

A Work Project, presented as part of the requirements for the Award of a Master's
degree in Management from the Nova School of Business and Economics

CONSULTING PROJECT WITH ABC GROUP

MAXIMIZE THE EFFICIENCY OF THE M&A DECISION-MAKING PROCESS

Maria do Mar Norton de Matos Gellweiler | 44725

ABC's International Expansion: Screening of Potential Targets

Work Project carried out under the supervision of:

Professor Constança Monteiro Casquinho

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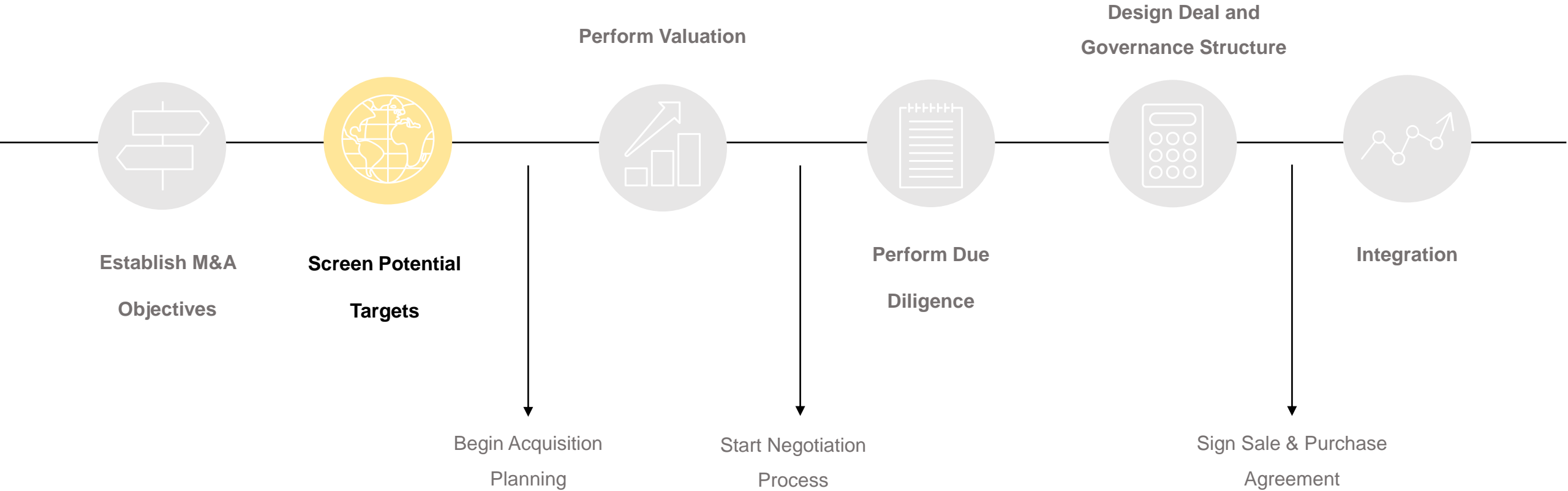
ABSTRACT | This work project presents a comprehensive view of the M&A process, specific to the cement industry. The goal of the project is to understand how the company can successfully and sustainably expand its worldwide presence, by improving each step of the M&A process. The project's final recommendations consist of clear and systematic strategic structures for each phase of the process, to ultimately maximize its efficiency. In this segment, the screening of potential targets is presented.

To respect the Non-Disclosure Agreement signed, the cement company will be designated as “ABC” throughout the project.

KEYWORDS | Cement Industry, M&A, Target Screening, Valuation Model, Screening, Selection Criteria, Acquisition Target

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After establishing the objectives, target opportunities will be screened based on a defined methodology



The current selection criteria is lacking relevant indicators and a defined structure that would allow ABC to actively search for potential targets

DEFINING SELECTION CRITERIA

After clearly structuring the M&A objectives and the rationale behind those, it is essential to define the **criteria grid** with which to scrutinize all possible acquisition opportunities, taking into account aspects such as:

- Investment means and financial constraints of the acquirer
- The desired competitive advantages to be attained after the acquisition
- The overall strategic and cultural fit with acquirer
- Competitive environment of target market

The ultimate objective of this step is to establish a **standard and exhaustive** set of indicators that will truly help understand for which target companies would the acquirer be the **best owner**

SITUATION ANALYSIS

CRITERIA UPDATE



- In 2016, ABC defined a set of criteria to be used when identifying potential acquisition targets
- There has been **no update** of crucial indicators that currently play an important role when identifying potential targets

CRITERIA STRUCTURE



- **Lack of structure and standardization** within the existing methodology of selection criteria – different indicators used to assess different opportunities

ACTIVE TARGET SEARCH



- ABC mostly often explores attractive targets when those **become available**, instead of engaging in a thorough research to identify promising acquirees. Risks **missing out** on valuable opportunities.

According to BCG, companies should integrate a detailed, standardized approach to M&A, involving the definition of scope and prioritization of targets

BCG'S SUGGESTION FOR TARGET SEARCH

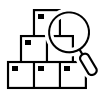


Successful acquirers take a **rigorous, systematic** approach to M&A. They have well-built, purposeful, dedicated M&A organizations. They **search** for, **pinpoint**, and **pursue** targets which are an excellent fit [...]. They search across entire industries, not just for individual organizations.



The Art of Successful Acquisition, Boston Consulting Group, 2019

1. Where to Play



Industry Analysis – assess current trends challenging the market, as well as change drivers to be taken into account for future forecast



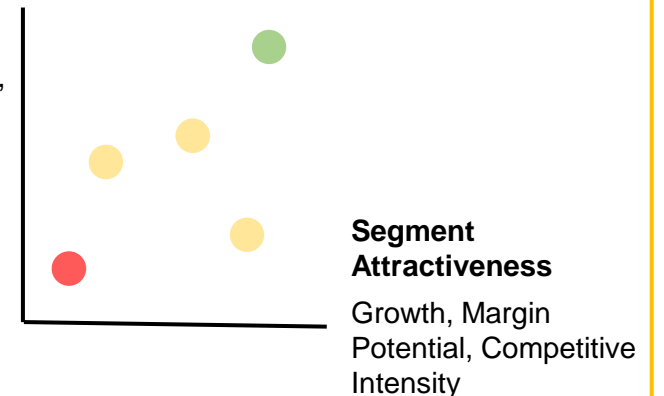
Opportunity Segments - identify the most **attractive** segments within the company's industry, that are **strategically relevant**. The goal is to locate **sources of value** throughout the value chain.

Graph 4 – Illustrative Segment Analysis

Segment Strategic Fit

Technological suitability, customer perspective, business model attractiveness

- Not suitable
- Indifferent
- Suitable



When defining the target selection methodology, companies should start by a thorough analysis of the **industry environment**, narrowing it down to specific **segments**

According to BCG, companies should integrate a detailed, standardized approach to M&A, involving the definition of scope and prioritization of targets

BCG'S SUGGESTION FOR TARGET SEARCH

2. Pinpoint Companies of Interest

After indentifying the potential segments within the industry, BCG suggests that the acquirer **should not focus solely** on the target's financial performance.

Additionally, it proposes the assesement of:



Strategic Fit (SF) - complementarity of operations and geographic footprint



Feasibility of the Deal (FD) – target ownership structure and likeliness to sell



Potential targets divided into two lists

- **Action List:** Companies ready for immediate acquisition
- **Watch List:** Companies to *keep on radar* in case the availability changes (due to their great Strategic Fit)

Action List

High Strategic Fit
High Feasibility of the Deal

Watch List

High Strategic Fit
Low Feasibility of the Deal






This approach allows companies to **actively search for and prioritize** investment opportunities at different moments in time

ABC should structure its target selection by market and company attractiveness, in order to identify immediate and potential acquisition opportunities




RECOMMENDATION

BCG's framework was adapted to the current project. The latter's scope is limited to **cement markets and companies**, which implied that a selection of opportunity segments would not be required.

1. MARKET SELECTION AND RANKING

-  • Clarify the **geographic scope** of the analysis based on ABC's strategic plays
-  • **Develop a set of exclusion criteria** to be applied to the different markets within the scope
-  • **Prioritize** the selected markets according to their **intrinsic attractiveness** and their **fit with ABC**

2. COMPANY SELECTION AND RANKING

-  • Develop a set of company **exclusion criteria** to be applied to targets within the selected markets
-  • **Rank** the companies according to **the attractiveness of their home-country** and the **deal feasibility**
-  • Create both an **Action and Watch lists** for the potential targets

By implementing this structure and creating an internal data base specifying **sources and update timings**, ABC would be able to **continuously** perform an **exhaustive** selection and evaluation of targets – either for immediate acquisitions (Action List) or for potential ones (Watch List)

ABC has defined 4 major strategic plays to tackle international ambitions, that serve as the geographic scope of the screening process

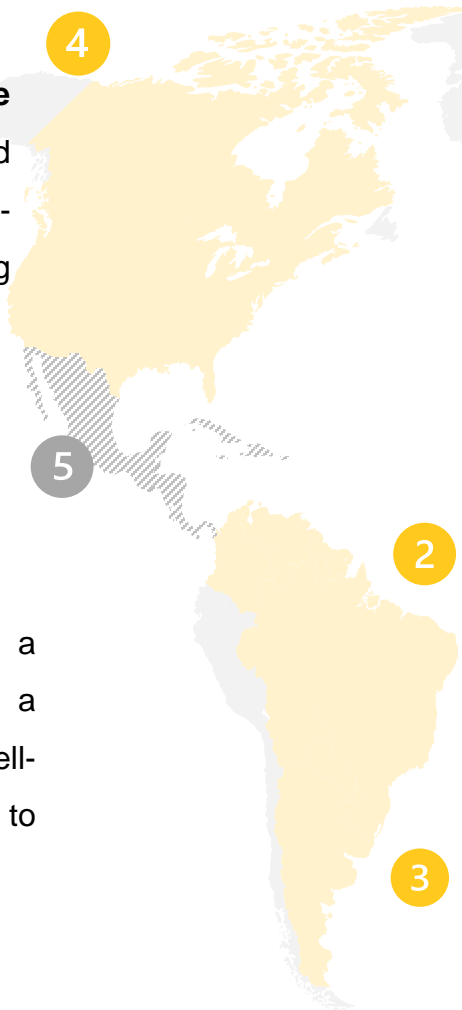
Figure 2 – ABC Strategic Plays

INVEST IN MATURE MARKETS

Acquire factories in stable countries to mitigate political and forex risk, privileging cement-importing regions and targeting divestitures from bigger players

MONITOR POTENTIAL OPPORTUNITIES IN CENTRAL AMERICA

However, this is considered a secondary priority as there is a considerable number of well-established players and exposure to China



CONSOLIDATE IBERIAN POSITION

Screen assets to acquire in Spain to prepare for potential Iberian market consolidation, whilst monitoring recent divestments from large players

DIVERSIFY FOOTPRINT IN BRAZIL

Expand to other regions in Brazil through greenfield or market consolidation

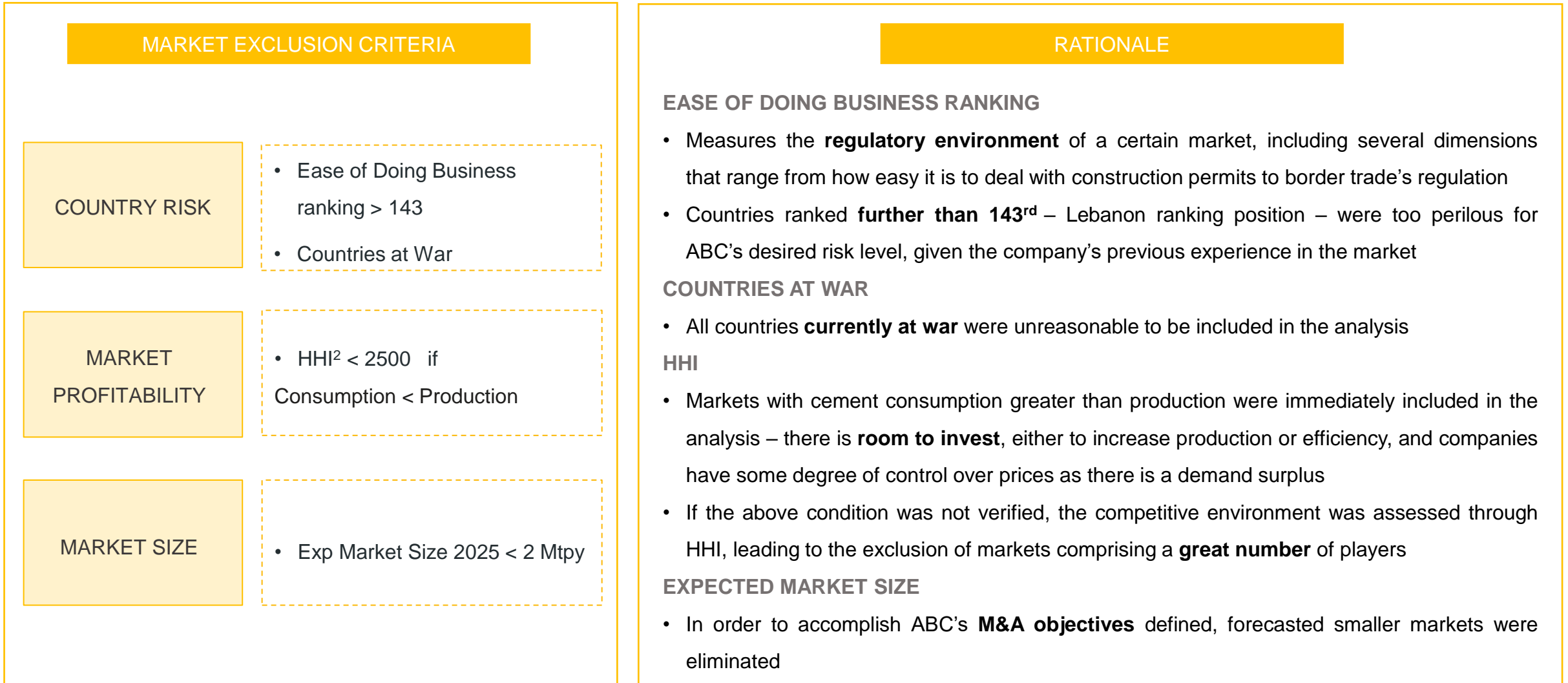
& CONSOLIDATE POSITION IN SOUTH BRAZIL

Acquire undervalued assets to capture potential synergies and increase presence in the region

EXPAND TO OTHER COUNTRIES IN SOUTH AMERICA

Enter in Brazil's neighboring countries exploring markets protected from Chinese exports

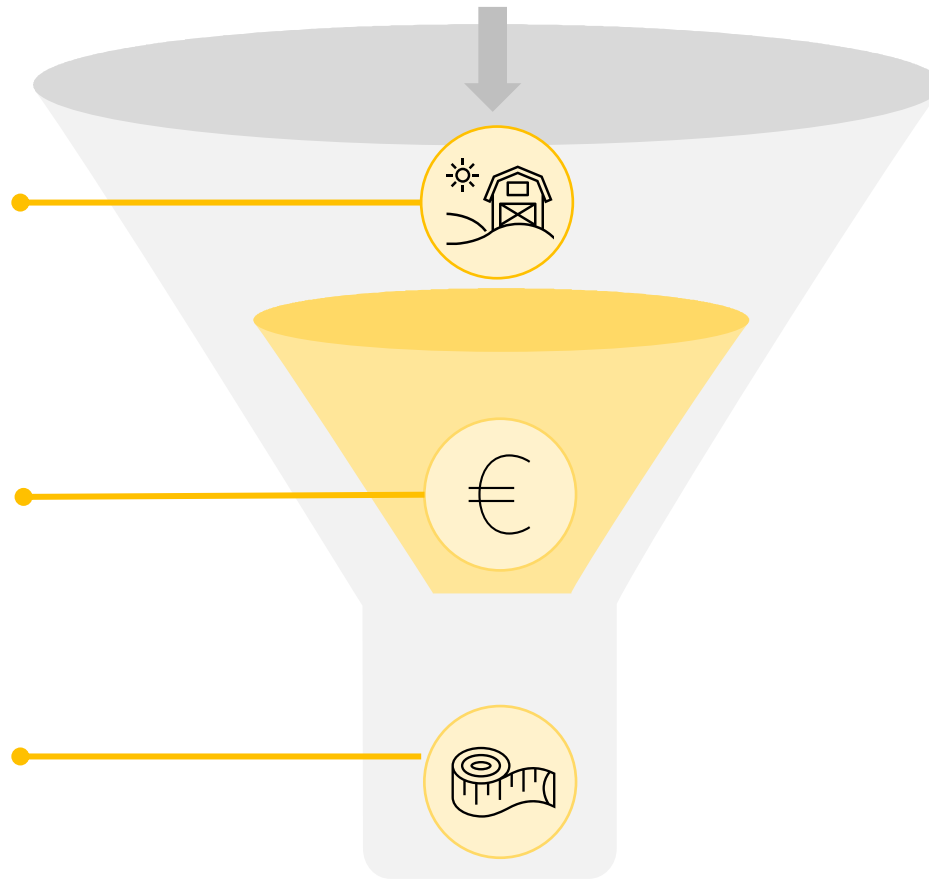
ABC should define a standard set of indicators to primarily exclude unsuitable markets from the geographic scope defined



After applying the relevant exclusion criteria, 33 markets were excluded from the analysis

After defining the geographic scope based on ABC's strategic plays, 91 markets were considered potential targets

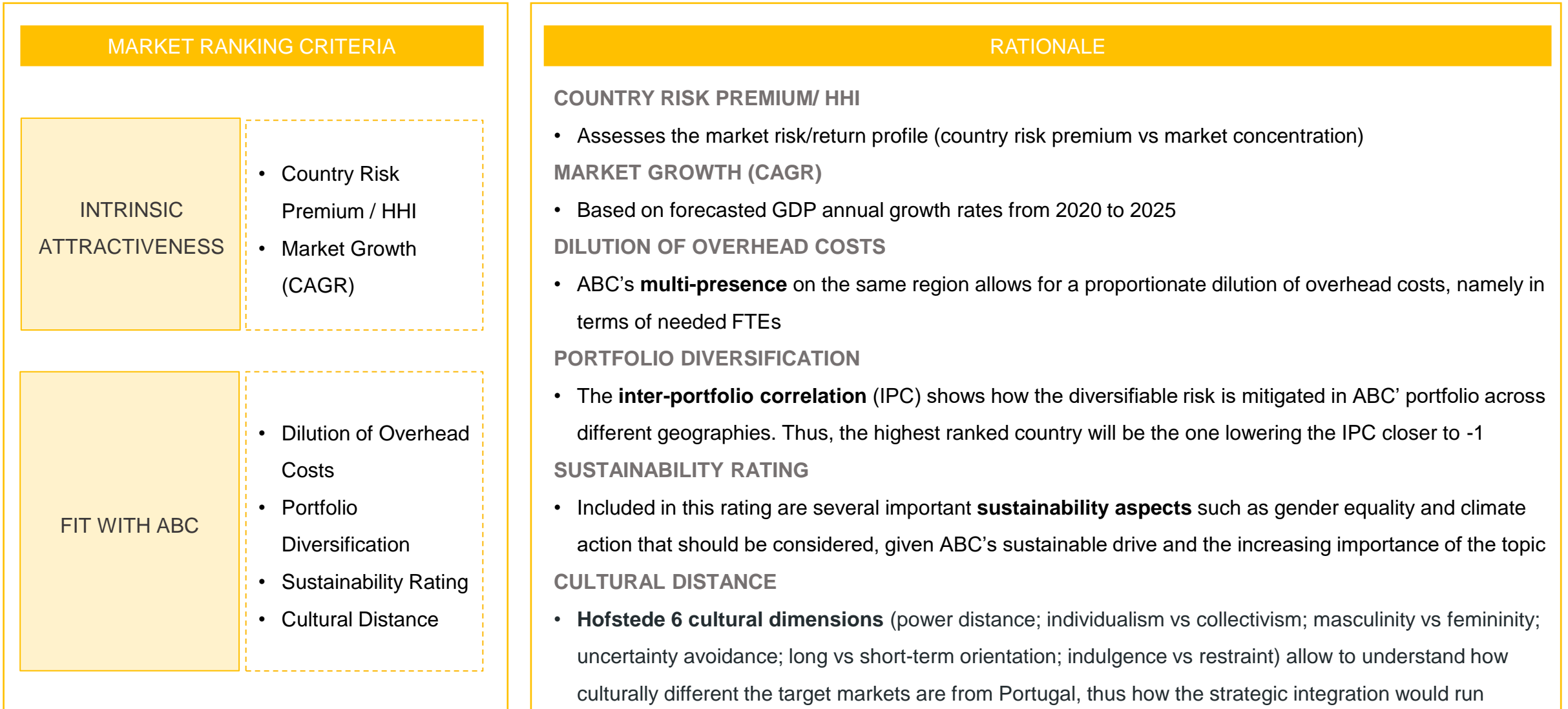
COUNTRY RISK
<ul style="list-style-type: none"> Ease of Doing Business ranking > 143 Countries at War
MARKET PROFITABILITY
$HHI^2 < 2500$ if Consumption < Production
MARKET SIZE & GROWTH
Exp Market Size 2025 < 2 Mtpy



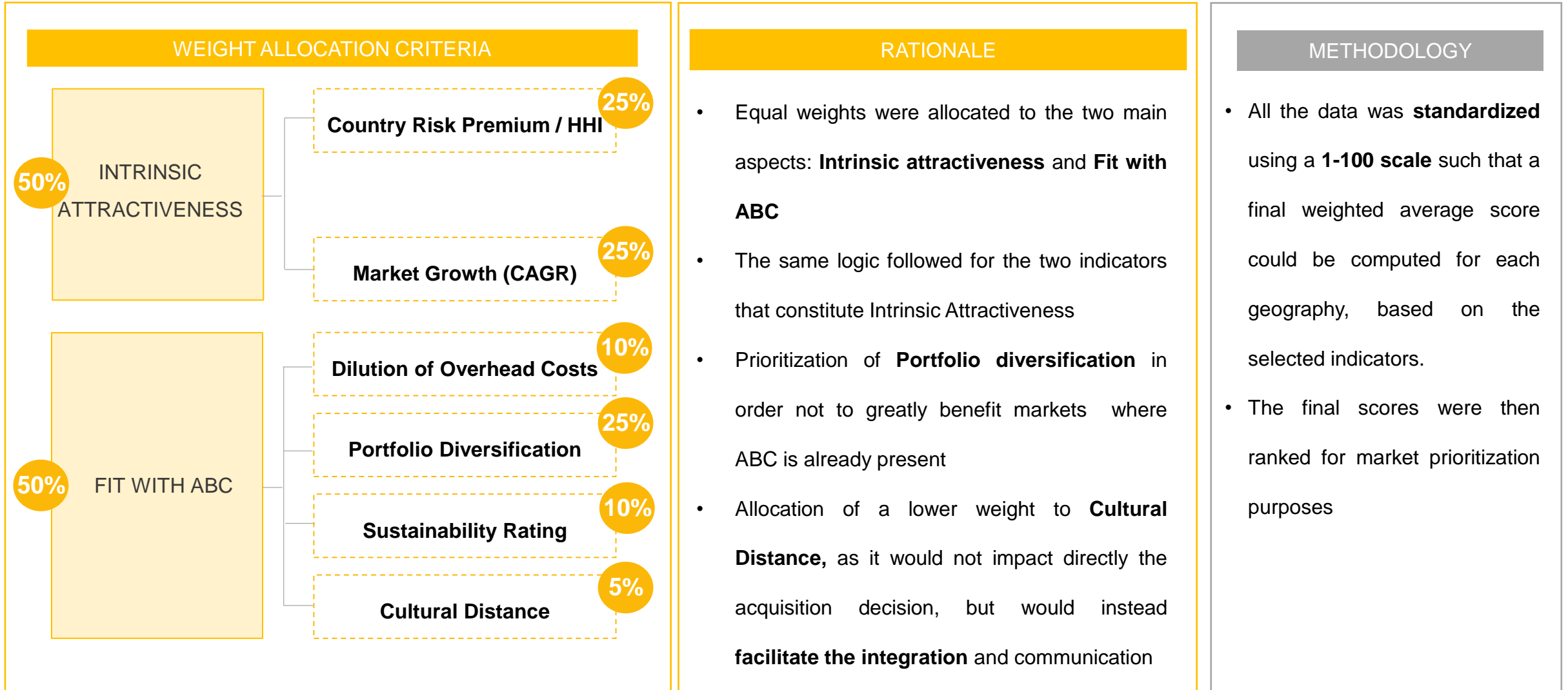
#Markets Excluded	Flags
4	
12	
17	

Note: The market analysis was computed by region in certain countries, due to their geographic or strategic importance. This implies that certain markets within a country might be excluded, while other regions remain in the analysis. (Ex: Brazil South, Brazil Northeast, Brazil Center-West, Brazil North)

From the 54 non-excluded markets, ABC should prioritize those with a higher ranking of attractiveness and fit

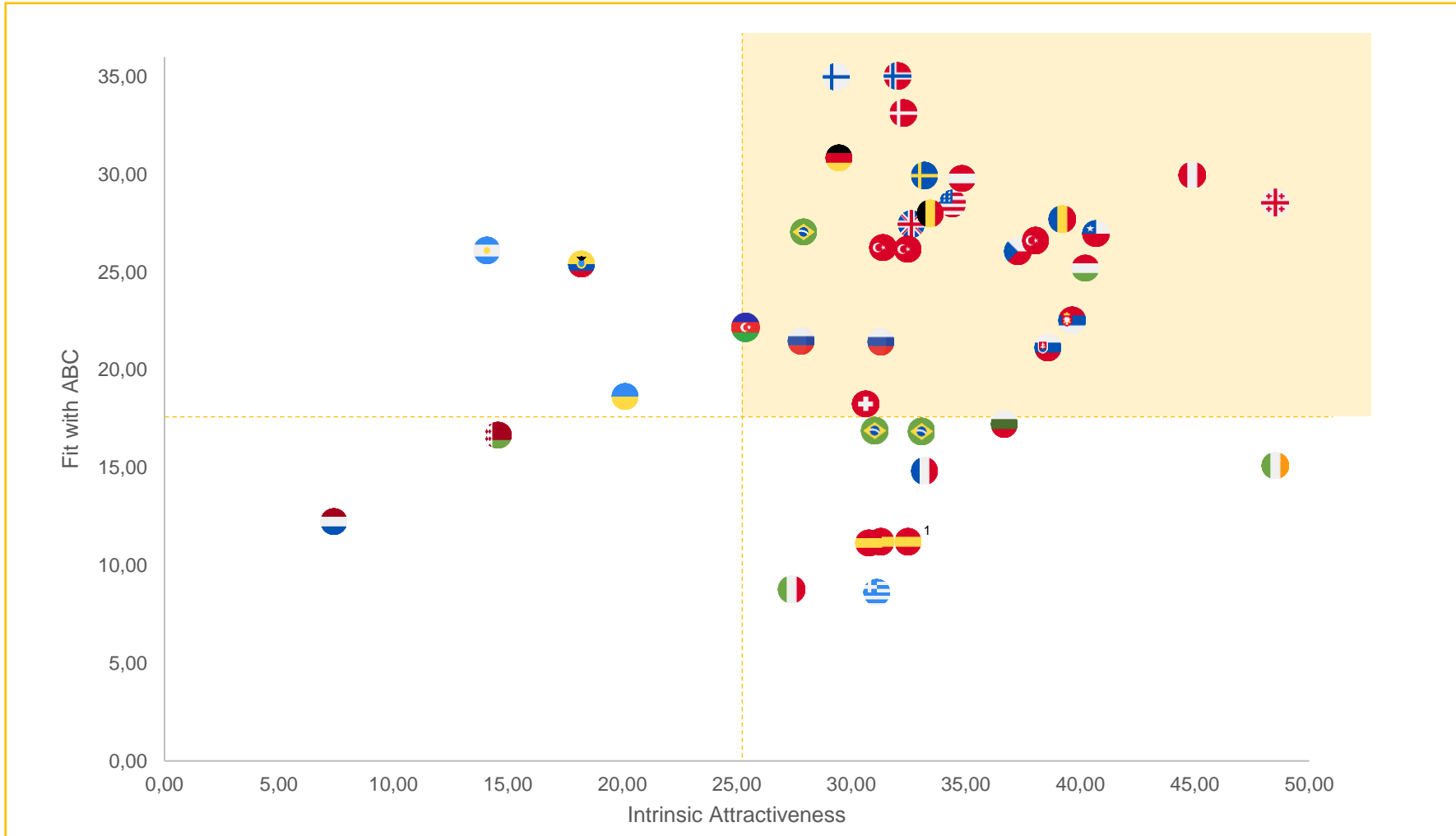


A weighted average score was computed based on the importance allocated to each ranking indicator



The markets that maximize both dimensions stand as the most interesting prospects for business development

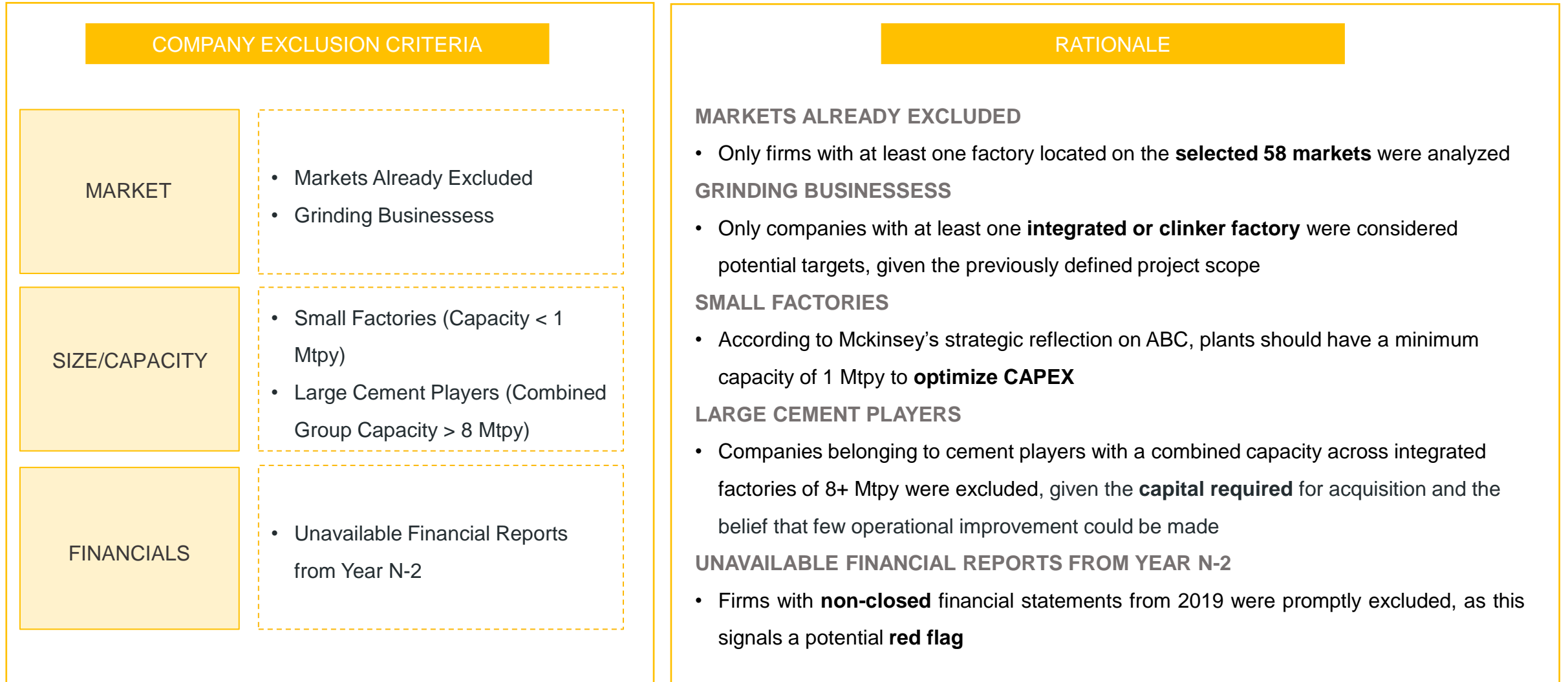
Graph 5 – Intrinsic attractiveness and fit with ABC ranking



- Selected markets were plotted based on **Fit with ABC** and **Intrinsic Attractiveness** dimensions.
- The most interesting markets for acquisition will be those that **maximize both dimensions**
- The most attractive markets were Georgia, Peru and Chile

¹ Note: The market analysis was computed by region in certain countries, due to their geographical or strategic importance, which leads to the same country flag appearing more than once, thus referring to a different region within the same country. (Ex: Brazil South, Brazil Northeast, Brazil Center-West, Brazil North)

ABC should define a standard set of indicators to primarily exclude unsuitable companies from the analysis



After applying the relevant exclusion criteria, 1137 companies were excluded from the analysis

Within the geographic scope defined, there were **1155 companies** to be considered **potential targets**

MARKET

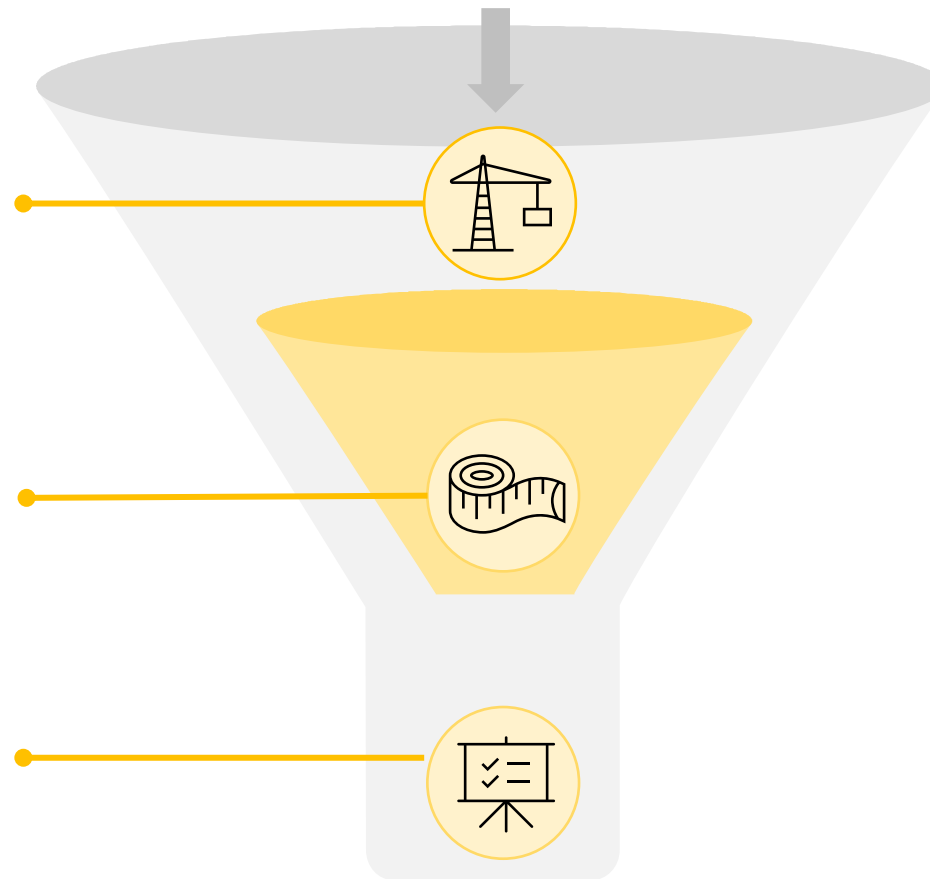
- Markets Already Excluded
- Grinding Businesses

SIZE & CAPACITY

- Small Factories (Capacity < 1 Mtpy)
- Large Cement Players (Combined Group Capacity > 8 Mtpy)

FINANCIALS

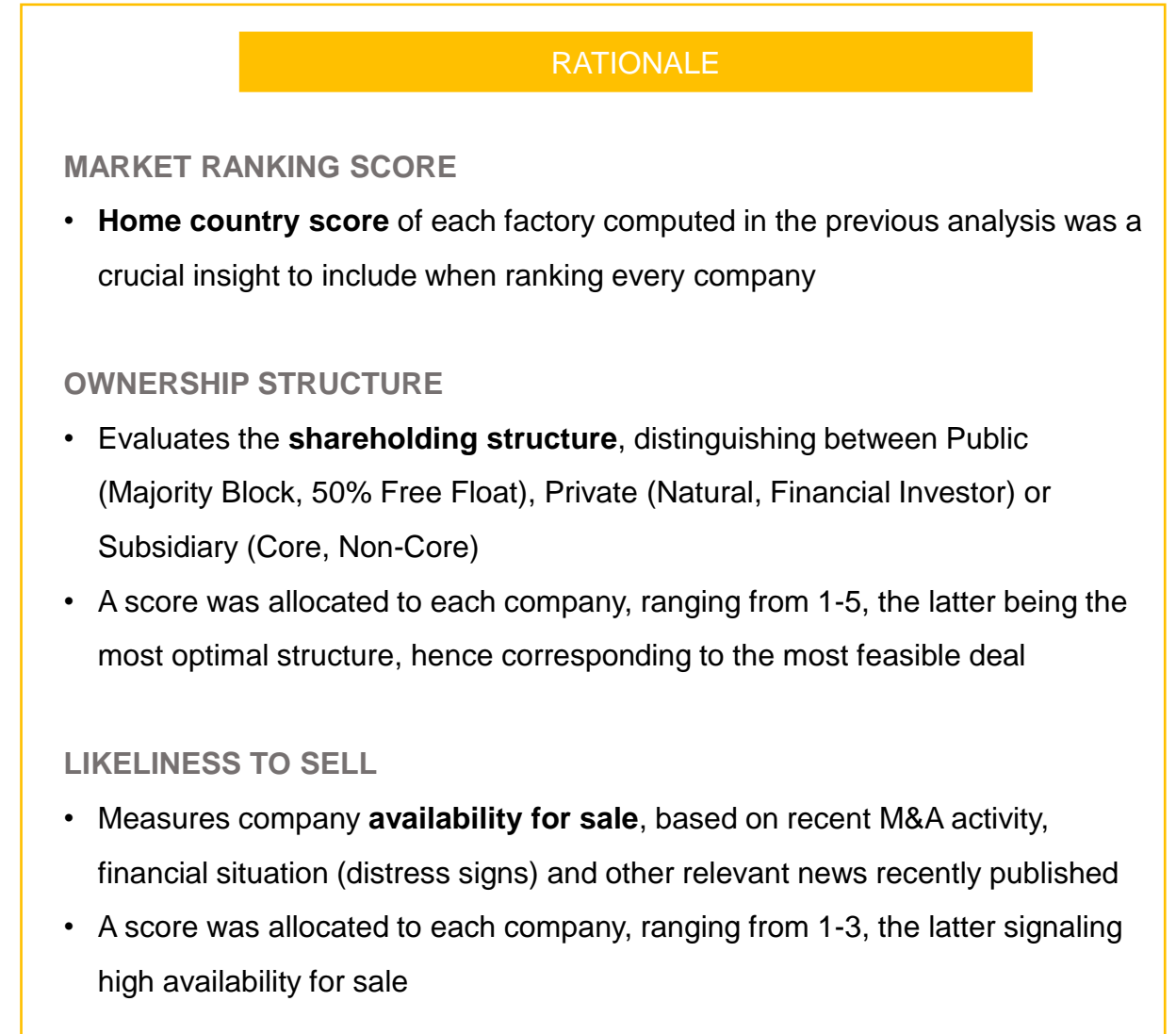
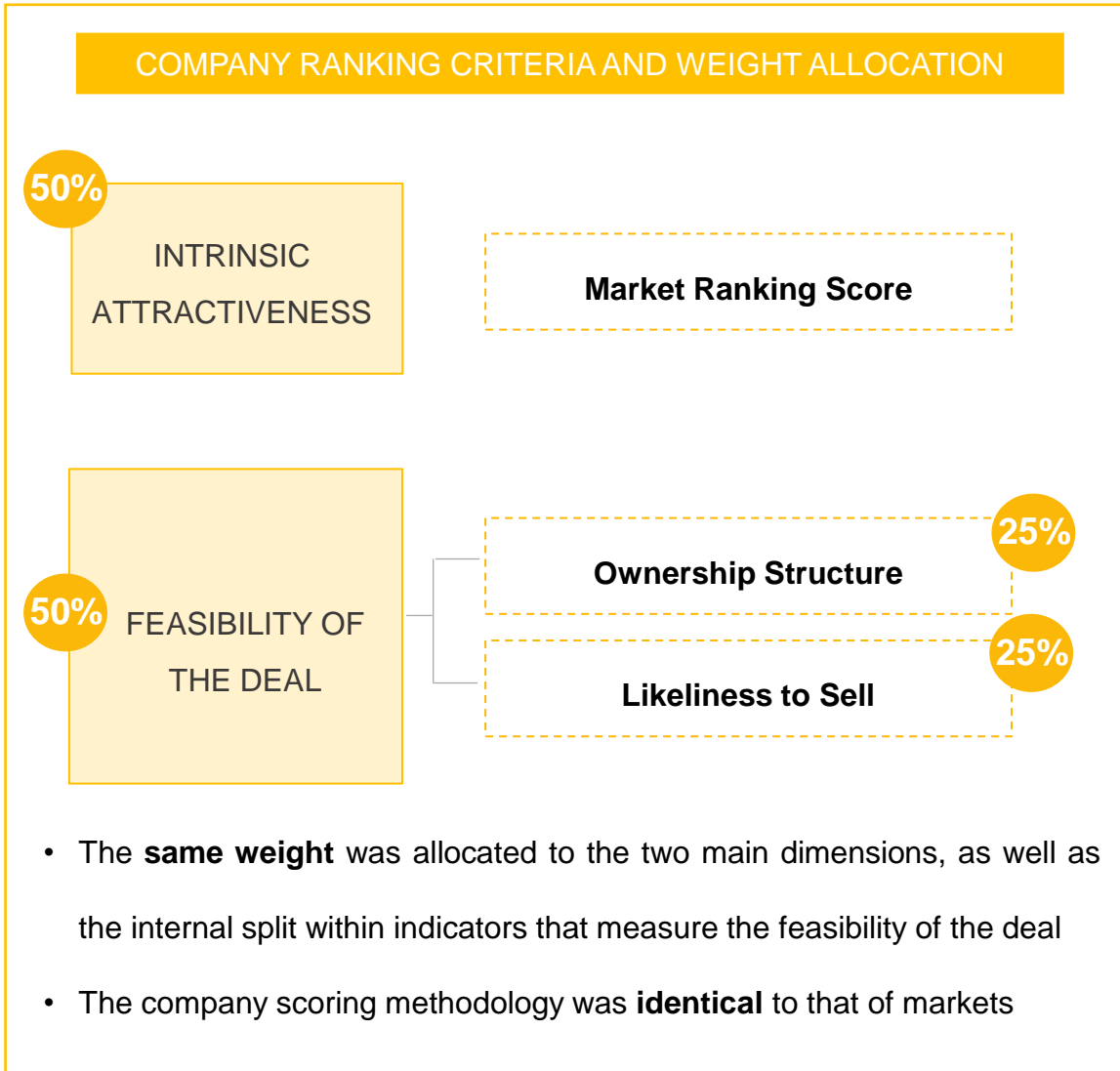
Unavailable Financial Reports from Year N-2



#Companies Excluded

747			
377			
13			

A weighted-average score was also computed for the company analysis, based on 3 key indicators



Based on the feasibility of the deal, the most attractive companies were organized between Action List and Watch List

Table 4 – Allocation of Companies to Action/Watch Lists

ACTION LIST	Overall Score	WATCH LIST
1. Cementos Pacasmayo S. A. (125.75*)	81	
2. Cemento Melón SA (125.75)	80	
	68	3. CBB SA (76.25)
5. Keystone Cement Company (101)	68	3. Cemento Polpaico SA (76.25)
5. The Monarch Cement Company (101)	66	
8. Portlandzementwerk Wittekind HM (125.75)	66	
	63	7. Cemento Yura S.A. (51.5)
12. Cia. de Cimento Itambé (150.5)	54	9. Continental Cement Company, LLC (51.5)
	54	9. Martin Marietta Materials, Inc. (51.5)
	54	9. Salt River Materials Group (51.5)
16. Cementos Tudela Veguín S.A.(125.75)	54	
	53	
	42	13. CalPortland Company (2)
	42	13. Mitsubishi Cement Corporation (2)
	37	15. Breedon Cement (51.5)
	32	
	31	17. Povazska cementáren a.s. (51,5)
	2	18. Norm Cement LLC (2)

*Sum of ownership structure and likeliness to sell scores

OVERALL SCORE

Weighted-average of the three criteria: Market ranking (50%); Ownership structure (25%) and Likeliness to sell (25%)

ACTION LIST VS WATCH LIST

The ownership structure and the likeliness to sell are critical in defining the **feasibility of the acquisition**. Therefore, it was established a **cut-point of 100** for the **sum** of each market's score in the two criteria, in order to evaluate whether the target should be assigned to the action (>100) or watch list (<100)