

Quantified Financial Benefit Statements

Successfully navigating
the UK capital market
requirements for synergy
and cost savings statements

*Capital Markets,
Accounting Advisory
and Structuring*

*QFBS review and
associated reporting*

*Preparation of synergy
plan in advance of the
review process*



Quantified financial benefit statements

Quantified Financial Benefit Statements (“QFBS”), formerly known as ‘merger benefits’ or ‘synergy statements’, are an important value driver in any public company deal.

Such statements are subject to significant regulatory disclosure and reporting requirements under the City Code on Takeovers and Mergers (the “City Code”), when made in relation to the takeover of a UK public company. It is worth noting that the UK Listing Rules contain similar requirements concerning such synergy statements by acquirers for Class 1 transactions.

A QFBS is typically either:

Made by the offering company, where the consideration includes shares, quantifying the financial benefits expected to be achieved by the new enlarged group if the offer is successful.	Made by the target company seeking to defend itself (typically in a hostile takeover transaction), which quantifies the expected financial benefits that will be achieved by the target company from cost savings, other measures, or proposed transactions which would be implemented if the offer is withdrawn or allowed to lapse.
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Our view

The changes to the City Code in 2013 magnified the need for robustness of QFBS issued to the market, as well as the credibility and clarity of synergy plans. They also expanded the situations where QFBS require public disclosure and the diligence and reporting thereon by accountants and financial advisers.

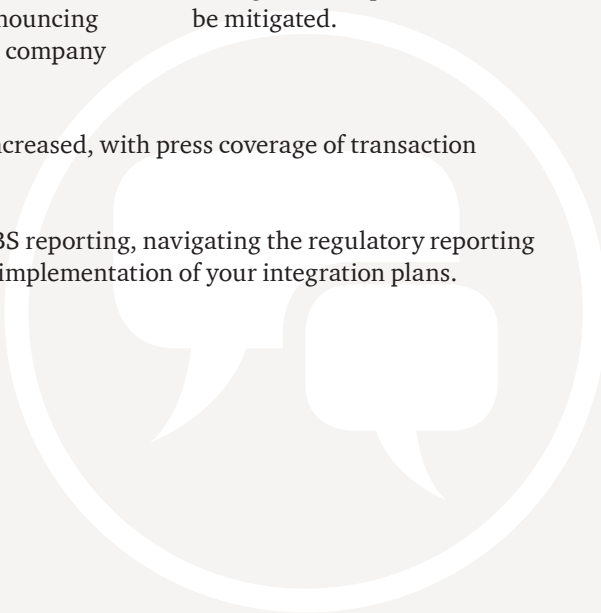
As a result there has been a corresponding increase in the level of data and evidence required to support estimated synergy values together with the depth of due diligence required to support any market announcements of expected synergies or cost savings.

In our recent experience companies need to ensure:

- a keen understanding of the rules associated with City Code required reporting;
- an awareness of the level of preparation and effort that will be required in advance of announcing to the market, on both the company and advisor side; and
- an understanding of what can go wrong and how pitfalls can best be mitigated.

The level of external stakeholder focus on synergy announcements has increased, with press coverage of transaction announcements seen as a key success factor in public company deals.

We would welcome the opportunity to speak with you with regard to QFBS reporting, navigating the regulatory reporting requirements and support in the development of your QFBS number and implementation of your integration plans.



Hot topics

<p>Revenue synergies</p> <p>A key driver of deal rationale and value is the potential to deliver top line growth synergies, such as from enhanced cross-selling opportunities.</p> <p>Inherently these synergies bring a greater level of uncertainty to achieving and difficulty in supporting quantification compared to cost savings, which are more directly within the control of management to drive out savings.</p> <p>There are a number of circumstances where evidence could support specific quantification but where the inherent uncertainty results in wide potential ranges, these are typically dealt with qualitatively in synergy statements.</p>	<p>Financing synergies</p> <p>These may arise from tax, such as an acquirer utilising combined operating loss carryforwards, and / or debt structuring whereby a larger company may be able to incur more debt, and depending on the relative credit risk, reduce its overall cost of capital.</p> <p>Undertaking and obtaining the required negotiations and clearances with third parties ahead of a deal announcement means that these opportunities are typically not quantified at the time of the first deal announcement.</p> <p>However, these should remain on the synergies workplan as potential areas to target later in the deal process.</p>	<p>Plans for employees</p> <p>The panel will require acquirer’s clearly state intentions regarding target operating locations (offices and manufacturing) and the associated employees. This follows on from Kraft’s acquisition of Cadbury and statements made concerning the operations of certain Cadbury factories.</p> <p>Management will therefore need to ensure that plans to achieve savings are sufficiently robust and the ramifications of required public disclosure are clearly understood at board level.</p>
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How PwC can help

We can support you in all stages of the synergy or cost saving process, regardless of the type of deal, and we can work with you in both an assurance and non assurance capacity.

<p>Pre deal</p>	<p>Synergy support</p> <p>Evaluation and development of data to support the QFBS statement, and assisting in preparation of a synergy plan that will withstand scrutiny from others, using an experienced team and proven templates and methodology, and most importantly that you can use to move to detailed synergy planning and delivery.</p>
<p>Pre and during deal</p>	<p>QFBS assurance</p> <p>Providing the required reporting accountant due diligence and assurance under Rule 28 over the reporting of synergy or cost saving statements confirming they have been “properly compiled on the basis stated”. This will include a public opinion and a private diligence report.</p>
<p>Pre and during deal</p>	<p>Technical advice</p> <p>Providing advice in interpreting the rules and drafting the disclosures.</p>
<p>Post deal</p>	<p>Integration advice</p> <p>Advising you on how best to integrate and ensure a seamless process following deal completion. We have a large cross border M&A integration team and global integration methodology focused on ‘100 Days’ plans and well beyond.</p>
<p>Post deal</p>	<p>Synergy achievement reporting</p> <p>Providing post deal assistance with both tracking and delivering your synergies, or assurance on accurate tracking / robust delivery for stakeholders.</p>

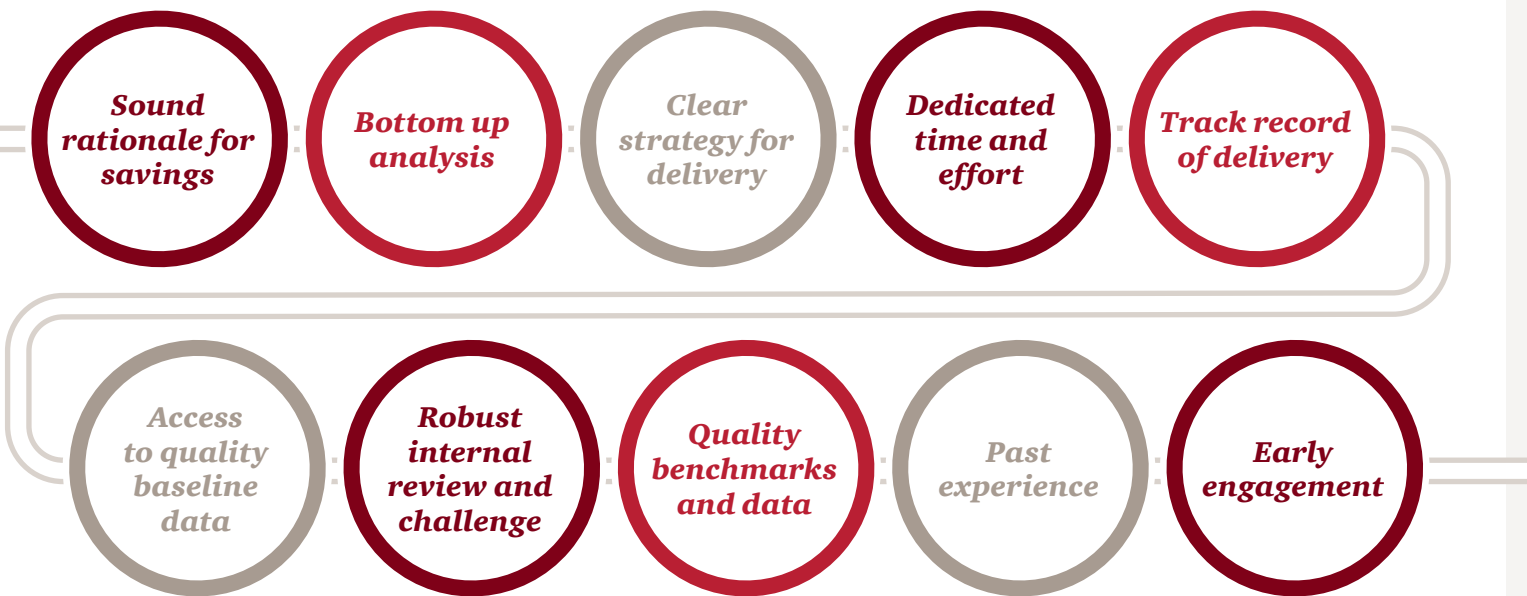
How to maximise the value of your synergies

In issuing a QFBS you must have a very high degree of certainty that the number publicly announced can be achieved. In practice, this means that sufficient contingency must be allowed for any key unknowns e.g. as a result of limited access to the target.

Maximising the value of synergies that can be announced by reducing the need for contingencies is achievable but requires:

- detailed planning for how and when synergies will be delivered and what costs will be incurred to deliver those synergies; and
- quality data to evidence and corroborate why the level of saving is deemed achievable.

Key success factors



The risk scale below indicates the rationale for example levels of contingencies which are applied to categories of synergies when preparing a public QFBS. An early focus on the key success factors shown above can therefore have a tangible impact on the value of the synergies to be announced and on consequential impact on the deal.

Our approach and reporting process

We are experts in delivering synergy reporting

Our approach to QFBS reporting is based around several key success factors:

- We are a team of experts with **extensive experience** of helping clients prepare detailed and robust synergy plans ahead of deal announcement, undertaking diligence of synergy plans and signing off on proposed QFBS as the Reporting Accountant.
- We combine our **Equity Capital Markets team**, understanding the demands of the City Code and Listing Rule reporting requirements, with our **Value Creation in Deals team** which comprises over 100 sector and industry experts to provide unrivalled synergy delivery expertise.
- We use a **collaborative and iterative approach**. We engage with you early, giving you feedback on your initial synergy plan, suggesting areas for improvement of the approach, data quality, rationale or track record evidence as necessary, depending on the contingency levels and numbers to be announced.
- We provide **flexibility**. Depending on what you need, we can provide the right level of resource at the right time, specifically tailored and flexed to your needs.

Typical QFBS reporting timeline



Rating	A		B		C		D	
Contingency	Typically 0 to 20%		Typically 20 to 40%		Typically 40 to 80%		Up to 100%	
Details	<ul style="list-style-type: none">• Sound rationale, including quantum and phasing• Bottom-up or top-down with extensive corroboration by detailed calculation• Evident track records• Strong planning & collaboration• Cautious estimate		<ul style="list-style-type: none">• Sound rationale, some uncertainties remain for quantum / phasing• Mostly top-down with less corroboration• High level calculation or lacks support• Lesser track record, collaboration, planning• Cautious to medium estimates		<ul style="list-style-type: none">• Sound rationale, significant uncertainty for quantum / phasing• Substantial lack of support for calculation for quantum and phasing• Medium to aggressive estimates for which there is limited evidence or prior track record		<ul style="list-style-type: none">• Aspirational / error / unable to be quantified	

Our recent deal experience

Target	Bidder	Sector	Deal Value*
TUI Travel plc	TUI AG	Retail & Consumer	£1.9bn
SABMiller plc	Anheuser-Busch InBev SA/NV	Retail & Consumer	£71.0bn
Alent plc	Platform Specialty Products Corporation	Resource & Production	£1.4bn
Gala Coral Group Limited	Ladbrokes plc	Retail & Consumer	£0.9bn
Rexam plc	Ball Corporation	Resource & Production	£4.2bn
Van Gansewinkel Groep B.V.	Shanks Group plc	Resource & Production	£0.4bn
Aberdeen Asset Management plc	Standard Life plc	Financial Services	£3.8bn
Amec Foster Wheeler plc	John Wood Group plc	Resource & Production	£2.3bn
Intu Properties plc	Hammerson plc	Financial Services	£3.4bn
Mead Johnson Nutrition Company	Reckitt Benckiser Group plc	Retail & Consumer	£14.2bn
Reynolds American Inc.	British American Tobacco plc	Retail & Consumer	£52.3bn

Source: Public information, PwC Analysis, Dealogic

*Deal value has been converted to GBP at the prevailing rate on the date of announcement, where applicable

When should you get in touch



Acquisitions, mergers, reverse takeovers and class 1 acquisitions



Post deal reporting



Synergy support and phasing



Integration delivery support



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