



UNIVERSIDADE CATÓLICA PORTUGUESA

Trends in Mergers and Acquisitions (M&A) in Portugal

Rodrigo de Oliveira Mello Morelli

Católica Porto Business School
04/2024



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Master's Final Assignment – Internship Report
Presented to *Universidade Católica Portuguesa*
to obtain a Master's Degree in Finance

by

Rodrigo de Oliveira Mello Morelli

Under supervision of
Professor Luís Pedro Krug Pacheco

Católica Porto Business School
04/2024

Acknowledgements

First, I want to thank my supervisor, Professor Luís Pedro Krug Pacheco, for all his help and advice during this process. Without him, this report would not have been possible, because he has guided me to be able to walk this path successfully and to get the most out of this report.

I also want to thank Clearwater International for these five months of internship and especially my supervisor on behalf of the internship Afonso Lima. They have always been super helpful and facilitated the obtaining of all the data required and requested for the construction of this report. In addition to this, in these five months, I was able to experience the day-to-day life of an M&A financial advisor which was very enriching and an important part of my evolution, being the propeller in my professional career.

I would also like to thank my mentor Rolando Rodrigues for his wise advice and guidance this past year. These were super important for my decision-making process regarding my next steps.

I would also like to thank my family for all the support they have given me during this journey, without them this dream of carrying out my studies outside my home country would never have been possible. In addition, they were always by my side at every moment I needed it, my sincere thanks to my father José Cassio Morelli, and my mother Roseli de Oliveira Mello Morelli, and a special thanks to my brother, Renato who always helped me with his joy and fun in times when I needed it.

Finally, I want to always thank my girlfriend Leonor for all the support during this journey. She was always helping me with wise advice and with patience to listen and help me.

Resumo

Este TFM tem como objetivo relatar minha experiência como estagiário na Clearwater International (CWI) por cinco meses. O grande objetivo é transmitir o que aprendi neste tempo e não fazer uma extensa revisão da literatura de fusões e aquisições. Assim, para tal, irei abordar e confrontar um caso teórico típico de M&A com a minha experiência numa transação real de sell-side no mercado português, abrangendo todas as principais etapas do processo focando-me nas partes em que mais participei. Em seguida, confrontarei as principais diferenças que analisei em um caso real com a teoria, seguido de uma conclusão com as contribuições esperadas. A principal contribuição esperada é o fato de que um processo real não é linear e não necessariamente funciona sem problemas, tendo seus altos e baixos. Além disso, foi possível analisar que não há muita literatura sobre M&A sell-side em Portugal, o que dificulta a construção de uma base teórica e sólida com as particularidades do mercado para uma transação real.

Palavras-chave: Fusões e Aquisições (F&A), lado vendedor, transação, mercado português e Clearwater International

Abstract

This TFM aims to report my experience as an intern at Clearwater International (CWI) for five months. The major goal is to transmit what I have learned in this time and not to do an extensive review of the M&A literature. So, to do this, I will cover and confront a theoretical typical case of M&A with my experience in a real sell-side transaction in the Portuguese market, embracing all the major stages of the process focusing on the parts that I participated in most. Afterward, I will confront the main differences that I analyzed in a real case with the theory, followed by a conclusion with the expected contributions. The main expected contribution is the fact that a real process is not linear and does not necessarily work smoothly, having its ups and downs. In addition, it was possible to analyze that there isn't much literature about M&A sell-side in Portugal, which makes it difficult to build a theoretical and solid basis with the particularities of the market in a real transaction.

Key-words: Mergers and Acquisitions (M&A), Sell-side, transaction, Portuguese market and Clearwater International

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Introduction

This internship report is intended to report and describe what I learned and effectively participated in during the five months present in the internship. It does not have the objective of making an extensive literature review or theoretical explanation of the subject, but rather to be able to compare and confront what the theory describes with my work experience in a real case that occurred in the Portuguese market. To this end, it has been separated into four main chapters, the first goes through an explanation of a typical sell-side M&A process, the second is the contextualization and framework of the sector of a real transaction that I participated in during my internship period at Clearwater International (CWI). The Third chapter will be an extensive analysis of the company and the last one is the conclusion and discussion chapter, where I will do a confrontation of the theoretical framework of an M&A sell-side case with what I've learned in a real process in the Portuguese market. During the first chapter, I will discuss what are the main phases of a typical process, and then, briefly explain the documents used in a transaction to sell a company. For the second chapter, I will focus on the framework of the sector, which will include a definition and general context, activities and operations, participants and stakeholders, and finally the trends and challenges. Regarding the third chapter, I will focus on the framing of the company within the context of M&A which will be a detailed description of the main steps taken by the consultant in this transaction and will have the following order, the reason for the transaction, an extensive financial evaluation, the Due Diligence process, the impact on the market, a detailed description of the operational integration, a brief description of the regulatory scenario and the costs of the process. In the last chapter, I will discuss and conclude the differences

between the theoretical framework of an M&A sell-side process and what happened in the real case (subject of analysis).

A real process has more particularities and complexities that it will not be possible to convey in this report. Commonly, the sale of a company can last from months to even years. Hence, it is important to point out that I participated in other projects and performed other functions within the internship. Still, I will describe what I had the greatest participation in and what I had the opportunity to follow from the beginning until almost the closing of the operation. So, the focus of the description will be on the initial phases and my work carried out within the process. It is relevant to mention that the work was not done only by me, but I was an integral part of the team as an intern.

This report used some literature as a base for the writings. They will be allocated at the beginning of each chapter regarding the insights and the contributions of each article. It is important to highlight that two major pieces of literature were used for the whole report, the major insights for both are described below. It is important to note that for the construction of this report was not necessary an extensive list of bibliographic references, once more generic references were sufficient to fulfill the report and the writings.

Damodaran (2015) provides a comprehensive overview of corporate finance, covering topics such as valuation, capital budgeting, financial planning, and risk management. He emphasizes the importance of using quantitative tools and techniques to make informed financial decisions. Damodaran's book is a valuable resource for this TFM.

DePamphilis (2021) argues that mergers and acquisitions are a complex and challenging process that requires careful planning and execution. He outlines the various stages of the M&A process, from initiation to closing, and highlights the importance of due diligence, negotiation, and integration.

Another important issue to highlight is that most of the papers used in this TFM are related to other markets such as the U.S. and the UK. So, during this TFM I adapt the major conclusions of these papers to the Portuguese reality. To do this I used the knowledge that was acquired during my master's and internship.

Chapter 1

The Theoretical framework of an M&A sell-side process

This chapter has the objective of giving a brief review and explanation of how a typical sell-side M&A process works, highlighting only the major steps that are necessary to build this report.

1. Typical M&A sell-side process

Drawing on insights from studies on both mergers and acquisitions (Haspeslagh & Jemison, 1991) and firm sales (based on Boone & Mulherin, 2007) highlight common success factors for achieving optimal outcomes. These factors include careful planning to anticipate potential challenges and ensure a smooth process, decisive leadership that provides clear direction and fosters timely decision-making, and effective communication that keeps stakeholders informed and engaged throughout the process. Implementing these essential elements can contribute to maximizing value and achieving success regardless of the specific context surrounding the transaction.

Both schemes in this chapter were constructed with the insights that I have learned through DePamphilis (2021) and Clearwater International Newsletters.

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1.1 Phases of an M&A sell-side process

A sell-side process of any M&A transactions usually follows an order, that starts with the Pitch and Engagement, then goes to the Pre-launch phase, also known as the preparation phase, then the Marketing, rounds of proposals, and the last stage is the closing of the deal.



Figure 1 - Scheme of M&A sell-side Phases (15 cm x 2.5 cm from margin to margin)

1.1.1 Pitch and Engagement

A consultant's work in a sell-side M&A process begins when it wins the mandate of exclusivity to sell a certain company. To achieve this mandate, a meeting is held in which the Pitch is presented to the potential new client. An auxiliary document is drawn up together.

This document (also called Pitch) is drafted through in-depth research on the client company and its industry, a presentation by the team of consultants emphasizing their expertise, a market and industry analysis to show an understanding of the business environment, and typically an initial assessment of the company, combined with a customized sales strategy and a confidential approach. The consultant should demonstrate their expertise in similar transactions and present clear proposals for fees and contractual terms. In addition, follow-up is essential as it reinforces the consultant's commitment to achieving the client's goals, showing flexibility to adjust the strategy as needed.

In any process of selling a company, transparent and effective communication is vital to gaining customer trust and winning the mandate. Having this, usually,

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the client meets with the consultant for an initial meeting in which it is agreed that they will work exclusively together. The client undertakes to help in this process, providing data and answering any questions that may arise along the way. At this early stage, it is of paramount importance to know how to adjust expectations.

1.1.2 Pre-Launch

The preparation phase, also known as the pre-launch, plays a key role in successfully conducting an M&A sell-side process. During this phase, the financial advisor engages in various strategic activities to ensure a smooth (non-troubled) transition to the sale of the company. At this time, the financial advisor conducts an internal audit of the client, prepares essential documentation, refines the initial assessment, identifies potential buyers along with an analysis of their characteristics and potential synergies that may occur, develops customized marketing strategies, and communicates internally to maintain confidentiality. Additionally, it develops a transition plan and external communication strategies to ensure post-transaction operational continuity, considering onboarding, talent retention, and risk management, while training the management team to address issues during the process. These activities are crucial to establishing a solid foundation, ensuring operational efficiency, and maximizing the success of the transaction.

The entire external communication strategy is documented, as well as the review and organization of relevant contracts and agreements, such as customer contracts, suppliers, and key employee agreements. Additionally, a timeline of activities is established, detailing milestones and key activities of the sales process. In summary, this phase is of paramount importance, as it offers a

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comprehensive view of the company, attracts qualified buyers, and facilitates the due diligence process.

1.1.3 Marketing

The Marketing phase officially begins when the consultant starts to contact potential buyers, among them those who are interested receive the Teaser. The number of potential buyers can vary greatly from business to business, depending on how attractive the company is to the market and how well the marketing is done. Potential buyers who decide to proceed with the purchase are required to sign the NDA (non-disclosure agreement), in this document they commit to keep everything about the process confidential, as information and rumors about M&A can change the entire process. At this stage, it is of utmost importance that the financial advisor emphasizes controlled confidentiality by revealing details only to qualified buyers who have signed confidentiality agreements. After the NDA is signed, the Investment Memorandum (IM) and the remaining documents are sent to the potential buyers.

For these contacts to be efficient, personalized marketing strategies are implemented, including the creation of tailored materials, proactive approaches to buyers, and selective advertising to maximize visibility on relevant platforms. The goal is to preserve the value of the company for sale by highlighting its strategic positioning and generating competition among buyers to optimize terms and conditions during negotiations.

1.1.4 Rounds of proposals (binding and non-binding)

In this stage potential buyers present offers that're not legally binding for finalizing the deal. Non-binding offers (NBO) typically outline a valuation of the

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company, suggested purchase conditions and sometimes an initial overview of the transaction terms and structure. These offers give the seller an understanding of market interest. Enable them to assess strategic options presented by potential buyers.

The financial advisor carefully reviews the binding offers considering not just the proposed value but also factors like purchase conditions, transaction arrangement and how well the buyer aligns with strategic objectives. Based on this analysis, the consultant and the client can decide to move with a select group to the next phase.

Selected buyers are invited to submit binding offers, which are more detailed and committed. In this phase, Due Diligence is carried out to validate the information provided during the previous phase. Binding offers include more specific terms and conditions, details on financing, and purchase agreements. The goal is to reach a definitive agreement that formalizes the final terms of the transaction.

1.1.5 Closing

In this last stage, there is advice to sell the company or not. The financial advisor plays a crucial role in the negotiations, seeking to optimize the terms and conditions of the final agreement. Some issues are adjusted, such as deal dates, how it will be financed, and how the business will be managed after the purchase. Once a consensus is reached, the final agreement is drawn up, containing all the details, and is signed by the parties involved. This phase marks the effective completion of the M&A sell-side process.

After describing the main steps of a typical transaction, the next part will delve a little deeper into the main documents produced and used in a transaction.

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1.2 Key documents in an M&A sell-side process

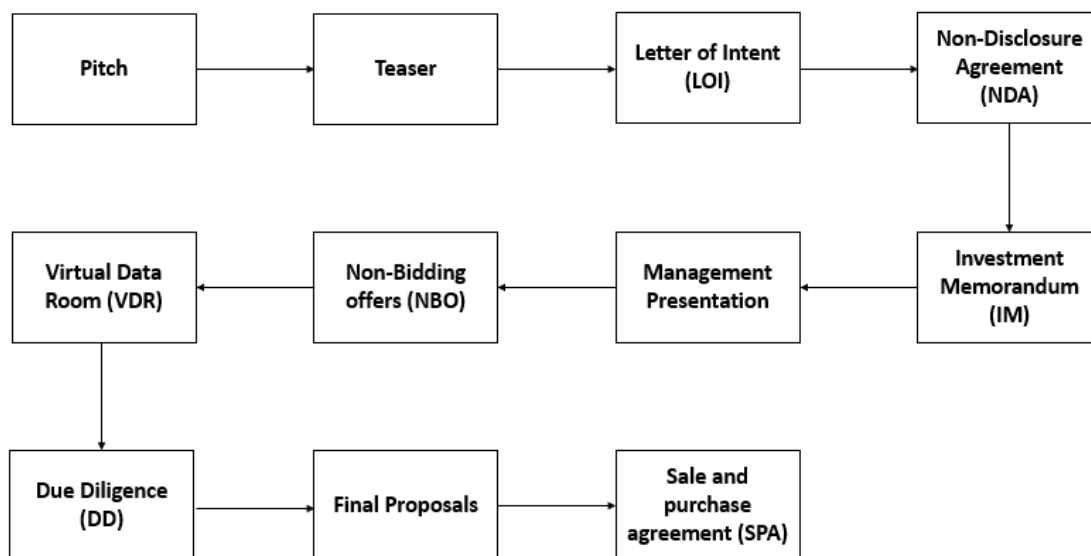


Figure 2 - Scheme of the Key Documents in an M&A sell-side Process (15 cm x 7.8 cm from margin to margin)

1.2.1 Pitch

A Pitch consists of a presentation whose objective is to achieve the exclusive mandate of sale, thus being presented to the owners of the company that will be sold. The Pitch usually includes personalized information and the consultant's point of view regarding how the company fits into the market. Information about the competition, some level of market research on the sector of activity, main products or services, and growth prospects. The pitch should also highlight the company's strengths and the benefits it offers to potential buyers. As this document is presented to the owners and the management team, the consultant must show knowledge and expertise. Showing a track record of other similar processes is important, to fit as the best consultant for this process. Once the

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consultant wins the sales mandate, the M&A process and preparation phase begins.

1.2.2 Teaser

The teaser is a brief, concise, and confidential document that presents an investment opportunity in a company. It is generally used to generate interest from potential buyers and stimulate initial contact. It should include basic information about the company, such as its size, industry, main products or services, and growth prospects.

1.2.3 Letter of Intent

A letter of intent (LOI) is formal paperwork that expresses the intended buyer's interest in acquiring the company. The LOI covers most of the topics dealt with in Pitch and has more granular information including confidentiality and exclusivity provisions.

1.2.4 NDA

The NDA, or confidentiality agreement, is a legal document that protects confidential information from being disclosed to unauthorized third parties. In the context of M&A, the NDA is usually signed by both parties, i.e. the selling company and the potential buyers. The NDA is important to protect the confidential information of the selling company during the Due Diligence process, which happens when potential buyers can evaluate the company in question.

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1.2.5 Investment Memorandum

The IM is a more detailed document that provides more complete information about an investment opportunity in a company. It usually includes information about the company's history, its business model, its operations, its finances, and its team. The IM is used to provide potential buyers with a deeper insight into the company and help them make an informed investment decision.

1.2.6 Management presentation

The management presentation includes a document and an oral presentation that is made by representatives of the selling company, with the presence of the financial advisor. This is an opportunity for potential buyers to get to know the company's management team and understand their vision for the future.

1.2.7 Non-Binding Offer

The NBO is an initial offer made by a potential buyer to acquire a company. The NBO is not a legally binding agreement, but it serves as an indicator of interest and a starting point for negotiations. The NBO usually includes the price the buyer is willing to pay, the structure of the transaction, and any other relevant terms.

1.2.8 Virtual Data Room

The Virtual Data Room (VDR) is a repository of confidential information about a company being sold. The VDR is only accessible to potential buyers who have signed an NDA, and it grants access to a wide range of information about the company, including financial, operational, and legal documents.

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1.2.9 Due Diligence

The term Due Diligence generally stands for a process of examining and analyzing that is conducted by a buyer for the purpose of evaluating a company that is being sold. Traditionally, the audit entails scrutinizing the organization's financials, operations, assets, liabilities as well as the presence of the management team. This is important so that investors can make a conscious decision about buying or not.

1.2.10 Finals proposals

The final bids are the binding offers to acquire a company. Final proposals typically include the price the buyer is willing to pay, the structure of the transaction, and other relevant terms. These are negotiated between the parties and, once agreed, constitute the company's purchase and sale contract.

1.2.11 Sale and Purchase Agreement

The Sale and Purchase Agreement (SPA) is a binding contract that establishes the final terms and conditions of a transaction for the purchase and sale of a company. The SPA defines the rights and obligations of the parties involved in the transaction, including the purchase price, the structure of the transaction, the assets and liabilities transferred, the warranties and representations, the closing conditions, the post-closing requisitions and obligations, and the termination.

It is a complex document that must be prepared by lawyers who specialize in corporate and M&A law. It is important that the parties involved in the M&A process clearly understand the content of the SPA before signing it.

Here we conclude the first chapter of the report, having already described a typical sell-side process of M&A. Therefore, the next chapter will begin with the

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actual transaction, with my description of the work carried out during this internship period and the inside view of a financial advisor in a process like this.

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Chapter 2

Characteristics and Framework of the M&A sell-side Case in the Portuguese Market

In this second chapter, the focus is to report how the process of framing the company happened in CWI during my internship. As mentioned in the introduction, it will be a contextualization of the sector of the company regarding the Portuguese market.

It is important to highlight that this chapter was developed by a combination of the literature references, CWI information and my personal knowledge.

2.1 Industry Framework

The company is part of the technology sector and more specifically is a company focused on Enterprise Resource Planning (ERP). So, this first part discusses and analyzes the major characteristics of this sector in the Portuguese market, and how these peculiarities can affect the analysis and evaluation made further.

2.1.1 Definition and General Context

The ERP software sector plays a key role in the Portuguese economy, contributing to the modernization and operational efficiency of companies. These integrated management systems facilitate the automation of business processes,

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from accounting to human resources, providing a comprehensive and integrated view of operations.

In Portugal, the ERP software sector stimulates competitiveness by enabling agile responses to market changes and better adaptation to customer demands. In addition, it assists with regulations, mitigating risks associated with non-compliance. By driving innovation, ERP software promotes the adoption of advanced technologies such as artificial intelligence and automation, giving businesses strategic advantages.

These solutions also support business growth by scaling with the needs of organizations and making it easier to manage more complex operations as businesses expand. The ERP software sector contributes to the creation of specialized technology jobs and the development of digital skills in the Portuguese workforce.

In addition, Portuguese companies that work in the development or implementation of ERP software have the opportunity for internationalization, exporting solutions to other markets, and contributing to the country's trade balance. In summary, the ERP software sector plays an important role in digital transformation and strengthening the competitive position of companies in Portugal.

2.1.2 Activities and operations

Portuguese ERP segment is responsible for manufacturing software that ensures business management processes are streamlined and integrated. This is about the unceasing optimization of the software for the local market, with special emphasis on the peculiarities in the fields of taxation and law. The industry player helps in your customization needs as well as provide strategic

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consulting, localized training, and technical support. Particularly, some others establish their niche market by providing innovative local solutions tailored to the specific needs of industries (verticals) like agriculture and tourism. In general, ERP software companies in Portugal are a principal factor that increases productivity of local enterprises and therefore is a source of their competitiveness.

2.1.3 Participants and Stakeholders

This sector has two distinct types of companies: the international giants holding the largest market share and the smaller competitors, predominantly Portuguese. The main (largest) players are substantially ahead of the others regarding finances, technology, and how they position themselves about new market trends. In contrast to this, a lot of smaller players have different focuses and business models. In general, they do not offer products and/or services that cover all the needs of the market but focus on some more specific areas, offering in most cases only vertical solutions within their software. These players are still able to represent a relevant portion of the market due to the complexity of doing business in Portugal.

2.1.4 Trends and Challenges

In the Portuguese technology landscape, the ERP industry is following several notable trends. The adoption of Artificial Intelligence (AI) and Machine Learning has gained prominence, providing companies with advanced data analysis and process automation capabilities. In addition, migration to cloud solutions continues to be a guiding trend, as it ensures greater flexibility and remote accessibility. Mobility and access to smartphones are also on the rise, driving the

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development of mobile applications to optimize business operations, as well as robotic process automation (RPA) being incorporated to optimize workflows.

Despite the opportunities presented by technological trends, the ERP sector in Portugal faces significant challenges. Such, intense market competition that requires constant innovation to excel in a competitive environment, adapting to changing consumer demands as customer expectations evolve, and regulatory and legal challenges requiring an agile response to maintain compliance. Additionally, another important issue is resilience to cyber threats, which is critical for the proper functioning of companies and requires continuous investments in robust security measures. Finally, effective integration with emerging technologies such as Artificial Intelligence and the Internet of Things (IoT) and the search for sustainable practices are critical points that ERP companies face to ensure their relevance and success.

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Chapter 3

Framing of the company within the context of M&A

This part will delve into an extensive analysis of the company, going through all the steps that were relevant in the context of my internship, so I will discuss with more detail the parts that I participated most, knowing that certain parts of the transaction may not be at this point, but as mentioned in the introduction the focus of the report is on the descriptions of tasks that I participated in and worked on. It is important to highlight that this chapter was developed by a combination of the literature references, CWI information (including CWI newsletter) and my personal knowledge.

3.1 Reason for transaction

In the case at hand, there was no prior and premeditated intention to sell. Some offers came to the owner of the company, among them one stood out, being a great offer, almost irrefutable.

Given this scenario and initial approach, the consultant designed a strategy and elaborated a plan for this client. The hypothesis raised for the Pitch in this area is that if the company enters into an M&A process with this potential buyer, it would run a serious risk of losing control of the transaction during the process. This risk could be confirmed when they sign the exclusivity agreement. With this in play, the strategy taken was that through the services of the consultant, the company would have much more security and predictability in the sales process.

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In addition, the consultant will be useful to the client by seeking to achieve the maximization of the company's value through two main avenues: The maximization of bargaining power, which includes financial reasons and justifications, and the survey and prevention of potential risks (the contingency plan).

The financial value was maximized through synergies and the construction of customized models to meet the client's interests. This point will be discussed in more detail in another topic (3.2).

Beyond the financial justification, bargaining power would come through the control of the narrative of the process. The logic is as follows, instead of immediately accepting and entering exclusivity and "giving" an advantage to the buyer, the strategy is to reverse the game, controlling the narrative. This will occur by turning this process that was initially presented as reactive (1 to 1) to a broader process but restricted to a few buyers, both financial and strategic, who have been carefully selected. With this, we inverted the logic to discreetly launch ourselves into the market and have the possibility of choosing the best proposal. With this strategy, we have a greater chance of maintaining at least the amount initially offered and we also open the possibility of receiving a proposal with better conditions.

The last avenue of value creation is the contingency plan, which focuses on analyzing potential red flags. These points would probably be listed by the counterparty (buyer's financial advisor) to try to gain negotiating power. To this end, the consultant will mainly analyze financial risks. In addition, for the contingency plan to be carried out, a VDD (Vendor Due Diligence) will be done by a third institution, which was strategically selected to raise, in addition to the

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financial ones, possible fiscal, legal, technological contingencies and avoid information leakage.

3.2 Financial Evaluation

In his book, *Applied Corporate Finance*, Damodaran (2015) discusses various valuation methods, such as the discounted cash flow (DCF) model, precedent transactions analysis, and market multiples. He breaks down each method into its components and explains the assumptions and inputs required for each approach. Damodaran also provides practical examples of how to apply these methods to real-world companies.

Koller, Goedhart, and Wessels (2020) provide a comprehensive guide to company valuation, covering a wide range of topics, including discounted cash flow (DCF) analysis, precedent transactions analysis, and market multiples. They provide a thorough explanation of each method, including its strengths and weaknesses, and they also discuss how to choose the most appropriate method for a given valuation. The book also includes a wealth of real-world examples and case studies.

Based on the first part of the book, Rosenbaum & Pearl (2020) highlight the centrality of sound valuation principles in investment banking, encompassing various methodologies like DCF and comparable company analysis for diverse transactions like M&A and LBOs. In the third part of the book, Rosenbaum & Pearl (2020) offer a comprehensive exploration of M&A practices, covering deal initiation, structuring, negotiation, and execution stages. Their analysis incorporates strategic considerations, financial analysis, M&A-specific valuation methods, and due diligence procedures while acknowledging post-merger integration challenges and value-creation strategies.

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The financial evaluation is crucial for M&A processes and was separated into two main stages: In the first moment, the company's financial statements were analyzed in depth, through the Balance Sheet, Income Statement, and Cash Flow Map. In the second moment, the "Valuations" were carried out, relying on the Discounted Cash Flow (DCF) model and the relative model.

3.2.1 Analysis of Financial Statements

In this phase a detailed analysis of financial statements, including the Balance Sheet, Income Statement, and Cash Flow map was carried out. These documents offer a comprehensive overview of the company's assets, liabilities, income, and expenses.

In reviewing XYZ Company's recent financial statements, we note a consistent track record of growth in revenues, profitability, and cash generation. The statements reveal a robust financial position.

3.2.1.1 Liquidity Analysis

Current and Quick ratios indicate a strong position, reflecting XYZ Company's ability to meet its short-term obligations with ease. This position was mainly due to the relevant amount of cash that the company has.

3.2.1.2 Profitability Analysis

The profit margins for Return on Equity (ROE), and Return on Assets (ROA) show that XYZ Company is efficient in generating profits relative to its business assets and equity, indicating effective financial management. The ROE was above 20% in 2022, proving to be a very healthy company from this perspective.

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3.2.1.3 Capital Structure and Indebtedness

The absence of long-term debt reduces financial risk, while the company continues to thrive with its ability to finance its operations and investments through internally generated cash flow.

3.2.1.4 Operating Cycle and Cash Cycle

The analysis of the operating and cash cycles reveals efficiency in the management of resources, contributing to a solid working capital position and less need for external financing.

3.2.1.5 Investments in Fixed Assets and Intangible Assets

We note that investments in fixed assets and intangible assets are consistent with the company's growth strategy, reflecting a balanced approach between expansion and cost efficiency.

3.2.1.6 Free Cash Flow Analysis

XYZ Company is a good cash generator, with substantial free cash flow. This provides flexibility to reinvest in the business, distribute dividends to shareholders, or explore strategic opportunities and new projects.

3.2.1.7 Cost and Expense Analysis

The detailed analysis of costs and expenses highlights the company's operational efficiency, but areas have been identified in which the optimization of some processes can be improved.

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3.2.1.8 Financial Risks and Contingencies

While the company is resilient, we have identified potential risks, such as the need to continuously adapt to changes in the technology landscape. So, it is recommended that the company increase the level of investment in Research and Development, which will provide innovations capable of increasing its competitive power. Financial risks are mitigated by the fact that the company has a robust financial situation.

3.2.1.9 Dividends and Profit Retention Policy

Given solid cash generation, the company maintains a balanced dividend distribution and earnings retention policy to sustain future growth.

3.2.2 Assumptions of the Model

This review incorporates XYZ Company's remarkable ability to generate cash and its track record of growth. In-depth financial analysis remains essential to fully understand the company's financial position and prospects. Therefore, in this second part of the financial evaluation, "Valuations" were carried out, through the exhaustive evaluation and future projections of the company's finances.

3.2.2.1 Cash Flow Projections

We estimate cash flow projections for the next 5 years based on XYZ Company's growth history, considering an average 10% increase in annual revenues, and continued operational efficiency. After the first stage, we estimate a decrease in annual revenue of 2% per year until achieve 2% perpetual growth at the end of this second stage.

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3.2.2.2 Discount Rate (WACC)

Recognizing the limitations of traditional methods, Abudy et al. (2004) propose a novel approach to valuing private firms. Their two-stage framework incorporates an illiquidity premium based on publicly traded private equity funds, acknowledging the significant impact of investment lock-up periods and differences in market access. This nuanced approach goes beyond traditional methods, potentially leading to more accurate valuations for private firms.

For a private company, estimating the cost of equity is more challenging due to a lack of market data. Therefore, the Build-Up approach considered specific elements to compensate for the absence of a public quotation.

Because XYZ Company is medium-sized and has no long-term debt, it will have a WACC that only considers the cost of equity (R_e). The cost of equity reflects the return demanded by shareholders, considering the risk associated with investments in the company. The calculation of the R_e may involve the use of the financial asset pricing model (CAPM), considering the risk-free rate, the company's beta, and the market premium.

For a private company, there is no public quotation for its share price. Therefore, the beta can be estimated based on comparable companies in the industry or similar recent transactions. This may consider the historical volatility of these companies.

As it is possible to see in Abudy et al. (2004) article, the premium for unlevered private firms varies between 2% and 15%, and private firms' premium increases with leverage up to 33%. For these reasons and throughout our calculation (CWI), the company has no debt, so, no leverage, and consequently the private firm premium was between 2% and 15%. After framing the company that was being analyzed in the Portuguese reality, our estimations for the premium were 5%.

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Enhancing the WACC to 12%, once to a public firm in the same conditions was 7%.

3.2.2.3 Risk-Free Rate (Rf)

The risk-free rate can be represented by long-term bonds such as government bonds. To do this, we used the risk-free interest rate for Portuguese government bonds, which at the time were around 2,7%.

3.2.2.4 Terminal Value

We use the perpetuity method to calculate the Terminal Value, assuming a stable growth rate of 2% over the long term. This rate reflects XYZ Company's expected growth beyond the explicit projection horizon. It is around 2% as they are the long-term expectations of the inflation rate in the European Union.

3.2.2.5 Determination of Net Present Value (NPV)

We discount future cash flows, including Terminal Value, using the discount rate (WACC). The sums of these discounted flows represent the Net Present Value.

3.2.2.6 Sensitivity Analysis

We perform sensitivity analyses, varying growth rates, and discount rates to understand how these variables impact the estimated value.

3.2.2.7 Understanding the Context of the Sector

We contextualize the assessment by considering the technology sector and evaluating trends, competition, and regulatory factors.

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Assumptions and Current Values of the Company	
Revenue Growth Rate (next 5 years)	10%
Revenue Growth Rate (Phase 2)	8%, 6%, 4%, 2%
EBITDA Margin	20% - 25%
CAPEX	10%
Variations in Working Capital	20%
Discount Rate (WACC)	12%
Growth Rate in Perpetuity	2%

Table 1 - Assumptions and Current Values of the Company

3.2.3 Output and analysis of the model

After presenting the assumptions, this sub-section will present the results and an analysis of the main outputs of the models. Discussing the advantages and disadvantages of each of them and which is a better fit for our client.

3.2.3.1 Discounted Cash Flow Model

The DCF model with a terminal growth rate of 2% suggests that the company is worth approximately €90 million.

Year	Revenue ('000)	EBITDA ('000)	Net Income ('000)	Free Cash Flow ('000)	Discount Factor	PV of Free Cash Flow ('000)	Terminal Value ('000)	Total Value ('000)
0	30 000 €	6 000 €	4 200 €	2 550 €	0,893	2 277 €		
1	33 000 €	6 980 €	4 620 €	3 015 €	0,806	2 430 €		
2	36 300 €	7 960 €	5 236 €	3 216 €	0,727	2 338 €		
3	39 900 €	9 216 €	5 973 €	3 714 €	0,658	2 444 €		
4	43 800 €	10 528 €	6 718 €	4 058 €	0,592	2 403 €		
5	47 980 €	11 905 €	7 522 €	4 382 €	0,531	2 327 €		
Phase 2								
6	51 876 €	12 750 €	8 406 €	5 024 €	0,476	2 391 €		
7	55 454 €	13 669 €	9 197 €	5 486 €	0,426	2 336 €		
8	59 225 €	14 674 €	9 999 €	6 062 €	0,381	2 309 €		
9	63 209 €	15 762 €	10 813 €	6 654 €	0,340	2 262 €		
Total							66 539 €	90 058 €

Table 2 - DCF Model Summary

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3.2.3.2 Scenario analysis

The sensitivity analysis shows that the company's valuation is relatively robust in the face of changes in most assumptions. However, it is more sensitive to the rate of revenue growth, this is because the company's revenue growth is a key driver of its future free cash flow.

Scenario	WACC	Revenue Growth (Phase 1)	Revenue Growth (Phase 2)	Terminal Growth	CAPEX	WC Variation	Total Value ('000)
Optimistic	10%	15%	12%, 9%, 6%, 3%	3%	7%	15%	126 897 €
Expected	12%	10%	8%, 6%, 4%, 2%	2%	10%	20%	90 058 €
Pessimistic	15%	5%	4%, 3%, 2%, 1%	1%	13%	25%	60 312 €

Table 3 - Scenario Analysis Summary

As mentioned earlier, sensitivity/scenario analysis offers a broader view of the company's valuation as it uses different assumptions. Given this, this method brings more robustness to financial valuation, as it increases the probability of correctly estimating its value (within this range), in addition to assuming the possibility of our assumptions being wrong, overcoming this with other assumptions. In short, this method encompasses both pessimistic and optimistic projections that may occur given the market scenario and the capacity of the company's management team.

In the pessimistic scenario, it is possible to analyze that the company becomes worth around 60 million euros, a drop in enterprise value of approximately 33%. In the optimistic outlook, the enterprise value is approximately 126 million euros, an increase in enterprise value of approximately 41%.

Overall, sensitivity analysis emphasizes that the company's final valuation is deeply influenced by its growth and profitability prospects. The potential buyer and client will carefully consider these factors when making investment decisions.

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3.2.3.3 Relative Valuation

In addition to the Valuation through the DCF model, another company pricing model was carried out. The Relative Valuation model was made by collecting data on traded multiples in peers and EBITDA multiples of companies in the same sector listed on a stock exchange.

To find multiple transactions, it was necessary to do a long and extensive search, because, as much as there are operations of this nature, this data is not usually public. In this way, the research sample was broadened and for this, we relaxed some assumptions, such as location and size of the company.

After this research and considering the traded multiples and the multiples of listed similar companies on the stock exchange, it was observed that the multiples of this sector averaged around 12x EBITDA, with a range of 10x to 14x EBITDA. The same was done for revenues and on average is used for this sector 2 to 3 times the company's revenue as a sales metric.

Relative Valuation (EBITDA)	
Revenue	30 000 000 €
EBITDA	6 000 000 €
EBITDA Multiple	10x to 14x
Valuation Range	[60 000 000 €; 84 000 000 €]

Table 4 - Relative Valuation (EBITDA) Summary

Relative Valuation Revenue)	
Revenue	30 000 000 €
Revenue Multiple	6 000 000 €
Valuation Range	[60 000 000 €; 90 000 000 €]

Table 5 - Relative Valuation (Revenue) Summary

3.2.3.4 Comparison of EBITDA Multiple vs. Revenue Multiple

EBITDA multiple is generally considered a more accurate valuation method for companies with strong profitability, such as ERP companies. This is because

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EBITDA is a measure of a company's cash flow generation, which is more relevant for pricing its value. However, revenue multiple can also be a useful tool, especially for businesses with high growth potential.

In this case, the EBITDA multiple and revenue multiple suggest that the company is worth between €60 million and €90 million. However, the EBITDA multiple may be a more accurate reflection of the company's value, given its contextualization. Therefore, for comparison, only the valuation through the EBITDA multiple (60 and 84 million euros) will be used.

3.2.3.5 Valuation Summary

Valuations obtained through DCF methods, sensitivity analysis, and EBITDA multiples suggest that the company's value is in the range of €60 to €126 million, with an average estimate of around €84 million (simple average of the five values found). However, it is important to recognize the limitations of these assessment methods and the potential risks associated with their application.

To mitigate these risks, investors and stakeholders will conduct rigorous due diligence, and consider multiple valuation methods.

Evaluation Methods and Interval (Summary)		Comments
DCF Valuation	90 057 800 €	Expected Scenario
Sensitivity Analysis	[60 312 000 €; 126 897 000 €]	Range based on variations in assumptions
EBITDA Multiple Valuation	[60 000 000 €; 84 000 000 €]	Based on industry-specific multiples
Average	84 253 360 €	Average of the five values founded
Lower Limit	60 000 000 €	EBITDA Multiple Valuation
Upper Limit	126 897 000 €	Sensitivity Analysis

Table 6 - Evaluation Methods and Interval Summary

To conclude, it is important to note that the value may be different depending on the valuation method chosen. Therefore, the consultant team (CWI) will use a

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method that meets the client's interest, ensuring the maximization of the company's value.

3.3 Due Diligence

While emphasizing the rising risks in M&A transactions Perry and Herd (2004), the authors advocate for proactive and comprehensive due diligence practices as a key strategy to mitigate risk and enhance deal success. These practices involve prioritizing critical areas, leveraging expert input, looking beyond financials, challenging assumptions, and maintaining rigor throughout the process.

Due diligence is a process of investigation and analysis that the buyer of a company conducts before closing the deal. The purpose of due diligence is to provide the buyer with detailed information about the target company, including its financial, operational, legal, tax, and employment status.

For those who are selling the company (CWI), due diligence is an opportunity to demonstrate the value of the company to the potential buyer. It is important to provide the buyer with all the information requested clearly and transparently and to do so, we are already prepared for any "red flags" that the buyer could raise (part of our contingency plan). To prevent this and put the contingency plan into practice, a VDD (Vendor due diligence) was recommended to our client, which was carried out before DD began. Thus, we had time to correct what was needed and ensure that the value of the company was maximized. In this case, as it was a technology company, in addition to the legal, fiscal, and financial VDD, a technological VDD was carried out, which ensures that specific issues such as the security of the software and how the viability of the software programming codes were in good condition.

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3.4 Impact on the market

The sale of this ERP software company in Portugal could have a mixed impact on the market. It could lead to greater concentration, but it could also create a more competitive and innovative market, all depending on who the buyer will be and their strategy for the future of the company.

3.5 Operational integration

This study by Dutordoir et al. (2014) explores the factors influencing bidding firms' decision to disclose synergy forecasts in M&A deals. Their findings suggest that firm characteristics like uncertainty, agency costs, and shareholder activism play a role in such decisions, with potential consequences for market perceptions and stock prices.

The target company (our client) can generate significant synergies and competitive advantages for strategic buyers. These synergies were separated by us into three main categories: cost reduction, revenue growth, and market expansion.

3.5.1 Cost Reduction

Cost savings are typically the most immediate and quantifiable benefit of an ERP procurement. By combining operations, merging sales and marketing teams, and leveraging shared infrastructure, strategic buyers can reduce expenses and improve overall efficiency. During the process, the following were listed as the main avenues of cost reduction for the company in question:

Reduced IT expenses: Consolidating IT infrastructure and eliminating redundant software licenses can significantly reduce IT costs. This can be

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achieved by streamlining certain operations, negotiating better deals with vendors, and leveraging cloud-based solutions.

Streamlined operations: Eliminating duplicate processes and streamlining workflows can lead to reduced labor costs and improved efficiency. By automating manual tasks, implementing standardized procedures, and training employees in new processes.

Lower supply costs: Consolidating purchasing power can lead to more favorable prices from suppliers. Usually, through mass discount negotiations, given the higher volume of purchases by the company.

3.5.2 Revenue Growth

New customer segments: ERP acquisitions can open doors to new customer segments and geographic markets, expanding the seller's revenue base. Given the good relationship and customer base that the target company has, the acquirer will be able to benefit from this aspect.

Complementary ERP solutions: By acquiring a company with complementary ERP solutions, the buyer can offer a more comprehensive and attractive product package to its customers. Thus, combining the strengths of the two companies, offering targeted solutions to the specific needs of customers, and expanding the buyer's product portfolio.

3.5.3 Market Expansion

Strategic alliances and partnerships: Market expansion can also be accomplished through strategic alliances and partnerships. By acquiring the target company that has established relationships with key customers and partners, the strategic buyer can gain access to new business opportunities and

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expand its market share. This can be achieved by cross-selling to the acquired company's customer base and expanding the buyer's network of relationships.

Launching new products and services (innovation): By leveraging the expertise of different ERP teams and sharing research and development resources, the buyer can potentially launch new products and services. To do this, the strategy of cross-pollinating ideas between different teams, finding new product development opportunities, and staying ahead of the competition in terms of innovation is used.

3.5.4 Global financial impact

The financial impact of ERP acquisitions can be profound, leading to significant cost savings, revenue growth, and market expansion. These benefits can translate into higher profitability, higher shareholder value, and higher valuations.

It is important to note that these are only estimates and the actual impact of synergies will vary depending on the specific circumstances of the acquisition. Buyers will carefully evaluate the potential synergies and risks before deciding to acquire this company.

Again, the company has an annual revenue of approximately €30 million and an EBITDA margin of 20%.

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Scenario	Reduction of IT Expenses (€m)	Simplified Operations (€m)	Lower Supply Costs (€m)	New Customer Segments (€m)	Complementary ERP Solutions (€m)	Strategic alliances and partnerships (€m)	Launch of New Products and Services (innovation) (€m)
Optimistic	1,25	0,65	0,9	2,8	1,1	3,3	2
Expected	0,95	0,4	0,7	2	0,95	2,7	1,3
Pessimistic	0,65	0,2	0,5	1	0,85	2	0,8

Table 7 - All Synergies in Detail

Scenario	Revenue (€m)	EBITDA (€m)	EBITDA Margin	Revenue Growth	Total Synergies (€m)
Optimistic	42	12,6	30%	40%	12
Expected	39	9,75	25%	30%	9
Pessimistic	36	7,92	22%	20%	6

Table 8 - All Synergies Summary

3.6 Regulatory landscape

Morais Leitão, Galvão Teles, Soares da Silve & Associados (2023) provide a comprehensive overview of corporate acquisitions and mergers in Portugal. They discuss the various legal and regulatory aspects of M&A transactions in Portugal, including antitrust, securities, labor, and environmental laws. They also provide practical guidance on structuring and negotiating M&A deals in Portugal.

Overall, regulatory issues can have a significant impact on the financial performance of a transaction. It is important that together with the financial advisor, a law firm participates in the process so that they carefully consider the potential regulatory risks before proceeding further. By taking steps to mitigate these risks, the client in collaboration with advisors can increase the likelihood of a successful transaction and maximize financial benefits for all stakeholders. The main risks discussed during this process are listed below.

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3.6.1 Antitrust laws

Companies may find it more difficult to achieve the synergies they anticipate from a deal if antitrust regulations are in place. The acquisition might be stopped, or certain assets would need to be sold if it is found to be anti-competitive. This could negatively impact the process and drastically cut into the business's financial gains.

3.6.2 Securities laws

Securities laws can delay or even prevent the transaction from being completed. If the required disclosures and filings are not made correctly, they may be subject to shareholder lawsuits or regulatory sanctions. In addition, the company that is being sold may be required to make additional disclosures or change the terms of the sale.

3.6.3 Foreign Investment Laws

Foreign investment laws have the power to restrict the ability of foreign companies to acquire domestic assets. If both companies are unable to obtain the necessary approvals from their respective governments, the transaction may not be able to proceed. In addition, approvals may be subject to political risks.

3.6.4 Data Protection Laws

In the event of a data protection risk, the company being sold may be required to invest in new technology or hire additional staff to comply with the new regulations, possibly impacting on the company's costs.

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3.6.5 Tax legislation

If the transaction is improperly structured, both companies may be subject to higher taxes and lose the tax deductions they were expecting.

3.6.6 Environmental laws

In the event of an environmental risk, the company may be required to incur unexpected expenses to comply with environmental regulations.

3.7 Costs of the process

The cost associated with hiring the financial advisor to handle the sale process, excluding legal and due diligence liabilities, includes the financial advisor's fees and a success fee, amounting to somewhere around 2-5% (on average) of the purchase price. This price is justified by the consultant's assistance in all parts of the process. Services include the assessment of the company's value, sales strategies, preparation of marketing documents, marketing of the company to potential buyers, negotiation of the sales contract, preparation, and structuring of the transaction, and all the necessary and required support during the integration process.

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Chapter 4

Conclusion and Discussion

This is the conclusion of my TFM, and it will serve as a synthesis of my report and a confrontation of what I have learned during my experience in a real case in the Portuguese market against the theory and the steps of a typical sell-side M&A process.

4.1 Comparison between a theoretical and practical process

First of all, the major conclusion and confrontation that I have learned is that in real cases the process is not linear at all, meaning that it starts with some expectations, and throughout the process, a lot of things don't go as well as planned. This means that usually, the theoretical frameworks posit a linear timeline with structured negotiations based on objective criteria. Reality, however, presents a fluid and dynamic environment susceptible to unforeseen events, due diligence delays, and subjective buyer demands. So, as the financial advisor, the consultant team must anticipate flexible timelines, navigate unpredictable counteroffers, and manage emotionally charged negotiations involving diverse stakeholders with hidden agendas.

In addition, it is interesting to pay attention to the information flow, which in theoretical models assumes perfect information symmetry, fostering transparency and informed decision-making. In practice, however, information asymmetry presents a significant challenge. Incomplete data, hidden liabilities, and strategic information withholding by buyers necessitate meticulous record-

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keeping, proactive disclosure strategies, and a cautious approach to information sharing.

Also, another fact that triggered me during this process is decision-making and control because while theoretical models depict rational, data-driven decision-making by all parties, real-world M&A involves complex dynamics. Boardroom politics, personal agendas, and emotional influences can lead to irrational offers, sudden shifts in preferences, and unexpected vetos. Additionally, due diligence demands and exclusivity agreements shift control towards buyers, necessitating a delicate balancing act between cooperation and safeguarding seller interests.

Moreover, the real outcome of an M&A process can be very different from the theoretical perspective, because theoretical frameworks often portray M&A as a win-win scenario. In reality, outcomes are multifaceted and frequently involve compromises, concessions, and even walk-aways. Sellers must be prepared for a dynamic and potentially volatile process, characterized by emotional highs and lows, and manage expectations accordingly.

Furthermore, the fact that the majority of the existing literature is focused on other markets, such as the U.S. and the U.K. hinders a Portuguese financial advisor. So, there are not many theoretical studies regarding the Portuguese reality. The lack of studies leads to a higher dependency on the expertise and experience of the consultancy team.

To conclude, the theoretical framework and case studies are extremely important to guide and help real M&A processes, but it is important to keep in mind that M&A is not a recipe book and each case has its particularities and differences. I hope that this report can be useful for understanding these nuances

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through a real case and can serve to add some insights into the Portuguese reality of the M&A market.

4.2 TFM Summary

This last part will serve as a synthesis of my TFM, I will go by the steps in this report highlighting the major conclusions of each chapter. In the first chapter, I did a brief theoretical framework of a typical M&A sell-side process. Throughout this whole chapter it is possible to notice that in a typical sell-side process usually there is no drawback in any phase, moving away from reality as in a real process there are a lot of setbacks that were discussed earlier in this chapter (4.1).

Regarding the second chapter, which focuses on describing and framing the sector of the company in Portuguese reality, it is possible to conclude that this framework has an important function in all the processes. Since it is used in almost all the phases of the M&A process. The contextualization of the sector was very important in the construction of the Pitch, being one of the major responsible in gaining the trust of the company, which saw the skills and capabilities of CWI, assuring the exclusivity mandate. Beyond this particular importance, market research was used in almost all the documents presented in the process. So, this step has proven to be one of the most important in the work of a financial advisor.

Going to the third and most important chapter regarding the CWI work, an extensive analysis was made including all the most important steps used in the transaction. Through all this analysis I learned principally how to handle a sell-side M&A deal, but most importantly I had the opportunity to put all the knowledge that I had learned in my master's degree into practice. The financial analysis was the part that my knowledge acquired in my master's had the most

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significant impact, all the steps and how different can be a real transaction is one of my major rewards.

So, to conclude this TFM report, it is important to see that these five months during my internship were very enriching, and having the experience in a real case taught me a lot and for sure it will help to continue to grow and help my future steps in my career.

'Declaration of Generative AI and AI-assisted technologies in the writing process'

Statement: During the preparation of this work the author used ChatGPT in order to handle proofreading issues. After using this tool, the author reviewed and edited the content as needed and take full responsibility for the content of the publication.

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Appendices

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