15th Annual
Mergers and Acquisitions Institute

Dealmaking Differences Between
Strategic and Private Equity Players:
A Deeper Dive into Processes and Provisions

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Panelists:
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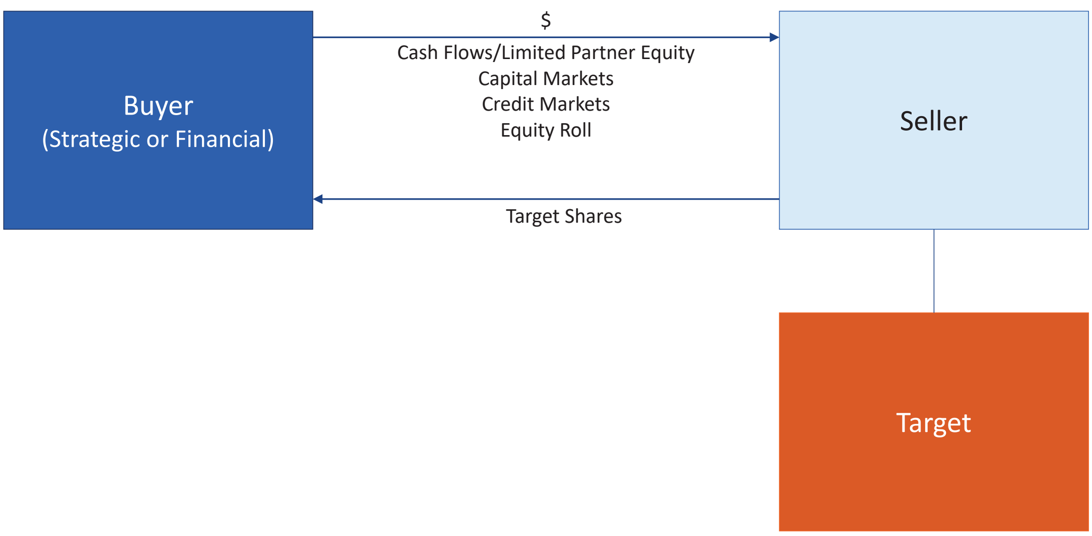
Today's Focus

- **Who is the Buyer?**
  - Strategic vs. Financial Buyer
- **Who are the other Parties?**
  - Target/Seller
- **How do the Parties involved affect deal processes and deal terms?**
  - Reps and Warranties and Rep and Warranty Insurance
  - Indemnification
  - Antitrust
  - Termination

Overview

Transaction Structure - General



Overview of Differences Between Strategic Buyers and Financial Buyers

	Strategic Buyer	Financial Buyer
General	▪ A public or private company often already operating in Target's industry	▪ Private equity firms (also known as sponsors) ▪ Venture capital firms ▪ Hedge funds ▪ Family offices ▪ High net worth individuals
Identity of Buyer	▪ Strategic buyers are likely to have a creditworthy entity directly party to purchase agreement.	▪ PE buyers often use shelf entity, supported by a limited guarantee to backstop certain of its obligations.
Objective	▪ Objective for acquiring Target is to improve, change, or expand own operations	▪ Objective is to make a minimum rate of return over a fixed period (usually three to seven years) before exiting investment
Strategic Rationale	▪ May value operational and financial synergies over other concerns because of lower leverage/cost of capital and absence of "exit" requirements	▪ Given exit requirements and high leverage, Target must generate financial returns as a stand-alone business (as opposed to generating operational or financial synergies for the Buyer) ▪ Bolt-on and buildup strategies that permit realization of synergies are increasingly popular
Form of Consideration	▪ May use its equity securities (particularly if actively traded) or cash or a combination of both as consideration for acquisitions	▪ Uses cash as consideration for acquisitions

Overview of Differences Between Strategic Buyers and Financial Buyers

	Strategic Buyer	Financial Buyer
Funding	▪ Cash flow from operations ▪ Capital markets ▪ Credit markets	▪ Equity from limited partners ▪ Credit markets ▪ Equity roll
Timing	▪ Usually takes longer than Financial Buyer to sign up deal – Active Strategic Buyers have begun to develop deal capabilities similar to Financial Buyers	▪ Typically acts faster than Strategic Buyer because of efficiencies in bidding, due diligence and internal approval processes – Perception that Financial Buyers are more comfortable with taking calculated risks based on more limited information
Deal Sourcing	▪ Industry knowledge	▪ Networks of advisors and businesses
Scope of Activity	▪ Limited to existing industry unless diversification is sought, which can be risky	▪ Opportunity limited only by financial returns and reputational risks
Due Diligence	▪ Deep knowledge of industry and trends ▪ Reliance of internal personnel ▪ Focus on high value opportunities and synergies, in addition to financial metrics	▪ Limited knowledge of industry ▪ Reliance on advisors ▪ Focus on financial metrics as a stand-alone enterprise ▪ Financial due diligence experts
Personnel	▪ Often uses own personnel to operate Target	▪ Relies on a management team to operate Target (often incumbents)

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Also available as part of the eCourse
2019 Mergers and Acquisitions eConference

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