

# Deal Advisory bei KPMG – Werte schaffen im Rahmen von Transaktionen

9. November 2023

# With you today



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# Agenda

1

**Introduction to Deal Advisory**

2

**Valuation**

3

**Transaction Services**

4

**Career at Deal Advisory**

# Collecting your questions for our Q&A session later

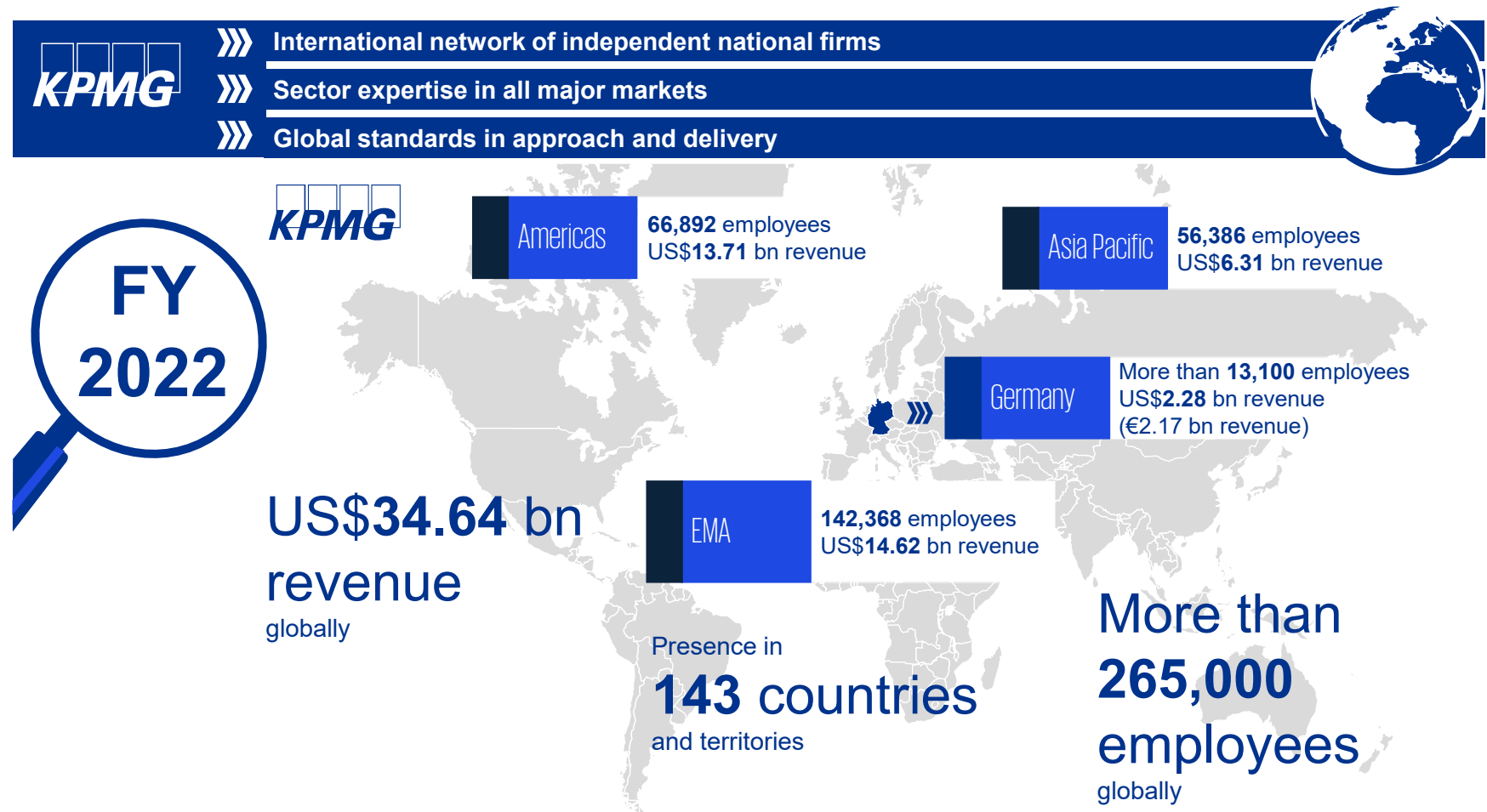
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# Leading Global Advisory Firm

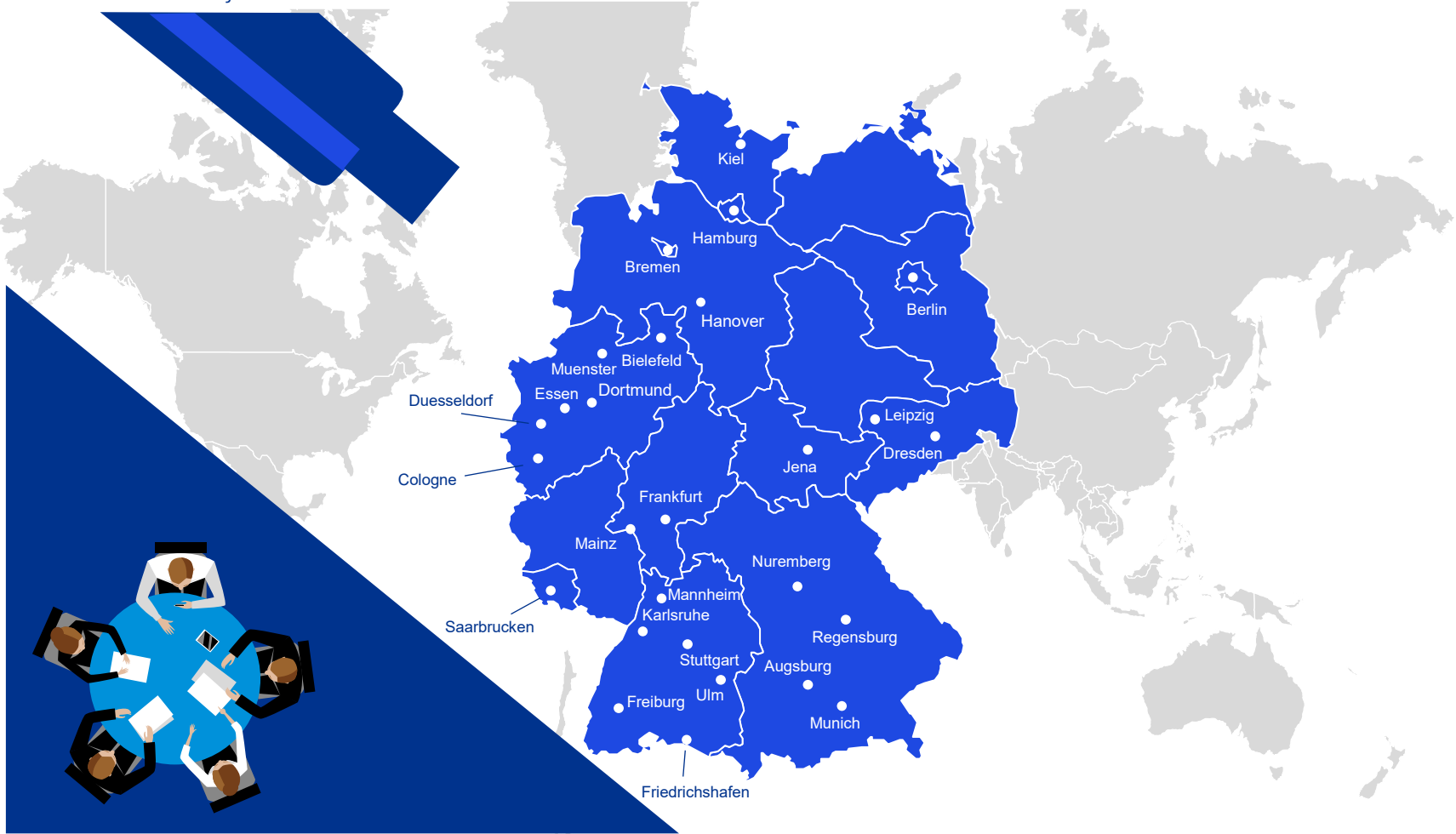


Source: KPMG analysis as of 31 December 2022.

Introduction to Deal Advisory

# Our Local Presence






At 27 Locations Always Within Reach



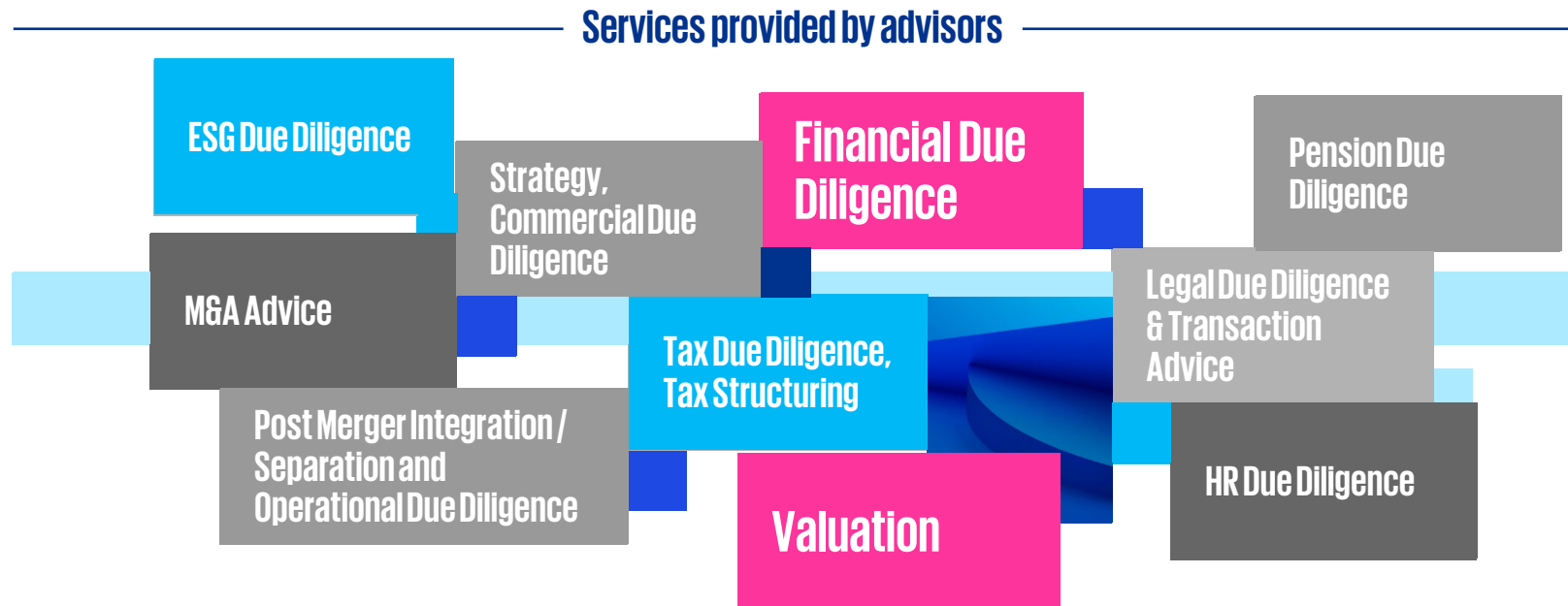
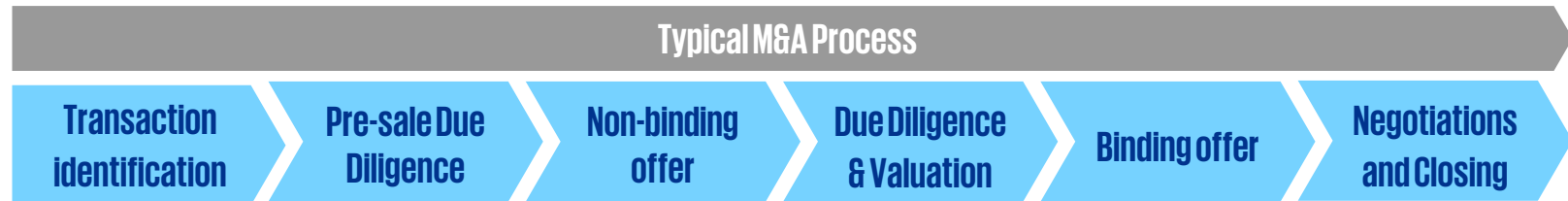
Source: KPMG analysis as of 31 December 2022.

# Deal Advisory at KPMG

## Deal Advisory

 <b>M&amp;A</b>	 <b>Transaction Services</b>	 <b>Valuation</b>	 <b>Strategy</b>	 <b>Restructuring</b>
<ul style="list-style-type: none"> <li>• Advising national and international clients in the context of corporate sales, acquisitions and strategic partnerships</li> <li>• Strategy, value and financial analysis in the context of transactions</li> <li>• Negotiation support</li> <li>• Advice on financing issues</li> </ul>	<ul style="list-style-type: none"> <li>• Advice on the purchase, sale merger, etc. of companies or parts of companies</li> <li>• Complex and relevant (financial) due diligence analyses - "how does the company generate cash flow?"</li> <li>• Analysis of opportunities and risks from the transaction and advice on concrete recommendations for action</li> </ul>	<ul style="list-style-type: none"> <li>• Valuation of companies or (parts of) companies and individual assets</li> <li>• Preparation and analysis of corporate plans</li> <li>• Strategies for the management of companies/portfolios</li> <li>• Purchase price allocations</li> <li>• Strategy, value and financial analysis in the context of transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio analysis and optimization</li> <li>• Market entry, growth and distribution strategies</li> <li>• Joint ventures, carve-outs, (post-merger) integration, commercial due diligence and acquisition screening</li> <li>• Cost optimization programs</li> </ul>	<ul style="list-style-type: none"> <li>• Development and implementation of restructuring concepts</li> <li>• Formal restructuring statements in accordance with the relevant standards</li> <li>• Support in all types of insolvency proceedings</li> <li>• Support in turnaround and performance improvement as well as formal liquidation of companies or parts thereof</li> </ul>

# M&A Process and Due Diligence Service



# Agenda

**1** Introduction to Deal Advisory

**2** Valuation

**3** Transaction Services

**4** Career at Deal Advisory

# Value and Price of an Entity (1/2)

Warren Buffett - Price vs. Value

„The price is what you **PAY**,  
the value is what you **GET**.“

*Berkshire Hathaway Inc.,  
Letter to Shareholders, 2008*



> What are possible reasons for a difference in price and value?

Examples:

Asymmetric  
information

Different risk  
preferences

Different  
expectations

Synergies

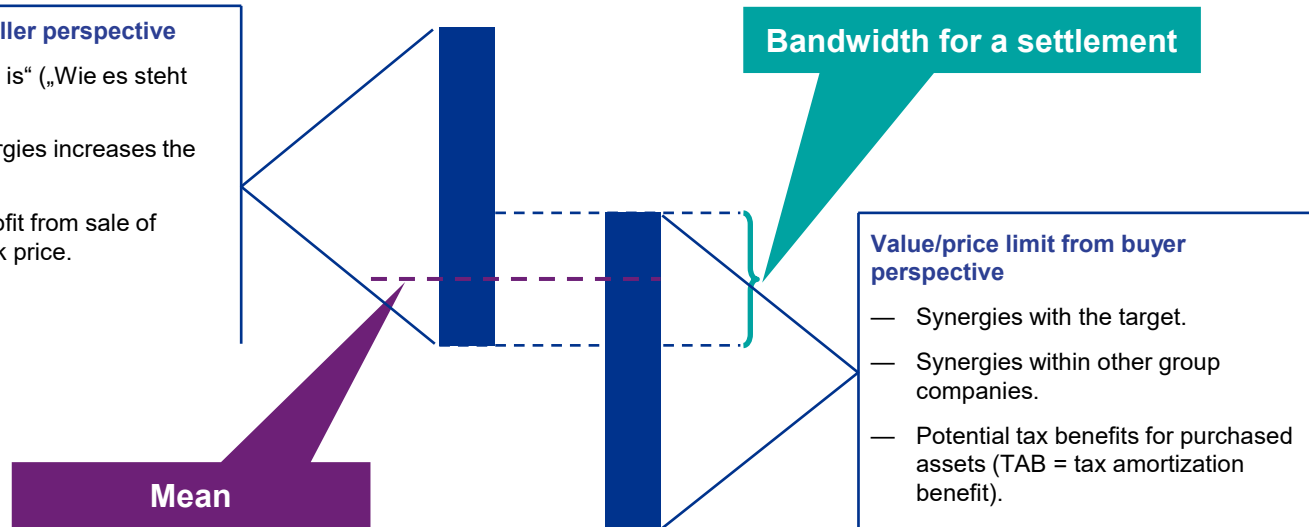
# Value and Price of an Entity (2/2)

## Subjectivity of a value

➤ There is **not the one and only** correct value of a company:

### Value/price limit from seller perspective

- Value of company „as is“ („Wie es steht und liegt“).
- Potential loss of synergies increases the ask price.
- Taxes on potential profit from sale of company increase ask price.



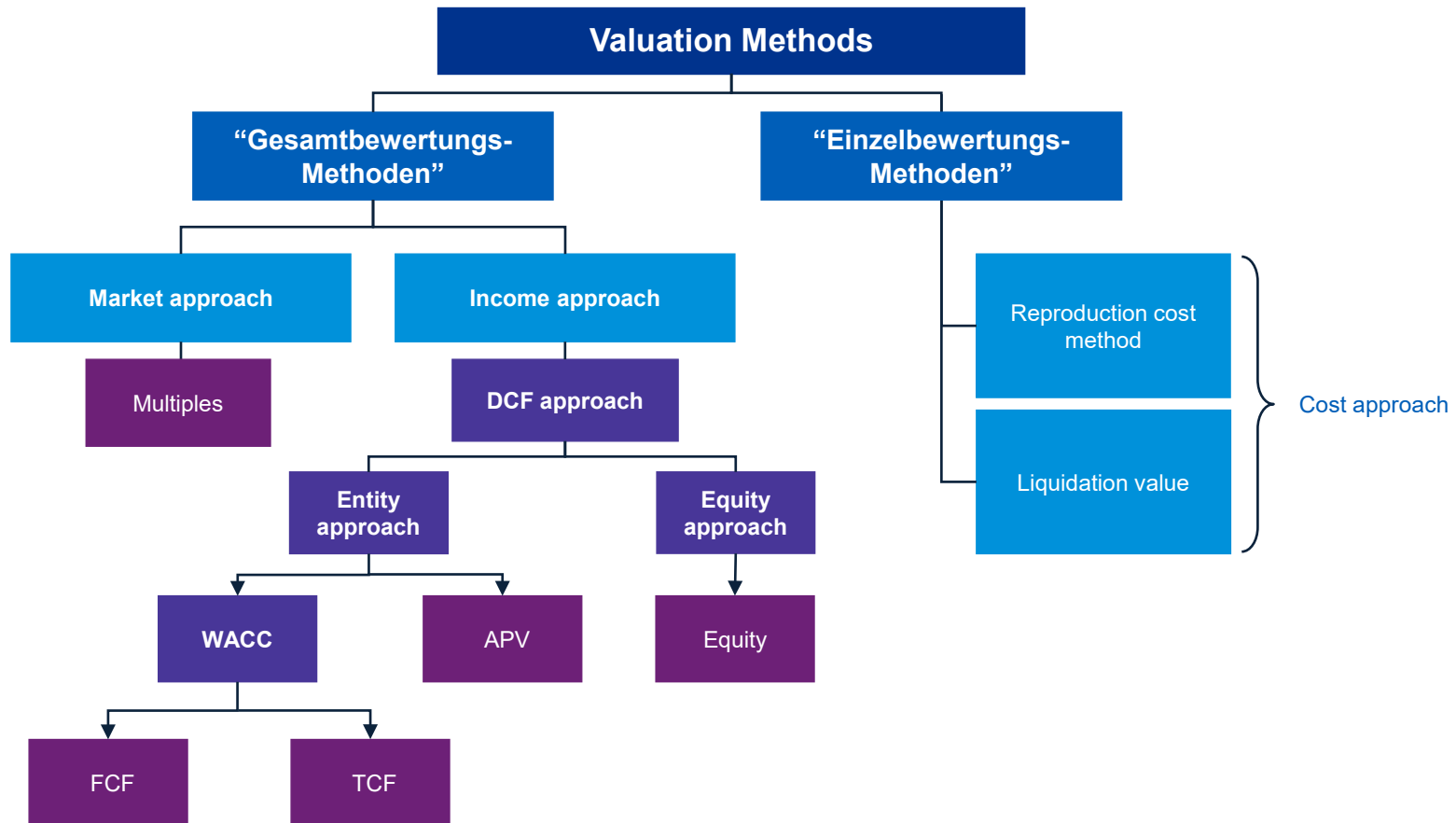
### Value/price limit from buyer perspective

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

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

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

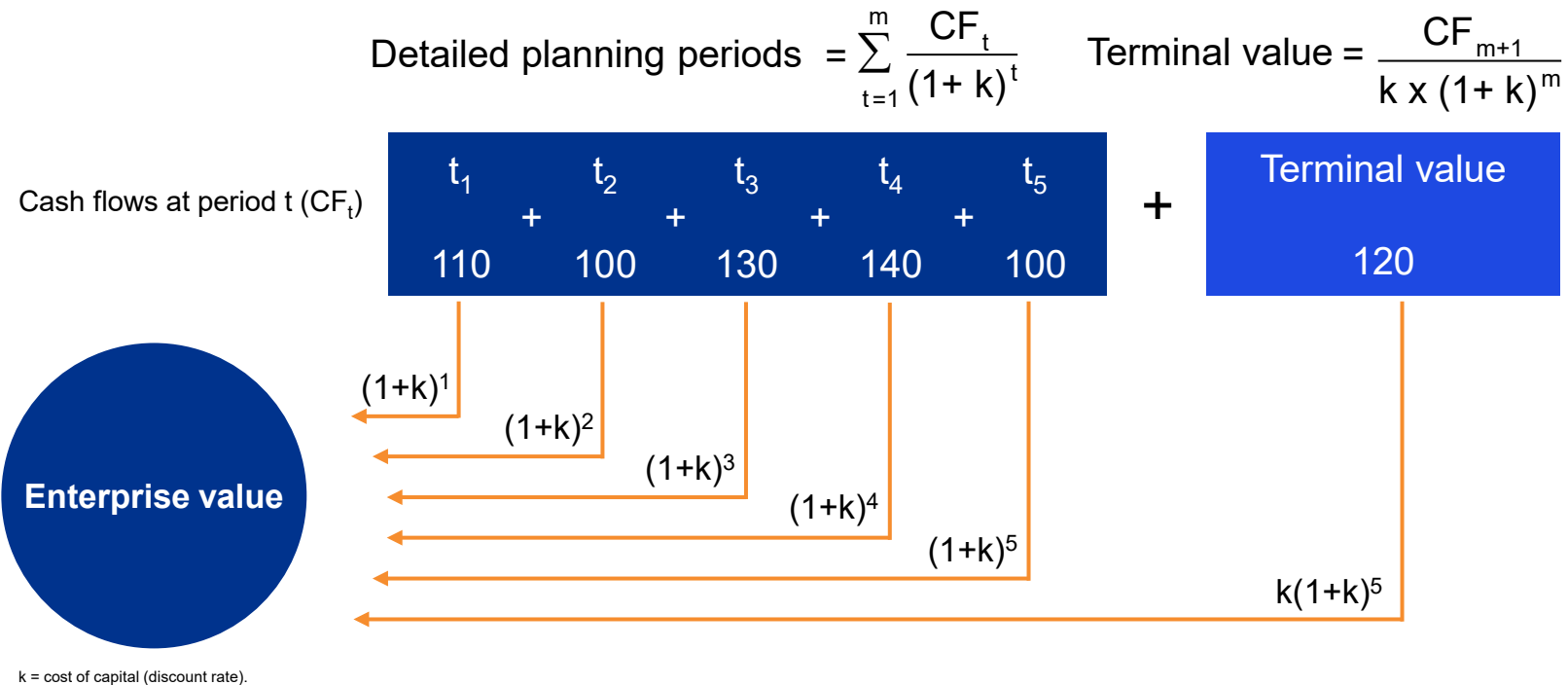
# Valuation Methods – Overview



# Cash Flows Drive Value

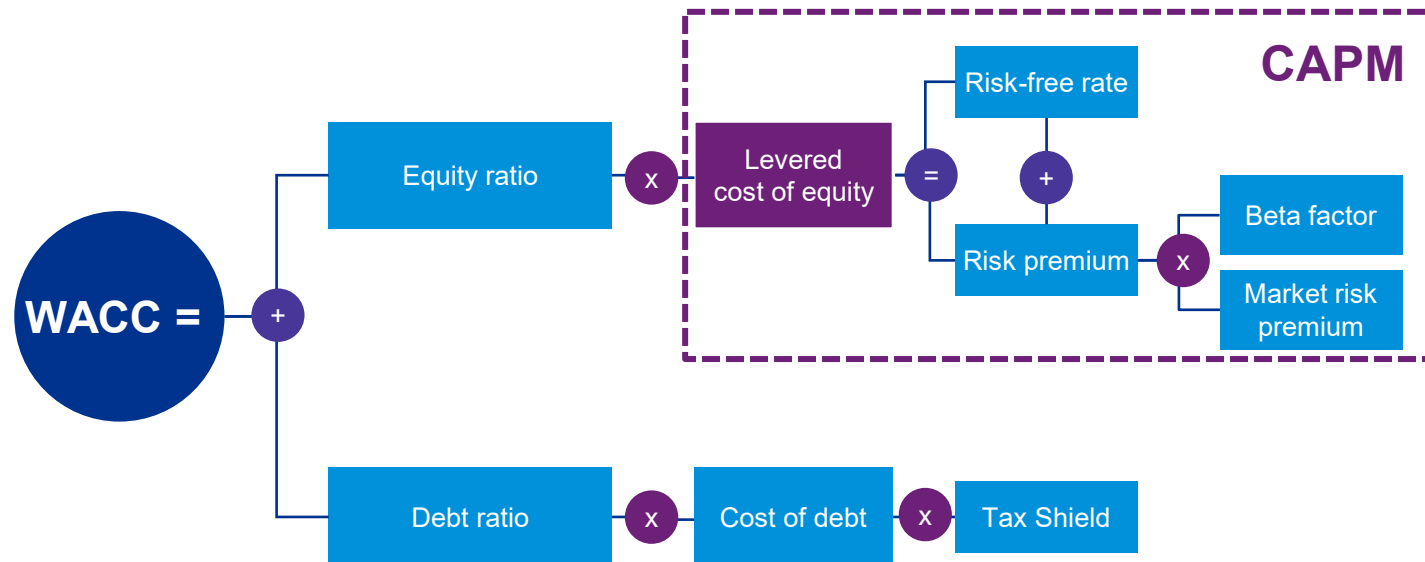
## Value of a company from a purely financial perspective (IDW S 1 Tz. 4-6)

- The enterprise value is derived solely from the company's ability to generate cash flows that can be distributed to the company's owners.
- Liquidation value as lower value limit.
- Net asset value has no independent significance.



# Weighted Average Cost of Capital (WACC)

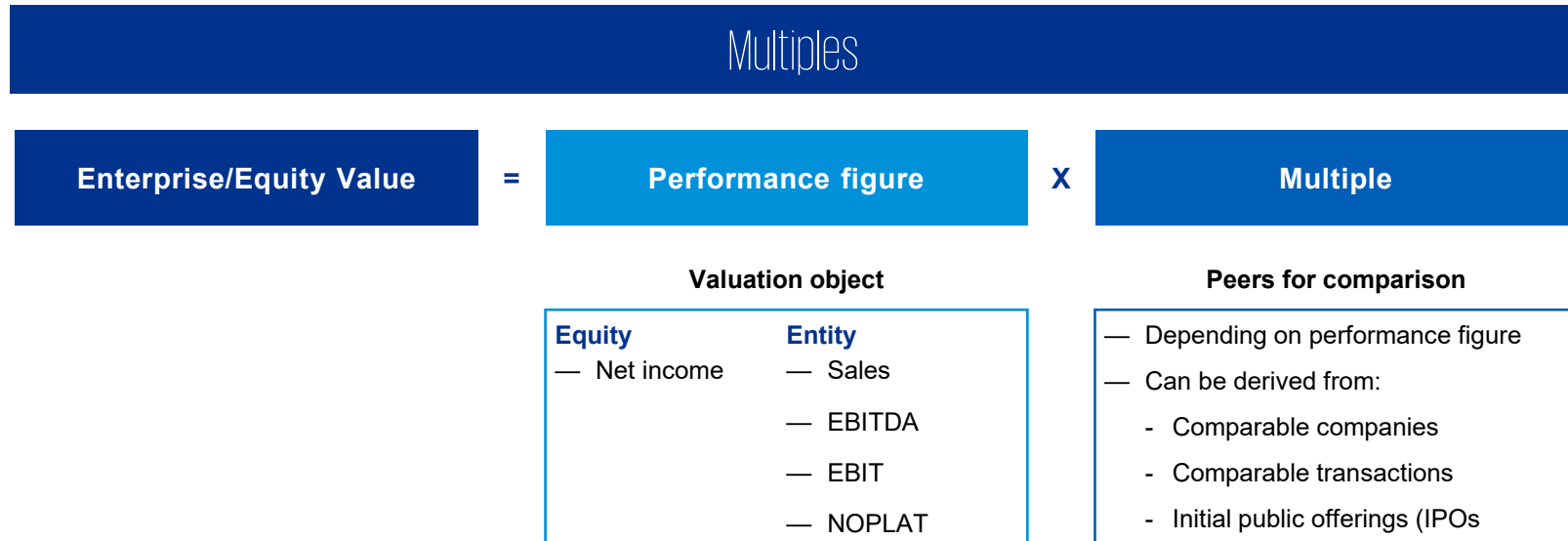
WACC reflects the opportunity costs (= return requirements) of equity and debt providers.



$$WACC = \frac{EK_M}{GK_M} \times k_{EK} + \frac{FK_M}{GK_M} \times k_{FK} \times (1 - t)$$

$k_{EK}$  = levered cost of equity  
 $k_{FK}$  = cost of debt  
 $t$  = effective tax rate  
 $EK_M$  = equity at market values  
 $FK_M$  = liabilities at market values  
 $GK_M$  =  $EK_M + FK_M$

# Basic Idea of Multiples



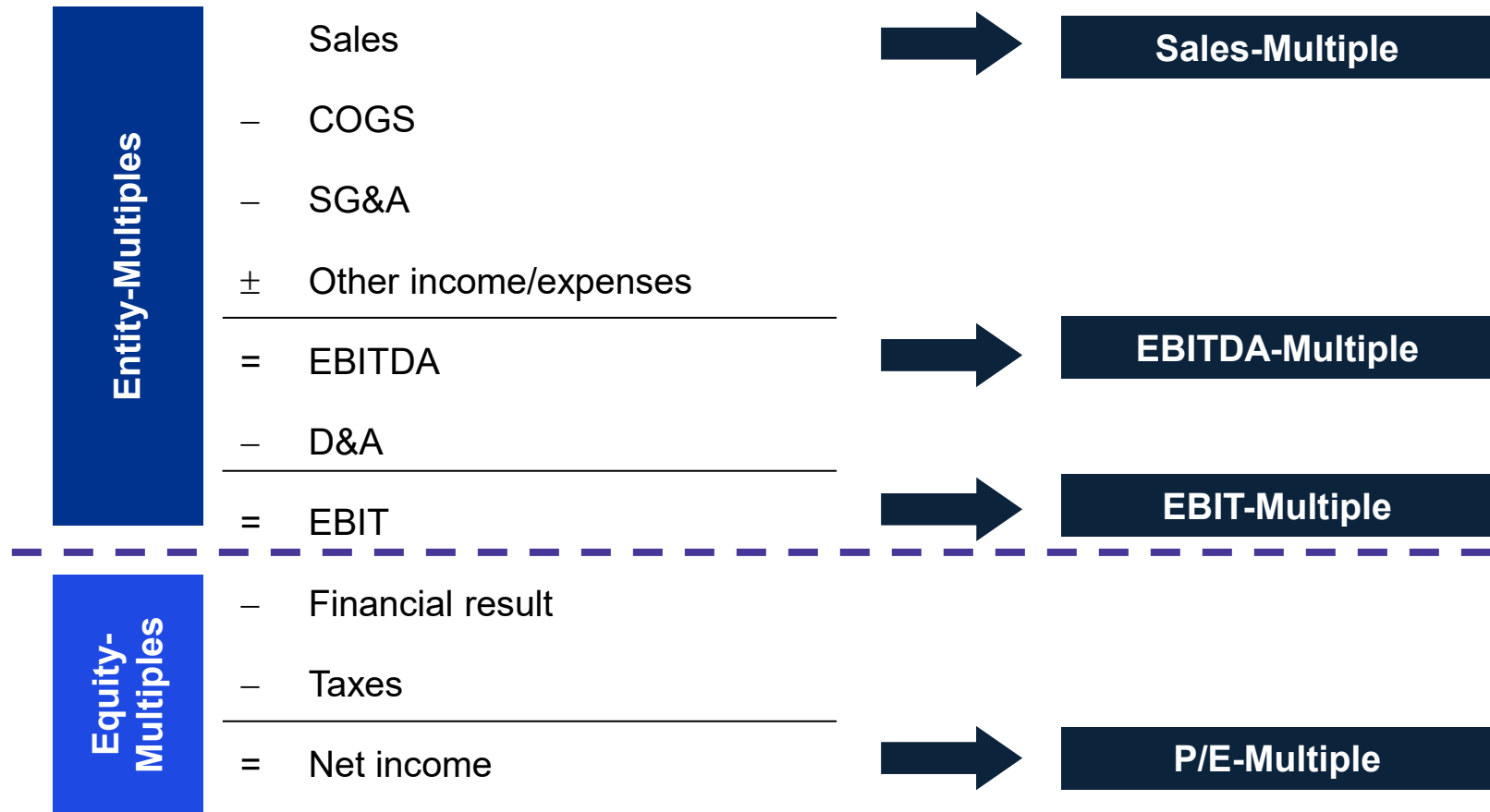
## Basic idea

- Allows an initial indicative valuation (rule of thumb); usually in the first phase of sales mandates.
- Multiple describes the ratio between market price and key figure of comparable companies; e.g. EV/sales.

## Method

- Equity and entity multiples.
- Applicable to comparable companies or transactions.

# Derivation of Multiples



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**1 Introduction to Deal Advisory**

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**3 Transaction Services**

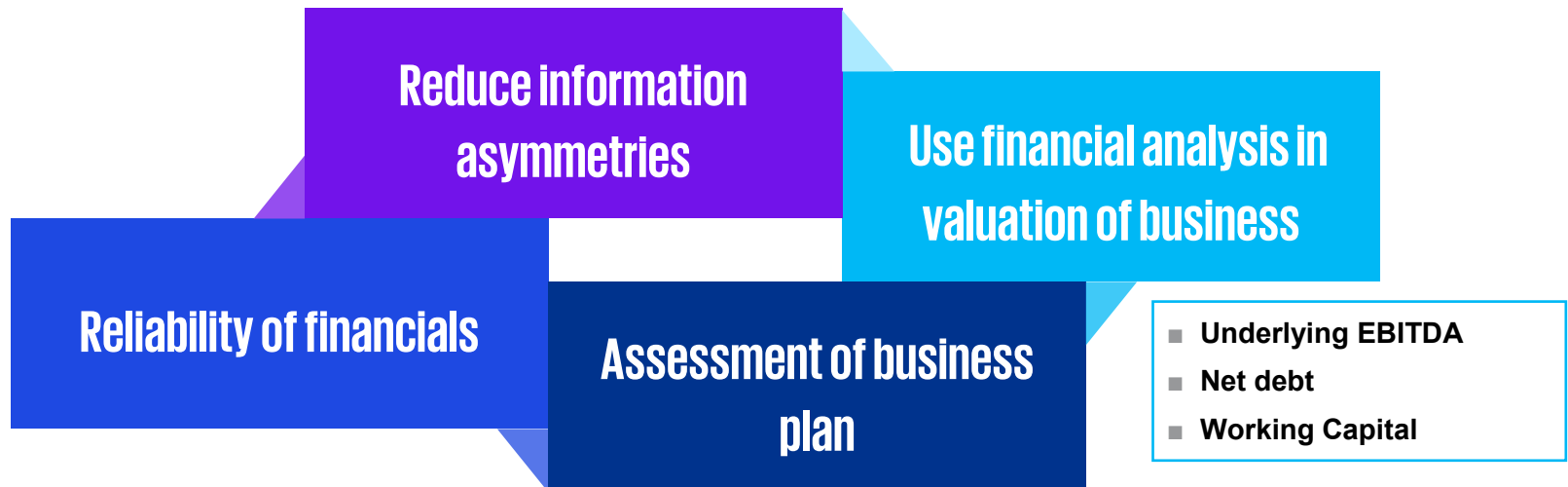
**4 Career at Deal Advisory**

# Why Financial Due Diligence?

## Due Diligence as part of Deal Advisory – Key issues of a due diligence

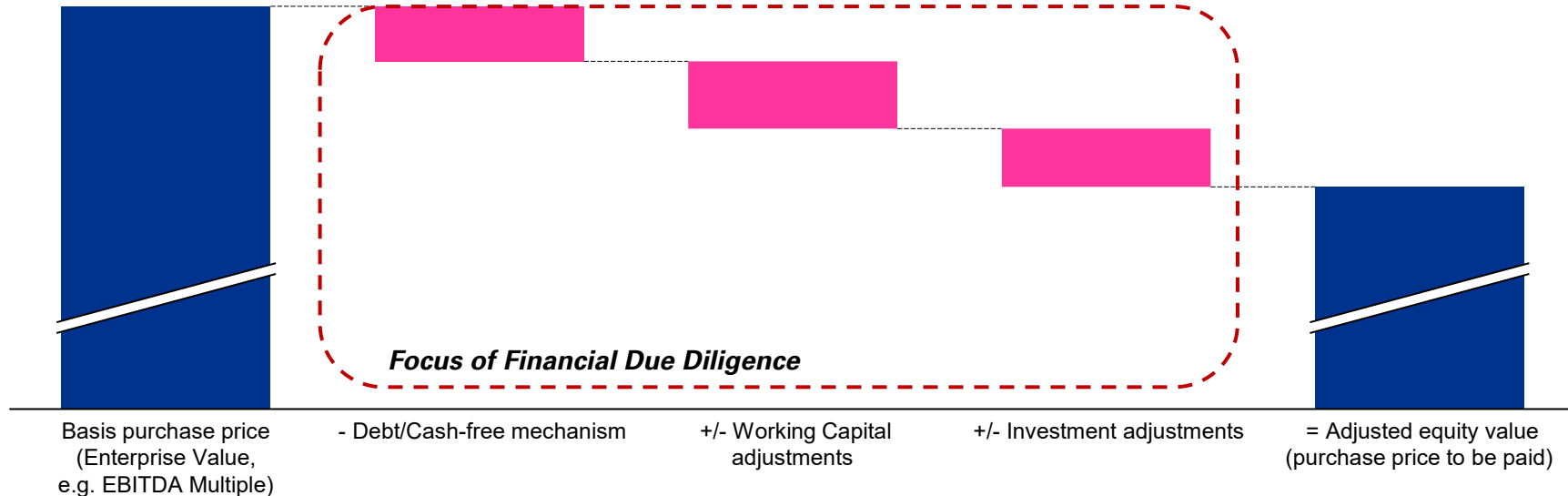
Risk-return  
profile

1. Identification of **value drivers** (up- and downside potentials)
2. Identification of **risks** (potential deal breaker, purchase price mechanisms and guarantees/exemptions in the SPA)
3. Identification of **major issues for Post Merger Integration (PMI) phase**



# Enterprise Value to Equity Bridge

## Typical purchase price mechanism in SPA's



- Based on valuation/negotiation
- Regardless of financing structure
- Assume adequate level of working capital
- DCF or multiple

- Cash in target is paid to the seller
- Financial liabilities are being deducted

- Deviation from working capital target is being compensated for (e.g. underfunding of 10)

- CAPEX analysis

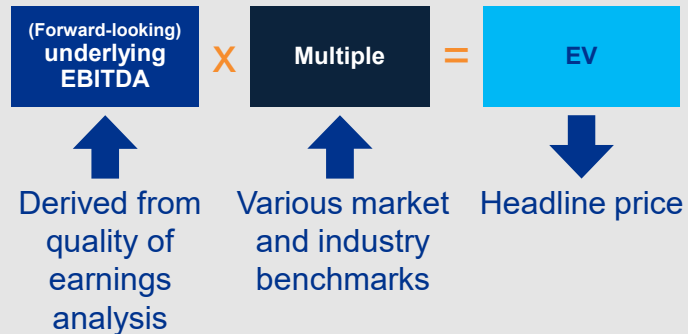
# Key concepts guide – How does EBITDA link to the valuation model?

## Quality of Earnings & selected topics

Enterprise value (EV) of a business is usually determined by two methods...

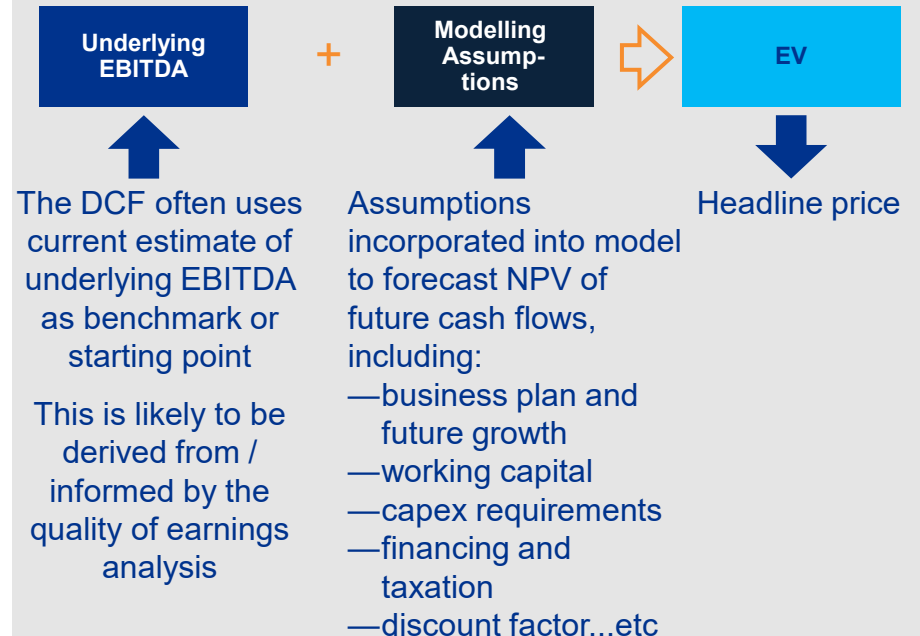
### 1. Trading / transaction multiple

Based on a simple multiple of underlying earnings



### 2. Discounted Cash Flow (DCF)

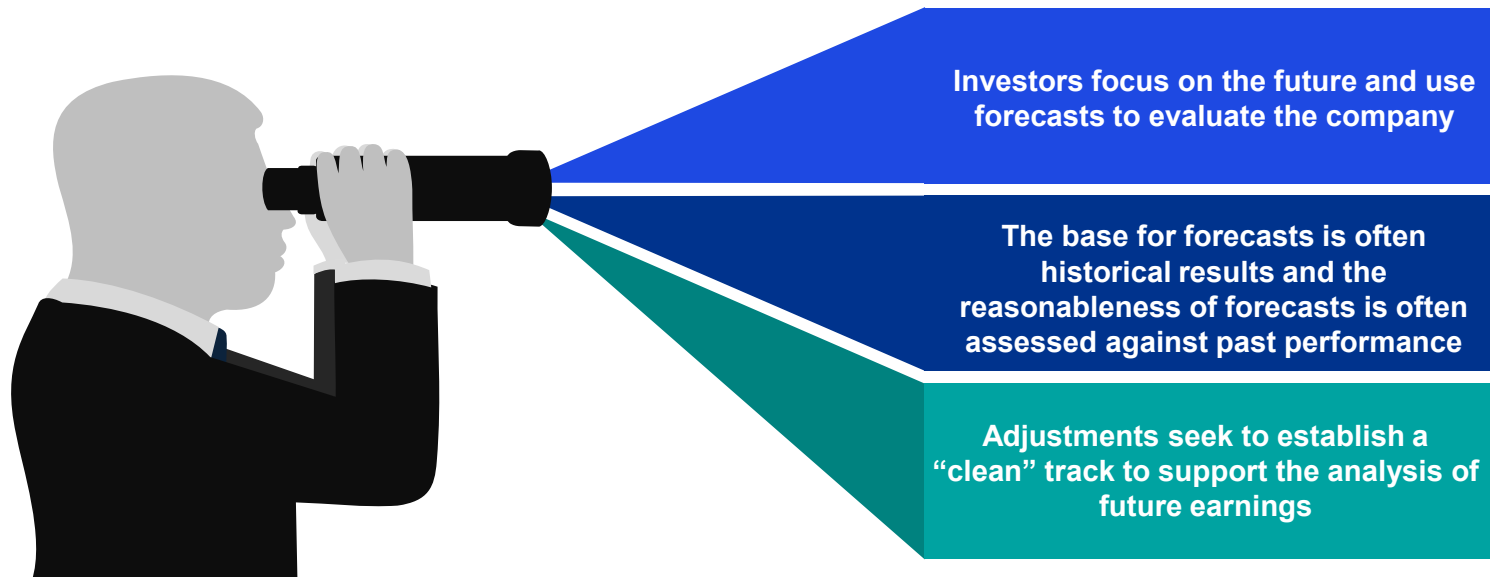
Based on a detailed cash flow forecast



...the underlying EBITDA of the business is key to both methods!

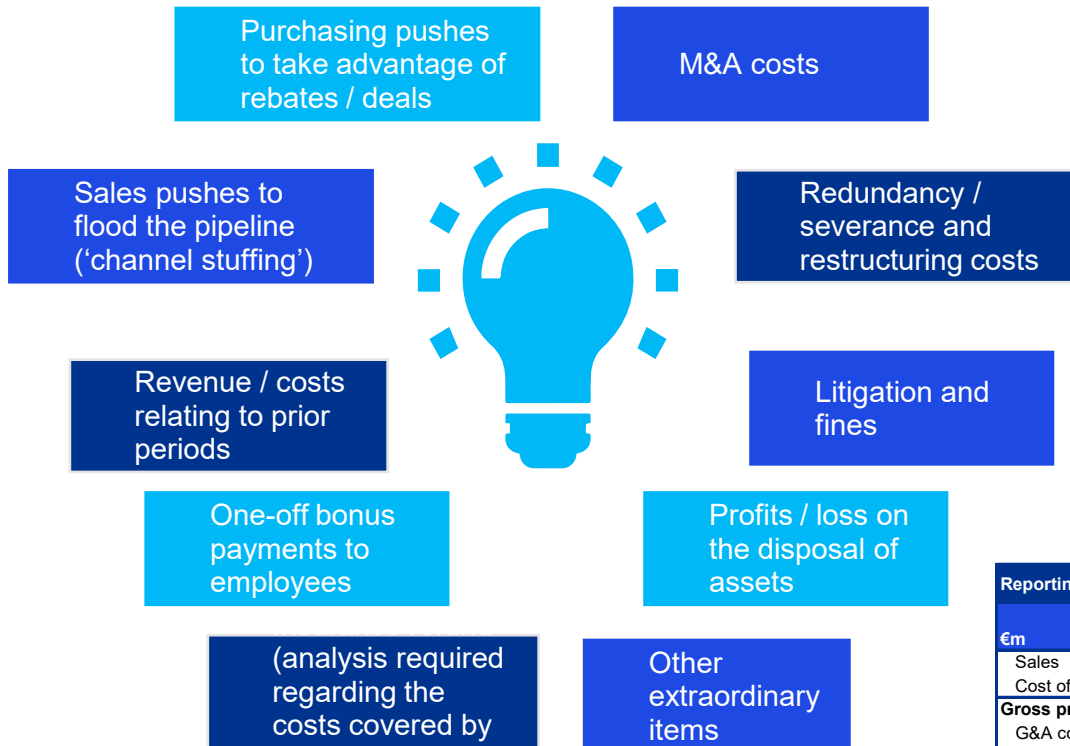
# Normalized EBITDA (1/2)

- Reported historical EBITDA does not (always) reflect actual financial performance, DD procedures aim at identifying those items which distort the picture
- “Strip out” non-recurring or non periodic items e.g. one-off income and expenses which do not normally arise in the course of trading or relate to other periods
- We do this because:



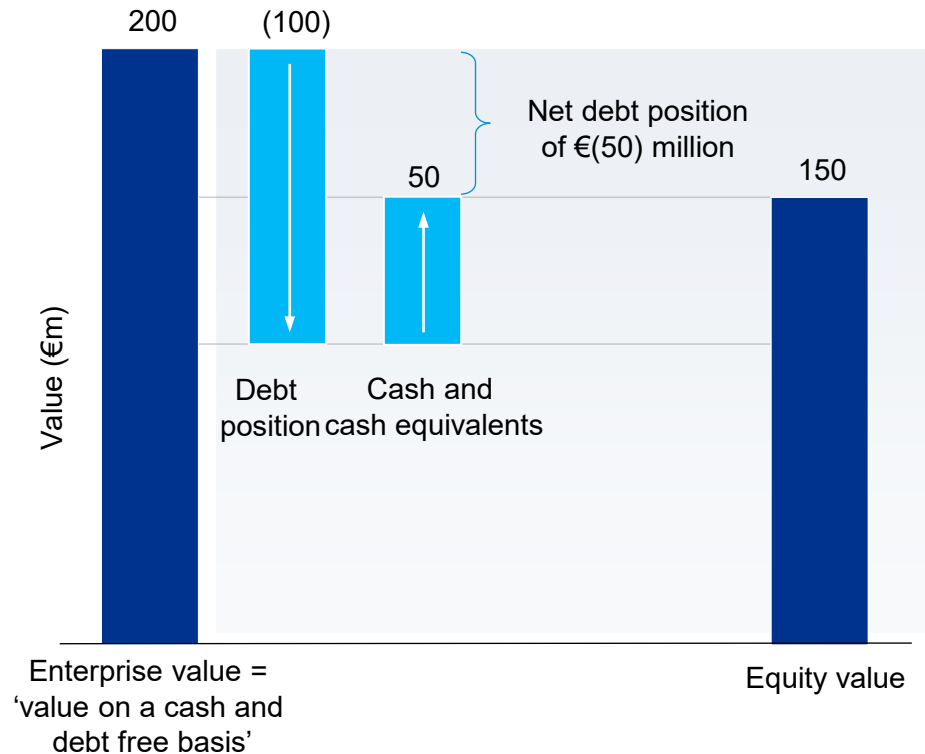
# Normalized EBITDA (2/2)

## Which potential normalizing/non-recurring items can you think of?



Reporting example					
€m	FY22A	Release of provision	Restructuring	Sale of fixed assets	FY22 Adjusted
Sales	2,356				2,356
Cost of sales	(1,022)	(60)			(1,082)
<b>Gross profit</b>	<b>1,334</b>	<b>(60)</b>	-	-	<b>1,274</b>
G&A costs	(345)		20		(325)
Other expenses / income	(245)			(100)	(345)
<b>EBIT</b>	<b>744</b>	<b>(60)</b>	<b>20</b>	<b>(100)</b>	<b>604</b>
Add-back D&A	215				215
<b>EBITDA</b>	<b>959</b>	<b>(60)</b>	<b>20</b>	<b>(100)</b>	<b>819</b>

# Typical analysis – Equity vs Enterprise Value



## Valuation methods

- Multiples
- Comparable companies
- Comparable transactions
- DCF
- Other

## Net debt

- Businesses are often purchased on a cash-free/debt-free basis with the net debt deducted from the purchase price (as may be defined in the SPA)
- Net debt = debt – cash
- Cash and debt free: Price a buyer would be willing to pay if there was no debt and cash in the business at completion

# Net Debt/Cash

## Typical purchase price mechanism in SPA's

- Bank balances / cash on hand
- Cash equivalents (time deposits, call money, "liquid investments", deposits)
- Cash in transit

### ➡ Financial cash – BUT...

- Liabilities to banks, financial institutions, shareholders
- Mortgages, bonds
- Derivatives (including the related market valuation / RST)
- Pension obligations
- Sale and leaseback arrangements; capital / finance lease liabilities
- ABS / factoring programs
- Future payments from contaminated sites without EBITDA impact

### ➡ Financial debt – BUT...

## ...what about these items?

- Cash in hand or credited to any account with a financial institution
- Marketable securities/shares (watch out for fluctuations, readily convertible)
- Loans granted to seller or affiliates outside transaction scope
- Surplus assets not required for operations (e.g. property, plant)
- Capex underspend
- Restructuring costs
- Income taxes
- Risk of re-payment of subsidies/investment grants
- Contingent items (rather indemnity)
- Loans from shareholders and related parties
- Dividends decided/proposed but not paid
- ...

**!!! Detailed balance sheet analysis is required !!!**

# Working Capital Components

## General definition of Working Capital

Balance sheet items (except cash) of which the amount **depends on the level of business activity**

Important: Items are **either Working Capital OR Net Debt**

### Key elements:

- Inventories
- Trade Receivables
- Trade Payables
- Possibly Advanced payments received from clients

### Broader definition:

- Intercompany (from Trading)
- Outstanding invoices
- Personnel-related recurring items
- Provisions for social security
- Provisions for untaken holidays and overtime
- VAT
- Liabilities or accruals for rents, insurance premiums, etc.

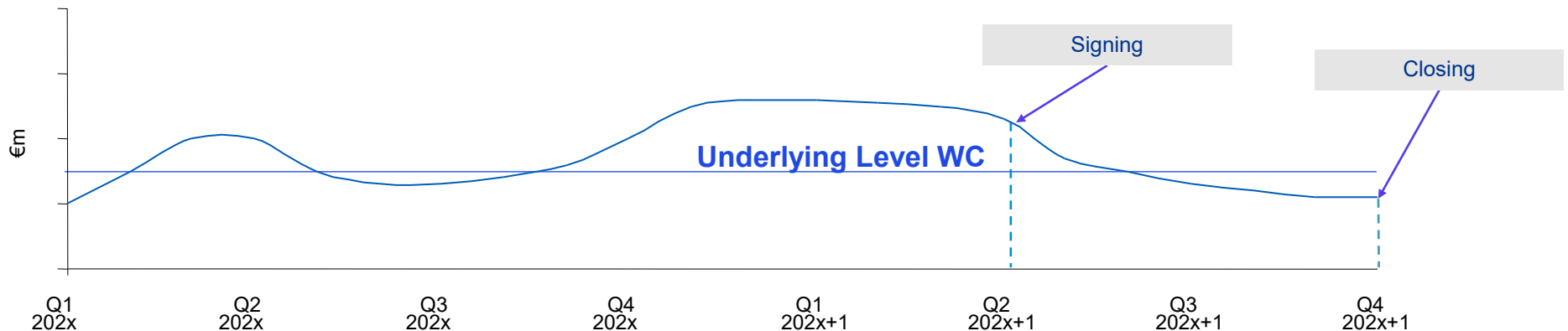
### Assessment:

Methodology / accounting options / areas of judgement of these components should be clearly defined in the SPA

# Target Working Capital

## What does target level of Working Capital mean?

- The offer (non-binding offer) often refers to a **normal level** of Working Capital
- The actual amount of the target / benchmark Working Capital is **only agreed upon in the SPA** (the amount is often “hard coded” or defined by a “corridor”)
- This requires detailed knowledge and documentation of the content:
  - Definition (what is included in Working Capital)
  - Valuation (accounting policies for bad debt provision; slow moving stock, etc.)
- **Agreement on normal** (= target / benchmark) Working Capital level
- The **purchase price adjustment** results from the difference between the closing Working



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**4 Career at Deal Advisory**

# Willkommen: Kurzvorstellung



**Name**

**Akhil Kapur**

**Position**

Praktikant – Finance & Governance Advisory

**Hintergrund**

- BWL-Studium an der Uni-Münster
- Ursprünglich aus der Nähe von Dortmund

**Warum ich bei KPMG bin**

- Atmosphäre
- Stetiger Lernprozess
- Varietät
- Erfahrung

# Willkommen: Kurzvorstellung



## Name

Hannah Fromme

## Position

Senior Associate – Digital Lighthouse

## Hintergrund

- B. Sc. in BWL (Universität Duisburg-Essen)
- Praktikum und Werkstudentenstelle bei KPMG
- M. Sc. in BWL (Heinrich-Heine-Universität Düsseldorf)

## Warum ich bei KPMG bin

- Tolles Team
- Spannende Themen
- Abwechslungsreiche Aufgaben
- Viele Fortbildungsmöglichkeiten

# Willkommen: Kurzvorstellung



**Name**

**Tobias Flacke**

**Position**

Senior Manager, International Transaction Tax

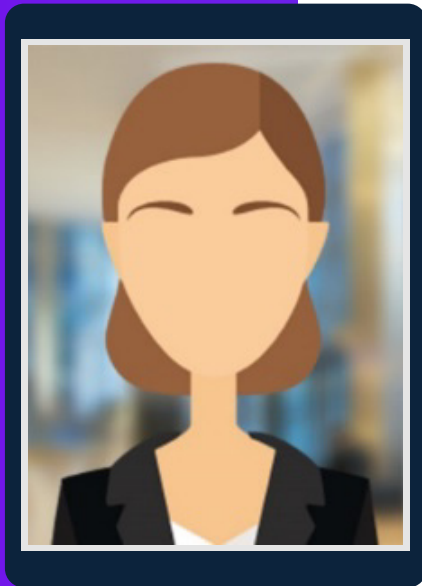
**Hintergrund**

- Studium Wirtschaftsrecht, Leuphana Universität Lüneburg
- Steuerberater
- Secondment New York

**Warum ich bei KPMG bin**

- Spannende Projekte
- Internationales Umfeld
- Top-Ausbildung
- Team

# Willkommen: Kurzvorstellung



**Name**

**Patricia Heyen**

**Position**

Senior Associate - FS Attestation

**Hintergrund**

- M.Sc. BWL (Schwerpunkt Accounting)

**Warum ich bei KPMG bin**

- Spannende Einblicke in Unternehmen
- Abwechslungsreiche Arbeit
- Berufliche Weiterentwicklung



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