

Body of Knowledge
IM&A Certification Program

05/2016

I) Essentials of Mergers & Acquisitions

A) Strategy

- 1) Forms and Methods of M&A
 - (a) Acquisitions
 - (i) Share Deal
 - (ii) Asset Deal
 - (iii) Stake Building
 - (iv) Majority Stakes
 - (v) Controlling Stakes
 - (vi) Blocking Stakes
 - (vii) Divestiture
 - (viii) Squeeze out
 - (b) Mergers
 - (i) Statutory Merger
 - (ii) Subsidiary Merger
 - (iii) Consolidation Merger
 - (iv) Reverse Merger
 - (c) Leveraged Buy Outs (LBOs)
 - (i) Degree of leverage
 - (ii) Capital structure
 - (iii) Bank debt
 - (iv) Subordinate debt
 - (v) Mezzanine debt
 - (vi) Securitization
 - (vii) Common Equity
 - (viii) Repayment
 - (d) Management Buy Outs (MBOs)
 - (e) Management Buy Ins (MBIs)
 - (f) Initial Public Offerings (IPOs)
 - (i) Primary and secondary offerings
 - (ii) Exit strategies
 - (iii) Corporate governance and transparency
 - (iv) Going private
 - (g) Tender Offers
 - (i) Attitude: Hostile, Unsolicited, Friendly
 - (ii) Mandatory
 - (iii) Voluntary

- (iv) Creeping
- (v) Mini tender
- (vi) Partial tender
- (vii) Self tender
- (viii) Two tier tender
- (h) Spin Off
 - (i) International
 - (ii) Divisional
- (i) Equity Carve Out
- (j) Split Off
- (k) Privatization
 - (i) Deregulation
 - (ii) Regulatory realities
 - (iii) Procedures
 - (iv) Nationalization
- (l) Activist Investors
 - (i) Corporate Governance
 - (ii) Push for M&A
- 2) Strategy
 - (a) Ownership shapes the M&A strategy
 - (i) Closely held companies
 - (ii) Family held companies
 - (iii) Trusts
 - (iv) State owned Enterprises (SOEs)
 - (v) Financial Investors
 - (vi) Listed companies
 - (vii) Institutional investors
 - (viii) Sovereign Wealth Funds (SWFs)
 - (b) Strategic Tools
 - (i) Environmental Analysis
 - (ii) Porter's Five Forces
 - (iii) Vision & Mission
 - (iv) Value Chain
 - (v) Ansoff Matrix
 - (vi) Strengths / Weaknesses and Opportunities / Threats (SWOT)
 - (vii) Portfolio Analysis Tools
 - (i) Boston Consulting Group (BCG) Matrix
 - (ii) GE / McKinsey Matrix

- (iii) Arthur D. Little (ADL) Matrix
- (c) Economic Classifications of M&A
 - (i) Horizontal
 - (ii) Vertical
 - (iii) Diversifying/Conglomerate
- (d) M&A Strategies
 - (i) Overcapacity M&A
 - (ii) Geographic roll-up M&A
 - (iii) Product or Market Extension M&A
 - (iv) M&A as R&D
 - (v) Industry Convergence
- (e) Industry Consolidation
 - (i) Industry concentration by industry
 - (ii) Concentration and Fragmentation
 - (iii) First mover vs. defensive strategies
- (f) Management of M&A Portfolios
 - (i) Attractiveness of transactions
 - (ii) Potential for value creation
 - (iii) M&A programs and tactics and their returns in different strategies
 - (iv) Where the growth comes from: organic vs. M&A
 - (v) Capability or resource based view of M&A

B) M&A Process

- 1) Buy-side Process (Traditional view vs. holistic process)
 - (a) Financing
 - (b) Strategy
 - (c) Integration planning
 - (d) Identification of targets
 - (e) Valuation
 - (f) Due Diligence
 - (g) Negotiation
 - (h) Approvals
 - (i) Board Approvals
 - (ii) Regulatory Approvals
 - (iii) Antitrust Approvals
 - (iv) Shareholder Approvals
 - (i) Closing
 - (j) Integration Execution
 - (k) Post M&A Review

- 2) Sell-side Process
 - (a) Strategy
 - (b) Separation planning and execution
 - (c) Identification of buyers
 - (d) Valuation
 - (e) Due Diligence
 - (f) Negotiation
 - (g) Approvals
 - (h) Closing
 - (i) Transfer
- 3) Advisors in the process
 - (a) How to work with advisors
 - (i) Reasons for working with advisors
 - (ii) Driving the project and coordination
 - (iii) Selection of advisors
 - (iv) Fees
 - (b) Type of Advisors
 - (i) Financial advisors
 - (ii) Accounting & tax advisors
 - (iii) Legal advisors
 - (iv) Strategy advisors
 - (v) Senior advisors
 - (vi) Project management
 - (vii) IT consultants
 - (viii) Real estate consultants
 - (ix) Human resource consultants and executive search
 - (x) Insurance consultants
- 4) Search for Targets, Buyers or Merger Partners
 - (a) Identification of companies
 - (b) Long Lists and Short Lists
- 5) Agreements and Documents in M&A
 - (a) (Advisory) Engagement Letters
 - (b) Non-disclosure (NDA) and Confidentiality Agreement
 - (c) Exclusivity Agreement
 - (d) Teaser
 - (e) Information Memorandum
 - (f) Letter of Intent
 - (g) Memorandum of Understanding

- (h) Share Purchasing Agreement (SPA)
- 6) M&A Pipeline Building
 - (a) Origination and Deal Flow
 - (b) M&A Portfolio
 - (c) Acquisition Criteria

C) Mergers & Acquisitions Activity, Pattern and Timing

- 1) Historical Waves in the United States
 - (a) 1st wave: "Mergers for Monopoly" (1896-1904)
 - (b) 2nd wave: "Mergers for Oligopolies" (1922-1934)
 - (c) 3rd wave: "Mergers for Diversification and Focus" (1963-1974)
 - (d) 4th wave: "Financial Innovation" (1985-1991)
 - (e) 5th wave: "Strategic Deals" (1994-2001)
 - (f) 6th wave: "Private Equity" (2002-2009)
 - (g) 7th wave: "Mega Deals" (2012-ongoing)
- 2) Historical Waves in Developed Countries
 - (a) United Kingdom
 - (b) Germany
 - (c) France
- 3) M&A Activity in Emerging Markets
 - (a) Asia
 - (b) China
 - (c) South America
- 4) Current Deal Activity
 - (a) Worldwide
 - (b) Regions
 - (c) Industries
 - (d) Deal types
- 5) Largest Deals
- 6) Common Factors and Differences of M&A Waves
- 7) Riding the Wave? Timing of M&A

D) Hostile and Friendly Takeovers

- 1) Historical and current hostile takeovers
- 2) Takeover Attacks
 - (a) Street sweep
 - (b) Drop and sweep

- (c) Block purchase and toehold
 - (d) Saturday night special
 - (e) Bear hug
 - (f) Strong bear hug
 - (g) Godfather offer
 - (h) Tender offers
 - (i) Two-tier offer
 - (j) Proxy contest
 - (k) Consent solicitation
- 3) Takeover Defence
- (a) Company statutes / charter amendments
 - (b) Golden parachutes
 - (c) Employee stock ownership plans (ESOPs)
 - (d) Labor Agreements
 - (e) Poison Pills
 - (f) Poison Puts
 - (g) Termination Fees
 - (h) Asset Lockup
 - (i) Crown Jewel Defence
 - (j) Stock Lockup
 - (k) Regulatory and legislative protection
 - (l) Litigation and lawsuits
 - (m) Pac Man Defence
 - (n) Share Repurchases
 - (o) Leveraged Recapitalization
 - (p) Asset Restructuring
 - (q) White Knight
 - (r) White Squire
 - (s) Going private
 - (t) Leveraged buyout

E) Stakeholder Management

- 1) Stakeholder Analysis
- (a) Gathering Information
 - (b) Communication Approach
 - (c) Key Interests and Issues
 - (d) Current Status
 - (e) Desired Support
 - (f) Messages needed

- (g) Actions and Communications
- 2) Capital Market Stakeholders
 - (a) Shareholders
 - (b) Banks
- 3) Organizational Stakeholders
 - (a) Management
 - (b) Employees
- 4) Product/Market Stakeholders
 - (a) Unions
 - (b) Suppliers
 - (c) Customers
 - (d) Government
 - (e) Host Communities

F) Communication in M&A

1. Reasons for communication in M&A
 - a. Challenges and guiding principles
 - b. Communication along the M&A Process
 - c. Concept proposal
 - d. Communication with the board of directors
 - e. Announcement to employees
 - f. The M&A Story
 - g. Communication Plans
2. Communication Strategies
 - a. Internal Communication
 - b. External Communication
 - c. Instruments
 - d. Frequency
 - e. Content
 - f. Dimensions of Communication
 - g. Multipliers

II) Due Diligence

A) Due Diligence Organization

- 1) Due Diligence over the life cycle of a transaction
 - (a) Preparation
 - (b) Vendor Due Diligence
 - (c) Post Closing Due Diligence
- 2) Organization of Due Diligence
 - (a) Due Diligence Teams
 - (b) Perspectives of the seller and buyer
 - (c) Data Rooms
 - (d) Information request list
 - (e) Due Diligence check list
 - (f) Management interviews
 - (g) Site visits
 - (h) Reporting
- 3) Aspects of due diligence
 - (a) Framework and Areas of Due Diligence
 - (i) Traditional
 - (ii) Business
 - (iii) Risk
 - (b) Minimum Due Diligence and Warning Signs
 - (c) Deals without Due Diligence
 - (d) Due Diligence in Emerging Economies

B) Financial Due Diligence

- 1) Aspects of Financial Due Diligence
 - (a) Potential Deal Breakers
 - (b) Ammunition for Negotiation
 - (c) Quality of earnings
 - (d) Understanding the business
- 2) Financial DD and Audit
 - (a) Difference to an audit
 - (b) Access to audit papers
- 3) Organization of Financial DD
 - (a) Reporting and Interviewing
 - (b) Choosing the Financial DD team
 - (c) Process of Financial DD

- (d) Reporting of Financial DD
- 4) Special aspects of Financial DD
 - (a) Profit & Loss: Performance
 - (b) Balance Sheets
 - (c) Financing arrangements
 - (d) Cash Flow Statements
 - (e) Taxation
 - (f) Forecasts

C) Tax Due Diligence

- 1) Aims of the Tax Due Diligence
 - (a) Identify tax exposures and liabilities
 - (b) Tax incentives in the past
 - (c) Plan for tax issues
 - (d) Structure the deal tax wise
- 2) Different types of taxes
 - (a) Corporate tax
 - (b) VAT and sales tax
 - (c) Employment and income tax
 - (d) Social security
- 3) Transaction structuring

D) Legal Due Diligence

- 1) Objectives of Legal Due Diligence
 - (a) Potential liabilities
 - (b) Legal and contractual obstacles
 - (c) Final agreements and structuring
- 2) Inhouse counsel vs. external lawyers
 - (a) Selection of legal advice
 - (b) Briefing of legal experts
 - (c) Carrying out the legal due diligence investigation

E) Human Resources Due Diligence

- 1) Employment contracts and agreements
- 2) Compensation & Benefits
- 3) Labor agreements, unions, and work councils
- 4) Cultural Due Diligence
- 5) Severance
- 6) Organizational questions

- 7) Retention of key people
 - (a) Acquiring Talent & Management with M&A
 - (b) Incentives for Post Merger Integration success
- 8) Management audits
- 9) HR Organization
- 10) HR Compliance

F) Commercial Due Diligence

- 1) General tools for industry analysis
 - (a) Five Forces
 - (i) Rivalry
 - (ii) Power of buyers
 - (iii) Power of suppliers
 - (iv) Threat of new entrants
 - (v) Substitutes
 - (b) Business Strategies and Models
 - (c) Strategic groups
 - (d) Segmentations
- 2) Customer Analysis
 - (a) Customer portfolio
 - (b) Profitability of customer groups
 - (c) Customer satisfaction
- 3) Product and Technology Analysis
 - (a) Product portfolio
 - (b) Technology
 - (c) Investments
- 4) Corroboration of Synergies
 - (a) Cost synergies
 - (b) Growth synergies
 - (c) Dissynergies
- 5) Overlap with other Due Diligence areas
- 6) Sources of information
 - (a) Management
 - (b) Customers
 - (c) Former employees
 - (d) Industry experts
 - (e) Suppliers
 - (f) Distributors
 - (g) Regulators

- (h) Market leavers
- 7) Organizing Commercial Due Diligence
 - (a) Contacting and access to people
 - (b) Planning of discussions
 - (c) Reporting

G) Other Due Diligence Areas

- 1) IT Due Diligence
 - (a) IT management and organization
 - (b) IT application portfolio, infrastructure and costs
 - (c) Reliability and scope of IT applications
 - (d) IT processes and infrastructure
 - (e) Current and future business requirements with regards to IT
 - (f) Assess of real IT costs
 - (g) Hidden IT expenses
 - (h) Restructuring costs
- 2) Environmental Due Diligence
 - (a) Contamination and pollution
 - (b) Compliance with environmental laws
 - (c) Arrangements with agencies
 - (d) Waste handling
 - (e) Insurances
- 3) Intellectual Property Due Diligence
- 4) Real estate Due Diligence
- 5) Antitrust Due Diligence
- 6) Insurance Due Diligence

III) Financing, Valuation and Deal Design

A) Financing

- 1) Form of payments
 - (a) Cash
 - (b) Stocks
 - (c) Hybrid forms
- 2) Financing pecking order and sources of financing
 - (a) Internal cash
 - (b) Treasury Shares
 - (c) Debt
 - (d) Equity
- 3) Characteristics of stock deals

B) Valuation

- 4) Valuation rules
- 5) Fundamental analysis
- 6) Valuation methods
 - (a) Payback period
 - (b) Book value
 - (c) Liquidation value
 - (d) Replacement costs
 - (e) Multiples
 - (i) Trading multiples
 - (ii) Transaction multiples
 - (iii) Operational multiples
 - (f) Discounted cash flow (DCF)
 - (i) Free Cash-Flows
 - (ii) Terminal Value
 - (iii) Discount Rate
 - (iv) Weighted average Cost of Capital
 - (v) Relevering Beta
 - (g) Venture/capital equity approach
 - (h) Option theory
- 7) Growth Models
 - (a) Perpetuity
 - (b) Gordon growth model
 - (c) 2 Stage Model

- (d) 3 Stage Model
- (e) Decline
- 8) Terminal value
- 9) Premiums and discounts
- 10) Valuation of Synergies
 - (a) Types of Synergies
 - (i) Economies of Scale
 - (ii) Growth Synergies
 - (iii) Retention
 - (iv) Return on Capital
 - (v) Functional Integration
 - (b) Timing of Synergies
 - (c) Financial Synergy
 - (i) Diversification
 - (ii) Cash Slack
 - (iii) Tax Benefits
 - (iv) Debt Capacity
 - (d) Balance Sheet
 - (i) Overview
 - (ii) Red Flags
 - (iii) NOPAT
 - (e) Internal Rate of Return
- 11) Valuation in Emerging Markets
 - (a) Adjusting Cashflows for Risk
 - (i) Cultural Risk
 - (ii) Country Risk
 - (iii) Legal Risk
 - (iv) Taxation Risk
 - (v) Supply Chain Risk
 - (vi) HR Risk
 - (b) Building robust Macroeconomic Scenarios
 - (i) Inflation Rate
 - (ii) Foreign-Exchange Rates
 - (iii) Interest Rate
 - (iv) Purchasing Power Parity
 - (v) GDP Growth
 - (c) DCF in Emerging Markets
 - (i) Capital Asset Pricing Model (CAPM)

- (ii) Multiples

12) Valuation of Startups

- (a) Seed Stage

- (i) Transaction

- (ii) Reputation

- (iii) Revenues

- (iv) Distribution Channel

- (b) Series A

- (i) Growth

- (ii) Multiples

- (c) Venture Capital Method

- (i) Scenario Forecasting

- (ii) Divestment Price

- (iii) Required Return

- (iv) Probabilities

- (d) Types of Options

- (i) Real Options

- (ii) Performance Based Stock-Options

13) Valuation in Bankruptcy Cases

- (a) Capital Cash Flow

- (i) Going Concern Value

- (ii) Discount Factor

- (iii) Projecting Cash Flows

- (b) Multiples

- (c) Fresh Start Accounting

- (i) Chapter 11

- (ii) Other Insolvency laws

- (d) Sensitivity Analysis

- (i) Cash Flows

- (ii) Tax Rates

- (iii) Growth Rates

- (iv) Discount Rates

- (e) Net Operating Losses Utilization

- (f) Post-bankruptcy Market Values

- (g) Sources of Valuation Errors

- (i) Quantity of Information

- (ii) Quality of Information

- (iii) Market Trading

- (iv) Analyst Coverage
- (v) Analysts' Forecast
- (h) Strategic Valuations
 - (i) Relative Bargaining strength of competing claimholders
 - (ii) Managements' Equity Ownership
 - (iii) Existence of outside bids
 - (iv) Senior Management Turnover
- 14) Leveraged Buyout Valuation
 - (a) Factors Affecting Pre-Buyout Returns
 - (i) Premium paid
 - (ii) Tax Benefits
 - (iii) Wealth Transfer
 - (iv) Superior Knowledge
 - (v) More efficient decision-making
 - (b) Types of Debt
 - (i) Senior Debt
 - (ii) Subordinated debt
 - (iii) Preferred stock
 - (iv) Common Equity
 - (c) Cost of Capital
 - (i) Defining Debt to Equity Ratio
 - (ii) Terminal Value
 - (iii) Adjusting Discount rate
 - (d) Adjusted Present Value
 - (i) Defining FCF
 - (ii) Cost of Equity
 - (e) Present Value of Tax Savings
 - (f) Junk Bond Financing
- 15) Other Models and Techniques
 - (a) Financial Planning Models
 - (i) Sales Forecast
 - (ii) Pro Forma Statements
 - (iii) Asset Requirements
 - (iv) Financial Requirements
 - (v) Economic Assumptions
 - (vi) Determinants of Growth
 - (vii) Monte Carlo Simulations
 - (b) Investments Decision Criteria

- (i) Net Present Value approach
- (ii) Payback Period
- (iii) Discounted Payback
- (iv) Average Accounting Return
- (v) Internal Rate of Return
- (vi) Profitability Index
- (vii) Real Options
- (viii) Economic Value Added / Residual Income
- (c) Cash flow Projections
 - (i) Incremental
 - (ii) Sunk Costs
 - (iii) Opportunity Costs
- (d) Side Effects
 - (i) Net Working Capital
 - (ii) Financing Costs
- (e) Project Analysis and Evaluation
 - (i) Scenario Analysis
 - (ii) Sensitivity Analysis
 - (iii) Simulation Analysis
- (f) International Capital Budgeting
 - (i) Restrictions of foreign ownership
 - (ii) Restriction on Domestic borrowing for foreign companies
- (g) Home Currency Approach
 - (i) Foreign Currency Approach
 - (ii) Transfer Pricing
 - (iii) Foreign Tax Calculation
- (h) Business and Financial Risk
 - (i) Fixed vs. Variable Cost
 - (ii) Accounting Breakeven
 - (iii) Operating Leverage
 - (iv) Financial Leverage
- (i) Financial Effects of Acquisitions
 - (i) Earnings per Share
 - (ii) Diversification

C) Deal Design

- 1) Desirables
 - (a) Value Creation
 - (b) Improved financial outcome

- (c) Corporate control
 - (d) Financial flexibility
 - (e) Risk management
 - (f) Competitive position
 - (g) Incentives for management
 - (h) Corporate governance
 - (i) Impact on employees and community
- 2) Design variables
- (a) Price
 - (i) Zone of Potential Agreements
 - (b) Form of payment:
 - (c) Fixed
 - (i) Contingent
 - (ii) Side
 - (iii) Financing
 - (d) Timing and deadlines
 - (e) Commitments
 - (f) Control and governance
 - (g) Risk management
 - (h) Accounting choices
 - (i) Tax issues
 - (j) Social issues

B) Restructuring

- 1) M&A of Distressed Companies
- (a) Debtor & Creditor Overview
 - (b) Secured Creditors
 - (c) Unsecured Creditors
 - (d) Advisors & Other Parties
 - (e) Avoiding Common Pitfalls
 - (f) Accounting for Workouts
 - (g) Accounting for Bankruptcy
- 2) Mitigating Legal Risks
- (a) Fiduciary Duties
 - (b) Antitrust
 - (c) Fraudulent Transfers

IV) Post Merger Integration (PMI)

A) M&A Strategy & Integration

- 1) Biggest Challenges in PMI
 - (a) Value for Money
 - (b) Post Merger Integration
 - (c) Management Distraction
 - (d) Shareholders
 - (e) Cross-border Cultural Differences
- 2) Success Factors and Barriers to Change
- 3) Speed of Integration
 - (a) Speed as a success factor
 - (b) Adaption of speed according to deal specifics
 - (c) Determination
- 4) PMI Related Reasons for M&A Failures

B) Organization and Governance of PMI

- 1) Project Governance in PMI
 - (a) Integration Steering Committee
 - (b) Integration Leader
 - (c) Integration Management Office (IMO)
 - (d) Project Workstreams
 - (e) Examples of PMI Organizational Structures
- 2) PMI Team and Resources
 - (a) Conflict Resolution in PMI
 - (b) Steering the rational and the emotional side of PMI
 - (c) Involvement of Top Management
 - (d) Staffing needs
- 3) Measuring PMI
- 4) Integration Concept
 - (a) Pre-Deal
 - (b) Integration Concept
 - (c) Leadership
 - (d) Organization
 - (e) Considering a New Start
 - (f) Integration Phases 1 & 2
 - (g) Preparation
- 5) Integration Phases

- (a) Setting the course
- (b) Plan for Day 1
- (c) 90/100 Days Plan
- (d) Longterm Plan

C) Phase 1: PMI Planning

1. Integration Approaches

- a. Preservation
- b. Confederation
- c. Linking
- d. Absorption
- e. Best from both worlds
- f. Transformation
- g. Determining factors for choice of Integration approach
- h. Implications of M&A Strategy on Integration approach
- i. Change Management
- j. Key Talent

2. Synergy Management

- a. Target Setting
- b. Cost and Growth Levers
- c. Controlling of synergies

D) Pre-Closing Tasks and Day 0

- 1. Finalizing the transaction
- 2. Leadership issues
- 3. Management Audit and Assessment
- 4. Layoffs
- 5. Plan for reporting
- 6. Review with management 90/100 day plan
- 7. Determine and create management accountability for deliverables

E) First 90/100 Days

F) Long Term Integration

- 1. 2nd wave integration