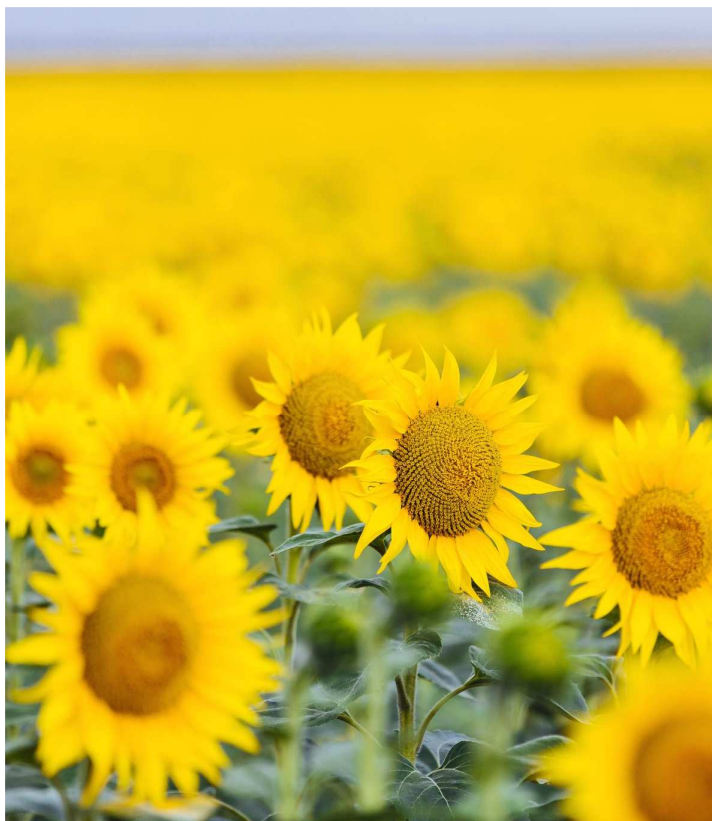




Leading M&A and Private Equity Deals in "new" deal world

3 September 2020





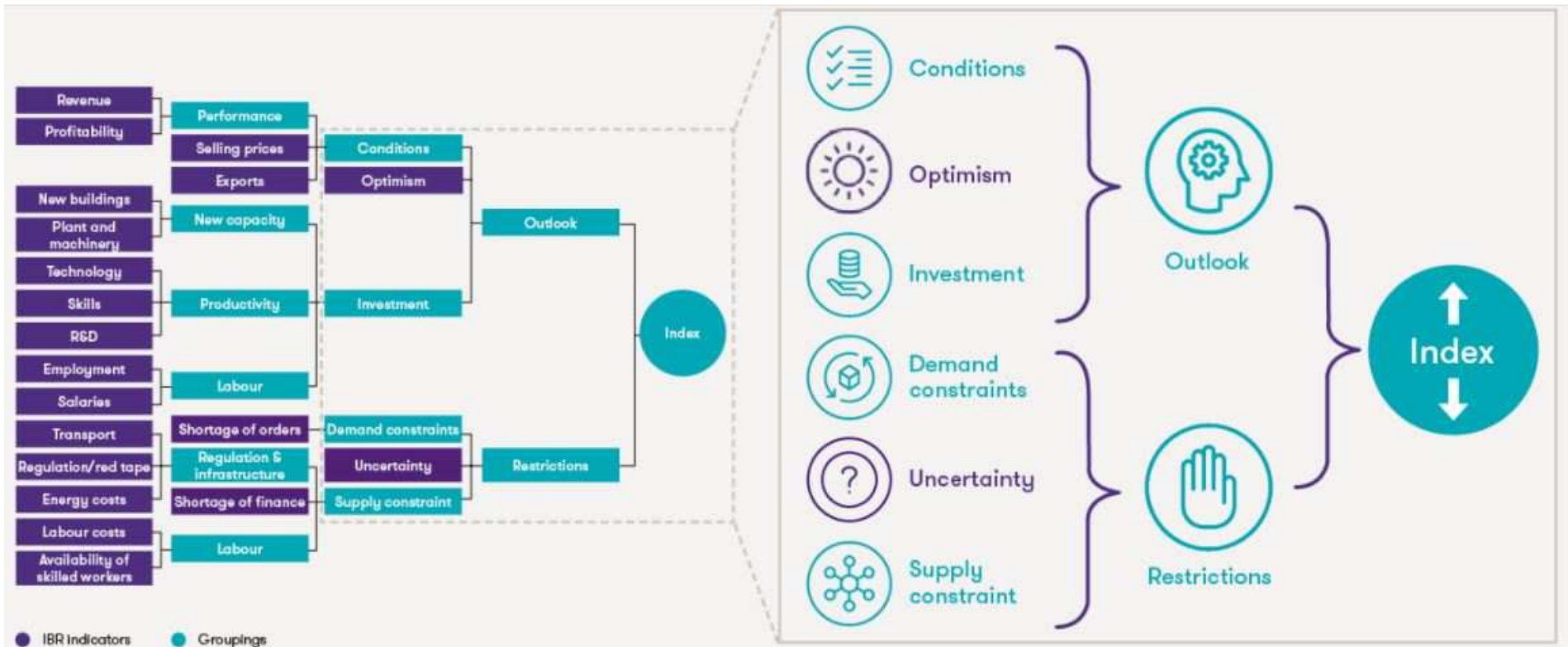
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The views expressed herein are personal views and not attributed to the Firm

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Global Business Pulse - Methodology

Health of mid-sized companies | Developed in partnership with Oxford Economics, 10,000 mid-market business leaders across 29 economies annually



Impact on the mid market, H1/20 Pulse (1/ 2)



Global Business Pulse (-9.4)

This is the first time in a decade of comparable results that the index has turned negative and reflects the blow that Coronavirus has delivered to business outlooks and operating environments



Conditions (15.6)

Business conditions have fallen markedly over the last six months hit hard, a remarkable 34% of mid-market firms around the world are still expecting an increase in revenues in the next 12 months



Outlook (14.6)

The outlook was down 14.6 points, propelled in part by a large drop in economic optimism



Uncertainty (16.9)

Around two thirds of leaders now view uncertainty as a business constraint with nearly 1 in 3 firms seeing it as a major constraint.



Restrictions (10.9)

Restrictions fell by 10.9 points, pushing this negatively scored element deeper into the red. The current environment has seen escalated concerns among mid market leaders about falling demand and economic uncertainty.



Optimism (15.4)

As at H1 2020, just 43% of firms felt slightly or very optimistic for their country's economy over the next 12 months.



Impact on the mid market, H1/20 Pulse (1/ 2)



Supply Constraints (3.9)

Supply constraints, which encompass labor, access to finance and regulation and infrastructure, have not significantly changed



Investment (12.5)

While investment intentions followed business conditions downwards – in the regular pattern we would expect – we are an acceleration of the trend towards investments in R&D and technology.

G



Demand Constraints (14.0)

Around the world, 55% of firms identify a shortage of orders (the indicator behind demand constraints) as a barrier to growth, with nearly 1 in 4 firms identifying it as a major constraint.

P

P PRESERVE
VALUE

R RESILIENCE

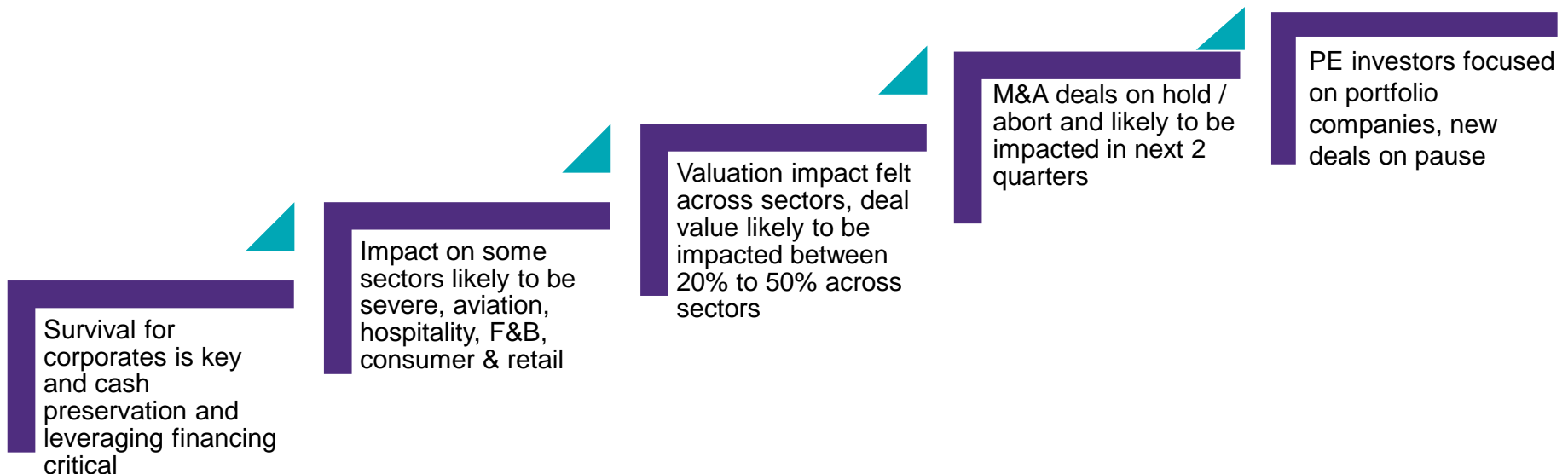
G THRIVE &
GROW

Grant Thornton | An instinct for growth™

A close-up photograph of several people's hands in starting blocks on a red running track, ready for a race. The hands are positioned on the track, with fingers spread, indicating the start of a race. The track is red with white lane markings and arrows. The text "The Deal Journey & Not destination begins..." is overlaid on the left side of the image.

The Deal
Journey & Not
destination
begins...

Deal environment – "New" Normal



Tech, healthcare, online learning, tele-medicine, etc emerging as robust investing opportunities & ESG Theme

Stressed assets in some sectors expected to increase by 10% to 50%, distressed M&A and distressed Fund to increase. Liquidation & IBC cases to increase as well.

Facebook and PE investors investment in Reliance Jio, India's digital story shaping up to next level

New FDI policy restricting investments from certain countries to impact cross-border M&A and investments

Some deal fundamentals ++

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price

Price is what you pay. Value is what you get

Sometimes the best investments are the ones you don't make

Be dispassionate about M&A, if you were to gain value from it



Scenario planning and cash forecasting critical part of due diligence

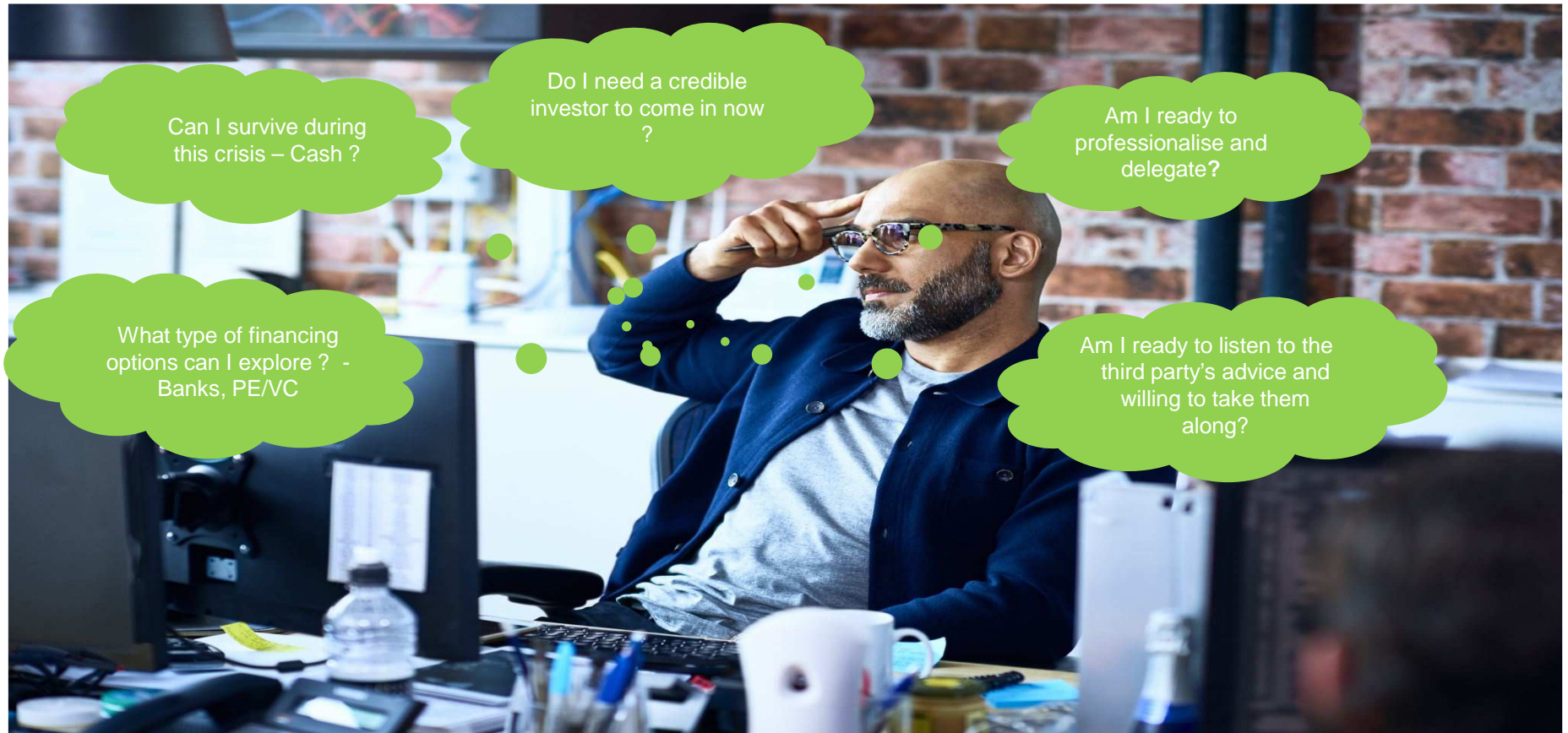
Due diligence likely to get extensive + forensics

Determining deal value based on DCF method

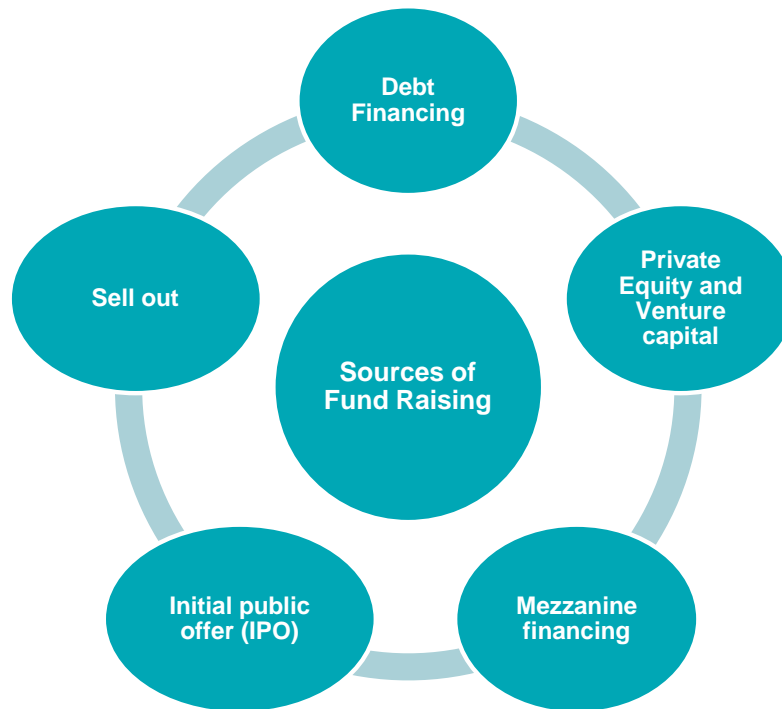
Key man insurance & succession planning

Deal structuring – stock Vs cash, earn-outs models

Entrepreneurs call for action



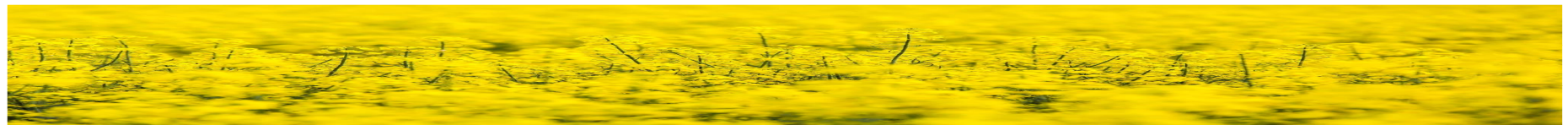
Channels for fund raising



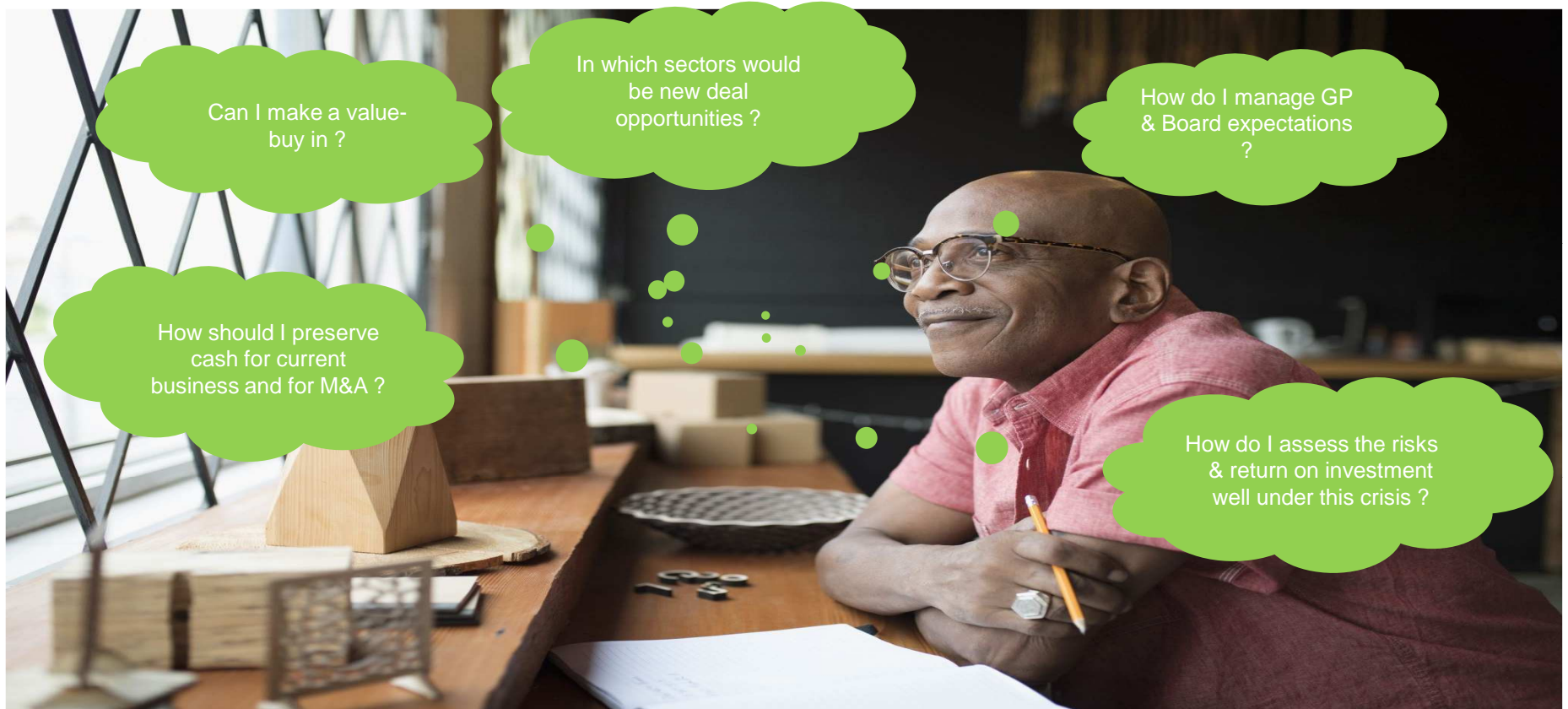
Prepare now for fund-raising

Build various scenarios and plan for the worst while prepare for recovery

Leadership is key & Call for Action



Robust investors and buyers are waiting



Can I make a value-buy in ?

In which sectors would be new deal opportunities ?

How do I manage GP & Board expectations ?

How should I preserve cash for current business and for M&A ?

How do I assess the risks & return on investment well under this crisis ?

Deal Landscape in India



India M&A and Private Equity Deal Trends

Deal Summary	Volume						
Year	2014	2015	2016	2017	2018	2019	2020*
Domestic	254	321	306	228	273	255	111
Cross Border	278	238	188	162	190	174	81
Mergers and Internal Restructuring	36	11	17	23	13	11	4
Total M&A	568	570	511	413	476	440	196
PE	587	1,046	972	736	795	816	511
Grand Total	1,155	1,616	1,483	1,149	1,271	1,256	707

Cross Border includes

Inbound	162	118	89	86	100	94	36
Outbound	116	120	99	76	90	80	45

Deal Summary	Value USD Mn						
Year	2014	2015	2016	2017	2018	2019	2020*
Domestic	15,341	8,426	12,138	5,831	34,284	16,393	9,143
Cross Border	16,344	17,292	27,029	8,140	37,656	9,888	18,809
Mergers and Internal Restructuring	3,984	2,030	3,475	26,451	17,469	1,340	20
Total M&A	35,669	27,748	42,642	40,422	89,409	27,621	27,972
PE	12,260	16,194	13,930	20,505	20,672	32,452	21,187
Grand Total	47,929	43,942	56,572	60,927	110,081	60,073	49,159

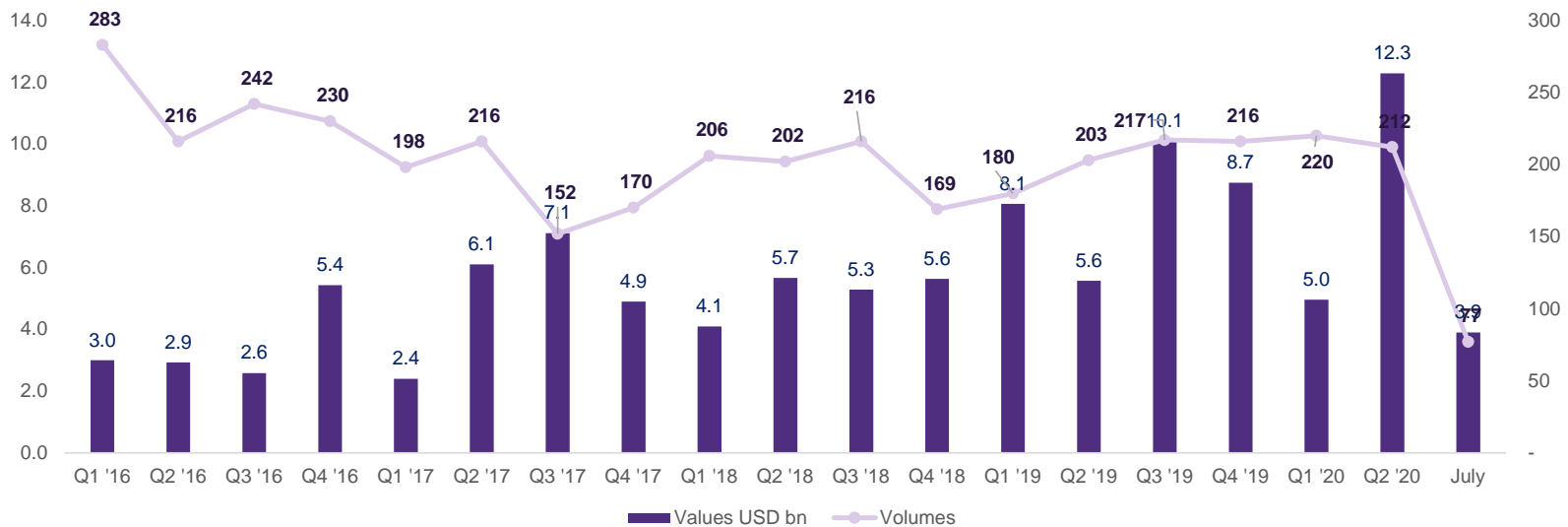
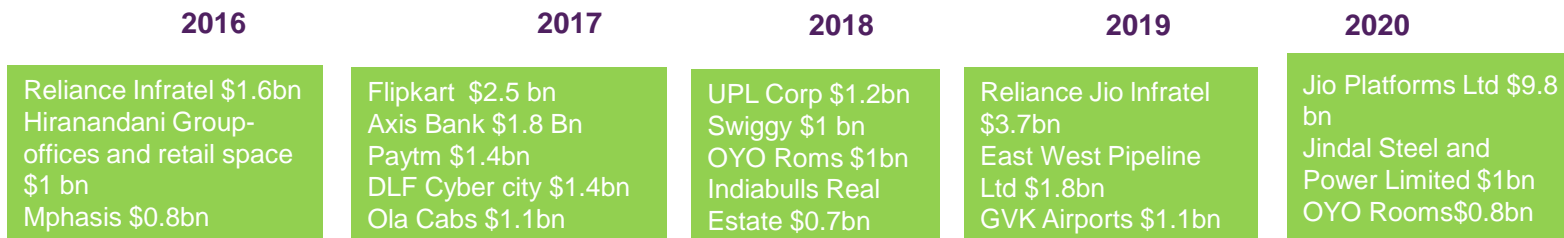
Cross Border includes

Inbound	10,368	11,329	20,737	5,962	25,741	7,900	16,522
Outbound	5,976	5,963	6,292	2,178	11,915	1,988	2,287

Source: Grant Thornton Dealtracker
2020: Jan - July

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Private Equity Deal Activity Trends



Source: Grant Thornton Dealtracker

Top PE deals in India, 2019-2020*

Investor	Investee	Sector	% Stake	US\$ mn
Brookfield Asset Management Inc.	Reliance Jio Infratel Pvt. Ltd	Telecom	49%	3,654.35
Brookfield Asset Management- InvIT	Pipeline Infrastructure Private Limited- East West Pipeline Limited	Energy & Natural Resources	100%	1,830.99
Vista Equity Partners	Jio Platforms Ltd	Telecom	2.3%	1,495.66
KKR	Jio Platforms Ltd	Telecom	2.3%	1,495.66
Public Investment Fund (PIF)	Jio Platforms Ltd	Telecom	2.3%	1,495.66
Mubadala	Jio Platforms Ltd	Telecom	1.9%	1,196.53
Abu Dhabi Investment Authority (ADIA), PSP Investments of Canada, and the National Investment and Infrastructure Fund (NIIF)	GVK Airport Developers Ltd and GVK Airport Holdings Ltd	Infrastructure Management	79%	1,072.39
Templar Investments Ltd	Jindal Steel and Power Limited- Jindal Shadeed Iron and Steel Co LLC	Manufacturing	100%	1,000.00
T Rowe Price, Alibaba's Ant Financial, SoftBank Vision Fund, and Discovery Capital.	One97 Communications Ltd- Paytm	E Commerce	N.A.	1,000.00
General Atlantic	Jio Platforms Ltd	Telecom	1.3%	868.21

Source: Grant Thornton Dealtracker
2020:Jan-July

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Top M&A deals in India, 2019-2020*

Acquirer	Target	Sector	US\$ mn	Deal Type	% Stake	Crossborder/ Domestic
ArcelorMittal India Private Limited	Essar Steel India Limited	Manufacturing	7,246.38	Acquisition	100%	Domestic
Facebook Inc.	Jio Platforms Ltd	Telecom	5,700.00	Minority Stake	10%	Inbound
Google LLC	Jio Platforms Ltd	Telecom	4,439.08	Minority Stake	8%	Inbound
RA Hospitality Holdings- Cayman	Oravel Stays Pvt Ltd- OYORooms.com	Start-up	2,000.00	Increasing stake to 30%	20%	Inbound
India Grid Trust	Sterlite Power Transmission Limited- 5 electricity transmission assets	Energy and natural resources	1,660.00	Acquisition	100%	Domestic
Haldia Petrochemicals Ltd	Lummus Technology LLC	Energy and natural resources	1,544.21	Controlling Stake	57%	Outbound
Adani Ports and Special Economic Zone L imited	Krishnapatnam Port Company Ltd	Transport and logistics	1,433.66	Majority Stake	75%	Domestic
State Bank of India, Housing Development Finance Corporation Ltd, ICICI Bank Ltd, Axis Bank Ltd, Kotak Mahindra Bank Ltd, The Federal Bank Ltd, Bandhan Bank Ltd, IDFC First Bank Ltd	YES Bank Ltd	Banking and financial services	1,388.89	Majority Stake	N.A.	Domestic
Groupe Aeroports de Paris SA (ADP)	GMR Airports Holding Ltd	Infrastructure management	1,369.01	Strategic Stake	49%	Inbound
Walmart Inc	Flipkart Online Services Pvt Ltd	E-commerce	1,200.00	Minority Stake	N.A.	Inbound

Source: Grant Thornton Dealtracker
2020:Jan-July

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"New" Deal World...Be Ready for the Change



Question & Your view required

To what extent do you think M&A activity will decline in next 2 quarters:

- a) More than 50%
- b) 25% to 50%
- c) < 25%

In your view, what is the potential downward impact on deal valuations:

- a) > 50%
- b) 20-50%
- c) < 20%

Question & Your view required

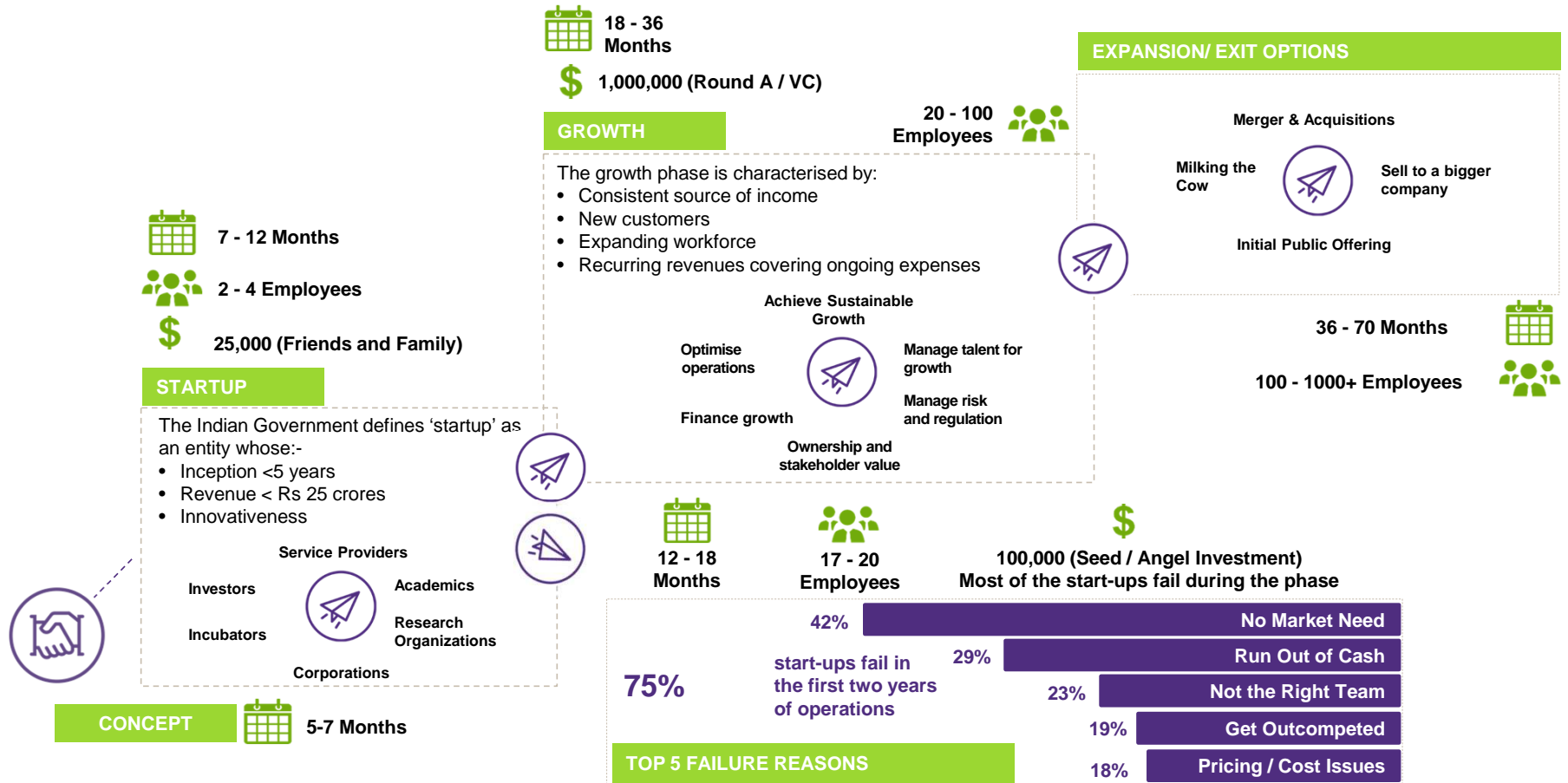
What are the biggest challenge while negotiating a M&A deal

- a) Settling on the deal price
- b) Structuring the deal, financially and legally
- c) Cultural issues and personality clashes

M&A Deal Process



M&A Deal Lifecycle



Seller's Perspective, getting started....

Drafting the information memorandum

A document drafted to market a business to prospective investors

The IM is an **opportunity to define the positioning of the company and highlighting its key USPs**

- Provide all the information that a potential investor would need to assess for evaluation
- Ensure that the process of providing information is controlled and that sensitive information is protected
- Legal caveat and disclaimer must be included covering confidentiality, content responsibility, etc.

Building the financial model

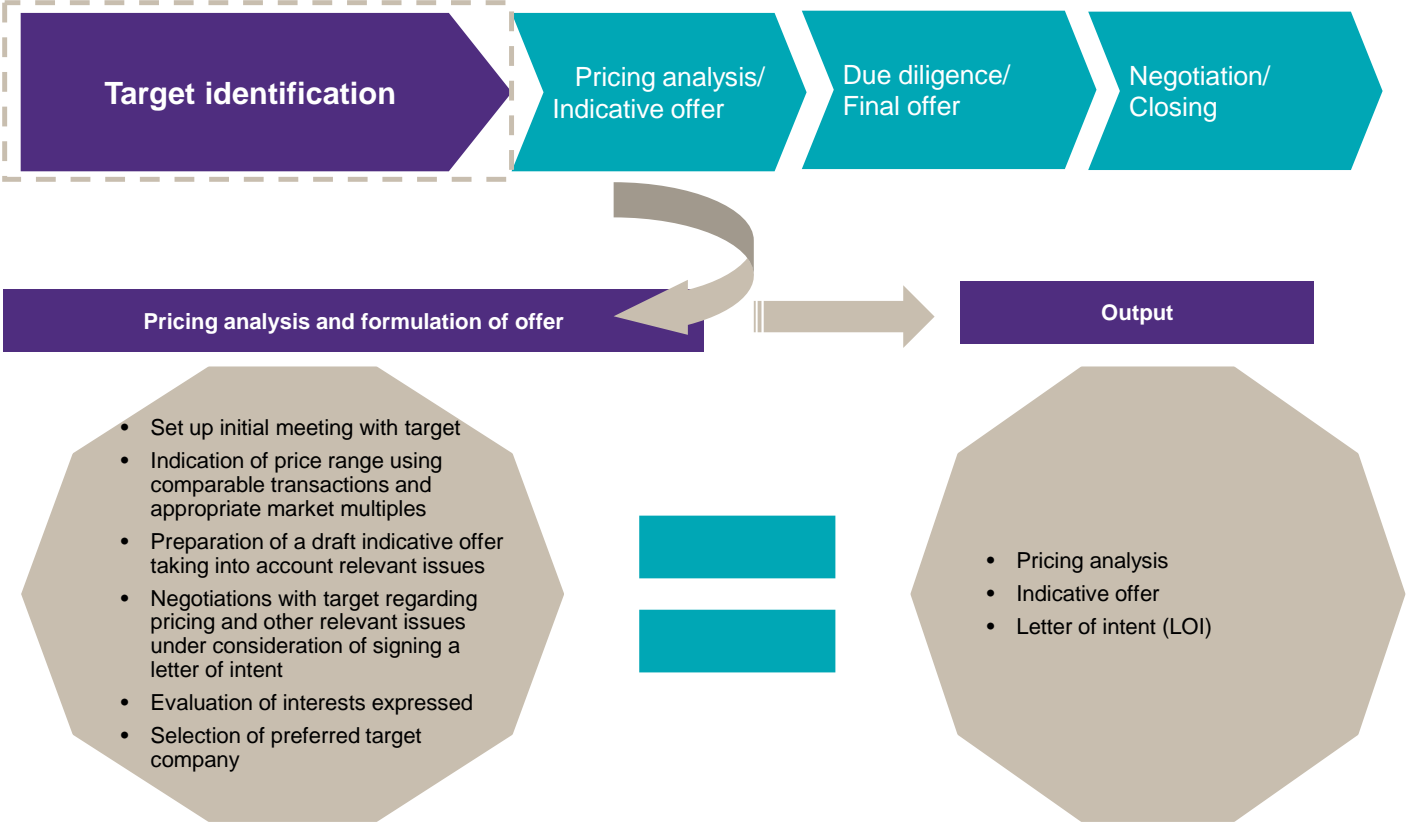
Key points to consider in the Income Statement

- Documenting assumptions helps in validation & avoids misinterpretation
- Design a logical flow that accurately reflects the forecast revenue, costs, interest and other expenses
- Identification & classification of costs and other line items on the basis of their nature

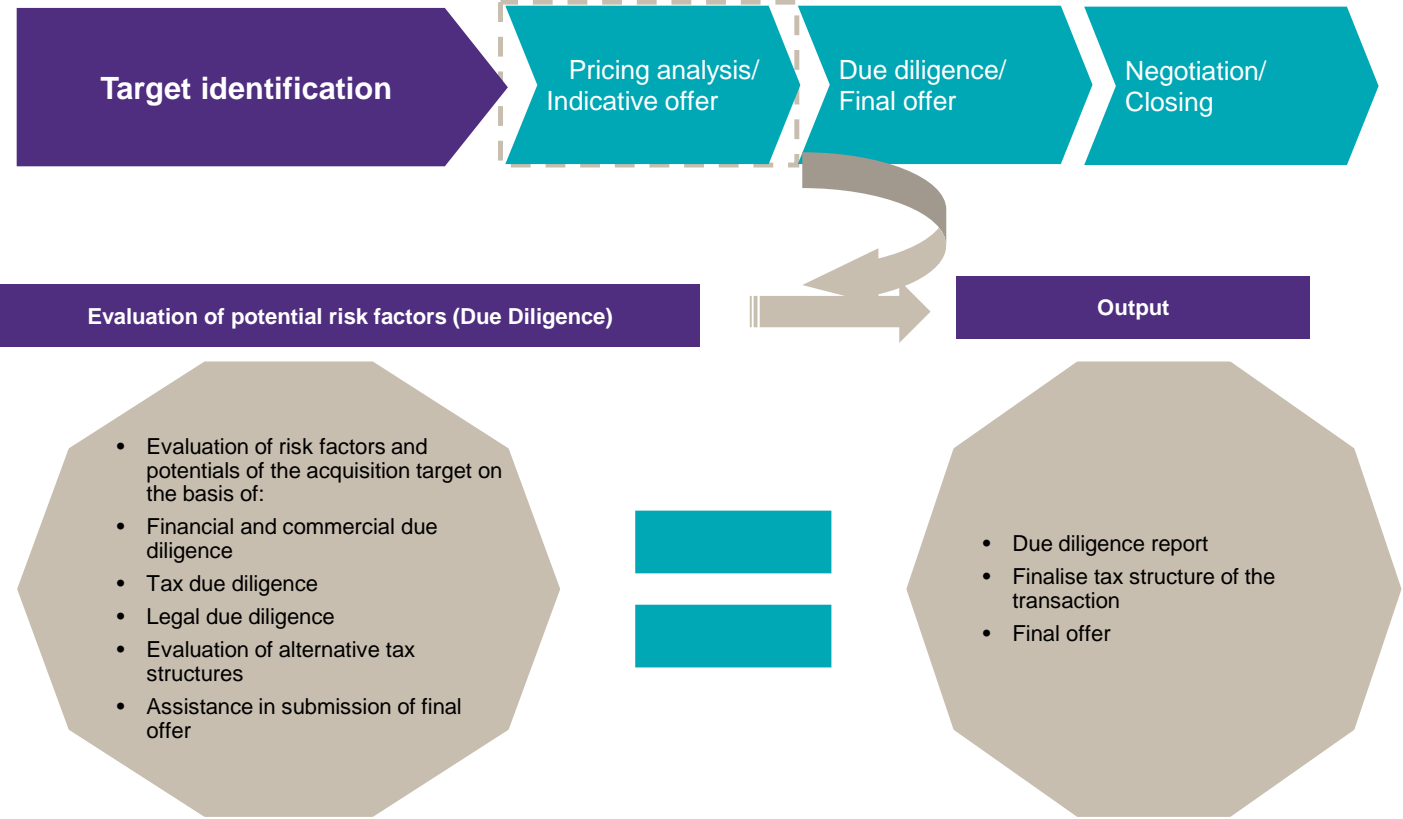
Key points to consider in the Balance sheet

- Classification of working capital & debt items
- Forecasting capex covering expansion and maintenance capex
- Net working capital should correspond to historical patterns and grow as the business grows

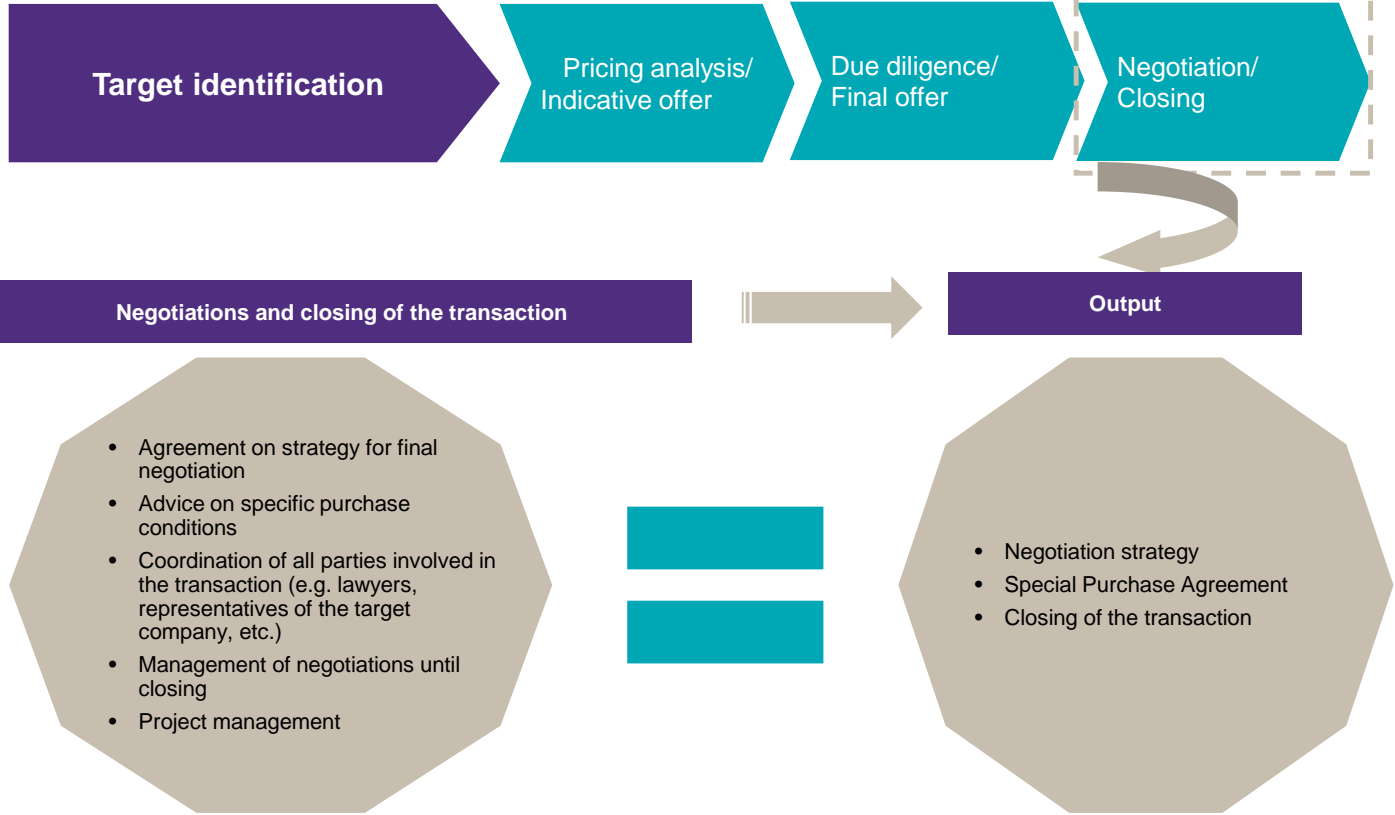
Buyer's perspective, M&A deal process



Buyer's perspective, M&A deal process



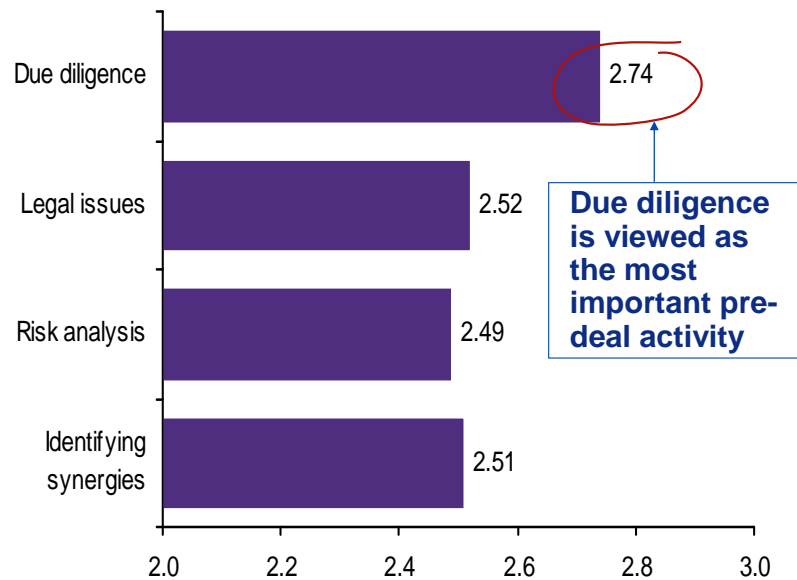
Buyer's perspective, M&A deal process



Due diligence, art & science, during deal-making



Enhanced due diligence on deals



- respondents were asked to rate the importance of various pre-deal activities.
- the top four activities were due diligence, legal issues, risk analysis and synergies.
- 37% of respondents said due diligence was the most important pre-deal activity,
- for US deals due diligence was cited by 56% of respondents



How do successful acquirers view due diligence



- “
- What are we really buying ?
 - What are the key drivers to a target's standalone value?
 - What synergies does the deal offer?
 - What new strategies are possible ?
 - What are the skeletons ?
 - What premium are we prepared to pay ?
 - What is our walk away price ?
- ”

Types of due diligence, 360-degree view



“

Financial and accounting due diligence
Commercial & Operational due diligence
Tax due diligence
Integrity due diligence
Legal & Regulatory due diligence
HR due diligence
IT due diligence
ESG due diligence
FCPA / UK Anti-Bribery Due Diligence

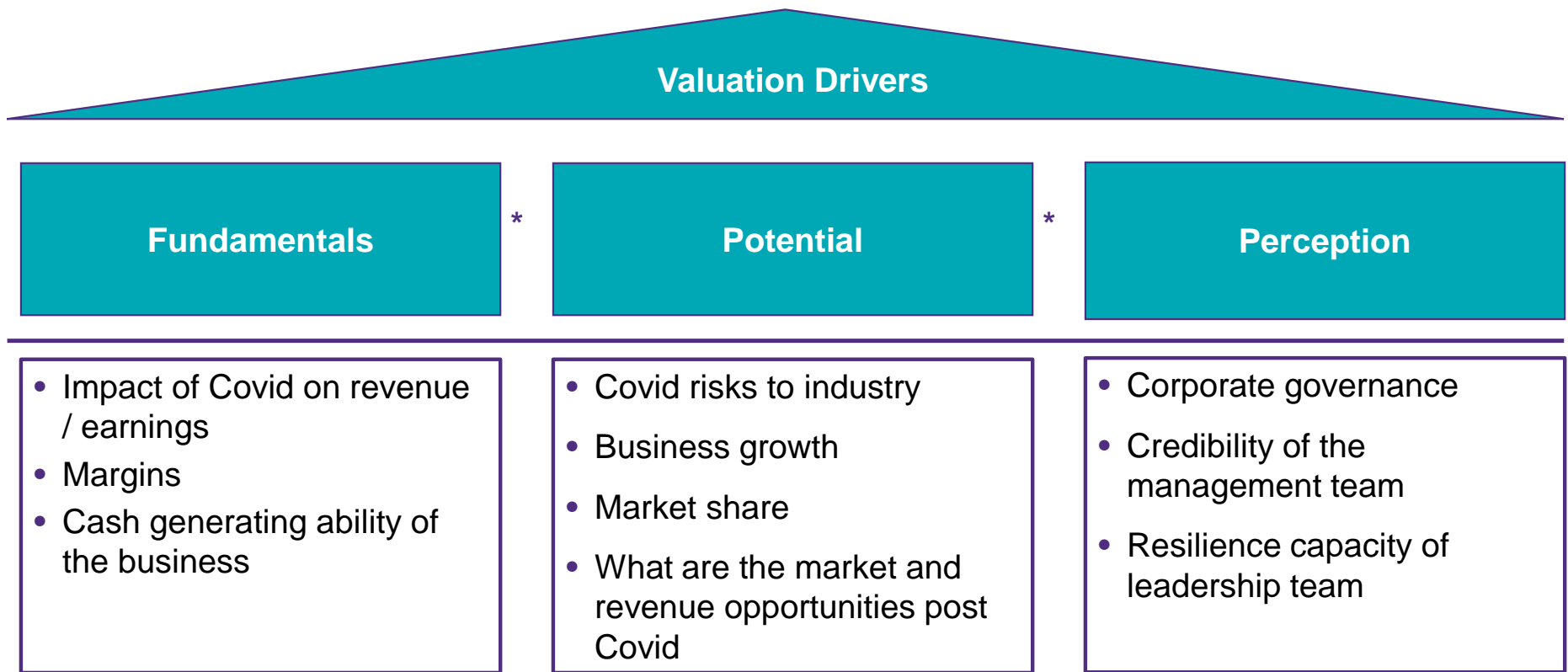
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Financial reporting & accounting considerations

- Impact on preparation of financials & audit
- Regulatory compliance monitoring & impact
- Validating Going Concern assumptions and stress testing business cash flows
- Impairment of assets (goodwill, investments, inventory) in balance sheet
- EBITDAC
- NPA & expected credit losses
- Re-valuation of treasury investments
- Revenue guidance



Deal Value considerations



Deal value drivers



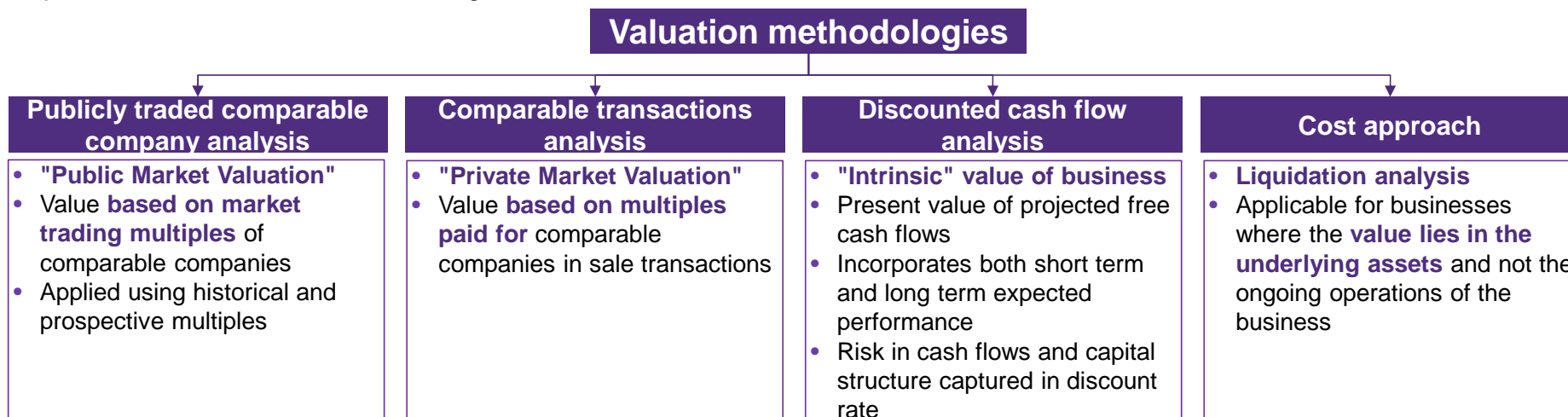
- Quality of Revenues
- Quality of Earnings
- Normalized working capital
- Net debt items

- Quality of senior management
- Quality of people and culture
- Intellectual Property
- Profile of customers



Methods of valuation

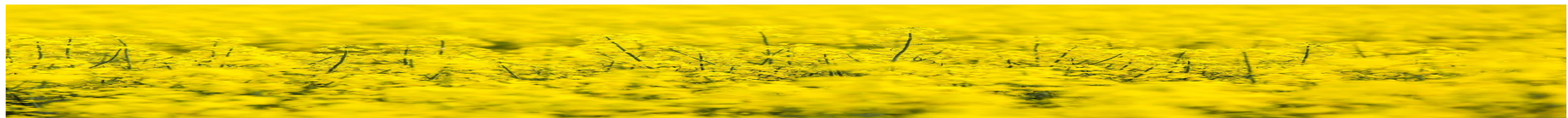
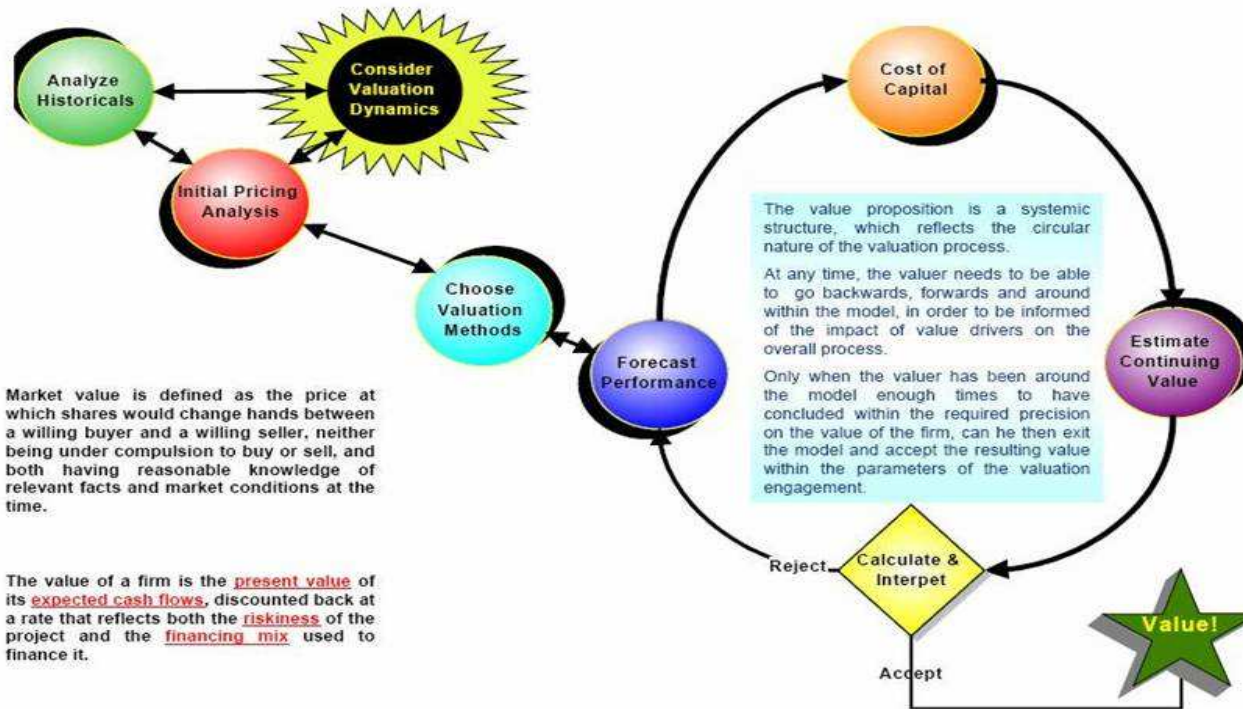
- Basic methodologies adopted in the valuation can be broadly classified into the following: **Income Approach, Market Approach and Cost Approach**
- We must **consider the approach to valuation** likely to be **taken by the investor**
- By **understanding how this business might fit with the investor's strategy** we can estimate the value to the prospective purchaser, which will assist in our negotiations



Factors to be considered while conducting valuation exercise:

- **Nature of the business** and extent to which comparable company/ transactions information is available
- **Accounting principles** used in preparation of financial projections are consistent with those in the historical financial statements
- **Expected financial projections** over the forecasted period are based on an understanding of the industry (demand and other factors)

Constructing Deal Value



Assess Normalised Earnings

Adjusted earnings	Prior years	Current Year
Reported EBITDA		100
% to revenue		20%
Accounting adjustments		
- GAAP adjustments (Revenue recognition policy, amortisation of operating costs etc)	(8)	2
- Provision for doubtful debts	(9)	(5)
- Contract related provisions (cost overruns, loss orders, warranty claims, penalties,	(1)	(5)
- Provision for tax disputes and claims	(6)	(3)
Sub total	(24)	(11)
Normalisation and sustainability adjustments		
- One time costs reversal (Legal expenses, write offs, claims etc)		3
- One time incomes reversal (writebacks, Insurance claims, refunds etc)		(4)
- Corporate and standalone costs (Support service costs, IT costs, business		(15)
- Replacement costs		(5)
- Discontinued operations, products (loss assumed)		2
Sub total		(19)
Total adjustments		(30)
Adjusted EBITDA		70
Adjusted EBITDA % to revenue		14%

Assess impact of Covid on revenue & earnings | EBITDAC

Assess Normalised Working Capital

Adjusted working capital	Closing date
Reported net current assets	100
Less: Non trade assets & liabilities	40
Trade working capital	60
- Trade Receivables (all billed)	40
- Trade Advances	25
- Inventories (including unbilled cost)	15
- Trade liabilities and operating expense accruals	(25)
- Prepaid costs	5
Accounting adjustments	
- Provision for doubtful debts	(8)
- Provision for unrecorded liabilities	(5)
- Provision for inventories, unbilled costs, advances etc	(2)
Sub total	(15)
Normalisation adjustments	
- Adjustment to average working capital levels	25
Adjusted Working capital	70

Adjusted working capital	Closing date
Trade working capital	60
Less: Accounting adjustments	-15
Adjusted Trade working capital	45
- Peak WC (adjusted)	110
- Trough WC (adjusted)	30
Average WC (adjusted)	70
Difference	(25)

Note

Typical non trade assets, liabilities

- Deposits
- Corporate Tax balances
- Debt balances
- Capital balances

Aim to drive a robust working capital & cash flow forecasting & modelling

Assess Net debt

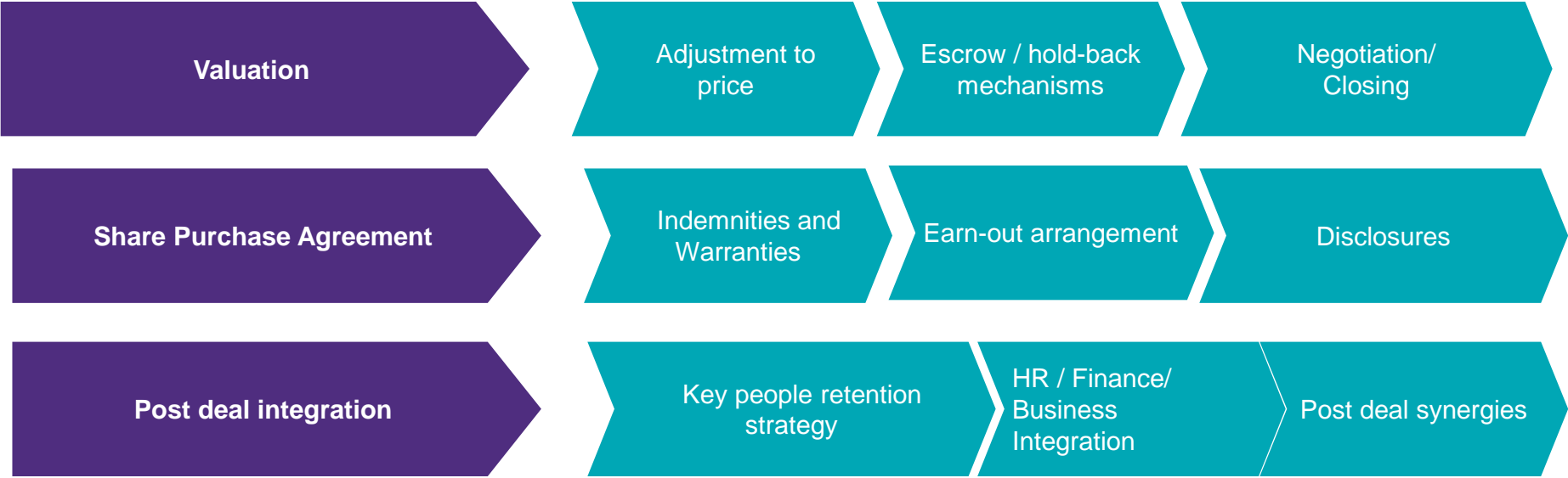
Net debt analysis	
Debt	
Long term loan	1000
Add: Net debt items	
Income-Tax litigation	100
Creditors > 6 months	50
Customer claims	75
GST litigation	25
	250
Net Debt	1,250

Note

Typical net debt items include: Deposits

- Tax litigations, likely exposure assessed to be high
- Creditors in excess of normal credit period
- Customer claims and litigations, exposure assessed as high

Due Diligence findings and impact analysis



Deal negotiation areas of focus



Purchase price paid in cash & stock

Enterprise value or Equity value

Working capital adjustment

Definition of Net debt

Which accounting standard to follow, to determine EBITDA ?

Closing conditions (CP's) to deal

Earn-out payouts

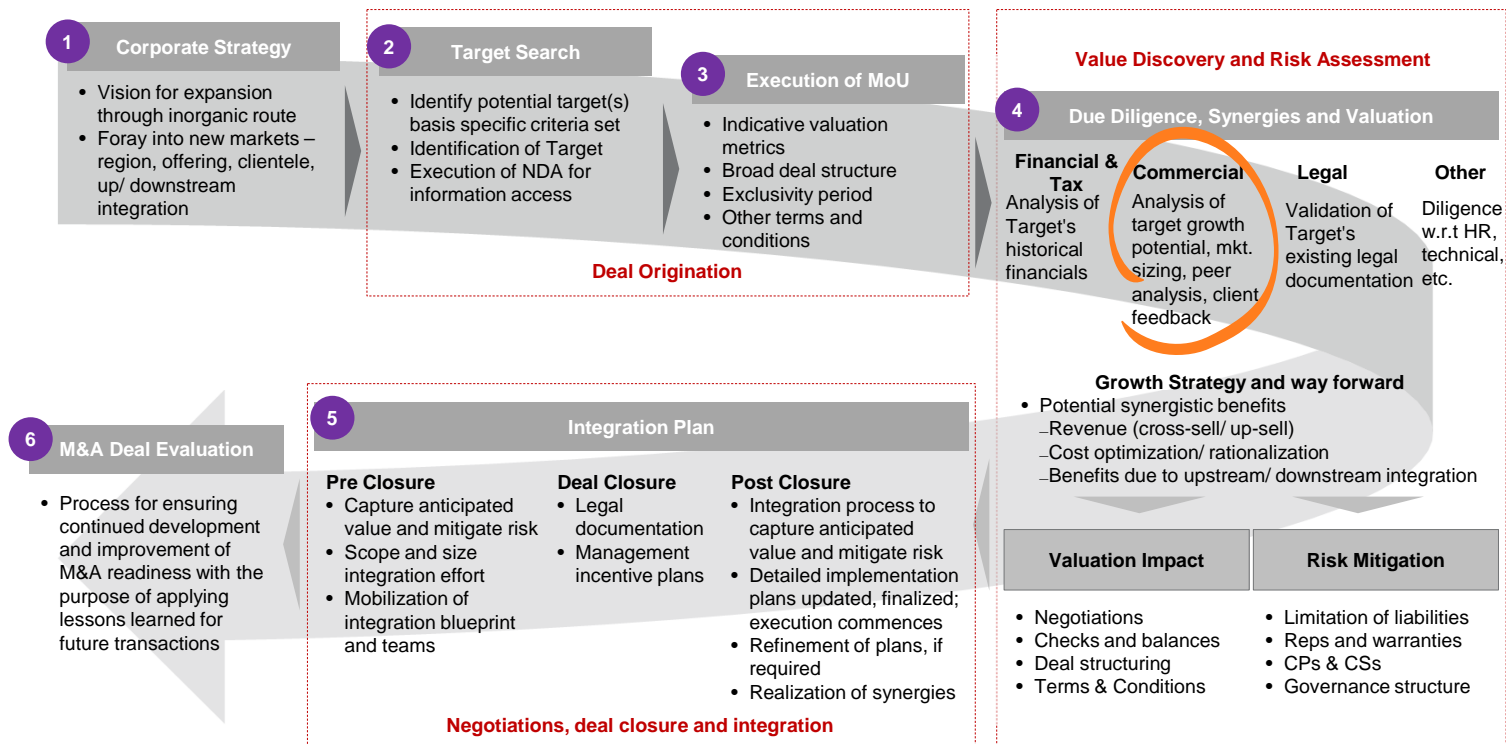
Reps and warranties of seller / target

Indemnities

Commercial Due Diligence

Typical lifecycle of an M&A process

Where does commercial DD fit in the overall M&A transaction?

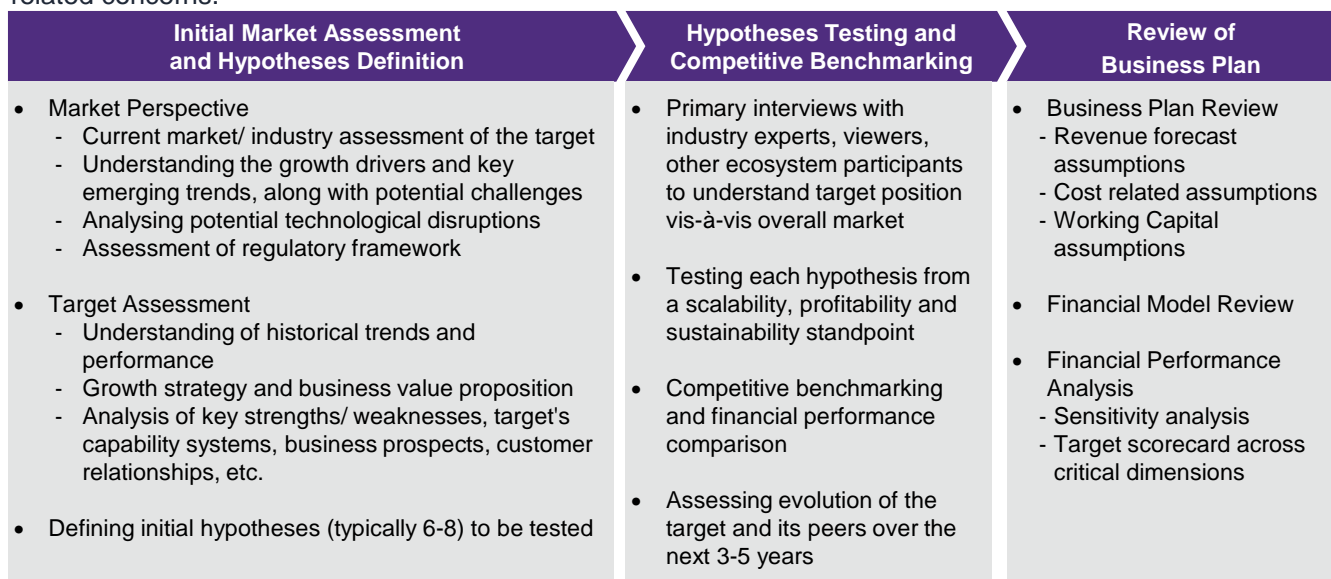


Strictly private and confidential – For internal use only

What are the steps in commercial DD?

Typical Scope of Work

Our comprehensive commercial DD approach is based on validating an initial set of hypotheses that help us qualify the overall acquisition opportunity better. These hypotheses represent some of the key concerns of the buyer on scalability, profitability and sustainability of the target business, while also addressing business model related concerns.



Hypotheses Driven Approach

Using HDA to drive Commercial Due Diligence

**Case example 1:
Cross Border commercial DD of a Healthcare Tech Firm
(target) for a leading Global Conglomerate (client)**

The target provides cost optimization, risk and quality management having its operations in US as well as in India, and has projected its business to grow ~2X its current size in 5 years, with significant improvement in EBITDA margins.

In order to define hypotheses to address likely concerns, the team performed an initial deep dive analysis to understand target's business, financials, operations, customer relations, R&D spend, industry landscape, peer benchmarking and capability systems, which were then probed in greater details to arrive at a detailed conclusion.

Shown alongside are the set of key hypotheses that were finalized for testing.



Key hypotheses to be tested

Scalability:

Is the US analytics market poised for a robust double digit growth in the next 5 years?
Is health analytics need of the hour for payers/providers to control overpayments and provide value-based care?

Profitability:

Are the Q4 2017 financials robust enough to use them as base for future projections?
Will levers such as revenue mix, FTE mix, automation, drive incremental EBITDA growth?
Is there an evolving strategy inclined towards high margin analytics business?
Is there a shift in strategy to leverage off-shore revenues to drive higher EBITDA margins?

Sustainability:

What is the strength of relationship that the target shares with its customers?
Is the target able to grow its customers by ticket size leveraging cross-sell and up-sell?

Learnings from deals



Deal 1: Different cultures of Company A and Company B

- Company A was one of the market leaders in computer desktops & hardware, with 40% market-share
- Company B was No 2 in the market of computer desktops, laptops and hard-ware with 25% share
- Planned to merge the two to achieve synergies.

What happened:

- Company A culture and management style was numbers driven and key goal was to sell maximum number of computers
- Company B culture and management style was to focus on quality and customer experience and key goal was customer satisfaction
- Company A slowly phased out the brand of Company B, which was actually of a superior quality

Deal 1: Different cultures of Company A and Company B

What happened ?

- Employee attrition was high and combined revenues started falling
- After 2 years, combined market share was less than 50%
- Deal goals not achieved

Deal 2: NPA impact for NBFC on PE fund-raise

- Mid-sized NBFC was planning to raise funds from Private Equity Players. One of the key issues of investors was around quality of the loan book. Due diligence was initiated to focus on loan book quality and assess ECL (estimated credit loss)

DD revealed

- Loan book had exposure to sectors like infrastructure, real-estate & construction which was going through industry down-turn. However, security valuations were far in excess of the loan book, therefore, ECL was not significant.
- However, further due diligence revealed that the security for the loans were not fully perfected, which were revealed from legal due diligence, and the ability to enforce the security and also realize value was doubtful.

What happened

- ECL impact was significant and would impact the capital adequacy ratios. PE funds aborted the deal, and was later, acquired by another NBFC, at a stressed valuation.

Deal 3: Accounting fraud

- One of leading IT company, D, acquired for \$11bn, another software firm, P
- In the books of D, there was \$8.8bn writedown, related to the purchase of P, which came over a year after the acquisition was completed
- During the due diligence process, there was a senior executive from the target, who blew the whistle on serious accounting improprieties with D's top lawyer
- Despite these red flags, D's due diligence checks on P lasted just three weeks. The target company "refused" to hand over copies of financial documents supporting its audits, limiting D's review to only publicly reported financial statements and about 25 sales contracts
- D's CEO, CFO and P's founders were among eight defendants named in the class action suit, filed at California's San Francisco district court, which accused those who oversaw the botched deal of conducting " **cursory due diligence on a polluted and vastly overvalued asset** "
- Creative revenue accounting was the major issue

The Deal-maker's deal negotiation skills



Good understanding of human psychology

Win-Win mindset

Integrity & focus & concentration

Listening & Calm

Devil is in detail & Big picture mindset

Good communicator

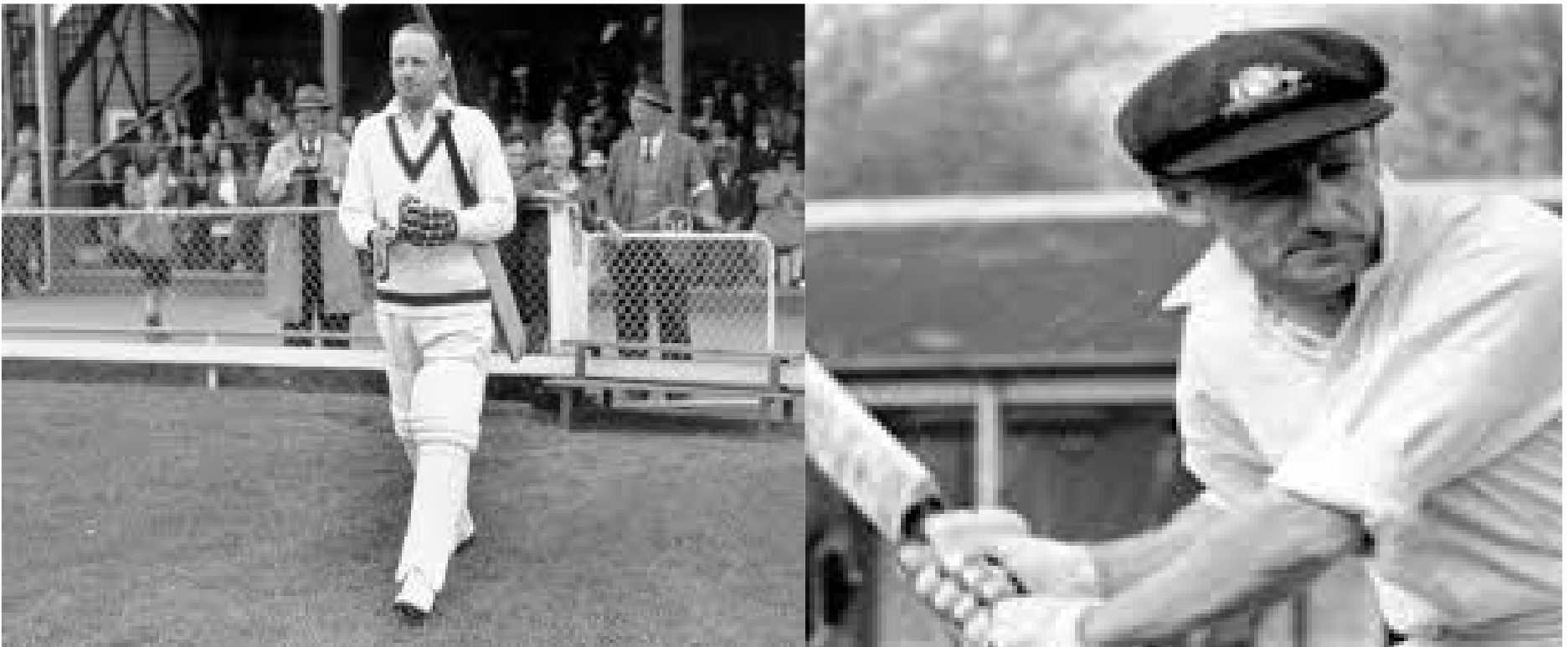
The "Poirot" Factor

Lead your way to the "New" Deal World



- M&A activity down but expected to increase given consolidation need
- Due diligence focus to increase
- Use of technology in deal making
- Valuations impact, 20% to 50%
- Healthcare, tech, FS sector focus
- Stressed assets to increase and M&A/ Stressed Funds
- Innovative deal structures to emerge, stock deals etc
- Cash is king and DCF method of valuation
- **NEW DEAL WORLD EMERGING.... BE READY FOR THE CHANGE**

Playing the Game....with ??





The Deal
Journey & Not
destination
begins...

" An optimist sees an opportunity in every calamity; a pessimist sees a calamity in every opportunity."

- Sir Winston Churchill

Stay well and successful deal making in the new world

