The Role of the Board of Directors in M&A
• **Key issues in M&A:**
  - M&A process and BOD role
  - Advisor and Due diligence
  - Valuation and deal settlement

• **Case study:**
  - Recent M&A activities
  - Sample cases
M&A process

- Clear objective
- Risk-return assessment
- Post-deal investment
- Deal structure
- Strategic fit
- Capability fit
- Synergy
- Fairness
- Limited liabilities
- Early planning (since Due Diligence)
- People engagement
M&A process and BOD role

**Strategic rationale:**
- Test alignment of the deal with the company’s strategy
- Challenge the value creation potential of the deal.

**DD process:**
- Closely monitor key aspects of the due diligence process before approving the deal.

**Don't fall in love with the deal:**
- Be sensitive to possible management bias
- Maintain the board’s objectivity

**Agreement:**
- Make sure all liabilities are known

**M&A process & leader:**
- Ensure the company has a rigorous M&A process and the right M&A leadership.
Advisor and Due diligence

• Provides valuable experience: knowledge of the Industry, deal planning
• Acts as an advocate, negotiating on your behalf, thereby strengthening your position
• Brings multiple buyers/Sellers to the table
• Capital raising, debt raising and private equity financing
• Co-ordinate other advisers (e.g. lawyers, due diligence providers etc.)
• Provides objectivity and endorsement
Fact-based assessment of value creation potential

To understand the business fundamentals of a proposed deal

**Strategic options**
- Market dynamics
- High-level trends
- Business portfolio analysis
- Target identification

**Commercial due diligence**
- Market and customer attractiveness and dynamics
- Industry structure and dynamics
- Competitive position
- Distribution channel dynamics
- Top-line opportunities
- Business plan review
- Risks and opportunities

**Operational due diligence**
- Cost structures and drivers
- Operational improvement potential
- Cost synergies assessment
- Integration capabilities
- Risks and opportunities

**Financial due diligence**
- Review financial statements and management accounts
- Basis for future business plans
- Valuation
- Deal financing

**Legal due diligence**
- Target liabilities and potential risks
- Competition authority implications
- Transaction mechanics, execution, and closing

Source: A.T. Kearney analysis
<table>
<thead>
<tr>
<th>Option</th>
<th>(1) Asset – Based Valuation</th>
<th>(2) Relative Valuation</th>
<th>(3) Discounted Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pros</td>
<td>• Setting up the floor and ceiling price for valuation</td>
<td>• Quick and easy to get rough estimation</td>
<td>• Better reflect nature of a company and its competitive landscape</td>
</tr>
<tr>
<td>Cons</td>
<td>• Not reflecting market value of asset</td>
<td>• Subject to market environment</td>
<td>• Required huge amount of assumptions which are prone to biases</td>
</tr>
<tr>
<td></td>
<td>• Book value of assets • Replacement cost</td>
<td>• Market Comparables • Precedent transaction Comparables</td>
<td>• DCF</td>
</tr>
</tbody>
</table>
Deal Settlement

**High**

- **Cash from raising new debt**
  - Buyer bear all the risks
  - Inc. leverage risk

- **Excess Cash**
  - Buyer bear all the risks

**Cash Deal**

**Low**

- **Earn-out**
  - Risk sharing among buyer and seller
  - Payment based on future performance

**Cash and Stock deal**

- **Stock Option**
  - Risk sharing among buyer and seller
  - Buyer’s share will be diluted at option maturity
  - Seller will benefit if achieve good performance

- **Share deal**
  - Risk sharing among buyer and seller
  - Buyer’s share will be diluted and seller’s benefit will be contingent

**Buyer bear risks alone**

**Buyer and Seller share risks**
## Consideration for maximizing Shareholder benefit

<table>
<thead>
<tr>
<th><strong>Buy-side</strong></th>
<th><strong>Sell-side</strong> (depending on Financial or strategic acquirer)</th>
</tr>
</thead>
</table>
| • **Strategic goal:**  
  • Value to buyer in terms of speed of execution and growth as the buyer desire? | • **Hostile takeover**  
  • Should the seller employ anti-takeover provision?  
  • What would be the effect (accretive/dilutive) of the transaction to total return to shareholder? |
| • **Valuation**  
  • Too expensive comparing to peers and comparable transactions?  
  • Any dilution effect to shareholder?  
  • Does the assumption of valuation in line with market estimate? | • **Friendly takeover**  
  • What would be the effect (accretive/dilutive) of the transaction to total return to shareholder? |
| • **Synergy**  
  • How could the buyer realize synergy as quickly as possible?  
  • Is the estimated synergy realistic? | |
| • **PMI**  
  • How to effectively manage PMI: balance new value creation opportunities and risk uncovered in early week of PMI? | |
Case study

Recent M&A activities
SCG’s Vision: To become ASEAN Sustainable Business Leader
SCG Vision & Strategy

Past
- Mostly green field
- Mostly Thailand
- Cash-flow & USD financed

Current
- M&A & Green field
- Mostly ASEAN
- Cash-flow & THB financed
- Cash on hand of 30,000 MB

...ASEAN expansion of core businesses
As of Jun 2015, Consolidated basis

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Companies</td>
<td>200+</td>
<td>270+</td>
</tr>
<tr>
<td>Consolidated Revenue, MB</td>
<td>260,000+</td>
<td>488,000+</td>
</tr>
<tr>
<td>ASEAN Revenue, MB</td>
<td>37,000+</td>
<td>100,000+</td>
</tr>
<tr>
<td>Total Staff / Overseas Staff</td>
<td>25,000+</td>
<td>50,000+</td>
</tr>
<tr>
<td>HVA sales</td>
<td>17%</td>
<td>37%</td>
</tr>
<tr>
<td>R&amp;D &amp; HVA Related Staff</td>
<td>300+</td>
<td>1,600+</td>
</tr>
</tbody>
</table>

Development from recent Vision & Strategy

© 2015 SCG
M&A as alternative growth platform

SCG’s acquisition since 2011
- No of deals: 30
- No of companies: 61
- Value: 72,000+ MB

Total Capex (2011-H1/2015): 186,700+ MB

Note: as of H1/2015
**M&A: Domestic VS Overseas**

**SCG’s acquisition since 2011, by country**

**Overseas M&A**
- Market penetration
- Technology
- Brand

**Key Issues:**
- Culture
- Laws and regulations (e.g. foreign ownership, labor union)
- Taxation
- Deal structure

**Domestic M&A**
- Volume expansion
- New products
- New businesses
- New resources

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**Total value: 72,000+ MB**
**Total deal: 30** (61 acquired companies)

Update as H1/2015
## M&A case: Chemicals in Indonesia

<table>
<thead>
<tr>
<th><strong>Type of business</strong></th>
<th>Petrochemical Complexes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>Cilegon, Province of Banten, Indonesia</td>
</tr>
<tr>
<td><strong>Transaction value</strong></td>
<td>13,500 MTHB for 30% Stake</td>
</tr>
<tr>
<td><strong>Strategic rationale</strong></td>
<td>Geographical Expansion</td>
</tr>
<tr>
<td><strong>Project study</strong></td>
<td>Five Months including DD</td>
</tr>
<tr>
<td><strong>Approval process</strong></td>
<td>• Prelim proposal, • Rationale &amp; Valuation • Approval</td>
</tr>
<tr>
<td><strong>Role of FA</strong></td>
<td>• Share local knowledge in Indonesian market and M&amp;A expertise in petrochemical sector • Facilitate and smoothen due diligence process • Conduct valuation • Introduce legal and tax advisors</td>
</tr>
<tr>
<td><strong>SCG role after M&amp;A</strong></td>
<td>BOD Seats: 2 out of 7 Active role in operation, expansion, business development</td>
</tr>
</tbody>
</table>
### M&A case: Box plant in Thailand

<table>
<thead>
<tr>
<th><strong>Type of business</strong></th>
<th>Box plant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>Thailand</td>
</tr>
<tr>
<td><strong>Transaction value</strong></td>
<td>400 MTHB for 72% stake</td>
</tr>
<tr>
<td><strong>Strategic rationale</strong></td>
<td>Vertical Expansion</td>
</tr>
<tr>
<td><strong>Project study</strong></td>
<td>Explore: 1 years, DD: 3 months</td>
</tr>
</tbody>
</table>
| **Approval process** | • Prelim proposal,  
                          • Rationale & Valuation  
                          • Approval |
| **Role of FA**       | No FA in this project |
| **SCG role after M&A** | BOD Seats: 5 out of 7  
                            Managing director from SCG |
THANK YOU