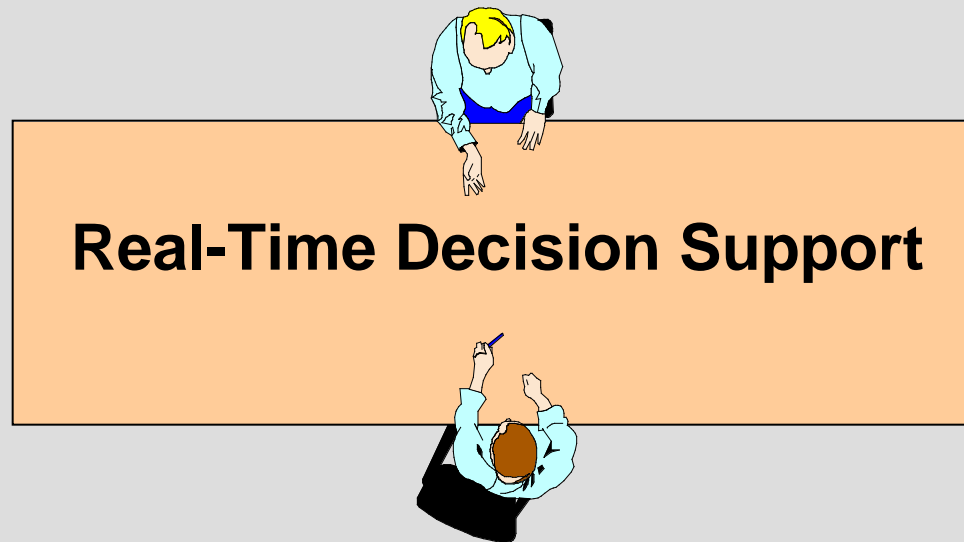


# Mergers, Acquisitions, and Licensing



“Value Maximization With Downside Risk Protection”

A DAAG 2002 Presentation

By

Bill Haskett



DECISION



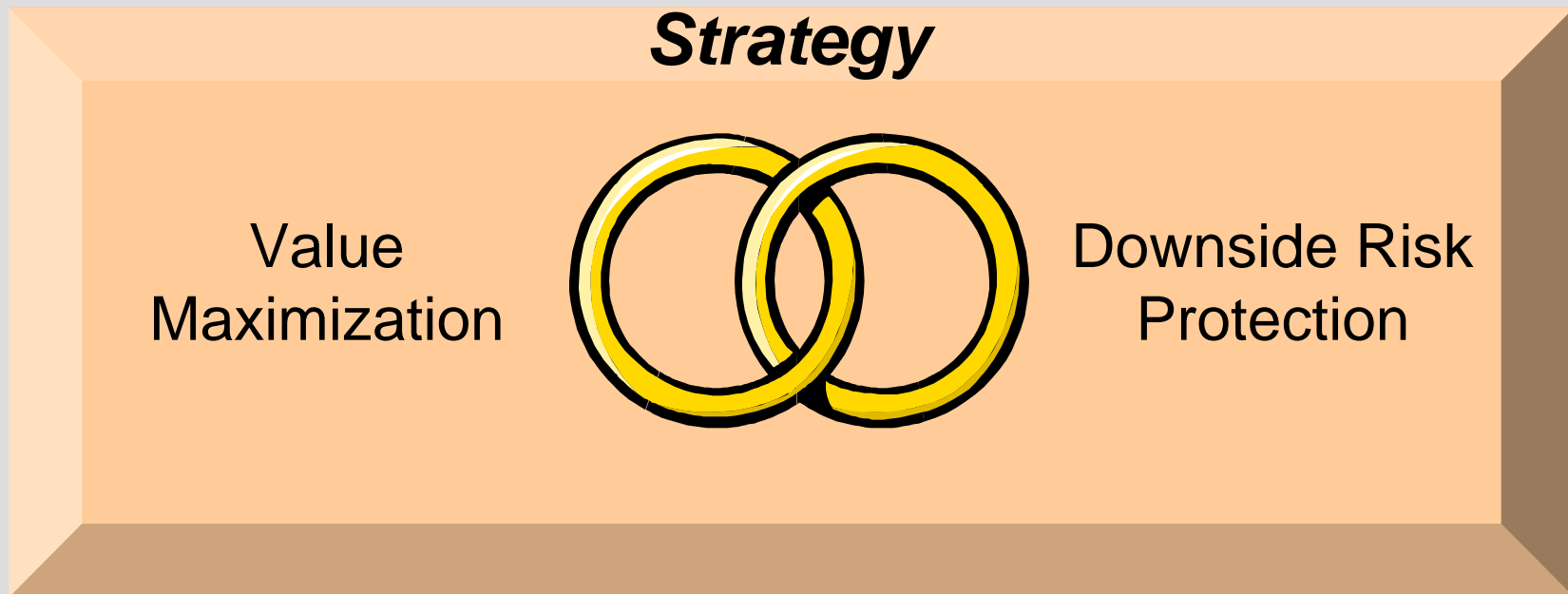
STRATEGIES

Houston ~ Atlanta ~ Calgary

# *Negotiation Based DA*

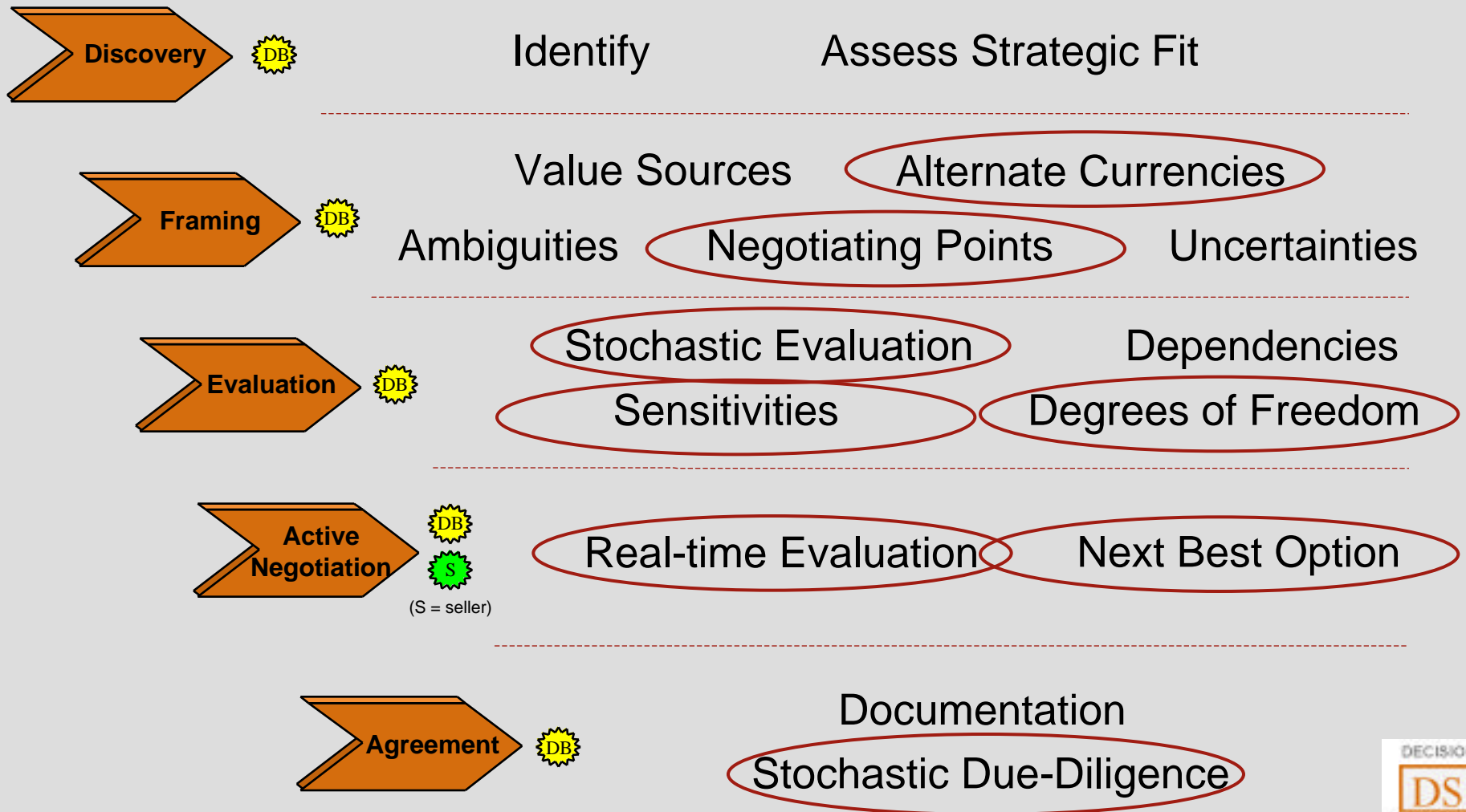
Enables the client to formulate a negotiation strategy which

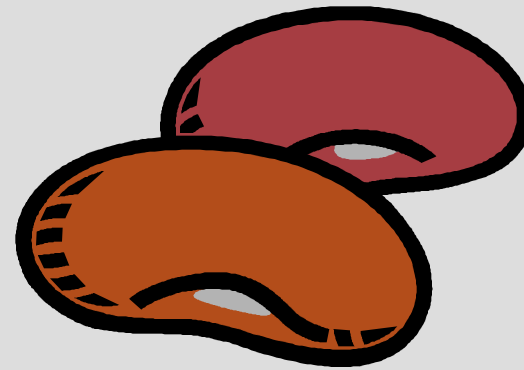
- Provides optimal value addition
- Takes into account the downside potential
- Mitigates the downside potential



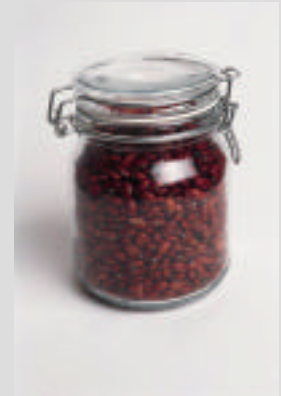
# The Process

Negotiation Based IDM utilizes the standard approach in the early stages and shows its flexible characteristics as it is adapted for the negotiation environment. Particular attention should be placed on the items listed adjacent to the phase headings below.





# *Bean Time*



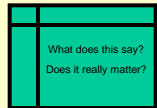
# *Seek Out Alternate Currencies*

Alternate currencies are items or services that your opponent may be interested in.

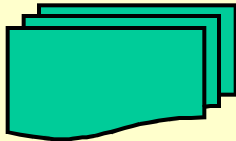
- What technical competence do you bring to the table?
  - How fast are you willing to carry out the work?
    - Are there other areas of mutual interest?
      - What is your reputation worth?

# Probabilistic Model

- Allows the assessment of all variables



Crunching  
the  
Numbers

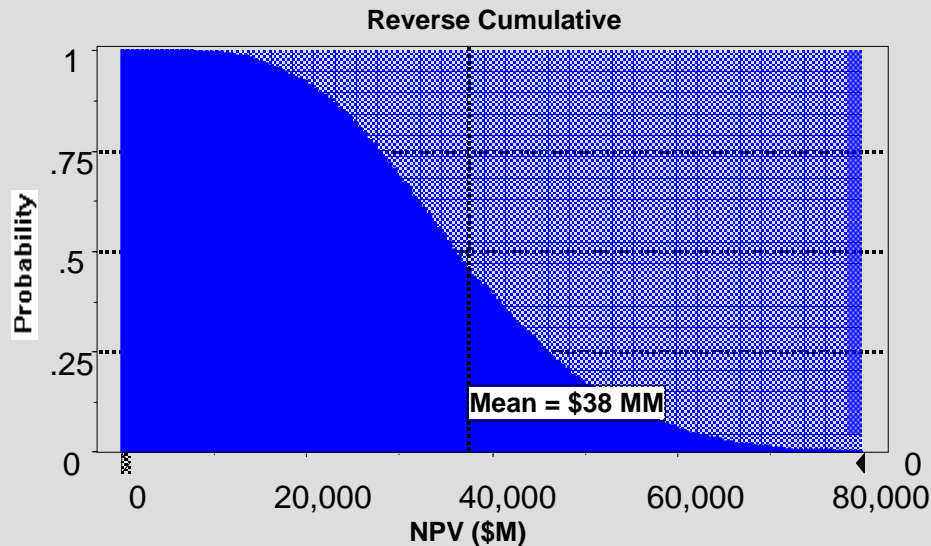


- Includes correlations and dependencies

- Provides probabilistic outcomes

- Identifies downside contribution

# Analysis of Outcomes



## Stochastic Assessment

Provides comprehensive understanding of value and risk

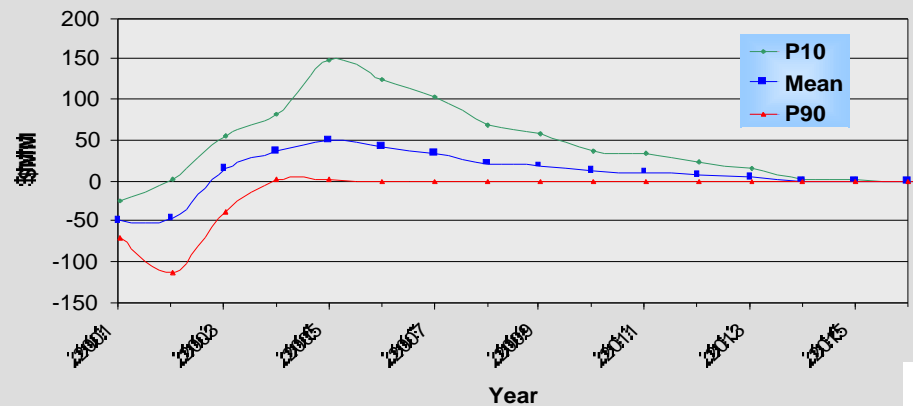
Team isolates the critical events that create or endanger value.

Single “expected” numbers are provided as standard evaluation metrics.

Variability knowledge is used to balance risk.

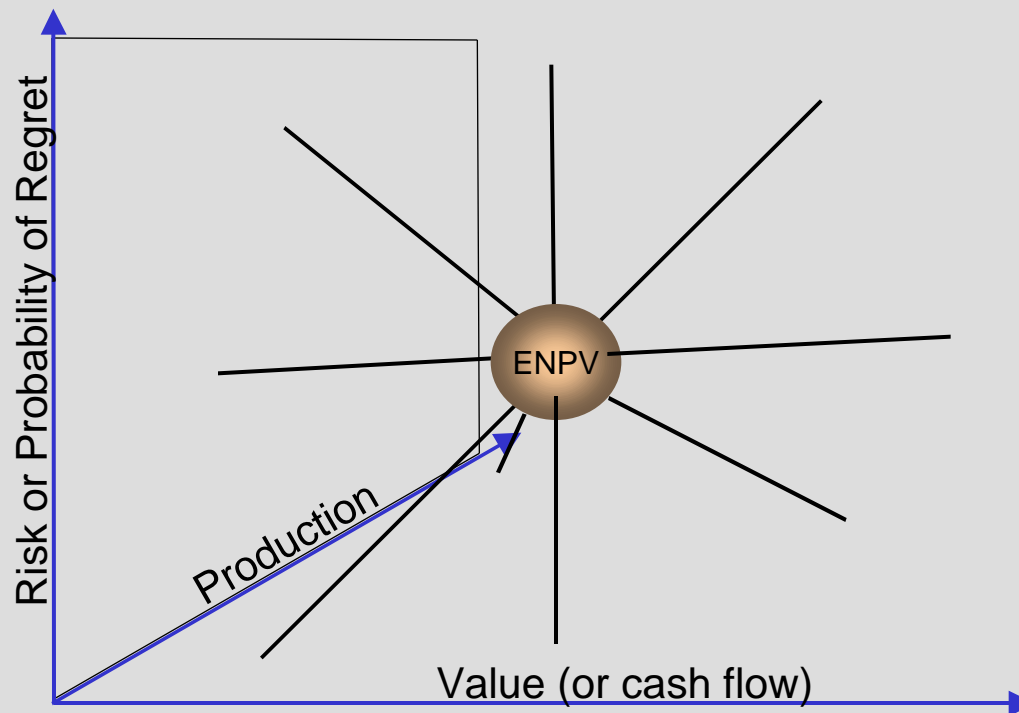
Compare outcomes with pre-existing goals and strategy.

## Time Series... Cash Flow, Capital, Production etc,



# Identification of Degrees of Freedom

- Understand the value and operational aspects of the opportunity.
- Detailed model provides impact of significant variables
- Generate “post run” tornado diagram



- Sensitivities
- Obtain sense of impact of any particular parameter
- Identify alternative currencies.
- Assess against known constraints or goals.



**O**

**VERCONFIDENC**

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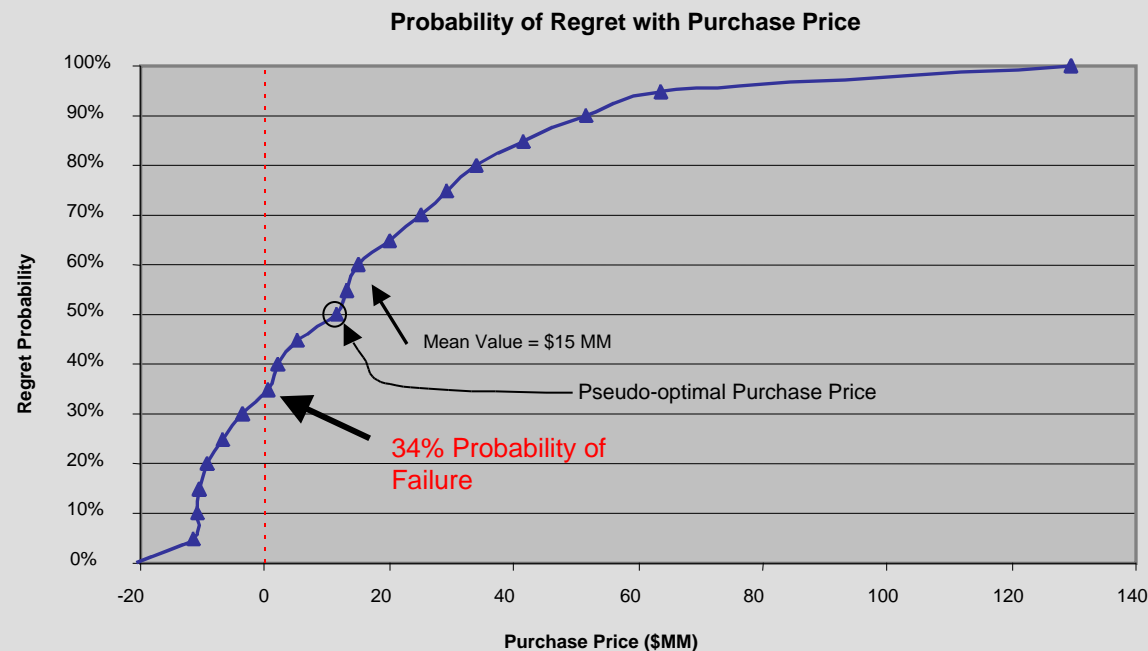
**BEFORE YOU ATTEMPT TO BEAT THE ODDS,  
BE SURE YOU COULD SURVIVE THE ODDS BEATING YOU.**

[www.despair.com](http://www.despair.com)

# Probability of Regret

The Probability of Regret is the chance that the actual outcome (usually a Net Present Value parameter) is below a critical level (usually  $NPV < 0$ ).

- Outcomes are variable.
- Projects may not achieve Expected or Deterministic values. Sub economic performance is possible.
- Understanding the magnitude and contributing factors for loss is at least as important to the decision as the expected value.

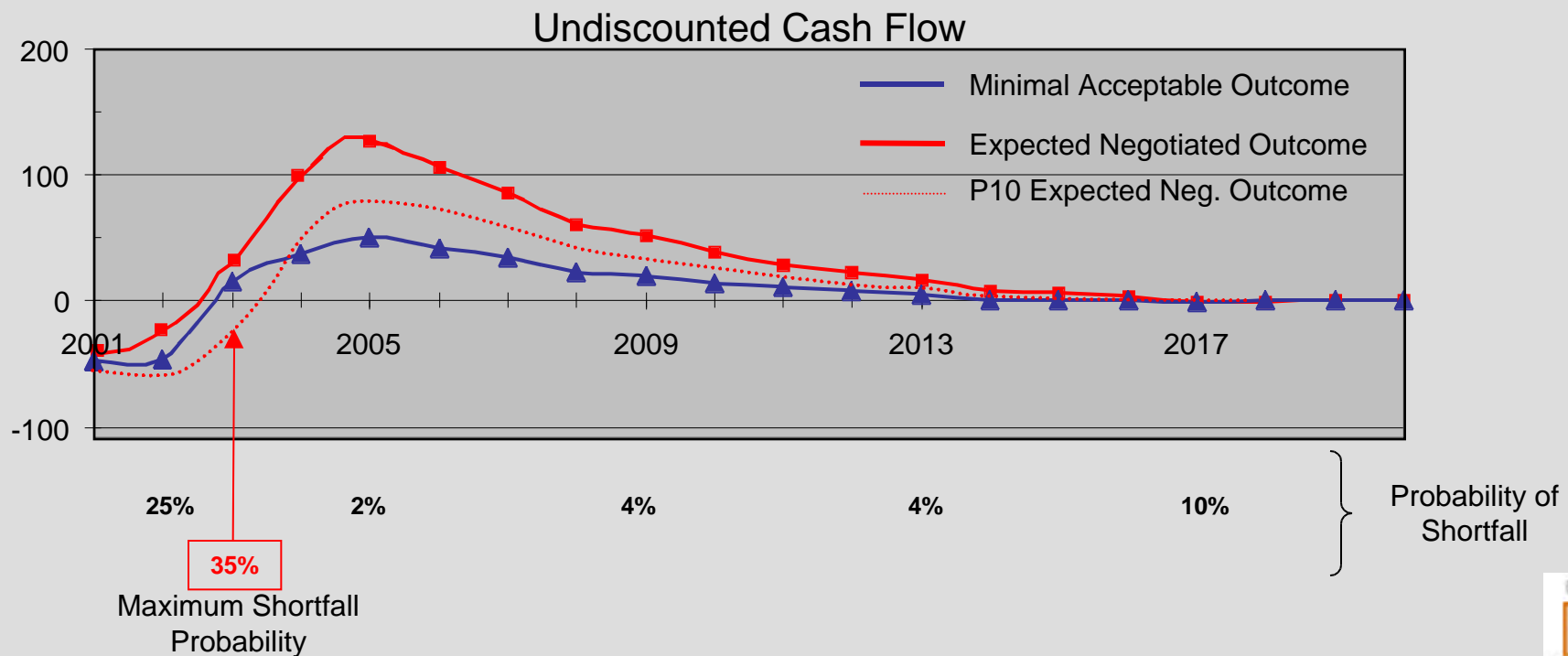


**\*\*Understanding the magnitude and contributing factors for loss is at least as important to the decision as the expected value.**

# Management of Value Generation Through Time

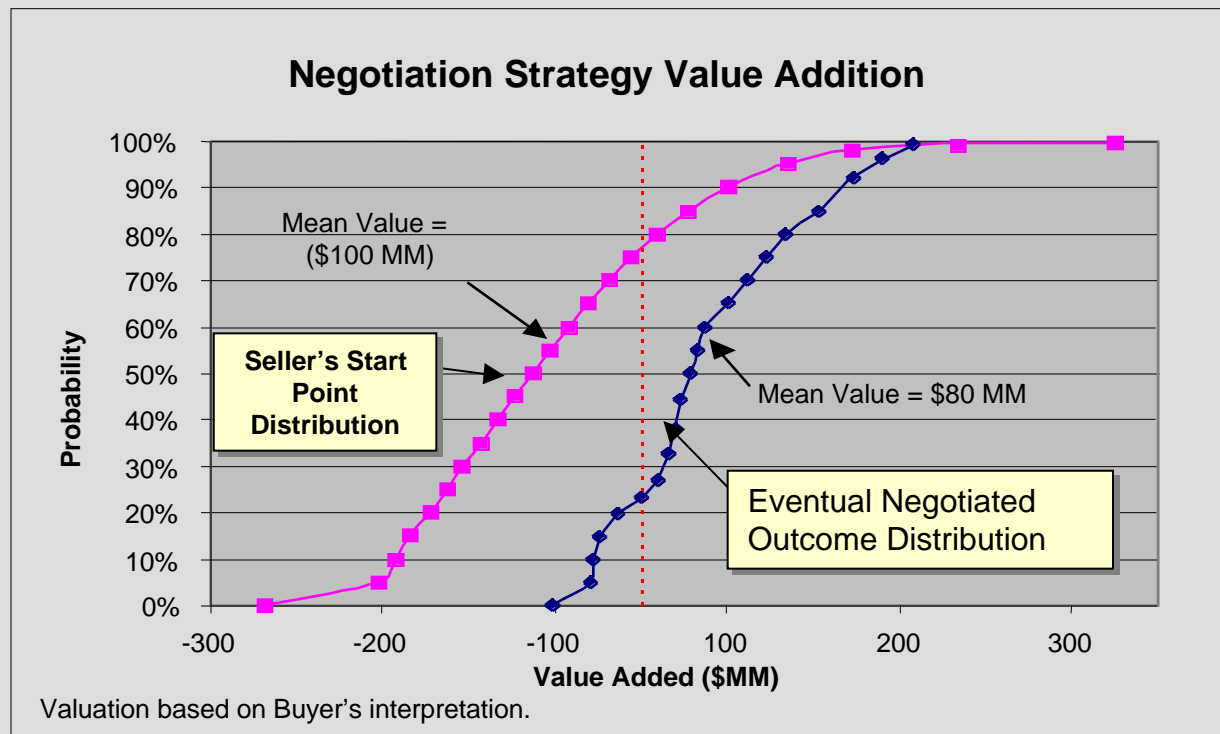
Evaluation of Critical Shortfall enables teams and negotiators to mitigate or avoid the causes of Downside Risk.

Prior knowledge of the parameters leading to the lower than expected result will allow the formulation of risk mitigating tactics or negotiating points to ensure a more limited downside exposure.



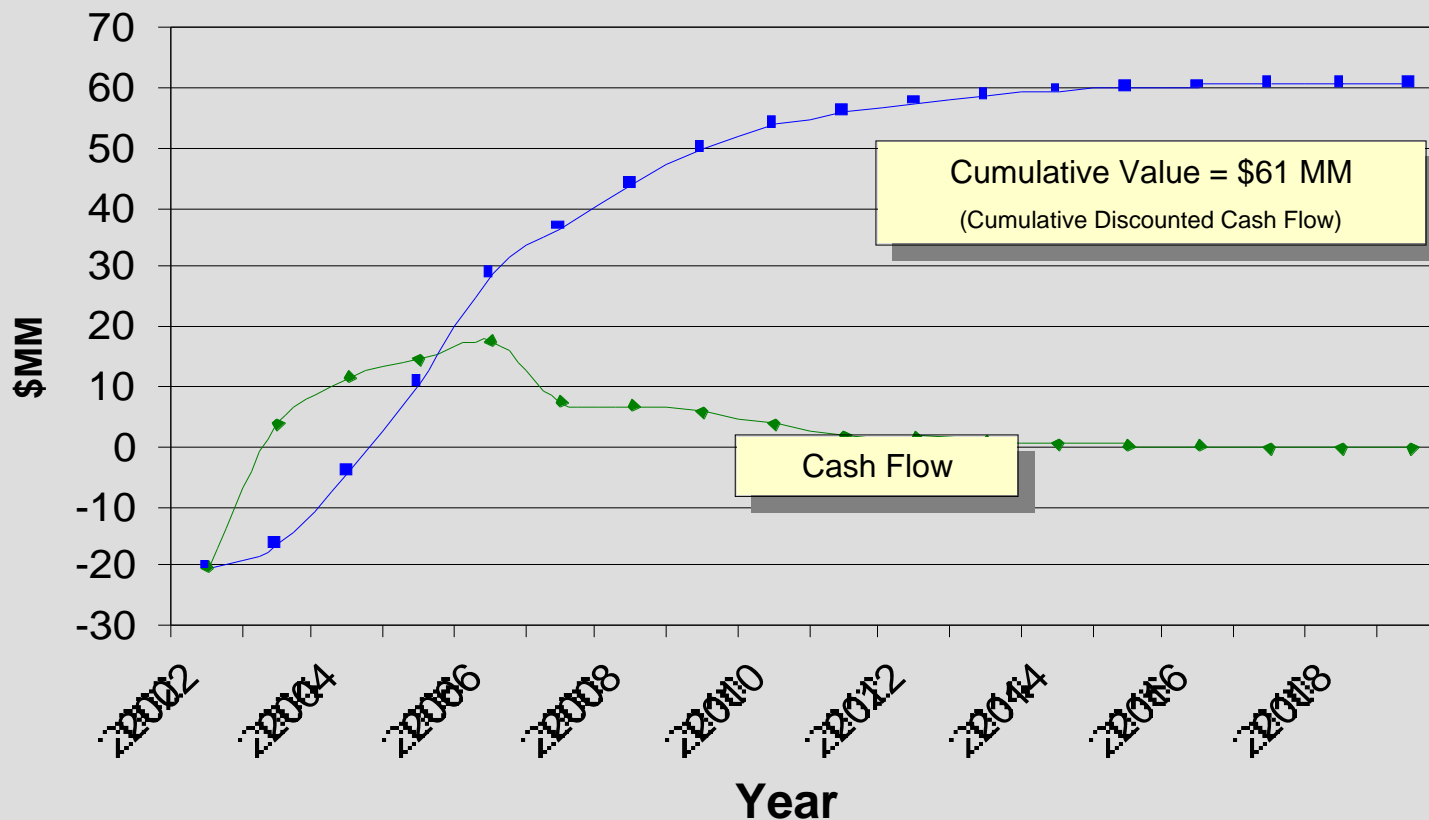
# Alternatives Assessment

- Elimination of the downside risk increases value quickest.
- Sellers downplay the downside to “sell” the maximum upside potential.
- Upside over-valuation is traded for downside protection.

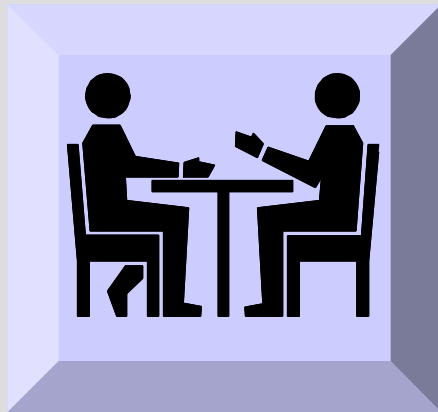


# Cash Flow and Cumulative Present Value

- Maintain full time series and metric criteria typical of deterministic evaluations.
- Provide ranged outputs to show variability and downside/critical risk exposure.



# “Hot Room” Coaching/Leadership



Active  
Negotiation

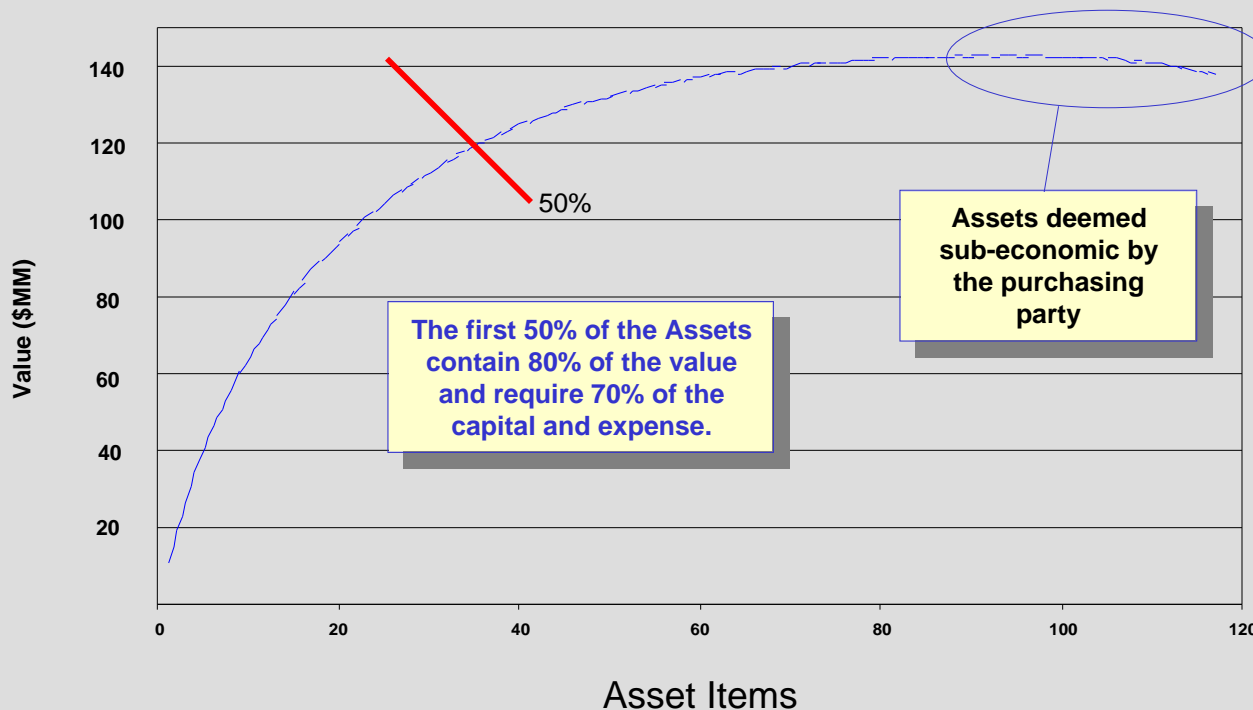
Prior sensitivity assessments and a fully functional stochastic model allow for real-time evaluation of options during the active negotiation process. This provides the negotiators with an excellent sense of value generation potential and downside avoidance.



Real-time  
Probabilistic  
Assessment

# Portfolio Based Acquisition Assessment

DA based negotiation support techniques adapt well to a hard asset or R&D portfolio assessment.



# *Real-Time Negotiation Support*

- Follows standard IDM guidelines for project discovery, framing and strategy development
- Prepares the team for the negotiation process
- Provides support for real-time or rapid evaluation of alternatives during negotiation
- Enables more efficient due-diligence
- Creates a record of evaluation alternatives for look-back or performance assessments
- Can form the basis for ongoing scenario based management
- Is easily adapted for portfolio based acquisitions

**DAAG 2002, Las Vegas**

# **Mergers, Acquisitions, and Licensing**

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