*Master in Management*

*Chairs of Financial Reporting and Performance Measurement*

# ***The impact of M&A transactions on stock prices: Unipol Gruppo S.p.A. case study***


Supervisor

***Prof. Francesco Paolone***

Co-supervisor

***Prof.ssa Lucia Pierini***

Candidate

***Alessandro Civetta Marzoli***

ID: 775291


***Academic Year 2024/2025***

## *Abstract*

This thesis explores the impact of Mergers and Acquisitions (M&A) on the value of companies, with a focus on publicly traded entities, through the case study of Unipol Group. The research assesses how M&A transactions tangibly modify company value through synergy creation and strategic adaptation necessary to compete in a dynamic global market. The case of Unipol Gruppo S.p.A., a holding company that integrated its operating subsidiary Unipolsai Assicurazioni S.p.A., provides detailed analysis on how synergy management, merger challenges, and market expectations influence stock prices and shareholder value.

The thesis conducts a general analysis of M&A operations and delves into how these specifically affect publicly listed companies using the Unipol group as a case study. It examines the "conglomerate discount," the phenomenon where a holding company's market value is less than the sum of its assets' values. Through an in-depth analysis of the strategic context and motivations behind the merger between Unipol Gruppo S.p.A. and Unipolsai S.p.A., the thesis illustrates how the theoretical benefits of M&A operations often clash with complex operational realities, impacting market perception and the resultant conglomerate discount.

This study provides crucial insights into the valuation of M&A operations and strategies to maximize shareholder value in complex corporate contexts.

*Table of content*

*To my family and friends*

## *Introduction*

Growth and value creation are fundamental objectives for the success of companies, these objectives are continually pursued by corporate management, not only in the interest of shareholders but of all stakeholders involved. In a globalized and highly dynamic market context, the importance of these factors becomes even more evident, especially for large corporations.

Companies are worried about discovering new methods of dealing with new situations of competitiveness by discovering new ways of aligning corporate vision and mission with economic objectives in responding to greater requests for innovation and flexibility. M&A transactions take center stage for this thesis in how they want to establish their impact and performance in maximising corporate value. Research focuses on how these transactions create synergies to make strategic adjustments needed to manage in a changing environment of competitiveness. Notably, it focuses on how M&A transactions affect listed companies' tangible value by examining how these transactions affect share price through the Unipol Gruppo S.p.A. to Unipolsai Assicurazioni S.p.A. merger as a specific example.

The first chapter examines the role of M&A transactions in corporate development and growth, analyzing the phenomenon from a general analysis perspective. Various aspects of M&A transactions will be addressed, such as the different types, structures, acquisition methods, and macro stages of the process. In addition, the impact of these transactions on corporate value will be analyzed, exploring the motivations of both acquirers and target companies, and assessing how synergies and risk differences affect the value of the acquisition.

The second chapter of the thesis is dedicated to the valuation process in M&A transactions. It delves into how companies determine value in merger and acquisition operations, starting with the analysis of financial statements. Specific valuation models and techniques, such as Discounted Cash Flow analysis (DCF), the Dividend Discount Model (DDM), and the Market Multiples Method, will be discussed. The chapter aims to provide a detailed understanding of the informational frameworks used to support valuation decisions, exploring how the reclassification of financial statements contributes to a clearer understanding of corporate value.

The third chapter focuses on the selected case study: Unipol Gruppo S.p.A.'s merger with Unipolsai Assicurazioni S.p.A. To have more comprehensive insight on the transaction, two interviews have been conducted with relevant members of Unipol Gruppo's board of directors that have given more in-depth insight on Unipol Gruppo's internal mechanisms and strategic choices of the merger. Unipol's pre-merger profile, background of the merger transaction, strategic context and reasons for merging have been described in this chapter, followed by in-depth analysis of the main steps and phases of the merger that provide in-depth insight on how operating and strategic choices have been managed in order to make the transaction more effective. Practical insight on how M&A theories work in practice has been given by this chapter, focusing on challenges and possibilities that corporate mergers create.

The fourth chapter of this work focuses on pre-merger finance analysis of UnipolSai and Unipol Gruppo. The chapter depicts reclassified balance sheets of these companies in order to provide a clear view of their pre-merger economic and finance situation. The chapter would like to provide a clear view of companies' structure of assets, economic structure, finance structure by focusing on more relevant points that have contributed to merger choice, reclassification income statement, balance sheet and ratio analysis have been employed for analysis in this chapter. This analysis is needed to identify potential synergies in finance that would result from merger as well as to check if the strategic choice to merge was economic in sense or not.

The fifth chapter explores the impact of merger and acquisition operations on the stock prices of the involved companies. Several previous studies and academic literature are analyzed to identify common trends and empirical results regarding the effects of M&As on the market valuation of companies. This chapter aims to assess whether mergers and acquisitions tend to create value for shareholders in the long term or, conversely, lead to a dilution of value. The conglomerate discount hypothesis is examined, the possibility that the market value of a holding company is less than the sum of the values of its individual assets. Additionally, the immediate effect of M&A announcements on stock prices is discussed, with particular attention to the market's reaction to the news of the merger between Unipol Gruppo and UnipolSai, integrating the analysis with interviews with the chief of M&A of Unipol Gruppo.

# *Chapter 1: M&A operations - A general analysis*

## 1.1 Business development and growth

Various motivations compel enterprises to consider business development and growth as critical topics for acquiring the resources, competencies, and knowledge necessary to compete on a global scale. Especially in the current economic context, heightened globalization forces companies to expand and obtain the financial resources and human and technological competencies required to effectively compete in increasingly diverse markets with a growing array of competitors. Enterprises across all sectors strive to acquire essential resources to control more distribution channels, achieve economies of scale or scope, increase their market share, expand their customer portfolio, and enhance their bargaining power with suppliers and all stakeholders interested in the business activities.

However, the path to growth does not automatically lead to increased profitability for businesses, as this process necessitates modifications in the strategic, organizational, and economic aspects of the company, which could elevate the risks associated with the operation.

When discussing growth and development for enterprises, these can be achieved through two methods: internal growth and external growth. Implementing a strategy of internal growth involves leveraging all internal resources: human, financial, technological; along with competencies and capabilities that a company already possesses. These are reinvested within the enterprise with the aim of launching new activities and expanding the company's production and commercial capacity, thus developing competitive advantages over rivals.

In contrast, external growth, commonly referenced in business jargon, involves increasing a company’s size externally (rather than internally expanding its own structures) and realizing synergies between functions of previously independent enterprises. While internal growth occurs in a balanced, homogeneous, slow, and gradual manner requiring a well-conceived investment plan and considerable entrepreneurial capacity, external growth tends to be simpler and quicker. However, it often entails significant organizational problems related to the merging of different companies. If not addressed properly, these issues may lead to a crisis within the entire corporate structure. Development operations for external growth include strategic alliances and mergers and acquisitions (M&A), which entail a higher degree of integration among the various corporate entities involved.

Strategic alliances are cooperative agreements between at least two companies that coordinate their capabilities and resources to build value and reach a joint goal. Alliances give companies new markets to move into, cost savings, differentiation, and greater market power. Strategic alliances comprise:

- **Contractual alliances**: Where two companies sign a contract defining their relationship, specifying activities each party will undertake without acquiring equity.
- **Equity alliances**: Collaborative agreements involving equity stakes to align interests among parties.
- **Joint ventures**: Alliances that involve creating a new, legally independent company made up from assets contributed by partner firms, which jointly manage and share the outcomes.
- **Vertical alliances**: Concerning companies positioned at different stages of the value chain, used to combine resources or reduce transaction costs between two companies that maintain business relations. The advantage lies in eroding market shares of competitors.
- **Horizontal alliances**: Occur when companies operating at the same stage of the value chain collaborate to pool resources and competencies to achieve a common goal.
- **Franchising**: A commercial collaboration between independent entrepreneurs regulated by a contract, where one party (the franchisor) allows one or more third parties (franchisees) the right to use its business name and/or trademark for selling products or providing services in exchange for a fee.
- **Licensing**: A contract in which one party grants another the right to economically use and exploit specific products or assets within a predetermined territorial scope, in return for royalty payments.

Finally, there are mergers and acquisitions (M&A), which, as we will explore in more detail later, consist of extraordinary financial operations that can be defined as processes of external growth.

## 1.2 Mergers and acquisitions operations

Mergers and Acquisitions, commonly abbreviated as M&A, encompass those extraordinary corporate finance operations aimed at altering the structure of two or more companies. These can be considered activities of external growth, leveraging synergies and evolved relationships with other firms to enhance a company's value. Within these operations, other activities such as spin-offs, asset transfers or carve-outs (commonly referred to as split-offs), share buybacks, and public takeover offers also fall.

Although the Anglo-Saxon acronym M&A seems to encompass both mergers and acquisitions, these operations have distinct characteristics and peculiarities which differentiate them and which we will describe and explore in depth.[1]

A corporate merger is a process whereby two or more companies form a single new corporate entity; it represents the most complete form of corporate aggregation with both legal and economic unification of the participating entities. Mergers can be categorized dimensionally as:

- Horizontal mergers, between companies conducting similar activities;
- Vertical mergers, between companies involved in different stages of the supply chain;
- Conglomerate mergers, between companies operating in different sectors.

The most important distinction regarding merger operations pertains to their types. We can outline two different categories:

1. Pure merger: where the merging companies dissolve by transferring their entire assets to a newly formed company;

[1] Lantino, S., & Casucci, P. (2010). *Acquisizioni di aziende e partecipazioni. Aspetti legali e tributari*. Maggioli Editore.

2. Merger by absorption: where the absorbed companies dissolve by transferring their entire assets to an existing company.

The merger by absorption is used most often, predominantly in Italy, in that it is exempted from registry taxes, thus offering a significant fiscal advantage. The merger is a complex process in that it demands a total unification of resources, competencies, and knowledge (technological and human) of the involved companies, demanding a series of organizational and managerial interventions. The same affects company directors' plans and actions during a considerable time frame and is to be held responsible for the extraordinary nature of such a process.

The advantages for a company to undertake a merger include significantly reducing costs, strengthening market power, reducing business risks by diversifying activities, enhancing technological know-how by integrating new technologies and resources, and improving production processes, increasing corporate concentration, limiting or eliminating competition, and dependency in the supply chain. The goals always aim to fuel the company's growth and create value for the business. Despite the numerous positive motivations connected to corporate mergers, it is necessary to acknowledge and mention that they also present considerable disadvantages, mainly related to the difficulties of integrating resources and skills, as well as a lengthy, complex, and costly procedural and approval process.

An acquisition is a strategic-financial tool that allows a company to take control of another by purchasing the business or controlling stock package, typically in exchange for monetary compensation. Depending on the shares acquired, distinctions include: total participation (acquiring all business activities); majority participation (acquisitions exceeding 50% of the capital of the controlled company), or, in the case of large companies with widespread shareholders, i.e. listed company, even non-majority stakes can suffice to exercise control.

Like mergers, acquisition operations are external growth activities, which, as previously noted, enable a company to pursue strategic goals, value creation, and dimensional growth much faster than internal growth methods. Moreover, the widespread use of these operations by many firms is supported by additional motives, always aimed at creating value for the company. Achieving this result is not guaranteed, however, as despite the apparent simplicity of implementation, these operations require careful planning and execution phases, as well as significant attention to synergy development. Thus, a long-term strategic vision and analysis of all internal and external factors that could influence the success of the operation are essential.

In conclusion, the main difference between mergers and acquisitions lies in that mergers create a single entity, whereas acquisitions result in a property and control relationship between two distinct companies. Despite this important differentiation, the combined concept of M&A has replaced the individual terms of merger and acquisition in practice, referring to any type of activity where companies unite. Often, an acquisition operation precedes a subsequent merger, and both aim to integrate the activities of two or more companies with the goal of enhancing the company's value.[2]

### 1.3 Types of mergers and acquisitions operations

The differences between merger and acquisition operations, as already partly illustrated in the previous sections, are diverse and intricate. We discussed mergers by absorption, pure mergers, and horizontal or vertical mergers, as well as acquisitions of shareholdings (total, majority, or control). However, within these operations, there are additional techniques and modes of corporate acquisition, including: [3]

- **Conglomerate mergers (unrelated acquisitions)**: These indicate the union between two companies that have an uncorrelated activity portfolio; thus, they are mergers between companies not from the same sector. Unlike related mergers (horizontal or vertical), where the company may have advantages related to increased market concentration, market share growth, as well as benefits from reducing direct competition, internalizing externalities, and reducing waste and risks, conglomerate mergers allow the acquiring company to diversify both production and market. However, the lack of experience and

[2] Guatri, L. (1993). *La valutazione delle aziende*. Egea.
[3] Conca, V. (2010). *Le acquisizioni: Valutare e gestire i processi di crescita* (IV ed.). Egea.

familiarity of the buyer with the sector of the acquired company makes this type of operation riskier and much less common.

- **Buyout operations**: This refers to the acquisition of the majority or entirety of a company's capital by an institutional investor together with management. Generally, this is termed a management buyout (MBO) when carried out by internal company managers; or a management buy-in (MBI) when executed by managers external to the target company. Often these types of operations are finalized with a mix of equity and debt; in such cases, it is referred to as a leveraged buyout. Buyout operations are typically aimed at ensuring ownership turnover, for instance, when shareholders are no longer interested in the company's growth or wish to cash out past investments. They are also crucial for facilitating generational transition in family-owned companies where it is necessary to define a new leader. This is referred to as a family buyout when members of the owning family take control of the company. These operations also facilitate the transition from a family-type capitalism to a managerial one, ensuring business continuity even when there are no family successors interested or available to lead the company in the future. The structure of the operation often involves financing the acquisition of the target company with a mix of equity provided by the institutional investor and management, and debt typically supplied by one or more financial institutions, depending on the amount needed to be financed.
- **Leveraged buyout (LBO)**: This is a financial operation that involves acquiring a company with money borrowed from banks, usually referring to publicly traded companies. This operation, widely used by businesses, leverages the borrowing capacity of the acquired company, since the loan's guarantee is made up of the target company's assets. Thus, an LBO involves acquiring the majority stake of a company where the buyer does not initially have all the necessary funds. Sometimes the leveraged buyout may not involve the entire company but only a specific branch or a precise group of activities. Often, the assets of the acquired company, called the target company, are put up as collateral for the debt, which can sometimes become unsustainable and lead to the insolvency of the target company.

- **Acquisition of business units**: Technically, this can be carried out by acquiring a specific part of the business activity, namely business units, which are transferred to an economic entity interested in incorporating them into its own production structure. Given the diversity of the objectives underlying the individual parties, it is easy to understand that acquiring branches generally meets the need for competitive strengthening of one's core business, while divestment is motivated either by downsizing strategies or by the abandonment of businesses considered peripheral and unprofitable. The value of a business unit can be very subjective: business activities that are not profitable for one company can be of significant value to other operators. Generally, the purchase of business units concerns: individual products or product families, commercial networks, divisions, or strategic business areas, specific production facilities. This operation provides undeniable advantages, such as: speeding up project realization times, achieving more specific productive and commercial synergies, significantly reducing financial outlay, and eliminating the risk of failure compared to the internal alternative.

Finally, as a last alternative, we can briefly define some types of purchase operations reserved exclusively for listed companies. These can generate public takeover bids (OPA), which is a stock market operation whereby a physical or legal person publicly declares to the shareholders of a listed company that they are willing to buy their securities at a price higher than the market price, to acquire or strengthen control over the company in question. If the agreed consideration is in cash, it constitutes a strict public takeover bid, if it is made up of other securities, it is a public exchange offer (OPS), and if it is composed of both money and securities, it is a public purchase and exchange offer (OPAS). In this context, operations of stockpiling and exchange can also be defined and presented: in the first case, it involves acquiring minority shareholdings on the stock market, generally involving a coordinated series of purchases, each concerning limited lots of shares. It is aimed at accumulating a significant number of securities of the company to be acquired, and, very often, constitutes a preliminary operation relative to an OPA. The exchange, on the other hand, is a method of acquisition that can involve both technical and financial immobilizations and is characterized by the fact that the payment method is represented by other technical and/or financial immobilizations.

## 1.4 Structure of the acquisition process: perspective of the acquiring entity

An external growth operation can be an integral part of a company's strategic planning or it may represent an unexpected opportunity that arises suddenly.

Large groups often have a formal policy of planned acquisitions/divestitures over time, managed by a team of managers specialized in such activities. In other contexts, however, the process does not fit within a predefined strategic framework but originates from a random market opportunity that was not planned in advance; in these cases, acquisition processes depend on the management's ability to perceive an immediate change opportunity and to exploit it swiftly and competently.

In acquisition operations, the economic entity purchasing can take two different perspectives, distinguished by goals, strategies, and management methods:

- Strategic perspective, typical of the industrial investor;
- Financial perspective, typical of the financial intermediary.

The industrial buyer is usually a company that operates in the same sector as the target company or as a direct competitor, thus performing the same activities as the seller, or in complementary segments. In both cases, the acquisition serves as a tool for implementing growth strategies for the buyer, where the latter can gain additional market shares and/or integrate (vertically or horizontally) their production process. Due to the potential synergies created by the operation, strategic investors are usually willing to recognize a certain acquisition premium (premium price) over financial investors to secure the production unit they desire, which is why industrial acquisitions are generally negotiated at higher prices than financial ones.

The financial buyer, on the other hand, is typically an institutional operator (such as a private equity or venture capital fund) intending to invest in a company's capital with the primary goal of realizing a capital gain at the time of disinvestment, which generally occurs between three and five years (way-out). The acquisition thus assumes the characteristics of a financial operation, from which a return on the invested money is sought, consistent with the level of risk incurred.

Unlike the managerial perspective, the financial approach does not contemplate the post-acquisition phase, precisely because it does not pursue the achievement of synergistic operational and competitive effects resulting from the integration of two productive entities. A financial partner is indicated in cases of corporate development projects that require an injection of external capital (expansion capital), when the ownership wishes to remain in the company with a significant operational role even after the sale (leveraged buy-out), or when the company transitions to operational managers (management buy-out) or to new managers identified by the fund (management buy-in). Typically, representatives of the acquiring financial institution tend to intervene only in the extraordinary activities of the company, leaving ample freedom of action to the entrepreneur or managers in the ordinary activities.[4]

## 1.5 Types and schemes of sale

The acquisition process can follow different logics or methodologies, which can also partly combine depending on the needs. These primarily refer to:

- Direct or private negotiation;
- Competitive auction.

The structure of the acquisition process and its articulation into phases and subphases change significantly when shifting from the more common case of private negotiation (a typical bilateral transaction) to the competitive auction format. In private negotiation, the steps and behaviors undertaken by the involved parties generally do not follow a rigorous and predefined scheme, phases may follow in a different order or even be omitted altogether. Conversely, in a competitive auction, the rules of the game are set by

[4] DePamphilis, D. (2013). *Mergers, Acquisitions, and Other Restructuring Activities: An Integrated Approach to Process, Tools, Cases, and Solutions*. Academic Press.

a series of rigid and formal procedures, which must always be adhered to ensure the absolute transparency of the process and equitable treatment of all participants.

Table 1 below highlights the differences between the two main categories of sales schemes introduced, emphasizing the higher degree of formalization of the competitive auction compared to private negotiation. Some phases are normally shared, such as the confidentiality letter, due diligence, or approvals; others, however, reflect the typical peculiarities of the auction, such as the announcement, declaration of interest, and binding offer.

| Phases | Competitive auction | Private negotiation |
|---|---|---|
| 1 | Announcement | Confidentiality letter |
| 2 | Confidentiality letter | Initial due diligence |
| 3 | Declaration of interest | Letter of intent |
| 4 | Information memorandum | Data room |
| 5 | Preliminary offer | Due diligence |
| 6 | Due diligence | Final negotiation |
| 7 | Data room | Draft contract |
| 8 | Draft contract | Signing of the definitive contract |
| 9 | Binding offer | Permissions |
| 10 | Final negotiation | Execution of the contract |
| 11 | Signing of the definitive contract | Post closing |
| 12 | Permissions | |
| 13 | Execution of the contract | |
| 14 | Post closing | |

*Table 1- Source: Gaughan, P. A. (2018). Mergers, Acquisitions, and Corporate Restructurings. Wiley.*

Within the framework of the competitive auction, further different configurations can be observed based on the procedures that regulate auction prices and the outcomes of the auction itself. Dynamic auctions, which allow for the possibility of outbidding offers from other competitors, are distinguished from static auctions, which occur based on a single, unchangeable offer presented over time; finally, while in discriminatory auctions transactions occur at different prices, in uniform auctions, these prices are consistent.

The formalized structure of competitive auctions ensures that all participants are on a level playing field and that the best offer prevails, usually benefiting the seller with potentially higher transaction values. This setup contrasts sharply with the more flexible and potentially faster private negotiations, where relationships and negotiation skills can sometimes result in more favorable terms for one party or another.[5]

## 1.6 Typical modes of acquisition

Acquisition operations can be conducted using various instruments provided by the legal system. Specifically, they can directly involve the assets (the business entity) intended for acquisition, in which case they take the form of an asset deal, or they may relate to shares in companies that own the business entity in question, a situation referred to as a share deal. The choice between an asset deal and a share deal results in significant consequences in various aspects, including contractual liabilities, tax implications, subsequent financial reporting, non-compete clauses, and the overall risk of the operation.

In the case of an asset deal, the sales contract can cover the entire company or just a specific branch or sector of it, consisting of certain active and passive assets that are linked by a specific and recognizable productive combination; in other words, with the business transfer contract, the asset elements and legal relationships subject to transfer can be precisely identified.

---

[5] Conca V., *Le acquisizioni: valutare e gestire i processi di crescita*. Milano, Egea, 2010.

The transfer of shares (share deal), on the other hand, inevitably results in the acquisition of everything that the target company contains, namely all current and potential assets and liabilities, whether they are accurately reflected in the approved financial statements or not.

To circumvent this constraint, it is often the case that the transfer of shares is preceded by another extraordinary finance operation (typically a contribution or division), through which a new company, called a newco, is formed specifically to own the net assets of interest to the buyer. This mechanism helps to reduce the risk to the buyer of becoming the owner of a company burdened with latent liabilities that may emerge even years later (risk of tax or social security assessments, potential legal actions, losses on receivables, or inventory deficiencies, etc.).

The transfer of shares or stakes (second-degree assets), or share deal, offers greater simplicity compared to the asset deal alternative, as it avoids the formalities required for the transfer of the company-owned assets (first-degree assets) and, most importantly, any administrative licenses, concessions, quality certifications, registrations, and accreditations with public entities, etc.

## 1.7 The macro phases of the process

It is important to point out at the start that M&As is a process, not a one-off event. The acquiring process can be separated initially into three classic macro stages:

1. **Initial phase:** This is a phase of strategic analysis and preliminary evaluation, during which basic objectives of the purchase are established, and the character of the potential target is defined.
2. **Intermediate phase:** This phase is made up of economic-financial analyses and management of the transaction's negotiation, ending in the definitive drafting of the transfer contract (signature and closing).
3. **Final phase**: This consists of the actual integration of the companies involved in the deal, concerning the decisions and operational aspects necessary to achieve the expected synergistic benefits.

Each macro phase is composed of further sub-phases. The sequence of these can be interrupted by the need to go back and iteratively retrace previous steps if problems arise or new information emerges that questions the validity or accuracy of the evaluations made up to that point.

### 1.7.1 The first macro phase

From the initial macro phase of the process, a fundamental strategic vision must emerge that clarifies and justifies whether and how the path of external growth can represent a viable solution for the company to create value. The task of reaching this conviction is entrusted to internal management, capable of rationally assessing the chances of success of the examined strategy.

When and if deemed necessary, external strategic consulting firms (advisors) can be involved to support the management in defining the scope and areas of external growth strategies, the concrete feasibility of the goals, or the identification of ideal target companies.[6]

The sub-phases that typically characterize this first moment of analysis are:

- **Strategic problem setting**: This involves evaluations such as industry analysis, competition assessment, and competitive variables, objective recognition of the company's areas of weakness, identification of potential economies and synergies, and verification of the operation's alignment with the overall strategic plan.
- **Defining the acquisition objectives and identifying the ideal target profile**: The ideal model of the company to be acquired should be defined based on the degree of strategic coherence with the acquiring company, potentially achievable synergies, organizational compatibility, and hypothesized financial possibilities.
- **Exploring alternatives**: Initially, it is prudent to identify a sufficiently large number of candidates due to the high attrition rate that selection entails in later

[6] DePamphilis, D. (2010). *Mergers and Acquisitions Basics: Negotiation and Deal Structuring*. Academic Press.

stages; on the other hand, it is also necessary to avoid compiling lists that are too long to prevent wasting time and energy managing too many contacts. In this context, the advantage of using specialized consultants lies in their access to qualified databases and the ability to move with greater autonomy leveraging their network of contacts, as well as maintaining the necessary confidentiality at the time of the first contact.

### 1.7.2 The second macro phase

As mentioned above, the second macro phase of the acquisition process pertains to the management of the negotiation and the formal conclusion of the agreement. This phase marks the transition from the theoretical and project planning stage to the practical and operational realization of the operation, culminating in the signing of the final acquisition contract (closing) and the subsequent transfer of corporate control to the new owners.

In strategic purchases, closing is a transitional phase that is used to enable realization of desired synergistic effects (third macro phase), whereas financial purchases are in actuality done after closing of the transaction.

Multiple aspects determine the outcome of a negotiation, including: the genuine interest of the parties in closing up the business; the contractual power of the parties, determining the terms of the exchange; and the ability to find technical solutions to address questions that arise.

The second phase requires a high degree of technicality, and a key role is played by consultants and external professionals, who bring high-value expertise and information. In most cases, these professionals are called upon to coordinate and directly manage the negotiation. In addition to investment banks (particularly involved in managing contacts, drafting preliminary documents, evaluating companies, and financing the acquisition), legal firms (for drafting the contract and related clauses), auditing companies (for conducting due diligence), and general professionals (such as chartered accountants), especially in smaller business realities, are also involved.

This macro phase is also articulated into distinct steps, which do not necessarily follow the proposed logical sequence and can sometimes be bypassed depending on specific cases:[7]

a) **Target company screening**: The process leading to the identification of potential units to acquire involves creating an initial list of companies with suitable characteristics, excluding those that are difficult to contact or evaluate, assessing and ranking the considered companies, initiating initial contacts, identifying the sellers' objectives, and determining the ideal candidate.

b) **Confidentiality agreement**: The contract makes explicit the progress of the negotiation while officially giving shape to the operation but not to operations details.

c) **Standstill agreements**: Through these, the parties commit for a specific period not to engage in negotiations with third parties, to prevent the seller from conducting parallel negotiations unknown to the buyer, a situation that could significantly influence the negotiation strategy by putting the target in a position of relative strength.

d) **Information memorandum**: This document, prepared and delivered by the seller, provides a portrait of the company, its market positioning, its economic situation, and its development potential.

e) **Use of a data room**: This involves organizing a physical location, typically at an auditing or consulting firm, or virtually, through a provider offering a digital platform with limited and protected access, a data collection center containing all the information selected by the seller and deemed useful for the operation. The costs of this activity are entirely borne by the latter. The virtual data room resolves many of the logistical issues inherent in the "traditional" data room, as it does not create limitations on simultaneous access, security (not requiring a large number of dedicated personnel), or support for potential interested parties. Moreover, practically speaking, if it becomes necessary to update or expand the documentation being reviewed, the burdens and time losses associated with the physical distribution of the information material will be avoided.

---

[7] Mansfield, J., & Parker, K. (2012). *M&A Purchase Price Calculations: The Locked Box Mechanism*. Addisons Focus Paper
Conca, V. (2010). *Le acquisizioni: Valutare e gestire i processi di crescita*. Egea

f) **Economic-financial evaluations**: These involve evaluations related to the standalone economic capital of the acquisition target and those (subjective) concerning the synergies achievable from the operation, in order to arrive at an acquisition value based on which a series of considerations can be made and the negotiation on price directed.

g) **Financial feasibility analysis and consequences on the financial balance**: With the financial plan of the project, the impact of the overall cash flows that weigh on the buyer is verified, and possible forms of financing are evaluated.

h) **Definition of a probable price range**: This range results from estimates of the intrinsic value of the target company and the subjective quantification of the benefits that the buyer is capable of generating.

i) **Letter of intent**: This is a pre-contractual document through which the parties intend to set down in writing the general terms of the operation, committing themselves to respect them. It is aimed at defining the subject of the transaction, declaring the actual intention to proceed with the agreement, establishing a deadline by which to close the negotiation, agreeing on the exclusivity of the negotiation, renewing the secrecy clauses already contained in the confidentiality letter, defining the valuation methods used to determine the price, hypothesizing a probable price and the related payment modalities, setting the criteria for conducting due diligence, and excluding the obligation to implement the contract.

j) **Due diligence**: This term refers to the investigative process concerning the operational and economic-financial structure of the target company, normally entrusted to entities or professionals qualified in the individual areas covered by the investigation. It allows for a preliminary direct and sufficiently comprehensive understanding of the health status of the interested company, the veracity of the information provided by the seller, and the existence of any latent burdens and risks in the operation. Due diligence can cover various fields of investigation, including: business and competition-related aspects; corporate matters; operational, economic-financial results, and asset elements; organizational, personnel, and information system-related aspects; legal and labor law aspects; tax aspects; environmental aspects.

k) **Vendor due diligence**: This is a variant of the usual due diligence activity, developed in Britain and a fairly established practice in such countries. Instead of originating from the buyer to understand the feasibility of the acquisition operation, it is organized directly by the seller with the goal of facilitating potential counterparts' knowledge of the reality under examination and accelerating the technical times typical of the transaction. The seller, with the help of an advisor, proceeds with a "self-certification" that improves their negotiating position and reduces psychological pressures. They bear the costs of the process, which represents a sort of investment in communication that shows potential buyer counterparts the seriousness of their intentions and facilitates negotiations with them, who will still want to conduct their own further investigation on the target company to delve deeper into the specific aspects concerned.

l) **Preparation and formalization of the offer**: The evaluation of data and information resulting from the due diligence sets the conditions for the formalization of a concrete and final proposal, usually subject to a limited time validity.

m) **Choice between completion accounts and locked box mechanisms for determining the purchase price and the transfer of economic risk to the buyer**: According to the first approach, the buyer ultimately pays for the value of specific assets and liabilities resulting from the completion accounts following the closing of the operation. The final equity value may not be known for months, and consequently neither the definitive price paid for its purchase (purchase price). At the completion date, the buyer recognizes an amount that constitutes an estimate of the final price, which will then undergo adjustments based on the updated balance sheets including all information available and emerged only after the completion of the deal, such as variations in debt, cash, and working capital. On this subsequent date, the adjustment of the definitive purchase price (purchase price adjustment) will be paid. With this mechanism, both the economic exposure and the ownership of the acquired company shift to the buyer at the time of the operation's closure; instead, according to the locked box scheme, which became established in the United Kingdom in the mid-2000s, the transfer of economic risk occurs at the time of signing the contract (signing date) and the purchase price is calculated based on the last balance sheets of the target available, which refer to a date (effective date) prior to the signing and closing of the operation. At the completion date, the legal ownership of the target company passes to the acquiring entity and the price is paid as defined in the sale and purchase agreement (SPA), without any price adjustment process following the completion of the deal. The price is therefore known at the time of signing and is "locked" in a box guaranteeing certainty to the parties, without allowing for dispersions or fluctuations of its value in the final phase of the negotiation. The parties are also not required to prepare completion accounts, thus reducing costs, time, and potential disputes. The seller continues to be the legal owner of the company sold during the period (gap period) between the signing date and the completion date, during which they operationally manage the company on behalf of the buyer as if they were an agent or mandatary (seller’s agency).

The completion accounts mechanism has historically been the most used solution in the context of M&A transactions, although in recent years the locked box technique has become established.

n) **Negotiation and price determination**: The determination of the final acquisition price (purchase price) is the outcome of a process in which multiple strategic factors come into play (type and level of expected synergies, uniqueness or rarity of the alternative, elimination of a competitor, removal of an alternative from competitors, need to close the operation quickly, ...), financial and fiscal (amount of investment, financial sustainability of the same, structure and stability of the target's cash flows, consequences on the financial and patrimonial balance of the buyer, possibility to decrease taxation on the seller, ...) and negotiation (disparity of contractual power, information asymmetry, payment conditions, accessory contractual clauses, ...).

o) **Antitrust compliance**: The larger dimension achieved following concentration operations can substantially and durably reduce free competition in favor of the enterprise resulting from the process, increasing its capacity to control prices and the possibility of imposing disadvantageous conditions for the final consumer. To prevent the functioning of the market from being distorted by a concentration operation, antitrust law stipulates that all operations of this type must be previously communicated to the AGCM, which, if it deems that a concentration involves the creation or strengthening of a dominant position such as to reduce competition, has the power to prohibit its realization or to impose changes to the original project that remove the distorting effects.

p) **Conclusion and formalization of the agreement**: For the transaction to be considered valid and for the transfer of ownership of the sold company to occur, it must be perfected with a sale and purchase agreement (SPA). There is no standard acquisition contract, but it is generally believed that it should contain: the personal data of the contracting parties; the structure of the operation; the active and passive assets transferred; details on the price (conditions, timing, paying and receiving entities, earn-out mechanisms) and on the payment methods; the formal statement of warranties and special clauses (such as the escrow account institute); the non-compete obligation of the seller; the suspensive and resolutive conditions of the contract and the accessory agreements (such as the non-compete pact, the obligation to maintain multi-year collaboration, the shareholders' pacts).

### 1.7.3 The third macro phase

The final macro phase of the acquisition process begins following the completion of the sale contract and the closing of the operation. In this phase, the management of the acquiring company, ideally assisted by that of the acquired company to form an "integrated" post-merger team, is tasked with the challenging job of achieving the objectives identified in the business plan, managing the new structure, and attempting to make it compatible with the pre-existing one. This issue arises due to the fact that the partners generally carry vastly different cultures and management styles, necessitating a convergence between the two realities.

The management of post-acquisition integration is an activity that involves only industrial buyers, as they are motivated by achieving synergies linked to the integration of the two productive realities. In contrast, this will not occur in acquisitions motivated by financial intentions, where the buyer is typically a merchant bank or a closed fund.

For growth through external means to be successful, it is crucial to meticulously manage the post-acquisition integration phase, which represents the moment of truth because it is during this phase that the opportunities to exploit the synergistic effects anticipated and estimated in the valuation phase are concretely manifested. Often, however, this phase is given little importance, which explains why, despite the enormous development characterizing mergers and acquisitions in the global economy, the percentage of unsuccessful operations remains high. Most failures are primarily due to inadequate management of the integration activity, which instead constitutes the most delicate passage of the entire procedure and from which the good (creation of value for shareholders) or bad outcome (destruction of value) of the operation may result.[8]

The drivers, also defined as "organizational imperatives"[9], on which management must focus to effectively manage the post-acquisition process and realize value synergies, are:

- **Cultural and organizational integration**: This issue arises where there are cultural barriers related to internal organizational procedures or behaviors exhibited by staff.
- **Consensus building**: This objective can be pursued by leveraging the charisma of some managers who, by taking on the role of opinion leaders, can help convince the organization of the benefits of positively responding to ongoing changes and the new strategies of the buyer.
- **Resource and competence transfer**: In this regard, 'hard' resources (such as technologies or patents), which are usually relatively easy to transfer, are distinguished from 'soft' resources (such as organizational skills, teamwork abilities, know-how, etc.), which are more prone to rejection risks.
- **Adaptation and response times**: There is a need to anticipate and, if possible, contain the time in which the new integrated structure can begin to operate effectively.

By focusing on these key areas, the acquiring company can enhance the chances of a successful integration, thereby maximizing the intended synergistic benefits and reducing the likelihood of failure.

[8] Gaughan, P. A. (2010). *Mergers, Acquisitions, and Corporate Restructurings*. John Wiley & Sons.
[9] Conca, V. (2010). *Le acquisizioni: Valutare e gestire i processi di crescita*. Egea.

### 1.7.4 The Impact on value of the macro phases

As we have seen, the three main macro phases that make up the acquisition process are characterized by specific critical factors and involve different resources. Since the fundamental goal of external growth is value creation, it is necessary to intuit ex ante the relationship between the characteristics of the different macro phases and their influence on the value that can be generated.

In the preliminary strategic analysis phase, the impact on value is minimal because, if the company moves to the next phase of negotiation, no value effect has yet occurred; conversely, if the decision is made from the outset not to proceed with the acquisition, the worst-case scenario is merely the loss of an opportunity.

When reaching the negotiation macro phase, the impact on value becomes significant, as it is at this juncture that the conditions for the transfer of the acquired entity to the buyer are realized (the so-called "value capture phase").

Finally, in the terminal phase of post-operation integration, tackled only by strategic buyers, the maximum impact on the industrial economic entity's value is determined: if

positive, the full achievement of the synergistic effects and a creation of value for the shareholders occur; if negative, not only are the anticipated benefits not produced, but there is even a risk of destroying value.

A summary diagram concerning the characteristics, critical factors, resources involved, and the impact on value of each macro phase of the acquisition process is presented in the subsequent Table 2.

| n | Macrophase | Critical factors | Resources | Impact on value |
|---|---|---|---|---|
| 1 | Preventive strategic analysis | - Vision ability<br>- Strategic | Internal management of buyer | Minimum: risk of losing an opportunity |
| 2 | Negotiation and closing | - Bargaining force<br>- Negotiation skills<br>- Price level | Advisor and external professionals | Medium: “value capture” objective |
| 3 | Ex post integration | - Organizational ability<br>- Leadership<br>- Prevailing culture | Management of both companies | Maximum: Creation or destruction of value |

Table 2 - Source: Rosenbaum, J., & Pearl, J. (2013). *Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions*. Wiley.

This detailed breakdown helps in understanding how each phase contributes differently to the overall success or failure of an acquisition, emphasizing the importance of strategic planning, effective negotiation, and thorough integration to maximize the value creation potential of M&A activities.[10]

### 1.7.5 Motivations for M&A activities

As previously mentioned, M&A operations are a source of value creation for companies, as they integrate different business activities and generate synergies. There are multiple motivations for a company to undertake these operations and subsequently develop these synergies to increase a company's value:

- **Exploiting economies of scale and scope in production and distribution**: The resultant company from the aggregation can perform a function or activity more efficiently than the two companies individually. For instance, it may benefit from savings related to research and development, production, marketing, and

[10] Gaughan, P. A. (2010). *Mergers, Acquisitions, and Corporate Restructurings*. John Wiley & Sons

sales expenses. The company will be able to reduce costs and increase efficiency, linked to a larger production volume (economies of scale). Economies of scope refer to the cost savings resulting from the joint production of different products using the same productive factors (same resources, same facilities, same know-how).

- **Financial and fiscal advantages**: This includes the possibility of exploiting profits from the use of tax shields, avoiding costs related to bankruptcy, or increasing financial leverage. Through a merger with a less indebted company, a firm can increase its leverage and reduce the cost of capital. Mergers represent a way for the buyer to offer low-cost financing to companies with financial difficulties. Regarding tax benefits, the absorbing company might use the other company's past losses to reduce its own tax burdens; moreover, the larger size of the new company can lead to further fiscal benefits, as improving its debt ratio allows the firm to enjoy a greater amount of debt, whose interest expenses are deducted from taxable income more significantly.

- **Increasing market power**: M&A activity has the capability to drive higher prices to benefit the newly consolidated enterprise and other industry players. As industry leading players, the companies might collude to limit output and push higher prices to improve their profitability and valuation.

- **Leveraging complementarity of resources and markets**: M&A activities can aim to combine complementary resources and skills, especially when the acquired and acquiring companies possess distinct resources and competencies in different areas. Complementarity can also relate to the products and target markets of the two companies; differences in geographical location or product segments are significant motivations for carrying out M&A operations.

- **Diversifying the portfolio of products and services**: An acquisition can be carried out to expand the range of products and services offered to the market and to diversify the risk associated with operating in a single market by leveraging the resources and skills of the companies involved in the operation.

- **Exploiting managerial integration economies**: This involves replacing the top management of the acquired company with executives from the acquiring company, who are believed to possess more suitable competencies for managing the enterprise and who are expected to better handle the integration phase post-operation.

- **Eliminating inefficiencies**: Another motivation often at the core of the decision to acquire is the potential to eliminate inefficiencies in the company being acquired, such as unexploited opportunities, potential costs to cut, or sales and profits believed to be improvable. This specifically involves valorizing, under one's own managerial direction, the untapped potential of the company intended for acquisition.

These motivations demonstrate the strategic and economic rationale that drives companies to pursue M&A, emphasizing detailed implementation and planning to fulfill the desired benefits and make these operations worthwhile.

### 1.7.6 Disadvantages of M&A operations

After exploring the main motivations that can drive companies to engage in mergers and acquisitions, along with the positive advantages that allow a company to create positive synergies and increase its value, let us delve into and examine the challenges associated with the implementation of these operations. Undertaking mergers and acquisitions is not as straightforward as it may seem, and companies must not underestimate the potential risks that may arise. The main risks and problems that companies may encounter include:

- **Loss of customers**: Customers may not react positively to the operation. This often occurs when customers experience disruptions in service following the transaction or a change in the contractual conditions previously agreed upon.
- **Risk of structural oversizing**: This can lead to an increase in fixed costs, consequently raising the average cost. This can make the enterprise more rigid and less capable of coping with the continual fluctuations of the market.
- **Potential coordination problems**: Within the organization, due to the lack of necessary links between staff from different companies. Often, employees may not want to be part of a new enterprise, and there can be clashes between different corporate cultures, as well as significant managerial and organizational differences.
- **Actual cost of M&A processes**: The real cost of merger and acquisition processes can turn out to be higher than planned in the analysis phase of the activities and strategies to be implemented to formalize the operation.

These disadvantages underscore the complexities and potential downsides of mergers and acquisitions, emphasizing the need for meticulous planning, robust integration strategies, and careful management of the human aspects of corporate mergers to mitigate these risks.[11]

## 1.8 Motivations of the target company

In addition to the objectives and synergies pursued by the acquiring company, mergers and acquisitions (M&A) materialize when there are compelling motivations or economic advantages for the target company. These factors convince its management to divest by offering the business to third parties; in many cases, the initiative originates from the selling company itself.

---

[11] DePamphilis, D. (2010). *Mergers and Acquisitions Basics: Negotiation and Deal Structuring*. Academic Press.

Divestment is not always tied to pathological situations or corporate crises but can be an integral part of a corporate restructuring strategy aimed at the dynamic reallocation of resources, which may lead to value creation.

The primary motivations that generally drive the sale of a company include:

- **Necessity:** This is when business owners or managers become aware that there is objective pathological trouble in business processes, and it is advantageous to invite new capital in and be restructured through cooperation with healthy willing companies. Such circumstances generally arise due to poor profitability, managerial deficiencies, competitive deficiencies, technical obsolescence, or high-investment needs. The recognition of, and reaction to, such circumstances signal a wise, modest, and self-aware action to address the company's crises and challenges.
- **Desire to divest risky:** Managers would divest a business unit when it is not performing or is not in sync with the strategic vision set forth by corporate leadership. Divestment would also be used to a subsidiary or branch in a particular country when it is causing serious challenges to stability and expansion or when the target market is recording low interest in the company's product or services.
- **Succession issues:** In business families, it is not a rare occurrence that business owners choose to opt-out of management by selling their business when succession between generations is not feasible. This is typically brought about by a deficiency of successors, disinterest in succession in the next generation, or disbelief in their business potential.
- **Other personal issues**: Beyond succession concerns, the decision to sell a company may stem from personal factors, such as the owner's health or age, irreconcilable conflicts among partners, the need to divide family assets, or personal financial requirements.
- **Maximization of economic outcomes**: Sellers may recognize that the company has reached the peak of its development and achieved the maximum possible results, with flat or unpromising future prospects. Under these conditions, they

are inclined to capitalize on their investments by divesting the entire company or parts of it.

- **Opportunistic offers**: There are acquisitions that arise by accident, not part of a premeditated strategic plan but through exceptionally good offers ("offers that cannot be resisted") where acquirers may underestimate their target or make advantageous offers at exceptionally good terms for themselves.
- **Minority stake transactions:** Companies may sell off part of their business (e.g., a branch or poorly performing unit or even all of a subsidiary within a corporate group) to refocus or consolidate their core operations or to meet refinancing needs.

These motivations impact price, margin of negotiation, and closure of transactions in varying measures. For corporate (objective) or personal (subjective) issues, the negotiating power of the buyer significantly increases. Conversely, when the sale is driven by the maximization of economic outcomes or the exploitation of an opportunity, the seller holds stronger negotiating leverage, enabling them to secure better prices and terms in the transaction.[12]

## 1.9 The acquisition value

For an acquisition operation to be economically advantageous, it must generate an economic benefit, meaning the creation of added value. This occurs when the value of the two companies combined after the operation exceeds the simple sum of their values as standalone entities. In this case, it can be stated that the acquisition has generated synergies.[13]

[12] Cremona, G., Tarantino, N., & Monarca, P. (2009). *Manuale delle operazioni straordinarie* (4th ed.). Ipsoa.
[13] Damodaran, A. (2012). *Investment valuation: Tools and techniques for determining the value of any asset*. John Wiley & Sons.
Damodaran, A. (1996). *Manuale di valutazione finanziaria*. McGraw-Hill.

This concept can be expressed with the following formula:

$$W_{A+B} > W_A + W_B$$

Where:

- $W_{A+B}$: the value of the new corporate entity created as a result of the operation;
- $W_A$: the standalone value of the acquiring company (A) in the absence of the operation;
- $W_B$: the standalone value of the target company (B) in the absence of the operation.

After an acquisition, the cash flows associated with the acquiring company increase due to the standalone flows generated by the target company, as well as the incremental cash flows (synergies) derived from the integration processes that the buyer intends to implement after obtaining control.

To identify and quantify the effects of an acquisition, a comparison is made between a "base scenario," representing the acquiring company in the absence of the operation, and an "innovative scenario," representing the company's value following the investment. According to this logic, the acquisition value of the target company can be represented as follows:

$$W_{Acq(B)} = W_{A+B} - W_A$$

Where:

- $W_{A+B}$: the value of the new entity created following the operation (*innovative scenario*);
- $W_A$: the standalone value of the acquiring company (*base scenario*);
- $W_{Acq(B)}$: the acquisition value of the target company (B).

Based on the well-known value stratification model, the estimation process of the acquisition value can be divided into different phases, each corresponding to a specific "layer" of value. Specifically, the acquisition value of the target company consists of the standalone value of the acquired company, the value of the synergies resulting from the operation, the value of the risk differential (operational, market, financial), and the value of incremental strategic opportunities generated by the deal (real options).

Developing this approach, the formula representing the acquisition value can be expressed as follows:

$$W_{Acq(B)} = W_B + W_S + W_{\Delta risk} + W_O$$

Where:

- $W_{Acq(B)}$: the acquisition value of the target company (B);
- $W_B$: the standalone value of the target company (B);
- $W_S$: the value of synergies resulting from the operation;
- $W_{\Delta risk}$: the value of the risk differential resulting from the operation;
- $W_O$: the value of incremental strategic opportunities generated by the operation (*real options*).

### 1.9.1. Evaluation of synergies

The methodologies employed to quantify synergistic effects can follow, as in the case of the evaluation of corporate economic capital, two different conceptual approaches:[14]

- **An analytical approach**, where potential synergies are discounted at a specific discount rate. This rate can be the cost of equity (Ke) if the perspective is equity-side or the weighted average cost of capital (WACC) for an asset-side perspective. The calculation considers synergies net of implementation costs, potential dis-synergies, or other negative effects that can be estimated.

[14] Copeland, T., Koller, T., & Murrin, J. (2002). *Il valore dell'impresa: Strategie di valutazione e gestione*. Il Sole 24 Ore.

- **A synthetic approach (multiples method)**, which estimates the net effects of synergies on EBITDA and then multiplies the resulting value by the typical industry multiple.

### 1.9.2 Evaluation of risk differential

The variations in the risk assumed by the combined entity following the acquisition, compared to the risk borne ex-ante in the absence of the transaction, can assume both positive and negative values, depending on whether the riskiness of the company has decreased or increased.

Acquisition transactions have the ability to impact the operational and financial characteristics of a company, inevitably altering its risk profile. In the former case, this refers, for example, to the impact on the degree of operating leverage, which indicates the rigidity of the structure (ratio of fixed costs to total costs) and, thus, the sensitivity of operating income to changes in revenues. In the latter case, the focus is on the effects on financial leverage, which expresses the sensitivity of net income to variations in operating income due to the financial burdens arising from debt financing.

### 1.9.3 Evaluation of incremental strategic opportunities

The real options theory allows for the valuation of opportunities based on the concept of flexibility. A real option represents the right to realize a benefit derived from exploiting an opportunity in an uncertain environment. It assigns a premium to waiting i.e., to defer a decision in time because new relevant information may become available during that period.

Incremental options provide the potential to purchase more investments at a given date or over a given time period, in specified specifications and terms. Incremental options function similarly to financial options: one party (A) pays funds (premium) to a different party (B) to be given the option to buy (call option) or sell (put option) a specified asset (underlying asset) at a specified price (exercise price or strike price) on a specified date (European option) or over that time period (American option).

Unlike financial options, real options can refer to deferring an investment (option to defer investment), abandoning a project (abandonment option), scaling investments (follow-on option), or adjusting production (option to adjust production). For example, an abandonment option can be likened to a put option on a stock: if the business does not meet satisfactory results, management can terminate the project and realize its liquidation value. This liquidation value corresponds to the exercise price of the put option; when the present value of the project (or business) falls below this liquidation value, the decision to sell or liquidate the business becomes akin to exercising the put option.[15]

## 1.10 Net present value generated by the acquisition

The Net Present Value (NPV) is calculated by subtracting from the acquisition value: the price paid by the acquirer for the target company's capital; the costs incurred for post-acquisition integration, necessary for the new structure to begin operations (such as IT adjustments, employee training, replacement of obsolete assets, etc.); and transaction costs incurred during the process, including due diligence expenses, advisory services, or legal fees.

Analytically, the formula summarizing the above concepts is as follows:

$$NPV = W_{Acq} - P - C_T - C_I$$

Where:

- NPV= Net Present Value generated by the acquisition operation.
- $W_{Acq}$ = Acquisition value of the target company.
- P = Price paid by the acquirer for the target company's capital.

[15] Copeland, T. (2003). *Opzioni reali: Tecniche di analisi e valutazione*. Il Sole 24 Ore.

- $C_T$= Transaction costs incurred during the operation.
- $C_I$= Costs of integration incurred post-acquisition.

For a positive NPV to be generated, indicating the creation of value, it is necessary that the price paid by the acquirer is lower than the difference between the acquisition value and the transaction and integration costs incurred, as indicated by the following inequality:

*NPV > 0 if and only if :*

$$P < W_{Acq} - C_T - C_I$$

This amount identifies the maximum price beyond which the acquirer should not proceed to ensure a profitable transaction; otherwise, wealth would be transferred in favor of the seller.

# *Chapter two: The valuation process in M&A transactions*

## 2.1 Introduction to valuation

In mergers and acquisitions (M&A) transactions, the primary methods used for valuation are the analytical approach of Discounted Cash Flow (DCF) and the synthetic approach through market multiples.

Valuing a company in this context involves estimating a range of values within which the likely transaction price might fall during negotiations between two parties. The final amount depends on the bargaining power of the negotiating parties and their respective motivations to conclude the deal.

Valuations serve to play a vital role in facilitating potential buyer-seller transactions. Real transactional prices are justified by the price of purchase offered to a target enterprise by a specific strategic buyer (in the majority of cases industrial) and by other potential competitors willing to acquire the target organization.

The acquisition value (or strategic value), as previously introduced, is ideally composed of the stand-alone value (objective) of the target company, the subjective valuation of the anticipated synergies expected by the acquirer following the consolidation process and the control assumed over the new corporate entity, and additional marginal and uncertain components such as the differential risk perceived due to the transaction and the incremental strategic opportunities generated from it.[16]

There is no universally superior valuation approach applicable to all situations. Depending on the object of valuation, situation of operations of the enterprise, available information, as well as on valuation goal, several methods of evaluation might be employed that normally complement one another. Most frequently, in accordance with the situation presented to be considered to be the most efficient method of valuation is employed together with a method of control that is employed to verify and assure reliability of received result.

---

[16] Damodaran, A. (2010). *Valutazione delle aziende*. Maggioli Editore.

According to valuation theory in business, the valuation method used must satisfy specific conditions:

- **Rationality**: The approach should have logical, clear, and consistent organization grounded in sound theoretical assumptions that have found acceptance in scholarly circles.
- **Demonstrability**: Parameters and variables in the valuation formula should be quantifiable and reliable, derived from observable and concrete data.
- **Neutrality**: The adopted method should remain impartial to the interests of involved parties and free from biases held by the person conducting the valuation.
- **Stability**: The valuation cannot be subject to adjustment or modification on account of subjective judgments but only in objectively provable special circumstances might initial valuations need to be changed.

A preliminary broad categorization of valuation criteria distinguishes between absolute methods, based on the fundamental aspects of the business (asset values, earnings, financial performance), and relative methods, where value is estimated in relation to others.[17]

Absolute valuations, also known as "analytical," lead to estimates based on stock values, flow values, or a combination of both. Therefore, there are fundamentally three types of valuation approaches:

- The flow-based approach, which includes financial (DCF) and earnings-based methods.
- The stock-based approach, which includes asset-based methods (simple or complex).
- The approach based on economic profit, or excess return, including mixed methods highlighting goodwill and Economic Value Added (EVA).

Relative valuations, also known as "empirical," are based on constructing indicators, market multiples, that express the ratio between market prices and specific business

[17] Frykman, D., & Tolleryd, J. (2010). *Valutare l'impresa*. Il Sole 24 Ore.

economic variables concerning a set of comparable companies. Subsequently, these obtained ratios are applied to the same economic variables of the company being valued to derive its value through multiplication.

Multiples can refer to prices formed on the stock market or in control markets, leading to two main types:[18]

- **Stock market multiples** referring to the valuations of a sample of comparable companies.
- **Deal multiples** referring to prices negotiated for controlling or significant stakes in homogeneous companies.

Models based on cash flows (either financial or income-based) lead to highly significant estimates in valuations related to extraordinary finance operations (such as mergers and acquisitions, company sales or purchases, mergers, and demergers), periodic performance assessments of management (self-diagnosis), and in general within all forms of strategic value management.

This approach expresses the value of a business based on its ability to generate cash flow or produce income, and consists fundamentally of three main phases:

1. **Quantification of relevant cash flows**: Expected cash flows for financial methods, and future income flows for income-based methods.
2. **Selection of an appropriate discount rate:** The rate must also correspond to the method of valuation being employed and reasonably reflect the risks and uncertainties associated with the business or project being evaluated. The opportunity cost, as the return the market offers for other, comparably risky, investments, or the cost of capital, specifically relating to the economic and financial characteristics of the business, are typically utilized.
3. **Definition of the relevant time horizon:** Time horizon does not have any specified period while considering continuous ventures, which are expected to last an infinite period. A finite time period enters while considering an

[18] Guatri, L., & Bini, M. (2002). *I moltiplicatori nella valutazione delle aziende,* Egea

investment, whereby the time period is determined by the time it takes the operation to provide the expected flow of money.

A study conducted by AIAF (Italian Association of Financial Analysts) in 2002 revealed that 89% of analysts participating in the survey used the DCF method (financial model) and 86% used the market multiples method. [19]

In light of the above, the chapter will delve into the financial method DCF, DDM and market multiples, the three main criteria used in the valuation process. Prior to exploring these approaches, a section will be dedicated to defining the necessary informational basis to proceed with valuations.

## 2.2 The information framework

Concerning the issue of selecting the most reliable and appropriate valuation model, Luigi Guatri, a distinguished university professor at Bocconi, has proposed an interpretative solution called "Giudizio integrato di valutazione" (GIV). The GIV is a process based on three pillars:[20]

I. Informational base and fundamental analysis (data processing);

II. Absolute evaluation;

III. Relative evaluation.

The three pillars are not autonomous and there is no predetermined hierarchy of importance among them;  there are no primary methods and control methods identified a priori.

The informational base and fundamental analysis constitute the foundation of the entire process, as without the former, models, formulas, and multiples would be mere empty

---

[19] Associazione Italiana del Private Equity e Venture Capital. (2014). *Directory M&A: L'analisi del mercato e i trend principali*.
[20] Guatri, L. (2000). *Il giudizio integrato di valutazione: Dalle formule al processo valutativo*. Egea.

tools, but without accurate data processing (fundamental analysis), the news and information gathered would be inert and end in themselves.

The information to be collected with reference to the company being evaluated can be distinguished into three categories, as highlighted by the AICPA (American Institute of Certified Public Accountants) in one of its documents:

- Non-financial information: company history, organizational structure, management, facilities and equipment, products and services, competitive context, geographical area of operation, key customers and suppliers, business risks, strategies, regulatory context;
- Ownership-related information: interests of the owner, other owners, rights included or excluded in intangible assets, phenomena that may affect the value of the share (shareholder agreements, business partnerships, purchase options or other contractual obligations that restrict ownership, licenses, commercial exclusives);
- Economic and financial information: historical series of financial statements, reclassifications thereof, financial reports, forward-looking information (budgets, projections, forecasts), financial indicators, comparative analysis with other companies, documentation on taxation, rights and benefits granted to owners or management.

Reclassification techniques have to align with balance sheet figures for the method of valuation that has been decided upon. As a general practice, reclassification of the income statement is geared towards emphasizing produced value and added value. Concurrently, reclassification of the balance sheet is arranged by functional destination (functional criterion). Through this technique, it is ensured that accounting figures more accurately reflect economic conditions of the enterprise so that more detailed valuation analysis is attainable.

### 2.2.1 The financial statements in Italy

Before moving forward with explaining the reclassification of the financial statements, it is appropriate to delve into the theoretical principles of financial statements, with particular attention to the accounting principles used in Italy, which will be the basis for the analysis of the company examined in the following chapters.[21]

In Italian accounting, the preparation and presentation of financial statements are governed by several foundational principles known as postulates. These include:

1. **Going concern**: This postulate assumes that the business will continue its operations into the foreseeable future without the intention or necessity of liquidation. It impacts various accounting valuations, such as asset depreciation and inventory assessment.
2. **Accrual principle**: This principle dictates that transactions and economic events are recognized when they occur, not when cash is exchanged. Revenues are recorded when earned or realizable, and expenses are recorded when incurred, regardless of cash flow timings.
3. **Consistency:** This implies that if an accounting method is employed in some accounting period, it must hold for all accounting periods. There is scope for modification only if a more appropriate method is found to increase intertemporal comparability.
4. **Prudence**: This requires having a conservative accounting approach to revenues. As per it, revenues need to only be accounted for if they are certain in their occurrence, while all future losses and liabilities need to be provisioned for.
5. **Substance over form:** This method involves accounting for economic events and transactions based on their economic substance in place of their legal structure so that their economic activities' economic substance is accurately reflected in their financial statements.
6. **Relevance and reliability**: Financial reports must include relevant information to user decision-making needs in addition to reliability in that it must be specific, truthful, and exhaustive.

[21] Fazzini, M. (2011). *Analisi di bilancio: Metodi e strumenti per l'interpretazione delle dinamiche aziendali*. Ipsoa.

7. **Comparability**: This requirement ensures that financial information is presented consistently over time and across different companies, facilitating effective evaluations and comparisons by users.

### 2.2.2 Balance sheet

The balance sheet is the statement showing the qualitative composition and the quantitative amount of capital as of the balance sheet date. Capital is represented through its constituent items: assets, liabilities, and equity. The balance sheet is the first of the two mandatory schedules of the financial statements, and its content is governed by article 2424 of the civil code, which establishes its structure and content. As for structure, the balance sheet is presented as a statement with opposing sections, of which the first section indicates the assets available to the company at the end of the reporting period, while the second section measures the amount of debts or liabilities that the company has to credit institutions, entities, suppliers, and various lenders, as well as the amount of financial resources contributed or not withdrawn by the shareholders (equity).

The balance sheet is comparable to a snapshot of the financial position of the company. For the balance sheet, we assume the situation at the end of the last day of the fiscal year (usually December 31) and compare it with the situation as of December 31 of the previous year, coinciding with the initial situation (at the beginning of the first day of the current fiscal year).

Article 2424 of the Civil Code regulates the contents of the balance sheet. The assets, i.e., the set of investments available to the company and its economic resources (plant and machinery, buildings, equipment, receivables, cash, goods in stock, patents, and trademarks, etc.); liabilities such as debts and obligations that the company has to suppliers and third parties (these are external financing sources); net assets (equity) consisting mainly of cash payments made by the owners of the company.

In more managerial terms, it can be said that the Assets section lists all the investments necessary for the company to carry out its business more profitably, while under Liabilities are listed all the means the company has to finance those investments.

The classification is actually not made on the basis of the time period within which the assets will turn into cash, but follows a mixed criterion: different criteria are used simultaneously to organize the different items of assets. The classification of fixed assets and current assets is based on the criterion of allocation, that is, on the basis of the role played by the different assets in the ordinary course of business; in fact, the text of the law stipulates that assets intended for lasting use must be entered among fixed assets. So, thanks to this rule, we can understand the reason for the presence of identical items in the two macro classes (advances, equity investments, receivables, securities, treasury shares), depending on whether they are intended to be permanently in the company or not.

Very evident appears the influence of the criterion of classification by nature in the subdivision of receivables: with the financial subdivision they must be classified under financial fixed assets, regardless of their remaining duration, while with the commercial subdivision they must be represented among the receivables in the assets' current assets (even if the maturity is longer than 12 months).

As for Liabilities, the classification of items is made on the basis of their nature, whereby financing sources are distinguished from equity. However, this mode of presentation further differs from the financial, and no distinction is made between consolidated and competing debts, as the purpose of the legislator is not to give immediate evidence of the duration of the financing sources.

The macro class Provisions for risks and charges includes only funds intended to cover losses or debts of a definite nature, of certain or probable existence, of which, however, at the close of the fiscal year are undetermined. Considering the Italian legal regime, the Employee Severance Indemnity should be shown under payables, as the amount due to each employee is exactly determinable at the end of each fiscal year and the obligation to pay is not contingent on uncertain events. The Italian legislator, considering that the European directive provided for its inclusion among funds, created for severance pay a macro class in its own right, which essentially should be assimilated to that of debt, although from a presentation point of view it is separate.

The items included in the macro class Debt are organized primarily according to the nature of the relationship from which the debt arises: bond, bank or other lender loan, supply, tax, and social security; exceptions are items arising from relationships with companies belonging to the same group (subsidiary, associated, parent company) which must be separately indicated. In the item accrued expenses and deferred income, the following must be entered the costs pertaining to the year, payable in subsequent years and the income, which had a numerical manifestation within the closing of the financial year, but pertaining to subsequent financial years.

### 2.2.3 Income statement

The Income Statement is a financial document that highlights the dynamics of costs and revenues generated by a company over a specific period, thereby illustrating the economic result of the management, i.e., the increase or decrease in initial net assets as a result of management activities.

The Income Statement actively illustrates operating transactions that drive financial results. They all fall within four categories:

- **Current management operations:** include daily routine operations associated with the purchase-production-sale cycle of the company within a given span of time. They incur cost and revenues that are vital to the core operations of the business.
- **Operations outside regular management**: These still fall within operational management but produce asset-related charges and revenues that, even if exceptional, arise from the disposal of assets linked to operational management.
- **Financial operations**: These generate costs and revenues associated with financial transactions with banks and other entities.

- **Extraordinary operations**: These produce costs and revenues attributable to previous periods or resulting from changes in adopted accounting principles, as well as any extraordinary income or expenses considered exceptional.

Formally, the Income Statement is structured in a cascading format, with items organized alphabetically and subgroups numerically.

The concept of the Income Statement in dynamic terms becomes particularly evident for typical management operations, where, following the logistical-operational cycle, it is possible to highlight the formation of the economic result as a consequence of interconnected operations.

Firstly, the Income Statement emphasizes the value of production (Group A), which is the value of everything realized over a certain period that obviously involves the use and consumption of resources, i.e., production costs (Group B). In addition to considering revenues and changes in stock of finished goods, work-in-progress, and products under contract, the value of production also includes increases in internal activity and a diverse array of positive components, often not directly related to the company's specific productive activity. Against the value of production, the costs incurred for production are juxtaposed, yielding an intermediate result called the difference between value and cost of production. This result highlights the contribution of typical operational activities broadly to the formation of the final net result of the fiscal year, which is only reached after subtracting/adding the results of financial operations (Group C and D) and extraordinary items (Group E).

Financial income and expenses include both income components related to active financial management, such as investments in liquidity policies, and values related to passive financial management, i.e., derived from capital-raising operations. Value adjustments of financial assets cover income components generated by the application of valuation criteria to financial assets and, therefore, are not derived from costs and revenues from third-party operations but from write-downs and revaluations of assets. Finally, it should be noted that the legislator does not specify what is meant by extraordinary management; therefore, in the extraordinary income and expenses, we will include extraordinary components residually, verifying the impossibility of including them in the Income Statement items related to Groups (A, B, C, D).

### 2.2.4 Explanatory Notes

The Explanatory Notes is the document accompanying the Balance Sheet and the Income Statement, serving an explanatory and descriptive function that forms an integral part of the financial statements. The purpose of the Explanatory Notes is to inform the recipients of the financial statements by supplementing the Balance Sheet and the Income Statement with extra-accounting and qualitative data.

A crucial function of the Explanatory Notes is to explain and justify the choices made by the administrators in their evaluations. Additionally, they serve to describe in detail the items listed in the Balance Sheet and the Income Statement. The Explanatory Notes are an essential informational document for the financial statements to fulfill their role as a tool for providing information on the company's financial, economic, and asset conditions. The information contained in the Explanatory Notes includes:

- Valuation criteria;
- Movements in fixed assets and other items of assets and liabilities;
- Details on specific items of the Balance Sheet and Income Statement;
- Various information concerning employees, remuneration to directors and statutory auditors, categories of shares and bonds;
- Financial instruments issued;
- Shareholder loans;
- Funding allocated to a specific transaction;
- Leasing operations.

Particular importance is given to the Cash Flow Statement, which should be included in the Explanatory Notes to highlight changes in the asset and liability items (especially for large companies).[22]

---

[22] Roscini Vitali, F. (2012). *Nota integrativa e relazione sulla gestione*. Il Sole 24 Ore.

### 2.2.5 Cash Flow Statement

The Cash Flow Statement is a financial report that highlights the sources and uses of financial resources and changes in the financial position of a company. This statement is crucial for identifying real changes in net equity resulting from direct or indirect shareholder investments, distinct from changes due to accounting entries such as monetary revaluations. It allows those analyzing the financial statements to distinguish these changes clearly. Each entry must be analytically indicated, with details of their origin, potential use, distribution, and whether they have been utilized or distributed in previous periods.

This statement is a separate document and not included in the Explanatory Notes. Companies that are allowed to prepare financial statements in abbreviated form also enjoy simplifications regarding the Explanatory Notes.

According to National Accounting Standard No. 12, this document should be attached to the Explanatory Notes, although currently very few companies do so as it is not legally mandated.

The objectives of the Cash Flow Statement are as follows:

1. To illustrate internal and external financing activities over a specified period, distinguishing between typical and atypical activities.
2. To demonstrate investment activities conducted within the same time frame.
3. To identify correlations between the duration of sources and uses.
4. To discern the causes of financial changes, categorizing them as typical or atypical.

Within the company, there are two forms of cash flow statements:

- **Net working capital cash flow statement**, which is intended to investigate and measure the company's ability to meet monetary outflows related to current management; its value should always be positive to maintain a precise correlation between the duration of uses and sources.

- **Liquidity cash flow statement**, which is more challenging to obtain but provides greater informational value, representing a purely financial magnitude.

Net Working Capital is particularly suited to describing the short-term financial balance as it measures the company's ability to manage current cash outflows. Its flow can be determined by:

- Contrasting elementary flows of working capital derived from related economic movements.
- Converting the period's results from an economic flow to a financial flow, adjusting entries that have not impacted it.

Cash flow statements present less interpretative uncertainty and are objectively quantifiable, allowing for temporal and spatial comparisons. They correspond to liquidity generated by current management and are determined by two methods:

- Adjusting the flow of net working capital.
- Correcting the period's results, i.e., starting from the profit/loss for the period to trace back to operational cash flow, progressively adjusting positive and negative components that have not interfered with liquidity and including increases or decreases in trade receivables/payables.

Regarding the structure and content of the Cash Flow Statement, a common level of minimum information is identified: firstly, financial or monetary changes related to typical management must be distinguished from atypical management, and additionally, transactions involving the purchase/sale of fixed assets, the initiation/reimbursement of medium or long-term financing, dividend distributions, and finally, increases/reimbursements of share capital must be separately indicated.[23]

[23] Teodori, C. (2015). *Il rendiconto finanziario: Ruolo informativo, analisi, interpretazione e modelli contabili*. Giappichelli.

### 2.2.6 Reclassification of the Income Statement

The reclassified income statement based on production value and added value follows the "by nature" classification criterion (causal criterion) for costs and revenues, adopting a progressive display format. It compares the production value obtained during the fiscal year with external costs (consumption of goods and services provided by third parties) incurred in production, thus highlighting the value increment that a company adds, through the use of its own productive factors, to the goods and services it purchases from other companies.[24]

The intermediate results outlined before reaching the net economic result (profit or loss for the year) are as follows:

- Production value obtained during the year: encompasses all operational revenues, both actual (sales and services) and imputed (such as changes in inventory of finished products or self-constructed assets) generated by the company during the fiscal year;

- Cost of external production factors: cost of goods (raw materials, subsidiary materials, consumables, merchandise, and related inventories) and services (commercial, administrative, energy, maintenance, enjoyment of third-party assets, etc.) purchased or provided by third parties and consumed in the production of the year;

- Gross profit: the difference between the production value and the cost of external production factors. It represents the value increment that the company adds to the goods and services it purchases from other companies;

[24] Frizzera, B., & Avi, M. S. (2007). *Bilancio riclassificato e analisi per indici e flussi 2007*. Il Sole 24 Ore.

- EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization): the difference between added value and labor costs (internal operating costs). It indicates the wealth remaining after compensating personnel and is not affected by accounting policies related to depreciation and provisions;

- EBIT (Earnings Before Interest and Taxes): the difference between EBITDA and the macro item containing depreciation and provisions related to core management. It highlights the economic result available to compensate: third parties who have provided credit capital (banks, financiers), through interest or similar; the tax authorities, through tax payments; the equity capital (partners, shareholders), through realized profits;

- Result from atypical/ancillary management: includes other non-characteristic revenues and income (capital gains, insurance reimbursements, rental income, etc.) and various management expenses (residual costs, taxes and duties other than income tax, membership fees, social utility charges, etc.);

- Result from financial management: concerns financial revenues (income from forward contracts, active interest from customers, active bank interest, etc.), passive interests and other financial charges (interest paid on mortgages, leasing interest, bond loan interest, etc.), profits or losses on foreign exchange and adjustments in value of financial assets;

- Result from extraordinary management: encompasses all non-typical transactions carried out by a company that have characteristics of exceptionality and non-repetitiveness, such as capital gains or losses from the disposal of fixed assets;

- Income before taxes: the "tax management" encompasses all variables arising from the relationships between the company and the financial administration.

Table 3  below shows the reclassification scheme of the income statement based on production value and added value, highlighting the intermediate results mentioned above and including in parentheses the corresponding balance sheet items related to the mandatory format prescribed by Italian corporate law.

| **IAS structure** | **Reformulated** |
|---|---|
| Net revenues | Net revenues |
| -Cost of good sold | -Cost of good sold |
| =Gross Profit | =Gross Profit |
| -Operating expenses | -Operating expenses |
| = Earnings before Interest and tax (EBIT) | =EBITDA |
| +/- Net interest expenses | -Depreciation/Amortization |
| =Income before taxes (EBT) | +/- Special Items |
| -Taxes | =Earnings before Interest and tax (EBIT) |
| =Earnings after taxes (EAT) | +/- Net interest expenses |
| | =Income before taxes (EBT) |
| | +/- Extraordinary items |
| | -Taxes |
| | =Earnings after taxes (EAT) |

Table 3 - Source: Prof. Paolone lectures material

### 2.2.7 Reclassification of the Balance Sheet

The balance sheet, when reclassified according to the functional (or management) criterion, involves grouping assets and liabilities based on different managerial areas of relevance. This allows for an examination of the allocation and use of resources within these areas. It highlights key metrics useful for valuation, such as net operating invested capital (NOIC), net invested capital (NIC), net working capital (NWC), and net financial position (NFP), distinguishing strictly operational assets from those related to ancillary or complementary management (surplus assets), which are external to the company's core activities.

The Net Working Capital (NWC), measures resources committed in the cycle of current operations management (purchasing, transformation, sales) and is calculated by the difference between investments and financings linked to the operating cycle, as shown in Figure 1 below. Investments primarily include inventory and trade receivables, while financings typically refer to liabilities to suppliers; additionally, this category should include other marginal items such as accruals, other short-term operational credits and debts, advances to suppliers, and advances from customers. The size of the NWC is directly related to the duration of the financial cycle of the operations management, which in turn depends on the commercial terms of collection and payment negotiated with customers and suppliers. A higher working capital relative to turnover indicates greater financial needs associated with the development of business activities, and vice versa.

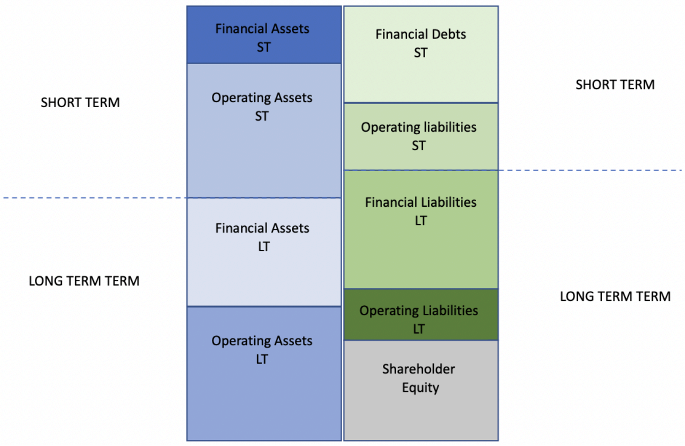


Figure 1 - Source: Prof. Paolone lectures material

Net Operating Fixed Assets (NOFA) represent the difference between investments and financings linked to the operational structure. Investments include tangible fixed assets (industrial buildings, equipment, etc.), intangible assets (trademarks, patents, etc.), and financial assets that are instrumental in nature (e.g., stakes in commercial companies or companies linked by pervasive industrial relationships). In the latter, provisions are made for employee severance funds  and funds for risks and charges (retirement and similar obligations, tax funds, etc.). In this overall calculation, additional items such as other long-term operational credits and debts, accruals, and deferrals must also be considered.

Net Operating Invested Capital (NOIC) consists of the two sizes related to operational activity that we have introduced, namely Net Operating Fixed Assets (NOFA) and Net Working Capital (NWC).

Surplus assets are assets that could be divested without compromising management, such as non-business-related real estate or stakes representing financial investments.

The Net Financial Position (NFP), or net financial indebtedness, is calculated as the difference between financial debts and liquid assets (cash, marketable securities, financial receivables, active bank accounts). This metric may occasionally be positive, if the latter exceeds the former; otherwise, it constitutes a passive synthetic magnitude.

Finally, Invested Capital is obtained by adding surplus assets to NWC, as represented in Figure 2. The related financial coverages (capital employed) are made up of equity and net financial indebtedness.

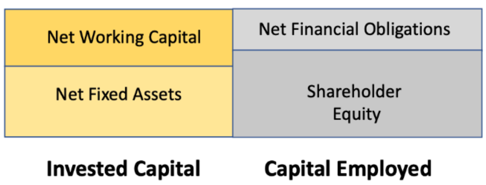


Figure 2 - Source: Prof. Paolone lectures material

### 2.2.8 Ratio analysis

For completeness of M&A transaction analysis at the valuation stage, two general categories of finance measures employed comprise liquidity measures and profitability measures. They provide crucial details on how well equipped a company is to meet its short-term financing commitments as well as to yield profits, respectively.

The liquidity ratios serve to establish how capable an entity is to fulfill its short-term obligations. They play a vital part in judging if a company has enough liquid assets to fulfill its immediate obligations to avoid risks of default. Proper analysis of liquidity ratios gives instant insight to how liquid or illiquid a company is by demonstrating if the company has assets that can be liquidated to cash within quick intervals of time.

The main liquidity ratio are:

1. The Current Ratio, or current liquidity ratio, is a key indicator for measuring a company's ability to cover its short-term debts with its current assets. It is calculated by dividing current assets by current liabilities. This ratio provides an immediate measure of a company's liquidity, indicating whether it has enough liquid resources to meet its short-term financial commitments. A value above 1 indicates that the company has more current assets than current liabilities, suggesting a good short-term financial position. A value below 1, on the other hand, could indicate potential difficulties in covering short-term obligations. This ratio varies significantly depending on the company's operations and management of inventory and receivables.

2. The Acid Test Ratio or Quick Ratio measures how well equipped a company is to pay off its short-term liabilities without liquidating inventories. To obtain it, divide all of its other current assets excluding inventories and short-term receivables by its current liabilities. This ratio is of special significance in ascertaining if it has sufficient immediate funds in that it only considers liquid assets. Having a ratio of 1 or higher is typically good in that it signals that it has sufficient funds to fulfill its current liabilities without liquidating inventories.

Having a ratio of lower than 1 signals that it may not have sufficient funds to fulfill its short-term liabilities without additional earnings.

3. The cash ratio or immediate liquidity ratio is the most conservative of all of the liquidity ratios and measures how capable a company is of paying off its short-term liabilities from only its most liquid assets: its cash and liquidated short-term investments that can be liquidated with ease. To calculate it, divide the total of cash plus cash equivalents by current liabilities. This ratio gives us an extreme view of how liquid a company is since it excludes other assets that might be liquidated to provide cash. A high ratio would reflect that it has good capability to satisfy immediate liabilities, whereas low would reflect potential risks of liquidity. Movement in this ratio would reflect dramatic changes in how liquid the company wants to maintain itself.

4. The Operating Current Ratio is a liquidity ratio that assesses a company's ability to pay short-term liabilities with the cash flow generated by business operations. It is calculated by dividing operating cash flow by current liabilities. This ratio focuses on cash generation from operating activities rather than total current assets, offering a perspective on how effectively the company is converting its daily operations into cash. A value above 1 indicates that the company is generating enough cash from its operations to cover its short-term liabilities, signaling good operational financial health. A value below 1, on the other hand, may indicate that the company may have difficulty covering these liabilities without resorting to external cash sources. Changes in this ratio may reflect changes in operating efficiency or cost structure.

5. The Cash Conversion Cycle (CCC) which is a liquidity metric that measures the time interval (in days) that a company typically takes to sell its inventory, collect receivables, and pay its debts. The "Cash Conversion Cycle" gauges the average

number of days needed to generate cash based on the company's production and sales processes and the payment terms established with creditors. A shorter cycle indicates more liquid working capital.

The formula to calculate CCC is as follows:

$$\text{Cash Conversion Cycle} = \text{DIO} + \text{DSO} - \text{DPO}$$

- Days Inventory Outstanding (DIO) = days required for an inventory "turnover";
- Days Sales Outstanding (DSO) = average number of days required to collect receivables;
- Days Payables Outstanding (DPO) = average number of days of payment deferment.

CCC is an indicator of efficiency in managing its working capital and provides a clear view of the company's ability to meet current liabilities, focusing on how quickly the company can convert its inventory into sales, and then its sales into cash, which is used to pay suppliers of goods and services. If inventory remains in stock for a long time, or if it takes a long time to collect receivables, and if the deferment granted by suppliers is short, then cash is "stressed" by the inventory and credits granted to cover commercial debts. A low CCC means greater liquidity, translating into less reliance on costly loans, more opportunities to make cash purchases at discounted prices, and greater capacity to finance business expansion with new product lines and/or markets. Conversely, a high CCC increases the company's cash requirements and denies all the aforementioned possibilities.[25]

On the other hand, profitability ratios offer a measure of how effectively a company uses its resources to generate profit. These indicators are crucial for investors and owners, as they provide a clear picture of the company's ability to generate profit and thus its potential for growth and dividend payouts. Profitability analysis is often at the heart of strategic decisions, influencing expansion plans, operational improvements, and pricing strategies.

The main profitability ratio are:

[25] Blokdyk, G. (2020). *Cash Conversion Cycle: A Complete Guide - 2020 Edition*

1. Return on Equity (ROE) is used to calculate how much of a company's profitability is in relation to its shareholders' equity, or how well the company is at converting funds that have been invested to net profits. ROE is found by computing net income by average shareholders' equity. ROE would be high if the company is good at converting shareholder investment to profit. ROE changes might reflect changes in operations, structure or management of the company.

2. Return on Invested Capital (ROIC) is an indicator of how well a company uses all invested capital (equity plus debt) to generate net operating income. It is calculated by dividing after-tax operating income by total invested capital. This indicator is crucial in assessing the effectiveness of management in using the company's available resources. A ROIC above the cost of capital indicates that the company is creating value, while a lower value may suggest otherwise.
3. Profit Margin, measures how much of each euro of sales remains as net profit after all expenses have been paid. It is calculated by dividing net profit by total sales. A high profit margin indicates greater efficiency in controlling costs and generating profit from sales. It is a key indicator of a company's overall economic performance and can vary widely by industry.

4. Financial Leverage, or how much of a corporation is financed through debt financing, measures how much of a corporation funds operations through debt financing. Financial Leverage is measured by liabilities divided by owners' equity.

5. Financial efficiency and taxation is an analysis that tracks how financially effective a corporation is while accounting for its taxation burden in relation to how taxation affects profitability in general. Financial efficiency might be tracked in several facets but in numerous situations operating profit to total

finance burden is employed whereas taxation analysis observes how taxes influence net earnings.

6. Asset Turnover, or how well a company is leveraging its assets to make revenues or sales, is measured by it. To determine it, divide revenues by average total assets. Through this metric, it tells us how well the assets of the company are used to make revenues or sales. Higher is good whereas low would tell us the opposite.

7. The DuPont analysis is a blend of several finance measures to establish how profitable a company is. ROE is divided into three components in the model: profit margin (net margin/sales), asset efficiency (sales/assets) and leverage (total assets/equity). Through these measures, we have a full view of how profit margins, assets employed, and debt burden interact to establish general performance of the company.

## 2.3 Discounted Cash Flow Analysis (DCF)

The Discounted Cash Flow (DCF) method determines the value of a company based on the present value of the cash flows it is expected to generate in future periods. The DCF analysis can be approached through two different perspectives: the asset side approach and the equity side approach. In the asset side approach, the method is based on discounting cash flows available solely to shareholders, whereas in the equity side approach, it focuses on cash flows available to all financial contributors to the company. These approaches differ not only in the application of different discount rates (WACC in the asset side and Ke in the equity side) but also in the type of cash flows being discounted: specifically, Free Cash Flow (FCF) in the asset side and Free Cash Flow to Equity (FCFE) in the equity side.[26]

[26] Kruschwitz, L., & Loeffler, A. (2005). *Discounted Cash Flow: A Theory of the Valuation of Firms*. Wiley.

This method fundamentally relies on the discounting of future cash flows, which are expected to be produced by the company's management. The formula is as follows: Where:

$$W = \sum \frac{F}{(1+i)^t} + \frac{TV}{(1+i)^t} + \text{SA}$$

- F = Cash flow (FCFF or FCFE)
- W= Value of the company
- Σ= Sum of discounted cash flows
- i = Discount rate (WACC or Ke)
- t = Years from the present
- SA = Value of marginal assets to be disposed
- TV = Terminal Value $TV = \frac{F}{i}$ or $TV = \frac{F(1+g)}{(1-g)}$ (in the case of growing flows)

Once the cash flows are identified, as seen in the formula, the next step involves their discounting, typically carried out in two stages: the first considers a timeframe of 3-5 years, while the second discounts over a much longer period, approaching infinity, known as the Terminal Value (residual value). Practically, this value represents the present value of a perpetual annuity of a sustainable long-term flow, estimated either by taking the last flow projected by the business plan plus a growth rate $g$ , or by using multiples from comparable companies (Ebit, Ebitda). Calculating the Terminal Value must be done with precision, as it significantly influences the valuation outcome. Once the TV is calculated, it must then be discounted to the present time.

Both components of the formula are discounted using a rate i, which may be either the WACC (asset side approach) or the Ke (equity side approach). Since the discount rates reflect risk levels, a higher rate might be used for the TV due to the greater uncertainty associated with long-term forecasts.

As previously mentioned, the two approaches also involve the use of different cash flows. In identifying monetary flows, it generally starts with the budget or forecasts prepared by company management, which allow for projections about the company's future financial, income, and asset performance. These forecasts must be analyzed and possibly adjusted. From the obtained values, the necessary flows for the valuation are determined depending on the chosen approach.

The asset side approach (Unlevered DCF) is more commonly used for valuing industrial or non-financial service companies, using cash flows available to the enterprise (i.e., for all investors: both shareholders and third-party financiers). This approach considers the company's value in terms of its operating activity, discounting unlevered cash flows, commonly referred to as Free Cash Flow (FCF), which are determined starting from EBITDA (or Gross Operating Margin) in the following manner:

| |
|---|
| EBITDA - |
| Depreciation and amortization = |
| EBIT - |
| Tax + |
| Depreciation and amortization - |
| CAPEX +/- |
| $\Delta NWC$ +/- |
| Other non financial variations = |
| Free cash flow (FCF) |

Table 4 - Source: Prof. Paolone lectures material

For the equity side approach, Free Cash Flow to Equity (FCFE) is used, starting from FCFO and adjusting for expected financial flows (change in debt, financial expenses, change in equity, dividends), resulting in:

| |
|---|
| Free cash flow (FCF) - |
| Interests + |
| $\Delta Debt\ =$ |
| Free cash flow to equity (FCFE) |

Table 5 - Source: Prof. Paolone lectures material

Once the cash flows, the time horizon, and the discount rate are determined, the company valuation can be conducted. Regardless of the approach used, the outcome should ideally be the same, although results may vary due to the numerous variables and parameters involved in the calculations. The financial methods discussed in this section also have limitations and practical challenges to consider, including:

- High subjectivity due to the assumptions required for precise estimation of cash flows during the forecast period.
- Limited reliability of cash flow forecasts beyond a certain number of years.
- Challenges in determining the Ke (discount rate) for unlisted companies; these difficulties increase if the company being valued operates in economies where capital markets are underdeveloped.

## 2.4 The Dividend Discount Model (DDM)

The Dividend Discount Model (DDM) is a valuation model used to estimate the value of a company by discounting the expected dividends. The underlying logic of the DDM is similar to that used in the Discounted Cash Flow (DCF) method, but it focuses specifically on dividends that can be distributed to shareholders rather than on expected operational cash flows. This model assumes that the return on investment for a shareholder comes from two main components: the future expected dividend flows and the price at which the shares will be sold when they are eventually transferred to another party. Since the timing of when the investor will sell the shares is unpredictable, a common solution is to assume that the investment will be held indefinitely, and that the dividend paid in the last forecast year will either remain constant forever or continue to grow at a constant rate "$g$" beyond the forecast period.[27]

In the first scenario, the model uses a formula that considers an infinite dividend stream, where the value of the share at expiration is equal to the capitalization of a perpetual annuity.

The formula is:

$$W = \sum_{t=1}^{\infty} \frac{D_t}{(1+Ke)^t}$$

Where:

- D = Dividend
- t = Years from the present
- W = Value of the company
- Ke = Cost of capital

In the second scenario, a constant dividend growth rate (g) is assumed. In reality, assuming a constant growth rate is quite simplistic; it might be more realistic to envision strong growth in the short term with growth rates gradually stabilizing toward zero over the long term. The formula for this scenario, known as the Gordon Growth Model, is:

$$W = \frac{D_0(1+g)}{(Ke-g)}$$

This model also predicts a reduction in risk, hence a decrease in the discount rate as stability increases over time.

However, the biggest practical drawback of the Dividend Discount Model is that dividends cannot provide a clear indication of value generation within a specific horizon in time, although dividends must be employed by the model to estimate the value of a specific company. A company might still make dividend payments by borrowing even if

[27] Kruschwitz, L., & Loeffler, A. (2005). *Dividend discount model: A theory of the valuation of firms*. Wiley.

it is not creating value. Profitable companies might not even make dividend payments at all. Payment of dividends is finally a strategic choice of the company management that might not reveal the economic condition of the company at all.

Given the unreliability of the DDM, this method is best used over a very long-term horizon and for large, stable companies. This is why, in practice, the DCF method is preferred because it overcomes the limitations of the DDM by focusing on cash flows, offering a more robust and versatile approach to valuation.

## 2.5 The market multiples method

The objective of valuation using market multiples is to estimate the value of a business based on the market prices of similar businesses. By employing the multiples method, the valuation of a company is achieved by identifying a relationship between prices and financial metrics (such as earnings, revenue, and net assets) for a group of comparable companies. This method operates under the assumption that market prices best approximate the value of a company and aims to discern the relationship between price and the company's economic variables.[28]

The application process of market multiples involves the following steps:

- **Identification of comparable companies:** Select publicly traded companies within the same industry as the target company to form a narrowly defined sample.
- **Selection within the sample:** Choose companies within the sample that have comparable profit margins and financial indices to the company being analyzed.
- **Multiples analysis:** Detects and processes the multiples considered significant for the selected companies.
- **Calculation of multiples:** Compute the values of the multiples for the selected companies.

[28] Guatri, L., & Bini, M. (2000). L'uso dei multipli ai fini della formulazione dei giudizi di valore. *La valutazione delle aziende.*

- **Adjustment of calculated multiples:** Apply corrections to the previously calculated multiples to avoid distortion effects in the valuation.
- **Application to the target company:** Apply the adjusted multiples to the target company to determine its value and the outcome of the valuation.

In more detail, the selection and sampling operation involves selecting a group of companies from the market that, due to their financial and asset characteristics, shares similarities with the company to be valued. This analysis must be complemented by comparing the core activities of the company and its critical success factors to truly identify comparable companies.

Regarding the choice of multiples to be used in the valuation, it is influenced by the characteristics of the company and the sector in which it operates. Multiples can be divided into equity side multiples and asset side multiples, which differ in the value used in the numerator of the multiple. Equity side multiples are based on prices and calculate ratios concerning the market value of equity alone; possible denominators include:

- Net profit
- Net profit + depreciation
- Book value of equity
- Market-adjusted book value of equity
- Dividends

For asset side multiples, the numerator represents the total value of the company's operating assets. Possible denominators include:

- EBIT (Operating Income)
- NOPAT (Net Operating Profit After Tax, assuming no debt)
- EBITDA (Gross Operating Margin)
- Revenue

In practice, the main multipliers used for business valuation are summarized in the table below.

| Equity side multiples | Asset side multiples |
|---|---|
| $\frac{P}{E} \quad \frac{Price}{Earnings\ after\ Tax}$ | $\frac{EV}{S} \quad \frac{Enterprise\ value}{Sales}$ |
| $\frac{P}{Cf} \quad \frac{Price}{Cash\ flow}$ | $\frac{EV}{EBIT} \quad \frac{Enterprise\ value}{Earnings\ before\ interests\ and\ tax}$ |
| $\frac{P}{BV} \quad \frac{Price}{Book\ value}$ | $\frac{EV}{EBITDA} \quad \frac{Enterprise\ value}{Earnings\ before\ interests,\ tax,\ depreciation\ and\ amortization}$ |

Table 6 - Source: Prof. Paolone lectures material

Additionally, a further distinction can be made among multiples: current multiples compare current stock prices with results from the latest available financial statements; trailing multiples compare stock prices with results from the previous twelve months; and leading multiples compare current stock prices with expected results for the next twelve months. These calculated multiples are then applied to the corresponding corporate sizes of the target company to determine its business value.

The use of multiples also follows two approaches:

- **Comparable company approach:** Refers to a sample of comparable publicly traded companies, thus using prices marked by stock exchanges from which the multiples to evaluate the target company are deduced.
- **Comparable transactions approach:** Refers to prices from transactions typically involving significant packages of comparable companies.

Despite its apparent straightforward application, the multiples method has several critical issues, mainly related to comparing companies. The problem of subjective estimation is not eliminated but shifted to the selection of comparable companies, as comparability is always limited by the type of activities conducted, entrepreneurial or market risks, and differing debt levels.

# *Chapter three: Unipol Gruppo merger case study*

## 3.1 Pre Merger Unipol profile

Before its merger, Unipol Gruppo S.p.A. was a comprehensive holdings and services entity with a dominant presence in insurance, financial, and real estate sectors and additional involvement in healthcare, hospitality, and agriculture. As Italy's second-largest insurance group and the leader in non-life insurance, it ranked among the top ten in Europe. Unipol Gruppo S.p.A. had significant holdings that secured leadership positions within both Unipol Insurance Group and Unipol Banking Group, listed on the Italian Stock Exchange in the FTSE MIB index since 1990.

The group was chaired by Dr. Pierluigi Stefanini while Dr. Carlo Cimbri was CEO and General Manager. Unipol owned a majority stake of 53.18% in UnipolSai Assicurazioni while wholly owned subsidiaries Unipol Finance and Unipol Investment owned other stakes in it, thus emphasizing its overwhelming market dominance.

As of December 31, 2023, Unipol Gruppo S.p.A. reported a total of €15.1 billion in direct premiums from insurance split equally between non-life at €8.7 billion and life at €6.4 billion. Unipol has dominance in Italy in the field of non-life motor vehicle liability insurance and has a large presence in Europe in that field. Unipol Gruppo S.p.A. has operations principally through wholly owned subsidiary Unipolsai Assicurazioni S.p.A., listed on the Italian Stock Exchange since 1990, Italy cooperative movement related organizations hold largest ownership of the company.

Unipol Group employs over 12,000 individuals and manages a client base of 16.8 million through the largest agency network in Italy. In the mobility sector, Unipol serves as a comprehensive partner across the entire mobility lifecycle, notably with UnipolRental, the largest long-term vehicle rental company in Italy with purely Italian capital, and UnipolMove, an innovative tele-toll solution managed by UnipolTech, which handles the group's mobility payments.

In the welfare field, Unipol is expanding its reach through networks of owned and affiliated clinics of healthcare professionals to drive synergies with its insurance activities. Unipol makes digital health services such as telemedicine, in-home nursing, physiotherapy, and social care services accessible through a flexible benefits platform for SMEs and large companies.

In property services, Unipol offers diversified property-and condominium-related services through a skilled artisans' network for maintaining quality, to enhance consumer experience, and offer savings on insured work. Unipol further has a network of franchised administrators to serve condominium owners and property administrators.

Unipol oversees the bancassurance channel through Arca Vita and Arca Assicurazioni, held by the parent Unipol Assicurazioni S.p.A., distributing life and non-life insurance policies via major banking groups such as Banca Popolare dell’Emilia Romagna and Banca Popolare di Sondrio, in which it holds significant stakes, and other banks, along with joint ventures with major Italian banking operators.

In real estate, Unipol is one of the main operators in Italy, owning properties of significant historical, symbolic, and architectural value. The Urban Up project has been developed to study and implement the redevelopment of significant owned buildings.

The group also plays a significant role in the Italian hospitality industry with the UNA Group brand, in healthcare through Centro Medico Santagostino, and in agriculture with Tenute del Cerro, along with port hospitality through Marina di Loano.

Additionally, Unipol is committed to fostering innovation and digital transformation with its subsidiary, Leithà. This initiative is centered on leveraging the company's vast data resources through advanced algorithms and cutting-edge computing solutions to stay competitive in a swiftly changing market.

On the international front, Unipol extends its reach into Serbia with its subsidiary DDOR Novi Sad, showcasing the company's global presence and operational versatility.

### 3.2 Genesis of the merger operation

The consolidation of Unipol Gruppo S.p.A. with its wholly owned subsidiaries such as UnipolSai Assicurazioni S.p.A. is in accordance with a larger strategy to reorganize the organization. The strategic step is to establish a more integrated, more solid, and more competitive insurance organization by eliminating structural complications and cutting operating expenditures. The move is to make the corporate structure more streamlined and make resource management more efficient so that the group is in a more efficient capacity to confront challenges in markets and further consolidate competitiveness at home and abroad.

Additionally, the integration of operations aims to unify strategic and decision-making directions, ensuring a more cohesive governance of the group aligned with the best national and international practices.

### 3.3 Strategic context and motivations for the merger

The strategic rationale for Unipol Gruppo S.p.A. to merge with UnipolSai Assicurazioni S.p.A. rests on several basic pillars:

- **Streamlining corporate structure**: Rationalizing corporate structure and decision processes to make it more effective in accordance with market expectations. As part of the merger, the new corporation shall rank among Italy's leading listed companies in the insurance industry and shall be Unipol Group's parent corporation.
- **Optimizing the cash and funding profile:** This strategy focuses on improving the management of financial resources to bolster strategic growth and facilitate operational expansion. By doing so, it aims to reduce the organization's vulnerability to financial disruptions and enhance its ability to invest in emerging market opportunities.
- **Achieving cost synergies:** through integration of similar structures and streamlining of related processes should yield substantial cost savings to establish a more cost-effective cost structure that is more competitive in cost.

- **Strengthening solvency:** Part of the strategy involves bolstering the solid solvency of the group to look to future stability and to sustain confidence in stakeholders.

For shareholders of UnipolSai excluding Unipol and intermediate holdings, the merger has the potential to:

- **Become shareholders of Unipol Gruppo:** Convert to ownership in a consolidated body that shall fulfill double responsibilities of insurance distributor and parent corporation, enjoying the benefit of higher stock liquidity.
- **Increase participation in bancassurance industrial partners**: Such as BPER Banca S.p.A. and Banca Popolare di Sondrio S.p.A., gaining advantages in terms of expected profitability and diversification of the investment portfolio and revenue sources.

These aspects outline a well-defined strategic framework for the merger, oriented towards enhancing competitiveness, sustainable growth, and better allocation of the group's economic and financial resources.

### 3.4 The merger process: timelines and key phases

In the following paragraph there is a detailed account of the timelines and key phases of the merger between Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A.

- February 16, 2024: Unipol Gruppo makes a public tender offer for outstanding UnipolSai Assicurazioni S.p.A. shares not yet owned by it in an attempt to consolidate ownership to make future merger more fluid.
- February 23, 2024: UnipolSai Assicurazioni S.p.A. merger plan announced with strategic objectives and forecasted benefits of integration within Unipol Gruppo S.p.A., in order to improve operating performance and competitiveness in the market.
- Board approvals: Unipol Gruppo board of directors, UnipolSai board of directors, and boards of related subsidiaries pre-approved proposals for mergers before public declarations to assure conformity to corporate governance rules.

- October 21, 2024: There is a special shareholders' meeting to vote on and agree to the merger, receiving sufficient shareholder consent to move forward.
- Regulatory approvals: Mergers and public tender offers go through stringent scrutiny by regulators and receive all necessary endorsements to determine that they fulfill all legal and fiscal requirements.
- Integration planning and implementation: Once approved, companies begin detailed integration planning to merge operations, systems, and people in a way that facilitates seamless transition and strategic consistency.
- January 1, 2025: UnipolSai Assicurazioni merges officially to assume its new corporate structure of Unipol Assicurazioni S.p.A., announcing the newly unified corporate structure.

### 3.4.1 Opa and delisting

The Voluntary Public Tender Offer by Unipol Gruppo S.p.A. on February 16, 2024, for UnipolSai Assicurazioni S.p.A.'s ordinary shares was at the forefront of the overall strategy of simplification of the group. The OPA was for UnipolSai shares not yet owned by Unipol with dual purposes of corporate streamlining and streamlining of the group's governance. The offer price of €2.70 per share, inclusive dividends was a 12.6% increase on UnipolSai price on February 15, 2024, and a 16.3% increase on weighted average price of the half-year preceding that, hence making the offer more attractive to UnipolSai minority holders to tender their UnipolSai shares.

The procedure was conducted with utmost transparency and fairness, fully complying with regulatory requirements, and included the submission of a comprehensive offer document to CONSOB. After successfully concluding the public tender offer (OPA), Unipol planned to remove UnipolSai shares from the Italian Stock Exchange. This measure aimed to simplify the market and concentrate liquidity on Unipol shares, which was dependent on securing and maintaining ownership of more than 90% of UnipolSai's capital, thereby enhancing synergy and achieving full integration within the group.

The final outcomes of the OPA stated that Unipol Gruppo held over 90% but under 95% of UnipolSai share capital. Such ownership percentage triggered compulsory acquisition obligation under Article 108, paragraph 2 of the TUF, compelling acquisition of outstanding shares. By completion of the Sell-Out process, there were requests to sell 57,113,309 residual shares, amounting to 39.703% of shares subject to process and 2.018% of share capital of UnipolSai. With ownership of 96.935%, far greater than the minimum of 95%, Unipol Gruppo reached legal conditions to exercise Purchase Right and meet Purchase Obligation on outstanding shares held on hand on date of Sell-Out payment.

The Joint Procedure covered 86,737,262 of its outstanding shares, or 3.065% of share capital of UnipolSai. For reference to regulation and procedural requirements, Borsa Italiana proceeded to delist shares of UnipolSai on Euronext Milan on July 3, 2024, after suspending on July 1 and 2, 2024.

### 3.4.2 Merger by incorporation project

As previously introduced in the first chapter, a merger by incorporation is a type of corporate transaction in which one or more companies, referred to as the incorporated companies, are absorbed by an existing company, known as the incorporating company. Throughout this process, the entire asset portfolio of the incorporated companies, including assets, liabilities, rights, and obligations, is transferred to the incorporating company. Consequently, the incorporated companies cease to exist as independent legal entities, while the incorporating company acquires all resources and assumes all responsibilities, continuing operations under its own name.

In the case at hand, the incorporating entity is Unipol Gruppo S.p.A., which also serves as the parent company of the "Gruppo assicurativo Unipol," registered in the insurance group registry and listed on the Milan Stock Exchange. The companies being incorporated include:

- UnipolSai Assicurazioni S.p.A., the most significant of the incorporated entities, which is also publicly traded and conducts insurance activities. At the time of the merger project, approximately 92% of its shares were directly or indirectly owned by Unipol Gruppo through intermediate holdings of companies such as Arca Vita S.p.A. or Unisalute S.p.A.

- Unipol Finance S.r.l., entirely controlled by Unipol Gruppo.
- UnipolPart I S.p.A., entirely controlled by Unipol Gruppo.
- Unipol Investment S.p.A., entirely controlled by Unipol Gruppo.

#### 3.4.2.1 Statutes of the incorporating company

**Statutory amendments**: Following the merger, the statutes of Unipol Gruppo will undergo modifications to reflect its new status as an operating company and the current insurance activities carried out by UnipolSai. The main changes include:

- **Name change**: The company will be renamed "Unipol Assicurazioni S.p.A.", which will continue and perpetuate the insurance activities.
- **Corporate purpose**: The corporate purpose will be updated to align with the insurance activities currently conducted by UnipolSai.
- **Social management**: Introduction of a new statutory norm to better represent the company’s identity regarding life and damage insurance management.

**Social capital**: Provisions related to social capital will be updated to reflect a potential post-merger capital increase, defining the exact amount and details related to the equity components attributable to life and damage management.

**Regulatory compliance**: The statutes will also be adjusted to meet regulatory requirements and integrate governance functions in accordance with Ministerial Decree No. 88/2022 and IVASS Regulation No. 38 of July 3, 2018, concerning insurance and modifications following integration.

**Effects on shareholding structure**: The merger will have no immediate effect on shares or social capital of intermediate holdings, as they are owned by Unipol Gruppo outright.

### 3.4.2.2 Exchange ratio and method of share allocation

The exchange ratio of the merger of UnipolSai and Unipol Gruppo was set by each of their Boards of Directors, defining ten shares of UnipolSai for every three shares of Unipol Gruppo on a share nominal value basis. The reasoning behind this is well-documented within reports prepared by each of the two companies' Boards of Directors, approved by each of their administrations, and will be sent to shareholders subject to legal and regulatory rules.

The merger talks were preceded by Boards of Directors' approved financial statements of 31 December 2023, that indicated financial conditions up to that date. For sake of the simplicity of merger, each of the two boards had utilized financial advisors of great experience and renown, along with methodological advisors of great renown too.

Additionally, the ownership of intermediate holdings by Unipol Gruppo is compliant with Article 2505 of the Civil Code without there likely to be variations of shares or share quotas of aforementioned holdings resulting from the merger. For ensuring full compliance of all legal and regulatory provisions applicable thereto, diverse legal and regulatory provisions, including Article 2501-quater and follow-on provisions of the Civil Code, were adhered to religiously.

In the course of the merger, the ordinary shares of intermediate holdings, entirely owned by Unipol Gruppo, will be cancelled without any exchange of shares.

The ordinary shares of UnipolSai, held by the intermediate holdings, will be converted to the ownership of Unipol Gruppo upon the merger's effectiveness. There may also be an allocation of new shares to UnipolSai shareholders who are not part of Unipol Gruppo, stemming from a capital increase deliberated by Unipol Gruppo's assembly.

The incorporating company, Unipol Gruppo, will have its social capital increased by up to 300,782,432.48 euros through issuing up to 125,692,617 ordinary shares of Unipol Gruppo. The maximum amount of this increase is on the assumption that on the effective date of the merger no shares of UnipolSai have been acquired by Unipol outside or within the context of the public purchase offer that were in addition to shares held or acquired by it.

Post-merger, the newly-issued shares of Unipol Gruppo resulting from share capital increase can be distributed to shareholders of UnipolSai on an exchange ratio basis without added costs or commissions. The shares will be distributed and listed on the Electronic Stock Market of Borsa Italiana S.p.A., making them marketable and transparent to the process.

The ordinary shares of Unipol Gruppo granted on exchange on the merger will have the same rights that belong to owners of ordinary shares of outstanding shares of Unipol Gruppo on the date of grant. It will ensure that shareholders share on fair and law-abiding terms. The merger will have its civil effects on the date of final registration on Companies Registry of Bologna, according to article 2504-bis of the Civil Code, that date is called the "Effective Date of the Merger."

From the Merger Effective Date, the incorporated company (Unipol Gruppo) will take on full ownership of the rights and obligations of the incorporated companies, taking full control of assets, activities, and liabilities, under art. 2504-bis, paragraph 1, of the Civil Code. The activities carried out by the Incorporated Companies will be debited on the financial statements of the Incorporating Company of January 1 of the financial year of merger effective date of its civil effects.

This means that all the economic and financial activities of the incorporated companies will be consolidated into the financial statements of Unipol Gruppo from that date, also reflecting the corresponding fiscal effects.

#### 3.4.2.3 Conditions subordinate to the merger

The completion of the merger also rested on predetermined conditions to ensure compliance and neutralize potential risks. The conditions were critical to ensuring that there were no legal complications or issues concerning the merger of the entities involved:

1. **Legal authorizations:** The merger had to wait for all of the legal authorizations that were needed by competent authorities.

2. **Absence of impediments**: There were to be no acts, initiatives, injunctions, or measures by any authority that could obstruct the execution of the merger or significantly alter the evaluations underpinning the exchange ratio.
3. **Congruity of the exchange ratio**: A positive opinion had to be issued by the Common Expert on the appropriateness of the exchange ratio, in accordance with Article 2501-sexies of the Civil Code.
4. **Approval of the merger plan**: The merger plan needed to be approved by the extraordinary assemblies of the companies participating in the merger.
5. **Exercise of the right of withdrawal**: Unipol Gruppo had to be capable of managing the total outlay caused by the exercise of the right of withdrawal by shareholders, which was not to exceed 100 million euros.
6. **Significant adverse events**: The merger was not to be negatively impacted by significant events or circumstances that could adversely affect the economic, asset, or future prospects of any of the companies or significantly alter the assessments of the exchange ratio.
7. **Agreements and contracts**: There was to be no termination of crucial agreements without consent or failure to renegotiate such agreements if this could significantly adversely impact the economic or asset situation of the companies.
8. **Trade union consultations**: All necessary trade union consultations had to be completed in accordance with Article 47 of Law No. 428/1990.

These conditions were structured to make sure that the merger proceeded lawfully and on financial terms that were sustainable to its interests of all of its stakeholders and were compliant with statutory provisions.

#### 3.4.2.4 Right of withdrawal

Shareholders of Unipol Gruppo who did not approve the merger plan or the modification of the corporate purpose were entitled to exercise the right of withdrawal, as stipulated in Article 2437 of the Civil Code. This right could be exercised within 15 days following the registration of the merger resolution in the Bologna companies register. The liquidation value for the shares was set at 5.27 euros per share, determined by the board of directors of Unipol Gruppo. This valuation was based on the arithmetic average of the closing prices of the shares on the stock exchange during the six months preceding the notification of the extraordinary assembly that approved the merger plan.

The effectiveness of the right of withdrawal also hinged on success of the merger and on the prerequisite that aggregate financial outlay by Unipol Gruppo on the right of withdrawal never reached greater than 100 million euros, unless waived by express terms. Furthermore, merger plan approval automatically conferred no right of withdrawal on shareholders of UnipolSai unless legal conditions outlined by Article 2437 of the Civil Code were met.

### 3.4.3 Merger effectiveness

On October 21, 2024, the Shareholders' Meeting of Unipol Gruppo approved the merger by incorporation of UnipolSai Assicurazioni S.p.A., Unipol Finance S.r.l., UnipolPart I S.p.A., and Unipol Investment S.p.A. into Unipol Gruppo S.p.A.

In addition to approving the merger proposal, shareholders' assembly also introduced other statutory amendments to ensure that corporate practice is updated to reflect legislative changes and best practice, offering greater flexibility of operation and greater operating efficiency.

On the same date, each of the respective shareholders' meetings of UnipolSai Assicurazioni S.p.A. and of the intermediate holdings also approved the merger, testifying to a coordinated and concerted determination of each company’s shareholders to achieve the Group’s strategic targets. The merger will have its legal consequences, including assets' and liabilities' consolidation of incorporated entities within Unipol Gruppo, effective on 1 January 2025, subject to the merger plan. The effective date will activate a new operating era of Unipol Gruppo, consolidating its leader role on the Italian insurance market while opening up to better corporate management, greater operating efficiencies, and better financial framework.

### 3.5 Evaluation of the exchange ratio

Setting the exchange ratio of Unipol and UnipolSai, listed on the stock market, was of great importance that involved consultancy by advisors of worldwide fame. The ratio was set on preliminary financial statements of December 31, 2023, approved by respective Boards of Directors on February 15, 2024, after making adjustments for expected dividend of financial year 2023. The framework agreement also allows for possible adjustments to the ratio in good faith if significant details arise from the final financial statements, with any changes requiring the approval of the Committee.

To ensure the financial fairness of the exchange ratio, Unipol's board of directors engaged Jefferies to provide a fairness opinion. The OPC Committee appointed UBS as its financial advisor and additionally, Wepartner provided an independent methodological opinion on the appropriateness of the criteria used in the evaluations. All advisors declared their independence, ensuring impartiality and transparency throughout the process.

#### 3.5.1 The fairness opinion by Jefferies

Jefferies, the advisory company mandated by the Unipol Board of Directors, adhered to a framework of methodology that had bases of homogeneity and uniformity throughout its process of valuation. The evaluation was on a standalone basis, ignoring potential synergies, integration costs, or merger withdrawal rights. The need for comparability and consistency called for there to exist a same informational base and that there is selection of like valuation techniques of the subject entities.

Both UnipolSai and Unipol were analyzed using methods that were compliant with financial theory and accepted market practice.  To ensure consistency, Jefferies applied:

- Multiple analytical and market-based valuation methods for UnipolSai.
- The Net Asset Value methodology for Unipol.

| Metodologie | | Intervallo di concambi # azioni ordinarie Unipol per 1 azione ordinaria UnipolSai | |
|---|---|---|---|
| UnipolSai | Unipol | Min | Max |
| DDM | NAV | 0,295 | 0,304 |
| Multipli di mercato | NAV | 0,295 | 0,304 |
| Regressione lineare | NAV | 0,295 | 0,304 |

Figure 3 - Source: Unipol Gruppo merger informational material

Based on the results of these methodologies and acknowledging the inherent limitations and assumptions in the valuation process, Jefferies concluded that the Exchange Ratio proposed in the context of the merger was financially fair.

### 3.5.2 The fairness opinion by UBS

UBS, serving also as financial advisor to the OPC Committee, employed a thorough analytical framework to determine the reasonableness of the exchange ratio of Unipol to UnipolSai. The precepts of that analysis were that the metrics of valuation were to be consistent and comparable, taking also into account the economic, financial, and operational attributes of each of the respective companies involved. The analyses were prepared on a "standalone" basis, without considering prospective synergies that might arise out of the merger, considering each company on its standalone situation and outlook separately.

For UnipolSai, UBS employed several valuation methodologies, including:

1. **Dividend discount model (DDM)**: It estimates insurance company value considering the present value of dividend streams that can be paid out to shareholders, subject to appropriate solvency buffer, along with Terminal Value estimated using dividend constant growth rate.

2. **Market multiples**: This approach derives a company's value based on market prices of comparable companies, using the Price/Earnings (P/E) ratio of a

sample of European insurance companies engaged in various insurance business lines. UBS applied this method both with and without considering excess capital.

3. **Regression analysis**: This method determines a company's economic value by statistically correlating a profitability variable (RoAUT1, Return on Average Unrestricted Tier 1) with a market valuation multiple (P/UT1, Price/Unrestricted Tier 1). Regression analysis was similarly applied with and without excess capital.

For Unipol, NAV approach has been utilized by UBS where economic capital value is stated to be defined as assets' values minus liabilities' values on an algebraic basis. The investments of Unipol held in BPER, BPSO, UnipolRec, and UnipolSai SGR were separately estimated using the same criteria utilized by that of the valuation of the same investments of UnipolSai.

| **Metodologie** | | **Intervallo di concambi # azioni ordinarie Unipol per 1 azione ordinaria UnipolSai** | |
|---|---|---|---|
| **UnipolSai** | **Unipol** | **Min** | **Max** |
| DDM | NAV | 0,293 | 0,303 |
| Multipli di mercato | NAV | 0,293 | 0,304 |
| Regressione lineare | NAV | 0,293 | 0,304 |

Figure 4 - Source: Unipol Gruppo merger informational material

UBS ultimately compared ranges of the exchange ratio generated using each of these alternative methodologies, concluding that on aggregate, values calculated were fair on a financial basis to shareholders of Unipol. The UBS fairness opinion stated that, on the date of issuance on the basis of facts and assumptions known, the exchange ratio outlined was fair and appropriate to the goals of the transaction.

### 3.5.3 The opinion of Wepartner

Wepartner, acting as the Methodological Advisor to the Board of Directors and the OPC Committee, provided a detailed methodological opinion on the principles, methods, and application criteria employed by UBS, the financial advisor to the Committee, and Jefferies, the financial advisor appointed by Unipol's Board of Directors, in their respective fairness opinions.

In its report, Wepartner concluded that, following its analytical process and consistent with its mandate, the principles and methods utilized by the advisors were appropriate and aligned with prevailing academic and market practices for merger operations. Specifically, Wepartner affirmed that:

- The valuation principles and methods applied by UBS and Jefferies for determining the economic values of Unipol and UnipolSai, and for estimating the Exchange Ratio between their shares, were correct and consistent with prevailing theories and practices. The methods were applied coherently and uniformly across the assets, liabilities, and shared business areas of the two entities. They also adequately accounted for the structural, functional, and regulatory characteristics unique to each entity.

- The fundamental application criteria underlying the valuations were reasonable and appropriate, considering the operational context, the available information, and the specific features of the case.

By ensuring advisors' processes adhered to rigorous, standardized protocols, Wepartner assured the reliability and resilience of the process of valuation. Their assurance validated the credibility of the exchange ratio as part of the merger by providing transparent, objective assurance of processes' fairness employed.

## 3.6 Interview with Rossella Porfido and Massimo Desiderio

For a better understanding of the technicalities of the Unipol merger, interviews were conducted with Rossella Porfido, Statutory Board of Auditors of Unipol Gruppo S.p.A., and Massimo Desiderio, independent director of Unipol Gruppo S.p.A. While conversing with them, both of the officials of the board described the most important milestones of the operation and indicated measures of control that were taken to maintain compliance within applicable rules. Special emphasis went on how there is cooperation among diverse control committees, most notably that of the risk control committee.

Mrs. Porfido emphasized the organizational and technical prowess of the group's internal members, which significantly facilitated the work of the Board of Statutory Auditors. The focus was primarily on verifying the proper compliance structures in place, considering this was a direct merger where the holding company incorporated the operational entity, contrary to the more common reverse scenario. A significant aspect highlighted in the interviews was the complexity of regulatory checks due to Unipol being a listed insurance company. Not only were there checks by CONSOB, the authority regulating the Italian stock market, but also by IVASS, the authority regulating the insurance sector in Italy. This latter body applies a provisional suspension; hence the merger took effect only after its verifications, which could potentially invalidate the operation if not satisfied.

Mr. Desiderio set out the exhaustive preparation on documentation and on technical levels that had been accomplished by Unipol board, indicating that right of withdrawal and public tender offer were integrated into operation planning to pre-empt potential troubles coming from IVASS. That is because IVASS had to grant the insurance business operation license to the newly formed Unipol Assicurazioni S.p.A..

## *Chapter four: Unipol Gruppo S.p.A. and Unipolsai S.p.A. data*

This chapter meticulously examines the financial data of Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. for the years 2023 and 2022, prior to their merger. The objective is to provide an in-depth examination of the economic and financial performance of both companies pre-merger. Through the analysis of reclassified financial statements, it is intended to delineate the internal financial dynamics, assessing the impact of the respective management strategies and their effectiveness in view of the post-merger consolidated financial statements. This approach not only delineates the pre-merger financial conditions but also lays the foundation for understanding the synergies and challenges arising from the merger of the two entities.

### 4.1 Unipol Gruppo S.p.a balance sheet

| Amounts in € | 2023 | 2022 |
|---|---|---|
| | | |
| Total current financial assets | 79.540.221,00 € | 109.980.106,00 € |
| Total recivables current | 525.816.334,00 € | 524.632.210,00 € |
| Payable | 1.209.074.064,00 € | 954.542.063,00 € |
| Provisios for risks and charges | 6.615.300,00 € | 12.818.600,00 € |
| **NWC** | **- 610.332.809,00 €** | **- 332.748.347,00 €** |
| Property plan and equipment | 505.708,00 € | 506.382,00 € |
| Financial fixed assets | 7.543.120.608,00 € | 7.304.640.608,00 € |
| Recivables | 461.826.986,00 € | |
| Other securities | 386.560.772,00 € | 587.106.419,00 € |
| Intangible assets | 103.016,00 € | 245.661,00 € |
| Post employment benefits | 43.696,00 € | 43.023,00 € |
| Deferrals | 467.194,00 € | 701.495,00 € |
| **Net fixed asset** | **8.391.606.200,00 €** | **7.891.754.552,00 €** |
| **invested capital** | **7.781.273.391,00 €** | **7.559.006.205,00 €** |
| | | |
| Total shareholders' equity | 6.176.877.822,00 € | 6.063.527.709,00 € |
| Cash and cash equivalents | 822.221.189,00 € | 960.868.417,00 € |
| Bonds | 2.426.616.758,00 € | 2.456.346.913,00 € |
| **Capital employed** | **7.781.273.391,00 €** | **7.559.006.205,00 €** |

Figure 5: Reclassified Unipol Gruppo S.p.A. - Balance sheet

The 2023 balance sheet of Unipol Gruppo presents a highly robust profile, with total assets exceeding €7 billion. A close examination of the performance across the last two pre-merger years (2023 vs. 2022) reveals a significant reduction of 48% in the Net

Working Capital (NWC) in 2023. This change is mainly due to a decrease of approximately €40 million in total current financial assets and a substantial increase of about €260 million in payables. This suggests a potential extension in the payment terms of current debts.

Regarding net fixed assets, there is a 6% upturn in 2023 compared to 2022. The upturn is driven by an increase of financial fixed assets by approximately €240 million, combined with a fall of 33% of deferrals.

These dynamics have generated invested capital that is up by 3% on par with employed capital. However, there is also a reduction of 14% of cash and cash equivalents, partly balanced by shareholders' equity up by over €100 million.

| amounts in k/€ | **2023** | **2022** |
|---|---|---|
| | | |
| Other operating income | 19.162,00 € | 22.732,00 € |
| COGS | 0 | 0 |
| **Gross Profit** | **19.162,00 €** | **22.732,00 €** |
| Total operating costs | 46.873,00 € | 45.534,00 € |
| **EBITDA** | **-27.711,00 €** | **-22.802,00 €** |
| Total write-ups | 1.576,00 € | 1.180,00 € |
| Total write-downs | 132,00 € | 34.580,00 € |
| **EBIT** | **-26.267,00 €** | **-56.202,00 €** |
| Total other financial income | 65.361,00 € | 39.468,00 € |
| Total interest expense and other finacial charges | 129.742,00 € | 100.176,00 € |
| Total gains on investments | 444.949,00 € | 466.078,00 € |
| exchange gain/losses | 569,00 € | 883,00 € |
| **EBT** | **353.732,00 €** | **350.051,00 €** |
| Income tax for the year | 24.088,00 € | 12.935,00 € |
| **EAT** | **377.820,00 €** | **362.986,00 €** |

Figure 6: Reclassified Unipol Gruppo S.p.A. - Income statement

In the income statement of Unipol Gruppo, being a holding company, it is immediately apparent that there are no significant operating revenues and no cost of goods sold. The operating expenses, which are primarily composed of administrative costs necessary for managing a publicly listed company, have seen a slight increase of about 3% between 2022 and 2023.

Regarding EBITDA, there is a fall of 22% from 2022 to 2023, primarily due to lower other operating income along with operating expense increasing in 2023. Conversely, there is also an upturn of more than 50% of EBIT due to sharp reduction of write-downs.

Moving on to EBT, there is a marginal increase of 1%, as the rise in other financial income and total interest expenses effectively neutralize the decrease in total gains on investments.

Finally, EAT reported an increase of 4%, thanks to almost a doubling of the income tax for the year, which was positive in both instances. This reflects careful financial management that has optimized performance despite operational challenges.

## 4.2 Unipolsai Assicurazioni S.p.a balance sheet

| Amounts in k/€ | 2023 | 2022 |
|---|---|---|
| | | |
| Total recivables | 5.371.324,00 € | 4.276.621,00 € |
| Inventories | 75.683,00 € | 70.753,00 € |
| Subordinated liabilities | 1.750.000,00 € | 1.830.000,00 € |
| Provision for risks and charges | 478.776,00 € | 568.160,00 € |
| **NWC** | **3.218.231,00 €** | **1.949.214,00 €** |
| Other activities lt | 1.262.527,00 € | 1.290.584,00 € |
| Intangible fixed assets | 750.336,00 € | 737.779,00 € |
| PPE | 1.140.849,00 € | 1.139.447,00 € |
| Financial assets in related company | 4.688.867,00 € | 4.157.444,00 € |
| Other financial assets | 35.787.704,00 € | 36.798.405,00 € |
| Special financial asstes | 7.361.426,00 € | 5.784.398,00 € |
| Technical reserves | 39.782.775,00 € | 38.754.811,00 € |
| Other technical reserves | 7.361.426,00 € | 5.784.398,00 € |
| Post employment benefits | 26.608,00 € | 39.737,00 € |
| **Net fixed asset** | **3.820.900,00 €** | **5.329.111,00 €** |
| **invested capital** | **7.039.131,00 €** | **7.278.325,00 €** |
| Shareholders' equity | 6.338.992,00 € | 6.166.988,00 € |
| Debt | 282.550,00 € | 262.781,00 € |
| Other debt | 394.685,00 € | 613.678,00 € |
| Other liabilities | 938.434,00 € | 891.387,00 € |
| Cash and cash equivalent | 915.530,00 € | 656.509,00 € |
| **Capital employed** | **7.039.131,00 €** | **7.278.325,00 €** |

Figure 7: Reclassified Unipolsai Assicurazioni S.p.A. - Balance sheet

Moving on to the balance sheet of UnipolSai Assicurazioni, which until recently served as the operational company authorized to provide insurance services within the Unipol Group, we observe an equally solid financial standing with approximately €7 billion in invested capital. Analyzing the Net Working Capital (NWC), there is a notable increase of 65% from 2022 to 2023. This substantial rise is primarily attributed to a 26% increase in receivables, largely due to extended payment terms, coupled with a reduction of about €120 million in subordinated liabilities.

Regarding the net fixed assets, there is a recorded decrease of 28% compared to 2022. This reduction is mainly due to an increase in other technical reserves and a rise in special financial assets, which, however, is offset by a decrease in other financial assets.

The invested capital has decreased by 3%, as has the capital employed, due to a reduction in other debts and an increase in cash and cash equivalents. This highlights a positive cash profile with an increase in liquid assets and a reduction in debt. These movements reflect a strategic adaptation to maintain liquidity and financial stability while managing the broader financial responsibilities and opportunities within the group.

| Amounts in k/€ | **2023** | **2022** |
|---|---|---|
| | | |
| Revenues | 10.762.528,00 € | 10.275.551,00 € |
| Other revenues | 240.029,00 € | 168.830,00 € |
| Other Income from reassicuration | 344.758,00 € | 128.528,00 € |
| Charges related to claims | 8.400.935,00 € | 6.795.268,00 € |
| **Gross Profit** | 2.946.380,00 € | 3.520.585,00 € |
| Operating costs | 2.192.243,00 € | 2.220.401,00 € |
| Other expenses | 450.434,00 € | 416.943,00 € |
| **EBITDA** | 303.703,00 € | 883.241,00 € |
| Change in technical reserve and premium reserve | 1.449.834,00 € | 811.807,00 € |
| **EBIT** | -1.146.131,00 € | 71.434,00 € |
| Special financial income | 1.678.461,00 € | 93.122,00 € |
| Financial income | 275.129,00 € | 49.879,00 € |
| **EBT** | 807.459,00 € | 214.435,00 € |
| Extraordinary revenues | 67.253,00 € | 157.136,00 € |
| Extraordinary expenes | 61.426,00 € | 221.203,00 € |
| Result from indirect revenues | 8.168,00 € | 4.365,00 € |
| Tax | 180.633,00 € | 1.272,00 € |
| **EAT** | 624.485,00 € | 144.731,00 € |

Figure 8: Reclassified Unipolsai Assicurazioni S.p.A. - Income statement

In the income statement of UnipolSai Assicurazioni S.p.A., there is an evident 5% jump in revenues on insurance premiums. Reinsurance income and other revenues have also seen sizable increases. However, claims expense has jumped by 24%, leading to 16% fall in gross profit compared to 2022. The EBITDA has dropped by 66%, driven by both negative gross profit results combined with 8% jump in operating expense.

EBIT recorded a significantly negative outcome compared to 2022, primarily due to a 79% rise in the change in technical reserves. In contrast, EBT experienced a substantial increase of 277%, fueled by a sharp rise in special financial income and other financial gains.

EAT displayed a very impressive result, achieving a 331% leap, led by the good performance of EBT. While there were considerable economies on items of an extraordinary nature, there were also considerable taxation charges that totaled up to provide an EAT of €624,485,000. The facts indicate financial planning that, overcoming operational issues, has been able to employ financial possibilities to improve overall bottom-line result.

## 4.3 Reflections on the results

The detailed financial reports of UnipolSai and of Unipol Gruppo evidence the strength and evolution of the two companies. UnipolSai is particularly remarkable through its outstanding revenues' evolution and good profitability, yielding valuable returns to shareholders, despite operating margin decline of previous year, driven essentially by claims' costs' evolution, financial revenues' evolution is experienced by the company, evidence of financial management strength. The good cash profile maintains investments' sustainability and dividend pay-out, in accordance with business plan, while assets' evolution is evidence of corporate planning that is expanding and innovative-oriented.

Unipol Gruppo, its holding company, is repeating good performances by UnipolSai and its subsidiaries, driven by a leap of over €200 million of financial assets and by prudent management of its liabilities, including reduction of its liabilities by a fraction.

The merger strategy between these two entities is designed not only to streamline and simplify the organizational structure but also to effectively respond to market demands and minimize the "conglomerate discount." This issue will be discussed further in the subsequent chapter. The merger aims to eradicate inefficiencies and redundancies, thereby boosting the competitiveness of the newly formed entity in the insurance industry. It represents a proactive approach to unify resources, enhance adaptability to market changes, and improve overall strategic alignment. Consequently, this consolidation is structured to enhance operational effectiveness, unlocking greater growth potential and increased shareholder value.

## 4.4 Unipol Gruppo S.p.A and Unipolsai Assicurazioni S.p.A. ratio analysis

| | Unipol Gruppo S.p.A. | | Unipolsai Assicurazioni S.p.A | |
|---|---|---|---|---|
| Liquidity ratios | 2023 | 2022 | 2023 | 2022 |
| | | | | |
| Current ratio | 0,50 | 0,66 | 2,41 | 1,78 |
| Cash ratio | 0,68 | 0,99 | 0,41 | 0,27 |
| Operating current ratio | 0,43 | 0,55 | 3,11 | 2,38 |
| Days sales outstanding | | | 172,78 | 147,64 |
| Days payable outstanding | | | 76,03 | 98,30 |
| Cash conversion cycle | | | 96,74 | 49,34 |

Figure 9: Liquidity ratios Unipol Gruppo S.p.A. and Unipolsai Assicurazioni S.p.A.

In the liquidity ratio of Unipol Gruppo S.p.A., and of UnipolSai Assicurazioni S.p.A., there are significant differences traceable to differing business designs and compositions. For 2023, there is reduction of key liquidity measures compared to 2022. The Current Ratio went down from 0.66 to 0.50, and that of Cash went down from 0.99 to 0.68, pointing to lower ability to pay off immediate obligations using liquid assets on hand. The Operating Current Ratio also went down, from 0.55 to 0.43, pointing to lower ability to employ daily business activities to generate cash that can pay off immediate obligations.

In contrast, there had been an enhancement of its liquidity profile over the same period by UnipolSai. The Current Ratio had significantly increased from 1.78 to 2.41 whereas that of Cash had also increased from 0.27 to 0.41. The Operating Current Ratio had also increased from 2.38 to 3.11, signaling good ability of generation of liquidity through operation to fulfill current obligations.

This divergence can be partly explained by the role of Unipol Gruppo, which being the holding company tends to manage a portfolio of investments and participations, affecting its liquidity ratios differently than a company more focused on direct operations such as UnipolSai Assicurazioni. The holding company by investing in long-term assets and in operations that do not generate immediate cash flow, such as the increase in the quota in Bper and Popolare di Sondrio had a reduction in liquidity in the short term.

Thus, while UnipolSai Assicurazioni shows an improvement in its liquidity and efficient management of working capital, Unipol Gruppo, on the other hand acting as a holding company, manifests a liquidity profile that reflects strategic choices oriented more toward long-term investments than generating immediate cash flow.

| | Unipol Gruppo S.p.A. | | Unipolsai Assicurazioni S.p.A | |
|---|---|---|---|---|
| Profitability ratios | 2023 | 2022 | 2023 | 2022 |
| | | | | |
| ROE | 6,1E-05 | 6,0E-05 | 0,10 | 0,02 |
| ROIC | -0,0000034 | -0,0000074 | -0,16 | 0,01 |
| FINANCIAL LEVERAGE | 1,26 | 1,25 | 1,11 | 1,18 |
| FIN &TAX | -14 | -6 | -0,54 | 2,03 |
| PROFIT MARGIN | -1,37 | -2,47 | -0,11 | 0,01 |
| ASSET TURNOVER | 0,00024 | 0,00021 | 0,22 | 0,22 |

Figure 10: Profitability ratios Unipol Gruppo S.p.A. and Unipolsai Assicurazioni S.p.A.

In examining its 2022 and 2023 profitability ratios of UnipolSai Assicurazioni S.p.A. and Unipol Gruppo S.p.A., there are interesting dynamics, considering that Unipol Gruppo acts as a holding company. The holding company form is very much reflected in its very low values of ROE and ROIC, considering that no operating income is considered but only financial income on investments of equity by the holding company.

For that reason, ROE has been actually static but very low, while ROIC has experienced very little enhancement but remains negative.

UnipolSai Assicurazioni, operating on its part within the insurance industry, presents a classic snapshot of its ROE increasing significantly from 0.02 to 0.10, suggesting improved utilization of equity. But there is decline in ROIC from 0.01 to -0.16, possibly indicating challenges within its core business or market conditions that had impacted operating income generation.

Regarding Financial Leverage, there are very small but significant differences between the two companies. Unipol Gruppo had a very small increase, up to 1.26 from 1.25, suggesting very small increases in leveraging using debt over time. Meanwhile, UnipolSai reduced its leverage from 1.18 to 1.11, possibly suggesting tighter control of its debt or better equity.

FIN & TAX deteriorated for Unipol Group, to -14 from -6, indicating worsening financial expenses that were only partially covered by revenues. For UnipolSai, falling by 2.03 to -0.54 is evidence of increasing taxation burden along with likely falling taxation efficiency.

Thus, it is evident how Unipol Gruppo's performance acting as a holding company is markedly influenced by its nonoperating nature and emphasis on financial revenues, while UnipolSai more clearly shows the effect of its direct operations on profitability metrics.

# *Chapter five: The impact of M&A on stock prices: focus on the conglomerate discount*

In the following chapter, the objective is to  elucidate the reasons behind the discount pricing of holding companies' stocks on the market, commonly called "conglomerate discount" with a specific focus on Unipol Gruppo. This investigation will be supported by literature reviews, data analysis, and insights from Dr. Federico Gentile, the head of M&A at Unipol Gruppo and a key figure in the operation discussed.

This chapter builds on the detailed account provided previously, focusing on the significant surge in Unipol's stock price, which escalated from €5.74 to €6.95 per share in a single day (from February 15 to February 16, 2024) following the announcement of its merger with Unipolsai. This strategic move saw the operational company being absorbed by the holding company, thereby converting the holding into the operational entity. The stock price continued to rise, reaching €12.03 by December 31, 2024—a level not achieved since 2010. This section will delve into the reasons behind this dramatic and swift increase, which is primarily attributed to the merger.

The analysis will begin by considering relevant literature and previous research, followed by an interview of Dr. Gentile, offering explanations of how the merger is structured and its implications on strategy. The concluding part of the chapter will discuss this phenomenon in great detail, attempting to provide full insight into what was behind share valuation of Unipol through this pivotal point of its history.

## 5.1 Previous literature

In the case of listed companies, especially of sizable size, mergers and acquisitions are important sources of investing of surplus funds or expanding by taking out smaller players, thereby sustaining shareholder value generation. Such plans mostly experience stock price movements due to market reaction to anticipation.

A considerable amount of literature on this subject has been generated by academic research, providing conflicting evidence. However, one of the most pervasive methodological techniques is to employ event studies to test how shareholder wealth is instantaneously impacted by these transactions. According to Bruner's (2002) meta-study of over 130 studies that were published between 1971-2001, shareholders of the acquired firm generally have significant positive market returns on acquisition, but shareholders of the acquirer have neutral returns. The aggregation of this evidence suggests that on average, M&As are beneficial.

In particular, Goergen and Renneboog (2004) observed a marked announcement effect on target firms, with stock prices increasing by an average of 9% and a cumulative abnormal return of 23%. In contrast, the impact on acquiring firms is generally positive but modest, often close to zero. These results are consistent with Bruner’s findings, where abnormal returns for shareholders of target firms typically range between 20% and 30%.

Additionally, a thorough review by King, Dalton, Daily, and Covin (2003), of 93 studies, supported that both acquirers and targets have positive abnormal returns on announcement date but that, for acquirers, there is no abnormal return or negative abnormal returns on subsequent days after announcement, suggesting that M&As will have no appreciable contribution to financial performance of acquirers in the long-run.

Kiymaz and Baker (2008) echoed these patterns, noting similar short-term market reactions for both acquiring and target companies.

In the previous section, we examined the effects of M&A transaction announcements on stock prices. Now, we proceed to analyze the literature concerning holding companies and the inefficiencies that lead the market to discount their value relative to the Net Asset Value (NAV), a phenomenon known as the "conglomerate discount."

Theory suggests that the combination of business segments with imperfectly correlated earnings streams increases borrowing capacity through a risk reduction effect, resulting in better credit ratings and higher market values of debt (Lewellen, 1971). Thus, while diversification may decrease shareholder value, it should enhance bondholder value due to reduced corporate risk. Mansi and Reeb (2002) argue that using the book value of debt in calculating the excess value measure can lead to underestimations for diversified companies. They empirically confirm this hypothesis, demonstrating that replacing the book value of debt with market value in Berger and Ofek's (1995) excess value measure causes the diversification discount to disappear.

As discussed by Burch and Nanda (2000), "Organizational structure influences the value of debt only when there is a change in the level of diversification. When a firm's diversification level remains unchanged, bonds are issued at par and their value does not depend on diversification. Specifically, the strike price—which equals the book value of debt in a contingent claims framework, as noted by Grass (2010)—is unaffected by corporate diversification. Conversely, corporate risk is expected to decrease when a firm diversifies, assuming the earnings streams of the segments are not perfectly correlated. Persistent corporate diversification exerts a permanent negative effect on corporate risk, which is not expected to change as long as the diversification level remains constant. At issuance, bond (and equity) holders consider the current corporate risk, which is a function of the diversification status at that time. Only changes in diversification, and consequently in corporate risk, after issuance will affect the respective bond's price and thereby the relative price changes between the book and market value of debt. These effects on debt value will only last for a limited period, as all subsequent bond issues will again be at par. Thus, the potential effect of risk-reducing diversification on the conglomerate discount is expected to be limited," as further explored by Frich (2019).

## 5.2 Interview with Dr. Federico Gentile

During the preparation of this report, there also occurred the opportunity to have an interview with Dr. Federico Gentile, mergers and acquisitions head of Unipol Gruppo. The interview provided insight into the merger operation of Unipol Gruppo S.p.A with Unipolsai Assicurazioni S.p.A., analyzing its inner dynamics and market context that led to that decision.

The initial subject of discussion had been the reasons behind the operation. Dr. Gentile set out the financial and strategic reasons behind Unipol Gruppo's decision to conduct the merger by consolidation of its subsidiary, explaining how these actions fall within the company's plans on a long-term scale.

We then scrutinized the theoretical framework that had gone into decision making, including synergy on behalf of the entities involved and how operational efficiencies were supposed to improve after merger. We researched through reports of feasibility and impacts what benefits were supposed to accrue and what integration challenges were likely to follow.

The discussion then transitioned to the "conglomerate discount," analyzing Unipol's stock performance in the equity market. This analysis spanned the immediate aftermath of the merger announcement and continued until December 31, 2024, providing a comprehensive view of the operation's influence on Unipol's market valuation and outlining price trends within the context of the company's strategic initiatives.

In his discussion of merger motivations, Dr. Gentile asserted that overall, there was a desire to make participatory framework and decision processes within the group simpler, facilitating greater consensus of direction and management cohesiveness. This restructuring, as posited by Jensen and Meckling in their 1976 research, is intended to diminish the misalignment between the actions of the operational company's management and the interests of the holding company's shareholders, thereby reducing the so-called agency costs. According to Gentile's findings, a more streamlined structure would render the group more nimble and effective in making business decisions.

Additionally, the merger is seen as a means to improve the cash and funding profile, solidifying a robust solvency position both currently and prospectively. It is well-known that holding company shares tend to be less liquid compared to those of operational companies, mainly due to their structural complexity and smaller free float. This illiquidity, as discussed by Amihud and Mendelson in 1986, can result in a discount on asset valuation.

The manager also highlighted that the entity resulting from the merger aims to become one of the leading listed Italian insurance companies, adhering to the best national and international practices. This goal will also be pursued through cost optimization, reviewing central structures and related activities to eliminate less efficient divisions and streamline decision-making processes where superfluous, to get closer to daily operations.

An additional incentive for Unipol's management to promote the merger was to create value for the shareholders of UnipolSai Assicurazioni Spa, improving their liquidity and capital participation, and allowing them to become shareholders in a new business sector. This approach to diversification is also evident in bancassurance, with Unipol holding significant stakes in BPER Banca S.p.A. and Banca Popolare di Sondrio S.p.A., thereby increasing profitability opportunities and risk mitigation.

During the interview, Mr. Gentile highlighted the uniqueness of the Unipol merger transaction, stressing how, unlike other significant mergers in the insurance and banking sector in Italy (e.g. the merger between Ubi Banca and Intesa Sanpaolo), the resulting cost synergies were considered marginal. According to Mr. Gentile, this was mainly due to the fact that Unipol Gruppo functioned as an 'empty' holding company, therefore the savings only concerned the administrative costs of the listed company, which, although amounting to several million euros, were considered marginal compared to the size of Unipol and the scale of the transaction.

Mr. Gentile went on to describe the financial reasons behind the operation, explaining that the market had called for this move on a strategic level for a very long time. Citing an experience on May 2022, where there had been a press announcement that there will no longer be a simplification of the chain of command, only to have that result in a sharp decline of share value on the stock market, Unipol analyzed that there were key reasons behind the market's demand to have the chain of command shortened and the holding company abolished:

1. Temporal issue of dividend recovery: Prior to merger, dividend had to be declared by Unipolsai Assicurazioni S.p.A., distributed, and potentially declared and distributed by Unipol Gruppo S.p.A. after that. The delay that this created

prompted calls by the market that there should have been a simpler form that had immediate effects on share price of the holding company.

2. Regulatory interventions: Dividend restrictions on dividend pay-out to the holding company have been introduced by IVASS in times gone as in the case of 2020. Such restrictions have acted to reinforce calls for simpler, closer corporate control.

3. Market preference for simplicity: The market appreciates simpler corporate structures as they make it easier for investors to understand and analyse. The presence of intermediate holding companies and stakes in strategic assets, managed partly by the holding  and partly through subsidiaries, made the group less attractive to investors, who favour transparency and immediacy in investment management.

The M&A transaction, rated as unique, was one of the first times that a merger of this magnitude was accompanied by a takeover bid (OPA). This not only made it easier to obtain authorisations from CONSOB, IVASS and other relevant authorities, but also facilitated the buyout of minorities, both through the takeover bid and through the right of withdrawal, allowing for greater share concentration and thus a higher dividend.

Our discussion with Dr. Gentile concluded by considering the 'conglomerate discount' overall, along with that of Unipol itself. As outlined within earlier chapters, Dr. Gentile confirmed that this discount, applicable overall to holding companies, is 10-30%, prompted by financial and operating determinants.

In the case of Unipol, on 15 February 2024, shares of Unipol Gruppo S.p.A. were priced at €5.74, whereas shares of Unipolsai Assicurazioni S.p.A. were priced at €2.4. The takeover bid commenced at €2.7 per share, or 12.7% premium. After announcement of merger, Unipol tendered an exchange ratio of 3 shares of Unipol for each 10 shares of Unipolsai on an OPA value of €2.7 per share. The market’s estimated fair value of

Unipol had been priced at €9 per share by Unipol Gruppo’s board of directors and advisors.

Dr. Gentile, commenting on the conglomerate discount, had referred to estimates by the board that had brought share value up by 21% on announcement date, regarded by commentators as correcting a temporary conglomerate discount. Share value proceeded to continue its ascent, reaching €12.2 on 18 October, up by 112% on pre-merger price.

According to Gentile, this 112% increase can be broken down into three main effects, which cannot be quantified individually: the first is the conglomerate discount, varying between 21% of the initial shock and the 56% calculated by Unipol's advisors; the second is the bancassurance factor, with holdings in BPER and Banca Popolare di Sondrio, whose excellent stock market performance positively influenced Unipol's share price; the third effect is the market expectation of a sustained dividend, expected to be between 5% and 7% on the 31 December 2024 reference price, which was €12.03, reflecting the group's excellent performance.

Gentile concluded by remarking on mergers and acquisitions, noting that these specialized transactions have the capability of building shareholder value much greater than that of assets or transactions' aggregate value. The reason, he went on, is that mergers and acquisitions entail not only assets' value but also financial value along with intangible items that can't be estimated through mere math-based techniques of valuation like what is outlined within Chapter 2.

## *Conclusion*

Upon reviewing strategic mergers and acquisitions dynamics, it is evident that increasing competitiveness and company growth often requires fundamental structural restructuring. It involves merging upstream or downstream firms of a strategic nature or taking out immediate competitors. Such actions are important to ensure that a company is well poised to ensure its long-term success, enabling it to efficiently cope with challenges created by globalization and increasing market complexity.

In conclusion, the focus shifts to the "conglomerate discount" phenomenon and market expectations, with particular attention to the analyzed merger. We have observed that in the context of publicly traded companies, the extrinsic value, calculated as the product of the stock price and the total number of shares, is used to externally assess the size of a company and is influenced by both industrial factors and market dynamics.

M&A activities also add value by integrating supply chains and creating synergies but also have to deal with considerable effects of market conditions. A key point of dispute is the "conglomerate discount," where the market values the sum of assets below their fundamental value. The causes of this discount are varied, ranging from market preference for simpler corporate form, difficulty owing to asynchronous dividend pay-out that generates uncertainty, to regulation restrictions that can restrain dividend pay-out by holding companies.

These dynamics lead the market to apply a discount that generally ranges between 10% and 30% on the value of the holding companies' shares, as detailed in chapter 5. The analyzed operation, characterized by the presence of a total public purchase offer, triggered a significant value creation process, with the stock price rising from €5.70 to €12.03 in just ten months.

This example of how well-planned M&A activity, backed by top-flight international advisors, can result in exceptionally good outcomes on the short to medium horizon in face of market uncertainty is striking. The reason is that, together with predictable determinants like the conglomerate discount, there are unforeseen market expectations that have a significant impact on the stock price, both of the company itself and of peer group companies. When interviewed, Dr. Gentile stated that it is possible to trace the 112% stock price jump to three causes, each of which is difficult to quantify separately: first, the conglomerate discount, ranging from its original 21% effect up to 56% estimated by advisors to Unipol; secondly, bancassurance, through stakes held by BPER and Banca Popolare di Sondrio, whose good stock market performances had a positive impact on Unipol's stock price; thirdly, market anticipation of healthy dividend, expected to range between 5% and 7% on reference price of €12.03 on 31 December 2024.

Therefore, within the context of publicly traded companies, while it is possible to adapt to market demands to enhance value creation, accurately predicting market dynamics remains exceedingly challenging. This unpredictability represents one of the most fascinating and complex aspects of finance. The inability to fully foresee market fluctuations highlights the inherently unpredictable nature of finance, which remains one of the most stimulating and unforeseeable elements for economic operators.

## *Bibliography*


- Accenture. (2011). *Inside corporate M&A: The formula of the fittest*.
- Addisons. (2012). *M&A purchase price calculations: The locked box mechanism*.
- Alexandridis, G., Mavrovitis, C. F., & Travlos, N. G. (2011). *How have M&As changed?* Evidence from the sixth merger wave.
- Arcangeli, A., Bianchi, F., & Rizzi, L. (2012). *Come gestire le operazioni di M&A: Specifici rischi operativi, due diligence, contrattualistica*. Ipsoa.
- Associazione Italiana del Private Equity e Venture Capital. (2014). *Directory M&A: L'analisi del mercato e i trend principali*.
- Blokdyk, G. (2020). *Cash Conversion Cycle: A Complete Guide - 2020 Edition*
- Brugger, G. (2012). *Strategia e finanza delle acquisizioni, delle fusioni e delle ristrutturazioni aziendali*. Milano: Egea.
- Bruner, R. F. (2004). *Applied mergers and acquisitions*. Hoboken, NJ: John Wiley & Sons.
- Buongiorno, M., & Gori, L. (2007). *La valutazione dell'azienda nella pratica professionale*. Verona: Euroconference.
- Capasso, A., & Meglio, O. (2009). *Fusioni e acquisizioni: Teorie, metodi, esperienze*. Milano: Franco Angeli.
- Conca, V. (2010). *Le acquisizioni: Valutare e gestire i processi di crescita*. Egea.
- Copeland, T. (2003). *Opzioni reali: Tecniche di analisi e valutazione*. Il Sole 24 Ore.
- Copeland, T., Koller, T., & Murrin, J. (2002). *Il valore dell'impresa: Strategie di valutazione e gestione*. Il Sole 24 Ore.
- Cremona, G., Tarantino, N., & Monarca, P. (2009). *Manuale delle operazioni straordinarie* (4th ed.). Ipsoa.
- Damodaran, A. (1996). *Manuale di valutazione finanziaria*. McGraw-Hill.
- Damodaran, A. (2010). *Valutazione delle aziende*. Maggioli Editore.

- Damodaran, A. (2012). *Investment valuation: Tools and techniques for determining the value of any asset*. John Wiley & Sons.
- DePamphilis, D. (2010). *Mergers and Acquisitions Basics: Negotiation and Deal Structuring*. Academic Press.
- DePamphilis, D. (2013). *Mergers, Acquisitions, and Other Restructuring Activities: An Integrated Approach to Process, Tools, Cases, and Solutions*. Academic Press.
- Fazzini, M. (2011). *Analisi di bilancio: Metodi e strumenti per l'interpretazione delle dinamiche aziendali*. Ipsoa.
- Frizzera, B., & Avi, M. S. (2007). *Bilancio riclassificato e analisi per indici e flussi 2007*. Il Sole 24 Ore.
- Frykman, D., & Tolleryd, J. (2010). *Valutare l'impresa*. Il Sole 24 Ore.
- Gaughan, P. A. (2010). *Mergers, Acquisitions, and Corporate Restructurings*. John Wiley & Sons.
- Guatri, L. (1993). *La valutazione delle aziende*. Egea.
- Guatri, L. (2000). *Il giudizio integrato di valutazione: Dalle formule al processo valutativo*. Egea.
- Guatri, L., & Bini, M. (2000). *L'uso dei multipli ai fini della formulazione dei giudizi di valore.* La valutazione delle aziende.
- Guatri, L., & Bini, M. (2002). *I moltiplicatori nella valutazione delle aziende,* Egea
- Kruschwitz, L., & Loeffler, A. (2005). *Discounted Cash Flow: A Theory of the Valuation of Firms*. Wiley.
- Kruschwitz, L., & Loeffler, A. (2005). *Dividend discount model: A theory of the valuation of firms*. Wiley.
- Lantino, S., & Casucci, P. (2010). *Acquisizioni di aziende e partecipazioni. Aspetti legali e tributari*. Maggioli Editore.
- Mansfield, J., & Parker, K. (2012). *M&A Purchase Price Calculations: The Locked Box Mechanism*. Addisons Focus Paper
- Riva, A. (2009). *Le acquisizioni e le operazioni di finanza straordinaria: Aspetti giuridici, economico-strategici, valutativi, tributari*. Aracne.

- Rock, M. L. (1990). *Fusioni e acquisizioni: Aspetti strategici, finanziari, organizzativi*. Milano: McGraw-Hill.
- Roscini Vitali, F. (2012). *Nota integrativa e relazione sulla gestione*. Il Sole 24 Ore.
- Rossi, E. (1999). *La finanza della crescita esterna: Creazione e distruzione di valore nelle acquisizioni aziendali*. Milano: Egea.
- Stern, I. (2002). *Mergers and acquisition: A guide to creating value for stakeholders*. Academy of Management Executive.
- Teodori, C. (2015). *Il rendiconto finanziario: Ruolo informativo, analisi, interpretazione e modelli contabili*. Giappichelli.
- Unipol Gruppo. (2023). *Annual report 2023*. Unipol Gruppo SPA
- Unipol Gruppo. (2024-2025). Comunicati stampa [2024-2025]