

Doing Deals Learning from Transactions

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With you today



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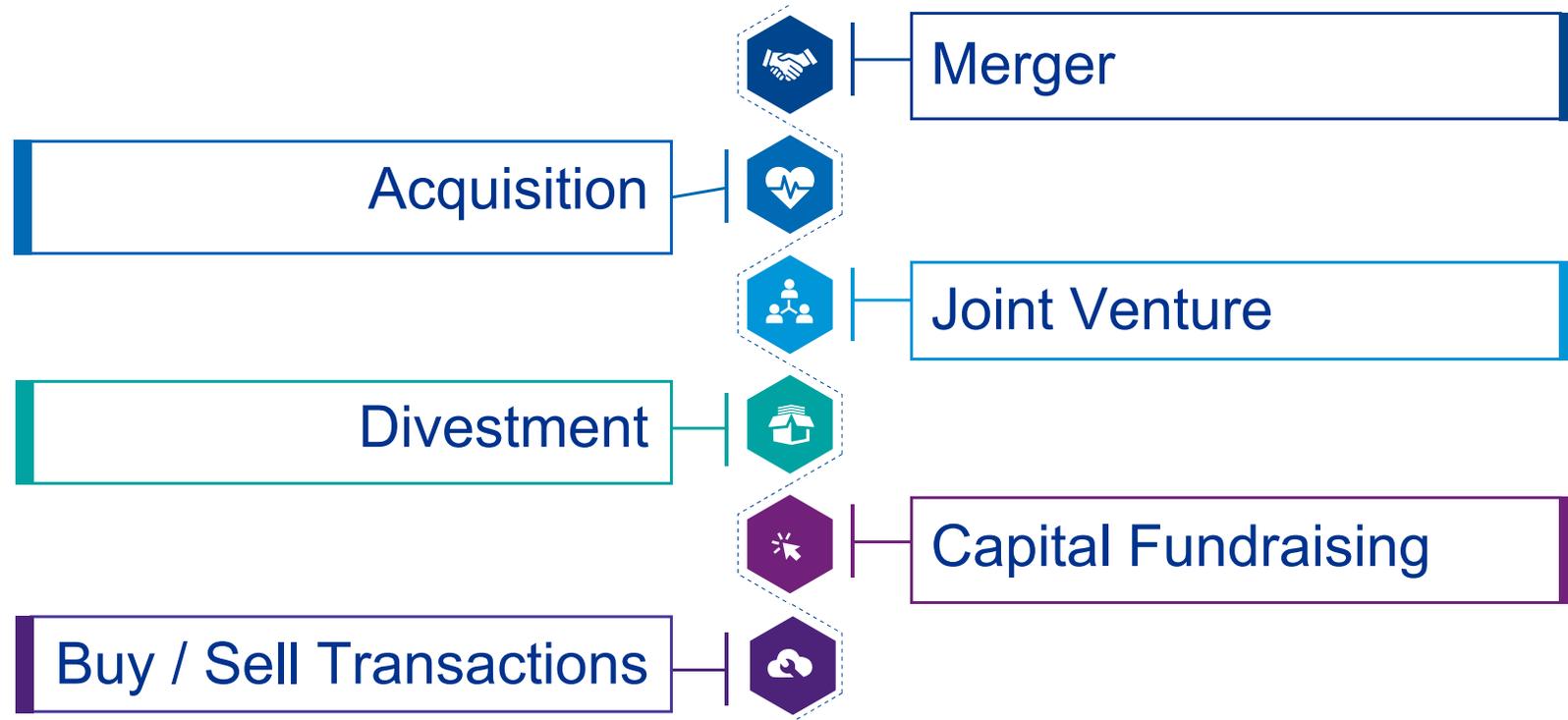
Experiences

18 years of experiences with KPMG Deal Advisory. Specialized in M&A, Business Valuation, Deal Strategy, Commercial Due Diligence, Financial Modeling

01

Introduction

What is M&A



ภาพรวมของการควบรวมกิจการ

อะไรคือ M&A? - M&A หรือ การควบรวมกิจการบางครั้งเรียกว่า การซื้อขายกิจการ, การรวมกิจการ, หรือ การควบรวมบริษัท

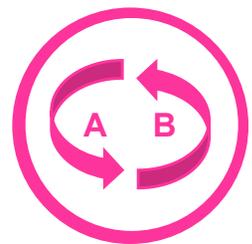
ประเภทของ M&A



รูปแบบของสิ่งตอบแทน



การซื้อด้วยเงินสด



การแลกหุ้น

ประเภทสินทรัพย์ที่ทำการซื้อขาย



การ Subscribe หุ้นใหม่



การซื้อหุ้นจากผู้ถือหุ้นเดิม



การซื้อสินทรัพย์อื่น

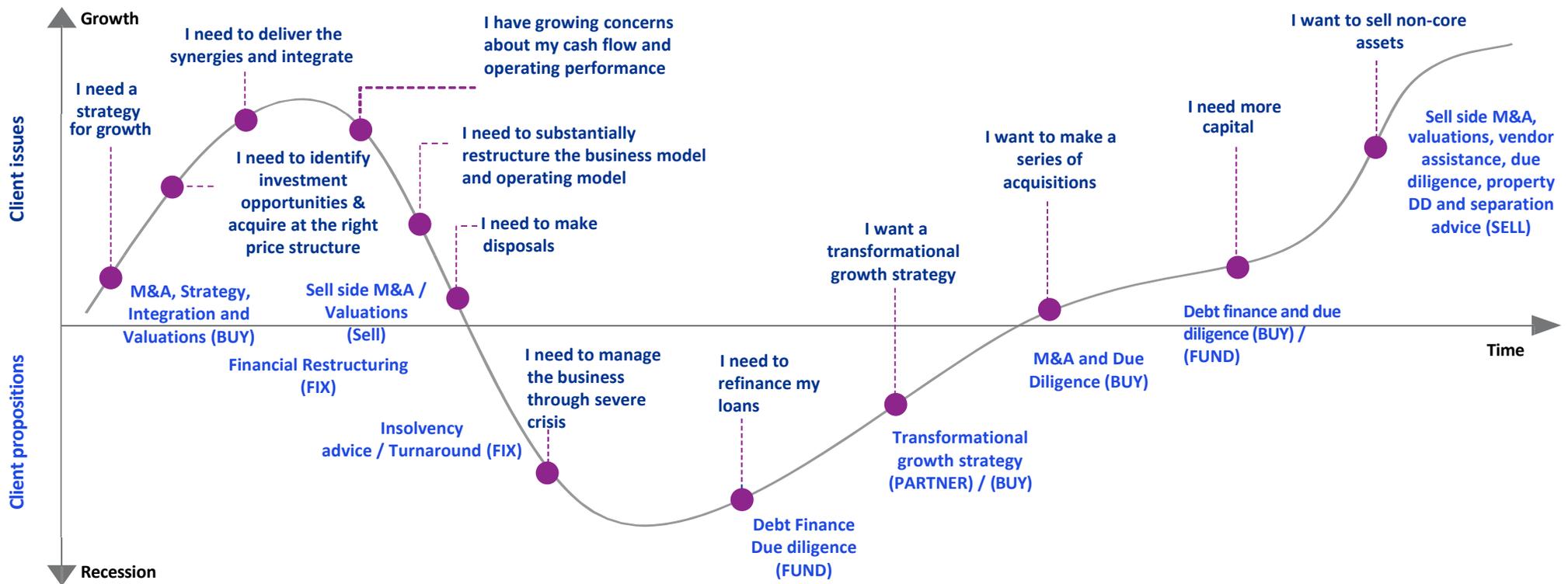
ตัวอย่างการทำ M&A ประเภทต่างๆ

ประเภทของ M&A	การซื้อ-ขาย	การควบรวม	การเข้าซื้อทั้งหมด	กิจการร่วมค้า
การทำรายการ	 40% 	  Merged into new entity	 100% 	 50%  50% 
ขนาดรายการและรูปแบบสิ่งตอบแทน	OR เข้าซื้อหุ้นใหม่ที่ออกโดย K-NEX มูลค่า 1,105 ล้านบาท สำหรับการถือครองหุ้น 40% ใน K-NEX	ธนาคารทหารไทยทำการออกหุ้นใหม่เพื่อจ่ายซื้อหุ้นทั้งหมดจากผู้ถือหุ้นเดิมของธนาคารธนชาติและทำการโอนธุรกิจทั้งหมดไปที่ธนาคารที่เอ็มปี ธนชาติ	MAKRO ออกหุ้นใหม่มูลค่า 2.18 แสนล้านบาทให้กับผู้ถือหุ้นเดิมของโลตัสในการเข้าซื้อกิจการทั้งหมด	บริษัท กสิกร วิชั่น จำกัด และ JMT จัดตั้งกิจการร่วมค้า JK AMC โดยถือครองฝ่ายละ 50% ผ่านการลงทุนรวม 1 หมื่นล้านบาท

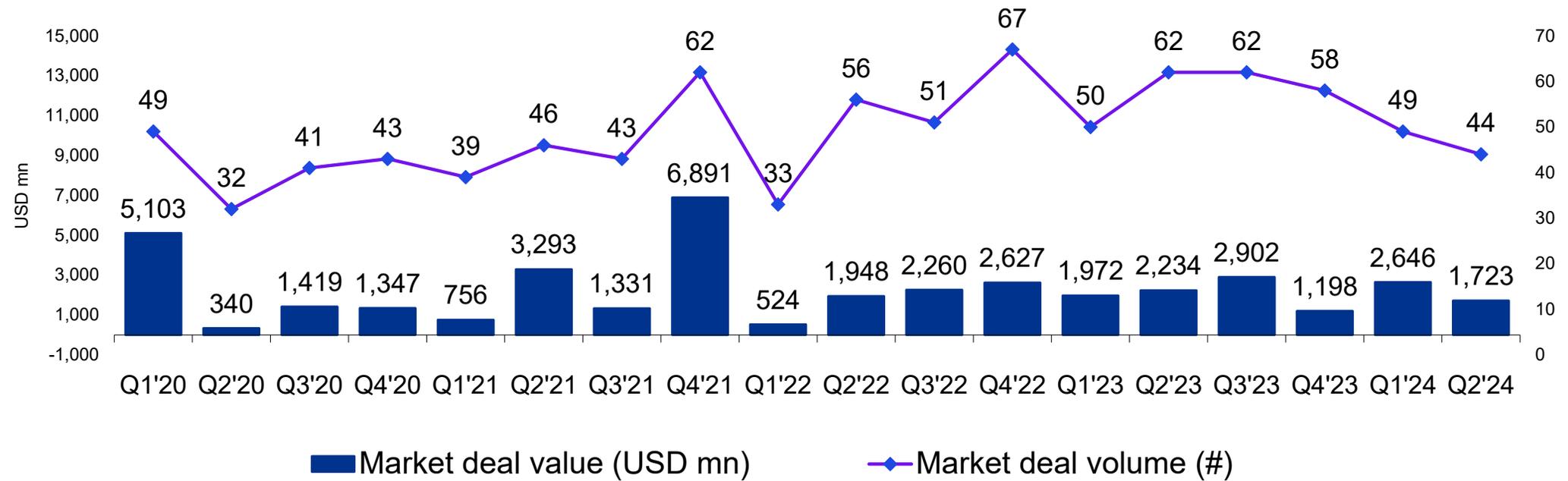
ข้อสำคัญในการคำนึงถึงรูปแบบรายการ

รูปแบบรายการจะคำนึงถึงหลายปัจจัย เช่น การเข้าซื้อกิจการที่ผู้ซื้อมีความเชี่ยวชาญ ผู้ซื้ออาจเลือกที่จะเข้าซื้อหุ้นส่วนใหญ่หรือทั้งหมดซื้อทรัพย์สินทั้งหมดของกิจการ ขณะที่การเข้าซื้อกิจการที่ผู้ซื้อไม่มีความเชี่ยวชาญและผู้ซื้อต้องพึ่งพิงความสามารถของผู้ขาย ผู้ซื้ออาจทำการซื้อหุ้นส่วนน้อยหรือการจัดตั้งกิจการร่วมค้า

M&A in Business Life Cycle



M&A trend in Thailand



Top 10 deals in each quarter

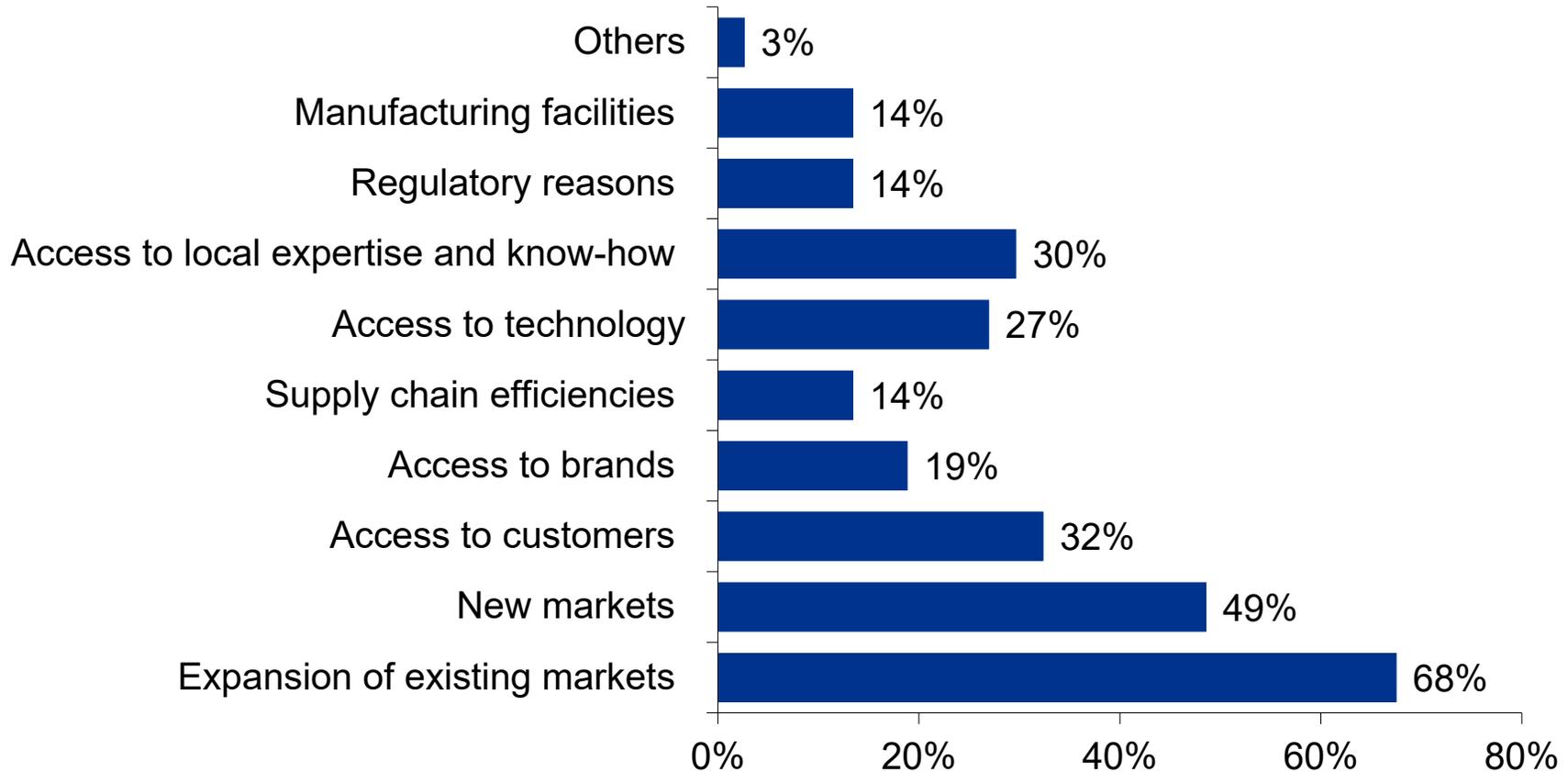
No.	Deal value (USD mn)	Stake (%)	Announced date	Target name	Target country	Target industry	Buyer name	Buyer country
1	1083.8	100	12-Apr-24	SIGNA Holding GmbH	Germany	Real estate, Infra & Construction	Central Group	Thailand
2	195.0	10	25-Jun-24	Ascend Group Co., Ltd.	Thailand	Financial Services	MUFG Bank, Ltd.; Mitsubishi UFJ Financial Group, Inc. (TSE:8306); Krungsri Finnovate	Japan
3	82.5	43	10-Apr-24	Sabuy Technology pcl SABUY	Thailand	Financial Services	Lightnet Co Ltd, Anonchai Veeraprawat (Private Individual)	Singapore, Thailand
4	69.5	100	7-May-24	BAIF Malacha Holdings LLC	United States	Energy & Natural Resources	Amata B.Grimm Power Service Limited	Thailand
5	69.2	51	17-Jun-24	Ananda Development PCL	Thailand	Real estate, Infra & Construction	Mitsui Fudosan Asia (Thailand) Co., Ltd.	Thailand
6	55.7	100	6-Jun-24	Teva Pharma (Thailand) Co., Ltd.	Thailand	Healthcare & Lifesciences	Lotus Pharmaceutical Co., Ltd. (TWSE:1795); Lotus International Pte. Ltd	Singapore, Taiwan
7	28.1	50	13-Jun-24	Impact Solar Group (Thailand) Company Limited	Thailand	Energy & Natural Resources	New Energy Investment Japan Limited	Thailand
8	25.0	30	31-May-24	Joox Thailand (Hong Kong) Limited	Hong Kong	Telco, Media & Technology	GMM Tomorrow Limited	Thailand
9	19.1	N/A	13-May-24	Chiangmai Raj Hospital/Unicon Service/Koratmedicalgroup/Phitsanulok Inter Vejchakan	Thailand	Healthcare & Lifesciences	Principal Healthcare Company Limited	Thailand
10	10.9	100	17-Apr-24	Super Earth Energy 1 Co., Ltd.	Thailand	Energy & Natural Resources	SUS Thailand Holding Limited	Hong Kong

Questions ???

What are your rationale to buy / partner with other companies?

Why would other companies sell majority or minority part of their shares to you?

What drives M&A?



Why people sell their businesses?



Divestment rationale

-  Retirement of owner manager
-  End of life for closed ended PE fund
-  Change in business cycle
-  Change in regulatory environment.
-  Trigger events in shareholder agreements
-  Need for recapitalization

02

**M&A growth story :
Practical process
from real
experiences**

Parties to a transaction

- Appointed by the vendor to manage the sales process
- Identify and approach potential acquirers
- Prepares key marketing documents e.g. IM and Mgt. presentations
- Manages logistics e.g. data room, bidder meetings
- Provides strategic advice to the vendor in negotiation with bidders
- **May commission VCDD / VODD to support the sales process**

- **Commercial**
- **Operational**
- **Accounting/financial**
- **Tax and Pensions**
- **Human Resources**
- **IT**
- **Environmental**

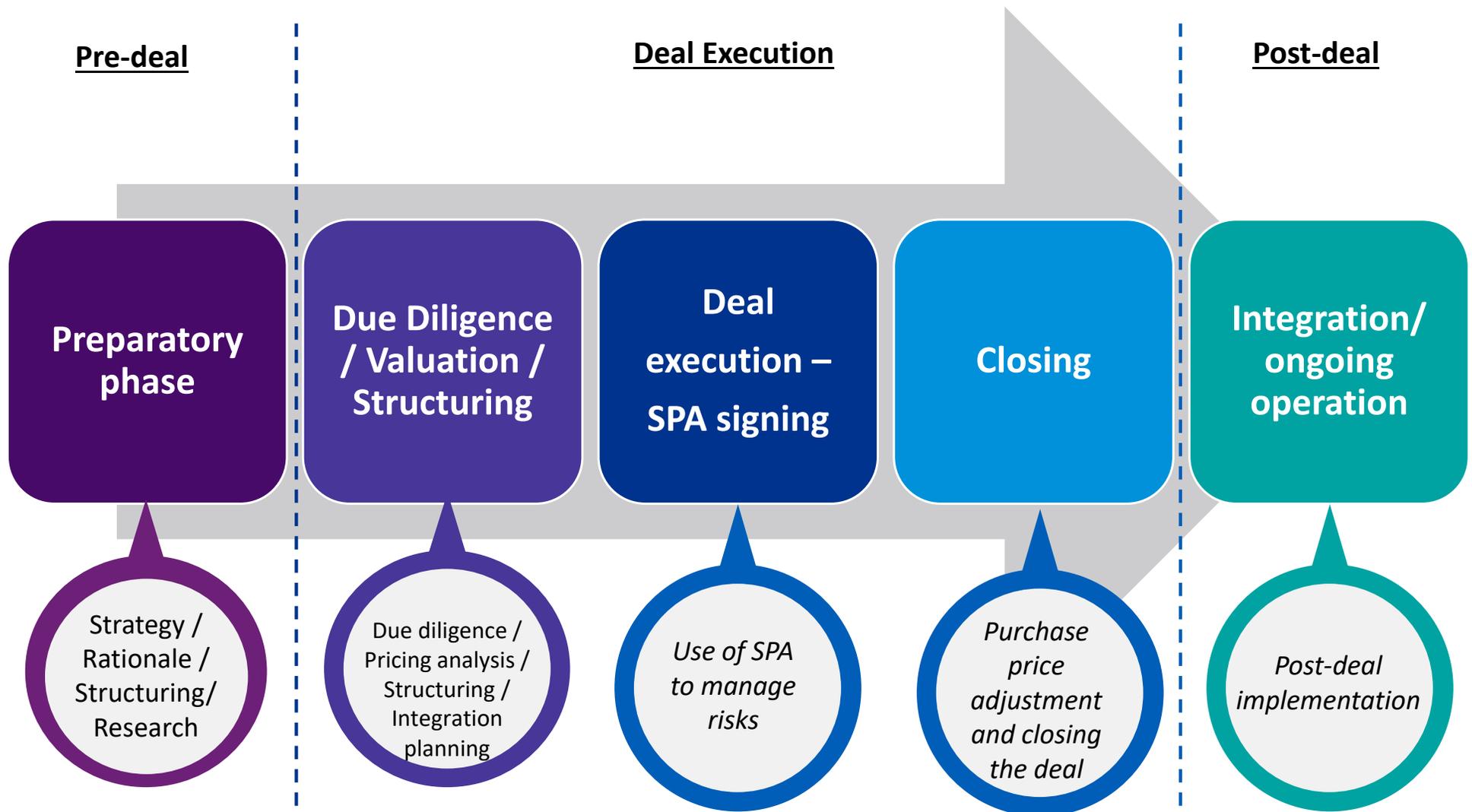
- Funds to acquire the business
- Line of credit (working capital)
- Credit terms negotiation
- **Uses our work as an input to lending decision**



- May investigate the transaction to ensure it adheres to competition requirements
- **May leverage due diligence as an input**

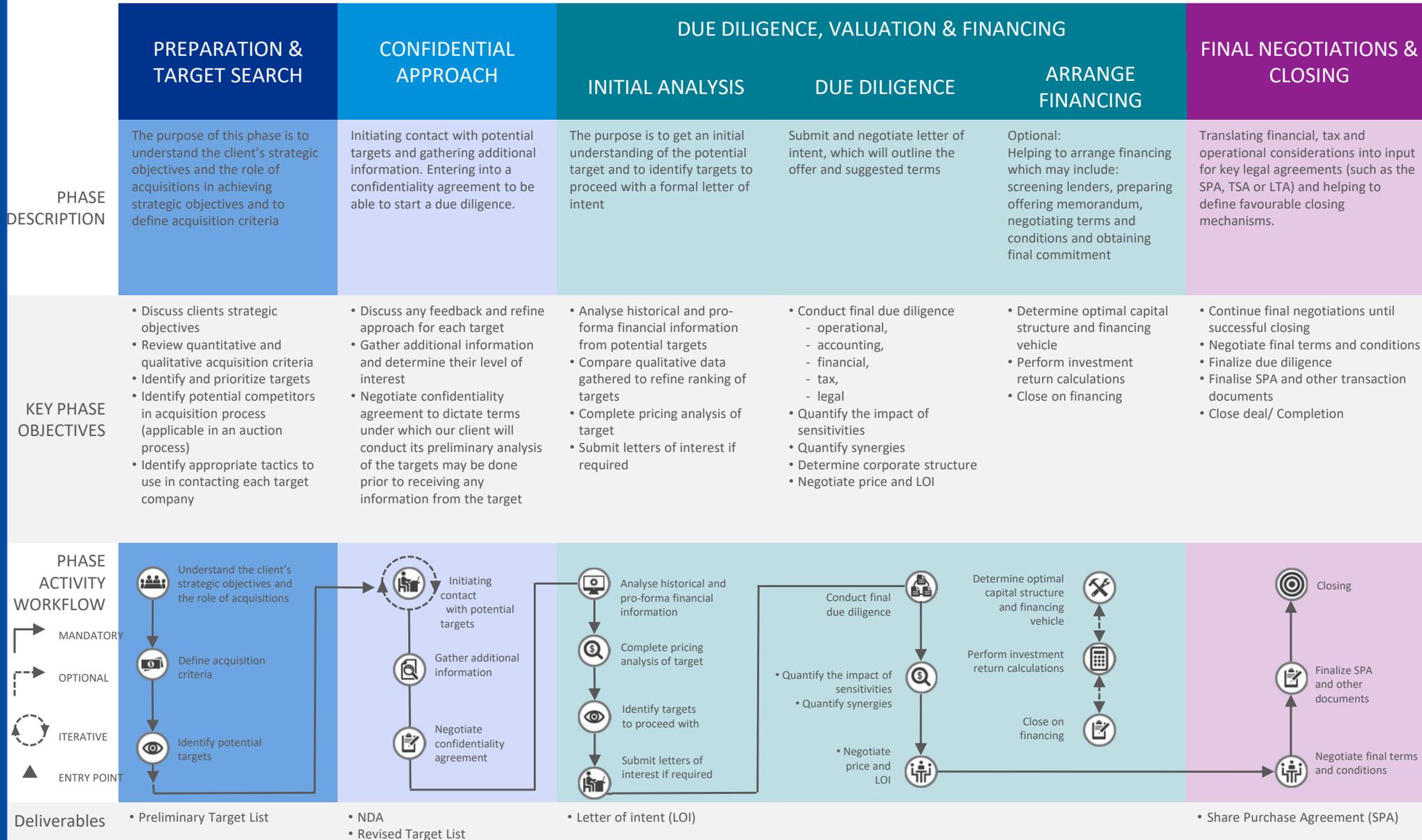
- Appointed by the buyer to coordinate the acquisition process
- Acts as principal PoC for the vendor/its advisers
- Represents the buyer in negotiations, incl. bid offer level, financial modelling, capital structure
- Overseas key work streams e.g. due diligence and legal negotiations
- **May use due diligence as an input to the valuation model**
- Legal due diligence
- Letter of Intent – captures initial intentions of buyer
- Sale and purchase agreement – final contract
- Structuring advice
- Anti-trust approval (may leverage strategic due diligence)
- (Public companies) shareholders' circular

M&A Process





BUY SIDE – DEAL MANAGEMENT SOLUTION





SELL SIDE – DEAL MANAGEMENT SOLUTION

	PLANNING	SELL PREPARATION	COMPETITIVE AUCTION			EXCLUSIVITY & CLOSING
			NON-BINDING BIDS	BINDING BIDS	NEGOTIATIONS	
PHASE DESCRIPTION	The purpose of the Planning phase is to engage with management to work through financial projections and business plan, identify potential deal breakers and to develop an initial view on potential pricing and buyers.	The purpose is to prepare the entire sales process and documents that provide information that supports the key sales messages and addresses potential issues.	The purpose is to approach potential buyers with initial information package and receive first non-binding indicative offers.	Helping the client and shortlisted bidders to successfully navigate through the Due Diligence process in order to finally receive binding bids.	During negotiations we try to contain the risk of value loss while helping the client be well prepared for signing.	Translating financial, tax and operational considerations into input for key legal agreements (such as the SPA, TSA or LTA) and helping to define favourable closing mechanisms.
KEY PHASE OBJECTIVES	<ul style="list-style-type: none"> Discuss and agree on sale structure and strategy Develop indicative price range/valuation (relative pricing and DCF) <ul style="list-style-type: none"> Assist in decision on floor price Advice on pricing and further steps Assess key impacts to valuation Identify potential deal breakers Identify and prepare preliminary list of potential buyers 	Develop comprehensive sales documents, a data room and management presentations that highlight the key selling points for the business, and give buyers possessing a serious level of interest enough information to support due diligence and meet the needs of buyers financing sources.	<ul style="list-style-type: none"> Approach potential buyers on a limited basis and circulate teaser Execute NDAs with potential buyers and distribute Information Memorandum Provide limited access to data room Receive and evaluate non-binding indicative offers Short list bidders to next stage Advise shortlisted bidders on the timetable 	<ul style="list-style-type: none"> Provide full access to data room Conduct site visits Management presentations Facilitating Q&A sessions with potential buyers Receive and evaluate binding offers Shortlist final bidders 	<ul style="list-style-type: none"> Negotiate pricing and other commercial terms Firm up final offers and marked up Sale & Purchase Agreements Select best final offer for exclusivity and final negotiations 	<ul style="list-style-type: none"> Continue final negotiations until successful closing Finalise SPA and other transaction documents Fulfil conditions to closing (accounting, legal, etc.) Completion
PHASE ACTIVITY WORKFLOW	<p>MANDATORY</p> <ul style="list-style-type: none"> Work with management on business plan and deal strategy Initial Pricing Analysis <p>OPTIONAL</p> <ul style="list-style-type: none"> Look for deal breakers <p>ITERATIVE</p> <ul style="list-style-type: none"> Develop initial long list <p>ENTRY POINT</p>	<ul style="list-style-type: none"> Develop comprehensive sales documents NDA Teaser Information Memorandum Data room Finale Long list 	<ul style="list-style-type: none"> Approach buyers with teaser Exchange NDAs Distribute Information Memorandum Receive non-binding bids Identify shortlisted bidders 	<ul style="list-style-type: none"> Access to Data room Site visits Q&A sessions with potential buyers Receive non-binding bids Negotiate Mark up SPA Select bidder for Exclusivity 	<ul style="list-style-type: none"> Continue negotiation Finalize SPA and other documents Closing 	
Deliverables	<ul style="list-style-type: none"> Initial pricing analysis (Valuation) Preliminary Long list 	<ul style="list-style-type: none"> NDA, Teaser, Information Memorandum Data room 	<ul style="list-style-type: none"> Process letter I Short list Non-binding offer analysis 	<ul style="list-style-type: none"> Process letter II Data room Management Presentation Binding offer analysis 	<ul style="list-style-type: none"> SPA (to be prepared by lawyers) 	

Before entering into a transaction



What is the role of M&A in our strategy?

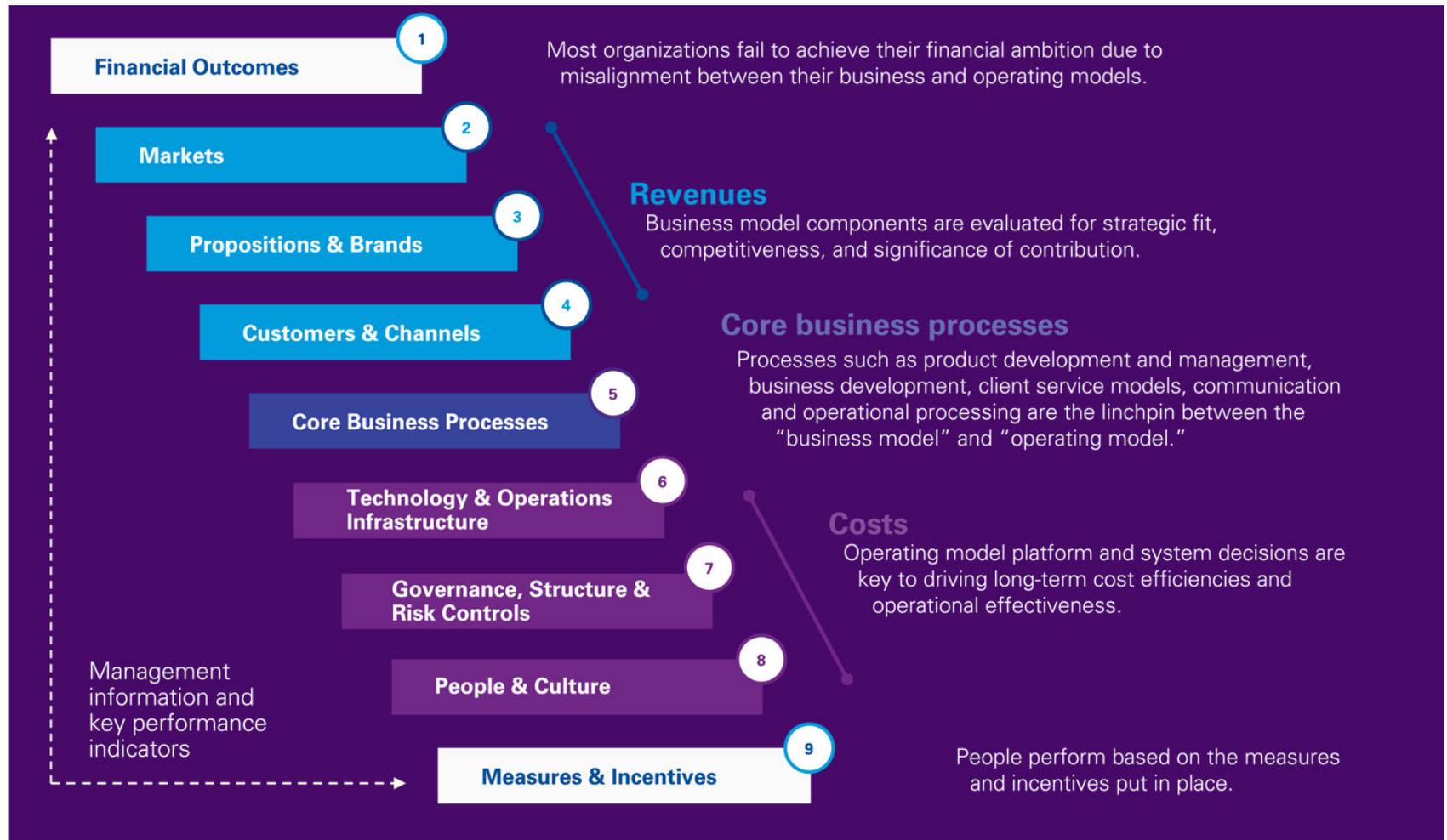
How do I allocate my capital efficiently?

Who are my priority targets?

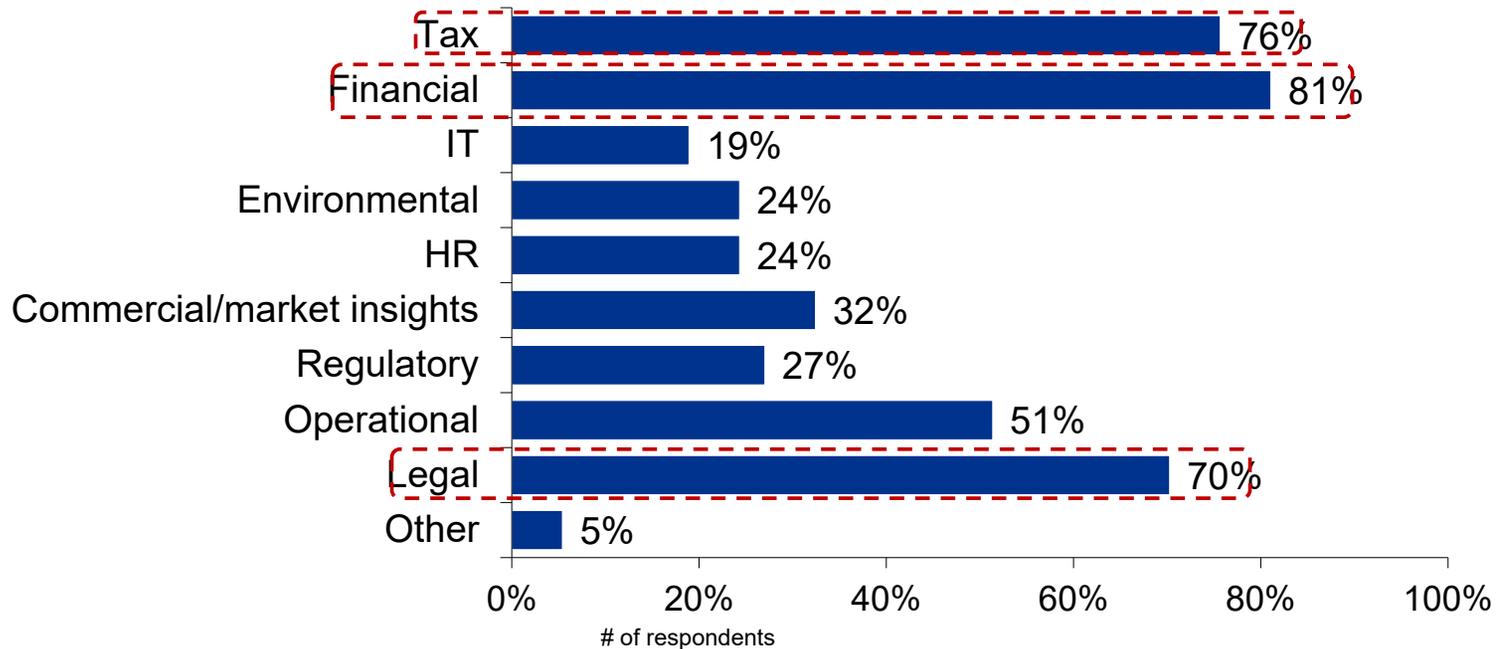
What is target's appetite for a transaction?

What is my approach?

9 Levers of Value



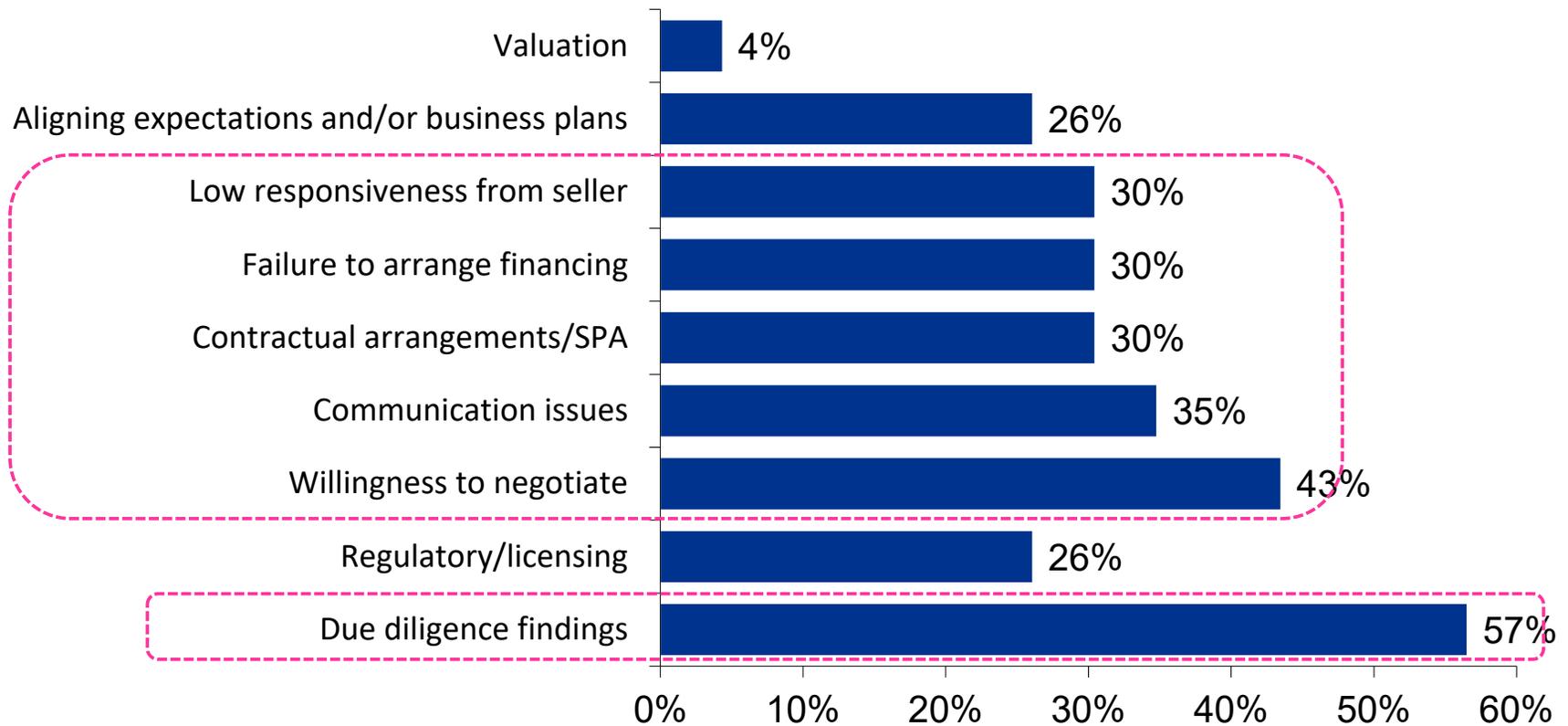
What types of due diligence are normally performed



“A Robust due diligence is key to corroborating the investment thesis, valuation inputs and focus areas for the post-deal integration plan”

Note: Some respondents selected more than one option.

Key factors impacting transaction closure



05

How to value a business?

Why valuation matters to early-stage companies

Purposes of a valuation

Financing

- Raising equity capital from venture capital or private equity investors
- Raising debt capital from banks
- Initial Public Offering (“IPO”)

M&A / Alliances

- Trade sale
- Acquisitions / disposals
- Management Buy Out (“MBO”)
- Joint-Ventures

Strategy

- Strategic development decision: stop / go, sell / license, others
- Measure development of R&D efforts

Retaining employees

- Management employee incentive plans (e.g. ESOP)

Licensing

- Selling the patents / rights of a technology to another company

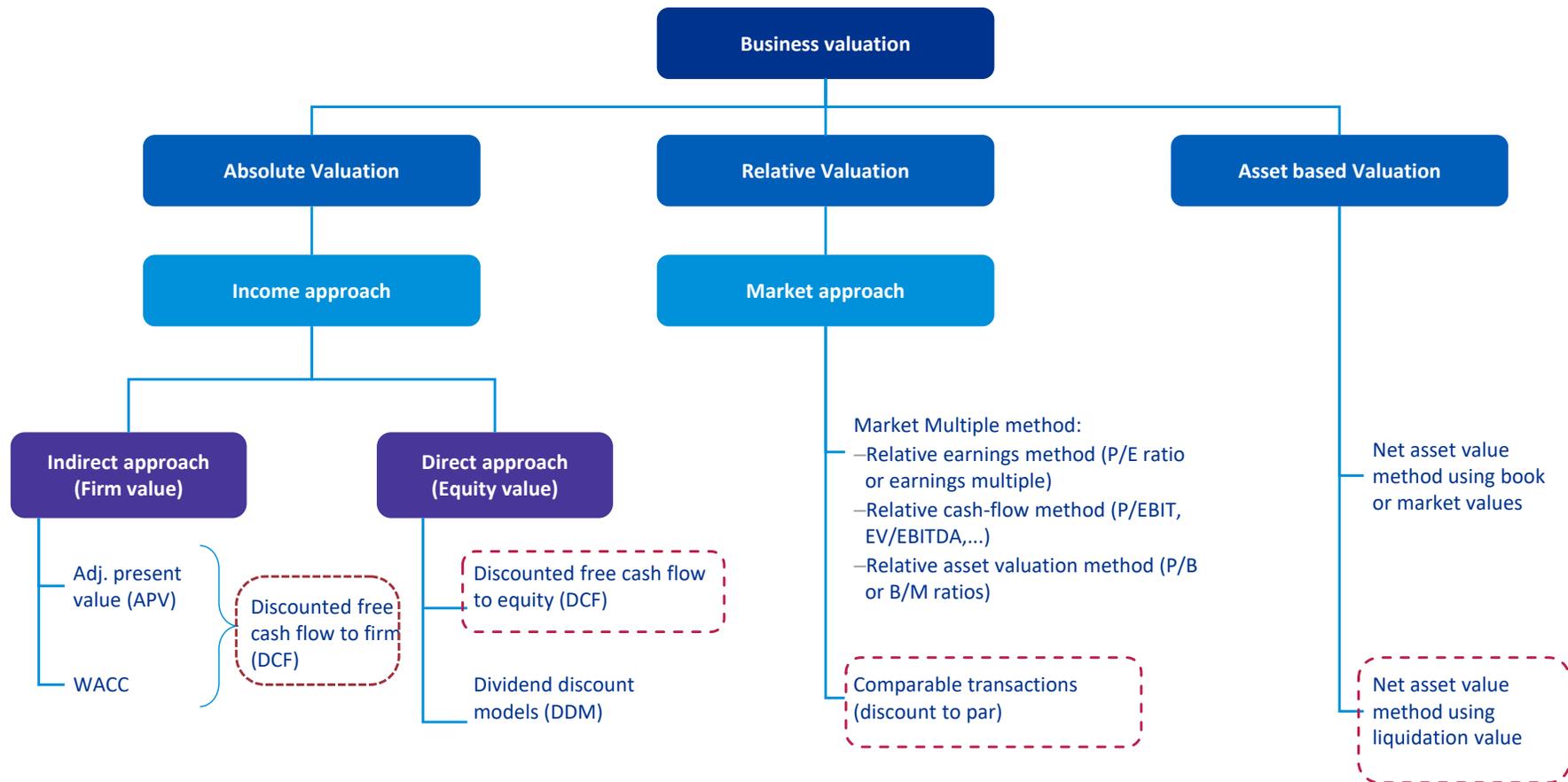
Tax / Accounting

- Tax reorganization (e.g. cross border transfers)
- Contribution in kind

Stakeholders



Valuation approaches



Choosing the appropriate approach depends on specific circumstance

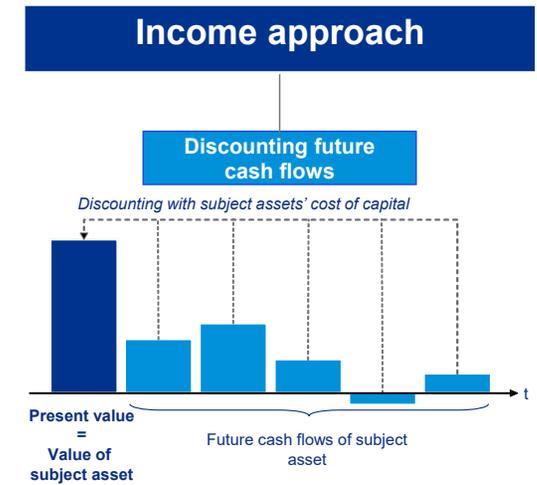
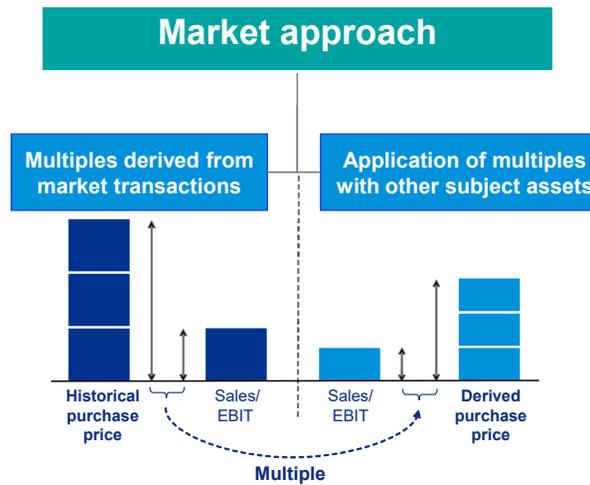
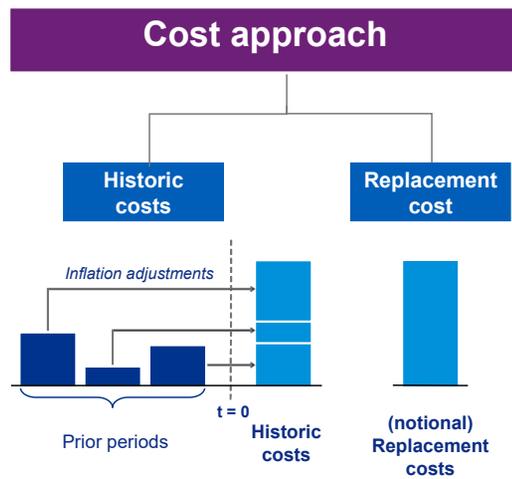
Nature of business

Availability of data for comparable companies

Availability of financial data

Current condition and future business plans

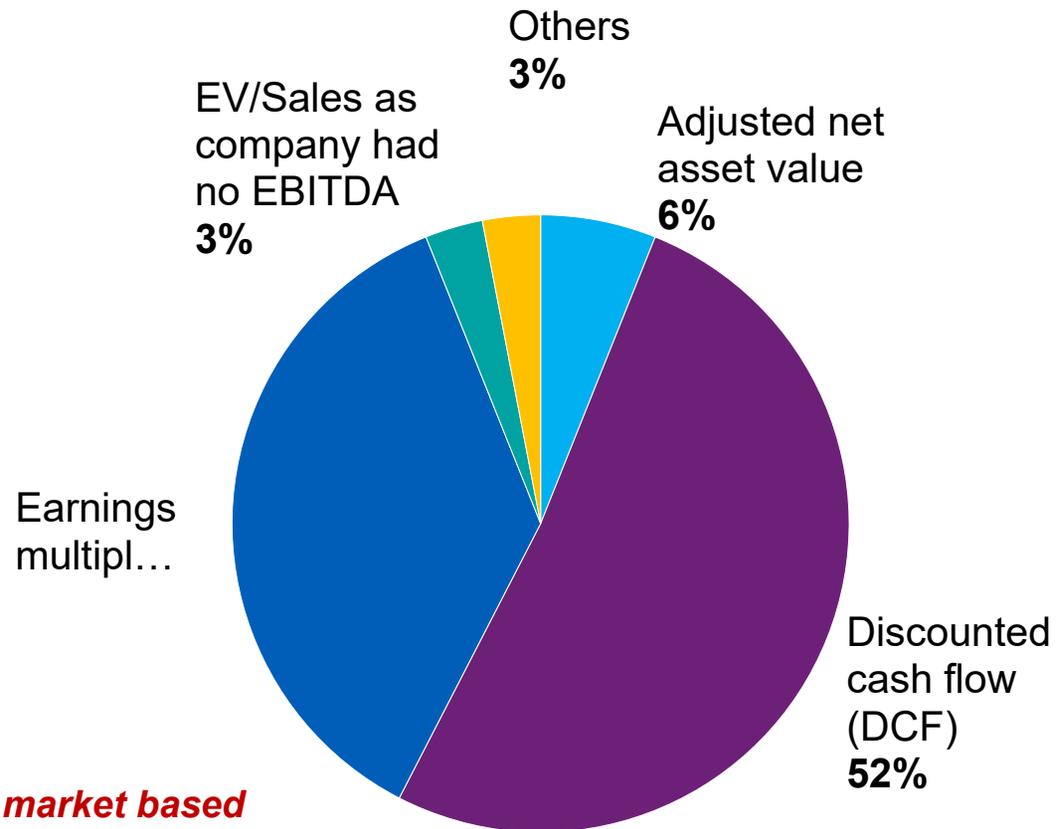
Cost, market and income approaches



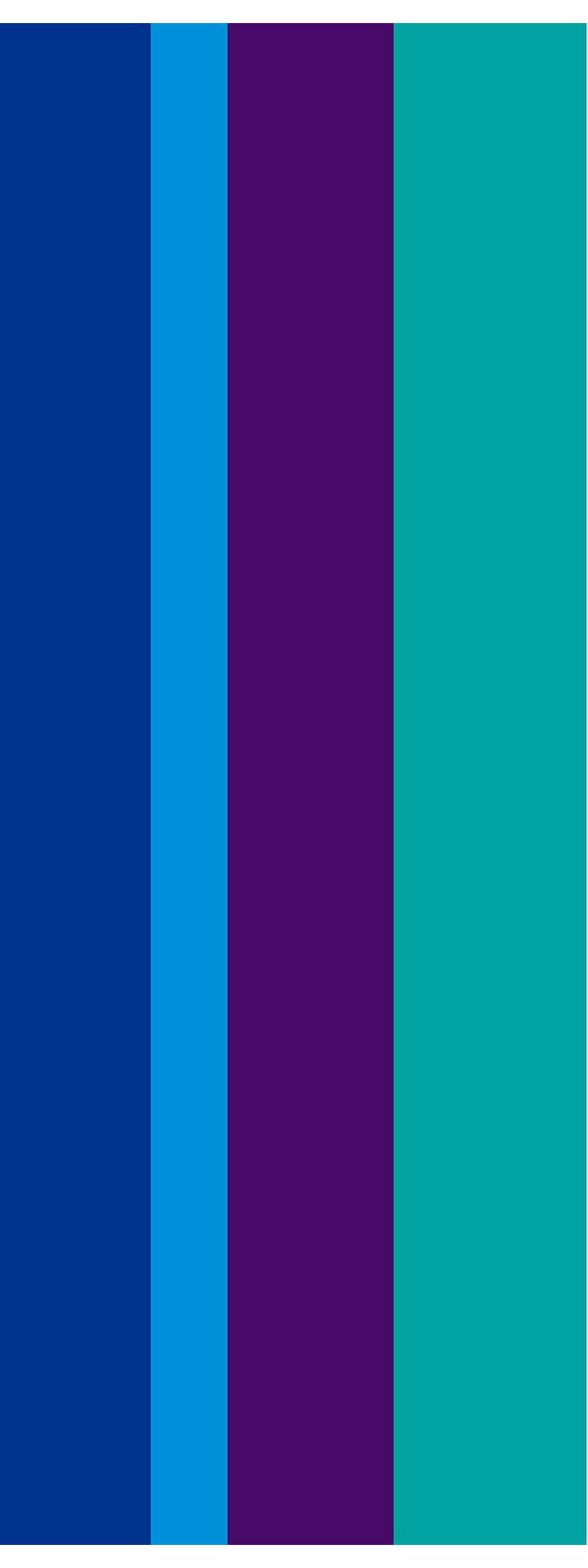
Questions ???

Which approach(es) you would consider to use when valuing a company / asset to acquire?

Primary basis of valuation

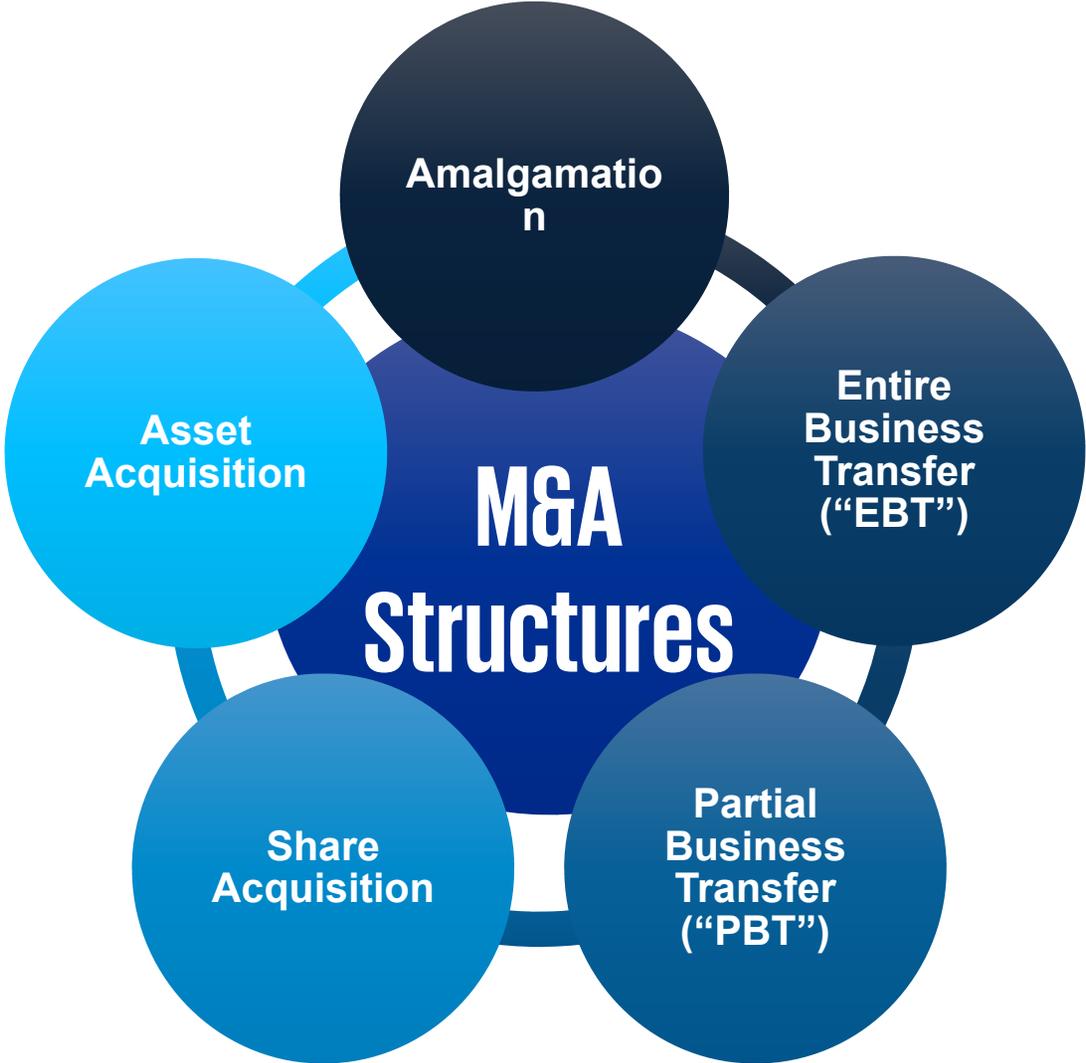


“Earnings and market based approaches are widely used as a basis for valuation”



M&A Structures

M&A structures



Tax structuring – Share vs. Asset deals

Share deals

- Tax attributes (e.g. tax losses) acquired with company (may be subject to change of ownership rules)
- Tax basis in shares acquired
- Share transfer taxes

Asset deals

- No tax losses acquired
- Tax basis in assets acquired
- Amortisation of goodwill
- Transfer taxes

Income approach

Elements of a good business plan

Strategic growth plan



Strategic growth plan

- Description of the company's business model and operating model
- Description of the key steps in the company's growth strategy – for example, timetables of:
 - Entry into new geographies
 - Entry into new customer segments
 - New product launches
 - New channel launches
 - Regulatory approvals



Market research (back-up)



Market research (back-up)

- Selected deep-dives to illustrate why the company's business and operating model are viable, such as:
 - Market size & segmentation
 - Description of competition
 - Description of target customers
 - Key purchasing criteria of target customers
 - Value proposition of the company's products
 - Description of market prices



Financial model



Financial model

- Profit & loss statement
- Cash flow statement
 - Identify CAPEX needs
 - Identify NWC needs
 - Identify relevant D&A
 - Identify financing needs

How to support?

1 – Discuss growth strategy



Discuss growth strategy

- Kick-off with a workshop around the “9 levers of value model”
- Agree on areas that are solid already vs. areas that may need further back-up to survive investor scrutiny

2 – Conduct commercial research



Conduct commercial research

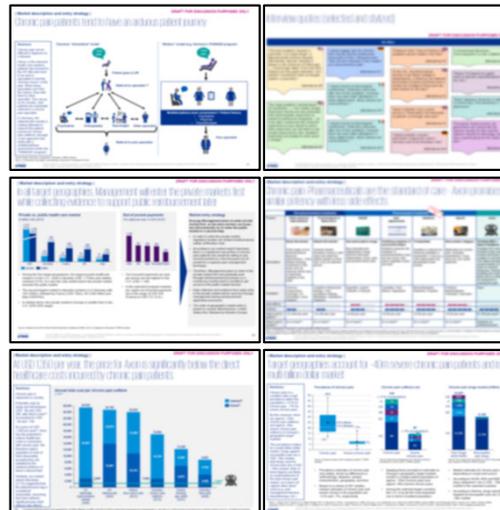
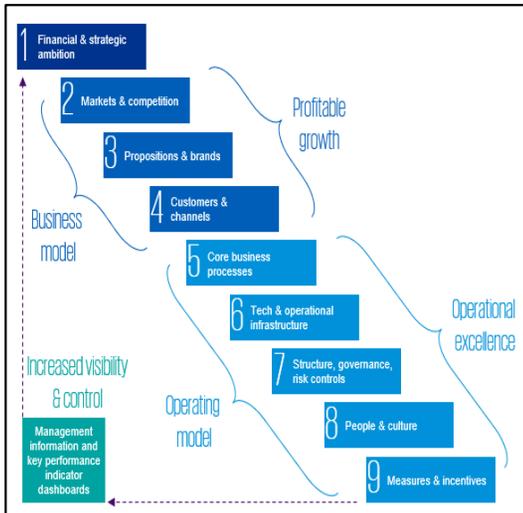
- Selected research, using both secondary sources and primary market interviews
- Develop additional information / knowledge to inform the growth strategy and financial model

3 – Reflect strategy in financial model



Financial model

- Once the growth strategy is clearly articulated, model structure of the model can be built
- Once key assumptions have sufficient support, the model can be populated

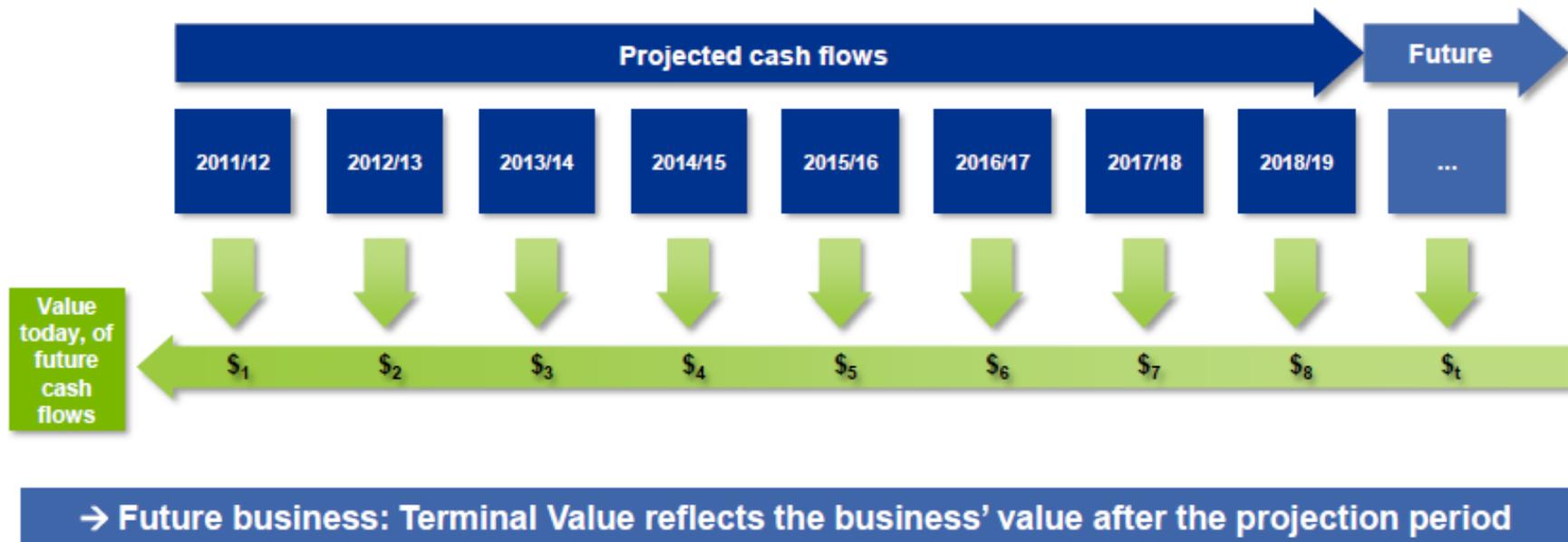


	2018	2019	2020	2021	2022
Profit & loss					
Total revenues (revenue)	-	170	507	857	1,000
Total revenues (subscriptions)	-	170	507	857	1,000
Total Revenues	169.8	6,278	168,788	398,882	468,882
Revenue growth (%)	-	305	26	202	20
Costs of goods sold (revenue)	-	20	20	20	20
Costs of goods sold (subscriptions)	-	20	20	20	20
Distribution charge	-	20	20	20	20
Gross margin - revenue	149.8	6,258	168,568	398,662	468,662
Gross margin (%)	88	99	99	99	99
Gross margin - subscriptions	149.8	6,258	168,568	398,662	468,662
Gross margin (%)	88	99	99	99	99
Gross margin - total	149.8	6,258	168,568	398,662	468,662
Gross margin (%)	88	99	99	99	99
S&A					
S&A - marketing costs	(17)	(17)	(17)	(17)	(17)
S&A - other costs	(17)	(17)	(17)	(17)	(17)
R&D (incl. Payroll and development)	(17)	(17)	(17)	(17)	(17)
Total operating expenses	(34)	(34)	(34)	(34)	(34)
As a % of revenue	20	20	20	20	20
EBITDA	135.8	6,224	168,234	398,332	468,332
EBITDA margin (%)	80	99	99	99	99
Depreciation and amortization	0	0	0	0	0
EBIT	135.8	6,224	168,234	398,332	468,332

Pricing: Income approach

Income Approach (DCF method)

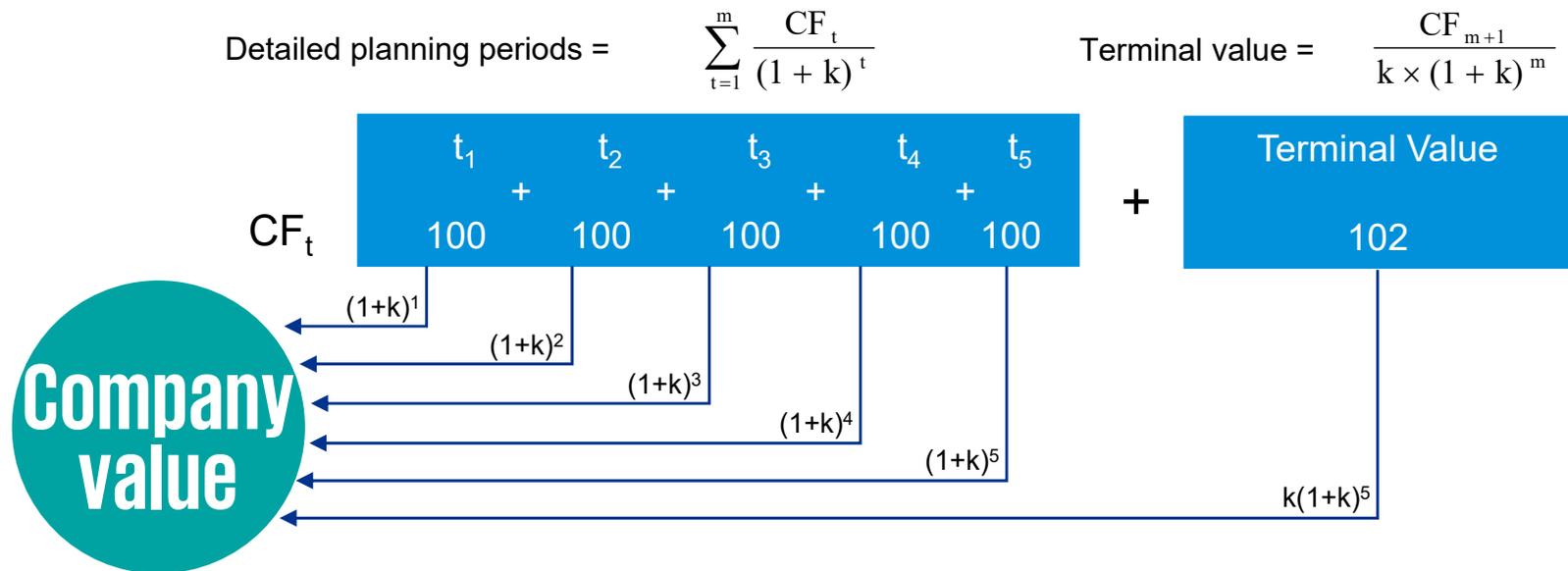
- Recognizes that financial value of assets/companies is based on the **ability to generate income in the future**
- Need to forecast future earnings (“cash flows”)
- Forecasted cash flows are discounted back to the current date, to estimate **today’s value of the future profits** of the business = value of owning the business today



Pricing: Income approach

The income approach determines the company value by discounting company financial surpluses at an appropriate discount rate

➤ The equation looks as follows:



- t = periods
- CF = company cash flows
- k = "appropriate" discount rate

Valuation methods income approach

Variants of Discounted Earnings Method (capitalization techniques)

▶▶ Non-perpetuity model (DCF)

$$E = \sum_{t=1}^m \frac{CF_t}{(1+k)^t}$$

▶▶ Perpetuity model

$$E = \frac{CF}{k}$$

▶▶ Gordon-growth-model

$$E = \frac{CF}{k-g}$$

t = periods
CF = company cash flows
k = "appropriate" discount rate
g = long term growth rate

▶▶ Equity Value:

$$E = \sum_{t=1}^n \frac{D_t}{(1+k_t)}$$

where D = dividends to shareholders

k = required rate of return demanded by equity holders (i.e. levered cost of equity)

▶▶ Enterprise Value:

$$EV = \sum_{t=1}^n \frac{FCF_t}{(1+WACC_t)}$$

where FCF = free cash flows available for both, (i) shareholders and (ii) lenders of debt

WACC = Weighted average cost of capital

Valuation methods income approach - Terminal value year or detailed planning periods

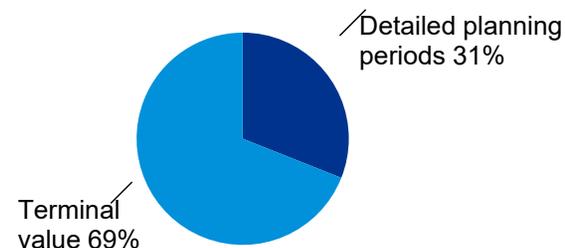
What has the highest impact on the valuation results? The terminal value year or the detailed planning periods?

Assumptions	
Cash flow (Flow to equity)	100
Discount rate	9.5%
Growth in detailed planning period	0.0%
Growth in terminal value	2.0%

Periods	Detailed planning periods					TV
	1	2	3	4	5	
Cashflow	100.0	100.0	100.0	100.0	100.0	102.0
Discount factor	0.9132	0.8340	0.7617	0.6956	0.6352	8.4697
Present value	91.3	83.4	76.2	69.6	63.5	863.9
? NPV	1247.9					

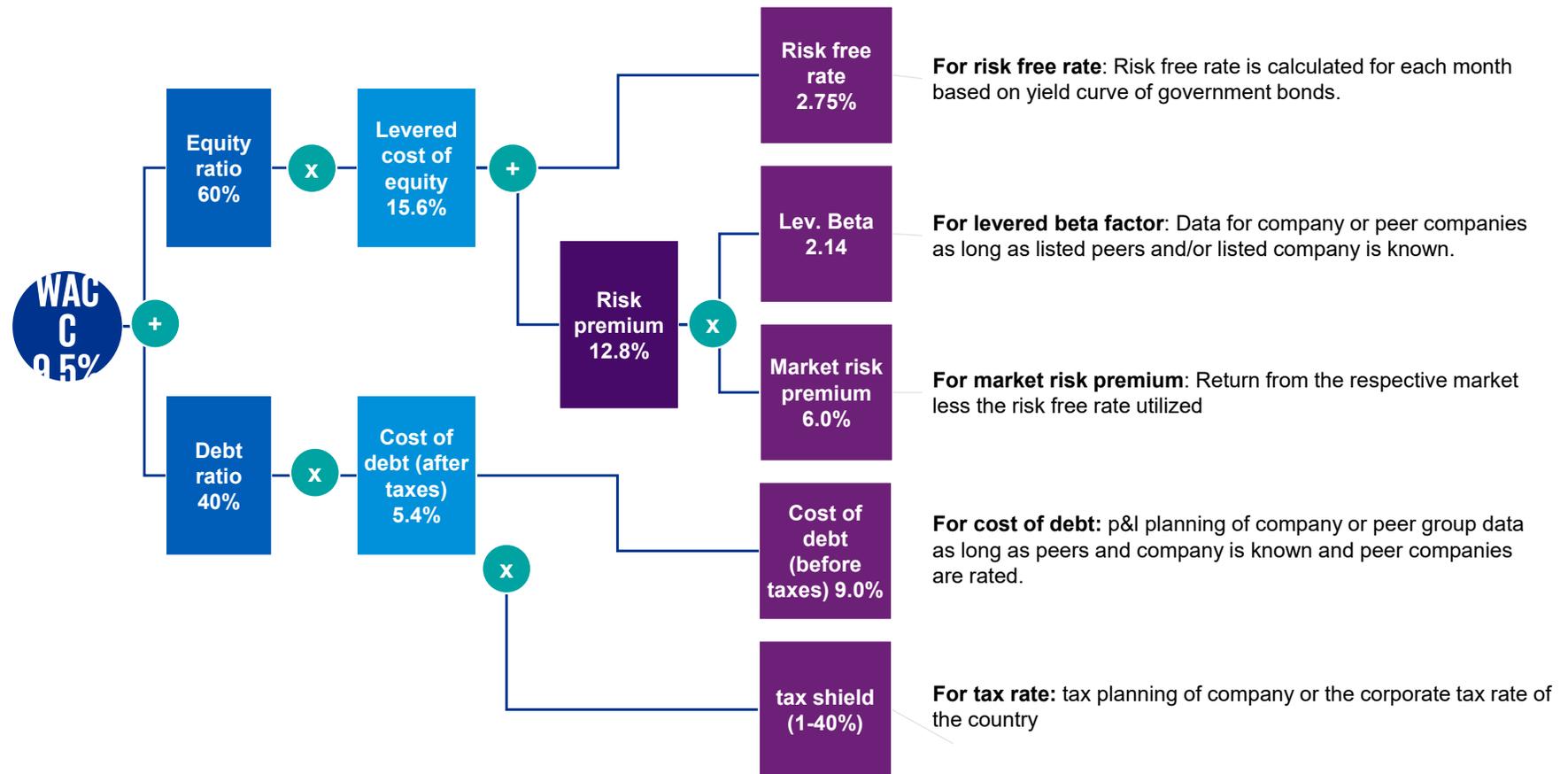
Ratio of NPV	
Detailed planning periods	30.8%
Terminal value	69.2%

Terminal value vs. detailed planning periods



Valuation methods income approach – Discount rate

Calculation example	Potential source for parameters
---------------------	---------------------------------



Valuation methods income approach – Principles

In general, the applied discount rate and the cash flows applied should be consistent regarding the following 6 equivalence principles:

1 Risk equivalence

- If a cash flow is 100% risk free, the risk equivalent discount rate is the risk free rate
- The higher the risk of a company (start-up vs. global player), the higher the discount rate

2 Maturity equivalence

- Most valuations assume a perpetuity for the business, therefore the applied discount rate should be based on parameters (especially for the risk free rate) for the long term maturity as well

3 Tax equivalence

- If the cash flow is after company taxes, the discount rate should be after company taxes as well.
- If the cash flow is after company taxes and after taxes of the shareholders, the discount rate should be after company taxes and after taxes of the shareholders as well

4 Currency equivalence

- The parameters applied to derive the discount rate should be based on capital market data denominated in the same currency as the underlying currency for the business plan
- It is important to understand in which currency the business plan has originally been built up and how a potential transformation in another currency has been done

5 Payout/distribution equivalence

- Use payouts of the company and the payouts from the underlying market data to derive the discount rate should be similar
- If for example a company has payouts every year, you should not take a risk free rates based on a 10-year zero bond

6 Purchasing power equivalence

- If the cash flows include the effect of inflation, the discount rate should include such effects as well
- If for example the cash flows are after the inflation effects (which is true for most of the business plans), the risk free rate should not be based on an inflation-protected bond

Market approach

Valuation methods Market approach – Overview

Multipliers

Total enterprise value/
Equity Value

=

Performance figure

X

Multiplier

Valuation object

Equity

— Net income

Entity

— Revenue

— EBITDA

— EBIT

— NOPLAT

Peers for comparison

— Depending on performance figure

— Can be derived from:

- Comparable companies

- Comparable transactions

- Initial public offerings (IPOs)

Basic idea

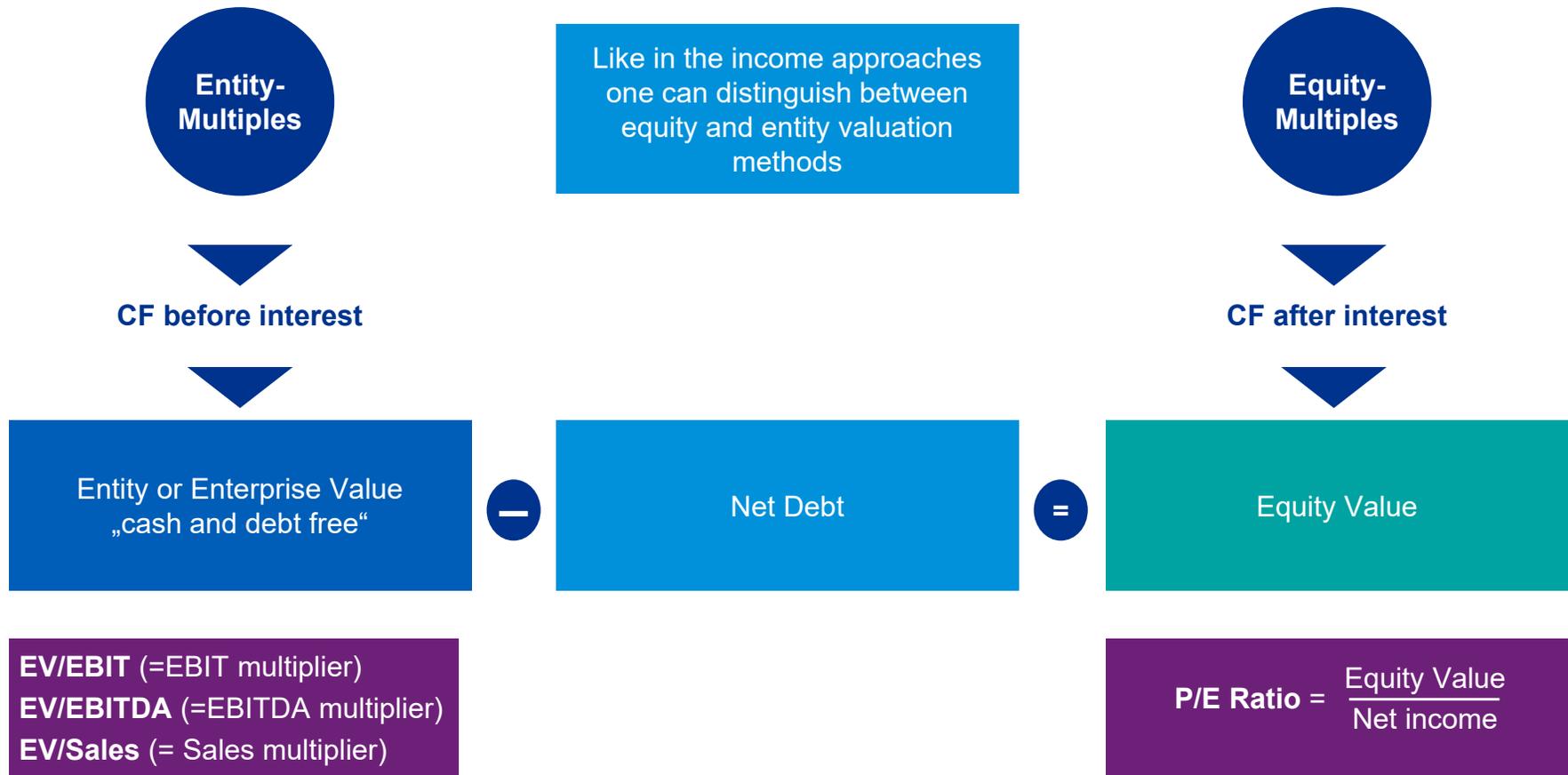
- Allows a first indicative valuation (rule of thumb); usually in the first phase of a sale mandate
- Multiplier illustrates the relation of market prices to performance figures of comparable companies, e.g. EV/Sales

Method

- Equity- and Entity-multiplier
- Applicable to comparable companies or transactions

similar assets should be sold at similar prices

Valuation methods Market approach - Equity and entity valuation methods



Valuation methods Market approach – Comparison of equity value by comparable companies or transactions

	Comparable Companies	Comparable Transactions
pros	<ul style="list-style-type: none"> — Based on actual market values, that are currently determined and therefor reflecting the estimate of the market participants in terms of sector trends, operational risk and market growth. — Suitable as plausibility check for results of other company valuation methods. 	<ul style="list-style-type: none"> — Well suited for determination of a strategic premiums bandwidth. — Current transactions reflect the supply and demand situation for companies and company shares in the relevant sector. — Trends such as the consolidation or attractiveness of the sector for foreign buyers or financial investors become clear.
cons	<ul style="list-style-type: none"> — There are (almost) no completely comparable companies Adjustments are necessary at most times. — International comparisons are more difficult due to different accounting principles. — The extent of available information varies. — Companies with very low stock market turnover, low capitalization or unaccompanied by equity market research are hardly suitable for comparison. — Market valuation could be influenced short-term by general mood or market trends. — Control premiums or value of strategic synergies in case of acquisitions are not included in valuation. 	<ul style="list-style-type: none"> — Past transactions are rarely comparable. — Interpreting the information requires good knowledge of the industry/sector and the respective companies to understand and classify special cases and set them into context. — Information is often difficult or impossible to identify or misleading. — Determined multipliers mostly have a significant scattering range. — Performance figures focus purely on the past. — Side letters/additional agreements to purchase agreements are not known.
	Financial market orientated, stand-alone consideration	Includes strategic considerations and synergies

Valuation methods Market approach – Comparison of equity value by EBIT, EBITDA, or Sales

	EBIT	EBITDA	Sales
pros	<ul style="list-style-type: none"> — Not affected by non-operating results — Not affected by capital structure and tax effects 	<ul style="list-style-type: none"> — First rough approximation of cash flow by elimination of depreciation — Transnational differences in accounting and financial reporting are excluded 	<ul style="list-style-type: none"> — Applicable to young companies without profit and in sectors with exceptional importance of market shares — Applicable in loss situations — Information is easy to obtain
cons	<ul style="list-style-type: none"> — Distorted by depreciation — Elimination of EBIT from non-core operations is prone to error 	<ul style="list-style-type: none"> — Assumes identic capital intensity — Elimination of EBITDA of non-core business areas is prone to error — Obtaining information 	<ul style="list-style-type: none"> — Ignores profit situation — Depending on accounting differences

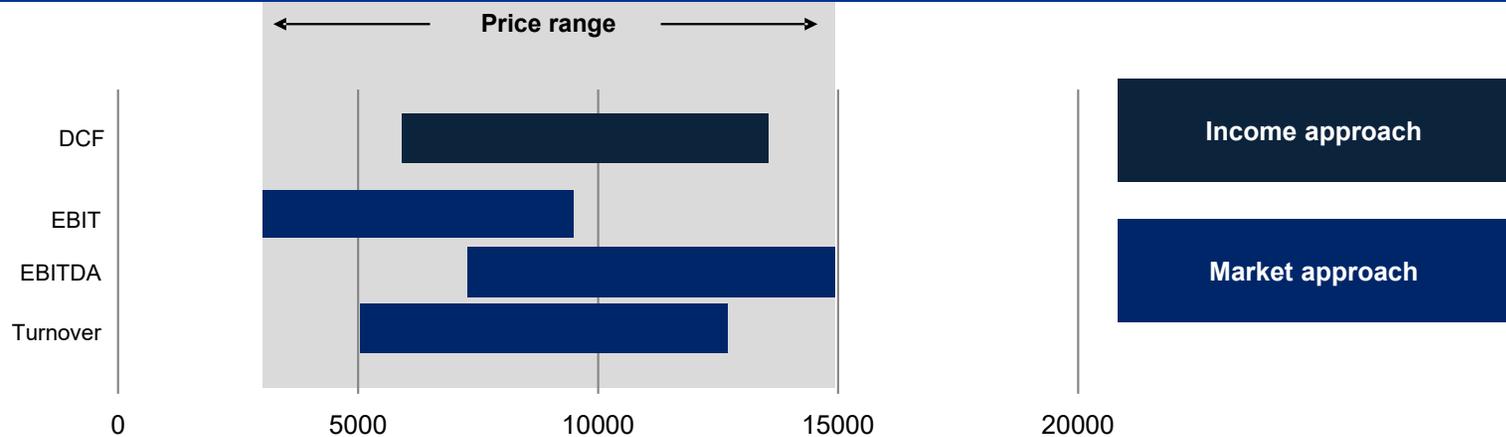
Valuation methods Market approach – Comparison of P/B-ratio, P/E-ratio, or noplat

	P/B - Ratio	P/E - Ratio	NOPLAT
pros	<ul style="list-style-type: none"> — Applicable to companies without profit — Information is easy to obtain — Important for companies that directly convert assets into profit 	<ul style="list-style-type: none"> — Used frequently in practice — Information is easy to obtain 	<ul style="list-style-type: none"> — An indicator of operating performance; conceptual proximity to DCF
cons	<ul style="list-style-type: none"> — Distorted by capital structure 	<ul style="list-style-type: none"> — Biased by accounting policy (especially depreciation) and transnational differences in accounting and taxes — Assumes similar capital and profit structure of compared companies 	<ul style="list-style-type: none"> — Obtaining information — Biased by depreciation (if different)

Valuation results and concerns

Valuation approach comparison

Income approach vs multiple approach



Income approach

Pros

- Capture future cash flow
- Accommodate changes in W/C, Capex
- Applicable to many stages of business life cycle

Cons

- Assumptions could be judgmental
- Could be complex

Main approach

Market approach

Pros

- Simple calculation
- Useful when having limited information

Supportive approach

Cons

- Assume normalized level of earnings
- Peers are not identical
- Not applicable for growth or declining stages
- Limitation on adjustments W/C, Capex

Key valuation considerations

Valuation considerations



Projections prepared by sellers are prone to bias



Synergies are often not taken into account



Discounts for illiquidity and lack of control



Working capital and net debt adjustments to the concluded valuation



Related party transactions

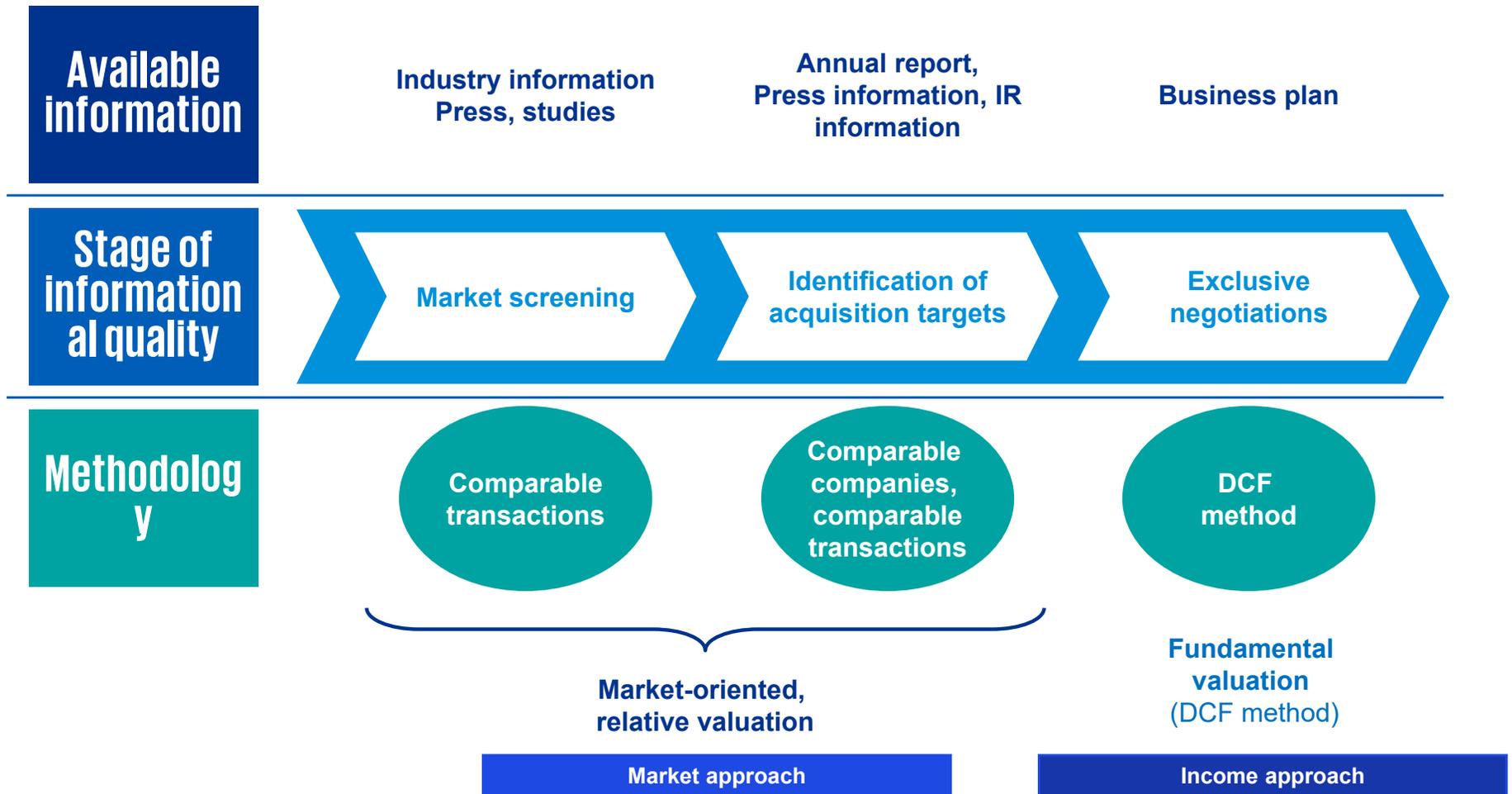


Relevant public benchmarks may be sparse in the local / regional market



Due Diligence issues

Informational quality - Dependence of methods



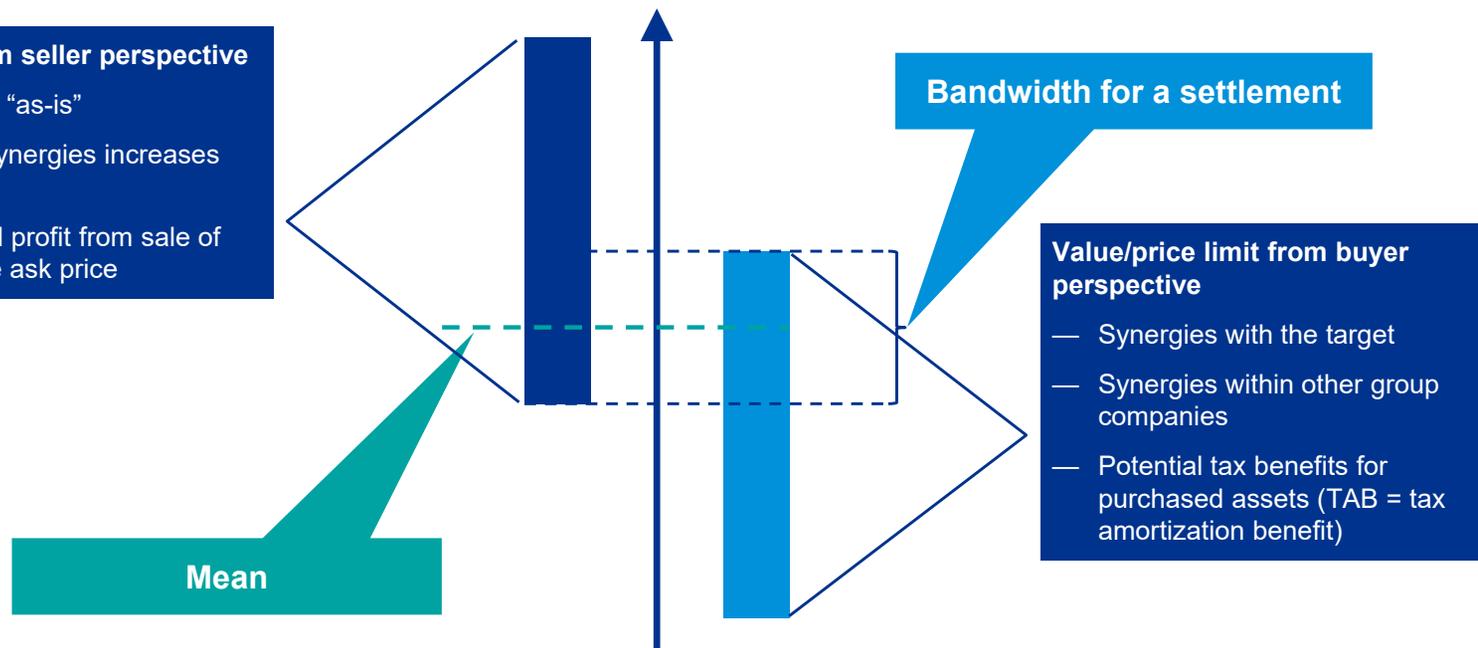
Value versus price – Subjectivity of a value

Subjectivity of a value

➤ There is not one correct value of a company:

Value/price limit from seller perspective

- Value of company “as-is”
- Potential loss of synergies increases the ask price
- Taxes on potential profit from sale of company increase ask price



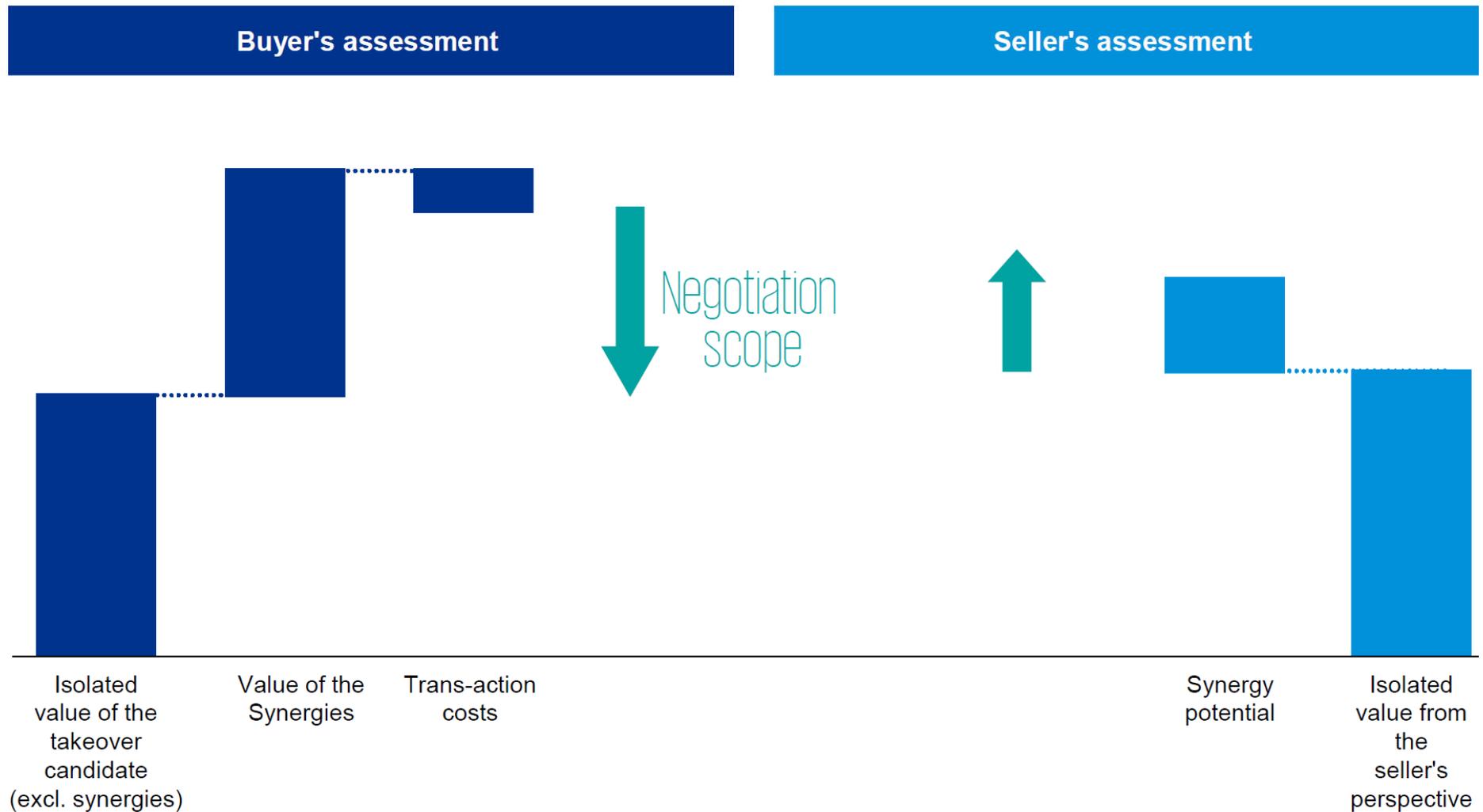
Value/price limit from buyer perspective

- Synergies with the target
- Synergies within other group companies
- Potential tax benefits for purchased assets (TAB = tax amortization benefit)

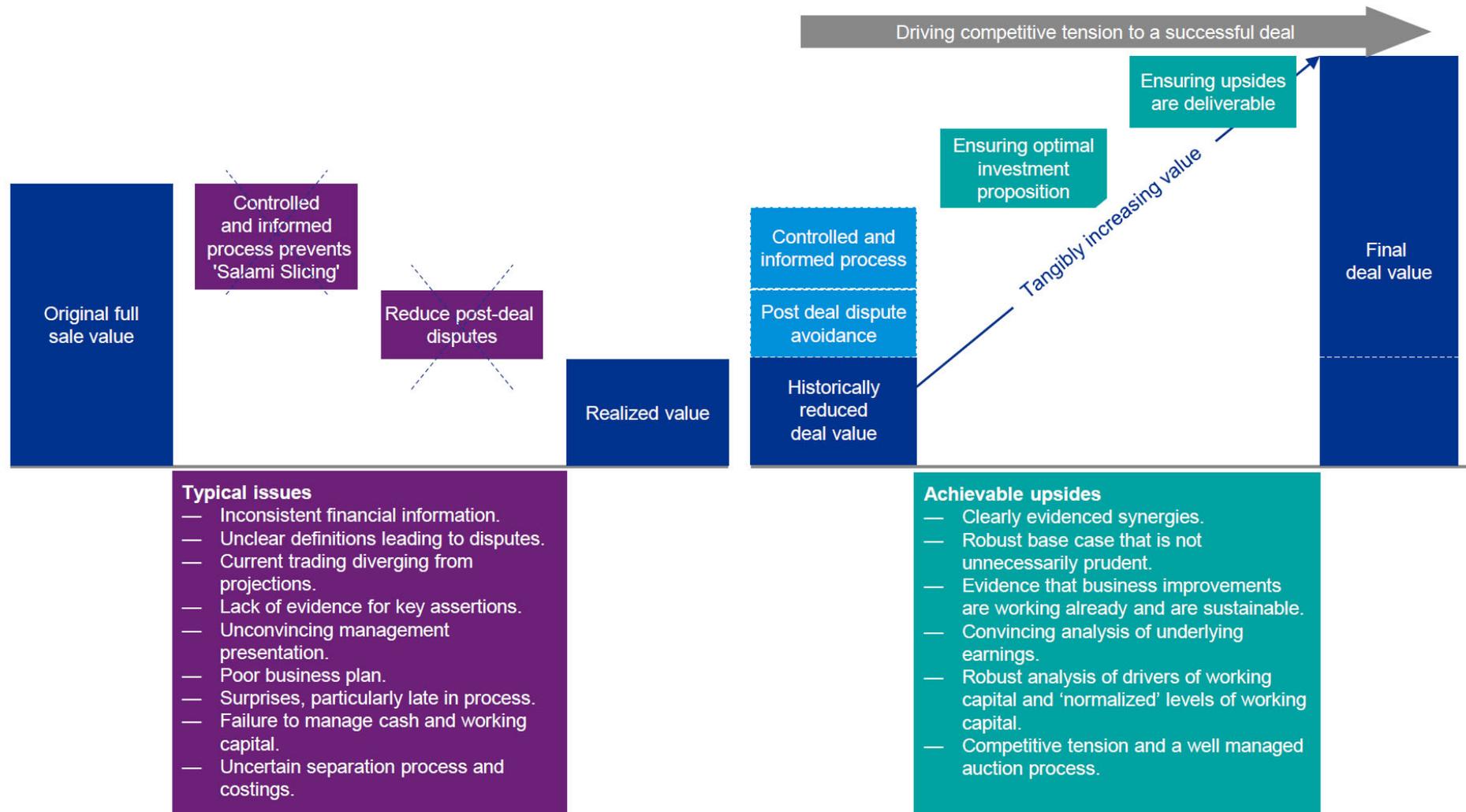
Upper and lower price from buyer and seller determine potential bandwidth for a settlement

- If price limits of seller and buyer are equal, the deal does not “create” value, it could therefore be interpreted as a chance of money only
- Value creation is only related to a deal price above the price limit of the seller or below the price limit of the buyer

Negotiation - Determining the price during the acquisition process



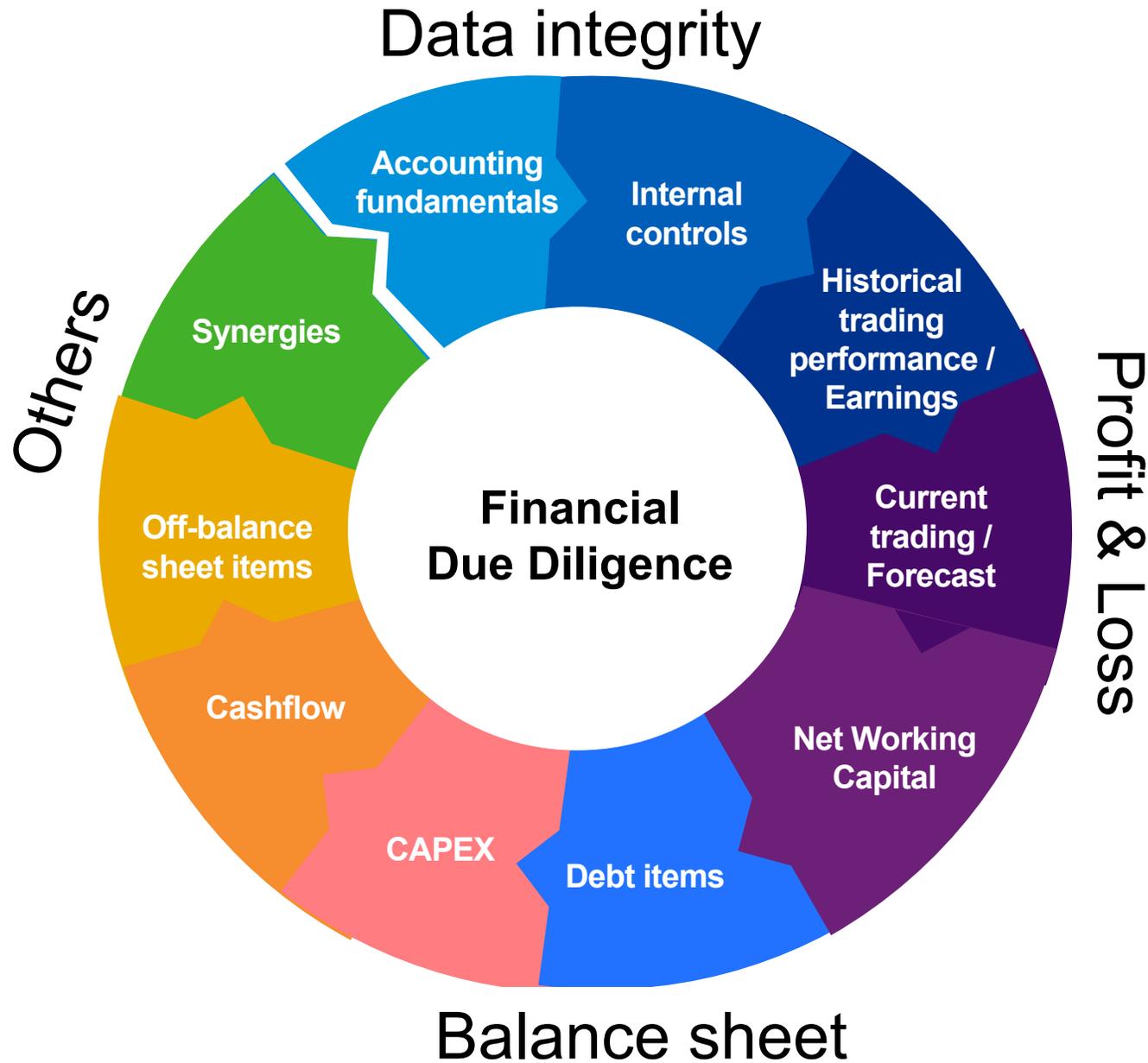
Deal value - Things that destroy value during divestment ... and things that create it



03

Accounting and tax pitfalls

FDD – What do we look at?



Financial Due Diligence: Common Findings

FDD considerations



Accounting internal controls and approvals matrix



Multiple sets of books



Accounting policies applied



Standalone / Carved-out issues



Related parties dependency



Quality of Earnings



Normalized working capital



Debts and debt-like items



Ownership of Assets/Brands/IP/Licenses



Off-balance sheet liabilities (Accruals, tax exposures, litigations, disputes)

Tax Due Diligence: Common Findings

TDD considerations



Tax filing compliance and general tax / accounting functions



Related party transaction and transfer pricing documentation



Unpaid tax liabilities



Penalties and surcharges/additional tax payable



Potential criminal fines



Contentious historical tax positions



Tax assets (i.e. tax refund) and tax loss carried forward



BOI and other tax incentives (i.e. IBC)



Tax audit and tax dispute



Previous tax structuring / tax advisory

Legal Due Diligence: Common Findings

LDD considerations



Business Information

- Corporate documents
- Shares ownership
- Group information



Assets

- Property ownership
- Lease agreements
- Investment



Material contracts

- Financing documents
- Negative covenants
- Insurance
- Others



IPs / ITs

- IPs owned / registered
- IT licensing agreement



Licenses and permits

- Business Licenses and conditions
- Notices from authorities
- Environmental matters



Litigations

- Lawsuits or claims
- Major disputes



Labour

- Employment Contract
- Employees benefits
- Labour union

Findings / Outcomes

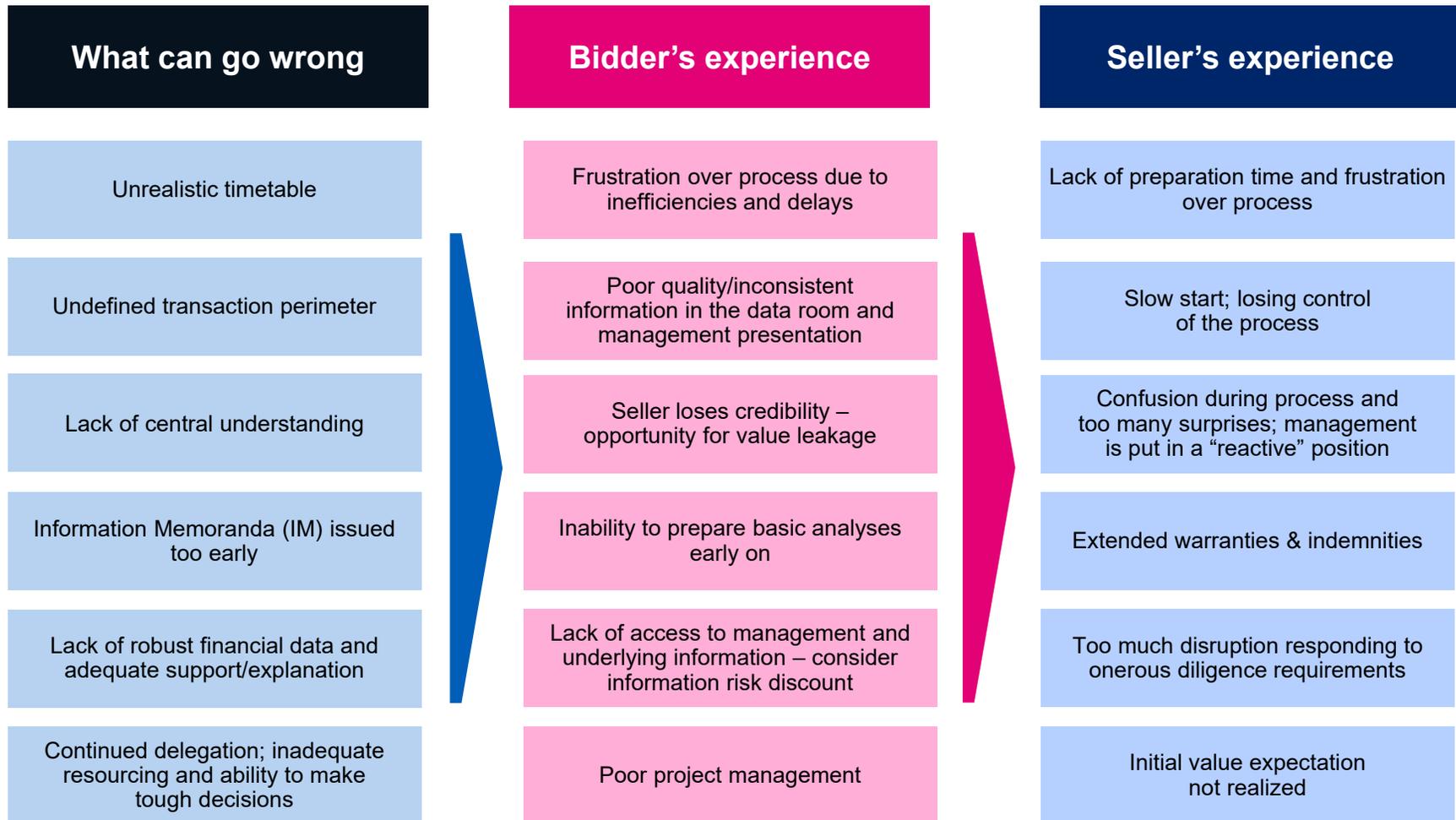
How to conclude the deal?

- Abandon the deal
- Negotiations / Pricing
- Sale and Purchase Agreement
- Modelling
- Structure considerations
- Post deal work

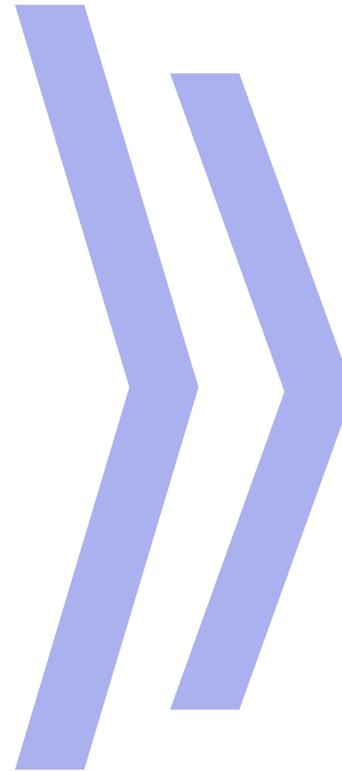
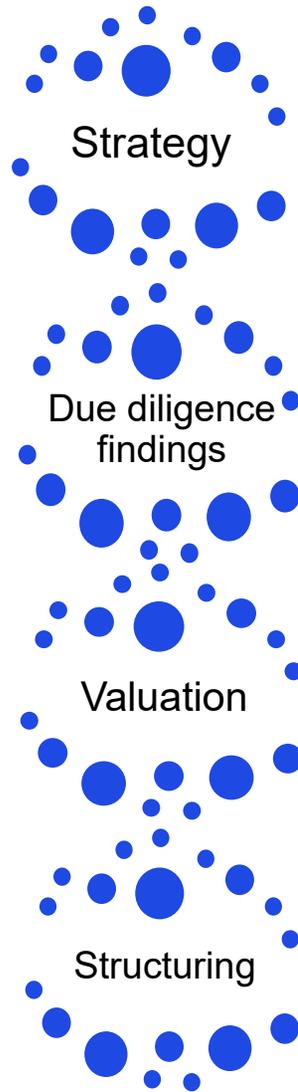
How a due diligence report helps?

- Assist in analysis of the target
- Internal decisions and approvals (board presentations)
- Assist third parties (e.g. funding banks, co-investors, other third parties) to assess the target.

Bidder and Seller frustrations



Next steps



SPA key considerations

1 Price and Price Adjustments

2 Signing and Completion

3 Conditions Precedent

4 Closing Obligations

5 Restrictions

6 Representations and Warranties

7 Indemnities

8 Disclosure

9 Governing Law

10 Dispute Resolution

Common deal issues in Thailand

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Deal considerations</p>	<p>General execution issues: Lack of understanding / appetite for ‘traditional’ valuation formulae, purchase price adjustment mechanisms, WC targets and net debt. Sellers typically fixed on non-binding offer and very wary of ‘price-chipping’ and may require deal proceeds to be deposited offshore for tax purposes.</p> 	<p>Due diligence issues: Privately held family-run companies may have two sets of accounts and the quality of accounting is generally poor. It is challenging to gain a deep understanding of value drivers, underlying earnings and quality of assets. Potential tax and other legacy liabilities are common. Willing sellers are usually upfront during the due diligence process, however documentation will usually be in Thai.</p> 	
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Governance/ Operations considerations</p>	<p>Governance: Most Thai businesses have informal governance structures that are dominated by a small group of individuals. In the case of non-majority acquisitions, the post-deal governance plan has to be addressed.</p> 	<p>Related party transactions: Typically significant overlap between related businesses driven by complex corporate structures and large volumes of non arm’s length transactions. This leads to lack of visibility over underlying business of the target, carve-out issues and potential value leakage risks that have to be addressed during due diligence.</p> 	
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">People issues</p>	<p>Labour laws: Labour laws are generally employee-friendly and many businesses are overstaffed. It may be expensive and time-consuming to optimise headcount.</p> 	<p>Severance pay: The Thai labour law mandates a level of severance pay based on the length of employment. Employers do not usually offer defined benefit schemes other than the mandatory severance pay and only provide for this amount. Appreciation and interpretation of the standard can vary significantly.</p> 	
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Financial and tax reporting considerations</p>	<p>Thai GAAP: Thai GAAP in general is now closely aligned with IFRS however, notable exceptions are in Financial Services (IFRS 4 & 9) and upstream oil & gas. Non-publicly accountable entities are held to less stringent GAAP requirements and there can be wider variation from IFRS and US GAAP. Local regulatory requirements can also supersede GAAP.</p>	<p>Financial reporting quality: Information systems, internal control, and management reporting are typically not sophisticated. Reconciliations between reported numbers and supporting schedules are thus a due diligence focus.</p>	<p>Taxes: The Revenue Department has the power to issue a summons for a tax examination within two years from the date of lodgment of a Tax Return, or five years where they believe that the company has evaded tax. Under the Civil and Commercial Code, the time limit for pursuing tax debts is up to 10 years. Such debts remain the liability of the Target regardless of any change in ownership.</p>

Financial due diligence value propositions

Purchase price mechanism

Enterprise Value

- Adjusted EBITDA x multiple
- Discounted cashflow

± Net financial debt

± Net Working Capital Adjustments

Adjust difference between Targeted and Closing Net Working Capital level

± Other adjustments

Debt like items and commitments

Equity Value

Purchase Price =
Equity Value x % of stake purchased

Identify potential risks, assess its impact and recommend mitigation plan

Identify key valuation upside and potential synergy

SPA Advice

Key components of a sales and purchase agreement – buyer & seller perspective

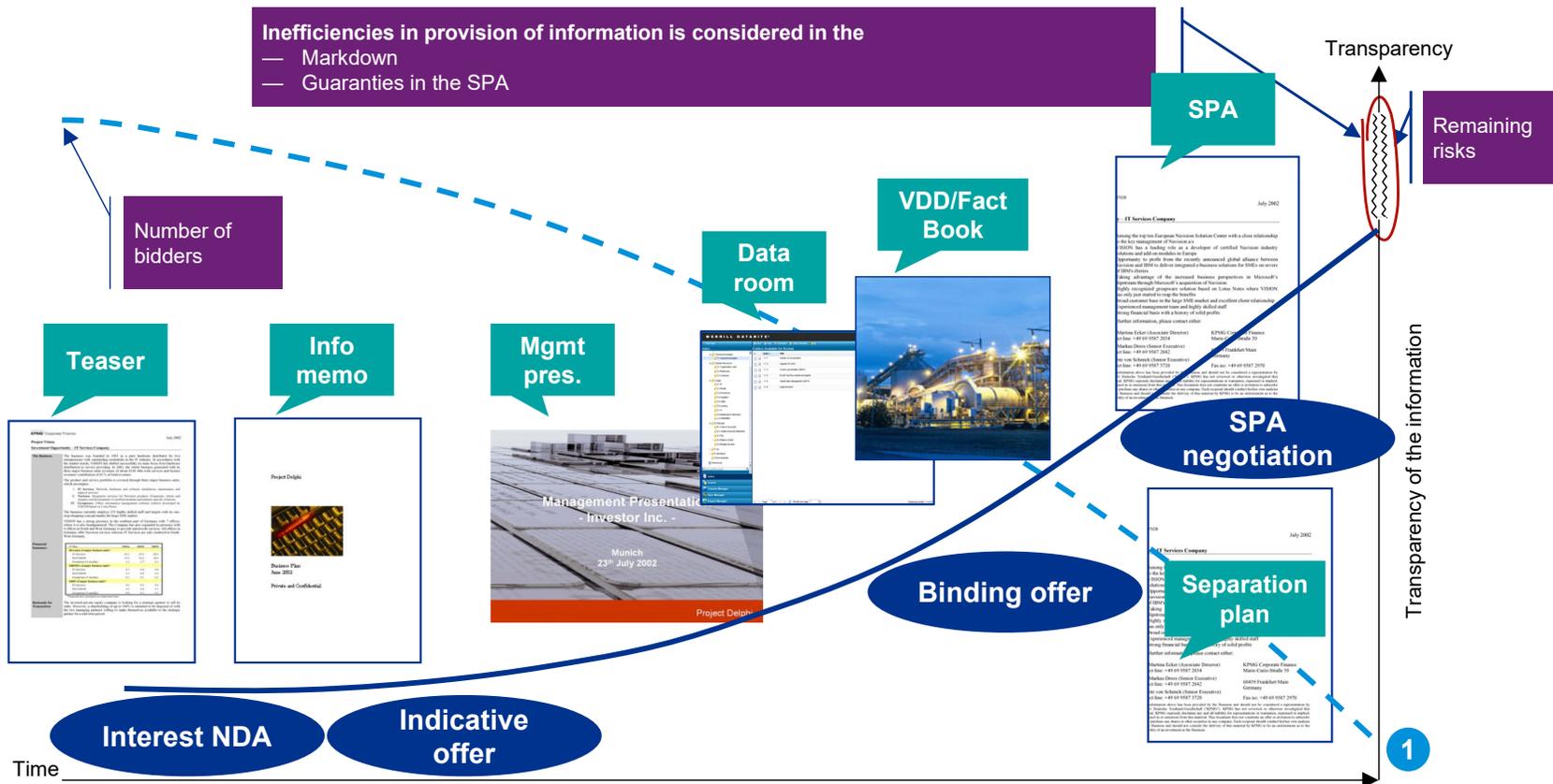




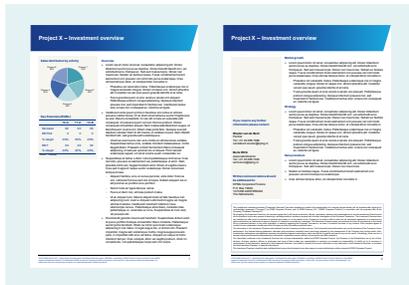
Appendix

Key documents used

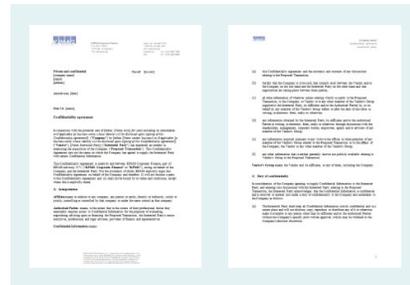
Documents used in the selling process



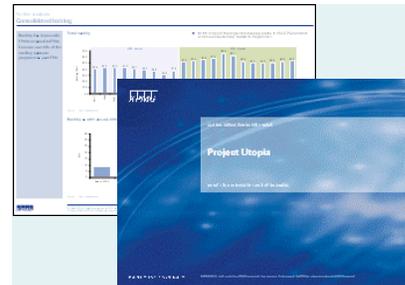
Key documents



Teaser



NDA

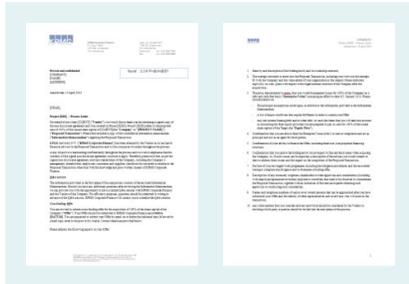


Vendor due diligence report



Information memorandum

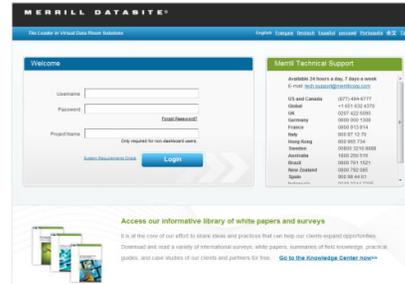
Key documents



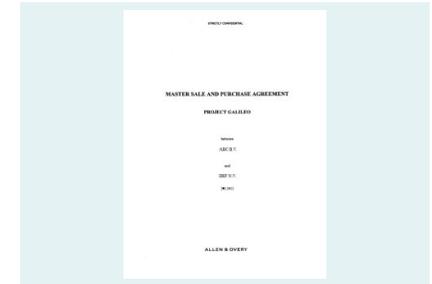
Process letter



Management presentation



Data room



SPA

ESCADA

Project Fury - Management Presentation
Munich, October 2009



EXAMPLE



Tailor this slide to include a local country example (Management Presentation)

ESCADA

Project Fury

Investment Highlights

- Legendary brand with a truly global reach**
 - One of the top luxury women's apparel brands
 - Long tradition standing for elegance, glamour, color, quality and fit
 - Truly global reach with flagship stores in all major capitals and market presence in more than 70 countries
- Coherent management team with an exceptional track-record and commitment to a successful turnaround**
 - 25 out of 30 senior management positions have been replaced since mid 2008
 - New management combines in-depth fashion industry and turnaround expertise
- New strategy designed to enable future growth and attractive margins**
 - *Product Leadership*: Focus on marketable collections and design-to-cost production
 - *Market Intimacy*: Intensified relations to key customers (wholesale) and a streamlined supplier base
 - *Operational Excellence*: On-time delivery and optimized operational processes
- Recent market success – a proof-of-concept for ESCADA's new strategy**
 - ESCADA recently developed better than the luxury market
 - Latest collections were very well received by retail customers and press
- Still untapped growth potential**
 - Brand extensions (accessories, leather goods) and enhanced license business
 - Expansion of point of sales network in further CEE and Asian territories
- Comprehensive cost optimization measures implemented successfully**
 - Cost savings of c. 20 million euros p.a. expected to show full impact in FY 2009/10
 - Divestment of underperforming, non-core businesses (PRIMERA)
 - Optimized production and logistics will result in additional EBITDA improvement
- Insolvency allows for an in depth restructuring**
 - Unfavorable contracts can be renegotiated/terminated
 - Business can be acquired without financial liabilities



Business Overview

- The ESCADA business comprises the two product lines ESCADA (63% of sales in H1-2009) and ESCADA Sport (29% of sales in H1-2009), both of which are positioned in the luxury brand segment
- Accessories including handbags, shoes and small leather goods supplement the apparel range (in total 8% of sales in H1-2009); licensed partners also offer fragrances and eyewear under the ESCADA brand
- Women's ready-to-wear luxury apparel for various occasions and couture is designed, produced and sold under the main line ESCADA Sport offers ready-to-wear fashion for women
- The fashion collections and accessories are designed by ESCADA. ESCADA manufactures its products using a value-added supply chain controlled by the company
- To date the company is particularly strong in Europe (57% of sales in H1-2009) and the US (23% of sales in H1-2009)
- ESCADA products are currently sold in 175 own stores and shop-in-shops as well as by franchisees who exclusively offer ESCADA products (together 165 points-of-sale), through selected multi-brand retailers (925 points-of-sale) and, to a lesser degree, through its own outlets
- As of April 2009, ESCADA had a workforce of 2,229 employees worldwide

EXAMPLE business product

Current Situation

- Following the failure of the targeted bond restructuring, an insolvency petition has been filed by ESCADA AG (the listed holding company) on 13 August 2009
- The preliminary insolvency administrator seeks to sell the operations of the company to an investor who is prepared to support the successful restructuring of the company
- KPMG has been retained as exclusive financial advisor for the envisaged transaction

Envisaged Transaction

- The transaction structure will be tailored to the specific needs of the insolvency proceedings, ESCADA and the definitive purchaser
- A detailed information memorandum is available upon signing of a confidentiality agreement
- Interested parties will be asked to submit an indicative offer (incl. envisaged financing and valuation)
- Signing of the transaction is envisaged for the end of October 2009

Financial Overview

million euros	FY 2008 Oct-31	Q1 2009 Jan-31	Q2 2009 Apr-30
Revenues	352.7	82.8	68.2
COGS	(115.3)	(30.4)	(26.1)
Gross profit	237.4	52.4	42.1
Margin	67%	63%	62%
Operating EBITDA	17.4	(3.9)	(9.1)
Margin	5%	(5%)	(13%)
One-off items	(11.3)	13.4	1.8
Reported EBITDA	6.1	9.5	(7.3)

- The divestment of the PRIMERA business is reflected in the financial overview
- In order to reflect the operating performance of the business, the operating EBITDA does not include one-off items such as restructuring costs or severance payments



Tailor this slide to include a local country example (Teaser)

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CORPORATE FINANCE

**Project Fury
Information Memorandum
September 2009**

STRICTLY PRIVATE AND CONFIDENTIAL

ESCADA

ESCADA

Project Fury
Information Memorandum

Disclaimer

Name of Recipient: Michael Mustermann
Company: **EXAMPLE**
Date: September 09, 2009

Important notice

This Information Memorandum ("IM") has been compiled by KPMG's Corporate Finance ("KPMG") on behalf of ESCADA AG (represented by the management with approval of Dr. iur. Christian Gerloff in his capacity as preliminary insolvency administrator over the assets of ESCADA AG; "ESCADA", "Company" or "Business") from information supplied to KPMG by the management of the Company. This Memorandum is provided, pursuant to a separate confidentiality agreement, solely for use by a limited number of parties who, it is believed, may be interested in acquiring the assets of ESCADA ("Recipients").

The information contained in this Memorandum is selective and is subject to updating, expansion, revision and amendment. It does not purport to contain all the information that Recipients may require. No obligation is accepted to provide Recipients with access to any additional information or to correct any inaccuracies which may become apparent. Recipients should conduct their own investigation and analysis of the Company and of the information contained in this Memorandum and are advised to seek their own professional advice on the legal, financial, taxation and other consequences of acquiring the Company.

KPMG has not independently verified any of the information contained herein. Neither the preliminary insolvency administrator, nor the Company, nor KPMG, nor affiliated partnerships or corporate bodies, nor the directors, shareholders, managers, partners, employees or agents of any of them, make any representation or warranty, expressed or implied, as to the accuracy, reasonableness or completeness of the information contained in the Memorandum. All such parties and entities expressly disclaim any and all liability for, or based on or relating to any such information contained in, or errors in or



Tailor this slide to include a local country example (IM)

Structural changes

Opportunities

- Divestment to raise funds for strategically important business segments – Focus on core segments in order to raise shareholder value
- Divesting peripheral areas on big player level
- Generation change in small and medium-sized enterprises
- Deregulation
- Divestment due to anti-trust

Search for a
strategic
partner or
divestment

Risks

- Change in market environment due to entry/exit of foreign players
- Pressure to grow and realize economies of scale
- Scarce resources: management, capital and time
- Unfavorable market mood: Limited opportunities for IPO to realize strategic options

Depending on the sector are different factors for a growing M&A market responsible

Opportunities

- Significantly improving the strategic market position by focusing on core competencies
- Saving resources and minimizing losses
- Streamlining processes and R&D
- Raising shareholder value

Risks

- Purchase price below expectations
- Loss in value due to spin-off
- Underestimation of potential synergies
- Problems during separation:
 - Legal
 - Organizational
 - Personnel

Success Factors



Carefully selecting
the target

Professionally
carving out

Professionally
carrying out the
selling process

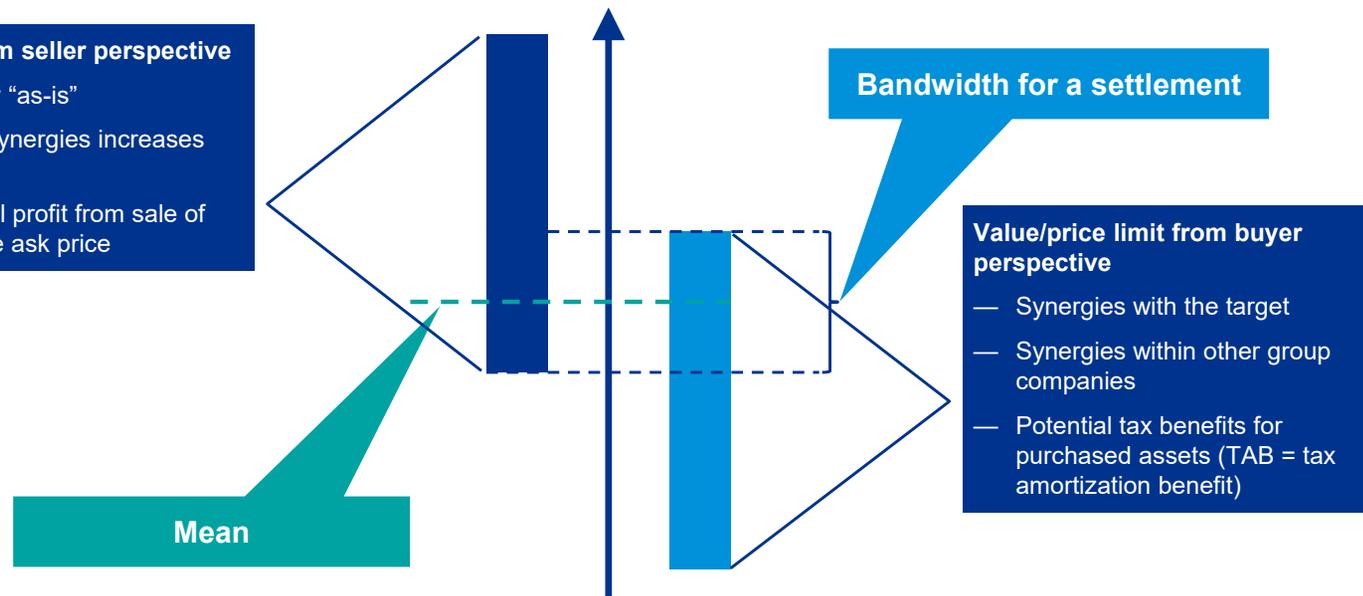
Pricing: Subjectivity of value

Subjectivity of a value

➤ There is not one correct value of a company:

Value/price limit from seller perspective

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- Synergies within other group companies
- Potential tax benefits for purchased assets (TAB = tax amortization benefit)

Upper and lower price from buyer and seller determine potential bandwidth for a settlement

- If price limits of seller and buyer are equal, the deal does not “create” value, it could therefore be interpreted as a chance of money only
- Value creation is only related to a deal price above the price limit of the seller or below the price limit of the buyer

Deal strategy

Introduction to deal strategy

What is deal strategy?

*Deal strategy is centred around bringing sector and operational expertise to a transaction to provide **independent challenge** and to highlight areas for **value creation**.*

*Deal strategy is about the **development of informed views** on a **business** and the **market** it operates in, based on **analytical rigour** and **evidence-based research and analysis** that enables our clients to **maximise value** from a transaction.*

“ Financial and accounting due diligence ... whether or not they have a bad lease or their bad debt reserve is too low, it doesn't matter. It's about the durable advantage.

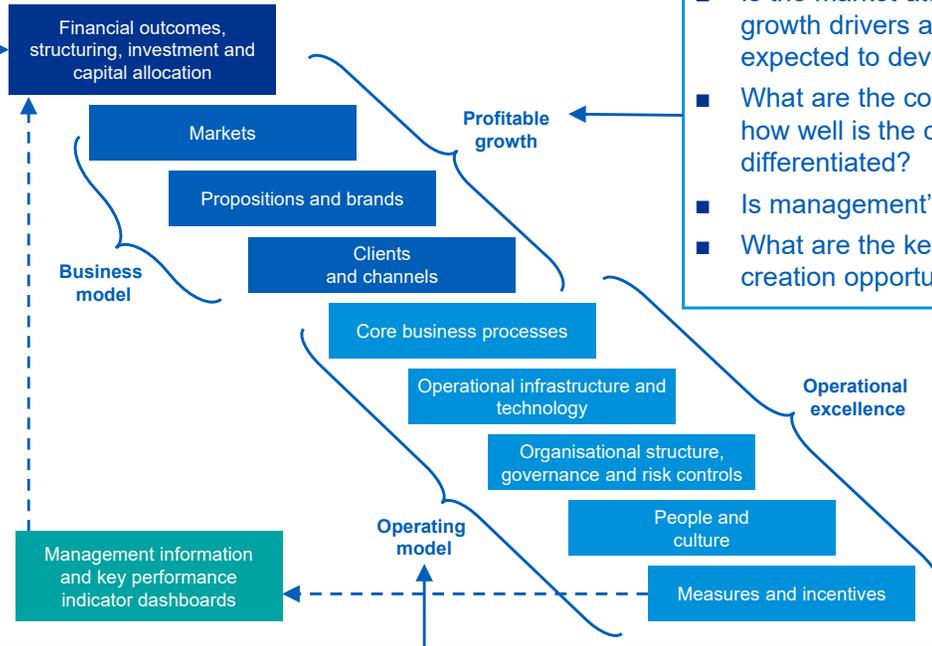
Warren Buffett ”

Out-in-deal approach is based on the 9LoV

In a deal context, it is vital that we are answering the right questions

What are the financial and strategic objectives of the Target/deal?

- What is your appetite for investment and risk?
- What is your investment thesis, equity story?
- How will you measure success?



Is this a good deal to do?

- Is the market attractive? What are the key, growth drivers and how is the market expected to develop?
- What are the competitive dynamics and how well is the company positioned, differentiated?
- Is management's growth plan achievable?
- What are the key risks, upsides and value creation opportunities?

Does the company have the right operational capability to deliver the growth plan?

- What are the core operational capabilities and what are the key gaps currently?
- What level of cost savings have been achieved historically and how much more is there to go for?
- To what extent can management deliver the plan and key risks, upsides and value creation opportunities?

Key questions across deal cycles

Situations

Key questions

Pre-deal

- How do **M&A/inorganic options** deliver my growth strategy?
- Should I divest any of my business units?
- Do I go for **buy-build or partner** to accelerate my strategy?

In-deal

- What is the **investment thesis/divestment case**?
- What are the key issues impacting the **development of the market**?
- How can the **Target win in this market**?
- Are the **financial projections realistic**? Does the Target have the **operational capacity/capability to support the business model**?
- What are the **key risks** and how can I **mitigate** these?
- What are the **value-creation opportunities/synergies**?

Post-deal

- How do I **deliver value creation** opportunities/synergies?
- How do I **integrate** the two companies?
- How should I move on my **growth strategy**?
- How should I manage my **portfolio of assets**?
- What changes should I make to the **organisational model**?

The different components of deal strategy

Commercial Due diligence

- Focuses largely on the external factors impacting a business's existing and future performance
- Answers the critical questions about underlying markets, positioning, financial projections and value creation

Core elements of GSG in-deal strategy proposition

Operational Due diligence

- Describes the business from an operational perspective (e.g. layout, production set up, operational capability, utilisation, workforce configuration etc...).
- Provides a credible, independent assessment of management plans; evidences the sustainability of operations and potential mitigation for future risks and quantifies potential upsides.

Financial Due diligence

- Focuses on historical/current trading, cash flow, balance sheet, net debt, QoE, controls/quality of MI and forecasts
- Tax DD focuses on corporate and payroll taxes, VAT, transfer pricing and structuring

