

The background features a stylized mountain range. The mountains are represented by overlapping triangles in various shades of green, from light to dark. The foreground is a solid, bright orange color. The overall aesthetic is modern and geometric.

Lessons in M&A from the leaders

By
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Lessons in M&A from the
largest Private co. in USA

Koch Industries

- Annual revenue : \$115B
- No of employees: 60,000
- If listed it would rank 17th on Fortune 500!
- 18% Compounded annual return over several decades!
- The largest private company in USA

Koch industries and M&A

- “The growth of Koch Industries is made of endless mergers and acquisitions (M&A). Oil refining and forestry, which are the company’s main businesses, are all the results of M&A.”
- It poured \$32B into M&A between 2003 and 2008!
- In Dec 2013 it paid \$.7.2B to acquire Molex a global electronics manufacturer with \$3.6B in revenue and 36,000 employees

A diversified M&A portfolio

Raw material trading	Oil
Chemicals	Energy
Textile	Fertilizers
Pulp	Chemical equipment
Construction materials	Ranch
Banking	Steel
Electronics	?

Charles Koch Chairman on M&A

- “I was able to invest several millions of dollars with a long-term perspective, and merge and acquire successfully because the company was private.”
- “We use 90% of the profit for investing.”

3 major criteria for M&A

- Business in question must be in trouble!
 - The deal must be a long-term play
 - Koch needs to have key skills / core capabilities that will benefit the Company
-
- Based on philosophy called Market based Management (MBM)

What the M&A team does before the deal

- Pore over the details
- Conduct series of future studies looking into what will happen in 10-15 years
- Chart out possible outcomes into a Bell curve with highly likely scenarios in middle and unlikely 'Black swan' scenario on the edges
- Koch will make a move if deal is profitable under enough of the likely outcomes
 - This is how Koch entered Fertilizer industry

Test the waters before you plunge

- Koch got into Forest products business cautiously in 2004
- Its initial investment in pulp mills etc was \$610M
- After operating them for a few months Koch bought all of Georgia-Pacific for \$21B in 2005!
- It has invested \$125M in a 40% stake in Big River Steel
- Who knows one day they may buy a multi-billion dollar steel maker like Nucor!

Willing to give up

- Businesses willingly given up by Koch so they can grow!
- crude oil collection business.
- grain transportation
- meat processing.
- Almost 51 businesses given up
 - including pizza dough, livestock feed, mineral mining, and truck transportation.

Sell if you have to

- “A company must know how to decide when to sell the assets or the entire company. This is very important. Generally, if an asset is more valuable to another person than me, it must be sold.”

100% compliance

- “Our goal is to have all employees comply 100% to all the regulations 100% over time.”
- This is called the “10,000% law.”

Sources

- The New Koch –Fortune Jan 13, 14
- “Secretive Businessman” Takes off the Veil – Weekly Biz
- The overconfidence Trap by Dwight Allen and Punit Renjen



Lessons in M&A from
Motherson Sumi- India

Motherson Sumi (MSSL)

- Largest automobile component company in India
- In Forbes Asia's Fab 50
- Business worth Rs 31,000 crore in 2012/13, with the mirror business accounting for Rs 8,880 crore (From Just Rs 2595 crore in 2008/09)
- Grew at annual 75 % in the past three years!-mainly inorganic!
- Over 300 active patents
- 25 collaborations with 6 countries
- Target Turnover 2015 \$5B!

De-risking by acquisitions

- Decided to
 - Not focus on either one company or one product, and no customer would account for more than 25 per cent of its turnover. (Now reduced to 15%)
 - Increase sales from global customers to 70%
- Acquired Irish wiring harness company Wexford Electronics for e330,000 in 2002.
- Since then acquired about 15 companies and today present in 25 countries!
- All decisions are on long term basis

Acquisitions in Germany

- In 2011 acquired 80% interest in Germany's SMP Deutschland GmbH and Peguform Iberica, SL
- Also acquired 50% Interest in Wethje Carbon Composite GmbH Wethje Entwicklungs GmbH
- While these companies had low margins they were strategic additions to the group.

Aim for high market shares

- 22% of rear view mirror market globally
- 65% share of Wiring Harness market in India

Be Bold -ACT FAST!

- In the midst of Lehman bros failure and global melt down made its most audacious acquisition
- In September 2009, MSSL closed a e26.5-million (Rs 200-crore) deal to buy out VisioCorp, a financially troubled UK-based rear-view mirror maker.
- MSSL's entire profit was wiped out by the next quarter loss of VisioCorp!
- Sent his son to manage the Company after the executives wanted 2 years for turnaround!
- In a dramatic turnaround, within the next three quarters, the mirror company was making operating profits!

MSSL applies same principles as Koch?

- It looks as if MSSL applies the same principles as Koch in M&A
 - Business in question must be in trouble!
 - The deal must be a long-term play
 - MSSL needs to have key skills / core capabilities that will benefit the Company- of course MSSL only acquire companies which make auto components!

Is this then the holy grail of M&A?

- Isn't this the same thing L.N.Mittal of Arcelor Mittal did?
- Talking of his capabilities in turning around sick Government run steel companies it is said:
 - “ The Mittals pick the best managers from (SAIL) – even ones who might appear to be past retirement age – and pay them handsomely. But these managers have to perform and perform brilliantly in some of the world's most unpleasant and dangerous environments,” -Jones of Metal Bulletin.
 - “The body of technical knowledge that exists in the group is to be found nowhere else in the world,” - Bill Scotting, a former McKinsey & Co veteran.

Sources

- How VC Sehgal drove Motherson Sumi to become India's largest auto component maker - Business Today
- MSSL-Presentation_31st Aug 2010
- Motherson Sumi Systems on the Forbes Asia's Fab 50 Companies List
- Motherson Sumi System acquisition looks beneficial in long term - Economic Times
- Sultan of steel –by Shivanand Kanavi