Università degli Studi di Firenze

# Advanced Corporate Finance

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# Introduction
## Course structure

**Course structure**
3 credits – 24 h – 6 lessons

1. Corporate finance
2. Corporate valuation
3. M&A deals
4. M&A private equity
5. IPOs
6. Case discussions

# Lesson 1 Corporate Finance

# Lesson 1 Summary

1 **Financial Statement Structure**

- **ITA GAAP vs IAS-IFRS**
- **Recent news in ITA GAAP legislation**
- **ITA GAAP structure**
- **IAS-IFRS structure**
- **Main accounting topics**

2 **Financial Statement Analysis**

3 **Business Plan**

4 **Company Financial Structure**

5 **M&A Transactions**

# Financial statement structure

# ITA Gaap vs IAS-IFRS

**Financial Statement is Companies' primary informative document aimed to communicate results to stakeholders**

## Contents and Structure

### ITA GAAP

- Income Statement
- Balance sheet
- Statement of cash flow
- Notes
- + Management Report

- Contents and format strictly defined by law (Italian Civil Code)
- Shareholders oriented
- Historical cost
- Prevalence of form over substance (eg. leasing accounting)

### IAS - IFRS

- Income statement
- Statement of financial position
- Notes
- Statement of cash flow
- Statement of changes in Equity

- No strictly format established . IAS 1 defined only some required items in the P&L and some in the BS.
- Stakeholders oriented
- Fair Value estimates
- Prevalence of substance over form (eg. leasing accounting)
- No separate indication of extraordinary items

***Notes:*** Under the new legislation of the Italian Gaap structure introduced by the Legislative Decree n. 139 of August 18, 2015, the Statement of cash flow has been included as mandatory primary informative document

# Recent news in ITA Gaap legislation

After the publication on the "Gazzetta Ufficiale" – n. 205 of September 4, 2015 – the Legislative Decree n. 139 of August 18, 2015 was implemented in order to transpose the European Directive 2013/34/EU.

The law is in force since January 1, 2016.

## Main news

**Reporting principles**

- Possibility to avoid obligations in terms of **recognition, measurement, presentation and disclosure**, whenever the effects of non-compliance will be irrelevant to the true and fair representation (*Principle of Relevance*)
- There are no more references to the economic function of assets and liabilities in favor of the **substance** of the transaction

**Financial statements**

- Innovations introduced in the **Balance Sheet** and **Income Statement** documents
- Introduction of the obligation to prepare the **Cash Flow Statement**

**Balance Sheet**

- The **treasury shares** are directly deducted from equity
- **Research and advertising costs** are not to be shown as fixed assets: only development costs can be capitalized
- Indication of the relationship between **credits and debts** with companies subjected to the control of the parent
- Introduction of the "**Reserve to hedge expected cash flows**" in the equity
- **Memorandum accounts** are not listed at the bottom of the Balance sheet: information will be provided in the Notes
- Specific items for **derivatives** have been included

**Profit & Loss**

- **Financial income and expenses** must be indicated separately from data regarding companies subject to control
- Specific items added for **derivatives** in the financial items section
- Elimination of Class "E" relative to the **extraordinary items**: income and expenses will be indicated in the Notes

**Cash Flow Statement**

- **Obligation to prepare** the Cash Flow Statement. That is not mandatory for companies that prepare the short-form annual financial statements and for micro-enterprises[1]

**Notes**

- Specific information on: **fair value** of derivatives and respective variation; guarantees, risks and **potential liabilities**
- **Events occurred** after the end of the financial year
- Information that can affect the amount, maturity or certainty of **future financial flows**

**Evaluation criteria**

- **Goodwill** is amortized according to its useful life (or within a period that do not exceed 10 years)
- **Derivatives** are recognized at fair value
- **Credits and debts** will be represented ad their amortized costs rather than their historical or nominal value

***Notes:*** (1) Micro-enterprises are those companies with at least two of the following characteristics: Total assets 175 €K, Revenues 350 €K, Number of employees: 5

# Financial statement structure

# ITA Gaap structure – Profit & Loss and Balance Sheet

## ***Profit & Loss ex Codice Civile art. 2425 e 2425 bis***

***A) VALORE della PRODUZIONE***

| | |
|---|---|
| A1. | Ricavi delle vendite e delle prestazioni |
| A2. | Variazioni delle rimanenze di PiCL, SL, PF |
| A3. | Variazione dei lavori in corso su ordinazione |
| A4. | Incrementi di immobilizzazioni per lavori interni |
| A5. | Altri ricavi e proventi |
| | **Totale Valore della Produzione (A)** |

***B) COSTI della PRODUZIONE***

| | |
|---|---|
| B6. | Per materie prime, sussidiarie, di consumo e merci |
| B7. | Per servizi |
| B8. | Per godimento beni di terzi |
| B9. | Per il personale |
| B10. | Ammortamenti e svalutazioni |
| B11 | Variazione rimanenze MP, sussidiarie, di consumo e merci |
| B12. | Accantonamenti per rischi |
| B13. | Altri accantonamenti |
| B14. | Oneri diversi di gestione |
| | **Totale Costi della Produzione (B)** |

**(A-B) DIFFERENZA tra VALORE e COSTI della PRODUZIONE**

***C) PROVENTI e ONERI FINANZIARI***

| | |
|---|---|
| C15. | Proventi da partecipazioni |
| C16. | Altri proventi finanziari |
| C17. | Interessi passivi ed altri oneri finanziari |
| C17bis. | Utili e perdite su cambi |
| | **Totale Proventi ed Oneri finanziari** |

***D) RETTIFICHE di VALORE di ATTIVITA' FINANZIARIE***

| | |
|---|---|
| D18. | Rivalutazioni |
| D19. | Svalutazioni |
| | **Totale Rettifiche di Valore di Attività Finanziarie** |

**(A-B+/-C-D) RISULTATO PRIMA delle IMPOSTE**

Imposte sul reddito dell'esercizio (*correnti, differite, anticipate*)

**UTILE (PERDITA) dell'ESERCIZIO**

## ***Balance Sheet ex Codice Civile art. 2424***

**ATTIVO**

***A. CREDITI VERSO SOCI PER VERSAMENTI ANCORA DOVUTI***

***B. IMMOBILIZZAZIONI***

- B I. Immobilizzazioni immateriali
- B II. Immobilizzazioni materiali
- B III. Immobilizzazioni finanziarie

***C. ATTIVO CIRCOLANTE***

- C I. Rimanenze
- C II. Crediti
  - C II.1 Verso clienti
  - C II.2 Verso imprese controllate
  - C II.3 Verso imprese collegate
  - C II.4 Verso controllanti
  - C II.5 Verso imprese sottoposte a controllo delle controllanti
  - C II.5-bis Tributari
  - C II.5-ter Imposte anticipate
  - C II.5-quater Verso altri
- C III. Attività finanziarie che non costituiscono immobilizzazioni
- C IV. Disponibilità liquide

***D. RATEI E RISCONTI***

**PASSIVO**

***A. PATRIMONIO NETTO***

***B. FONDI PER RISCHI ED ONERI***

***C. TRATTAMENTO DI FINE RAPPORTO***

***D. DEBITI***

- D.1 Obbligazioni
- D.2 Obbligazioni convertibili
- D.3 Debiti verso soci
- D.4 Debiti verso banche
- D.5 Debiti verso altri finanziatori
- D.6 Acconti
- D.7 Debiti verso fornitori
- D.8 Debiti rappresentati da titoli di credito
- D.9 Debiti verso imprese controllate
- D.10 Debiti verso imprese collegate
- D.11 Debiti verso controllanti
- D.11-bis Debiti verso imprese sottoposte al controllo delle controllanti
- D.12 Debiti tributari
- D.13 Debiti verso istituti di previdenza e sicurezza sociale
- D.14 Altri debiti

***E. RATEI E RISCONTI***

# ITA Gaap structure – Cash Flow Statement

**Under the new legislation, the Cash Flow Statement becomes a mandatory document for all entities required to prepare the financial statements on ordinary form, adding it to the Balance Sheet, the Income Statement and Notes**

***Cash Flow Statement ex Codice Civile art. 2425 ter***

**Stand-alone document that can synthesize the yearly financial dynamic**

**Article 2425 ter CC, contrary to what is usually provided by the Civil Code for the other required reports, does not provide a rigid structure or a minimum content, but specific targets and objectives**

**Objectives**

❖ Describe the amount and composition of cash and cash equivalents at beginning and at the end of the year

❖ Represent cash flows for the year, arising from:

- Operating activities
- Investing activities
- Financing activities (including transactions with shareholders)

# ITA Gaap structure – Notes

**Notes ex Codice Civile art. 2427**

- Evaluation Criteria
- Changes in assets and liabilities
- Details of items included in the Income Statement and Balance Sheet
- Significant events occurred after the end of the financial year [(1)]

**Some details deserve information in terms of financial statements analysis and valuation:**

2) Changes in fixed assets, with separate indication of each items, indicating: the cost, previous changes, depreciation, (…)

4) Changes in other asset and liability items (equity, provision funds, severance indemnity, …)

7) Composition of: accruals, prepaid expenses, deferred incomes, any funds and reserves included into the Balance Sheet

9) The total amount of commitments, guarantees and potential liabilities not represented into the Balance Sheet

13) Composition of extraordinary items, whenever their amount is relevant

14) A separate prospect containing: a) description of temporary differences that led to the recognition of deferred tax assets, specifying the rate applied and any changes with respect to the previous year; b) the amount of the deferred tax assets recorder in relation to losses during the current or the previous period

16) The amount of remuneration paid to the board of directors and auditors, cumulatively for each category

19-bis) Loans made by shareholders to the company

22) Leasing operations

***Notes:*** (1) This is a news introduced by the D. Lgs n. 139 of August 18, 2015. Those information were previously report in the Management Report

Financial statement structure

# ITA Gaap structure – Management Report

***Management Report ex Codice Civile art. 2428***

**[1] The financial statements must be accompanied by a directors' report containing a faithful, balanced and comprehensive analysis of the situation of the company and about the performance and results of operations, both as a whole and in the various sectors in which it operates, also through subsidiaries, particularly with regard to costs, revenues and investments, as well as a description of the principal risks and uncertainties the company is exposed**

**Content**

**(…) Financial performance indicators and, where appropriate, relevant financial and non-specific activities of the company (...) with reference to the amounts reported in the financial statements and clarifications**

**[2] The report should in any case includes:**

1) Research and development activities;
2) Relations with subsidiaries, affiliates, parent companies and companies controlled by the latter;
3) The number and nominal value of both treasury shares and shares of the parent companies held by the company (…), indicating the corresponding part of the capital;
4) The number and nominal value of both treasury shares and shares of the parent companies that have been purchased or sold
6) The business outlook;

6-bis) Information regarding the use of financial instruments by the company;

# IAS-IFRS structure

## ***Income Statement basic requirements***

An entity has a choice of presenting:

- a single statement, with profit or loss and other comprehensive income presented in two sections, or
- two statements:
  - a separate statement of profit or loss
  - a statement of comprehensive income, immediately following the statement of profit or loss [IAS 1.10A]

***Minimum items***

**Profit or loss section** (or separate statement):

- Revenue
- Gains and losses from the write off of financial assets measured at amortized cost
- Finance costs
- Share of the profit or loss of associates and joint ventures accounted for using the equity method
- Certain gains or losses associated with the reclassification of financial assets
- Tax expenses
- A single amount for the total of discontinued items

**OCI section (**or statement):

- *Components of other comprehensive income classified by nature*
- *Share of the other comprehensive income of associates and joint ventures accounted for using EM*

Other comprehensive income items are:

- Assets revaluation
- Increase in financial assets available for sale
- Actuarial profit/loss
- The effects of change in foreign exchange rates

## ***Balance Sheet basic requirements***

*IAS 1 does not prescribe the format of the statement of financial position. Assets can be presented current then non-current, or vice versa, and liabilities and equity can be presented current then non-current then equity, or vice versa*.

***Minimum items***

a) Property, Plant and Equipment
b) Investment Property
c) Intangibles Assets
d) Financial assets
e) Investment Accounting for using Equity Method
f) Biological Assets
g) Inventories
h) Trade and other receivables
i) Cash and cash equivalents
j) Assets held for sale
k) Trade and other payables
l) Provisions
m) Financial liabilities (excluding amounts shown under (k) and (l)
n) Current tax Assets and Liabilities as defined in IAS 12
o) Deferred tax liabilities and deferred tax assets, as defined in IAS 12
p) Liabilities included in disposal groups
q) Non-controlling interests, presented within equity
r) Issued capital and reserves attributable to owners of the parent

# Financial statement structure

## Main accounting topics

| | Ita GAAP | IAS-IFRS |
|---|---|---|
|  **Financial Leasing** | **P&L**: Rental cost<br>**Notes**: Detailed information | **P&L**: Amortization Cost; Financial Charge<br>**BS**: Asset; Financial Debt |
|  **Inventory** | **Applicable valuation criteria**: Weighted Average Cost; FIFO; LIFO | **Applicable valuation criteria**: Weighted Average Cost; FIFO |
|  **Intangibles** | Many Admissible Categories<br>Amortization process | Limited Admissible Categories<br>Amortization process<br>Impairment test |

# Lesson 1 Summary

1. Financial Statement Structure
2. Financial Statement Analysis
   - Overview
   - Income Statement Reclassification
   - Balance sheet Reclassification
   - Income statement and balance sheet
   - Cash Flow Statement
   - Financial Ratios
3. Business Plan
4. Company Financial Structure
5. M&A Transactions

## Financial statement analysis

# Overview

Financial Statement Analysis is aimed to acquire and develop information about corporate management, that is branched in its **economic and financial aspects**

| Internal | PERSPECTIVE | External |
|---|---|---|
| ✓ Management<br>✓ Shareholders<br>✓ Employees | INTERESTED PARTIES | ✓ Banks and financiers<br>✓ Financial Advisors/ Analysts<br>✓ Clients/ suppliers/ competitors<br>✓ Economic research entities and vigilance committees<br>✓ … |
| ✓ Develop summary information about corporate management<br>✓ Financial planning instrument<br>✓ Management control instrument<br>✓ ... | APPLICATION | ✓ VALUATIONS REFERRED TO:<br>✓ Access to credit<br>✓ Income Capability<br>✓ Financial Structure<br>✓ Business Features<br>✓ Cash flows Generation<br>✓ … |

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# Overview

Financial statement Analysis can be ideally divided into two steps:

1) Income statement and Balance sheet **Reclassification**
2) Construction and analysis of performance **Ratios**

***Financial Statement Reclassification***

**INCOME STATEMENT**

- **Cost of sales**
- **Added Value**
- **Contribution Margin**

**BALANCE SHEET**

- **Financial Account**
- **Management Account**

**CASH FLOW STATEMENT**

**Processing of Cash Flow Statement**

***Ratios***

**PROFITABILITY RATIOS**

- **Net Profit**
- **Operating Profit**

**FINANCIAL RATIOS**

- **Cash ratios**
- **Financial Stability ratios**

# Income statement reclassification

The main methods of income statement reclassification highlight operating profit (characteristic activity) from different points of view.

## "Cost of sales"

Net Sales
(-) Cost of Sales
**Gross Margin**
(-) General and Administrative costs
(-) Selling Costs
**EBIT**

(+) Purchases
(+/-) Variations in stock of raw materials,
**Consumption**
(+) Staff costs
(+) General industrial costs
(+) Industrial Amortization
(+/-) Variations in stock of work in progress
**COST OF FINISHED PRODUCTS**
(+/-) Variations in stock of finished products
**COST OF SALES**

## "Added Value"

Net Sales Revenues
(+) Other revenues and income
(+/-) Variations in stock of FP and and in work in progress.
(+/-) Variation in contracts in progress.
(+) Work performed for own purposes and capitalized.
**VALUE OF PRODUCTION**
(+) Purchases
(+/-) Variations in stock of raw materials,
(-) Cost for services
(-) Cost for use of assets owned by others
(-) Other operating charges
External costs
**ADDED VALUE**
(-) Staff costs
**EBITDA**
(-) Amortization
(-) Depreciation and Amounts provided for risk provisions
**EBIT**

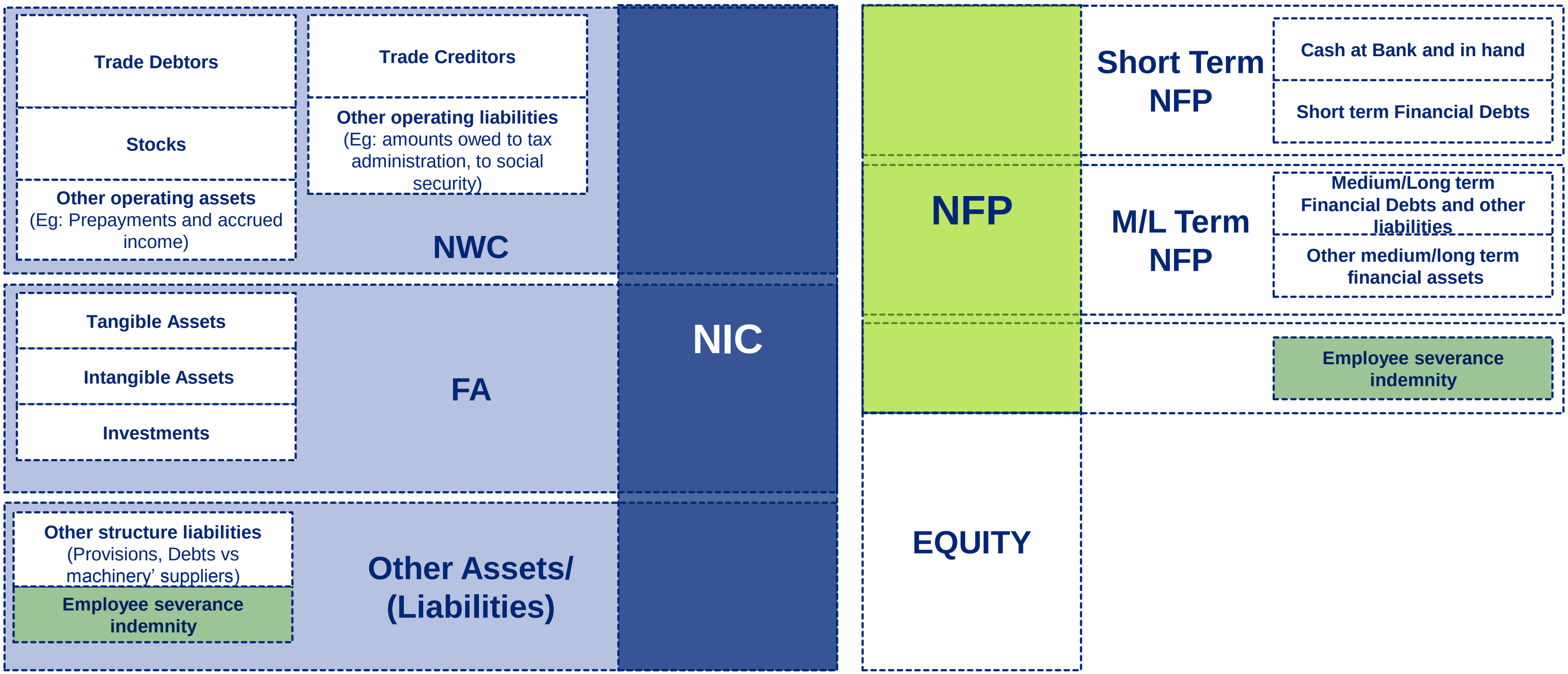
## "Contribution margin"

Net Sales Revenues
(-) Purchases
(+/-) Variations in stock of FP and and in work in progress.
(-) Production variable costs
(-) Commercial variable costs
**CONTRIBUTION MARGIN**
(-) Industrial fix costs
(-) Comemrcial fix costs
(-) G&A fix costs
**EBIT**

- ✓ **Easy to produce by an external analyst**
- ✓ **It highlights the most important profit margins for financial community**

# Balance sheet reclassification

The **“Management Account Method”** allows analyst to identify the main *Asset classes* that origin financial requirement: Net Working Capital (NWC), Fixed assets (FA) and Net Invested Capital (NIC), together with *Financial sources*: Net financial Position (NFP) and Equity (E).

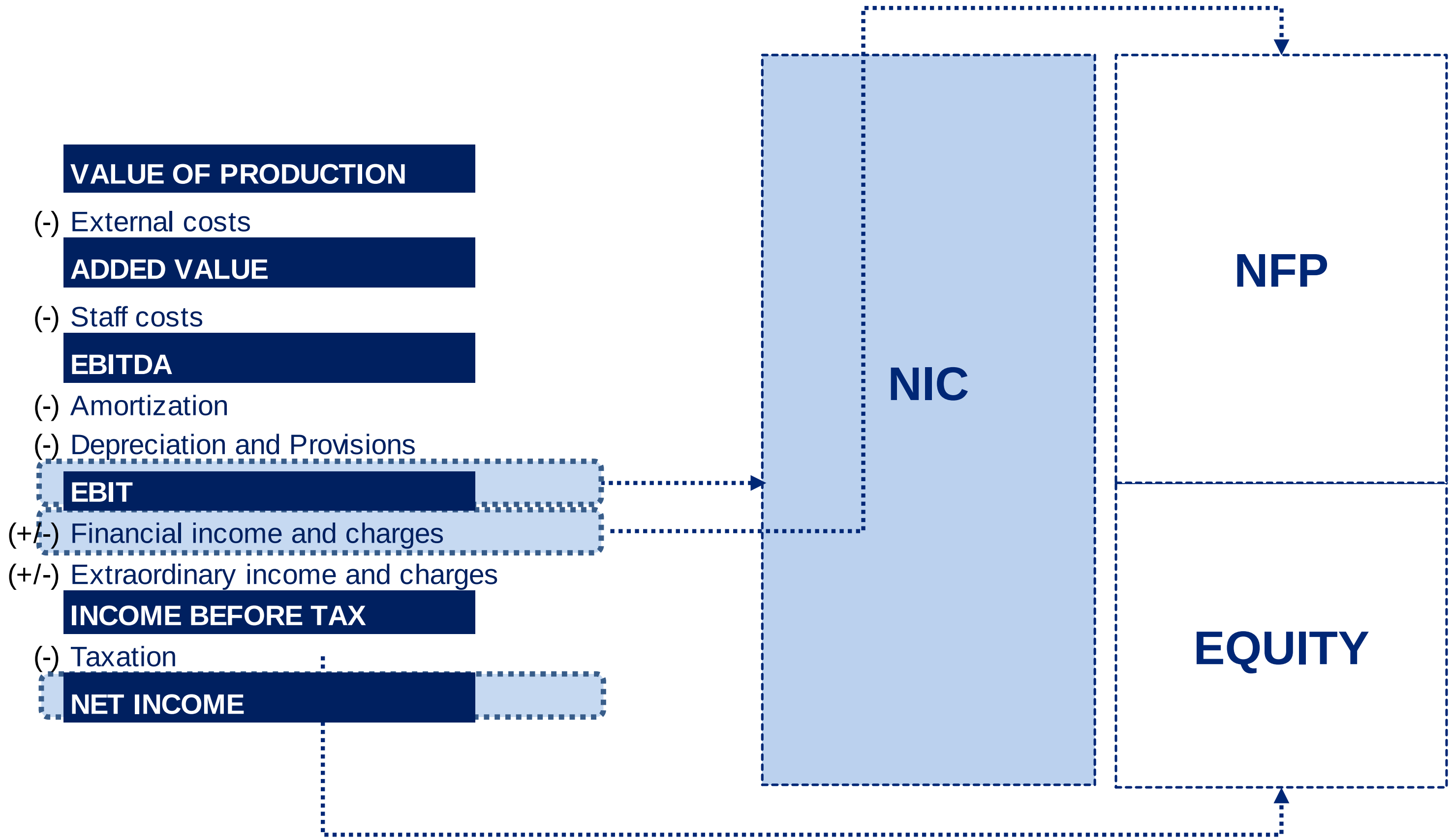



**Employee severance indemnity**

**Depending on the number of employees and on *Employee severance indemnity* accounting, companies with more than 50 employees can include it in NFP as financial debt (Reform 1/01/2007)**

# Income statement and balance sheet

The **Management Account Method** underlines also the coverage of net financial requirement expressed by NIC. It helps in finding logical connections with Income statement



# Cash flow statement

**Cash flow Statement** shows Company capability of cash generation (cash inflows) or cash absorption (cash outflows) during the year

**Main financing sources and main cash uses are:**

| CASH INFLOWS | CASH OUTFLOWS |
|---|---|
| ✓ Operating Cash Flow (EBITDA +/- Changes in NWC) | ✓ Decrease in capital stock (es. Dividend distribution) |
| ✓ Paying Increase in capital stock | ✓ Payment of payable loans (capital + charges) |
| ✓ Opening of loans payable (capital) | ✓ Opening of active loans (capital) |
| ✓ Proceed of active loans (capital + interests) | ✓ Acquisition of fix assets |
| ✓ Sell of fix assets | ✓ Use (payment) of provisions |
| ✓ Grants received | ✓ Tax payment |

# Cash flow statement

**Cash Flow Statement** highlights the generation and absorption of financial resources occurred during the year, divided into the main management areas

| |
|---|
| Initial Cash at Bank and in Hand |
| **EBIT (A)** |
| Taxes on Ebit (B) |
| **NOPLAT (C = A+B)** |
| Depreciation and Amortization (d) |
| **GROSS CASH FLOW (E = C+D)** |
| Changes in NWC (F) |
| CAPEX (G) |
| Changes in Funds (H) |
| **FREE CASH FLOW (I = F+G+H)** |
| Financial income and charges (L) |
| Tax on financial area (M) |
| **Net financial income and charges (N = L-M)** |
| New M/L term financing (O) |
| M/L T financing reimbursement (P) |
| **M/L T Financial Activities Cash Flow (Q = O-P)** |
| Equity increase (R) |
| Dividends and other equity decrease (S) |
| **Equity Cash Flow (T = R-S)** |
| **CASH FLOW FROM FINANCING (U = Q+T)** |
| Extraordinary income and charges (V) |
| Tax on extraordinary area (W) |
| **NET INTEREST AND CHARGES NOT OPERATIVE (X = V-W)** |
| **CASH FLOW GENERATED (ABSORBED) (W= I+N+U+X)** |
| Final Cash at Bank and in Hand |

**Cash Flow Statement is a very important input in Corporate valuation, because it represents company's cash flow production through characteristic operating activity (excluding capex)**

# Financial statement analysis

# Financial ratios

Statements reclassification is also necessary for the construction of **interrelated indicators** that allow to focus the analysis on economic and financial performances

| Profitability Ratios |
| --- |
| **Ebitda Margin% =** Ebitda / Revenues |
| **Ebit Margin% (ROS) =** Ebit / Revenues |
| **ROI =** Ebit / NIC |
| **ROE =** Net Income / Equity |
| **Extraordinary area (S) =** Income before tax / Ordinary Income |
| **Tax (T) =** Net Income **/** Income before tax |
| **ROE = [ Roi+(Roi-Rod)*NFP/E ]*S*T** |

| | Financial Ratios |
| --- | --- |
| *Turnover index* | **Stock Turnover (DIO) =** Net Revenues / Stocks |
| | **Raw Material turnover** = RM stock / RM consumptions *365 |
| | **Finish Product turnover** = FP stock / cost of goods sold *365 |
| | **Days sales outstanding DSO= (**receivables/(revenues*(1+VAT))*365 |
| | **Days payables outstanding DPO= (**payables/(purchases*(1+VAT))*365 |
| | **NWC turnover =** Revenues/NWC |
| | **FIXED asset turnover =** Revenues/ Fixed Assets |
| *Debt ratios* | **Debt level =** NFP/Equity |
| | **Debt incidence =** NFP/(Equity+NFP) |
| | **NFP/EBITDA** |
| | **Interest Coverage Ratio =** EBIT / Interests |
| | **Debt Service Coverage Ratio =** Cash Flow / (Loan payments+ loan interests) |

# Financial ratios

| | |
|---|---|
| **Turnover trend and margins** | ✓ A decrease registered for 2 or more consecutive years can suggest that a decline phase has started |
| **Ebitda Margin** | ✓ Lower than direct competitors: the Company is less competitive and in the medium term it can led to a crisis state. |
| **Financial Charges/Ebit** | ✓ Higher than 60-70%: results are vulnerable |
| **Intangibles/Ebitda** | ✓ Higher than 4-5 times: difficulty to cover amortizations and impairment |
| **ROI** | ✓ Less than 5-6% or lower than cost of debt: the financial leverage tend to be negative. |
| **NFP/Ebitda** | ✓ More than 5 times: doubts about pay back capability |
| **NFP/Equity** | ✓ Higher than 2 times: excessive debt dependence |

# Lesson 1 Summary

1. Financial Statement Structure
2. Financial Statement Analysis
3. **Business Plan**
   - Overview
   - Strategic Plan Process
   - Strategic Analysis
   - Assumptions
   - Financial Planning
   - Qualifications
   - Sensitivity analysis
   - Pre and Post Money
4. Company Financial Structure
5. M&A Transactions

# Overview: aim and role

| Business Plan Aim and Role | | |
|---|---|---|
| **The Business Plan is an important tool for internal management and external analysis** | | |
| **What is a BP?** | • It defines Company strategic plans<br>• It shows how the Company intends to pursue these plans<br>• It shows the consistency between results and assumptions | The BP is first of all an internal document necessary for management as it describes the business and the future plans, but it's also useful for external subjects.<br>Starting from the current company situation and from the present needs, document aim is to show Company's future evolution. Particular focus is given to business strengths, at the same time evidence of the weaknesses and the actions necessary to minimize them. |
| **What's the aim of a BP?** | • Internal management tool<br>• Banks<br>• Fund raising | The BP is always necessary in a fund raising situation: for banks in case of debt negotiation or re-negotiation; for grants by Public Authority; for financial and strategic investors in case of debt or equity investments.<br>Many holding companies request the annual preparation of BP to subsidiaries<br>Anyway the BP is first of all a fundamental instrument for internal management and planning |

# Business Plan

## Overview: potential recipients

| **Business Plan potential recipients** | | |
|---|---|---|
| **The BP must be able to meet the recipients' needs** | | |
| **Recipient** | **Key question** | **Main topics** |
| **Internal Use** | • Strategies<br>• Action plan<br>• Goals<br>• Need of changes<br>• Performance monitoring<br>• Need of external resources | The BP is a systematic instrument for business management and planning and for performances measurement. It allows to highlight company's needs in terms of financial resources, human resources, investments, etc.. |
| **Banks** | • Loan amount<br>• Financing destination<br>• Payback schedule<br>• Capability of payment<br>• Corporate reaction to extraordinary events<br>• Available guarantees | Banks are mainly interested in the comprehension of business risks. |
| **Private Equity and Stock Exchange** | • Amount of Investment<br>• Destination of Investment/Financing<br>• Return of Investment<br>• Possible way-out | Investors are mainly interested in the comprehension of business outlooks, through the analysis of:<br>• Track record of the company, the management and the market,<br>• Comprehension of outlooks rationality,<br>• Key drivers for company success (in particular the management)<br>• Clients (purchase criteria and future perspectives) |

# Strategic Plan Process

## Components of Strategic Plan

"Yesterday – Today" → "Tomorrow" →

### Strategy pursued

Description of:
- Operative strategic layout
- Performance realized in each SBA
- Need/opportunity for strategic renewal

**Market Analysis**
**Competitive Scenario**
**Business analysis**

### Strategic aims

Management choices related to:
- Role in competitive area
- Value proposition
- Creation of competitive advantage

### Action plan

Actions which reduce the gap between strategy pursued and strategic aims; in particular:
- Economic/financial impact and timetable
- Investments to be made
- Organizational impact of the individual action
- Intervention on products/services/ brand portfolio
- Actions which change the customer target
- Responsible managers
- Conditions and restrictions regarding realizable nature

### Assumptions

Relative to key value drivers and forecast data, with reference to:
- Macroeconomic magnitudes
- Development of revenues
- Direct costs
- Indirect cost, financial charges and taxation
- Evolution of capital employed
- Evolution of financial structure

### Forecast financial data

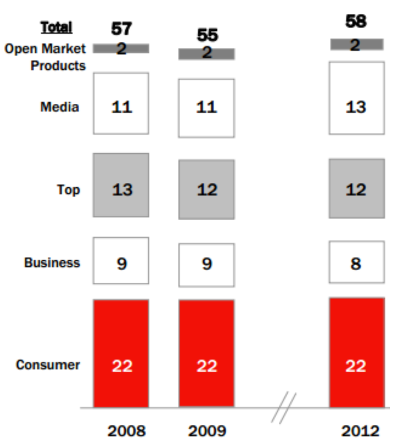
Consistent with the strategic aims and the Action Plan and referring to:
- SBUs
- Distribution channels
- Geographic areas
- Customer type
- Products/services/brands

# Business Plan

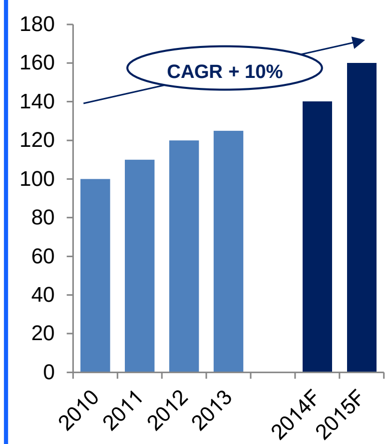
## Strategic analysis: Market Analysis

**Market analysis**

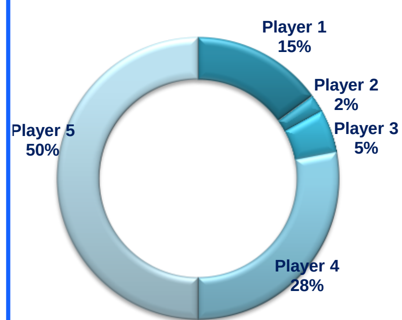
**Market definition and dimensioning**



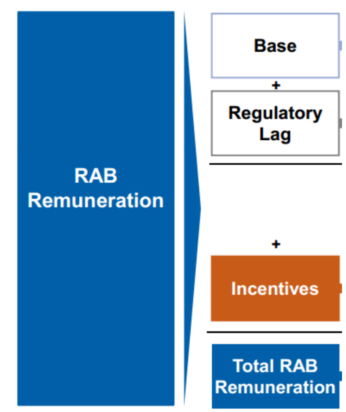

**Trend analysis and key driver analysis**




**Concentration levels and trend**

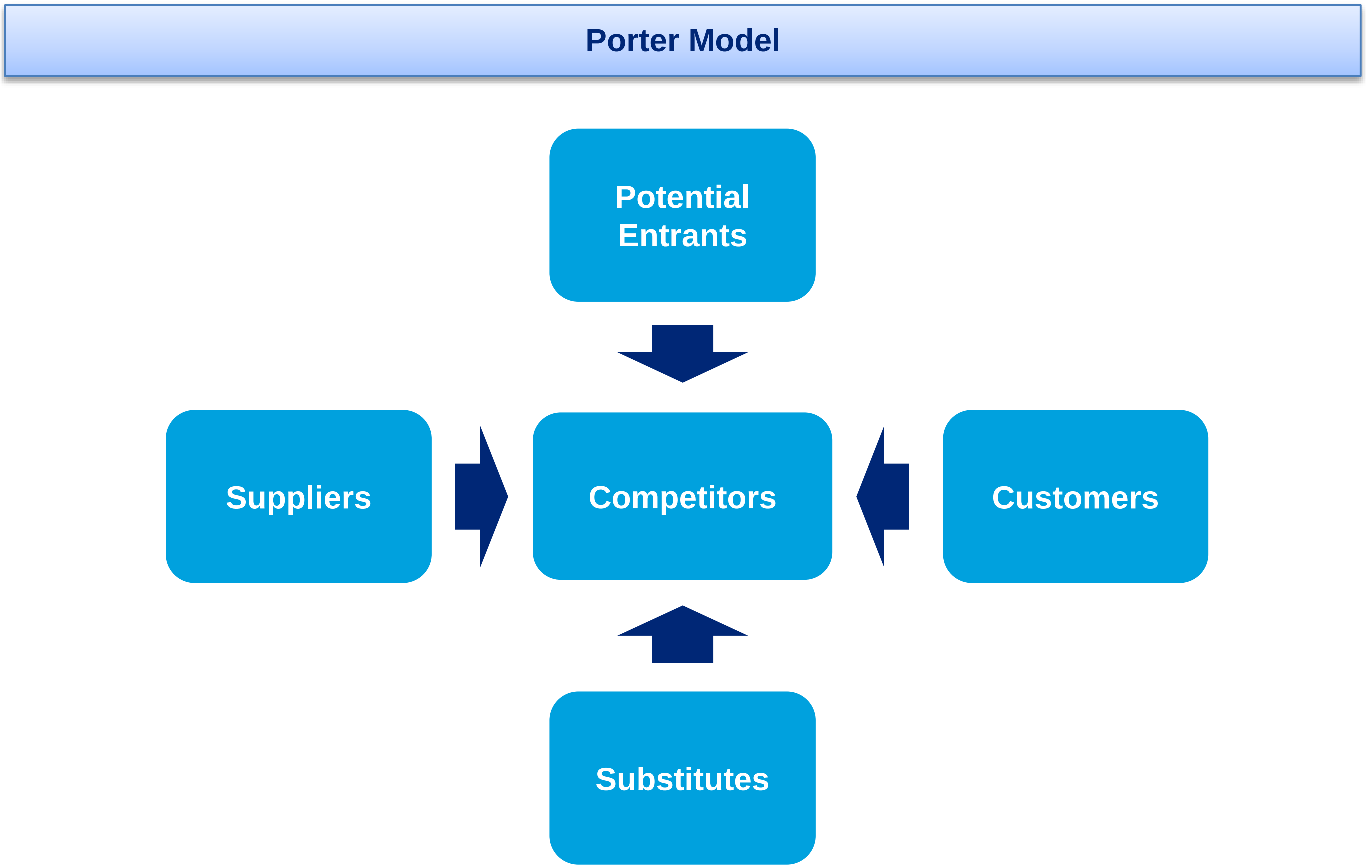



**Regulatory aspects**



# Business Plan

## Strategic analysis: Competitive scenario



# Strategic analysis: Business Analysis

## SWOT Analysis

**Internal factors**

### Strengths

A distinctive competence?
Location advantages?
Proprietary technology?
Adequate financial sources?
Product innovation abilities?
Brand or product awareness?

### Weaknesses

Obsolete facilities?
Weak image?
Lack of managerial depth and talent?
Poor track record?
Vulnerable to competitive pressure?
Below-average marketing skills?

**External factors**

### Opportunities

Serve additional customer groups?
Enter new market or segment?
Add complementary products or services?
Vertical integration?
Faster market growth

### Threats

Likely entry new competitors?
Growing of substitute product/service?
Growing competitive pressure?
Vulnerability to recession and business cycle?
Growing bargaining power of customers or suppliers?

# Business Plan
## Action Plan

**Action Plan**

**All the action which permits the realization of the strategic aims, with specification of the impact in financial terms and the estimated timetable for the implementation**

### Investments
- Indication about:
  - the sum total,
  - the type,
  - timetable

### Organizational impact
- In terms of:
  - Business Model
  - Managerial structure
  - Corporate workforce
  - Geographic areas to be covered
  - Distribution channels and commercial structure

### Portfolio
- Any measures on products/services/brand portfolio

### Customer target
- The action by means of which one intends to create a possible variation of the customer target to serve.

### Manager responsibility
- The system of responsibility or rather indication of the managers responsible for the scheduled action

### Restrictions
- The conditions/restrictions which may influence the possibility of accomplishing the action.

| Strategic Aim | Action | Timetable | Cost reduction | Responsibility |
|---|---|---|---|---|
| **Reducing operating costs** | Reduction of production workforce by 40 units | **June 2015** | **1.000** | **Operation manager** |
| | Replacement and reduction of suppliers | **March 2015** | **3.000** | |
| | Rationalization of logistic flow | **October 2015** | **2.000** | |
| | Internalization of plant maintenance and employment of specialized staff | **June 2015** | **1.000** | |

# Assumptions: Economic Plan

| Macro-driver | Leverage | Results |
|---|---|---|
| Revenues and margins | Average sales prices<br>Volumes<br>Average purchase costs | Contribution Margin<br>Fiscal year results<br>Cash flows/ Self-financing/Net Financial Position |
| Logistic area | Distribution structure<br>Sales network | Gross operating margin (EBITDA)<br>Cash flows/ Self-financing/Net Financial Position<br>Logistic structure optimization |
| Other operating costs | […] | Gross operating margin (EBITDA)<br>Cash flows/ Self-financing/Net Financial Position |

# Assumptions: Financial Plan

| Macro-driver | Leverage | Results |
|---|---|---|
| NWC trend | Debtors grace period<br>Stock turnover<br>Creditors grace period | NWC Consistency<br>Cash absorption/generation<br>Cash flows/ Self-financing/Net Financial Position |
| Investment | New investments<br>Maintenance investments | Fixed Assets Consistency<br>Cash Absorption/ Net Financial Position<br>Amortization Dynamics |
| Financing | Debt structure | Financial charges<br>Pay-back plans |

# Connections Economic Plan – Financial Plan

**Economic Plan**

+ Sales revenues
- Purchase costs
- Consumptions
- Wages and salaries
- Amortization
- Accruals

**= EBIT**

- M/L term financial charges

+ Financial interests
- S term financial charges

**= Profit Before Tax**

- TAX (IRES, IRAP)

**= NET PROFIT**

**Financial Plan**

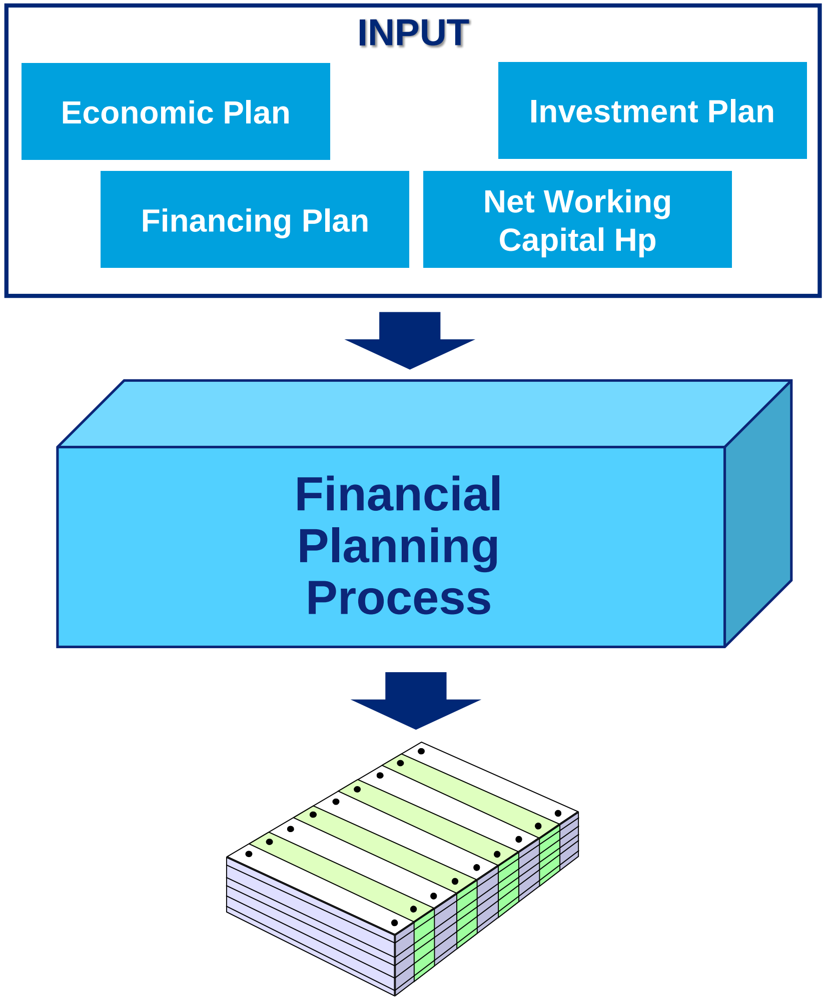
Trade debtors
Trade creditors
Stocks
Employee debts
INPS, IRES Debts
VAT credits, debts
Fixed Assets

Financial requirement
Cash surplus

Tax Debts/ Credits

Equity

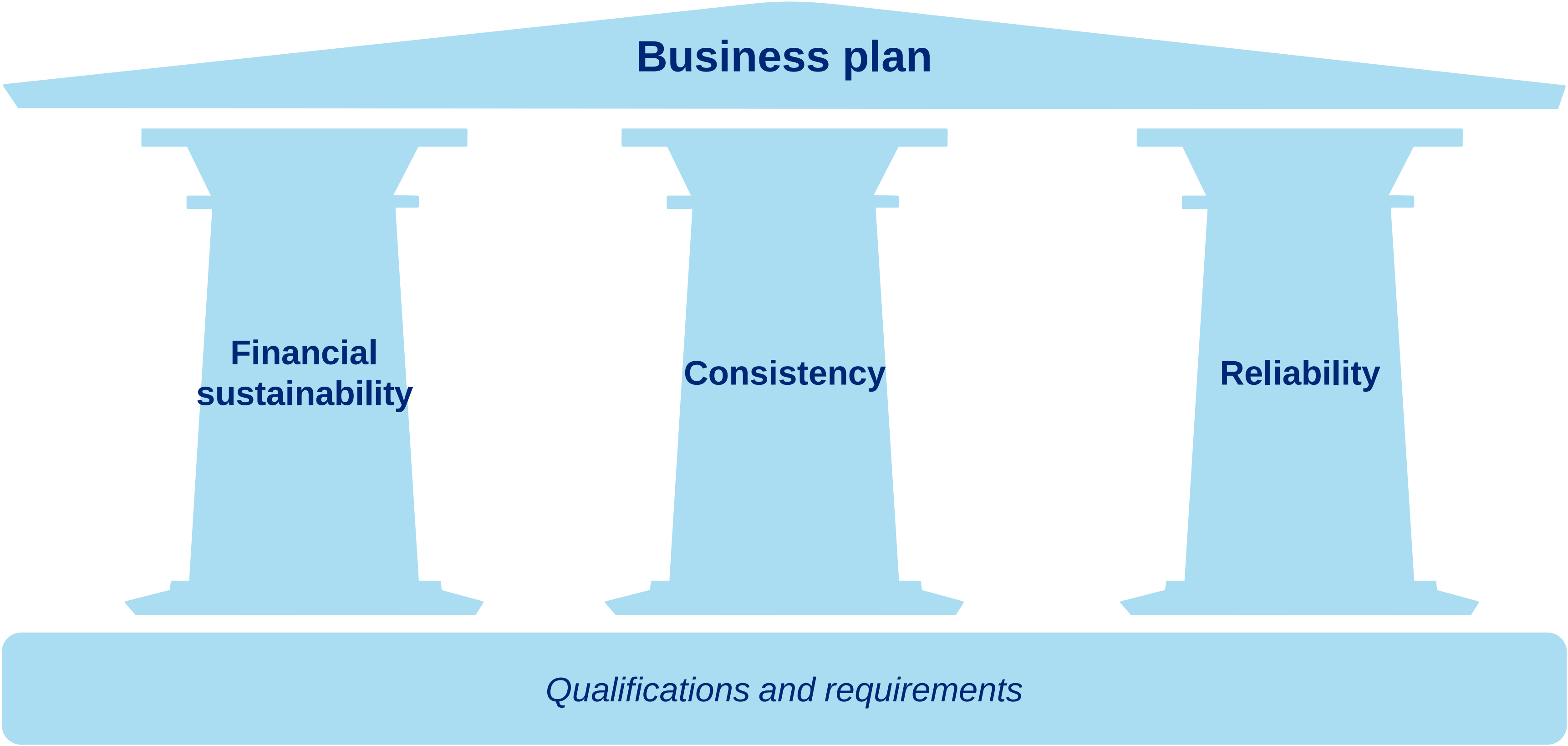
# Business Plan
# Financial Planning




**Economic – Financial Plan**

- The information needed depend on BP purpose
- However it's possible to identify a minimum set of input
  - **Economic plan up to EBITDA**
  - **Fixed Assets amortization plan**
  - **Investments and divestments plan**
  - **Long term financing amortization plan**
  - **Net working Capital elements**
- Input depending on Business Plan's purpose:
  - NEW long term financing plan
  - Dividend distribution hypothesis
  - Way-out hypothesis
  - Detail information

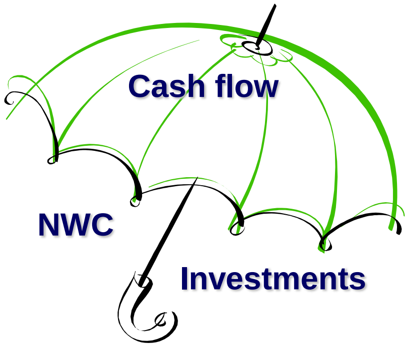
# Business Plan
## Qualifications



# Qualifications: financial sustainability

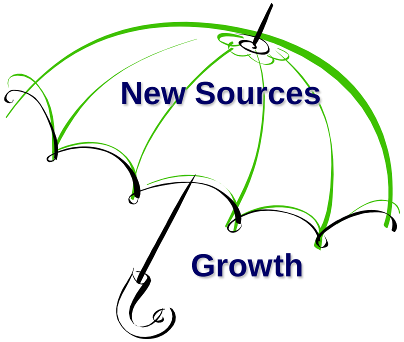
## Financial sustainability

### 1.




Cash flow sufficient to cover NWC needs and net maintenance/replacement investments

### 2.




The recourse to new sources (Debt and Equity) should be finalized to cover financial needs relative to growth

### 3.


Balance between type of sources and investments

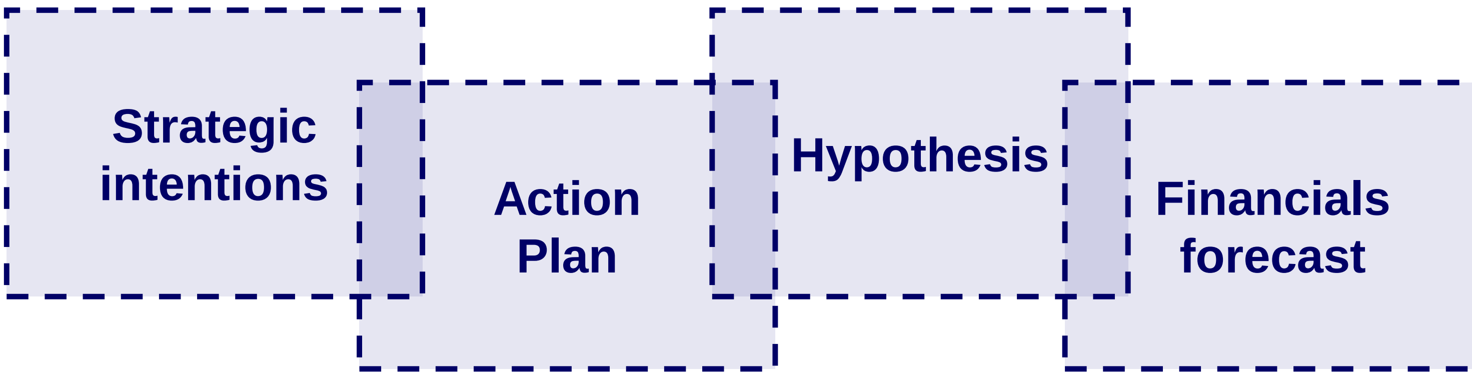
### 4.


Debt consistent with company's reimbursement capability (D/E, DSCR, risk profile)

# Qualifications: consistency

## Consistency

This requisite relates to an “internal” dimension of the plan and materializes where all the aspects are consistent with one another




**Compatibility between strategic choices, action plans, timetable and future available sources (human, organizational, technological and financial)**

# Qualifications: reliability

## Reliability

**Compatibility with the dynamics of the competitive context**

**Compatibility with the historical results**
***(growth rate, NWC trend, efficiency improvement perspectives…)***

**Visibility of the forecast data**

**Sensitivity analysis**
***(test different scenarios)***

# Sensitivity analysis

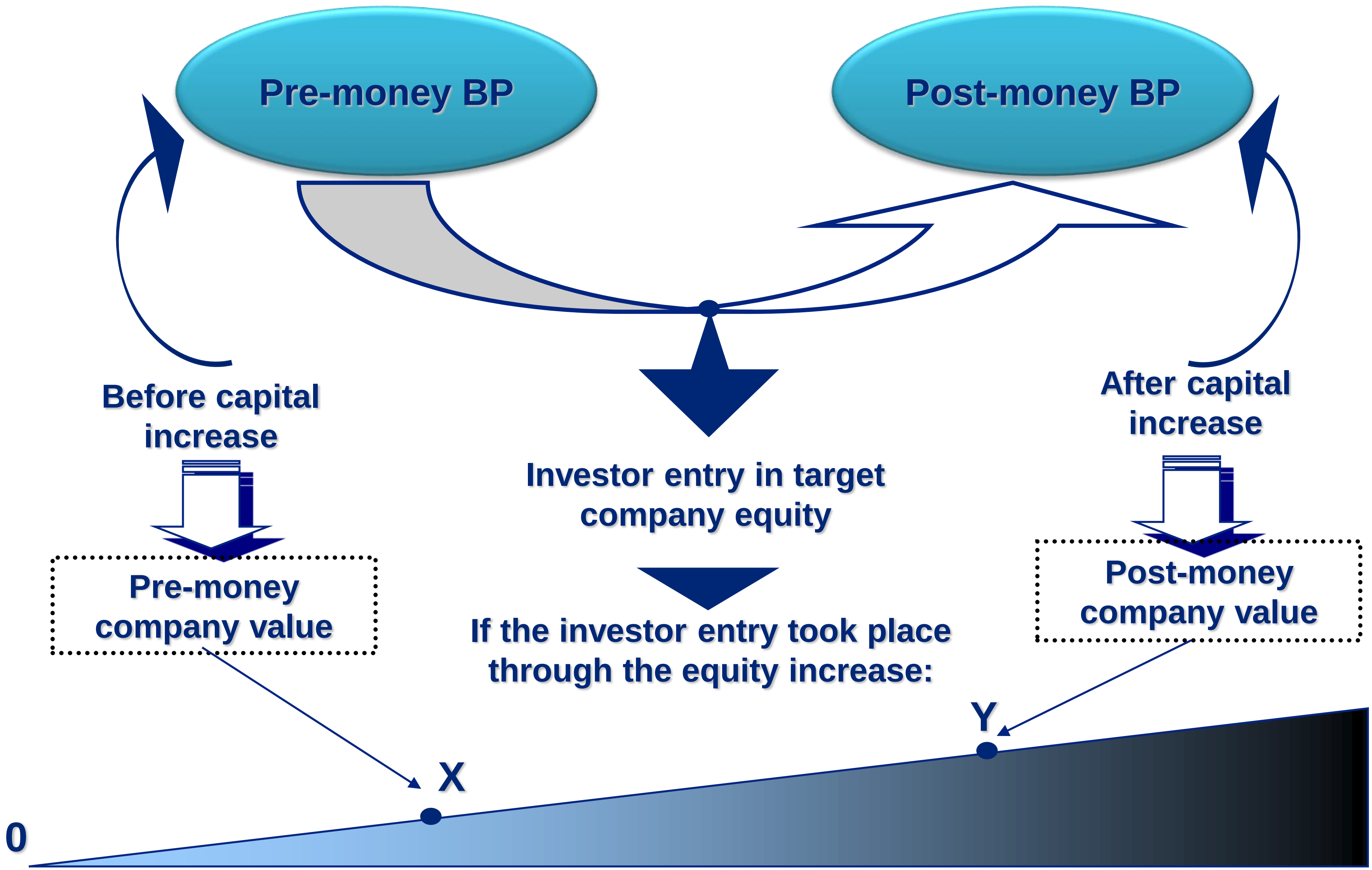
| **Sensitivity analysis** | |
|---|---|
| **To concentrate the sensitivity analysis on:** | ❖ the main key value drivers,<br>❖ the most significant external sector-based variables,<br>❖ the most relevant implementation actions<br>❖ the possible integration of the companies recently acquired |
| **The sensitivity analysis should be presented with respect to:** | ❖ more optimist scenarios<br>❖ more pessimistic scenarios |
| **Demonstrating the effect on:** | ❖ main economic data (for example: sales revenue, operating margin, net profit)<br>❖ main financial data (for example: net financial position, investments) |
| **The simulations will have** | ❖ to be supported by detailed and justifiable theories<br>❖ the results will have to be comparable in terms of parameters/indexes utilized. |

**AIM:**

**Demonstrate economical and financial sustainability even in less probable, but possible, scenarios**

Business Plan

# Pre and Post Money



# Lesson 1 Summary

1. Financial Statement Structure
2. Financial Statement Analysis
3. Business Plan
4. **Company Financial Structure**
   - **Financing sources**
   - **Risks and performances**
   - **Financing sources: Company life cycle**
5. M&A Transactions

# Company Financial Structure

# Financing sources

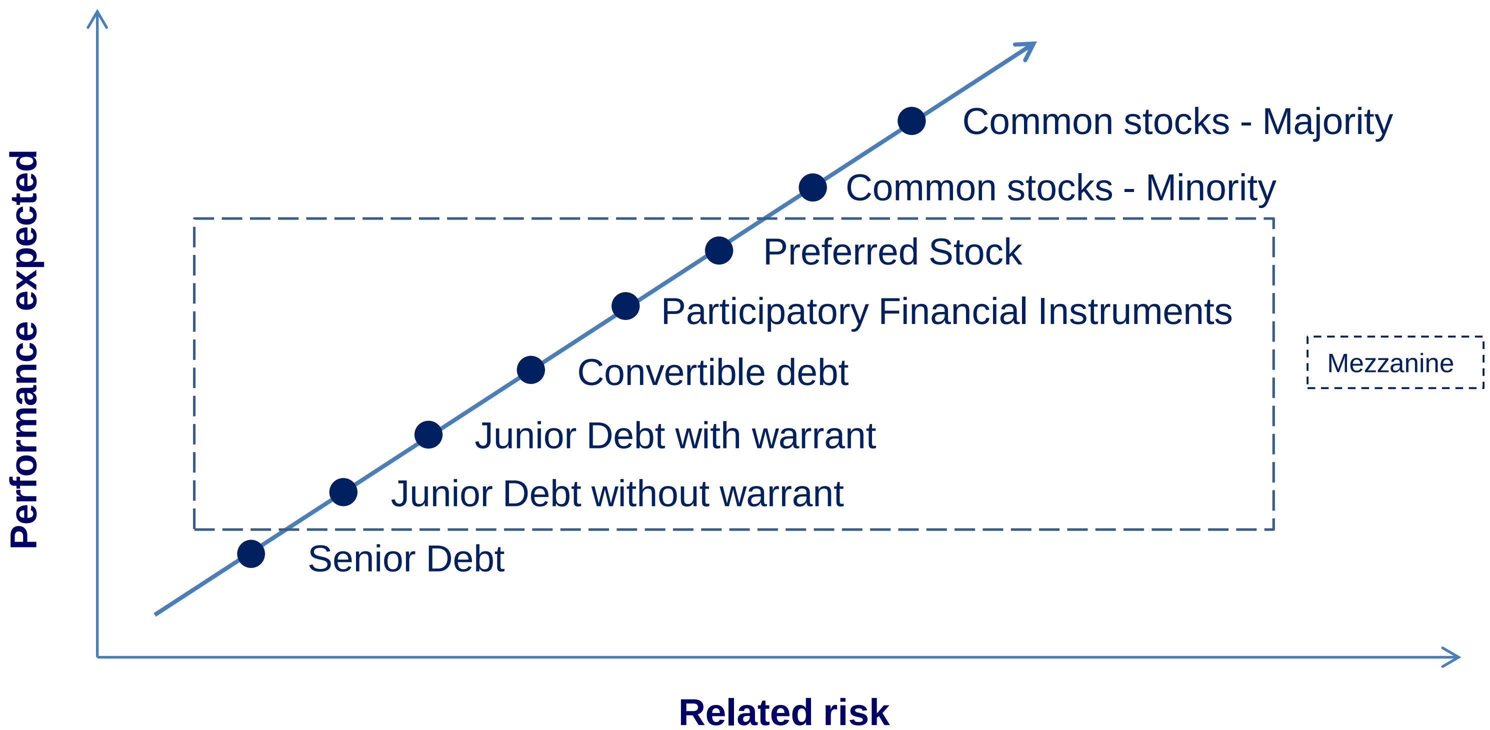
Financial sources used for financing company's activity can be classify in respect to

- ✓ the nature of the financing tool;
- ✓ the nature of the financier

| Nature of the Financing tool | External (bank side) | External (market side) | Internal |
|---|---|---|---|
| **Debt** | Traditional bank debt<br>• short term<br>• medium-long term<br><br>Structured finance<br>Project Financing | Bond loan<br>Mini bond<br><br>Structured finance<br>Securitization | Shareholders loan |
| **Hybrid** | Mezzanine | Convertible B.L.<br>B.L with warrant<br>Participating financial tools | Participation financial tools |
| **Equity** | | Ownership Equtiy (Private Equity / Venture Capital/IPO/ new strategic investors)<br>Warrant | Self financing<br>Shares (shareholder' s capital increase)<br>Warrant |

# Financing sources

Different financing tools have different risk-performance relationship.




**A company chooses the best mix related to its status and needs.**

Company Financial Structure

# Risk and performance

| **Senior debt** | |
|---|---|
| ❖ Cheapest and main source of finance<br>❖ Secured and usually unrated | |
| **Repayment** | • Term loans with fixed repayment schedule |
| **Tenor** | • 6 years or less (amortization gives a 3-4 year average life) |
| **Interest rate** | • EURIBOR +2 to 4% but it depends on country and risk |
| **Mid market leverage multiple** | • 3.4x EBITDA (Thomson Reuters) |
| **Lender** | • Mainly banks |
| **Structure** | • Senior tranches often structured as two or more tranches (A, B, C and sometimes D) |
| **Use** | • Revolving loans can be used for cyclical firms |

# Risk and performance

| **Mini Bond** | |
|---|---|
| ❖ Term is used to refer to debt securities (bonds) made easier due to package of reforms introduced by Decreto Sviluppo, Decreto Sviluppo bis and Decreto Destinazione Italia.<br>❖ Aim is to facilitate access by small and medium sized companies (SMEs) and unlisted companies to capital markets as alternative method of funding and thereby encouraging economic growth.<br>❖ Main effect of the reform is a reduction of legal and tax restrictions if the securities are traded on a regulated market or multilateral trading facility such ExtraMOT Pro.<br>○ Withholding Tax: issuer no longer required to apply 20% withholding tax on interest;<br>○ Deductibility of Interest<br>○ Deductibility of costs of issuance<br>○ Disapplication of limit of no more than twice the aggregate of a company's equity | |
| **Repayment** | • Term loans with fixed repayment schedule |
| **Tenor** | • 3-7 years (amortizing or bullet repayment) |
| **Interest rate** | • average 6-7% but it depends on company and risk |
| **Lender** | • Professional investors |

# Risk and performance

| **Junior debt** | |
|---|---|
| ❖ Subordinated to senior debt on interest and capital. Subordination can be achieved:<br>○ Contractual via an inter creditor agreement<br>○ Structural – a creditor lend or invest in a company through a holding company<br>❖ The cost is higher than senior debt because of poor quality security<br>❖ Secured by: second charge on fixed assets, subordinated to senior debt, based on excess cash flow | |
| **Tenor** | • 5-10 years |
| **Interest rate** | • cash coupon of EURIBOR +3% - 7%, with target IRR of 15% - 25% |
| **Mid market leverage multiple** | • 1.3x EBITDA (Thomson Reuters) |
| **Lender** | • Professional investors and seller |

# Company Financial Structure

## Risk and performance

| Mezzanine debt | |
|---|---|
| ❖ Financing source between a company's senior debt and equity: subordinate in priority of payment to senior debt, but senior in rank to common stock or equity.<br>❖ More expensive than senior debt but less rigid<br>❖ Secured by a second or third charge on assets<br>❖ Target lower interest rate with participation in equity or performance: warrants, payments linked to performance | |
| **Repayment** | • Bullet payment |
| **Tenor** | • 8-10 years |
| **Interest rate** | • EURIBOR + 7% to 11% and some maybe rolled up into a PIK contract |
| **Mid market leverage multiple** | • 3.4x EBITDA (Thomson Reuters) |
| **Lender** | • Professional investors |

**Payment In Kind**

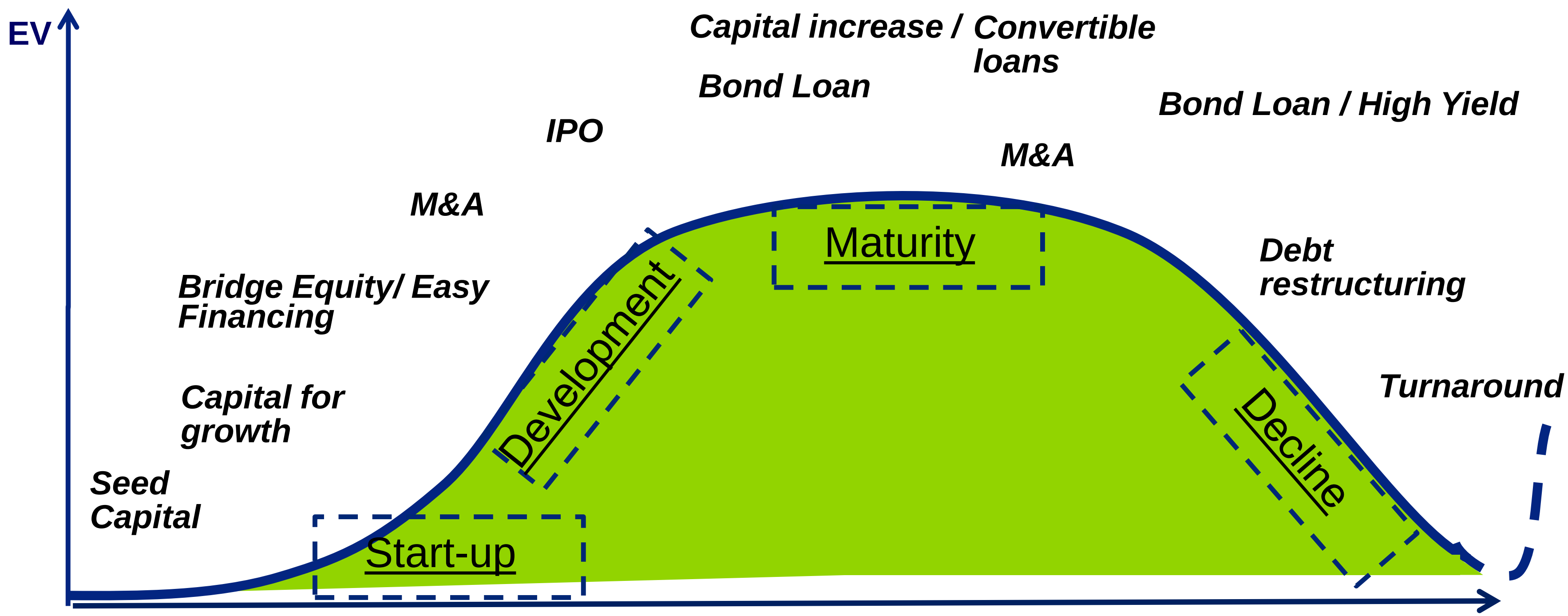
- Non standard hybrid instrument
- Total return target of 20-25% IRR in two parts
  - ✓ contractual return (semi annual accretion)
  - ✓ warrants
- Usually structurally subordinated to debt
- Some prepayment restrictions

# Risk and performance

| Equity | |
|---|---|
| **Shareholders** | • Equity increase by existing shareholders |
| **Stock Exchange** | • Listed in MTA, Star segment and AIM |
| **Private Equity** | • Equity increase by financial investors |
| **Venture capital** | • Financing for start-up companies or companies with a high risk profile that offer the potential for above average future profits. |

# Financing sources: Company life cycle

In relation to Company's life cycle phase there are typical extraordinary transactions



# Lesson 1 Summary

1. Financial Statement Structure
2. Financial Statement Analysis
3. Business Plan
4. Company Financial Structure
5. **M&A Transactions**
    - The role of corporate finance in M&A transaction
    - Acquisition
    - Contribution
    - Merger
    - Spin off

# The role of corporate finance in M&A transaction

An extraordinary corporate transaction represents an important discontinuity phase during a company life cycle. It's aimed at supporting the operating growth path, with the objective of creating value.

***M&A corporate transactions***

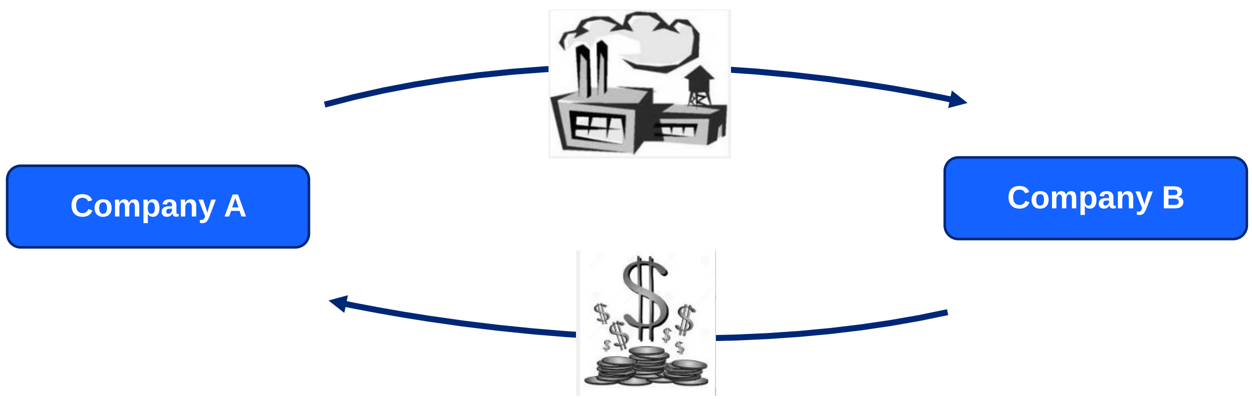
- **Operations unrelated to ordinary management**
- **Internal /external (they involve the company and current shareholders/ they involve other external players)**
- **They reflect on corporate structure and on governance**

**M&A transactions**

- **Acquisition**
- **Merger**
- **Contribution**
- **Spin off**

# Acquisition

The Acquisition is the operation trough which a subject buys the ownership of a company, or a line of business, in order to assume the control.




**Legislation**

- ✓ **Art 2556 – 2560 Italian Civil Code**
- ✓ Attention to staff debts and fiscal debts (D.lgs 472/1997)

# Acquisition: accounting implications

## Accounting implications

Before Acquisition

**Seller Balance Sheet**

| | | | |
|---|---|---|---|
| Assets | 1000 | Equity | 100 |
| | | Debt | 900 |

**Buyer Balance Sheet**

| | | | |
|---|---|---|---|
| Cash | 1000 | Equity | 1000 |

After Acquisition

**Seller Balance Sheet**

| | | | |
|---|---|---|---|
| ~~Assets~~ | ~~1000~~ | Equity | 100 |
| Cash | 200 | ~~Debt~~ | ~~900~~ |
| | | **Capital Gain** | **100** |

**Buyer Balance Sheet**

| | | | |
|---|---|---|---|
| Cash | 800 | Equity | 1000 |
| Asset | 1000 | Debt | 900 |
| **Goodwill** | **100** | | |

**Economic Value of Acquisition = 200**

***Notes:*** assumption that historical values are equal to fiscal values

M&A transactions

# Acquisition: tax implications

**Seller Balance Sheet**

| | | | |
|---|---|---|---|
| ~~Assets~~ | ~~1000~~ | Equity | 100 |
| Cash | 200 | ~~Debt~~ | ~~900~~ |
| | | **Capital Gain** | **100** |

**Taxable Capital Gain (art 86 TUIR)**

**Buyer Balance Sheet**

| | | | |
|---|---|---|---|
| Cash | 800 | Equity | 1000 |
| Asset | 1000 | Debt | 900 |
| **Goodwill** | **100** | | |

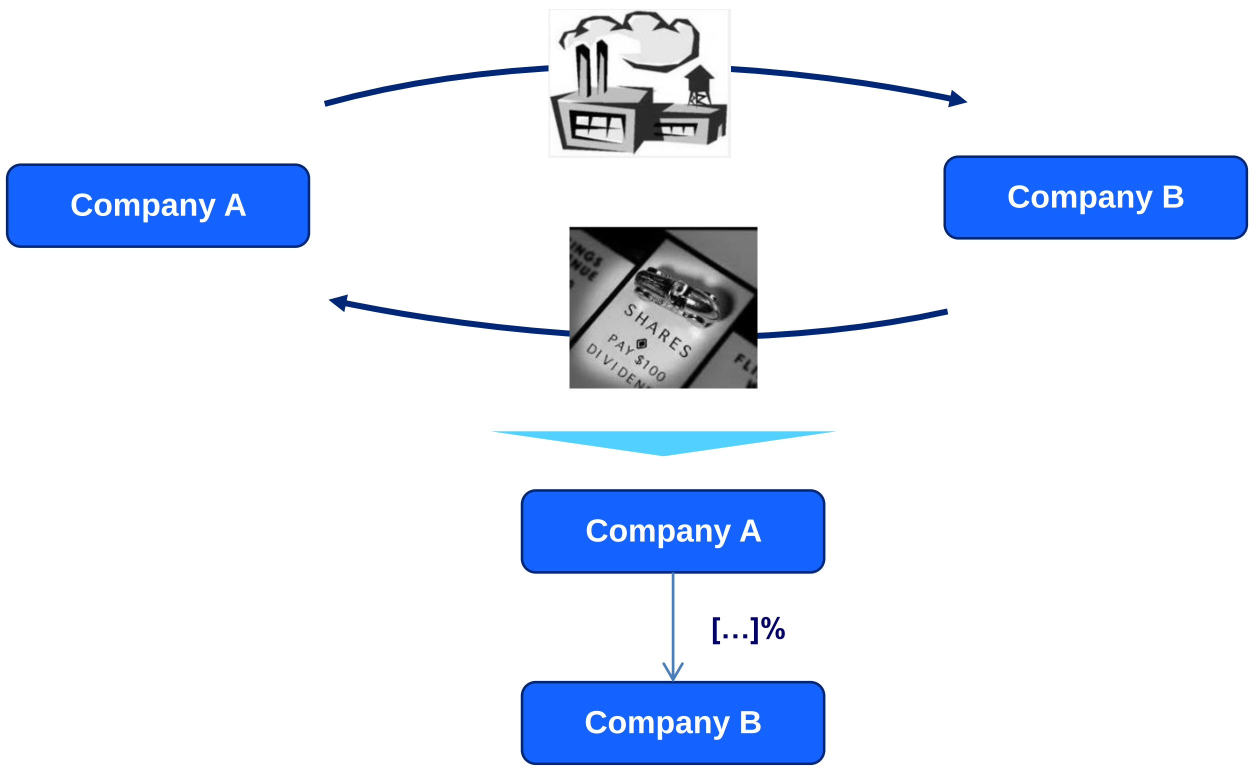
**Deductible depreciation**

**Fiscal Value = 100**

**Acquisition operation is subject to registration fee on the basis of acquired asset type (eg. 3% goodwill, 9% property, etc.)**

# Contribution

The contribution consists of a transfer of a company or a line of business to another company receiving as offset stocks of this last




**Legislation**

- ✓ **Art. 2342, 2343, 2440 Italian Civil Code: S.p.A.**
- ✓ **Art. 2464, 2465 Italian Civil Code: S.r.l.**
- ✓ The operation of contribution requires an estimate survey by an accounting expert

# Contribution: accounting implications

## Accounting implications

**Historical values**

**Current values**

- **Substitutive regime**
- **Neutral regime**

**<u>Historical values</u>:** The conferrer accounts the shares at historical values, writing off assets and liabilities object of contribution

– No capital gain

– No goodwill

**Situation Ante contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 100 |

**Conferrer post contribution**

| | | | |
|---|---|---|---|
| Shares | 100 | Equity | 100 |

**Beneficiary post contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 100 |

***Notes:*** assumption that historical values are equal to fiscal values

# Contribution: accounting implications

## Accounting implications

**Current values – Substitute Regime:** the conferrer accounts the received shares in exchange for the contribution at the survey value and writes off all the assets and liabilities object of contribution.

- The capital gain can be submitted to substitute regime.
- The beneficiary accounts the value of contribution dividing it into all the assets and liabilities included goodwill.

**Company A ante contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 100 |

**Company B post contribution**

| | | | |
|---|---|---|---|
| Shares | 150 | Equity | 100 |
| | | Capital Gain | 43 |
| | | Tax debt | 7 |

**Beneficiary post contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 150 |
| Goodwill | 50 | | |

Economic Value = 150

**Current values – Neutral Regime:** the conferrer accounts the shares received in exchange for the contribution at the survey value and writes off all the assets and liabilities object of contribution. The survey values affects only for accounting and not for tax purpose. In fact for tax purpose affects only historical values.

- The capital gain accounts only for accounting (Income Statement E20), and it will not be taxed
- In the conferee accounts only historical values affects for tax purpose.

**Company A ante contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 100 |

**Company B post contribution**

| | | | |
|---|---|---|---|
| Shares | 150 | Equity | 100 |
| | | Capital Gain | 50 |

**Beneficiary post contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 150 |
| Goodwill | 50 | | |

Economic Value = 150

# Contribution: tax implications

**Substitutive regime:**
**Fiscal value relevant (Tax from 12% to 16%)**

**Company B post contribution**

| | | | |
|---|---|---|---|
| Shares | 150 | Equity | 100 |
| | | Capital Gain | 43 |
| | | Tax debt | 7 |

**Fiscal value 150**

**Tax relevant**

**Beneficiary post contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 150 |
| Goodwill | 50 | | |

**Deductible depreciation**

**Neutral regime:**
**Fiscal value not relevant**

**Company B post contribution**

| | | | |
|---|---|---|---|
| Shares | 150 | Equity | 100 |
| | | Capital Gain | 50 |

**Fiscal value 100**

**No fiscal relevance**

**Beneficiary post contribution**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 150 |
| Goodwill | 50 | | |

**No fiscal relevance**

**Contribution operation is subject to fixed registration fee of 200€ and fixed mortgage tax of 200€**

# M&A transactions

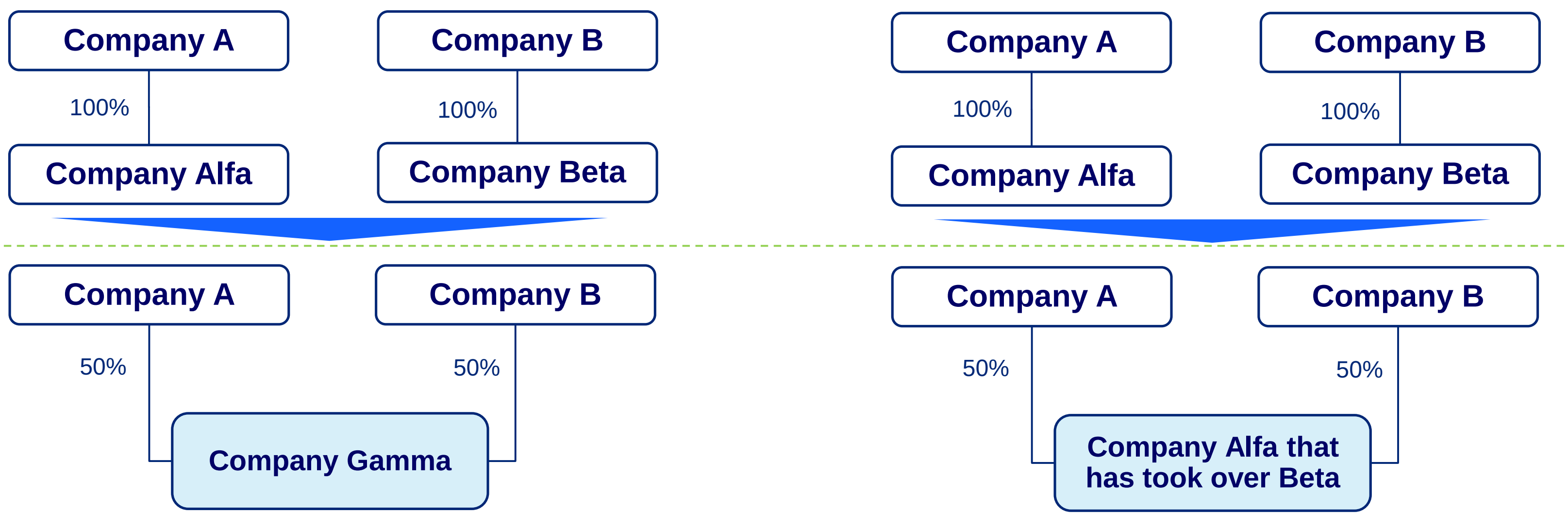
## Merger

**Statutory merger**

- ✓ Two or more companies merge their capital in a brand new company.

**Improper merger**

- ✓ Combination of two or more companies, where a company incorporates the capital of the combining companies.




Situation after merger

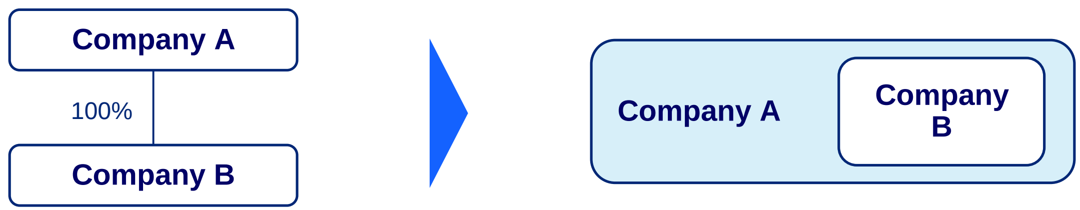
**Legislation**

- ✓ **Art 2501 to 2504 Italian Civil Code**

# Merger: accounting implications

## Accounting implications

Annulment GAP




### *Deficit GAP*

**A Before merger**

| | | | |
|---|---|---|---|
| Stock in B | 100 | Equity | 100 |

**B Before merger**

| | | | |
|---|---|---|---|
| Assets | 50 | Equity | 50 |

**A After merger**

| | | | |
|---|---|---|---|
| Assets | 50 | Equity | 100 |
| Annulment GAP | 50 | | |

**It amounts to the positive difference between the value of the share merged and the value of B equity**

### *Surplus GAP*

**A Before merger**

| | | | |
|---|---|---|---|
| Stock in B | 100 | Equity | 100 |

**B Before merger**

| | | | |
|---|---|---|---|
| Assets | 150 | Equity | 150 |

**A After merger**

| | | | |
|---|---|---|---|
| Assets | 150 | Equity | 100 |
| | | Annulment GAP | 50 |

**It amounts to the negative difference between the value of the stock merged and B equity**

# Merger: accounting implications

## Accounting implications

SWAP GAP

Company A | Company B → Company A [Company B]

### *Deficit GAP*

**A Before merger**

| | | | |
|---|---|---|---|
| Assets | 100 | Equity | 100 |

HP: economic value 100

**B Before merger**

| | | | |
|---|---|---|---|
| Assets | 50 | Equity | 50 |

HP: economic value 100

**A After merger**

| | | | |
|---|---|---|---|
| Assets | 150 | Equity | 100 |
| SWAP GAP | 50 | Stock increase | 100 |

**It amounts to the positive difference between the stock increase and B equity (economic value > historical value)**

### *Surplus GAP*

**A Before merger**

| | | | |
|---|---|---|---|
| Stock in B | 100 | Equity | 100 |

HP: economic value 100

**B Before merger**

| | | | |
|---|---|---|---|
| Assets | 150 | Equity | 150 |

HP: economic value 100

**A After merger**

| | | | |
|---|---|---|---|
| Assets | 250 | Equity | 100 |
| | | Stock increase | 100 |
| | | SWAP GAP | 50 |

**It amounts to the negative difference between the stock increase and B equity (economic value < historical value)**

# Merger: tax implications

**A After merger**

| Assets | 50 | Equity | 100 |
|---|---|---|---|
| Annulment GAP | 50 | | |

**Neutral regime:**
**Fiscal value not relevant**

**A After merger**

| Assets | 150 | Equity | 100 |
|---|---|---|---|
| SWAP GAP | 50 | Stock increase | 100 |

**Substitutive regime:**
**Fiscal value relevant (Tax from 12% to 16%)**

**A After merger**

| Assets | 150 | Equity | 100 |
|---|---|---|---|
| | | Annulment GAP | 50 |

**A After merger**

| Assets | 250 | Equity | 100 |
|---|---|---|---|
| | | Stock increase | 100 |
| | | SWAP GAP | 50 |

**Attention to Equity Breakdown**

**Share capital**

**Reserves**

**Merger operation is subject to fixed registration fee of 200€ and fixed mortgage tax of 200€**

# M&A transactions

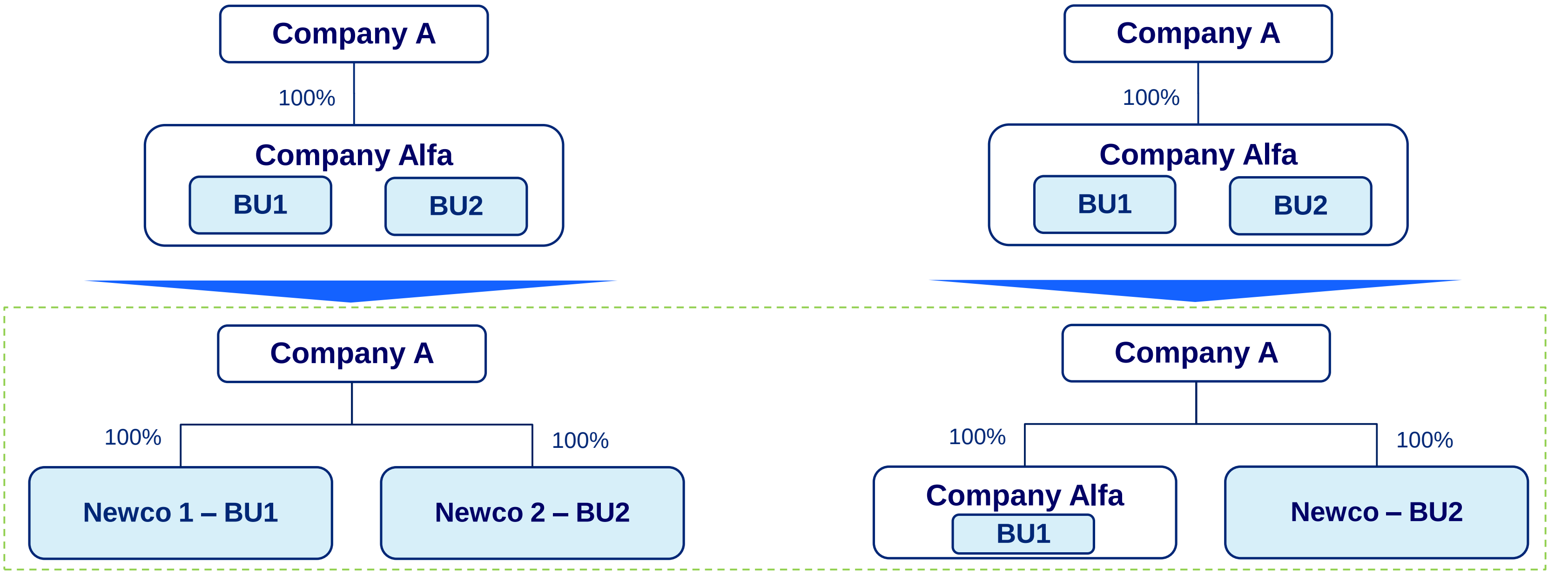
## Spin off

**Total spin off**

- ✓ Corporate divestiture that results in two or more new/existing companies

**Partial spin off**

- ✓ Corporate divestiture that results in two or more companies, but the parent company continues its activity




**Legislation**

- ✓ **Art 2506 CC**

# Spin off: accounting implications

## Accounting implications

Annulment GAP


### *Deficit GAP*

**A Company**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 250 |
| BU 2 | 150 | | |

**B Beneficiary**

| | | | |
|---|---|---|---|
| Stock in A | 400 | Equity | 400 |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 400 |
| Stock in A | 240 | | |
| Annulment GAP | 60 | | |

BU1 is the object of the spin off and its real economic value is 160
BU2 real economic value is 240
B after spin off annuls the 40% of the stock in A (the percentage of BU1 in the total asset of A)

**The Annulment GAP amounts to the positive difference between the cost of the annulled stock (160) and the book value of the BU1 (100)**

### *Surplus GAP*

**A Parent**

| | | | |
|---|---|---|---|
| BU 1 | 200 | Equity | 250 |
| BU 2 | 50 | | |

**B Beneficiary**

| | | | |
|---|---|---|---|
| Stock in A | 400 | Equity | 400 |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 200 | Equity | 400 |
| Stock in A | 240 | Annulment GAP | 40 |

BU1 is the object of the spin off and its real economic value is 160
BU2 real economic value is 240
B after spin off annuls the 40% of the stock in A (the percentage of BU1 in the total asset of A)

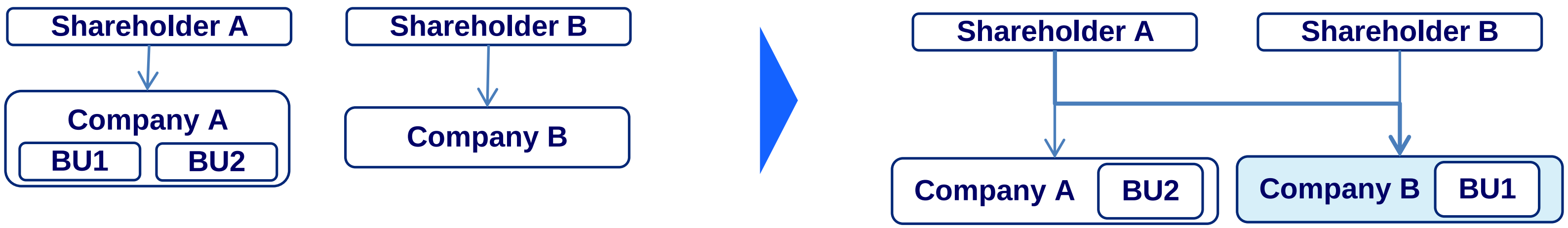
**The Annulment GAP amounts to the negative difference between the cost of the annulled stock (160) and the book value of the BU1 (200)**

# M&A transactions

## Spin off: accounting implications

### Accounting implications

SWAP GAP




***Deficit GAP***

**A Company**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 250 |
| BU 2 | 150 | | |

**B Beneficiary**

| | | | |
|---|---|---|---|
| Assets | 50 | Equity | 50 |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 50 |
| Assets | 50 | Equity Increase | 250 |
| SWAP GAP | 150 | | |

Economic Value of BU1 is 250

**The SWAP GAP amounts to the positive difference between the equity increase of the beneficiary company and the book value of the BU1**

***Surplus GAP***

**A Parent**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 250 |
| BU 2 | 150 | | |

**B Beneficiary**

| | | | |
|---|---|---|---|
| Assets | 50 | Equity | 50 |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 50 |
| Assets | 50 | Equity Increase | 50 |
| | | SWAP GAP | 50 |

Economic Value of BU1 is 50

**The SWAP GAP amounts to the negative difference between the equity increase of the beneficiary company and the book value of the BU1**

# Spin off: tax implications

**Neutral regime:**
**Fiscal value not relevant**

**Substitutive regime:**
**Fiscal value relevant (Tax from 12% to 16%)**

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 400 |
| Stock in A | 240 | | |
| Annulment GAP | 60 | | |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 50 |
| Assets | 50 | Equity Increase | 250 |
| SWAP GAP | 150 | | |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 200 | Equity | 400 |
| Stock in A | 240 | Annulment GAP | 40 |

**B After spin off**

| | | | |
|---|---|---|---|
| BU 1 | 100 | Equity | 50 |
| Assets | 50 | Equity Increase | 50 |
| | | SWAP GAP | 50 |

**Attention to Equity Breakdown**

**Share capital**

**Reserves**

**Spin off operation is subject to fixed registration fee of 200€ and fixed mortgage tax of 200€**