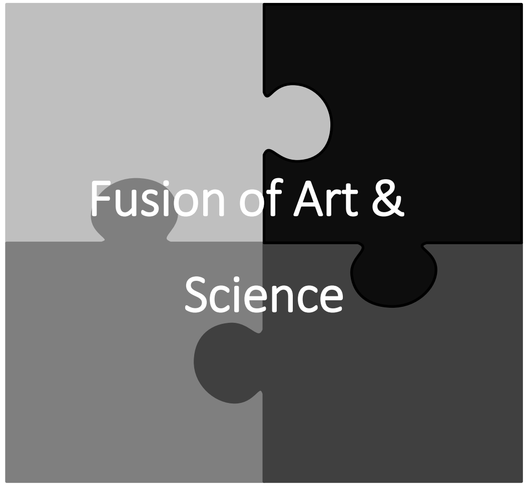
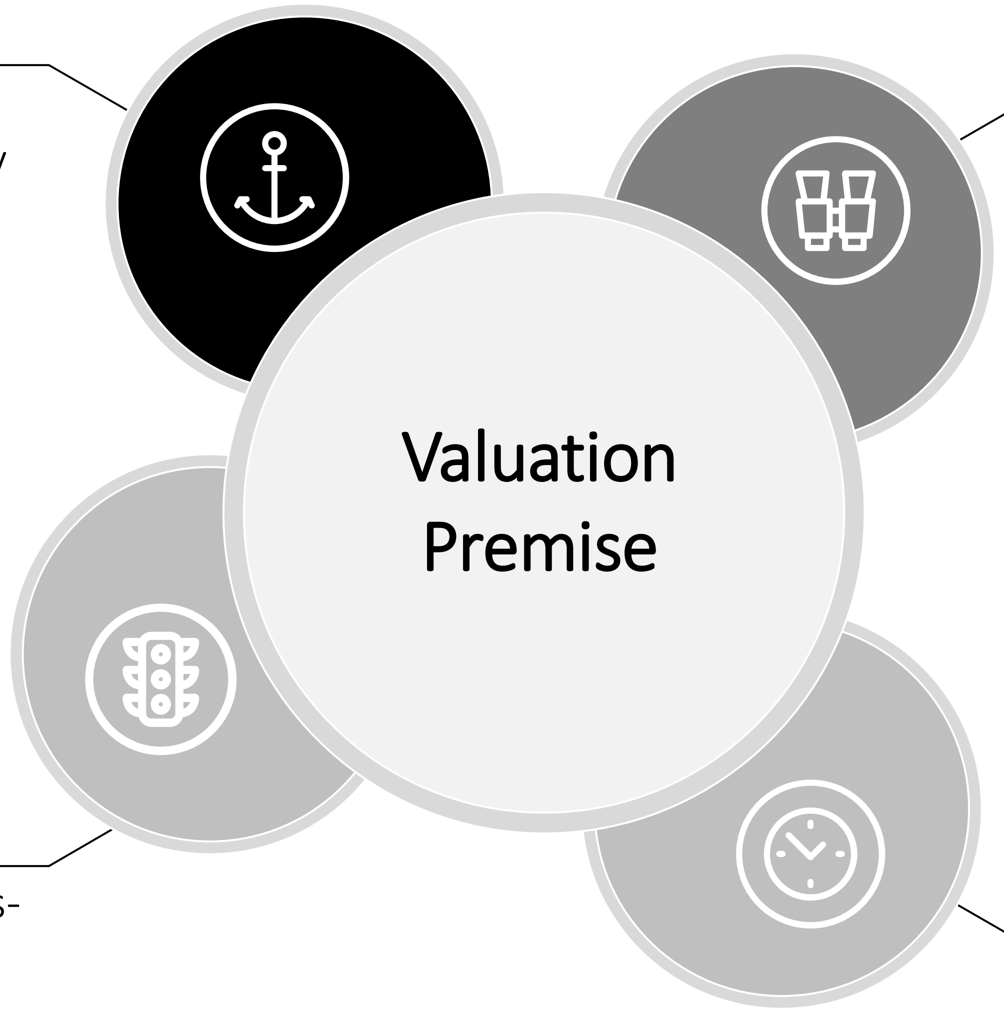
Valuation and M&A

What is Valuation

- ***Value*** is an economic concept where what a willing buyer is willing to pay and what a willing seller is willing to take overlap.
- ***Valuation*** means the procedure and technique of estimating the value of a specific asset / liability at a stated time and place and for a specific purpose.
- Valuation is not just a SCIENCE, but an ART. Though quantitative in nature, the valuation methods require inputs that are based on **subjective judgment**. Hence, any preconception or bias of the valuer gets reflected in the value.
- Valuation involves application of different methodologies – some being used as primary and some as corroborative – depending on the facts and circumstances of each case.
- Generally, a range of values is given (unless regulatory in nature)



Valuation: A Perspective



Extent of Control

Premium for control, efficiency and synergy

Context

What is being valued
Why it is being valued
Secure definition of "value"

Basis

Going concern vis-à-vis liquidation

Timing

Valuation is relative to a specific point in time

Steps in a Valuation

Gathering and Analysis of Data

- Obtaining information
- Business Understanding
- Analysis of data
- Independent Research

Valuation Methodologies

- Selecting and applying relevant /appropriate valuation method(s)
- Conducting sensitivities

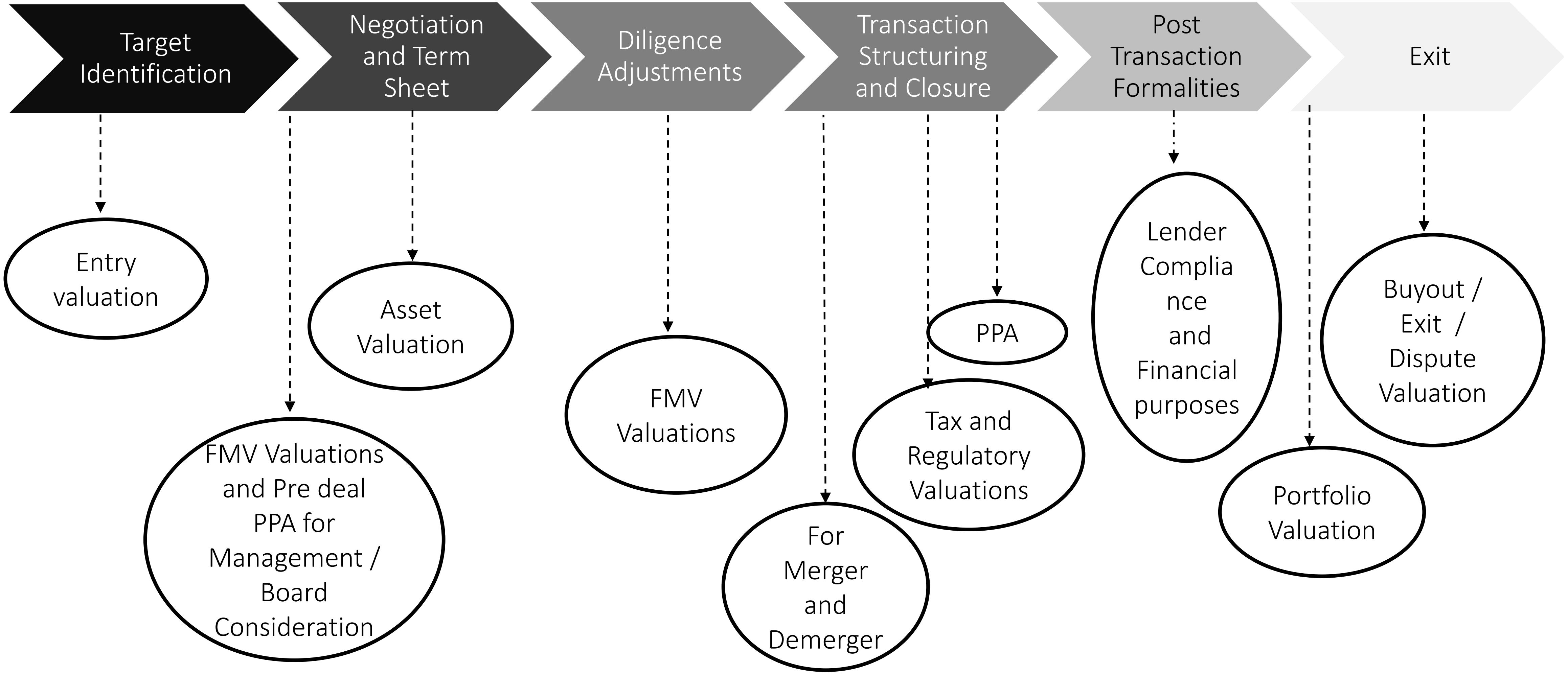
Recommendation

- Recommending Values
- Sanity Check

Typical Deal Flow in an M&A Process

Identification	Preliminary identification of potential merger and acquisition opportunities
Preliminary DD and NBO	• Due diligence process to identify value creation opportunities and potential threats • Preparing a Non-Binding Offer
Detailed Evaluation	Detailed evaluation of target company and historical information, with the intention of identifying any deal breakers
Negotiations	Negotiating deal terms
Documentation	Documentation of the entire deal process, findings and terms
Closing Conditions, Transfer and Transition	Execution of the deal and transfer of ownership

Valuations and the Deal Cycle



Valuations – an integral part of the deal

What Requires a Valuation – the Purpose

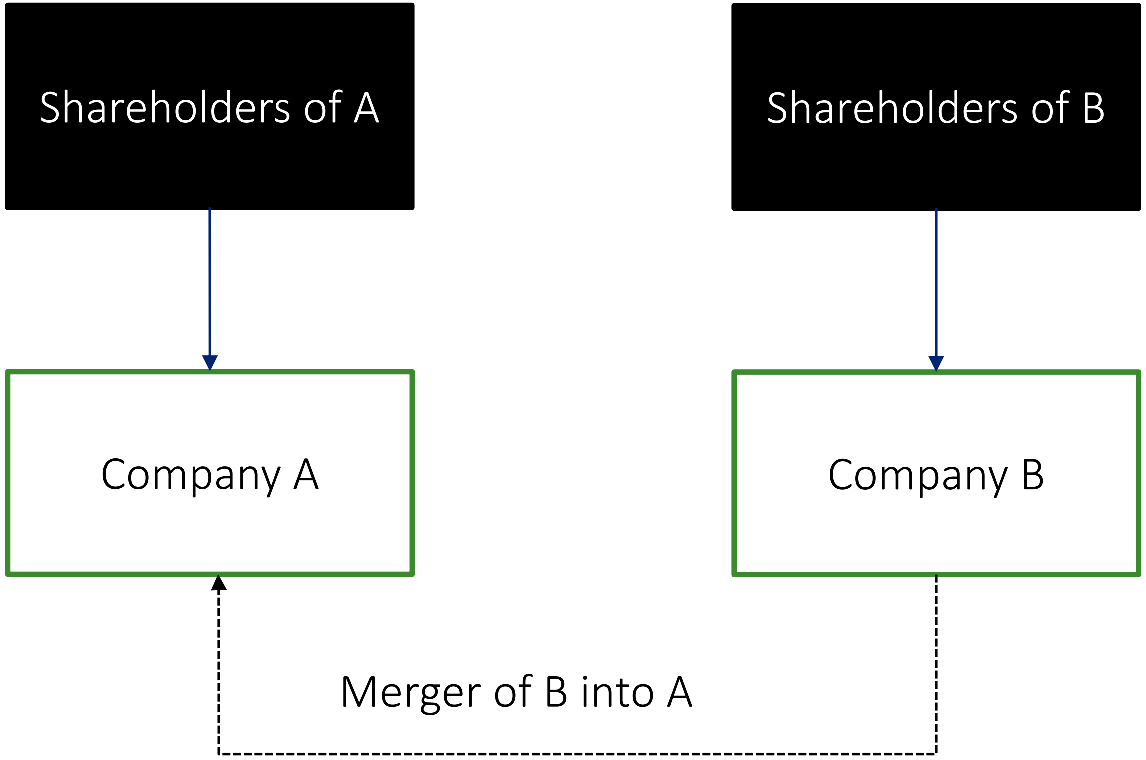
Business Valuation	Regulatory	Intangibles	Financial Reporting	Private Equity
Restructuring of Companies	FEMA - issue / transfer of shares	Brand or Trade Names, Non-Compete Agreement	Purchase Price Allocation	Entry
Purchase/ Sale/ Merger/ Acquisition Transaction	Transfer Pricing / Tax - withholding tax/ capital gains tax	Customer Contracts & Relationships	Impairment Testing	Financial reporting - Private Equity -IPEVC Valuation guidelines
Litigation/ Dispute / Family Settlements	Valuation under SEBI Regulations	Software and Technology	Financial Instruments – Options, ESOPs, Derivatives	Subsequent rounds of funding
Fund raising	The Companies Act requirement	Intellectual Property	Ind AS reporting	Exit

Restructuring

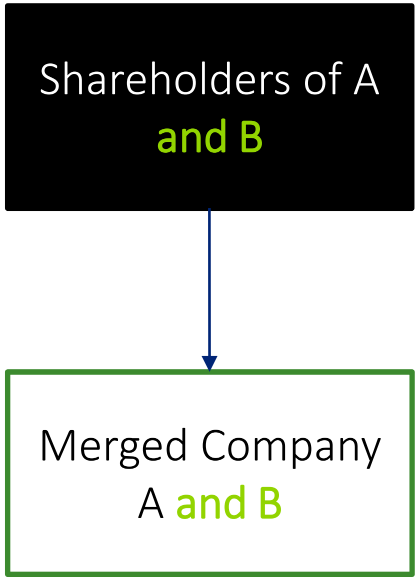
- Various Types of Restructuring Possible. Some of the types are:
  - Mergers, Demergers, Slump Sale / Carve Outs, Joint Ventures
- Merger Demerger Valuation Proposition
  - Merger / Amalgamation valuation - attempt is not to arrive at absolute values of the shares of the companies, but their relative values, on a stand alone basis for each company, to arrive at the exchange / entitlement ratio.
  - Values of operating assets best captured by the value of income they can generate.
  - Values of non-operating assets, if any, which can be easily disposed off without affecting the business of the companies are based on their estimated net realizable values.
  - Fair Share exchange ratio for Merger – Valuation of shares of **Transferor Company** *(Company being merged)* and shares of **Transferee Company** *(Company into which the merger takes place)*
  - Fair Share entitlement ratio for Demerger – Valuation of **Demerged Undertaking** *(undertaking being Demerged)* and of shares of **Resulting Company** *(Company receiving the Demerged Undertaking)*

Merger

Existing Structure



Revised Structure



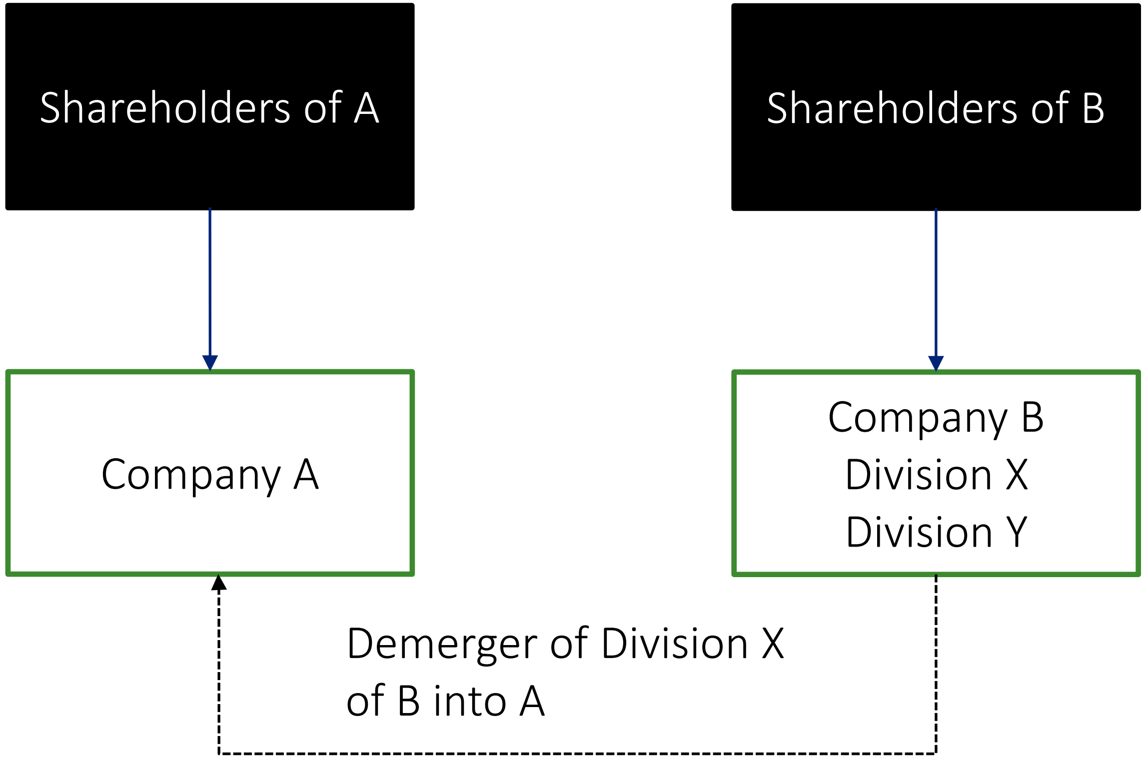
Shareholders of B to receive equity shares of A, in lieu of their shares in B, in terms of the fair equity share exchange ratio

Merger

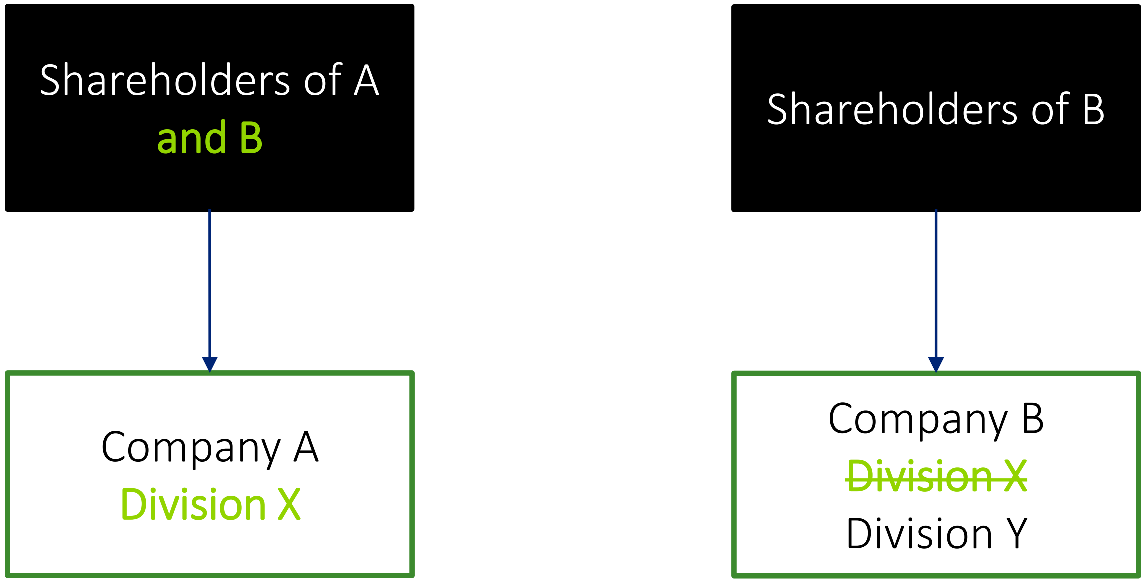
Valuation Approach	A Limited		B Limited	
	Value per Share	Weight	Value per Share	Weight
Asset Approach	100	0%	50	0%
Income approach	230	50%	105	50%
Market approach	210	50%	115	50%
Relative Value per Share	220		110	
Exchange Ratio (rounded off)	1 (One) Equity share of A Limited for Every 2 (Two) Equity Shares of B Limited			

Demerger

Existing Structure



Revised Structure

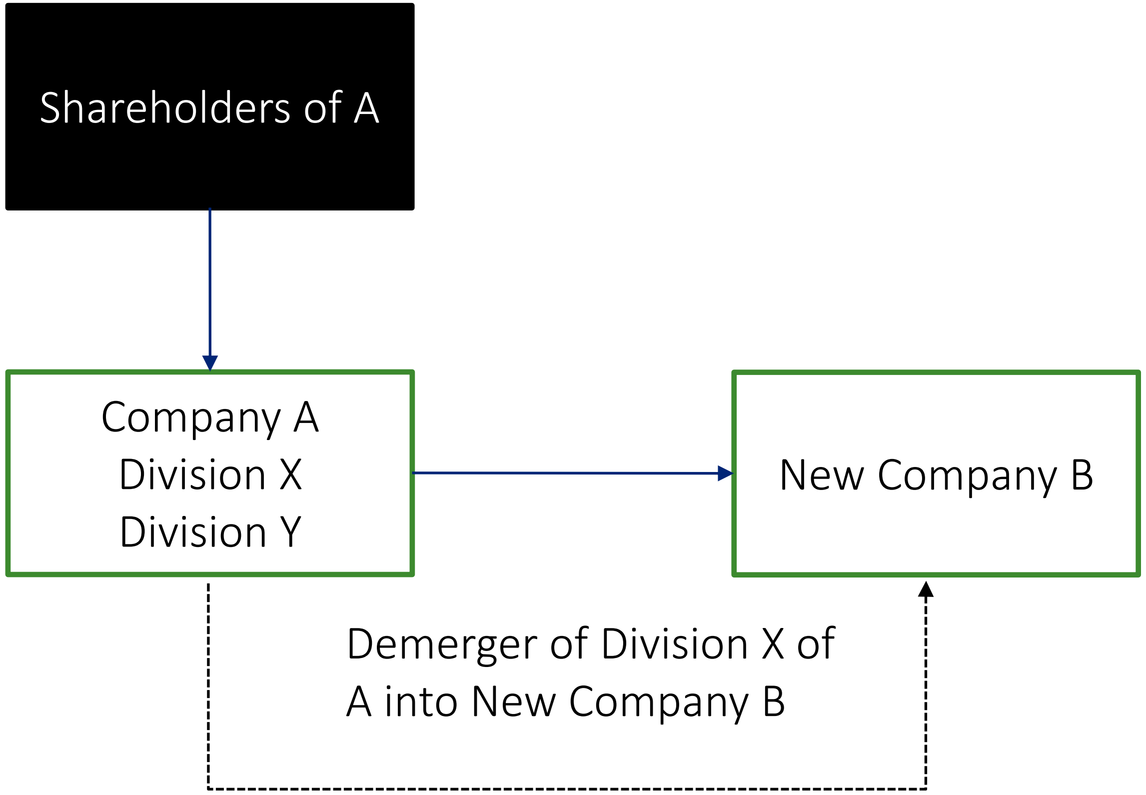


Shareholders of B to receive equity shares of A, in lieu of their shares in B **represented by the Division X**, in terms of the fair equity share entitlement ratio

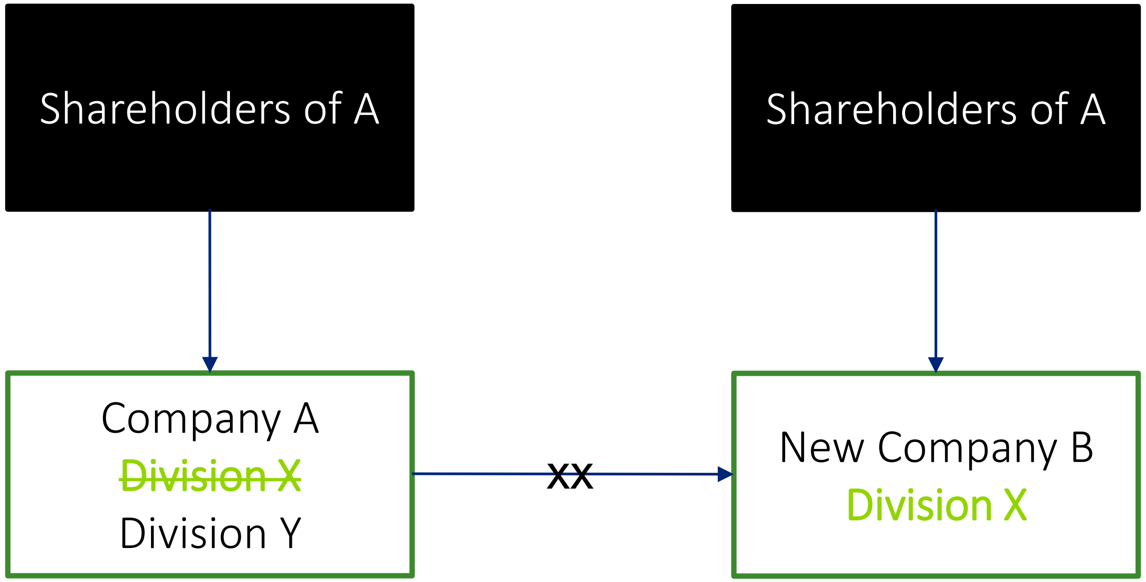
Company B gives up Division X
Shareholders of B receive shares in A, in lieu of Division X

Demerger – Mirror Shareholding

Existing Structure



Revised Structure



Shareholders of A to receive equity shares of B – Mirror Shareholding, in terms of the fair equity share entitlement ratio

Slump Sale

Existing Structure

Company A
Division X
Division Y

Company B
Has Cash

Slump Sale of Division X of A to Company B

Revised Structure

Company A
Division Y
Cash from Sale

Company B
Division X

A to receive Cash from B, for Slump Sale of Division X

Joint Venture

Existing Structure

Company A
Has Assets

Company B
Has Cash

Revised Structure

Company A

Company B

Joint Venture
Assets from A
Cash from B

A to contribute assets to the JV and B to contribute Cash to the JV

Thank You