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The Entry of Foreign Strategic Partners in the Market of Security Doors in Central Europe

(Bachelor Thesis)

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ZADÁNÍ BAKALÁŘSKÉ PRÁCE

Jméno a příjmení: **Karel ZEILER**
Studijní obor: **Management a marketing zahraničního obchodu**

Téma práce:

**Vstup zahraničního strategického partnera na trh
bezpečnostních dveří ve střední Evropě**

Cíl bakalářské práce:

Cílem bakalářské práce je vypracování podkladů akvizice pro vstup zahraničního strategického partnera na trh bezpečnostních dveří ve střední Evropě. Výsledkem budou parametry vstupu zahraničního partnera do cílové společnosti (kdo je potenciálním strategickým partnerem, jak bude nastaven akviziční proces, jak bude nastavena poakviziční spolupráce se zahraničním partnerem). Výsledky budou použity firmou TPA Horwath Corporate Finance s.r.o. při řízení procesu akvizice cílové společnosti zahraničním strategickým partnerem. Tento projekt bude obhájěn před vedením firmy TPA Horwath Corporate Finance s.r.o. a hodnocení firmy bude součástí této bakalářské práce.

Osnova:

1. Úvod
2. Charakteristika firmy
3. Formy přeshraničních akvizic
4. Obecné důvody přeshraničních akvizic
5. Proces přeshraničních akvizic
6. Analýza trhu bezpečnosti
7. Identifikace leaderů trhu, jako potenciálních investorů
8. Finanční analýza a ocenění akvizice
9. Rozpoznání hlavních synergických efektů z realizované akvizice
10. Závěr

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Datum zadání bakalářské práce:

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I declare that I have prepared this Bachelor Thesis independently under the supervision of
Ing. Jiří Slavkovský and I have noted all the literary and technical resources in the
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In Kunovice, January 2011

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Karel Zeiler

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INTRODUCTION

This Bachelor Thesis describes the process of acquisition of company DVEŘE s.r.o. further DVEŘE or the company, which operate on the market of safety doors.

The question of fusions and acquisitions is the one of main aspects in the corporate global environment. Throughout the whole time of business companies are granted from one generation to the other, bigger companies „gluttonize“ small companies, and large companies are closing etc. All of these processes of when a company changes its owner are possible to specify as the part of the evolution in business.

All fusions and acquisitions are realised for reasons to achieve certain strategic, corporate or financial targets. These operations represent a connection of two or more companies with different company policy, with different managements and settings of production, sales or any other processes. For these reasons the success of mergers and acquisitions depends on the question of integration in individual enterprises. It means the adoption of common values and goals. It is necessary to realise, that the fusion represents "interference in the living organism", which may make the organisation stronger, weaken or even eliminate it (or bring the company into insolvency, indebtedness, etc.)

The main target of this thesis is to analyze the factors that may affect the acquisition of company the DVEŘE, and at the present very current time of economic crisis, when it is not possible to make clear decisions in the building industry. The main target of this thesis is to:

- analyze the company from the view of fundamental processes, financial ratios and the status on the market. (chapter 2)
- find the suitable form and type of company sales, analyze the process of company sales (chapter 3,4 and 5)
- analyze relevant market for the operation processes of the company (chapter 6)
- identify the potential buyer of the Company (chapter 7)
- M
- made an indicative valuation (chapter 8)
- find the main advantages of the Company's acquisition (chapter 9).

The results of this study will serve on behalf of TPA Horwath Corporate Finance Ltd. (further "TPA Horwath") to realize the sale of the company. TPA Horwath in this process acts as an acquisition advisor to the sellers.

This study is divided into chapters which are devoted to individual targets of this work. The first chapter is focused on a description of the business processes of the company DVEŘE and to the economic development of indicators. This chapter represents the main basis for decisions in the process of acquisition. The information contained in this chapter may be used for the analysis of synergy effects, strengths and weaknesses of the potential purchaser of the company. The second chapter describes some particular forms of mergers and acquisitions. The third chapter presents the main reasons for the implementation of mergers and acquisitions, as well as the weaknesses of fusion and acquisitions. The fifth chapter describes the security market in the Czech and Slovak Republic. Then the sixth chapter identifies the potential buyers of DOORS. The next two chapters describe the valuation of the company and summarizes the basic synergy effects that could arise from the acquisition of the company for a prospective buyer. The conclusion describes the actual state of the ongoing sale of the DOORS company with comments.

1 Characteristics of the Company

1.1 Company profile

DOOR Ltd. occupy a leading position in the area of development, manufacture, sale and installation of security and fire safety doors and frames in central Europe.

The company is a modern, dynamic and competitive manufacturing corporation which is based on innovations and using modern technologies.

The company also exceeds as a strong and stable distribution network with strong marketing processes. The brand is known to the general public and it is one of the major assets of the company .

The company operates mainly in the Czech and Slovak markets, a portion of its production is exported to Central Europe

The market share in the Slovakia can be estimated at 40 to 50% in the Czech Republic it is about 10%. The share in the other markets is negligible.

The manufacturing plant is located in Slovakia, in the middle of Central and Eastern Europe, on the highway connection between the Czech Republic and Slovakia.

The Company and its subsidiaries employ 169 workers. The company is controlled by a unified and experienced management team, who previously demonstrated a good ability to achieve synergies and excellent operating results.

1.1.1 Benefits of acquisition

The main benefits of the acquisition and strengths of the company may be described by the following aspects:

- The leader in the Slovak market of security doors, a major player in the Czech Republic and Hungary;
- Strong brand associated with safety;

- Establishment of its distribution channels in all regions of the Czech and Slovak Republics;
- Developed system of authorized dealers in Slovak;
- Diversified customer base;
- Plenty of factory-trained technicians;
- Experienced management and uniform;
- The possibility to increase production capacity;
- Low debt and a good measure of profitability;
- The potential for expansion, and distribution to other states;
- Very good logistics connections of the race.

1.1.2 Selected financial data

Thousands of EUR	2005	2006	2007	2008
Active capital in total	3 958	4 093	4 840	5 429
Owned capital	1 554	1 878	2 298	3 074
Income	5 003	5 334	7 136	8 745
EBITDA	510	489	1 062	1 345
EBIT	431	326	739	926
Net profit	402	243	514	676

Table no. 1: Selected consolidated financial data
Source: [17, s. 9]

1.2 Company history

DVEŘE is a company with a long tradition in the Slovak market. The origins of the company are dated back to 1921 when John Valasek founded a small family business in the small town Gelnica. The major activity of the company was turning wood, metal and locksmithing. Production in manufacturing had the character of a large proportion of manual work.

In **1988 the family tradition** was continued by Mr. Ing. Paul Valasek's grandson who started as a tradesman in the development, manufacture, installation and servicing security

and fire doors with the registered name DOORS. By 1992 the logo DVEŘE ® was registered as a trademark

The successful business activities of Mr. Paul Valasek resulted in the establishment of a limited company under the trade name DVEŘE in February 2, 1993

In 1996 the company started manufacturing security doors model number F3. In the same year the company started building the network of wholesale dealers in Slovakia.

In 2000 the company founded a subsidiary company titled DVEŘE Bohemia, whose business was to sale, installate and service procucts of the company in the Czech Republic. The wholesale dealer network under the brand DVEŘE counted in 2000 for 36 contractors in all regions of Slovakia.

1.3 Location of the production company DVEŘE

The production plant of the company is located in the southwest of Slovakia in the town Malacky. The location of the company provides excellent accessibility to the D2 motorway, which connects Bratislava, Prague and other major cities of Central Europe.

1.3.1 Malacky and the region

In the district Malacky lives 68'318 inhabitants, 18'000 of them lives in the same city. District borders the northern edge of Bratislava. Malacky District is part of the Bratislava region, which is the economically most developed region of the Slovak Republic.

Malacky has an advantageous geographical location near the border with Austria and the Czech Republic. The town Malacky has excellent transport links to most of the major cities in Central Europe. Malacky is lined by the highway D2 that leads to Brno and Prague, Bratislava in the south and connects to the highways to Vienna, Budapest and Central Slovakia.

1.3.2 Demographic data, labor force and education system in Malacky district

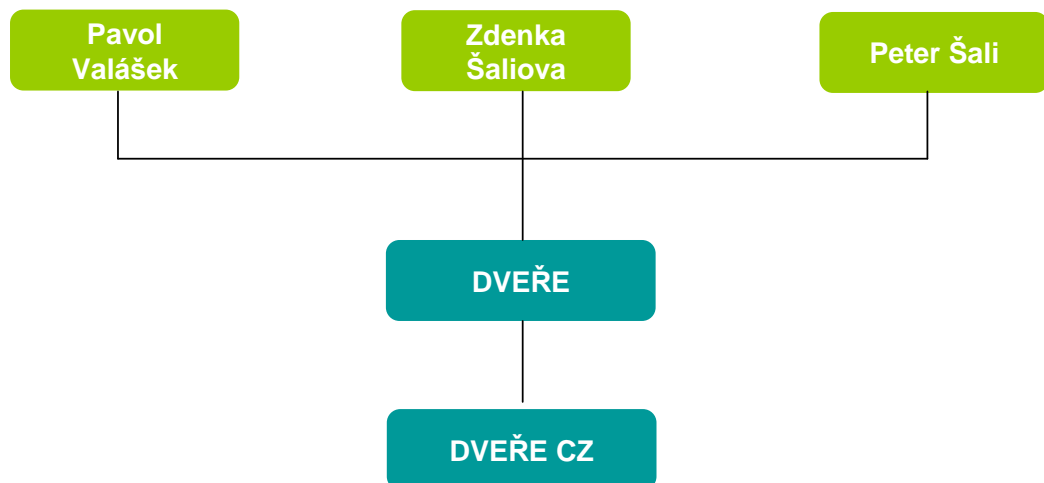
Malacky District is a part of the Bratislava region. Malacky District has a workforce of 33'604 people and an unemployment rate of 4.3% in value.

Malacky is a district with a large supply of skilled and cheap workforce that largely operates outside the district because of lack of local job opportunities.

The region of Bratislava manages several major educational institutions in the Slovakia, it offers dozens of secondary vocational schools and colleges focused on technical disciplines (eg mechanical engineering, metalworking, engineering, etc.).

1.4 Ownership structure of Company

The company is owned by three individuals - Mr Paul Valášek founder, his daughter Mrs. Zdenka Šalivá and his son in law of Lord Peter Šáli. The company owns 100% share of the czech company DVEŘE CZ, sro (Hereinafter referred to as the "DVEŘE CZ").



Graph no. 1: Ownership structure of the Company
Source: [17, s. 12]

1.5 Used materials, manufacturing processes, technological equipment, logistics

1.5.1 Materials, components and goods

The Company purchases materials, components and goods. The materials are further processed and used to manufacture products. The components are put into the product before its completion without further processing. The goods are usually sold separately.

1.5.2 Produce material

The company buys, two types of material: steel sheets and surface material.

Steel plates are used to produce the body and frame door frame and locking mechanism. They are mainly supplied in standard thickness of 1.2 mm and a specific rectangular shape.

Surface material consists of natural wood panels, veneered MDF, laminated MDF and polyurethane paints. All surfaces are applied in the final stage of production.

Other production materials are locking door bolts, adhesives, locks, hinges, insulation and the like. Neither the materials or products subject to no material degradation under normal conditions encountered in storage.

The following table shows the structure of vendors ordered according to supplied material for several major types of material. For each type are given two largest suppliers and the total costs paid for the material in 2009. The percentage of sales is calculated from the consolidated data. Shown are also buying safes, which are sold to retail sales companies.

Type of material / customer		Country	Amount in EUR
Steel plates			956 830
	FERONA Slovakia Žilina	SVK	498 756
	METALEX ŽILINA s.r.o.,	SVK	430 796
	Others	SVK, CZ	27 278
Surface			370 320
	DDL Lukavec	CZ	323 410
	Karki s.r.o.	SVK	16 400
	Others	SVK, CZ	30 510
Lock cylinders			236 079
	Mul-T-Lock Czech, s.r.o.	SVK	171 882
	EVVA s.r.o.	SVK	32 831
	Others	SVK, CZ	31 367
Forging			280 365
	Pastva Silvester – Instal	SVK	211 867
	Richter, spol. s r.o.	CZ	54 090
	Others	SVK	14 408
Glue paste			169 527
	HENKEL Slovensko s.r.o.	SVK	169 527
Purchase of components			279 725
	ROSTEX - VYSKOV s.r.o.	CZ	120 634
	REMARS s.r.o	SVK	71 832
	Others	SVK, IT	87 259
Door hinge			158 752
	REMARS s.r.o	SVK	158 210
	TKZ Polna spol.s r.o.	CZ	543
Safe			230 976
	Profikon Internetal s r.o.	CZ	81 005
	Jozef Murgaš ELEKTRONICS,a.s.	SVK	57 419
	Others	CZ, SVK, AT	92 553
Others			526 225

Table no. 2: Biggest suppliers of the Company ordered according to type of materiál (components) goods
Source: [17, s. 13]

The company has for reasons of product diversification at least two suppliers for each of the main types of material.

1.5.3 Components

The company purchases the lock cylinders and locks, fittings and accessories such as glasses, necklaces and more. These components are installed in the door, either during manufacture or on site at customers.

1.5.4 Goods

The company sells safes, euro range (Euro cash machines) and systems of main and general key principal and managing keys in their retail store.

1.5.5 Produce

1.5.6 Control product flow

The flow of products and components is monitored by the barcode system.. Product, respectively. its semiproduct is in every stage of production attached a barcode that is scanned in the process between the phases of production. During the manufacturing process, for each product, the reference period of each stage of production, materials used and the person responsible for a given production.

Every door and door frame are recorded as a separate order, and with this system it is possible to determine exactly in what part of the production is what product and what the client.

1.5.7 Production process

The manufacturing process of the door consists of six stages: machining, welding of steel structures, welding and assembly of locking mechanism, filling the door with thermal acoustic insulation and fire insulation, paint finishes, installation of locks and hinges, packaging.

In the first phase are machining steel plates with usage of CNC press, TRUMPF - Trumatic 2000R press, press brake TRUMPF - Trumabend and other machinery. At the same time in the first stage of the manufacturing process are cut and further machined parts made of profiled steel and other materials.

In the second phase is the door construction welded (double-shell structure with transverse stiffeners). In this operation there are welded steel part of locking mechanism.

The locking mechanism is specially developed mechanism made into a steel door construction. Locking mechanism is composed of several steel bars, gears and locking pins that are fixed in the construction of the door. This mechanism is controlled by a central lock. The function of the locking mechanism is to transfer the lock cylinder locks into the side of the door - with active bellow points so as to secure the door frame in several places simultaneously.

Welded steel construction with locking mechanism is also filled up by thermo-acoustic insulation and fire insulation.

At the bottom part of the door is fitted up a wooden frieze. Wooden frieze allows in case of need cut the door up to 3.5 cm and it is able to adapt to uneven floors.

In the next step is necessary to glue the surface material to steel cabinet frame is - laminated MDF, veneered MDF, or solid oak board.. Surface modifications are made on the order of customer in many colors. This activity is currently being implemented by hand, it is assumed, however, its automation using funds from European Union funds. At the end of the production process is door equipped with a lock and door hinges and door has to be cleaned up. The last process is final inspection and packaging.

Each product made by the company is before shipment checked up by the quality checkers. Is accomplished by visual inspection of the product, further is checked the functionality of locking system and approximately 10% of the door goes through a complete performance and dimensional control of the product. The person responsible for checking awards the product with the certificate and the product may be exported.

1.5.8 Quality control

The Company was awarded with the certificate ISO 9001:2000

The company ensures the quality of its products as a regular control at each stage of production.

Input control – is the control focused on the identity of entry product, or service into the production process. For example it involves the control of the ,metal plate and other metallurgical material, adjustments of surface, locks, hinges etc.

In-process control – the control of the product during the production process practised on the working place between particular operations which are connected to each other.

Output control - control of the product destined for the output of the manufacturing process. It serves to ensure the quality of the final product.

1.5.9 Complaints

The company declares the volume of complaints under 1%. In 2009 claims accounted for 0.75% (ratio of claims to producing products).

1.5.10 Waste and its disposal

The amount of waste material from production is negligible compared to the volume of production. Machining process creates less than 1% of the waste. Metal waste is transported into a local recycling collection point.

1.5.11 Machinery and technical equipment

Two CNC punching machines Trumatic TRUMPF are used for processing of steel sheets. These presses are capable to trim plates with up to 4 mm. The first press Trumatic was purchased in 2000, the second in 2006. Nowadays are both machines in full working process. One of them is used consistently and the second one is used additionally. The Life of the machine is indicated in motohours, and it is estimated about ten years for each

machine. In the event of Trumatic machine failure is ensured the continuity of production by another backup machine Trumatic.

The Machine CNC press Trumabend made by TRUMPF is used to bend metal plates. Supposed life expectancy of the press is at least till the end of 2014. The company uses other two bending eccentric presses.

Other facilities include a used cutter, scissors, drill floor, saw the iron, wood Panel saw, presses for gluing surface treatment, welding machines and other equipment.

At present the company plans the purchase of a machinery for applying of edging strips to the door and grinding of equipment for grinding edges of the door. The company plans to use the European Union funds for this purchase.

1.5.12 Logistics

The Transport of goods to the customer is realized through both owned vehicles or via external carriers (mainly transport to the Czech Republic). The company owns and has rented 23 light and three heavy goods vehicles.

The cost of transportation of finished products to customers are included in the price of the product. In case that the customer requires the installation and these costs are calculated to customers own directly, unless it is a warranty repair.

1.6 Goods and distribution

The company manufactures security doors, fire safety doors, frames and other safety accessories. The company also markets safes and other products manufactured by outside manufacturers in heir retail store. The company also offers installation and maintenance services to retail customers and buildings.

1.6.1 Goods

1.6.2 Doors and door frames

The main product of the security is door. Security doors are made up of two shells welded steel construction with transverse and longitudinal stiffeners, filled with thermal-acoustic insulation and fire insert. The internal structure is attached locking mechanism.

The surface treatment is laminated MDF imitating wood or veneered MDF board, or boards with oak wood, or polyurethane paint RAL, or self-adhesive foil imitating wood. The company currently offers 25 types of surface treatment with the laminated MDF board, 14 of wood veneer design, implement self-adhesive foil 7, 8 oak solid wood design and paint a complete RAL. Customers can select the surface for each side of the door separately.

In addition the company manufactures doors with special design as for example:

- Doors additionally equipped by electronic entry kontrol by magnetic door retaine, lock detektor, electric porter, door opener tec.
- Design of doors with safety or fire safety insulating glass
- Bullet-proof doors
- Door equipped with a drawer, cockpit, with maid overflow or a combination of glass and other components.

Security level

Security doors Bohemia are manufactured in the safety classes 2, 3 and 4 according to EN 1627, the scale security 1 to 6 The scale indicates the resistance to door trying to forcible entry and similar physical activity.

Relevant certificates are issued by the laboratories in the Czech and Slovak Republics

Fire-resistance and sound insulation

Door made by the company are tested on fire-resistance. The level of resistance depends on the type and density of materials used inside and on the surface of the door. They also determine the values of sound insulation.

The fire-resistance is experienced and certified by tests and accredited persons in and the Czech Republic.

Fire-resistance Certificates are issued in every province alone, the security certificates are valid internationally

Proportions

Dimensions of doors and frames are standardized according to local standards or adjusted according to customer requirements. The company also produces non-standard door and frame dimensions.

Pricing

Prices of sold door (without frames, accessories and installation) are in the range from approx. 360 EUR up to approx. 1 550 EUR per piece. Best-selling models range in price levels approximately 430 euros.

Accessories related to doors and frames

In the case of door and frame delivery the company supplies and accessories, doors and door frames and cylinders, safety fittings, panoramic viewing panels (Watch), thresholds and so on. These supplements company also distributes the wholesale doors and door frames.

1.6.3 Other products

In addition The company sells safes, a principal and managing security keys and other accessories.

Safes

The company deals with various types of safes, such as wall safes, floor safes, furniture safes, cabinet, and fireproof safes for guns. The usage of safe is wide, from the home equipped with the storage of valuable documents and hotel safes:

System of main and general key

The system allows to use one security key to lock any number of doors and also gives you the option to identify and monitor all people who may be enter in particular buildings and rooms

EURO accessories

The company of the retail outlets Mileticova sells coin holders, coin safes and other accessories.

1.6.4 Assembly and installation services

The company provides the installation service to the end-customer in case of direct delivery. Installations are performed by employees or external personnel.

The company has currently eight groups of two assembly workers. Five assemblies are employees of the Company and three outside contractors who work exclusively for the Company. In contrast, employs DOOR ENG three groups of two assembly workers.

Assembly group is responsible for proper installation of produkt and further for takeover of money from the customer.

Due to effective approach to the records of the final customer are all door kept as a separate construction contract in the event. This allows to track the number of repairs and technical interventions or additional orders according to the final customer.

1.6.5 Testing and warranty

All products manufactured by the company's are regularly tested for safety and fire resistance but also on operational reliability. Each customer will receive the certificate of testing with the doors.

Each customer gets the warrantee along with door. The company provides standardly two year warranty period on each door with accessories and a six-year extended warranty on the locking mechanism. Exceptions are a number of security door model F6, which have a ten year guarantee on the locking mechanism.

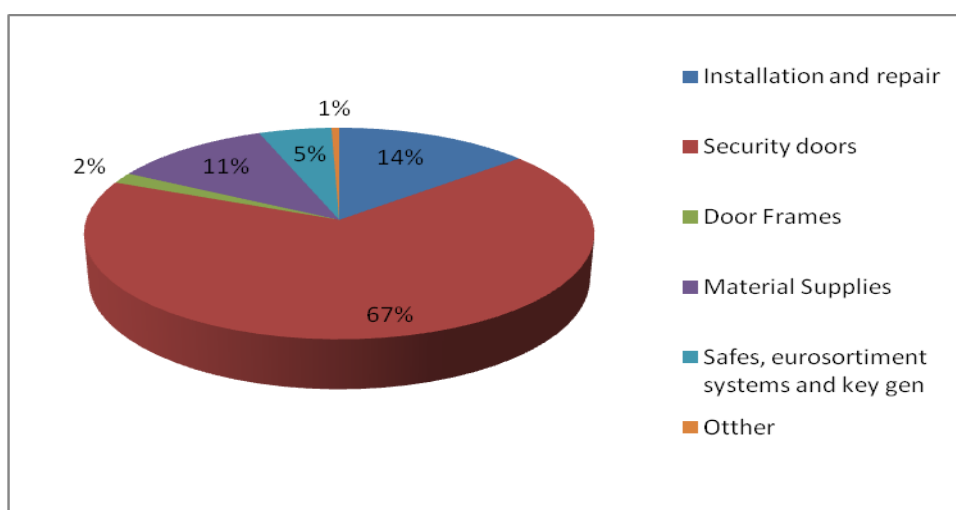
1.6.6 Income according to goods

Company's main product lines are security doors, door frames, then partly some accessories and materials. The following table shows the number of and revenues from sales of goods and services in 2009.

Product line	Amount (piece)	Income in total (thousands in EUR.)
Instalements and service		1 142
Door	14 805	5 495
Frames	15 282	1 042
External manufacturing	6 451	47
Material, accessories and further pruduction	46 093	932
Safes, eurosorlimens and other systems		426
Manufacture in total	82 631	7 515
Manufacture and service in total	-	9 083

Table no. 3: Sale of goods and products in 2009
Source: [17, s. 15]

Contribution of particular type of goods and services provided by the company is shown in the following chart.



Graph no. 2: Sale according to the type of product
Source: [17, s. 16]

The group of products with the largest share of is security doors, with a share of 60.5%. Doors and door frames together generated 70% of total sales.

1.6.7 Top sellers

Almost all product groups have one or two products, which dominant share of revenues This structure is given by the standard, which covers the design and dimensions of doors and frames. The following table shows the proportion of main products

Type of product	Numer of sold products	Income in EUR	Price per piece in EUR	Margin
Safety door	14 805	4 853 974	328	19,6%
Type 1, 2 and 3	13 012	4 119 679	317	19,1%
Others (34 types)	1 793	734 295	410	22,5%
Frames	15 282	920 104	60	-31,5%
Type 1 and 2	12 360	699 635	57	-27,6%
Others (29 typů)	2 922	220 470	75	-44,0%
Material, components and other	46 093	1 199 127	26	3,7%
Components	39 572	1 168 868	30	4,2%
In total		7 014 552		10,2%

Table no. 4: Sold key produkt and components
Source: [17, s. 17]

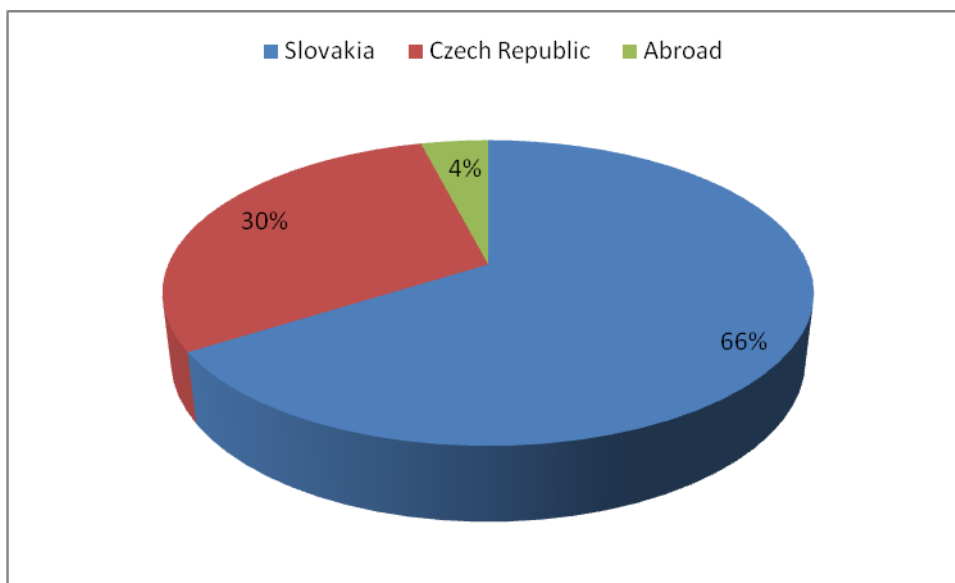
The company successfully sells door to small-lot single-piece price up to 29% higher than the top sold door. Thanks to efficient manufacturing process, the company reaches a similar gross margin on both types of doors (19.1%, respectively. 22.5%). Gross margins on low-volume door is 3.4% higher than at the door selling.

In the group of frames is the difference between gross margin of products and the gross of top sellers bigger then in the area of door. Despite the fact that the Company achieves higher margins in the short-run frame - are 31% more expensive than selling a piece of the frame - the production of reduced gross margin by 44% while retaining the best-selling production reduces the gross margin of 27.6%.

1.6.8 Sale and distribution

The sale of products by the company is realized through distribution networks in the Slovak Republic, Czech Republic and abroad (especially Hungary). The products of the company are not currently exported to any other country. The intention for 2009 – 2010 is to build a distribution network in Austria, Germany and Switzerland. For this reason, a sales manager will be employed.

The following chart shows the breakdown of sales by country.



Graph no. 3: Sale according to territory
Source: [17, s. 19]

1.6.9 Distribution channels in Slovakia

The company has built an extensive distribution network in Slovakia, which, together with a share of intangible assets, dominates the market. The distribution network in Slovakia is equal to dominance in this market. It consists of:

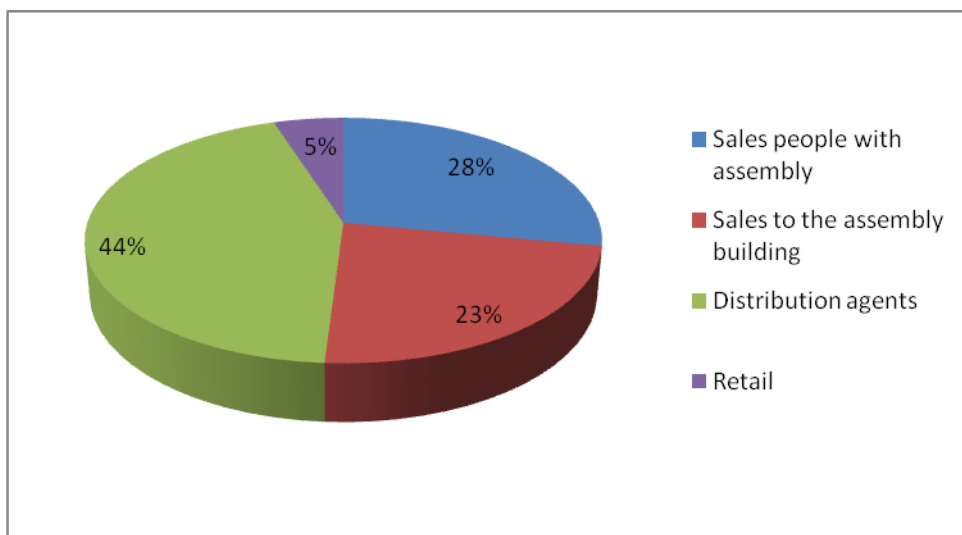
1. Distribution network of representatives
2. Sale and installment
3. Retail sale

Distribution network consists of distribution representatives. Distribution agents perform the retail sale of products of (security doors and door frames) to final customers. They also perform the installation of products and provide service to the customer. Distribution agents carry on that business in its own name and on its behalf, but their actions are required or authorized to use the official logo.

Distribution agents are contractually bound by strict rules of the Company. The rules of the company are describing the facilities of shops, the maximum retail prices of products, way of transportation, marketing, distribution performed by a representative assembly or clothing distribution representative of employees, etc. The distribution agents acting as the sole representatives of the Company must not directly or indirectly represent a competitive manufacturer or vendor of security doors or sell another security door manufacturer. Sales representatives in the Slovakia is not allowed to sell goods to another.

The company realizes the sale of the assembly through its own or external assemblies.

Retail sale is realized in own shop in Bratislava. Retail shop in Bratislava are sold safes and general keys, euro and range of door accessories.



Graph no. 4: Sale in Slovakia according to distribution channels
Source: [17, s. 22]

1.6.10 Distribution channels in the Czech republic

Sales of product in the Czech Republic is processed through its distribution network.

Distribution Network is composed of two articles:

- 1 Network of distribution agents
- 2 Sale with instalment

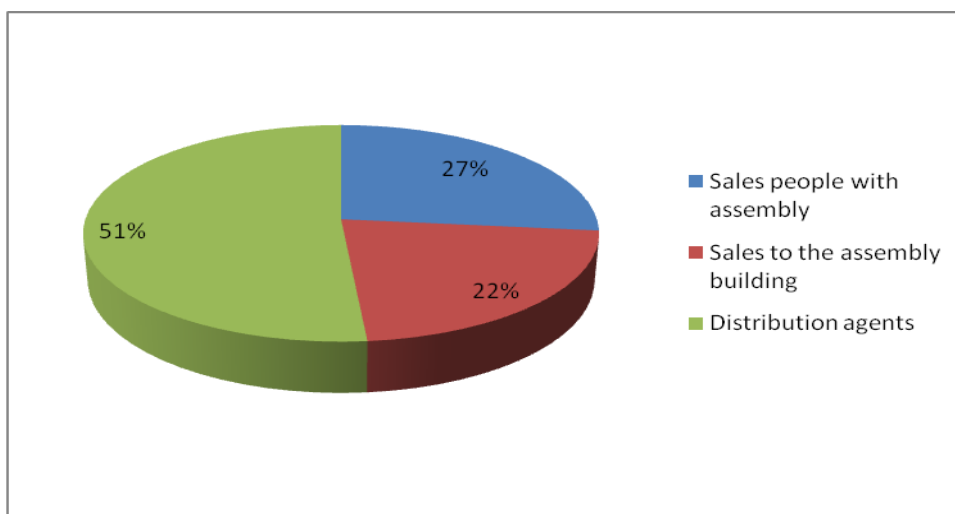
Distribution network consists of representatives who purchase and install products to its customers. Czech customers are not compulsory to sell product of the company under the brand name company and the company DVEŘE is not usually the exclusive supplier of security doors and door frames.

The company has the exceptional position among wholesale customers. The company supplies specially designed doors, which are further distributed to customers under the brand name.

The company focuses two types of customers:

2a. Delivery with installation into new buildings: via its own external and internal construction workers is realised the supply of door and frame assembly. The company usually acts as a subcontractor to general contractor.

2b. Delivery with instalment to particular customers: via own external and internal construction workers is realised the supply of door and frame to the customer.



Graph no. 5: Sale of products in the Czech Republic according to the type of customer.
Source: [18, s. 3]

1.6.11 Distribution channels abroad

Sale of company products abroad is processed through a secure exclusive sales agents. Sales of security doors in foreign countries is limited to one type of product intended for newly built houses.

1.6.12 Customers

The company has developed a great client database. none of them exceed 5% of consolidated sales.

An estimated 70% of the company's products are placed in small construction projects, renovations, or households, either directly or indirectly from the Company's distribution network of its dealers. The advantage is that the smaller end users react less violently to fluctuations in the economic cycle than large construction projects.

Diverse customer base means low dependency on any customer and therefore a better negotiating position when selling.

1.7 Trade marks, certificates, licences

1.7.1 Trade marks and indication of products

The company sells all products and service under own trade mark **DVEŘE®**.

This trade mark is registered in graphic and verbal form valid in Slovakia.

1.7.2 Certification

All products are certified products according to European standards and according to conditions of National Security Agency (NSA) in Slovakia and the Czech Republic. Integrovaný systém managementu jakosti

The company applies a quality management system based on the requirements of ISO 9001:2000. Quality Management System is applicable to all doors, frames, safes and services

1.8 Marketing

The company brand “DVEŘE” creates important part of marketing intangible assets of the company. To build and maintain the general knowledge about the brand doors are used the following marketing tools:

- catalogues, promotional materials and promotional čems
- Outdoor and mobile advertising
- leaflets
- advertising on radio and regional television stations (in Slovakia only)
- training for business partners, insurance companies and policie
- development of products in cooperation with public security forces, includingt police and firefighters
- membership in professional organizations
- company website
- exhibitions and fairs (eg., IBF, ForArch, Coneco, Nábytek a bývání etc.).

The speciál formo marketing activities is training and promotional videos and movies. For example in currently running project „URNA“ with demonstration of overcome of door by the elite police team.

The cost of marketing and advertising reached approximately 3.4% of sales in Slovak in 2008. In 2009 are costs expected to increase to around 6% of revenues.

1.9 Manufacturing centre Malacky

Headquarter for the company is located in Malacky which was bought in 2004. After necessary repairs and renovation processes was the headquarter moved into this area in 2006

Manufacturing centre in Malacky is spread on 30,135 square meters, the area of 7578 square meters is built by three buildings.

Offices are located in the three-storey building with an area of approximately 654 m² on two floors. The ground floor of this building are changing rooms with facilities, reception and dining room with serving meals. Office section provides space for all production operations and provides enough space to develop business.

The entire production hall is covered with a glass roof-lights, which together with side windows admit plenty of light outside. The hall consists of three sectors rectangular areas. Each sector is designated for a specific part of the production process and corresponds to approximately one third of the total area of factory building. Total area of factory building is more than 6000 square meters

The area has representative appearance, has more than enough space for manufacturing, offices and parking, is located 30 minutes from downtown Bratislava.

1.9.1 Sale and manufacturing centre

The company operates sales and installation center in Bratislava. There is based dispatching service for installation, warehouse assembly, sales, showroom for retail customers. the area serves as a platform for assembly and service groups and management of the Centre. The company has leased this place therefore it is not its own property.

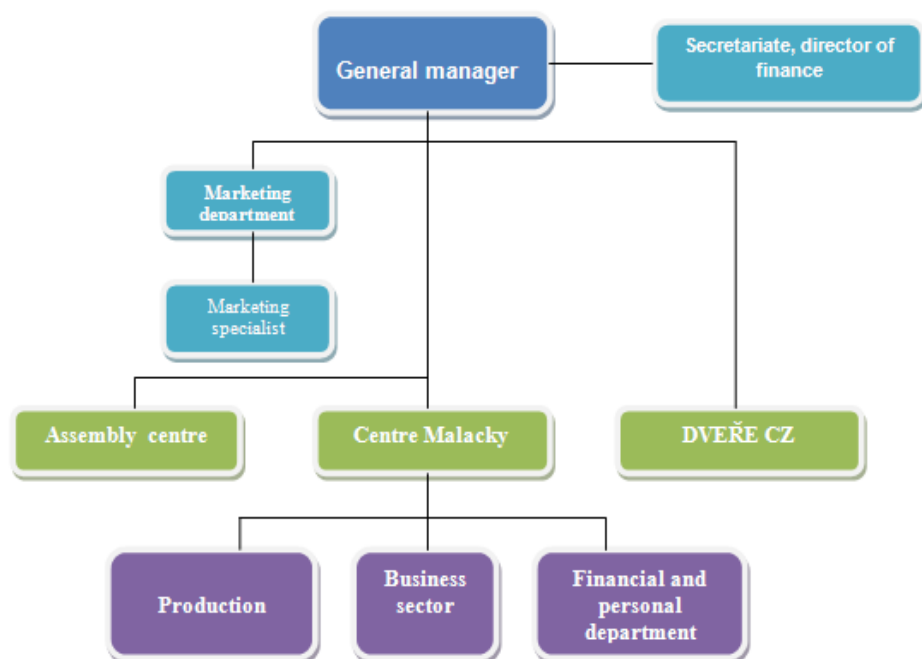
1.9.2 Retail store

The company operates retail stores in Bratislava. The shop is selling safes, system of main and general key and Euro sortiment. The store also receive orders on doors, frames and installation of retail customers.

1.10 Employees

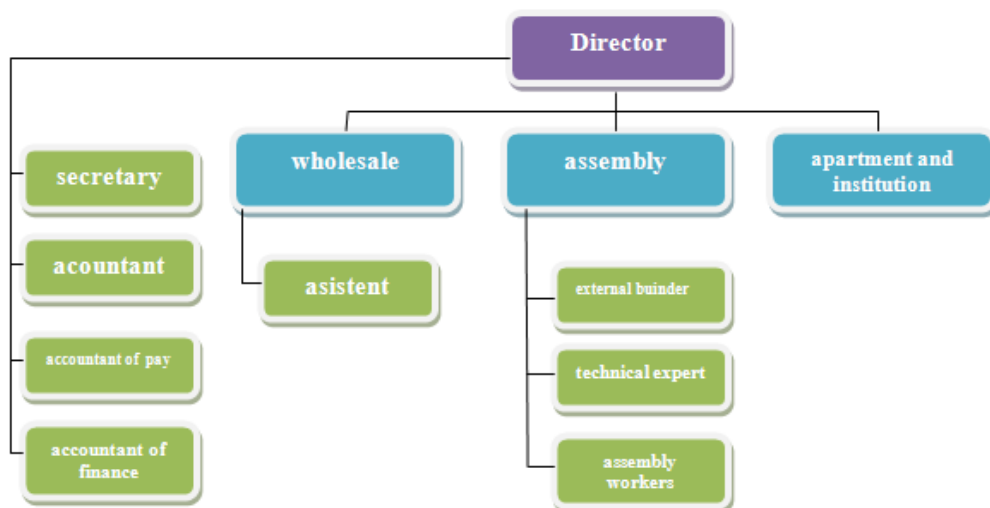
1.10.1 Company organization structure

The Company is managed by CEO who shares an assistant with the CFO. Department of trade, finance and production is concentrated in Malacky.



Graph no. 6: Company organisation structure.
Source: [17, s. 29]

1.10.2 Organisation structure DVEŘE CZ



Graph no. 7: Organisation structure DVEŘE CZ
Source: [17, s. 31]

The director of the company is the direct superior of the financial department, further he manages manufacturing and sales forces. The company has no manufacturing component in the Czech republic, all production is produced in the company's plant in Malacky.

1.10.3 Employees and wages

The following table divides the number of employees according to working positions and shows the average gross wage for each division. The table contains information about working outside the agreement and employees who are not employees but work exclusively for the company.

	Management	Administrative	Production	Agreements	Company in total	DVEŘE CZ	Total
Average number of employees in 2009	7,6	47,8	103,3	2,1	160,7	15,0	336,4
Number of employees 31.12.2009	8	47	98	1	154	15	323
Average annual wage in EUR	17 991	10 333	9 821	1 754	9 844	20 796	11 207

Table no. 5: Numer of employees and wages
Source: [17, s. 35]

At the end of 2008 the Company had 154 employees with average gross earnings of approximately 821 EUR. The company had four more external employees. The company in the Czech republic had had 15 employees with average gross wages of approximately 1 668 EUR.

1.10.4 External employees

The company also uses external workers (self-employed contractors) and agency workers (workers hired from employment agencies to perform assembly work). As external staff members work in company chief of financial office, project manager in Bratislava and the warehouse manager in Malacky.

At the end of 2009 worked for the company, three agency staff, ie staff intermediary agencies.

1.10.5 Wages

About 90% of salary is made up of component performance. Other employees are paid a fixed salary with premium ingredients.

2 FORMS OF CROSS-BORDER ACQUISITION

In the Word, due to globalization, companies are very often integrated. This merging may take different forms and be done for different reasons. The most common form of concentration are mergers and acquisitions.

1. Fusion generally means to join two or more companies into one company, the owners of the merged company gain shares of the acquiring company. The successor company is the company that bears activity of the original companies. In the past were mergers usually allowed only within one country, today it is possible to merge with companies across the European Union.
2. Acquisitions are a form of connection, usually when one company is sold by holders of shares to another company, or alternatively when a company sells its business or part of a business to another company.

Furthermore, we distinguish following types of merger (integration):

1. Horizontál integration
2. Vertical integration
3. Conglomerate integration
4. Portfolio integration

2.1 Horizontal integration

Horizontal integration can be described as a merger of two firms with the same line of business. The horizontal integration can lead to concentration of competitors in the market, or business that operate on other relevant markets (eg different geographic markets). The reason for horizontal acquisitions are mostly options on economies of scale (cost savings on administration, trade, research and development, etc.), increased market share in the relevant market or to acquire new markets.

2.2 Vertical integration

When vertical integration represents the connection of two companies, whose activities belong into different levels of the manufacturing process. Vertical integration can be thought as the process of linking suppliers and customers. The reason for vertical integration is usually to assure fluency and control of all production and distribution process.

2.3 Conglomerate integration

Conglomerate integration is the merge of companies with different lines of business. The reason for such a transaction may be extension of range (use of commercial channels for the distribution of the participating companies products and products from both companies), settlement of cash flow during the year (different fields exhibit different business cash flow during the year), the diversification of business risks (different fields exhibit different sensitivity to economic cycle, some sectors may be considered counter-cyclical).

2.4 Portfolio investments

The portfolio of investments includes the acquisitions of the so-called financial investors, it means buyers, who did not operate in a similar business acquired company, rather than buying shares in those companies to assess their assets. Those investors include the so-called private equity funds, ie, institutional funds, which are based for the purchase and subsequent sale of the company. The reason for such acquisitions, in particular the so-called buy-out effect, ie, the acquisition is largely financed by debt, which is the investment paid off, and then the company is sold to another investor. Due to differences in demand for interest on acquisition loans and the required return to investors, this effect can lead to interesting improvements.

In the case of companies listed in this job, you can imagine all these forms and types of connections with other companies. Due to the ongoing financial crisis and in view of the field in which the Company operates (construction), but it is unlikely takeover of financial

investors (private equity). For this reason, the addressing potential buyers of the Company included only companies from the field of security, especially international groups.

3 GENERAL REASONS OF CROSS-BORDER ACQUISITIONS

Main reasons for cross-border acquisitions are usually synergistic effects. Synergistic effects can be thought of as an additional benefit that arises by combining of two parts. In case of cross-border acquisitions can be synergistic effect following:

- Synergy of entry - cost savings of scale (particularly the reduction of purchase prices due to higher level of orders, reducing the number of employees at the same time, and associated reduction in the ratio of overheads to direct costs - joint development, trade, administration, also can develop synergies in production, etc.)
- Synergy of output - increased market share, distribution channels, use the other company to sell their products, etc

Cross-border acquisitions, however, also carry a threat. These threats can be divided into four categories:

- Strategic Vision (must be given a common vision, common goal);¹;
- Operational strategy (steps to achieve common goals must be linked);
- System integration (control systems must be linked in one functional unit);
- Skills and Culture (necessary to connect the different cultures of two companies)

In practice, you may come together with successful merger of two companies and the failure mergers. For a successful realisation of the merge is necessary to know why is the merger realised and this target has to be shared by all stakeholders. Further it is necessary to know the way how to reach the target and thing through the own process

¹ A practical example: A Vision of American Telephone & Telegraph Inc.. (Provides products, services and systems for the transfer of management information) for the acquisition of NCR Corp. (manufacture, sale, installation and services in business information systems): "Connecting people, organizations, and information in a seamless global computer network" (Wall Street Journal, April 8, 1996).

4 CROSS-BORDER ACQUISITIONS PROCESS

The acquisition of the company is generally very expensive and time-consuming process. The acquisition process typically takes one to two years in exceptional cases, the acquisition is completed within half a year since its inception. Cross-border acquisitions are due to differences in language, mentality and business processes, time-consuming and expensive than in the case of acquisitions among the players from the same country.

4.1 Transaction Preparation

To achieve successful transaction it is necessary to strictly prepare the following attributes:

1. Creation of short profile

The purpose to create a short profile is to arouse the interest of investors in the transaction. Short profile is the first document which it is approached to a potential investor. Short profile should include:

- Area of business
- Corporate office (state or city)
- The definition of the proposed transaction
- Description of the market where the company operates, the position against competitors
- Development management company and the future plan
- Strengths of the company (acquisition benefits)
- Sales motive

The short profile is sent to investors along with a declaration of confidentiality that protects sold company and its owners against misuse of information by potential buyers.

Information Memorandum contains the information referred to in the introductory section of this paper is devoted to the description of the company.

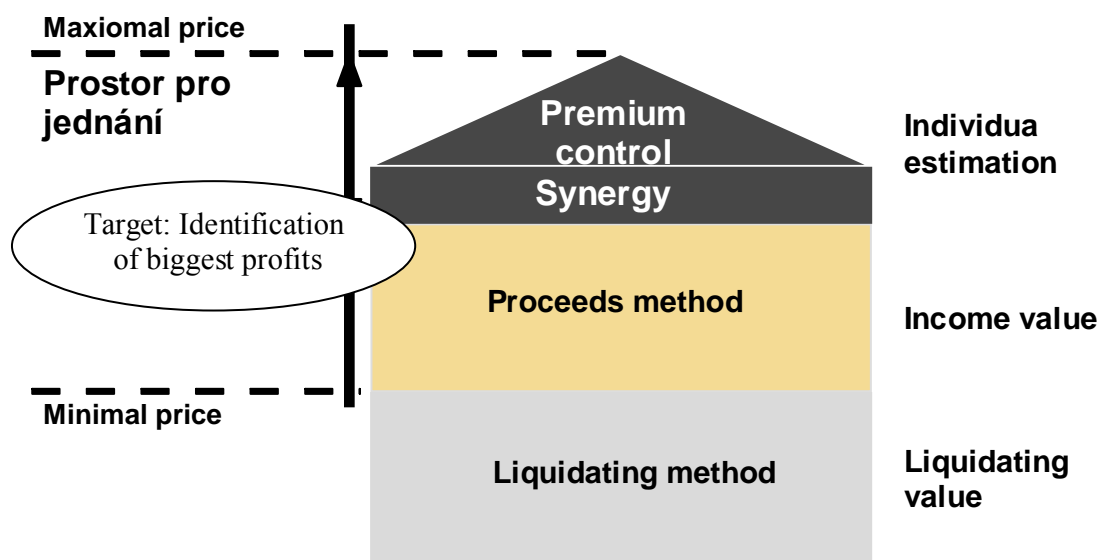
2. The information memorandum

Information memorandum is an essential document in the range of approximately 30 to 100 pages, which serves to provide detailed information about the company being sold to potential buyers. Information memorandum serves to evidence orders to potential buyers. It must contain all necessary information on interest, value of the company, identifying potential synergies and the resulting tender.

Information memorandum contains the information specified in section of this desertation work which is devoted to the description of the company.

3. Interactive evaluation of company

Before the transaction is a good idea to establish price expectations. The price which is supposed to be paid for the company or enterprise can be based on the liquidation value (substitute valuation - valuation of individual assets and liabilities), or the valuation of yield (valuation based on expected revenues or business) with any premiums for synergy and control premiums. Schematically, the calculation of the price reflected in Figure No. 9



Graph no. 8: The calculation of price for the company
Source: [18, s. 18]

The income value in mergers and acquisitions practice is processed in the most simplified form - as the income on the valuation of the company debt free, cash free basis.

Income valuation of the company itself is further calculated in practice as a multiple of EBIT in (earnings before interest and taxes). The usual multiples of EBIT is three of eight. At the end of 2008 and 2009 was due to the financial crisis to reduce multiple EBIT, at present, ie at the end of 2009 and 2010, these times gradually returns to normal. Debt free and cash free basis means that the valuation of yield times the EBIT by deducting interest-bearing liabilities and deferred tax valuations, or the date of acquisition. In contrast, the price plus the cash at bank and in hand.

Calculation of expected prices is given in a separate chapter of this work.

4.2 Planning of optimal transaction structure

Before the acquisition, it is necessary to plan the form of acquisition. Further it is necessary to respect the interests of the seller and potential buyer interest. It is important also consider the tax aspects, ie, whether the income from the sale of the seller's tax exempt, or whether it is subject to tax.

In the case described in this bachelory work, the situation is simple, because the seller holds its share in the company for more than 5 years and he has sale and income tax exemption. It is therefore understandable that preferred form of sale will be sale of company shares.

4.3 Addressing of investors

After a preparatory phase followed by a compilation called longlist, a list of potential investors, potential buyers. Potential buyers can be divided into two basic groups:

1. Strategic investors
2. Financial invcestors

Basic characteristics of financial and strategic investors are shown in a table no. 6

	Strategic investor	Financial investor
Who	<ul style="list-style-type: none"> Establishment of the same industry or group or holding company with a similar focus some of its parts 	<ul style="list-style-type: none"> Private equity/Venture capital fund Mezaninové fondy Other financial groups and institutes
Reason for investment	<ul style="list-style-type: none"> Use of synergy effects and cost reduction Purchase of competitors, suppliers or customers Access to the know-how Increasing of market share Attract new markets Acquisition of skilled workers Horizontal and vertical integration and diversification 	<ul style="list-style-type: none"> Achieving return - IRR of 20-30% pa -7 within 2 years Exit sale to a strategic investor, management, or IPO
<ul style="list-style-type: none"> Characteristic 	<ul style="list-style-type: none"> Acquisition of majority shareholding Frequent option to acquire additional shares Large influence on corporate governance Medium-and long-term investments Focus on synergy and integration In the short term are not planned exits Financing of acquisition of own funds 	<ul style="list-style-type: none"> Acquisition of minority interest (in some cases a majority stake) Lower impact on the management of the company, mostly at the level of statutory authority Interest on short-term appreciation of investment There is no interest in the integration (with the exception of the "roll-ups" or "buy and build" strategy) There is no exchange of management

Table no.6: Basic characteristics of strategic and financial investors.
Source: [18, s. 19]

Potential investors are contacted from longlist short profile. For further information, potential investors sign a declaration of confidentiality, which sold the company or enterprise protects against misuse of information by the buyer.

4.4 Presentation of candidates

After addressing of investors with the short-profile and receiving a declaration of confidentiality is the whole process followed by transmission of an information memorandum and the subsequent presentation of the company or business.

The presentation is realized by owners, managers, and possibly acquisitions advisers:

Manager's presentation should include in particular:

- Brief introduction of company (turnover, employees, products / services, customers);
- Current and historical results of the company;
- Analysis of market situation;
- Basic information about customers and distribution system;
- Possible scenarios for the future development of the company after the acquisition;
- The objectives of the company, depending on the chosen strategy at the end of the projection period (turnover, profit before tax, market share, etc.);
- Expected effects of the acquisition.

After the presentation, the company is receiving bids from potential investors. The company selects the most interesting offer and create a shortlist of so-called potential investors, it means a list of potential investors with whom it will continue to act. With these potential investors are also subject of a Letter of Intent, expressions of interest in translation. This is a binding document in which they specify the basic parameters of commercial transactions and other steps in the transaction.

Letter of Intent may be formulated as an agreement of the declaration and may be used as:

- The contract;
- A contract on future contract;

- Offer to the main contract;
- Offer a contract on future contract;
- Agreement on the terms of the transaction;
- Option to purchase agreement.

Letter of intent may perform different functions:

- Support for further negotiations on transaction and non-disclosure agreement;
- Contractual arrangements still pending the results of the negotiations;
- Agreement on the future course of the transaction;
- Agreement on the elimination and distribution of risk of both contracting parties;
- In-house use;
- Terms and clarify the ambiguities.

4.5 Due diligence

After the conclusion of the Letter of Intent is usually prepared data room, it is a set of detail accounting, tax, legal, technical and other information about the company. Potential candidates placed on the short list are then admitted into the data room to get through their professional consultants conducted a detailed analysis of the purchased company.

The result of due diligence (detailed analysis) is used to adjust the price and any guarantees by the seller in a contract to sell the company or business.

4.6 Structure of transaction

Structure of transactions can be distinguished into two basic types:

1. Asset deal (sale of assets or the company or its parts) - Asset Deal is often preferred form of purchase for the buyer, because this form of sales tax not pass to the buyer and other public risk. Conversely, there is the averse for this form of sale to the seller because the sale of assets or business subject almost always oblige the seller to pay tax.

2. Share deal (sale of shares) - the sale of shares is preferred form of transaction for the seller, because they can sell shares without paying income tax (sales after a period during which the sales tax exemptions, or through foreign sales company, where such form of sale is not taxed - for example, the Netherlands). Structuring the transaction - the sale of shares in a company often varies by type of buyer. Strategic investor usually buys a share in the company being sold directly. but financial investors ususally buy the company indirectly through a specially established company. Reasons for buying shares in the company through a specially established company are mainly fiscal and financial. Specially-based companies will usually take a loan to purchase the company from which the interest is tax deductible. However, if the subsequent merger with a specially created company purchased at the company gets a loan to the company, and interest on the loan will be further considered as tax deductible. This form of financing is also preferred by the banks that lend for this purpose acquisition loans.

Agreement conclusion

The final stage is to negotiate the contract and subsequent contract.

5 SECURITY BUSINESS ANALYSIS

The company operates only in a narrow market segment of security technology in a geographically limited territory - this is called the market.

The relevant market of the Company are considered the market of security and fire doors in the Czech Republic and Slovak Republic.

The following table 7 shows the domestic production and sale of iron and metal doors, frames, windows and frames, in 2007.

	Slovakia	Czech republic	EU 27
Number of sold metal doors and windows	177 826	563 329	61 876 131
Value of sold metal door and windows	16 671 858	48 170 028	7 640 197 930

Table no. 7: Size of metal door and Windows market in 2007
Source: [18, s. 26]

Although there is no official statistics on the sale or manufacture of security doors, it is possible to estimate that there were produced approximately 178,000 security doors in Slovakia in 2007 . The estimation is based on the assumption that the ratio of manufactured iron windows and doors are approximately equal proportion of manufactured wood windows and doors, which in 2007 according to Eurostat statistics, about 1.64. At the same time based on the assumption that most are made of iron security doors and fire doors. A similar estimate can also obtain information about the market in the Czech Republic

The relevant market has mainly the following companies:

NEXT,Int. - Is a Czech manufacturer of security doors and mechanical security buildings. The company currently occupies a significant position in the market of security doors and mechanical security systems in the Czech Republic with a market share of about 20%. Export activities are currently focused especially on Austria, Scandinavia, Great Britain, Russia, Slovakia, Ukraine and Romania manufacturing complex in NEXT, Int. is located in Budyně nad Ohří. Group turnover of the company is approximately EUR 8 million.

MRB Sazovice Int. - is a manufacturer of security and fire doors. MRB Sazovice,Int sells Security doors under the brand BEDEX. MRB Sazovice realizes its production on the Czech market, where it reaches a market share threshold of 20%. The company's turnover Sazovicereaches approximately 12 million. MRB Sazovice Company is owned by individuals

ADLO - security doors Ltd. - The Slovak security doors manufacturer based in Bratislava. ADLO - security doors Ltd. belongs to the group ADLO. ADLO Group operates mainly in the Slovak Republic, where it reaches a market share in the segment of the door about 40%, but to a lesser extent, also exports its products mainly to the Czech Republic, Austria, Switzerland, Sweden and Denmark. ADLO Group has a turnover of approximately EUR 10 million. ADLO Group is owned by Slovak individuals.

SHERLOCK Ltd. - Is the Slovak producer of security and fire doors, which sells its products mainly to the Slovak and Czech Republic. On the Slovak market, Sherlock Company Ltd. holds 40% stake in the Czech Republic, then to 10%. Company turnover Shelock Ltd. amounts in the consolidated amount of about 9 million. Headquarters SherlockLtd.

is located in Bratislava, a production plant in Malacky. Sherlock Company Ltd. is owned by Slovak individuals

NAPAKO, production team - is a manufacturer of security doors, which implements their production almost exclusively on the Czech market share NAPAKO cooperative production on the Czech market is around 5%. Turnover NAPAKO reaches almost 2 million.

Note: the analyzed company, is one of the above mentioned companies.

6 IDENTIFICATION OF MARKET LEADER AS A POTENTIAL INVESTORS

In respect of the fact that the largest share on the market have companies which are similar to DVERE CZ, which by their size and financial strength similar to the Company, it is unlikely that they would be able to offer a high price for the Company. For this reason were identified European leaders of the security technology market, particularly the security door, which will be addressed.

Company name	Product	Note	Website	Main territory
Windows Holding	Plastic, aluminum and wooden windows using insulating glass assembly and	It brings together three Czech manufacturer of windows: Other, VEKRA, TWW	www.windowholding.cz	Czech, Slovakia
ASSA ABLOY Door Group	The company manufactures and exports security doors	Larry Denbrock - president	www.assaabloy.com	Stockholm, Sweden
BBE Briloner Bauerzeugnisse GmbH & CO (DE)	Manufacturer of steel doors and fire		www.bbe-stahlzargen.de	Germany
Bolton Gate Company Limited	Manufacturer of security doors, fireproof doors, soundproof doors, elevator doors		www.boltongate.co.uk	Great Briten
Gunnebo AB	Production and installation of security systems, incl. security doors and electronic device	Revenues equivalent to approx. €718 mil	www.gunnebo.com	Göteborg, Sweden
Hermann	Garage, industrial and residential doors, windows, frames and door operators	Operates 12 production sites in Germany, 11 in rest of World		Germany
Kaba	Security systems including electronic entrance management, access locks and doors	Revenues equivalent to approx. €811 mil	www.kaba.com	Switzerland
Mercor	Metal products for construction industry: doors, opening systems, scaffoldings, ventilation systems	Acquired Hasil a.s. between 2005 and 2006		Poland
Novoform (Sanwa Holdings Corp.)	Systems of doors, garage doors and door operators	Sanwa Holdings include: Sanwa Shutter Corp., Overhead Door Corp., Novoform	www.novoform.com	Haldern, Germany
Abus Czech s.r.o.	Traditional manufacturer of locks and security additions to dwelling		www.abus.cz	Czech

Table no. 8: Overview of competitors
Source: [18, s. 36]

7 FINANCIAL ANALYSIS AND VALUATION OF ACQUISITIONS

For the purposes of the acquisition is processed indicative target valuation of the target company, which is the basis for price negotiations.

As mentioned in section 4.1, the most commonly used acquisition methods is in practice yield rewards in the form of multiple (multiple) EBIT, adjusted for debt free, cash free basis (the basic parameters of the awards are given in section 4.1).

Although almost every book is dealing with corporate finance uses the EBIT singpost, there is no official definition of the calculation. Also in the current industry practice of mergers and acquisitions may be encountered in different forms of calculating this indicator, which varies from company to company. Given the importance of this indicator in the valuation of acquisitions, where any change of EBIT reflected x-times the price paid by the buyer, it is useful to define the calculation of this indicator in the basic agreement between the seller and potential buyers - that is usually in the LOI (letter of intent), it is also appropriate in this document to establish a mutual approval of this indicator. In principle, though, that EBIT is computed as praxi company's financial results determined on the basis of international accounting standards, increased interest on loans, advances and leasingů ao z tax revenue (deferred splatnou i), which is then adjusted with a cost income unrelated to the activities of the company, which is related to the activities of the company, but was not charged for them.

Item	2007	2008	2009
Profit for the period	242	513	677
+ The cost of repairs and maintenance according to accounting standards may be considered a technical improvements or long-term assets	60	15	0
+ Private consumption (fuel consumed by a family members who do not actively work for a company)	5	6	6
+ Wage costs for employees who do not actively work for a company (especially family members)	12	13	14
+ Social costs and insurance for employees who do not actively work in favor of company	4	5	5
+ Depreciation operationally intangible assets in operation (especially vehicles used by a family members who do not actively work for the company).	20	16	18
- Proceeds from sale of fixed assets	341	20	6
+ Net book value of fixed assets	216	0	0
- Creation of additional provisions for debts	1	0	0
+ Nákladové úroky z leasingového financování	7	17	15
+ Interest expense on long-term bank loans and credit	80	72	66
+ Bank charges relating to loans	14	13	4
+ Tax payable	50	114	150
+ Daň deferred	-1	17	23
EBIT	363	781	973
+ Depreciation	140	303	397
EBITDA	503	1 084	1 370

Table no. 9: Calculation EBIT in a company DVEŘE in 2007, 2008 and 2009 in thousands of. EUR
Source: [17, s. 55]

After the calculation of EBIT follows the setting of multiple (multiple). Within each field there is usually a range of multiples for acquisitions that are made in these fields. According to information, TPA Horwath, it is possible to expect multiple of EBIT, which is today a high multiple. The amount is influenced by high marketing value of intangible assets. Applying this multiple may therefore indicate price for 100% share of DOORS of 6813 thousand. to 8759 thousand Euro (this price is called Enterprise value, ie the price of free enterprise unencumbered funds in bank accounts in hand). To quantify the indicative price for 100% stake in the company's DOORS be deducted from the price of so-called net debt, ie net of debt.

Indicator Net debt is equal to the sum of interest-bearing liabilities (mainly bank loans, lease obligations and other interest-bearing loans), non-interest bearing liabilities to shareholders and deferred taxes, the sum is further humiliate the cash at bank and in hand at the date of acquisition.

Calculation of consolidated net debt indicators of DOORS to 31.12.2009 is given in the table below.

Item	Amount in thousands of EUR
Loans, leasing	1 219
Bank loan	1 043
Leasing engagements	176
Attendant loans	0
Other loans	0
Liabilities in respect of dividends	167
Deferred tax liability / asset	82
Long-term liabilities	1 468
Cash on bank accounts and in petty cash	253
Net debt	1 215

Table no. 10: Calculation of net debt for DVEŘE from 31.12.2009 in thousands EUR
Source: [17, s. 56]

The indicative price for 100% share in the DOORS based on calculation of the amount set at 5598 thousand. To EUR 7,544 thousand. EUR.

8 RECOGNITION OF THE POTENTIAL SYNERGIES EFFECTS FROM COMPLETED ACQUISITION

As mentioned in part 4 of this thesis, one of the main reasons for mergers and acquisitions is the emergence of so-called synergies, it means additional benefits arising from the merger. The aim of this chapter is to identify the main potential synergies that may arise from the planned transaction.

The main expected synergies effect may be the use of customer network of potential investors. Very good effect would be done by “opening door” to foreign markets (ie markets outside the Czech Republic and Slovakia). From this perspective may be as a potential investors considered the company that operates in a similar, but not the same market segment. It may for example be a company in the field of locks and hinges.

The second significant synergistic effect may be cost savings in research and development. This synergistic effect may be achieved only with an investor who makes a comparable product, a manufacturer of security doors.

A significant effect on an economies of company may be the joint purchase of inputs, or purchases. These effects can be achieved for both horizontal integration with comparable manufacturer of security doors, and vertical integration with one of the major suppliers of inputs.

In the field of investments helped in particular the integration of DOORS with financially "lobbying" strong partner.

For very significant may be also considered the potential saving of costs from the concentration of administration actions , or combination of business departments.

It follows from the above, significant synergies will be achieved mainly by vertical integration with financially strong supplier of key components such as locks, hinges, etc.

CONCLUSION

This Bachelor Thesis is dedicated to the process of shares sale off to strategic investors. This work was written to meet the needs of TPA Horwath company, which was responsible for the process of selling shares in the company and to respect the general requirements for the content and formal aspects of the thesis.

This work is in its initial stages focused on the description of the production, sales, purchasing and other processes in the company, as well as the financial perspectives of the company and tries to identify the main advantage of acquisition (in particular, intangible assets of the Company). The main advantages of the company can be considered in particular as:

- Strong market position of the company in the Czech Republic and the Slovak Republic,
- Strong, widely-known trademark,
- Built distribution channels,
- Developed a system of agents in the Czech Republic and Slovak Republic,
- Diversified client base,
- The possibility of increasing production capacity,
- High profitability and excellent financial condition,
- Potential expansion to other Central European countries.

The results of the initial parts were used in the development of an information memorandum on the company's door which was made available to potential investors.

The indicative price for 100% share in the company was set on bases of usage of multiple EBIT, at 5598 thousand. To EUR 7,544 thousand. EUR

The research mentioned in this work selected potential investors who were approached. The process of acquisition conducted from May 2008 to March 2009. Two strategic investors and a financial investor had shown interest in the company. The financial investor was excluded from further negotiations at the beginning because the company did not meet the expectations of the owners of the future strategic development. With the two strategic investors were set meetings during which one of these two potential investors withdrew from the acquisition process. The reason for the withdrawal of the investor from

the acquisition process was the growing crisis in the building industry and its possible negative impact. At the end in the acquisition process reminded only one strategic investor

For the company this acquisition would mean vertical integration with the main supplier of components and due to the investor's financial strength also increased the likelihood of success in tenders announced by the developers of residential houses for suppliers of security doors. For the investor, the acquisition meant primarily an expanded portfolio of products on the market in Central Europe. For both parties the acquisition meant the possibility of delivering their products to the customer network.

The price negotiated with this strategic investor was in the upper range of the indicative valuation (see above), and therefore in the range that was expected by the seller. It seemed then that nothing could prevent the transaction. Although the acquisition, however, came up in discussions on the SPA (the contract for the transfer of shares), there is no end to the realization of the transaction, due to assessment of the environmental risk. Under the production building of the company was found contamination by oil substances above the permissible levels. Removal of this organic load was valued at hundreds of thousands of euros, an amount that neither party was willing to bear. Negotiations have therefore been suspended indefinitely.



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EVALUATION OF USER

The company TPA Horwath, as a user of the results of this work has been entrusted with a mandate to sell the company DVEŘE described in this work. The content of this work, and the active student activities, is very helpful in the realization of this mandate, particularly in the area of search and knowledge of security doors market, and the processing of basic information about the company..

The results of this work have found practical application for the sale of the company. In particular, we appreciate the comprehensive view on the company, as an environment in which it operates. We consider the structure of this work, which in fact corresponds to the independent counsel looking to acquire companies.

This work can be also appreciated for the complex process of mergers and acquisitions. We believe this work can also serve as a theoretical background in mergers and acquisitions in general. This bachelor work we consider professionally very successful and available to be used in practice.

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ABSTRACT

This Bachelor Thesis deals with the practical aspect of the process of international mergers and acquisitions of companies. Although the work is targeted to a specific sale of the company, within a well-defined business sector, it also deals with the general principles and reasons for mergers and acquisitions in force at the time when this work was elaborated.

The focus of this work corresponds to the structure of the chapters. In the first part of this work (Chapter 1) is described by a particular company, whose owners have decided to link with a strong strategic partner. Description of the company is carried out across all company activities, including the impact of competition, business practices and current economic situation in the economy.

The second part (Chapters 2 and 3) deals with forms used in the practice of mergers and acquisitions and reasons for mergers and acquisitions in force at the time of this work.

The third part (Chapter 4) discusses the process of acquisitions and mergers of companies, from the moment of preparation to start the acquisition, followed by the salutation and the first meetings with potential investors through due diligence, to the preparation of contract documentation.

The fourth part (Chapter 5 and 6) represents a return to the particular company, which is currently the subject of acquisition and acquisition process which is the subject of this work. This section describes the market of security doors and the world market of security doors. Further are identified candidates for this company.

In the fifth section (chapter 7) is made an indicative valuation of the company, according to the methods used in the field of mergers and acquisitions.

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List of Annexes

Annex no. 1: Consolidated statements of company DVEŘE in years 2007, 2008 and 2009

Annex no. 1: Consolidated statements of company DVEŘE in years 2007, 2008 and 2009

Consolidated statements of company DVEŘE in thousands of EUR

Assets	2007	2008	2009
Assets in Total	4 093	4 838	5 429
Receivables for subscribed			
Fixed assets			
Fixed assets	2 808	2 869	2 875
Intangible fixed assets	123	199	155
Software	37	105	57
Goodwill	86	88	99
Intangible investments	0	6	0
Tangible fixed assets	2 685	2 670	2 720
Grounds	151	160	179
Buildings and structures	2 145	2 109	2 212
Separate movables and sets of movables	390	400	330
Investments	0	0	0
Current assets	1 258	1 930	2 515
Stocks	496	705	945
Material	183	283	373
Produce in progress	12	14	35
Products	149	239	321
Goods	152	169	216
Long-term receivables	0	19	22
Trade receivables	0	0	0
Other receivables	0	19	22
Short-term receivables	497	966	1 295
Trade receivables	428	941	1 274
State – tax receivables	40	4	0
Short-term prepayments	5	2	1
Other receivables	24	19	21
Financial assets	265	241	253
MOney	26	26	16
Bank accounts	239	215	236
Accruals	26	39	38
Prepaid Expenses	22	31	30
Comprehensive prepaids expenses	4	8	8

Consolidated balance sheet of the company DVEŘE in thousands of EUR

Liabilities	2006	2007	2008
Liabilities in total	4 093	4 838	5 429
Equity	1 877	2 297	3 074
Capital	6	6	7
Basic capital	6	6	7
Capital funds	21	10	41
Foreign Exchange differences on consolidation	21	10	41
Funds from profit	1	1	1
Statutory reserve fund	1	1	1
Profit from previous years	1 608	1 768	2 348
Retained earnings from previous years	1 669	1 775	2 532
Accumulated losses from previous years	-61	-7	-183
Profit for the year (+/-)	242	513	677
Foreign sources	2 197	2 530	2 347
Reserve	38	51	49
Other reserves	38	51	49
Long term liabilities	274	298	258
Other liabilities	256	262	176
Deferred tax liability	18	36	82
Liabilities	677	1 092	996
Trade payables	276	612	409
Liabilities to shareholders/owners etc.	191	149	167
Liabilities to employees	78	100	119
Liabilities from social and health insurance	49	64	79
State – tax payables and subsidies	68	131	175
Advances received	8	23	45
Estimated payables	7	13	4
Bank loans and overdrafts	1 207	1 088	1 043
Long term bank loans	1 058	935	871
Current bank loans	149	154	171
Accruals	19	11	8
Accrues expenses	4	0	0
Deferred revenue	15	11	8

Consolidated balance sheet of the company DVEŘE in thousands of EUR

Profit and Loss statement	2006	2007	2008
Revenue growth			
Sales of goods	844	1 075	1 319
Cost paid for sold goods	570	696	948
Margin	274	379	371
Output	4 488	6 064	7 427
Income for sale of own products and service	4 539	5 963	7 354
Change of state in stock and production	-60	90	73
Activation	8	11	0
Executive consumption	2 736	3 287	3 734
Consumption of material and energy	1 833	2 265	2 554
Service	903	1 022	1 179
Added value	2 026	3 155	4 065
Special costs	1 559	2 082	2 542
Labour costs	1 107	1 486	1 823
Social security costs	384	517	635
Social costs	67	79	84
Tax and payments	25	22	37
Depreciations	159	319	415
Income from sale of assets	363	49	29
Income from sale of fixed assets	341	20	6
Income from sale of material	22	30	23
Book value of fixed assets and material	231	15	9
Book value of sold fixed assets	216	0	0
Sold material	15	15	9
Change in provision and adjustments for prepaid expenses and deferred estimation	-5	0	59
Other operating income	9	20	11
Other operating expenses	13	30	33
Operating profit	417	756	1 011
Net interest income	1	1	0
Interest expense	87	89	82
Other financial income	10	30	25
Other financial expenses	50	53	104
Transfer of financial revenues	0	0	0
Transfer of financial costs	0	0	0
Net income from financial operations	-126	-110	-161
Tax on profit on ordinary activities	49	131	173
due	50	114	150
- postponed	-1	17	23
Profit from ordinary activities	241	514	677
Extraordinary income	3	0	0
Extraordinary costs	1	0	0
Income tax from extraordinary activities	0	0	0
Extraordinary profit	1	0	0
Profit for the period	242	513	677
Profit before tax	292	645	850

