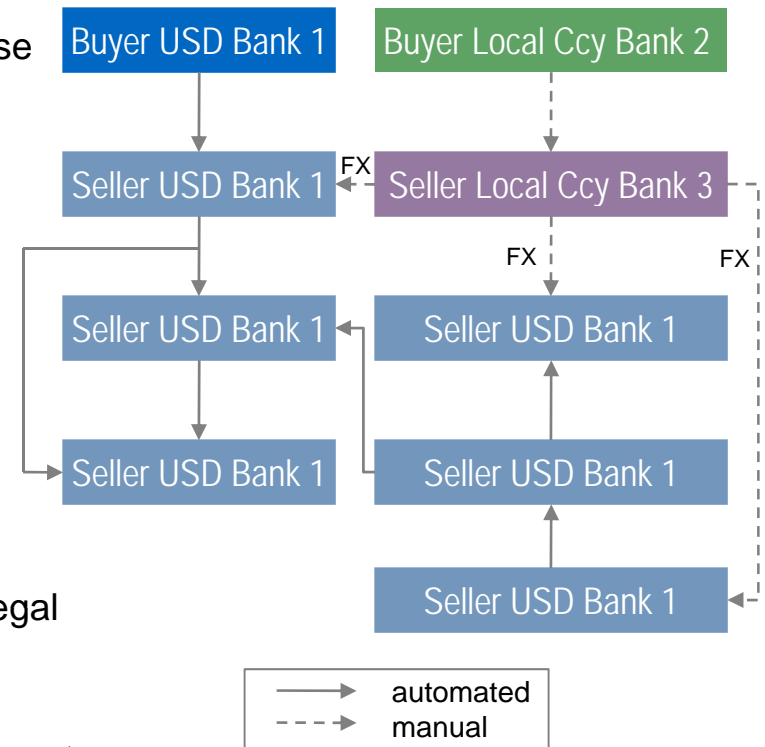
- Unwind medium- and long-term investment portfolio
- Multiple currency high-value flows to occur in sequence at close
- Same-day re-investment of cash proceeds

Solution:

- Investment unwind 1-2 months in advance
- Minimized banks transferring cash for efficient settlement
- Agreed Day 1 cash flow diagram, sufficient credit limit on all accounts, pre-agreed FX lines and spreads
- Dedicated customer service rep for execution day flows

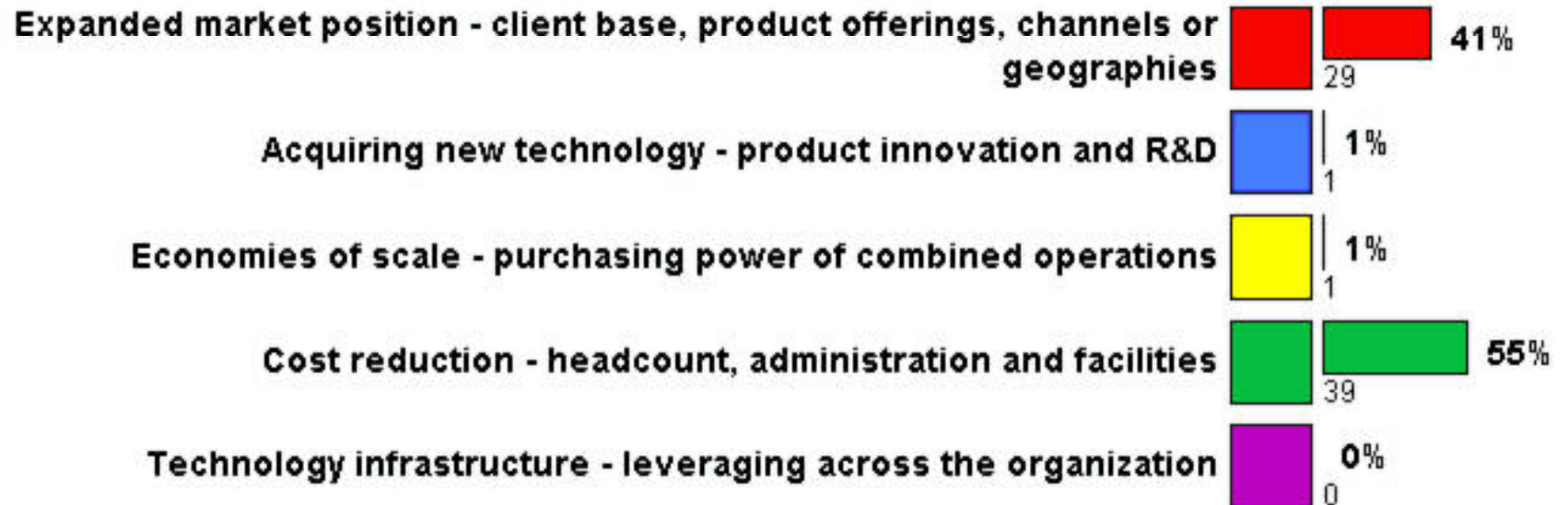
Results:

- Deal closed on time – with 11 high-value transfers through 8 legal entity accounts across 5 countries
- Smooth FX execution at competitive pre-negotiated spreads
- Auto-investment of net proceeds from ultimate destination accounts



Which area represents the greatest opportunity to achieve merger synergies?

Polls are closed.



Big mergers come with big expectations

"Cingular expects to achieve significant operating synergies through this acquisition by consolidating networks, distribution, billing, procurement, marketing, advertising and other functions. The company expects to generate more than \$1 billion in operating expense and capital expenditure savings in 2006, and in excess of \$2 billion in annual savings beginning in 2007."
Cingular / BellSouth

"Wall Street equity analysts have published estimates of the present value of cost synergies ranging from \$3 billion to \$7 billion."
Sirius / XM Radio

"(This merger will) increase efficiencies and result in cost savings of approximately \$3.5 billion annually."
Merck/Schering-Plough

"Kraft Foods has announced that it expects the combination of Kraft and Cadbury to deliver \$1 billion in incremental revenue synergies on top of \$750 million in cost synergies by 2013."
Kraft / Cadbury

"(We) expect net annual synergies of \$1.0 billion to \$1.2 billion and sustainable long-term value."
United / Continental

"The combined Sprint Nextel is expected to deliver operating cost and capital investment synergies with an estimated net present value of more than \$12 billion."
Sprint / Nextel

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Company-wide synergy targets can spur additional team resources, improved processes and increased responsibility

Target synergies

- **Revenue improvement**
 - Improved market position through greater reach and range
 - Acquired new technology / product innovation
- **Cost reduction**
 - Economies of scale for combined operations
 - Leveraging of technology infrastructure across the organization
 - Improved efficiency from reduced or more skilled workforce
 - Efficiency savings from best-in-class process adoption
 - Working capital optimization

Critical success factors

- Top management support
- Recruiting and retaining appropriate employees
- Communicating goals to employees early and often
- Close management of customer relationships
- Close partnership with key service providers
- Embedding a culture of continuous improvement and change management
- Implementing quick wins to build momentum

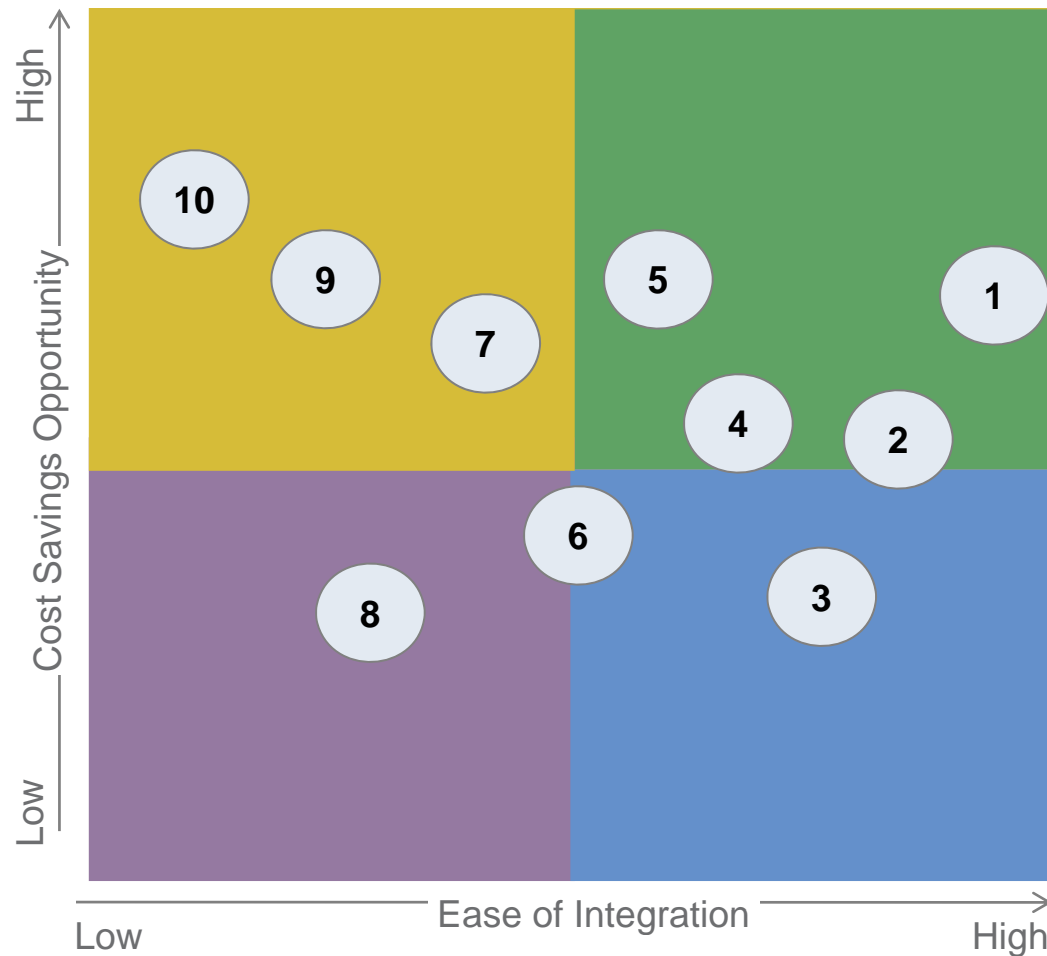
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Prioritize treasury / cash management services that can be easily integrated and result in greater cost savings during post-merger integration



- Service Prioritization**
- 1 Short-term liquidity mgmt
 - 2 Payables / disbursements
 - 3 Electronic receivables
 - 4 Trade services
 - 5 Cash concentration
 - 6 Custody
 - 7 Commercial card
 - 8 Paper receivables
 - 9 European regional solution
 - 10 Asia-Pacific regional solution

Seek out integration opportunities among the banking group of the merged entity



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Our M&A advisory capabilities

M&A stage	Required actions...	...resulting impacts
Pre-announcement	<ul style="list-style-type: none"> ■ Holdback escrow account establishment ■ Deal financing and bank backstop facility ■ Short-term liquidity management 	<ul style="list-style-type: none"> ■ Mitigated transaction risk ■ Cash secured for deal closure ■ Safety of principal ensured
Pre-close planning	<ul style="list-style-type: none"> ■ Cash visibility: investments, accounts, forecasting, exposures ■ Documentation and operational control: signatories, cash concentration, name changes, staffing, approved bank partners 	<ul style="list-style-type: none"> ■ Same-day visibility ■ Control over cash ■ Risk mitigation
Deal execution and settlement	<ul style="list-style-type: none"> ■ Legal entities and bank account setup ■ Cash flow mapping ■ Intra-day facilities / credit for cash round-tripping ■ FX conversion 	<ul style="list-style-type: none"> ■ Efficient, timely execution of the deal
Post-close integration	<ul style="list-style-type: none"> ■ Operational cost reduction through integration and adoption of best practices and technology solutions <ul style="list-style-type: none"> ■ Rationalized cash management / treasury services providers ■ Roll transactional activities into shared services ■ Creation of payment factory or in-house bank 	<ul style="list-style-type: none"> ■ Free-up cash for reinvestment in business ■ Optimization of return on excess cash

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- Treasury structuring, visibility and control – *webinar replay available*
- Working capital optimization – *webinar replay available*
- Shared services – *webinar scheduled October 28th*
- Organizational and operating efficiency and cost reduction
- Spend and supplier segmentation
- Risk management

Advisory process



Questions and answers



Today's presenters

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- James McKenzie is a senior advisor with the J.P. Morgan Treasury Advisory Solutions team. His areas of expertise include treasury structuring and control/visibility, global liquidity and cash concentration, short-term investment and debt management, FX and interest rate risk management, international cash management and operations, and cash forecasting and capital restructuring.
- An honors graduate of Queen's University, Canada, James holds a Bachelor of Commerce degree. He is also Series 7 and 63 licensed and a Chartered Financial Analyst (CFA). In addition, he is an active member of the Association for Financial Professionals, CFA Institute and New York Society of Investment Analysts.

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- As a member of the J.P. Morgan Mergers and Acquisitions group since 1999, Vineet Seth has responsibility for the Real Estate/Gaming and Technology sectors. He has broad execution experience in public and private company acquisitions and divestitures, leverage/management buyouts, minority buy-ins and special committee assignments.
- Selected assignments include
 - Lucent Technologies' \$35 billion merger with Alcatel
 - Cendant Corp.'s \$25 billion separation into 4 public entities
 - FIS on the \$3.5 billion spin-off of LPS
- Vineet received his MBA from the Wharton School, University of Pennsylvania and received a B.S. from Babson College.