Quantified Financial Benefits
Statements
Synergy announcements
under the UK’s Takeover Code
Introduction

Changes to Rule 28 of the Takeover Code in late 2013 introduced the concept of a ‘Quantified Financial Benefits Statement’ (‘QFBS’) and related material disclosure and reporting requirements.

A QFBS is, for practical purposes:

• A quantified statement of synergies expected from a proposed acquisition, made by an offeror; or
• A statement by an offeree company quantifying any cost saving or other financial measures that it proposes to implement if a contested offer is withdrawn or lapses.

Rule 28 also requires that a published QFBS must be accompanied by related reports from the publisher’s Reporting Accountant and Financial Adviser(s).

In our view, these changes have increased significantly the robustness of synergy plans and related transaction announcements and represent a material benefit to offeree shareholders and the wider market.

However, they also drive a considerably greater level of work for companies and their advisers in developing robust synergy plans and the related market announcements.

Takeaway: Potential acquirers who understand the rules and engage early with their advisers maximise the reportable synergy benefits and avoid the various pitfalls that exist for unprepared offerors or those undertaking rushed processes.

Market leading Synergy offering

Deloitte has acted as the Reporting Accountant on the four largest deals where QFBS synergy announcements have been made under the QFBS regime.

<table>
<thead>
<tr>
<th>Offeror</th>
<th>Offeree</th>
<th>Rule 28 Reporting Accountant</th>
<th>Deal value (£bn)</th>
<th>Announcement date</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB InBev</td>
<td>SABMiller</td>
<td>Deloitte</td>
<td>71.0</td>
<td>November 2015</td>
</tr>
<tr>
<td>Royal Dutch Shell</td>
<td>BG Group</td>
<td>Deloitte</td>
<td>47.0</td>
<td>November 2015</td>
</tr>
<tr>
<td>Deutsche Börse</td>
<td>LSE Group</td>
<td>Deloitte</td>
<td>10.5</td>
<td>March 2016</td>
</tr>
<tr>
<td>Aviva</td>
<td>Friends Life</td>
<td>Deloitte</td>
<td>5.6</td>
<td>November 2014</td>
</tr>
<tr>
<td>Ball Corporation</td>
<td>Rexam</td>
<td>PwC</td>
<td>4.3</td>
<td>February 2015</td>
</tr>
<tr>
<td>Other QFBS transactions</td>
<td>Various</td>
<td></td>
<td>19.7</td>
<td>May 2014 – April 2016</td>
</tr>
</tbody>
</table>

Overall, Deloitte has acted as Reporting Accountant on approximately half of the QFBS announcements made since the inception of the QFBS regime.

1. A QFBS made by a 100% cash offeror does not require reporting on under Rule 28
2. As at April 2016
3. Where relevant, converted into GBP at announcement date FX rate
4. Most recent QFBS announcement

Source: Publicly available information and Deloitte analysis
Who benefits?

Rule 28 requires a QFBS to be supported with public reports (effectively opinions) from your Reporting Accountant and Financial Adviser(s). A detailed review of the underlying Synergy Plan by the Reporting Accountant will form the basis of these opinions.

The review brings robust, independent challenge to Management’s Synergy Plan. Whilst the Rule 28 obligations are often the principal driver for this, the exercise also brings significant additional benefits.

How to develop a robust Synergy Plan

What works well...
- Clarity on the focus required on synergy development.
- Early consideration and evaluation of the synergy potential.
- Use of a Clean Team to accelerate data analysis whilst maintaining confidentiality.
- Using an appropriately experienced third party consultant to develop the Synergy Plan.

Where the challenges might lie...
- Evaluation of initiatives that are not entirely synergistic.
- Quantification of synergies.
- Overlaps with in-train cost savings programmes.
- Underestimating the required time (including Senior Management involvement) to develop an appropriately robust plan.

Illustrative example

Public synergy announcements are a significant indicator of future value and a key consideration for offeree shareholders. They are a material exercise with a direct impact on transaction value and process efficiency.

How Deloitte can help

Synergy development:
Providing challenge and support to Management in helping preparing the Synergy Plan. Helps bring third party insight and benchmarking. Very useful where resources are constrained, e.g., due to confidentiality considerations.

Synergy review:
Robust, structured review, with a senior team highly experienced in QFBS engagements applying a straightforward, proven assessment framework. Fully integrated with other diligence activities and your financial and legal advisers; also supporting interactions with the target, Takeover Panel and other regulators as may be necessary.

Integration Planning support:
Deloitte’s Post Merger Integration team has delivered over 450 major integration and carve-out programmes on a global basis across all sectors, including support and implementation of post-synergy review strategies.

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5. Typically provided where Deloitte is not the Reporting Accountant
Our transactions-dedicated Operational Due Diligence team has delivered synergy review engagements for the majority of the major UK-related listed acquisitions since the QFBS requirements came into force, establishing its position as the market leader in the field.

Our Equity Capital Markets team specialise in public company M&A. The team has worked on over half of the UK main market IPOs in the last two years.