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# Case Study

## Mergers & Acquisitions

“The merger of Total Portugal and CEPSA”

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# **Total Portugal merger with CEPSA Portugal**

## **Abstract**

The main objective of the case is to understand the rationale of the merger between Total Portugal and CEPSA Portugal, with special focus in the motivations and integration process. The project is divided in two parts. In the first part the case is presented through an overview of the companies and the oil industry, description of the merger, motivations and integration process. The second part is related to the discussion of the topics employing the findings of the literature review related with M&A's, and it addresses the following topics: synergies, integration, and performance and consequences.

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**Key words:** Mergers and Acquisitions, Strategic management, Synergies, Integration.

## **Part I**

### **Introduction**

In 2007 CEPSA Spain decided to acquire 100% of Total Portugal, taking advantage of the decision of Total to leave the country. CEPSA Spain acquired all the ongoing operations, assets, liabilities and responsibilities of Total Portugal. After the acquisition Total gas stations were branded CEPSA, however lubricants were still identified and commercialized as Total. In Exhibit 1 the ownership structure is presented. (Please, see Exhibit 1 - CEPSA Structure after the merger).

At the time of the merger, the sales points of CEPSA and Total Portugal surpassed the number of 160 and 140, respectively. The situation allowed CEPSA to have more than 300 gas stations in Portugal. CEPSA not only benefited from size increase but also efficiency gains resulting from economies of scale and transfer and resource sharing, leading to a larger and powerful company in line with the objectives of the company. The intention of CEPSA was to strengthen the position, reputation and power of the brand in Portugal through the merger.

The absorption of Total by CEPSA Portugal benefited from the good relations and proximity of both companies and how the integration process was managed. Total is the major shareholder of CEPSA Spain, indicating that are mutual interests and close cooperation. In fact a large number of board members are common to both companies (Please see Exhibit 2 - CEPSA shareholder structure). Thus, the whole deal and integration process was managed without major difficulties, in a friendly way, with a lot of interactions and fast moves, being concluded in timeframe relatively small. A year after the decision the companies were already fully combined, which is quite remarkable for agreements with this dimension.

## **Companies Overview**

### **CEPSA**

During the year 1929, CEPSA (*Compañía Española de Petróleos S. A.*) emerged in Spain as the first private Oil Company. Since the beginning CEPSA was very dedicated to the production of oil derived products, such as lubricants, petrochemical products and bitumen. CEPSA employs more than 11.000 people and have solid financial structure. Dividends are steadily growing since 1998 as well as EBIT (Please see Exhibit 3).

The company acts in the upstream and downstream of the market. Downstream operations are related with the refining, transportation and commercialization of oil related products, while the upstream operations are exploration, extraction shipping and wholesale of crude oil.

Research and development of new products and production process is one of main focus of the company. CEPSA invested nearly €700 million in R&D in the first 9 months of 2009, which represent a strong commitment.

#### *CEPSA Portuguesa Petróleos*

In 1963 the company expanded to Portugal, through the acquisition of stock of Propel, a Portuguese oil products company.

The Portuguese market has always been a priority to CEPSA, which has intended to take advantage of the headquarters proximity. This proximity was extremely beneficial to the establishment of the company as a major of the Iberian Peninsula.

During the year 1966 the company constructed a warehouse to store oil products that also allowed production and transformation. In 1989, CEPSA founded the first gas station in Portugal, in *Macedo de Cavaleiros*.

The year 1997 was marked by the acquisition of Elf Portugal by CEPSA Portugal, which allowed the company to gain experience for future integrations, as well as to strength the position in the country. Through the operation CEPSA market share increased from 3.5% to 5%.

Throughout the years the company continued to grow consistently, being one of the main players acting in Portugal. In 2007 the market share before the merger was 7.7% which correspond to the 4<sup>th</sup> major player in the market.

## **Total**

Total is a French energy related multinational company. The company is one of the 6 largest energy producers (see Exhibit 5 – Largest Oil Companies). This multinational group started operations in 1924 after World War I. The group is present in 130 countries and acts in upstream and downstream of oil industry, in the entire value chain, which is equivalent to CEPSA. In a global scale Total is a subscriber of stock of energy related companies such as the mining industry and other companies related to energy. The portfolio of Total includes companies related with oil, bio-products, electricity and gas.

Total is seriously committed to R&D, once huge investments are made every year, investing large part of the profits in these programs. Currently the company has a R&D program regarding alternative sources of energy that will last for 5 years with initial investment of €7.5 billions.

Total is headquartered in Courbevoie, France and employs more than 100.000 people. The company was ranked 15<sup>th</sup> in the Forbes 2008 Global 2000. The financial performance is very solid, having net profits of €4 billions in 2009.

### Total Portugal Petróleos

Total Portugal Petróleos, S.A. initiated operations in 1987, and after 21 years acting in Portugal the company decided to abandon operations in the country. Total Portugal had a market share of 3.5%, and it was ranked in the 5<sup>th</sup> place of the sector when decided to leave. At the time of the merger the number of gas stations in Portugal was of 141 and employed around 100 persons.

Total Portugal was in possession of the majority of Comar – *Gestão de Postos de Combustíveis, Lda* –, responsible for the management of the gas stations as well as warehouses, stores, restaurants and other activities related.

## **Industry Overview**

*“Oil is the world’s most internationally traded commodity and the three largest petroleum companies in the world are all amongst the world’s 10 largest private corporations by market capitalization”*

**Peter Davies<sup>1</sup>**

The energy industry is well known by its volatility in prices, that constantly change but also in terms of supply issues (Please see Exhibit 4 – Brent Prices). The demand is relatively predictable, inelastic and has been growing. The supply can’t keep up with the demand and from time to time it is restrained by the OPEC Cartel, situation that

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<sup>1</sup> Davies Peter, 1999. “The Changing World Petroleum Industry – Bigger Fish in a Larger Pond”. Paper presented to the British Institute of Energy Economic Conference, St John’s College, Oxford.

pressure prices to go up. The OPEC is constituted by 12 countries (Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela) that account for one third of all the oil production in the World. To increase the instability some countries such as Venezuela, Iran, and Nigeria are nationalizing oil companies.

This industry is constantly target of criticism due to the harming effects that it has in the world. However, alternative renewable sources of energy are appearing. The environmental norms are being reviewed along the years, forcing the companies to change. Nowadays, either the companies start to be more efficient (which lead to adaptation and losses) or they may start to reduce production in order to accomplish the norms. The Kyoto treaty is explicit on how the commitments toward pollution are affecting the industry - there are pressures for companies to reduce emissions of harmful gases such as methane. There is a trend to switch from crude oil to electric or other sources of renewable energy, in other words there has been a reshaping of the industry.

The companies that act in the market have a broad range of products that cover all the applications of petroleum. Oil companies produce lubricants, plastics, and other derivatives; however, the core products are gasoline and diesel. These companies are usual large multinational with operations covering almost the entire globe. Furthermore, companies are vertically integrated acting in every step of the value chain, the logistics, upstream and downstream operations, marketing, R&D and sales.

### Portuguese Market

The Portuguese oil market is characterized by having four main companies with nearly 80% of the market share – Galp, BP, CEPSA and Repsol. The share remaining is divided between supermarkets (hypermarkets and discounts included) and independents,

having 12% and 7.7% respectively (Please see Exhibit 6 - Market shares). Galp is the market leader, having the higher market share of the companies and privileged access to the two refineries that exist in the country, that are in possession of Petrogal, which in turn is owned by Galp. The concession area of Galp is also the largest of the four, with more than 700 gas stations in the country, Repsol have near 400, BP and CEPSA both have more than 300.

The entrance in the market requires huge investments to be a real threat to the four incumbent firms, and competition is fierce to new entrants. This happens due to the fact that incumbents have expertise, knowledge and access to resources that for the new firms are inaccessible.

In Portugal the companies only act in the downstream part of the market. The companies need regular imports of oil, mainly from Libya and Iran.

The market is relatively small and therefore less attractive, with only 10 million inhabitants and potential consumers, with a GDP per head of about 75% of the average verified in the European Union. Important to refer the tightness of the fiscal system that is relatively high when compared to other countries. The tax on petroleum products is around 580€1000 liters of gasoline and 365€1000 liters of diesel and VAT is 20%.

The evolution of petroleum consumption in the Portuguese market presents a strong growth, from the years 1997 to 2002 the consumption grew from 299,000 barrels/day to 356,000 barrels/day.

## **Merger**

The merger was announced in April 2008 through a press release by CEPSA.

The intention of the CEPSA was to strengthen the position in Portugal. With the merger the company believed that would achieve a better competing position and increase

market share to at least 11% that is approximately the sum of the share of both companies. The position is achieved by the combination effects generated by a larger company as well as efficiency gains. As the board member *Dominique de Riberolles*, referred “*the company is convicted of his strategy and has an undergoing program that is the most ambitious of the last years, which is proposed to increase competitiveness and face the medium to long term challenges*”. The merger was seen by the president CEPSA *Santiago Bergareche* as the perfect opportunity to overcome the challenges and achieve the objectives that the company is committed to.

The merger involved the incorporation of one company (Total Portugal) in one other (CEPSA), with full consolidation of operations, organization and culture. The agreement required a lot of interactions and mutual understanding from both companies. Consequently, the new centralized management allowed coordinating and controlling efforts in a better way and the companies have become transparent with the merger once information circulated in only one entity.

Due to the characteristics of Total Portugal, that had similar activities to CEPSA, the integration was mainly horizontal, which represented a reinforcement and optimization of CEPSA activities.

A due diligence process was planned in order to explore the potential benefits and mitigate the risks. In this sense the company took into account several dimensions such as financial data, human and culture issues, which allowed a deeper evaluation. From the due diligence motivations and risks that derived from the agreement and integration were identified.

## **Motivations**

In a press release CEPSA stated “*in the base of the merger there was the existence of synergies that could be achieved using a single structure, capable to develop activities in a sustained manner, the ability to optimize resources and operations, as well as the creation of a company more competitive in the Portuguese market*”. The company focused in achieving synergies at various levels that will allow increases in competitiveness and profits. It was CEPSA understanding that the growth and consolidation of market share was only possible through the increment of economic efficiencies resulting from the merger. The objectives would be accomplished by efficiency gains and combination effects that lead to a larger, powerful company.

### Efficiency Gains

The concentration in a single entity allowed eliminating inefficiencies, through the achievement of economies of scale. Moreover, redundant operational, commercial, financial and administrative costs were reduced, through the elimination of duplication of activities, such as accounting, marketing, or even R&D.

The elimination of duplications implied that 50 employees were fired from a total of 450 allowing estimated savings of €0,9M in 2008, and around €3,6M and €3,7M in 2009 and 2010 respectively. The external personnel costs were also optimized. As CEPSA states, the elimination of cost associated with auditors, consultants and lawyers that operated with Total Portugal leads to significant savings when working with only one structure.

The share of distribution channels and logistics constituted another motivator to the agreement. The company optimized the distribution network. The warehouses that Total Portugal used to store the products are an important asset that was shared. This allowed

CEPSA not only to buy larger quantities but also to optimize the distribution channels, once the company was able to reduce distribution costs in some cases. The predicted logistic savings were €0,9M in 2008, €1,36M in 2009 and €1,8M in 2010.

After the agreement CEPSA sold some of the assets of Total Portugal such as the installations of the offices of Total Portugal, transferring all the employees to CEPSA own installations, optimizing infrastructures.

The expertise of Total Portugal in some areas was used by CEPSA to optimize and employ best practices. One example where this will happen is in the management of gas stations: Comar is property of Total Portugal and will assure a better functioning of the operations related with gas stations management that is not the core activity of CEPSA. It is also intention to explore the expertise and power of Total in the lubricant sector and use the large experience of CEPSA in the Iberian market in the new resources.

The fee paid to Total France was reduced, once the majority of the brand was eliminated. The brand disappeared gradually from gas stations but still exist in lubricants. This allowed savings of €1,1M in 2008 and around €1,3M in 2009 and 2010.

#### Size effects

The concessions of gas stations were a crucial motivation for the company to merge. In a way the brand CEPSA gained a projection that did not have before, once there was an expansion to areas where operations were almost inexistent, in other way there was reinforcement in areas where CEPSA was already present. The number of gas stations almost duplicated from 160 to more than 300, which represented a fundamental factor to increase the market share as intended, but also to increase the visibility and reputation of the brand.

After the merger the company achieved a dimension that allowed negotiating better prices with refineries. The company started to have more market power, not only achieving a higher reputation, but also buying larger quantities since have more space to store the product, optimizing the negotiation prices. This situation is considered a fundamental step to improve the relation price and quality to the final consumer.

The major players acting in Portugal presented growing revenues that aligned with the integration in multinational groups have the ability to create strong marketing and promotional campaigns. This situation set pressure on CEPSA that without the merger could see the competitiveness reduced. Moreover, the economic recession lead consumer to buy the strictly necessary, acting as an imperative to have a sound company. The company will increase the equity and its debt capacity, achieving a better and more competitive credit condition.

For the reasons above, CEPSA considers that the merger agreement will present unequivocally advantages for the future growth as well as an immediate reinforcement of the group image. The merger would allow being solid in a recession period, attenuating losses and have an excellent performance during expansion periods.

The merger will produce escalating savings, and in the first year it would already revealed to be very positive, producing already savings of €1,35M, according to CEPSA, even with restructuring costs of €3,7M (Please see Exhibit 7 - Savings in €).

Besides these gains there is also fiscal loss carry forwards that Total Portugal had at the time of the merger and will allow CEPSA to balance the company taxable profits. At the time of the merger the fiscal losses of Total were more than €14.000.000 accumulated since 2002, and can be used up to a 6 years limit to report (Please see Exhibit 8 – Fiscal losses carry forwards).

Collusion hypothesis is perceived as a motivator and consequence of merges, planned to sustain profits. Due to the characteristics of this market it is very common to criticize it. The prices and costs are available to general public and therefore are easily accessed, which facilitates coordination. The demand is stable and predictable, with 80% of the total market being supplied by the four major companies allowing to easily detecting changes in patterns. The number of companies acting in the market is diminishing, passing from 7 major companies to only 4 in the last 10 years, being easier to coordinate. However, reports from *Autoridade da Concorrência*, the Portuguese competitive authority, have shown the market to be competitive even in presence of relatively high *Herfindahl-Hirschman Index* of 2253, consistent with oligopolistic competition. Collusion expectations may be an incentive to merge if profits can be higher and sustainable, through the elimination of competitive pressures.

## **Integration**

The integration process was managed very quickly by CEPSA that elaborated guidelines, mainly related with interactions between employees of both companies as well as general operations. CEPSA placed milestones, such as the elimination operational costs and the achievement of 11% of market share. One year after the merger the company was considered to be very satisfied on how the whole integration process was managed and the result of the merger.

The participation of Total as a major shareholder of CEPSA contributed to the situation. There are procedures in both companies very much alike which were also considered as an advantage. In terms of cultures and according to CEPSA they are compatible and similar. The board members from France and Spain have great influence in the culture

of the company, even in Portugal. Regardless similarities CEPSA promoted interactions between employees to understand each other cultures and procedures, acting a facilitator of integration. CEPSA also created an intensive program of interactions between employees from both companies and respective managers during the whole year.

The offices of Total located in Lisbon were sold, and around 50 jobs suppressed. This scenario was already expected, even though the company denied it until the very last moment, as a result of reducing operational costs. According the CEPSA the employees that were retained were the ones more capable to apply the best practices, assuring the maintenance of a high quality service.

The integration process was similar and reminded the first merger of CEPSA Portugal, with Elf, that occurred in 1997. It was very successful and helped with knowledge and information for the future. The integration was identical once full consolidation of Elf by CEPSA. The merger with Elf allowed the company to increase the market share from 3.5% to 5% at the time. In the case of Total propose is identical, which is to increase the market share from 7.7% to at least 11%.

## **Part II**

### **Motivations**

One of the main motivations that drive the agreement is related with synergies that could be achieved. By definition synergy occurs “*when capabilities transferred between firms improve a firm’s competitive position and consequently its performance*” (Haspeslagh and Jemison, 1991). These synergies have two sources, efficiency gains and combination effects that enhance the power and competitiveness of the company. Efficiency gains are visible through achievement of economies of scale or resource

sharing, whereas the combination of the two companies will permit the company to have more market power. *Luís Sobral*, board member of CEPSA Portugal, believes that the business generated by the merger will surpass the barrier of the €1000 M, more than the actual combination of both, €700 M of CEPSA and €200 M of Total. Through the achievement of synergies resulting from the merger the company will be “*in possession of a powerful source of advantage that is difficult to imitate*” (Besanko et al, 2007).

As Hovers (1973) observed, “*the main aim of every takeover is to produce advantages for both the buying and selling companies compared with the alternative situation in which both companies will continue independently*”. In this sense the objective of CEPSA to expand operations in Portugal was achieved with the merger as well as the objective of Total of leaving the country; therefore both companies are better off with the agreement.

### **Efficiency gains**

Resources will be transferred and shared by the companies. Resources are “*all the assets, capabilities, competences, information, knowledge and reputations that are owned by the firm*” as referenced by Cool et al (2006). From literature it was found that resources are fundamental determinants of competitive advantage and performance of companies (Rumelt, 1984). The problem is to “*combine and coordinate the asset joint usage*” (Haspeslagh and Jemison, 1991), however, since CEPSA and Total Portugal business is identical, managers knew what to do with the assets but needed to evaluate the utility and use of them in relation to the objectives of the company.

Companies will share operational resources – it refers to the combination and rationalization of resources of companies –, and transfer functional skills and

knowledge. Companies will share resources as distribution channels, office space, storage warehouses and sales force.

The functional skill transfer will allow the combination of the best practices from both companies. The company must explore complementarities, not only at operational level but also in areas as manufacturing, human resources management, marketing and R&D. *“Total has a large expertise in lubricants”* and CEPSA is *“specialized in the bitumen and fuels sector”*. As CEPSA observed, *“Total may use the expertise of CEPSA in the Iberian market”* being more efficient in the way of conducting business.

These best practices will be achieved not only by retaining the best employees; it is also embedded in the cultures and procedures of both. Moreover, CEPSA was always available to use procedures of Total when these were better than the ones used by CEPSA.

### **Combination effects**

The combination of two companies leads CEPSA to attain a higher market share, bargaining power, achieving at the same time higher reputation and superior quality products and services to the final consumer. Total is now branded as CEPSA, which reinforced the brand and image of CEPSA, once now it has a larger reach.

Besides the referred, the company will benefit from better conditions in purchasing and advertising (Besanko et al, 2007), due to the size effect of a larger company. In relation to purchasing, the company has become bigger, have more power and the ability to buy and store larger quantities. The refineries depend of a small number of companies and it is essential to maintain all the demand. Therefore it is needed to have “fair” conditions, which may imply a price reduction in order to meet the purchasing power created by a merger. In turn, this will generate a better price/quality relation to the final consumer.

The company will have two main advantages in advertising. On one hand it will have more bargaining power with the broadcaster. On the other hand the geographic reach will be larger, once more gas stations of the brand are available, and therefore the cost of sending messages is lower.

## **Integration**

One of the challenges of the mergers is related with integration of companies, it is a *“difficult task, very time consuming and marked by uncertainty”* (Hitt et al. 2006).

Integration phase is crucial for the synergy realization and value creation, in fact *“the integration process is the key to making acquisitions work”* (Haspeslagh and Jemison, 1991). During this process is essential to match both structures, and promote the conditions to achieve the expected advantages as well as to mitigate the risks.

The close relations and mutual interest play a fundamental role, as a facilitator of the integration process once it is important that companies understand each other in terms of *“values, history, organizational approach, personnel and culture”* (Haspeslagh and Jemison, 1991). In this sense and as explained previously, the fact that Total is the largest shareholder of CEPSA Spain was essential in the agreement. Not only the French company has had an active role in the shaping of the culture of CEPSA, with a lot of practices and costumes, also it has interests in the success of CEPSA.

The friendly approach of the merger was important once *“resistance and opposition to change are lower than the one in the hostile takeovers”* (Hitt et al. 2006). However, it is important to promote a climate of goodwill and diplomacy among employees of both companies because *“capabilities are transferred and people collaborate to create expected benefits and to discover others”* (Haspeslagh and Jemison, 1991). For these

reasons CEPSA created regular meetings for workers of both companies and promoted the creation of mixed work teams throughout the first year.

The integration phase is noticeable for the need to downsize in order to achieve objectives concerning the elimination of operational costs that are not strictly necessary. For this reason some employees reacted to the merger with resistance; *“this resistance to change may jeopardise the success of the merger, and result in unintentional loss of capital”* (Hitt et al. 2006). In fact a study by Davy et al. (1998) discuss that the employee problems are accountable for near one third and a half of all merger failures. Employee’s resistance is understandable and usual in all the mergers once unemployment is common and a natural consequence of the rationalization and elimination of role duplicity (Cartwright and Cooper, 1996). Resistance appears in terms of *“morale, turnover statistics, productivity, loss of competitive advantage, deterioration in revenues and profits”* (Pritchett et al. 1996). In the case of CEPSA this was one of the major subjects of negotiation: the employees resisted until the positions were guaranteed by the company. However, few months later the company started firing with the pretext of operational efficiencies, even though the rights of the workers fired were assured.

The fact that this was not the first merger of CEPSA Portugal helped. The company gained a valuable experience, as Quinn et al, (1992) refer, *“knowledge creation can be a source of organizational renewal and sustainable competitive advantage”*. The knowledge created with the first merger is crucial for the future, even when the company is not a regular in mergers and acquisitions in Portugal. It is important to observe that Elf, CEPSA and Total Portugal are all similar in size, which facilitates interactions. The extent to which both organizations are similar and have identical operations is a facilitator of integration and helps to produce desired results quickly,

effectively and efficiently, and this happens once it is easier to share resources, communicate, and transfer knowledge and skills (Hitt et al, 2006).

## **Performance and Consequences**

More than a year after the agreement, the merger was already considered a success. The synergies planned were achieved as well as the increase in market share. As *Luís Sobral* considered, “*the market share of the companies corresponded to 4<sup>th</sup> and 5<sup>th</sup>, in case of CEPSA and Total respectively, now, after the agreement CEPSA is in conditions to fight for the 3<sup>rd</sup> or 2<sup>nd</sup> place*”.

The elimination of common departments was successfully achieved; the company eliminated common departments, through the concentration in a single structure. The company fired 50 employees, reducing the juridical, fiscal and economic structure that benefit from the simplification and transparency.

Even being considered a success, the economic crisis tested the strength of the new company. The constant increases in terms of oil prices made the results of the company less than what was expected. Brent barrel prices went from \$111/b in 2008 to \$57/b in 2009, a difference of 53%, which affected the business and erode the margins practiced by the companies. The devaluation of dollar, that is the currency used in the majority of transaction of oil products, is also a problem: euro-dollar conversion passed from 1.36\$/€ to 1.54\$/€ along the year.

The demand declined in 2008 since customer bought the strictly necessary, however in 2009 the demand is returning to the expected levels. The demand of the major companies was affected with the appearance of new competitors such as supermarkets and independents that could offer products at a very competitive price. The situation was reflected in the growth of market share of supermarkets and independents in about

3% each one. As a result from the stated, the net results and EBITDA in 2009 went down by 39% (€12M) and 22% (€39M) respectively, when comparing with 2008.

Despite all these setbacks the objectives of the company to be flexible and sound during recession periods were achieved. The company even achieved better credit conditions and a debt to equity ratio of only 22.5%. During this period the company built a stronger reputation, increasing the awareness and reach of its services.

The fact that the merger involved two companies that acted in the same market was useful to reduce the risk. According to Porter (1987), “*related acquisitions and diversifications tend to have a greater probability of financial success than unrelated acquisition*”. The domain strengthening characteristic of an acquisition as Haspeslagh and Jemison (1991) mentioned allows the companies to reduce the risk, through the focusing in the core business. However, from the literature mergers between companies with clearly complementary resources have the opportunity to explore diversification gains, not existing when the integration is between companies with strategically equivalent resources (Harrison et al, 1991). For this reason CEPSA promoted the scrutiny of complementarities at various levels in order to explore any difference that could exist between companies that could act as an advantage.

The tacit collusion hypothesis is much discussed in this market, and there is the generalized idea that the market share stability in the long term is resultant of it. This goes against the basic idea that the goal of the firm is to expand and grow, not to maintain, even in mature markets such as this one as discussed by Allen (1981). Even though share expansion and growth are the objectives, the companies acting in the market may achieve something like “*collusive joint profit maximization*”, consequently resulting in “*stable market shares*” in a concentrated and mature market (Chamberlin, 1958). From research it was found that “*higher concentration doesn't necessarily result*

*in collusion*”, although is a facilitator (Gansladt et al. 2004). This hypothesis is frequently raised but collusion in the Portuguese market has never been proved.

## **Conclusion**

After the analysis of the acquisition it was clear that CEPSA intention to reinforce and explore the existent domains of acting in Portugal was achieved through two main sources of synergies: efficiency gains and size effects. Throughout the agreement, CEPSA took advantage from the privileged relations with Total to implement a successful strategy and to have good prospects for future growth. It should also be highlighted the quickness of all the actions, with the integration being very well planned and concluded in a short timeframe.

## **Discussion Questions**

- How this specific merger affected the Portuguese consumers and industry? Weighting the pros and cons, are they better?
- Discuss in more detail the advantages of this merger for CEPSA, exploring efficiency gains and size effects.
- How the smaller mergers between Total and CEPSA in given markets may act as an “open door” to a future consolidation of both Total France and CEPSA Spain.

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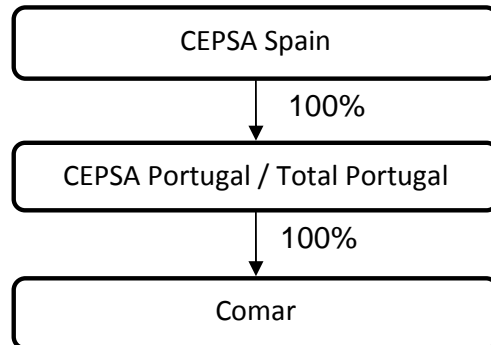
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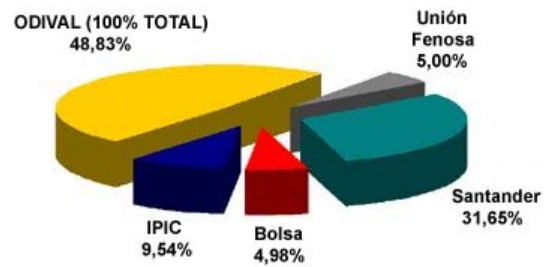
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## Exhibits

**Exhibit 1** – CEPSA Structure after the merger

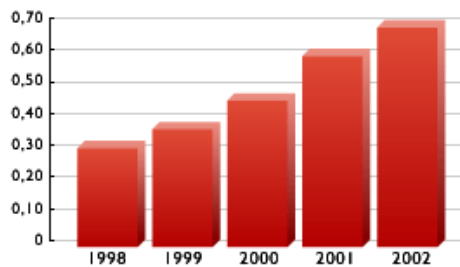


**Exhibit 2** - CEPSA shareholder structure

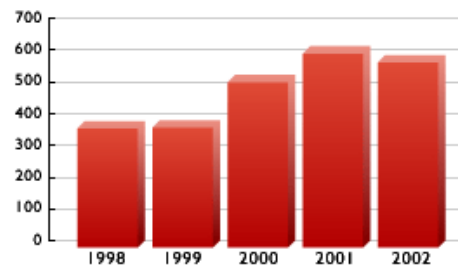


**Exhibit 3** – Financial indicators

**Dividends per Share**



**EBIT**



**Exhibit 4 – Brent Prices**



**Exhibit 5 - Largest oil companies**

Company	Brands	Revenues (\$)	Net profits (\$)	Number of Employees
<b>Exxon Mobil</b>	Exxon Móbil Esso	404,5 Billion	40,6 Billion	106.100
<b>Royal Dutch Shell</b>	Shell	355,8 Billion	27,3 Billion	112.000
<b>BP</b>	BP Arco Aral	274,3 Billion	22,3 Billion	115.000
<b>Chevron Corp.</b>	Chevron Texaco	204,9 Billion	17,1 Billion	62.000
<b>Conoco Philips</b>	Union Conoco Jet Philips	188,5 Billion	15,6 Billion	38.000
<b>Total S. A.</b>	Total Elf	153,8 Billion	14 Billion	106.000

**Exhibit 6** - Market shares

	2007	2008
<b>Galp</b>	[35%-45%]	[35%-45%]
<b>Repsol</b>	[10%-20%]	[10%-20%]
<b>BP</b>	[10%-20%]	[10%-20%]
<b>CEPSA/Total</b>	[5%-10%]	[5%-10%]
<b>Agip</b>	[0%-5%]	-
<b>Esso</b>	[0%-5%]	-
<b>Independents</b>	7.3%	7.7%
<b>Supermarkets</b>	9.0%	12%
<b>All</b>	<b>100%</b>	<b>100%</b>

**Exhibit 7** - Savings in €

Areas	2008	2009	2010
1. Operations efficiency:	-2.740.849	3.601.632	3.727.689
1.1 Employee costs:	934.151	3.601.632	3.727.689
1.1.1 Wages	710.373	2.738.852	2.834.712
1.1.2 Other employee costs	223.778	862.780	892.977
1.2 Restructuring costs:	-3.675.000		
2. Logistics:	907.312	1.360.968	1.779.043
2.1 Costs of goods sold	907.312	1.360.968	1.779.043
3. Fixed Costs	3.192.438	4.938.550	4.662.183
3.1 External supplies	2.779.248	4.510.842	4.601.026
3.1.1 Fee Total France	1.115.274	1.312.122	1.338.332
3.1.2 Others	1.663.974	3.198.720	3.262.694
3.2 Other cost and operational losses	31.190	59.958	61.157
3.3 Extraordinary costs	382.000	367.750	0
<b>Synergy total</b>	<b>1.358.901</b>	<b>9.901.149</b>	<b>10.168.915</b>

**Exhibit 8** - Fiscal losses carry forwards

<b>Year</b>	<b>Fiscal Losses</b>	<b>Limit to report</b>
2002	3.743.297,90	2008
2003	6.753.017,51	2009
2004	1.792.852,93	2010
2005	888.229,24	2011
2006	709.360,83	2012
2007	360.107,83	2013
<b>Total</b>	<b>14.246.866,24</b>	