

Protecting the deal: making the cross-border merger bulletproof

Ian FitzSimons
General Counsel
Pernod Ricard



2001: SEAGRAM

- **PRIVATE AUCTION:** joint purchase by Pernod Ricard and Diageo
- **TOTAL PURCHASE PRICE: US\$ 8.15 billion** of which US\$ 3.8 billion paid by Pernod Ricard
- **FRAMEWORK AGREEMENT** between Pernod Ricard and Diageo
 - Governed by English law
 - Covered division of assets and allocation of liabilities
 - Provided for separation of business over 12 month period
- **ASSETS ACQUIRED BY PERNOD RICARD:**
 - **Brands:** Chivas, Martell, Royal Salute, The Glenlivet, Seagram's Gin, Royal Stag, Blenders Pride
 - **Distribution networks** in Asia and Latin America
- **VENTURE ASSETS:** brands such as Oddbins, Mumm Sekt, Sandeman were sold to third parties through a sale process jointly run by buyers
- **ANTI-TRUST:** EU, FTC, etc... all obtained in Phase 1 subject to conditions (mainly Diageo's sale of Malibu)
- **EXECUTION TO CLOSING TIMELINE:** 12 months (December 2000 until December 2001)





2005: ALLIED DOMEQ PLC

- **ACQUISITION co-financed by Fortune Brands** through the pre-agreed acquisition of certain brands and other assets
- **TOTAL PURCHASE PRICE: EUR 14.2 billion paid in combination of cash and Pernod Ricard shares** and of which EUR 4.1 billion in cash was contributed by Fortune Brands
- **FRAMEWORK AND IMPLEMENTATION AGREEMENT**
 - Governed by English law
 - Covered separation of assets and liabilities
 - Provided for 6 month period to divide business post-closing
- **LIMITED DUE DILIGENCE ON PRIOR TO AND AFTER OFFER**
- **ASSETS ACQUIRED:** Malibu, Ballantine's, Beefeater, Mumm, Perrier Jouët,
- **ANTI-TRUST:** EU, FTC, all obtained in Phase 1 (with conditions). Critical factor in a public tender offer in UK.
- **EXECUTION TIMELINE:** 4 months (April to July 2005)
- **POST-CLOSING SALE** of Dunkin' Donuts for US\$ 2.42 billion





2008: VIN & SPRIT (ABSOLUT)

- **TRANSACTION:** acquisition of 100% shares of the **Vin & Sprit Group (« V&S »)** from the **Kingdom of Sweden**
- **SALE AND PURCHASE AGREEMENT** governed by Swedish law
- **LIMITED WARRANTIES**
- **TOTAL PURCHASE PRICE : EUR 5.626 billion** (EUR 5.280 million + EUR 346 million net debt)
- **BRANDS ACQUIRED BY PERNOD RICARD:** Absolut and some local brands
- **MINOR BRANDS SOLD BY PERNOD RICARD** (mainly due to anti-trust requirements)
- **ANTITRUST:** FTC, EU obtained in Phase 1. Critical timing issue for Swedish government. Main requirement was the exit from Stolichnaya distribution agreements in US and Europe
- **EXECUTION TIMELINE:** 4 months (March to July 2008)



SEAGRAM 2001

ALLIED DOMECQ 2005

VIN & SPRIT 2008

2000

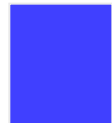
2003

FY 07/08

2008

FY 10/11

NET SALES* (€Bn):



€1.8 Bn



€3.4 Bn



€6.6 Bn

+



PR global
Co-leader

=

€7.65 Bn

PRO** (M€):



€300 M



€740 M



€1,520 M

€1,9 M

* W&S sales ** Operating profit W&S

Lesson No 1

There is no such thing as a bulletproof deal

Lesson No 2

It is not all about the lawyers

Lesson No 3

Vaccinate against deal fever

Preparation, Preparation, Preparation

- Confidentiality
- Get advisory team in place
- Antitrust analysis
- Understand the applicable regulatory environment
- Prepare financing – certainty of funding
- Start due diligence from public sources
- Begin integration planning

Vendors looking for two things

PRICE

DEAL CERTAINTY

Where do things come unstuck

- Lack of co-ordination
- Communications
- Failure in diligence
- Cultural mismatch or misunderstandings
- Market changes

How to protect yourself

- Diligence
- Contract, but think carefully about jurisdiction
- Price adjustment mechanisms, earn outs
- Coordination and transparency of process
- Manage and involve internal stakeholders: Board, key shareholders, senior management
- Incentives for key target employees