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Descriptive analysis on the global mergers and acquisitions market. Monitoring the Siemens Gamesa case study.

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- **Objectives**:

This thesis aims to develop a conceptual guideline on how the process of a merger and acquisition deal is carried out. On the journey, all concepts surrounding the pre deal analysis will be fully explained and the different types of motivators pushing the companies to execute the operations will also be explored. All these conceptual reviews are sorted within the first part of the thesis: "Aggregating a conceptual map for Mergers and Acquisitions".

On the second chapter the aim is to hold an analysis on how the markets affects the momentum for merger and acquisition deals and how market event are driving the quantity and nature of the operations. This global analysis is going to be exemplified by relating market contexts to deal trends, such as Brexit affecting on how Britain companies are expanding or how capital regulation in China incites companies to drive their acquisition towards the internal and inter-sector markets. The idea on this part is also to mention the most important trade operations in mergers and acquisitions done by sector and geographical nature.

The last chapter will include a deep qualitative analysis on the operation of merging two of the main wind power producers in the world, the Spanish Gamesa and the German Siemens. This operation is a really good example of a friendly merge, with synergies easily identifiable by both companies and perfectly compatible businesses. This part has not the intention of performing a financial valuation but yes to go deeper on how the synergies appears, how the deal is executed and how the synergies come out years after the operation.

As a last objective, my personal target is to develop my knowledge on a field that I have not explore enough before in depth as a sector. Although within the Master we have seen deals and studied operations, I did not have the chance to build myself a gross image on how this market works and what a company thinks about while doing research seeking for inorganic growth.

Taking all this guidelines into account, the process stays as follows:

1. Elaborate theoretical guidelines about the process of a merger and acquisition, reviewing sorts of operations, interests and synergies between companies.
2. Reach a global view of the effective transactions in the last year on a global basis.
3. Take conclusions and characteristics in common of the acquired and acquirer companies.
4. Identify bullish sectors and potential companies to be involves in merger and acquisition activities in a near future.
5. Illustrate the study with the case of the merge between Siemens and Gamesa, elaborating a report about it.

- **Methodology**:

The first step of the procedure was to perform a reliable analysis on the conceptual and theoretical review of mergers and acquisition. To do so, the reference authors were Professor Alexander Roberts, Dr. William Wallace and Dr. Peter Moles, all of them are professors at Herriot-Watt University, more specifically at Edinburgh Business School. These academics are a significant reference in mergers and acquisition academic studies, and together with the University, they published a really complete paper aiming to guide and explain how a deal decision is taken, their motivators and the theoretical part of the analysis.

For the second part of the thesis, the resources range has been wider, papers from consultancy companies have been used, and specialized databases from websites, and research held by independent companies including a survey did also served as source for the development of the project.

On the third step of the End-of-Master Project, the main resources has been three papers published by Santander corporate Banking. The first one analyses the position of Gamesa in the market, going through its business lines, alliances and financial accounts on the dates prior the acquisition. It also reviews the possibility of the merge with Siemens, what was a rumour by the time of the publication. The second paper is a review of the company after the merge, it talks in depth about the merged services and plants, how the assets were combined, the possible outflows or the upcoming demand and new projects awaiting. This worked as a good source to perform an analysis of how the company was before the operation and the results of the deal. But, to go deeper into the result, the last paper on Siemens Gamesa written in the first quarter of 2018 was used to identify synergies and check how the company behaved with a sufficient range of time after the execution of the operation.

1. Revising academic literature and thesis reports included in media such as *Scholar, Scopus o Web of Science*. For the conceptual guideline, the references author has been Professor Alexander Roberts, Dr. William Wallace, Dr. Peter Moles from Edinburgh Business School, Herriot-Watt University with a paper called "Mergers and Acquisitions" that constitutes a perfect theoretical framework on how a process is done.
2. Analysing the operations discriminating between sectors, aims, companies involved and advisors implied. In this field, there is no correlation between sectors and in fact, as discussed later in the chapter, not even expected logical movements are proved afterwards within different geographical areas.
3. Researching on the accounts and economic position of the implied parts in the illustrated example, both before and after the deal. When analysing synergies, a key point is to go deep into the companies involving the operation positioning and try to understand how the merge could affect their businesses and if those are finally compatible.
4. Explaining the evolution of the burning sectors and the most active companies in order to identify possible opportunities and explain how the market has behaved in the past years.
5. Studying in detail the Siemes-Gamesa operation to illustrate all the previously discussed topics in depth.

Contents

1. Aggregating a conceptual map for Mergers and Acquisitions

a. Introduction

Mergers and Acquisitions has been a principal character in sectorial growth during last decades. Finance, chemical or pharmaceutical sectors are in a continuous evolving stage since the early 90s, there has been such big operations in which huge amounts of money has taken part, the merge between Vodafone and Mannesman for 183 bn USD is a good example. But importance in this field is not necessarily correlated with the price of the operation, Mergers and Acquisitions has been a crucial deal in developing interior markets based in Small and Medium Enterprises (SMEs). Furthermore, Mergers and Acquisitions are now asking for importance in public services, as government sponsored enterprises are now studying more and bigger deals in public services such as hospitals, schools or universities. Since globalization comes true and the flourish of deregulation comes by, Mergers and Acquisitions are placing a significantly important sit in the future of company´s growth.

To address that, Professor Alex Roberts, from Edinburgh Business School (EBS) developed a theory to discuss why some companies succeed in growing by Mergers and Acquisitions and why some other don´t necessarily do that. This theory is called *The Strategic Focus Wheel*™ and covers four elements that needs to be fulfilled to rise the probability of success in a Mergers and Acquisitions operation:

1. The first one is the strategic planning, which discusses about the needs and opportunities that companies see in the operation about to be executed, even if the execution is perfectly done, a bad or erroneous strategic planning in a Mergers and Acquisitions deal will lead to a failed operation.
2. The second one is the implementation of the strategy, which consists in the link between the strategic planning and the actual complementation of the companies tasks.
3. The third one consists in managing changes, and will be the tool for the controlling and monitoring of all the implemented consolidation of activities and processes between companies.
4. And finally, the fourth one is the Long Term Risk Management, which covers all processes of identification, control, and mitigation of risks coming from the operation.

On behalf of this, it should be taken into account that there are many other different factors influencing an operation of Merger and acquisition, and many of them are company related or regional related factors such as employment law, collective bargaining affecting the companies, regulation or degree of protectionism, among others. To illustrate this, it is interesting to mention that in Europe and the United States, Mergers and Acquisitions deals where the outcome company could have such a market power that may allow into intentional price alteration are consciously analyzed by the government and its competitive enterprise departments. Then, for example, there are many differences in labor flexibility within member of the European Union, whereas Germany has really strong labor unions and collective bargaining, Spain has a weaker legislation in the field, which could mean that if a Spanish company plans to acquire a German one, the negotiation with government and unions could be so difficult that finally the operations may be therefore dismissed.

According to the authors, mergers and acquisition have had clear trends since the first records of deals. Through the history there has been five trends following the paper research:

1. The railroad trend: from 1895 and 1905 with mergers of high importance all across the United States, coinciding in time and sector with the construction of railroad all across the country.
2. The automobile trend: from 1918 to 1930, with mergers relating the automotive sector when the boom was coming, most of the companies involved were from the United States.

3. The conglomerate trend: from 1955 to 1970 and involving companies from different sectors due to a strong legislation to merge competing companies and a rapid growth in the United States.
4. The mega merger trend: from 1980 to 1990 there was a boost in the market facilitated by low interest rates, a bullish stock market and a solid economic growth all over the world.
5. The globalization trend: from 1994 until nowadays, with a high number of deals discussed in the following chapters.

b. Concept of Mergers and Acquisitions:

A general Mergers and Acquisitions definition which covers both terms of the deal could be something like: "The combination of more than one firms into one single enterprise or holding group." Whether this combination consists in a merge or an acquisition depends on how the process has been developed by.

A merge will generally be accomplished after a negotiation process between the two companies has taken place. This means that in most cases, mergers are produced in a context of mutual benefit for the companies implied, the higher the synergies that the merge or acquisition produces, the easier that the negotiation will be. An example of a synergetic merge could be something as follows. A company X which produces and delivers cosmetics products by e-commerce willing to expand the business into the Asian market. Company Y is an Asian local delivery Small and Medium Enterprise (SME) company which lost the most of the business due to giant multinational firms such as Tencent. A merge between X and Y creates synergies for X, allowing them to go into the Asian market and facilitates deliveries and know-how on Asian business; at the same time, company Y will have an stable business line in delivering cosmetics for company Y, parallel to a capital injection and returns for shareholders.

An acquisition gives lower possibilities of appearance to a negotiation. It consists in a company buying another one, after the operation, the company bought could be totally absorbed and integrated within the company buying, or could remain being independent, but owned by the company buying. In this operations, the company bought is usually known as the ***acquired*** company while the company buying is named ***acquirer***. An acquisition is normally accomplished by a deal in which the acquirer buys all the shares of the acquired or just the sufficient amount to have ownership, depending on the regulation of the targeted region.

Regarding the level of peace that an acquiring process has, there are three types of deals:

- **Friendly**: this happens when the acquirer company sees the acquisition as a good deal. They may need financial support, market support and know-how opportunities to keep their business in progress. This is common in acquisitions of smaller companies, which can support the acquirer with a technological advance or any successful development for the main business. In this type of deals there are almost no negotiation, and the premium paid for the shares are generally lower. In some cases, such as the one analyzed with Siemens and Gamesa, this premium is paid by the acquirer in the form of a dividend to the shareholders of the acquired.
- **Hostile:** in the opposite case, a hostile acquisition refers to an operation in which the acquired company is not willing to execute the deal. The synergies here may not be the same for both the acquirer and the acquired, and therefore negotiation of the price paid for the shares are tougher. In order to avoid the deal being executed, the acquired company may usually call another company willing to acquire, often named ***White Knight***, which could agree in taking the operation for acquisition purposes or just to rise the premium paid by the original acquirer. The acquired company may have more interests in being acquired by the white knight than by the original acquirer. A good recent example of an enterprise unintentionally playing this role is Iberdrola SA in the acquisition of the Brazilian company Eletropaulo by the Italian state company Enel, who paid

a really high price for the company due to the competition of Iberdrola, who didn´t get the operation but elevated the price paid and therefore diluted the margins for Enel (at the final stage of the negotiation of this deal, Iberdrola new that the price they could pay was much lower than the available for the operation in Enel, so the role of White Night was not unintentional at the end).

In these operations, the acquirer targets to buy huge amount of shares of a company listed and quoted in the open market, as these amounts are normally high enough to act as a catalyst in case of executing the operation, they may proceed with a ***Down Raid*** which consist in executing a huge buying order prior the market open to avoid a rapid increase in value in case of the market anticipating the acquisition.

c. Motivations for Mergers and Acquisitions

There may appear many reasons why a company decides to merge with or acquire another one. Strategic rationales are measures that are taken to fit with long term objectives, for example, to acquire a company in a foreign country in order to open business and trade relations in a targeted market supported by a local and experienced firms there. Another driver could be exemplified by a hypothetical acquisition of an Aluminum producer by an Aircraft manufacturer prior to the launch of a new prototype; by the execution of such a deal, the acquirer ensures a targeted cost for supplies and lines of production; and after the production period the aluminum company could be sold out.

To go deeper in the strategic rationales breakdown, it is helpful to divide them by nature:

- **Purely Strategic Rational**: in the previous example, a company willing to trade in a new market acquired a local business, this is a pure strategic approach. There will usually be an alternative to a strategic merger or acquisition, but it will normally be intensive in human capital and costly; in this example, the alternative could be to hire a consulting company to make a good research and proposes a plan to enter into the market by their own. There are several examples of purely strategic operation, one of those could be the acquisition of the Argentinian oil company YPF by the Spanish Repsol SA in 1999. This operation, beyond the upcoming problems and expropriation by the government, was due with the objective of expanding the markets of the Spanish oil producer.

  A strategic acquisition doesn´t need to be just with expansion purposes, there also are many other motivations to accomplish a strategic deal. An approximation of a strategic rational classification is to be made:

  - There may be some **technological advances, special skills our new resources** that a company may be interested in but the knowledge is possessed by another firm, which becomes a Mergers and Acquisitions target.
  - Sometimes, the access to new markets presents a new opportunity not only in terms of trade and business options, but regarding **financing operations**. For example, if Petrobras (Petroleos Brasileiros) wants to issue debt, the premium they have to pay in yield will always be referenced to the premium over the Brazil yield curve, because it seems to be logical that no company is more secure than its local government. But, is it really true? Brazil has a huge instability and Petrobras may be a healthy and stable company with most of its revenues coming from outside LATAM, therefore, it could be interesting to do some research in order to open subsidiaries in the United States, list them in the stock markets and therefore reduce significantly the yield premium paid in issuances thanks to a rise in credit rating ceiling.

- Another strategic reason is related to **globalization**, since it is becoming a deep and deeper issue, there is also a good decision to adapt the company to the connected world by getting loyal partners in key markets, and mergers are the best option in this sense.
- One of the most important characteristics of a well-developed business is **diversification**, not only in terms of clients, but in terms of business lines, markets, products or suppliers. Again, a good diversification strategy could turn into the acquisition of companies operating in target markets, companies offering different but related products, or acquiring similar companies with different raw materials suppliers.
- **Supply chain alliance**: this is generally adopted by dependent companies. Imagine a firm that produces a really well differentiated toy, top-sales. Its supplier is unique and significantly smaller in revenues than the toy-manufacturer. Our clients are small and local shops, normally owned by one or two people that are self-employed. A good strategic rationale is to acquire the supplier, ensure price and production, lowering manufacturing, shipping and transaction cost and also acquire some small shops and franchising them with the old owners.
- Another strategic rationale interesting to be mentioned would be **allocation purposes.** Studying markets behavior could lead to opportunities discoveries in terms of growth in determined markets. When a holding company is well diversified and generates stable cash flows, an intelligence source of growth could be entering into new business and sectors. For example, if Inditex SA, the textile Spanish producers identifies an opportunity of selling clothes for pregnant women, which is not one of their business lines, an acquisition of the pregnancy clothes firm Premamá S.A. could be a good rational allocation decision.
- **Defensive strategies** are another sort of rationales applying in this segmentation. It could exist the case in which a medium company is the acquisition objective of a bigger one. If the acquired company doesn´t see value in the operation, it could look for a smaller company to merge with and avoid being absorbed by the bigger one.

- **Speculative**: this strategy is not only applicable to financial products such as derivatives, commodities, bonds or stocks. Speculation may also appear even in entrepreneurship, when a good business idea comes to mind, and after some serious years of hard work suddens to be highly profitable, it could be sold for a significant amount of money. Globalization and the trend of basing business development on **inorganic growth** (growth of a company not attributed to the main business related activities, i.e. mergers and acquisitions growth) worldwide has introduced into the microeconomics the willing for developing innovative business and startups with the focus on selling it at a higher price. A good example of it could be the Spanish *jamón* supplier of Mercadona, owned by family Loriente Piqueras, Incarlopsa SA. The company is about to be acquired for 1 bn euros by a Chinese holding group. Also the Spanish betting firm, Cirsa SA, has just been acquired by a private equity firm as a Leverage Buy-Out (acquisition operation in which the acquirer leverages itself to accomplish the operation) for 1.2 billion euros.

  In this line, speculative strategies in Mergers and Acquisitions are described as follows. A company discovers a firm which has a clear growth trend, defined markets, differentiated products and negotiation power with suppliers. This may represent an opportunity to buy, even if the sector of the acquirer and acquired does have nothing in common. The acquirer just want to take part in future revenues of the acquired, and after gaining sufficient amount, sell the company again with a premium over its original cost. This also can happen in business angels' field, where a company with excess cash can buy a troubled company in order to provide capital, management structure and push the company upward again, then sell it over a premium price.
- **Management Failure**: there is a common phenomenon in strategic planning consisting in, even though an strategic plan is done, and strategic measures are being taken, the direction resulting from those decision are not guiding the company to the target point that they planned to be. This

is a management failure. When this situation appears there are two paths to follow. (1) The first one is to reinvent the company's tasks, or (2) redirect strategies and tactics in order to get back to the proper planned way. Number one may be risky, although the company got there, it is not a usual environment or market to deal with, and it is far from the nature of the company. Number two can be played by a good Mergers and Acquisitions strategy, identifying companies that succeeded to achieve further stages in a similar strategic plan starting from a similar position than the first company. In this case, by a merge, both companies could help each other in the navigation across the strategic plan without getting to deviate too much from the marked line.

- **Financial needs**: in stressed scenarios for downgrading companies that are facing a financial restructuring or needs, a good way out is to merge or be acquired by another bigger company. The bigger company will injects capital and act as a sort of financing. Shareholders of the acquired company may also be grateful of not losing so much value due to the price paid by the acquirer. Note that this strategic rational involve some of the other, because financial needs is the reason for the acquired, but **speculative, diversification or purely strategic rationales** could be the motivators for the acquirer.
- **Political**: public sector is increasing Mergers and Acquisitions activity during recent years. Many government Sponsored enterprises are becoming public, being acquired or strategically assessed to reduce costs and improve efficiency. In that sense, sectors such as healthcare or education is now warm around developed markets. Public universities and private are cooperating, hospitals are being acquired by private government sponsored ones and private schools are getting financing from public sector on behalf of diluting the number of purely public schools.

d. Integration and solidification

Attending to the characteristics of the resulting company after the Mergers and Acquisitions deal, academia differentiates between (1) Vertical Integration, (2) Horizontal Integration and (3) Holding Companies.

A **vertical integration** consist in the process of actually merging related companies in terms of commercial alliances. This process can be the union of a seller with its producer, or the producer with it supplier no matter what character they are individually playing. The gain in such an operation goes definitely linked with the option of reducing transaction costs, fixing purchasing prices or simply controlling a higher part of the supply chain existing from the raw material to the final consumer, with the consequence of mitigating and reducing risks associated with transaction exposure.

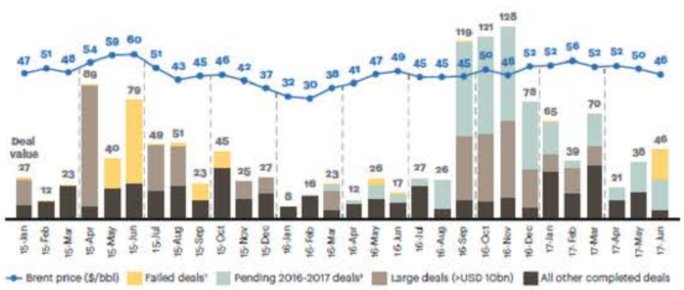
One of the key advantages coming from a vertical integration of companies comes by the management side, generating synergies from a **transparent information flow**. The services offered to the producers by the suppliers or to the sellers by the producers will be improved by an easier and more accessible information between management teams, who are expected to cooperate harder after the union. An obvious obstacle in the relationships between suppliers and retailers is **negotiation**, and this becomes another key winning point after a vertical integration, negotiation is now substituted by decision making since there is no longer any conflict of interest. Related to this, last outcome mentioned will be **independency from suppliers**, which constitutes a very important advantage for a company, being able to control suppliers is a sort of peace and stability for a company, some examples can be illustrated. Among them, the every-year protests in Spanish shipyards, an event that stops the production and shipping of thousands of companies around the world.

There is also some path here to comment on the disadvantages that Vertical Integration may deliver as well. The main one, actually comes in the form of microeconomic competition theory. If only one supplier of the market is acquired, there are many other left that are still competing to deliver the best services at the lowest possible cost, what could leave the acquired supplier in a position of **obsolescence and stagnation**.

Horizontal integration appears when a company acquires another one offering the same or a similar product or service. The gains are the increase of market share, therefore negotiation power facing suppliers, and rappel in raw materials may appear, so lower unitary costs of supplies could be the consequence. This sort of integration has been key in the development of the Oil & Gas sector, Energy and Automobile.

According to a recent AT Kearney report about the Oil & Gas Mergers and Acquisitions activity in 2017, two thirds of the Oil & Gas executives are optimistic in the improvement of operations in 2018. In fact, figure 1 affirms that the total amount of operations covered in June 2017 is significantly higher than the same data one year before. Conclusions point out the willing of many companies for improving their portfolios and raise capital in order to entering new markets and outsourcing research and developments in new fields supported by allies companies. The changing environment of the past years has left an ideal context to mega operations to flourish. The purchase of Energy Transfer Partners by Sunoco for 50 billion dollars, the merger between Enbridge and Spectra Energy for 43 billion or the union of GE´s with Baker Hughes through a 32 billion operation are good examples of mega deals

Figure 1



Source: AT Kearney. Mergers and Acquisitionsin Oil & Gas 2017: the Fog is lifting.

And to conclude the integration field, **conglomeration** has to be mentioned. This is the result of two different companies merging, firms with totally different product, target markets, suppliers and location may be interested in merging due to diversification purposes, change of business model or just combine value.

e. The measuring process

A process in Mergers and Acquisitions consists in two or more companies acting with the intention of getting to the final point in which the related companies results into a single entity. This process is simplified in this project, the stages are divided from the first contacts until the completion: (1) inception and synergies testing, (2) negotiation window, (3) deal and contract formalities, (4) integration and (5) post-deal review.

At the beginning of the project, managers initiate the analysis of the operation, most of the times supported by external consultants, who will be the key drivers of the operations, often banks or strategic consultants. Here is where valuation and synergies analysis appears to help managers in taking the decision of executing the acquisition or not. In this stage, there is an exhaustive financial analysis of all parts implicated, where not only accounts are revised, but also business lines, business models, business plans, logistics, stakeholders, lobbies, etc. All of this is covered by the **inception and**

synergies testing phase, which will determined whether if the acquirer is finally committed to go further with the operation or not.

After this, the pre-merger phase starts. Not only the principal companies are involved here, but there are also external consulting firms working alongside the acquirer. The conversations between top management of the companies in the deal are now taking place in an active manner looking for the best way of proceeding with the merge. This **negotiation** covers tasks such as the structure of the resulting companies, the change in labor policies, possible restructure of labor force or reallocation of management, among others. A needed player here is a law form to write down every clause and measure adopted regarding this, there are also cases in which this law firms also act as the negotiation driver between the companies. This is common in hostile takeovers or depreciated relationships due to long merge process. At the time that all of this is completed, the formal **contract** appears. This documents clearly sets the obligations of the parties involved, also the terms and conditions of the operation, defining the characters that each company or consultant is playing. This contracts are highly complicated and fragile, a bad contract building could lead to a complete failure in the acquisition process even many years after the negotiation.

Once the contract has appeared in the scope, the **integration process** starts. This process consist in actually making decisions and restructuring assets in order to formally accomplish the merger. This process is in a great percentage defined in the contract, so no improvisation has to be carried out. Usually, implementation teams from consultancy companies and banks intervene here to help companies in finishing the process, this teams are part of the Mergers and Acquisitions all in all team, but the actual job has nothing to do with pre-merge or negotiation ones, which are more based in valuations and contract building. But it is common to see pre-merger consultant teams working head to head with the implementation ones, in general terms, the higher the collaboration between both, the better the plans will be accomplished. The implementation teams are composed by operational professionals, aiming a higher control of risks, operational warnings, and relaxing of possible optimism in benefit attribution.

Once the implementation is done, a long period is open, dedicated to an evaluation of the deal and solving punctual errors or problem that may threatening the normal development of the business life of both merged companies.

2. Global Mergers and Acquisitions Market. State-of-Art.

The Spanish Mergers and Acquisitions market closed the year 2017 with more than 2.300 deals done. The value of these goes up to 116.000 million euros according to *Transactional Track Record*. The high and stable growth within the Spanish economy made the private equity and corporate Mergers and Acquisitions market attractive for institutional investors. Growth was above the Eurozone average and expectations in terms of country risk by foreign investors improved significantly, as noted in a study carried out by *Deloitte Financial Advisory Services*. **The main foreign investors in 2017 were the United States of America, United Kingdom, France and Germany**. On the other hand, China is increasing the investments in our country but it has not an important amount impacted compared to the other countries in Europe in which China has commercial interests.

Forecasts on economy growth in Spain for 2018 grew from 2.3% to 2.7%. In that sense, the main contributions for growing expectations in the Mergers and Acquisitions market are the credit quality upgrade from BBB+ to A- and the excess liquidity existing within corporate cash accounts. Key drivers for the activity can also be the **growing demand for synergies** aiming to position companies at the top of specific markets, not only in productive terms but also from financial needs and strategic views perspectives.

During the first half of 2018, the most important sectors in corporate deals has been the financial sector, the real estate sector and the technologic one, this last one experience a high growth of operations between non-related companies aiming to capture technological value one from the other. With the banking union already taking place the European Union, a **higher activity of Mergers and Acquisitions in the financial sector** is still expected, with internationalization, commercial transition and efficiency search as main targets.

Real Estate will continue being one of the most active sectors in Spain, with housing prices going up and rents following them, Socimis and promoting companies are still in the focus of Mergers and Acquisitions, also for IPO deals. Following this idea, interests from key institutional foreign investors in this Spanish sector is still high, not only operations are being executed by direct actions but through joint ventures and Special Purpose Vehicle with companies that are already benefiting from a leading position in the market.

The last burning expected sector is the technology one, in which companies from very different sectors will be involved in **startups buyouts aiming technological advantage** and seeking for high growth potential. Another key element here will be the Private Equity firms, one of the expected key players for 2018 market due to the high liquidity disposed.

a. Europe is robustly growing

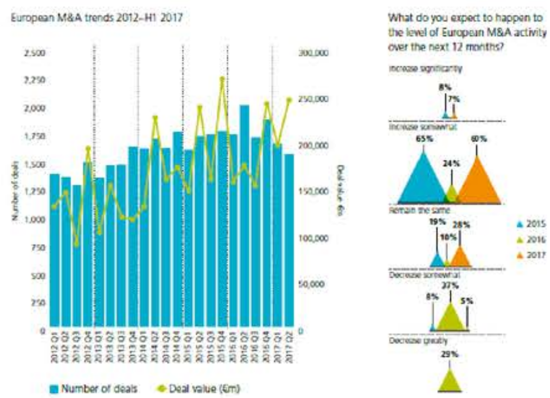
After some years of uncertainty, 2017 started with a clear expectation on stability for the global economy. At mid-year review, the OECD Bureau of Economics forecasted for Europe a **GDP growth of 3.5% for 2017 and 3.6%** for the following one. Hand by hand to that, crucial elections were coming in Austria, Holland and France, where nationalist's parties were threatening the rest of Europe with a bunch of good results in the polls. Fortunately, in all of them the respect and morality was victorious to bring peace and stability in the form of low volatility and stable volumes for the European markets. Many kilometers far, China was growing below 7%, what meant higher than expected. Therefore, the source of uncertainty was coming from the event of Brexit and policies adopted by Trump at the other side of the Atlantic Ocean.

Following this growth trend, Mergers and Acquisitions in Europe stabilized after some years of decreasing in number of deals. According to Mergermarket data, the value of the deals carried out in the **Mergers and Acquisitions market increased by 33% during the first half of 2017** (total value up to 443 billion euros). In fact, the second quarter of 2017 was a 25% better in terms of deals value than the previous one, meaning a higher value than the four quarters of 2016. On the other hand, there was a problem in terms of deals volume, during the first part of 2017, the total volume of deals was around a 14% lower than the same half of the previous year.

During the second half of 2016, the pessimistic speech after the voting results for Brexit were strong enough to spread a worried message and uncertainty over Europe. May be due to the positive data coming from the economics review across the Eurozone, the speech turned into a more optimistic one during the first half of 2017 until our days: unemployment was in a record low for 8 years in June 2017, GDP was going up by a 2.1% on the first quarter of 2016.

In this context, a survey carried by Mergermarket right after the Brexit vote, shows that 66% of the sector was seeing a decrease in Mergers and Acquisitions activity for 2017 and only 24% was expecting an increase in operations. This same question reverted to a 67% of the market expecting an increase in Mergers and Acquisitions deals while just a 5% saw the market going down in 2017.

Figure 2



Source: Mergermarket. European Mergers and Acquisitions Survey

It can be extracted from the upper chart **that the number of deals have been stable and with a slightly positive growth**, but the volume of them has been unstable with deviated and differentiated peaks. In the same chart, the survey points out to a much higher optimism around Mergers and Acquisitions activity increase in 2017 for 2018. This leads to affirm that Brexit had a significant incidence in the Mergers and Acquisitions sector view by the time the survey was held. Furthermore, before the survey conducted by 2017, the failure experienced by UE populist parties shows off in the results of the polls.

These populist failures plus the positives news coming from German polls pointing to Angela Merkel to be re-elected built a solid path for certainty and growth, meaning a good reason for investors to enter the market and to corporate liquidity to be invested in form of Mergers and Acquisitions.

This same survey got some results about the drivers leading the buy and sells sides. In this sense, 54% of the market representatives thought that the **buy side will be playing their excess cash**, while 51% was aiming consolidation in the market; just a 12% pointed that the market was going to be moving during 2017 due to weakness of euro. For sellers, the main driver will be capital rising as a form of financing to expand the activities around targeted areas. The second driver for sellers, with a 45% of answers is the rotations to more profitable businesses by large company shareholders.

The foreign capital has been crucial for European sectors development in recent years. Actually, **four out of the top ten European deals taken part in 2017 were carried out by foreign bidders**. Two of them were accomplished in United Kingdom and Ireland: China Investment Corporation paid 12.25 billion euros to acquire LogiCor Europe, while Dubai Aerospace Enterprise reached 6.9 billion euros to merge with AWAS Aviation Capital. This region held the 22% of the total activity in Europe during the first six months of 2017. In second position, Germany got to have a volume up to 12% of the total deled one, in the third position is France with an 11%. This trend is expected to continue with an increase of operations for non-European buyers in number and volume. This operations will be mainly motivated by the low valuations seen in Europe compared to other markets around the globe, which is also potentiated by the fact that there are plenty of companies willing to participate from the stable growth in the European market.

Technology, media and telecommunications are expected to be the most active sectors in the future. During the first half of 2017 up to 511 telecommunications companies in Europe were someway involved in a merger or acquisition, meaning a total volume of 34 billion euros according to Mergermarket data. In this sector, E-commerce is in the top position with a total volume of 3.4 billion euros. Revenues in the sector increased in Europe by 15% according to EU data of 2017. Growth is here expected to remain alongside close levels or even strengthen due to the diversity seen in the market and the unpaired penetrations and market entries seen across Europe in terms of Internet purchases. Many of the buy side companies are aiming to get a key to get into European retail market and a good example of it is the acquisition of the travel comparison site called Momondo Site from the United Kingdom by the American company Priceline´s, reaching out an amount of 514 million euros. Other examples of operations in this sectors are Naspers (South African media company) acquiring Delivery Hero (a food delivery company from Germany) meaning 387 million euros; or the Chinese JD.com paying 356 million euros for the United Kingdom´s retail platform Fartech.

The main sector in terms of both number of deals and volume is the Industrial and Chemical one, in which the Pharmaceutical is included. The numbers are 667 deals and 76 billion euros in volume for 2017. Inside here, the automotive sector has gained importance during the last years with an increase by 17% in numbers of deals and a 10% in value, up to 7.4 billion euros. One of the main deals in the sector was the consolidation of the merge between Peugeot-Citroen and Opel and Vauxhall, a General Motor´s subsidiary for 1.1 billion euros. This trend is supported by a strong strategic plan of reducing costs and optimizing scale economies in all the sector´s giant companies. Another key driver in the automotive sector is the hard shift in research and development activities towards smart, self-powered and self-drive cars. After the emission scandal characterized by Volkswagen, the market here has been strongly clear with the client´s needs and willing. This new policies are going to drive the upcoming merger and acquisition activities in the sector, with established companies aiming to acquire new startups to help in the development of new fuels, components and technologies.

Another key sector is the Consumer Demand one, with Europe being one of the biggest markets in the world, all the contingent and systemic producers brands become a fair potential acquirer for most of the new innovative consumer experience products. **The stable and high growth in the Eurozone suggest that consume will still mean a crucial component of the Aggregated Demand of Europe**. This sector was in the second place of Mergers and Acquisitions activity list for 2017, getting a total volume of operations up to 75.3 billion euros. The most important deals were luxury brands, and example of such an operation could be the Essilor´s international (the lensmaker) acquiring Luxottica (an eyewear producer) for 24 billion euro, or the purchase of Christian Dior by Bernard Arnault, a private investor for 12.1 billion euros.

b. Deals in movement

The renewed deal making optimism throughout the continent seems to be plausible also in activity, with expectations to engage in Mergers and Acquisitions activity being higher month after month. This activity could come in the form of mergers, acquisitions, assets divestments or a mixture of them. While last year, corporate finance activities where downgraded and put in a hold right after the Brexit voting results.

This optimism is in part explained by the fact that, even in 2016 valuation being much more favorable, 2017 is a much more active year in terms of deals because valuation is not an issue now, but enter into new markets and technologies is. It is also a fact in the **market that volatility has increased, what may lead investors to aim diversification as a source of returns, therefore they see chances in entering into other sectors and product lines**. Diversification seekers investors are normally huge ones, and operations in this sense are normally done to increase efficiency in the way holdings operates. During the first half of 2017 there were 66 deals for 1 billion euros or more, meaning a value increase of 22% compared to the same date as of a year before.

Technological research and development during the last years considerably impacted bullish sectors in terms of mergers and acquisition operations. Automation and digitalization improvements seems to facilitate the following of this trend, which is one of the most important characteristic for an acquirer to actually decide to accomplish the operation. Indeed, **technological advantages differentiates successful from the rest of the market**. It is also highly important the distribution capabilities for an acquired company to be a target, as well as production plants and real estate properties.

Generally speaking, companies that are presenting better results and earnings, usually quotes at higher multiples (Price to book value, price to earnings, etc.) but on the other hand, it has been seem that **companies listed in the S&P 500 have reduced the total amount invested in research and development**. This leads two think in two directions, the first is that the research and development are being accomplished by startups that will be finally absorbed, so this costs are not research and development entries but just acquiring ones. The second one is that S&P 500 companies are not competitive enough in terms of technology, what means that they are no longer going to be a merger or acquisition target but an acquirer.

Key players in this market are the Private Equity firms, who are benefiting from a position of Capital and Liquidity excess after some troubled years for the investable universe in general. **Private Equity firms became a good manner for institutional and wealth investors to invest in an attractive way bearing in mind the context of low yields and an unusual interest rates environment**. Data from Preqin says that total Net New Assets got by Private Equity firms reached up to 918 billion dollars. This lead to a highly significant value increase of the operations carried out, meaning an improvement of 39% with a total value of 63.9 billion euros; while the number of deals stayed constant. This supports the current trend of lower deals, but bigger ones.

Another key point that signals the greater deals in movement that the economy is experiencing these years is the **increase in Mergers and Acquisitions between different sectors**. In 2017, there were 961 billion dollars of total value in operations between companies with activities dedicated to different markets, this meant a 10% increase compared to the 10 years historical average of 794 billion dollars. The highest increase in 2017 was experienced in the retail sector, with a movement of +139% in value. This is because of the changes that the sectors are having in terms of habits, as we have discussed, **E-**

commerce is pushing hard and young people consumes in a different manner than their parents, there are way much more successful stores that has not physical shops, and we are seeing a decrease in pedestrian traffic across the big malls and multibrand firms. One of the biggest deals taken ever in this way is the acquisition of Mobileye by Intel for 13.8 billion dollars, with the strategic aim of connecting both the car industry with the technology one.

If cross sectors deals are important, cross borders one could not be less. During 2017, Asia Pacific mergers and acquisition deals were reduced by 9% despite of the fact that the regulatory troubles pushed analysts to expect even a deeper decrease. The main pushers in this market were Japan and China, with a 57% and a 15% contribution to the total amount in APAC respectively. **In the case of China, the merger and acquisition activity with the rest of the world was pushed downwards by a 32%, mainly due to capital controls by the government to key player companies and new restrictions to avoid national capital to go outside of the country**. The inside activity in China was even stronger, with a lower decrease driven by the domestic economy consolidation helped by the financial improvement of the State Owned Companies. It is also interesting to point out that **Chinas overall merger and acquisition activity experienced an increase from 506 billion dollars total value in 2014 (with 71 billion dollars involved in foreign operations) to 748 billion dollars in 2015 (with 98 billion dollars involved in foreign operations)**. One year after, total value dropped to 721 billion dollars but foreign activity jumped up to a total value of 217 billion dollars, meaning a significant 30% of total activity.

In Southeast Asia, cross borders activity increased by 25% in 2017, one of the main operations was the privatization of Global Logistic Properties by a holding of Chinese companies. The Japanese also increased by 7% in total deals, while the total value of them decreased by 26%, which seems to break with the tendency observed in Europe. But despite of this, saturation in the domestic Japanese markets and low interest rates facilitating financing activities are key drivers for the outbound merger and acquisition activities in the future. Another key theme is the low growth rate of the population in Japan, what makes a little hard the idea of expanding businesses across Japan. This leads companies to expand to foreign markets, new products and new working environments to substitute old models.

On the other hand, there are a couple of tasks that could put the break into the outbound investments expansion in Japan, one of these is the high inflation reflected in asset prices for a Yen investor, what indeed could lead to important impairments of goodwill after the acquisitions if the economic and financial conditions reverts, bearing the IFRS accounting regulation in mind and thinking of a Yen investor going to buy a European company.

Private Equity firms were the most active in the Asian market last year, in fact, the biggest operation carried out by a Private Equity firm in Japan ever was done the last year: **Bain Capital acquired Toshiba Memory Corporation for 19.9 billion dollars**. The total value amount of the deals in which a Japanese Private Equity firm was involved in 2017 were 23 billion dollars, meaning an increase of 283% from 2016, and it is important to note that 18 of these billions were just listed in the Toshiba Memory Corporation and Bain Capital deal.

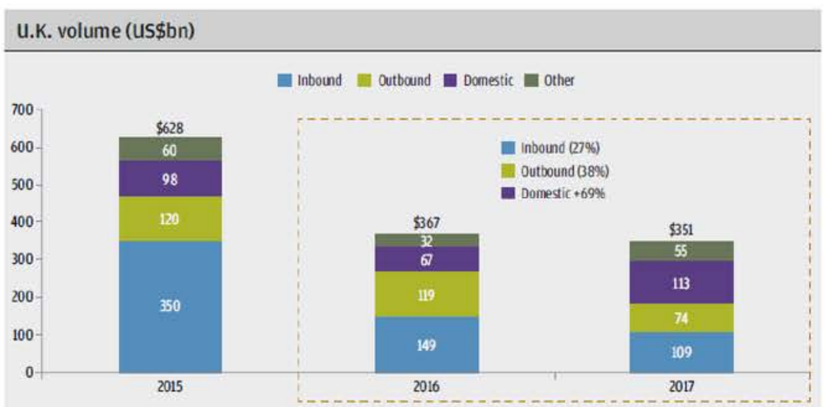
The growth of Private Equity firms' activity reached a record in 2017, with a 67% increase meaning a total value amount of 118 billion dollars. This was possible thanks to the strong growth momentum that the region was experiencing in terms of GDP, the huge amount of financing possibilities that facilitated leverage operations and the lower Chinese competition due to the capital controls that the government were imposing (earlier discussed in this chapter). The expectations are that the trend will continue for APAC in 2018.

c. Brexit Thoughts

Volatility in the market right after the count of Brexit votes was high enough to wake worries up all over the world, but thanks to a decent political negotiation and companies' reactions stability came by, apparently, to just stay a few months after the event. By the end of 2016 a strong recovery in volatility and value levels across international markets occurred, and during the firsts steps in 2017 the momentum was able to stretch enough to be even optimist about the United Kingdom exit from the European Union. But in March, former Prime Minister Theresa May tested the strength of the market by formally communicating the intention to leave the Union to the European Parliament through the **activation of Article 50, and then starting a two years leaving period effective immediately**. Although markets acted with normally since then, there is still a plausible uncertainty present in the market which lead to a significant increase in mergers and acquisition transactions in the European market involving United Kingdom´s companies.

The early result was an increase by a 69% in the operations of mergers and acquisition involving two companies from the United Kingdom, this could be due to the pursue of scale enough to survive to a restriction of markets for companies with a substantial amount of revenues coming from outside the United Kingdom. On the other hand, **the inbound volumes meaning foreign companies focusing on companies from the United Kingdom declined by 32% due to higher risk and uncertainty both relating politics and economics**. The most curious data around Brexit is that, against what was early expected, the activity of local companies being involve in acquisition of foreign ones declined by 38%. Seemed to be logic that local companies were seeking opportunities to geographically diversify their activities by acquiring companies around Europe or facilitating a merge. This decline is the reason why the expectations for 2018 are the flourish of this outbound operations due to the proximity of final stage of the two years remaining period in the European Union.

Figure 3



Source: Dealogic as of 01/09/2018. Note: Deal volume includes Ireland; "Other" reflects divesture/parent from the U.K. and target business or acquirer from outside the U.K.

There also were two key drivers in the European Union aside the Brexit in forms of political elections. Both France and Germany were able to stop the growth of populism with victories of European Union friendly parties in both countries, what contributed to cut political uncertainty and instability across Europe. **The elections of Angela Merkel and Emmanuel Macron in Germany and France respectively helped Europe to rebuild a solid bloc of cooperation between member states**. First steps of both governments were simultaneously to push for economic reforms to make Europe more resilient, fighting for a key budget and arguing in favor of accelerating the change of the European Stability

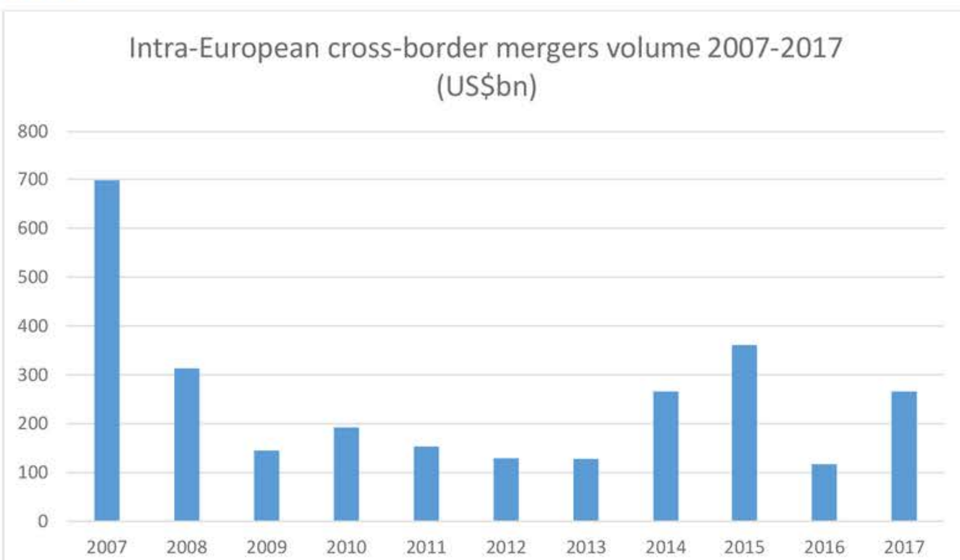
Mechanism for a single and common Monetary Fund. Another key policy route was the common ideas in defense and the cooperation in improving infrastructures.

France adopted a liberal approach in doing business, betting for industrial development and trying to facilitate the appearance of European Sectorial Leaders in the country, rather than taking control of assets, starting protectionist policies and adopting populist measures. This measures success are well represented by the Alstom and Siemens Mobility deal, in which, after years of debates around leaving or not the country, not only the company will still be listed in Paris, but also the CEO will be French after a bunch of mergers and acquisition deals alongside the country and the operation in which the company was acquired by the German Siemens. This is a good example of management to get deals benefitting both the country, the workers and the shareholders of giant companies.

Another case is Airbus, who was able to create an unprecedented environment of cooperation between industries, countries, management boards and competitors. After its internationalization and privatization, Airbus revolted the sector by waking strategic alternatives up in related-companies all over the world.

After all, **mergers and acquisitions accomplished intra cross borders in Europe doubled sizes in 2017 after a rare year during Brexit, manly pushed by the return of confidence in the markets and political certainty and stability inside the European Union**. As it can be seen in the chart below, the positive trend in a growing mergers and acquisitions activity was clear from 2013 until 2016, were it dropped from the total intra-European cross-borders deals in 2015 of 361 billion dollar to 117 billion dollars in 2016, what meant a decrease of near 68%. Levels in 2017 returned to the trend and to green numbers, with an increase of 128% in value, reaching a total amount deled in merger and acquisitions operations of 266 billion dollars. As earlier discussed, the expectations are to see a higher increase in these numbers for 2018, with a change in cross-boarders trends, mainly in the United Kingdom.

Figure 4



Source: Dealogic as of 01/09/2018. CMS European Mergers and Acquisition Global Outlook 2017

3. Siemens-Gamesa case.

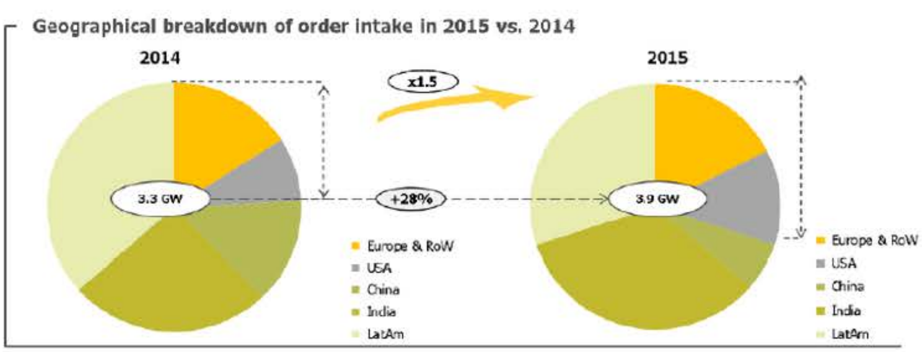
In order to illustrate all the previously discussed topics about theory surrounding merger and acquisitions deals and all economic context we are experienced, the case of the merger between the Spanish Engineering company GAMESA and the German homolog SIEMENS is going to be reviewed. The announcement of the deal was on the 17th of June 2016 and the completion of it was the 3rd of April 2017. The total value of the operation was up to 1.04 billion euros. The information provided is based on two equity analysis held by Santander Global Corporate Banking, the first one called Gamesa: *New Tailwinds Approaching* published on May the 5th 2016 to review how GAMESA was functioning prior to the announcement of the deal, and the second called *Wind Energy, New Gamesa and Technological Disruption,* trying disseminate both the intrinsic value created after the merge and the details of the operation in terms of daily activity.

a. Gamesa at a glance

By the central months of 2016, Gamesa was growing higher than expected, with net growth around 20% in terms of volume produced and with an EBIT (Earnings before interest and taxes) upper than 400 million euros, what meant an annualize growth figure of 36% and an EBIT margin situated at 9%. **Putting data together, the expectations for GAMESA in the last part of 2016 was continuing the positive trend supported by the growing demand**. As demand was growing, the company´s strategy was pushing capital expenditures in line with it, the current amount of capital expenditures as a percentage of revenues was around 5% in 2015, so the objective was maintaining it for 2016. On the other hand, working capital needs were pushed down as a percentage of revenues, going from 5% to a decent 2.5%.

Not only demand and revenues were growing during the last part of 2015 and the first half of 2016, with for example, the orders attended by Gamesa in 2015 were a 17% higher than the ones attended in 2014, so the order book for 2015 was at 3.197 Megawatts, 28% higher than the same figure in 2014. Also the innovative resources and processes helped the company in diversifying the portfolio of sales, what led them to entering new markets and reaching a higher growth. New products such as the G114 2.0-2.5 Megawatts energy increased its contribution to total from a decent 26% in 2014 to a 50% in 2015. Developed markets characterized a huge increase in demand for 2015 compared to data from 2014, so Europe and the United States increased by 45% the demand against the rest of the world, what meant a 30% of the total energy demand against the 24% of 2014. Despite of this, South America and India still are the most important drivers of the demand. India grew its energy demand up to a 34% of the total demand, and South American and Brazilian one multiplied its size by two.

Figure 5



Source: Public company data

Gamesa kept the focus on cost efficiency during 2015 in order to get a higher degree of competitiveness in prices and having a greater ability to adapt to possible changes coming from the economic and energetic cycle. The structural costs were representing a 7.8% of the total income what means that the company had already fitted with the objectives written in the business plan for 2017. To build a good idea of what this number supposed, Gamesa had this margin at the level of 12.5% in 2012. This decline in expenses led to a significant increase in operating margins.

Gamesa has the firm intention to continue with the improvement in competitiveness of its production. On the latest half of 2015, a new platform consisting in a 3.3 Megawatts capacity plant was created to cover even in a better manner the mature markets it already had. Northern Europe, Canada or South Africa were the countries most benefitted by the platform. Gamesa also launched a project based in photovoltaic plants in India, by a contract involving the production of 59 Megawatts solar plants.

During the last years, financial stability of the company was assured by a cautious and ambitious management willing to bet for efficiency, growth and diversification. In this line, the analysis of the working capital to sales since 2013 decreased from 8.3% in the fourth quarter of 2013 to 0.3% in the same period in 2015, what was clearly below the stated figured by the management of 5%.

The executive management got to improve volumes of working capital by reaching a 21% increase in activity during the period from 2014 to 2015. The active management of this ratio facilitates this to happen, the way the management was able to combine receipts with deliveries and the ability of aligning the operational assets with the wind platforms to make cash. The working capital in 2015 was at the level of 7%, while at the beginning of the year, the same figure was 13%, this improvement was possible even though the overall activity increased that year. This is a good proof of the success of management on consolidating the financial accounts and getting new markets and growth opportunities, also bearing in mind that a good health preparation for market risk was needed.

The announcement in the late part of 2016 of a new project consisting in the construction of a solar platform with a capacity of 12 Megawatts in the Indian State of Tamil Nadu took high importance in the portfolio diversification searched by Gamesa those years. With such a contract, Gamesa was assuring the responsibility of commissioning, supplying, designing and engineering an energy provider plants in one of the top growing markets around the world, in the second crowded country in the word. The total power needs of India were established to be at 750 Gigawatts according to Indian government, with a portfolio of providers being so wide and giving Gamesa the possibility of gaining importance subject to a good performance. Apart from the strategic vision of diversifying revenues and entering emerging markets, the management board of Gamesa had the intention of constantly improves the added value offer by its wind and solar platforms. One of the main projects in this line was the **Energy Thrusts ones, what enabled Gamesa to increase its annual energy supplies by 5%**, thanks to a simple improving on the power curve. Energy Thrust enables adaptation of wind turbines to specific site conditions, boosting the volume of power delivered to the grid in all wind conditions, improving the efficiency and performance of Gamesa's entire fleet in the process. Life Extension programs are another source of adding value to the offered service and will have a marked impact beyond 2018 when part of the float reached an average life of 20 years. Regarding Energy Thrust, it is convenient to highlight the latest agreement reached in 2016 with Iberdrola for the installation of its Energy Thrust software, which boosts turbine efficiency and, in turn, production ratios, at wind farms with capacity of 1,602 MW.

b. Risks and advantages from the merge

Gamesa in 2014 was the eighth Wind turbines producer in the world, due to the improvements in revenues and cost efficiency, the position in 2015 was the number five, with a production capacity of 3.1 Megawatts and a market share of 5%, exactly the same figures that the ones representing Siemens.

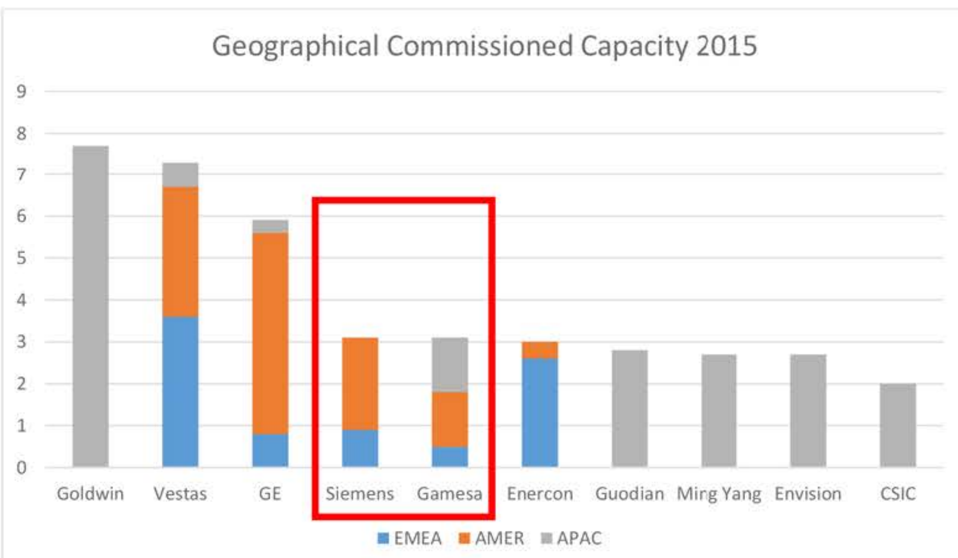
Figure 6

Turbine supplier	Commissioned capacity 2015 (GW)	Commissioned Market Share	Rank 2015
Goldwind	7.8	14%	1
Vestas	7.3	13%	2
GE	5.9	10%	3
Siemens	3.1	5%	4
Gamesa	3.1	5%	5
Enercon	3	5%	6
Guodian	2.8	5%	7
Ming Yang	2.7	5%	8
Envision	2.7	5%	9
CSIC	2	5%	10

Source: Bloomberg New Energy Finance

Not only Siemens would get a doubled size and capacity, but it will mean an important improvement in terms of diversification. The following figure shows off the diversification through geographic areas of Siemens, Gamesa and its peers. The 2.2% out the total 3.1% of the market share aggregation in Siemens comes from their business in America. The same market share is diversified in Gamesa, with a 1.3% coming from Asia and Pacific, another 1.3% coming from America and a residual 0.5% coming from Europe and Middle East.

Figure 8



Source: Bloomberg Energy Finance

So not only the advantages of a merge will come in the form of a much more interesting market share but also in terms of **Emerging Markets penetration for Siemens, what also means higher activity EBIT margins due to the nature of these markets**, in where competition between wind power producers is not as severe as it is in developed markets. Another potential benefit for Siemens could be the business lines in the process of being opened in India, with a couple projects already discussed earlier in this chapter.

Analyzing the possible merge of the current product portfolio of both companies, Gamesa has a solid position and a strong expertise in onshore power market with capacity between 2.0 and 2.5 Megawatts and is now working in the creation of scale plants turbines with a higher capacity than 3.0 megawatts in developed markets. And one of the key points to improve for Siemens is precisely the lower capacity plants so, rationalizing product lines and re-investing some of the proceeds among the remaining products should help improve competitiveness while also likely yielding savings.

Hopefully there would not be trample between both businesses. Siemens has a solid position with a 65% of its energy production in the offshore locations, most of them in the United Kingdom and Germany. On the other hand, Gamesa has its offshore business in a young joint venture with Areva, which urges an improvement in orders levels and supply capabilities. A merge between Siemens and Gamesa will turn into the erase of the joint venture Gamesa-Areva and will not necessarily mean a loss of market power.

On the other hand, one of the main risks of the deal would be **political uncertainty surrounding Spain**. And is actually what analysts agreed to point out at, as the most possible argument for Siemens to not to accomplish the operation. Another risk regarding political issues is that the new corporation would have a position stronger enough to be required the **permission of the European Commission** to approve it.

Another familiar issue in this relation is the possible hurdle to the company Areva, who has a joint venture with Adwen, a French stated company that has another joint venture with Gamesa by which they are working in projects consisting in the design, building and installation of offshore wind turbines. So **the merge with Siemens would affect the 50% stake of Adwen in the joint venture between Gamesa and Areva**, what seems to be easier to deal with by a simple redemption of the of the Areva´s stake in Adwen to the future company dealing with the wind units of Siemens-Gamesa.

What will including the balance sheet of the 50% ownership of Gamesa in Adwen mean? Transaction cost, assets gained by Adwen and lost by Gamesa will mean 165 million euros. These are in a major proportion intangibles, properties, plant and equipment. The total value in Gamesa´s accounts attributed to the ownership of Adwen will be 195 million in total, 100 million of them are directly from the participation in the company, and 95 million in long term financial assets.

c. The deal

On the 17th of June 2016 Siemens announced that Siemens and Gamesa were going to combine their wind power plants businesses. The operation was closed by a new merged entity controlled in a 59% by Siemens, an 8% by Iberdrola and other 33% free floating. **So the exchange rate ratio on a debt/cash free basis was exactly 59:41.**

The activities and business operations of Siemens were put into a corporation called **Spanish NewCo** that was later merged with Gamesa in the closing date of the operation in reward of Gamesa shares. This resulted company is listed in Spain with onshore headquarters in Spain and offshore headquarters located in Denmark and Germany. The Board of the resulted firm will have 13 members: 5 from Siemens including the President, 2 by Iberdrola, 4 independents and 2 executives including the CEO.

Gamesa delivered a **special dividend of 3.75 euros** per share right after the deal, this dividend was paid by Siemens upon merger completion (1.05 billion euros in total). Based on working capital and net adjusted debt of both companies, Santander´s calculations pointed to a 500 million euros contribution in net cash by Siemens. The estimation of synergies were 230 million euros per year, approximately a 2.4% of the total revenues of 2016. Gamesa granted Siemens with a 500 million euros capital protection against potential quality issues, 250 million of those were in form of a provision dated on March 2017 and the same amount was agreed contractually to cover potential additional expenses related to quality issues from the exercises 2014 and 2015.

d. Siemens Gamesa at a Glance

Siemens Gamesa had some troubled months of low financial results and pessimistic news until late 2017. They did a profit warning due to some mismatches between price expectations and reality in the construction of the solar farms in India, changes in the management team of the project, the appearance of problems with the Adwen case and the low return in the comical sides while selling electricity. The expectations are in line with actually seeing merge benefits in 2019 after a year of transition in 2018 in fiscal terms. Analysts' consensus in Bloomberg foresee EBIT in 2019 growing at a 23% rate against 2018, reaching a volume of 871 million euros, what implies an EBIT margin of 8.5%.

The production process of Siemens Gamesa has now started to be optimised in order to get scale economies and make the product portfolio more efficient. A rapid integration is crucial to get the benefits expected from the merge and this has to be a priority now, with a new approach in costs policies and use of technologies. The board of Siemens Gamesa has expressed a few times that they have the strategy to higher both scale and volume of business and that the potential of this work is huge to the value created by the company.

There are some external factors that are not under Siemens Gamesa control, among others, the competitor's play of disturbing prices to gain volume and market share while reducing return levels in particular and industry´s one is a good example. Another variable is the regulator´s changes and the incidence of further technological improvements in the solar energy combining renewable one.

EBIT margins targets of Siemens Gamesa are around 9% and ROCE´s ones are between 8% and 10%. If the prices of the turbines respects the estimations, those are one of the key rations for the upcoming future of the merged company. If everything functions perfectly inside the company, the contribution of benefits, prices and synergies will collaborate as much to the improvement in EBIT margins for 2019.

The company is recuperating its giant growth from the late 2017 due to the flourish of a higher demand again and some new projects offshore. Also the news talking about the company are more optimistic again, this has helped the share prices to go upwards and recuperated the intake levels of orders.

The speech held by the Chief Executive Officer on the process of the merge was firmly bet for pushing upwards the objectives for synergies. The second half of 2018 would be the period in which this will turn into numbers in the annual accounts and for year 2019 the improvement would have a complete year size numbers.

The management committee changed their targeted synergies in February 2018. The program for these synergies included a cost decline of more than 2 billion euros by 2020. 1.6 billion euros out of the total 2 are attributed to cost-efficiency in productivity and a residual 0.4 billion euros are synergies purely coming from the acquisition, which constitutes the new target figure for the total synergies of the outcome company, to be accomplished by 2020. Sadly, they also mentioned the proportional increase in the costs of the operation, reaching a total amount of 400 million euros.

The efficiency improvement and reduction in costs would follow these topics:

- Siemens Gamesa will have a coordinated portfolio of energy suppliers consisting in two onshore plants and one offshore plants. This means a movement towards more plan vanilla platforms but in reward, lower number of turbines parts involving the processes and suppliers. Siemens Gamesa is planning to 20% decline in costs due to scale economies and optimisation in some product technical requirements.
- A restructuring in operation plants, including the reallocations of industries located in Canada, Denmark, Germany and Spain seeking countries with lower production costs like India, China, or North Africa.
- Another key issue will be building some good and new commercial relationships with important suppliers seeking to lower capital expenditures and giving more flexibility to rotation in orders taken.
- One of the main resources to reduce capital expenditures and operational expenditures will be technological improvements and digitalization. Siemens Gamesa pursues to be a reference in digitalization within the industry.

The topics discussed are sustained by a growing demand, pushing the manufactures of wind producing platforms to the range between 50 and 60 billion euros for Original Equipment Manufacturers and their way to create supply steps in production lines. Maintenance costs for merged plants and operational expenses within companies operating in the same market is expected to be around 10 billion euros. The total amount of production capacity built during 2015 was 63 Gigawatts, what meant a 20% higher figure than the one corresponding to 2014. The forecasts on this relating the years between 2016 and 2020 are an annualized power of 59 Gigawatts, with almost one of two parts on this new plants being installed within Chinese frontiers, being Germany and the United States the third and the second in the ranking on demand, respectively. By the end of 2015 there only were eighty countries with installed platforms for our companies in discussed, and India constitutes one of the best trade opportunities, with an installed power of 25 Gigawatts as of 2015 but expectations being higher than 60 Gigawatts by year 2022.

4. Conclusions

In the strategic business plan for the years between 2013 and 2015 all aims have been achieved with one year in advance. The executive board focused themselves in creating a flexible plan and a strong financial position in order to create added value and being remembered as a qualified governance. Nowadays Gamesa is on the journey to achieve its objectives established to period corresponding to the years between 2015 and 2017 but also with a year advantage. Every single management team in charge of wind platforms performed a spectacular recovery in the years mentioned.

The deal with Siemens and conditions achieved were so good for Gamesa´s shareholders and a perfect illustration on how synergies could align interests. The merged company will have a strong position within and improving market with a high degree of diversification and financial health. On the other hand, the specifications of the deal gave to the shareholders access to an interesting value creation by synergies and the conditions written in the prospectus of the operation, including the 3.75 euros per share dividend paid by Siemens to the shareholders of Gamesa. In the long run, the capital employed seems to remain stable and solid, including a logical amount of capital expenditures reaching at least, 4% of the total sales, and a working capital almost around cero.

One crucial point in this sector in to avoid argues with suppliers about problems involving quality reviews and any other topic that could lead to a harm in the reputation of the company. The majority of the companies in the sector has been through this kind of problems with suppliers, also Gamesa and Siemens. To fix some troubles with the quality of the turbines, Siemens forced their ground management to implement quality tests inspired in the automotive industries together with a quality program including a supplier of initiatives.

Overall, the main conclusions stays as follows:

- After the analysis on possible new market entries, synergies and financing possibilities the operations takes the name of merge if both companies result into a new one by the two´s intention or acquisition if one is eating the other, by a hostile process.
- Sectors on chemistry and technological development has been the most active in the last years. Another key point in the markets transaction for the past years and the upcoming ones is the flourish of inter-sectorial and inter-geographical one with emerging operations in China, Japan and India.
- By far, the trend will remain to be around start-ups with technological advantages being acquired by multinational aiming to improve their technological supplies. Also the strategic bets on positioning the companies in new market by merging with local ones aiming to have a partner inside or just gain customers.
- Real Estate sector has always been a crucial point in the final stages of the economic cycle globally. Not only in Europe a higher appearance of merger and acquisition activities is expected but a renaissance in it is foreseen to be plausible in Spain, with a bunch of merger between emerging companies and Socimis and corporate finance activities such as Initial Public Offerings in alternative quoted markets.
- Siemens and Gamesa had the perfect on-the-paper mixable business lines in Wind Farming sector to accomplish a merge. Siemens had a strong line within developed markets at the time that Gamesa had a good growth of demand in emerging markets such as India or China. On the production side, Siemens had a great expertise in high capacity platforms while Gamesa was specialized in lower capacity ones. These arguments added to the fact that the market power and share was equal in both companies, helped to build a perfect environment to firmly think about the process of merging.

This synergies are expected to be seen written down in the accounts by 2019 and finally done by 2020. These synergies are expected to be based on cost efficiency and demand growth based on geographical merge and market depth consecution.

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