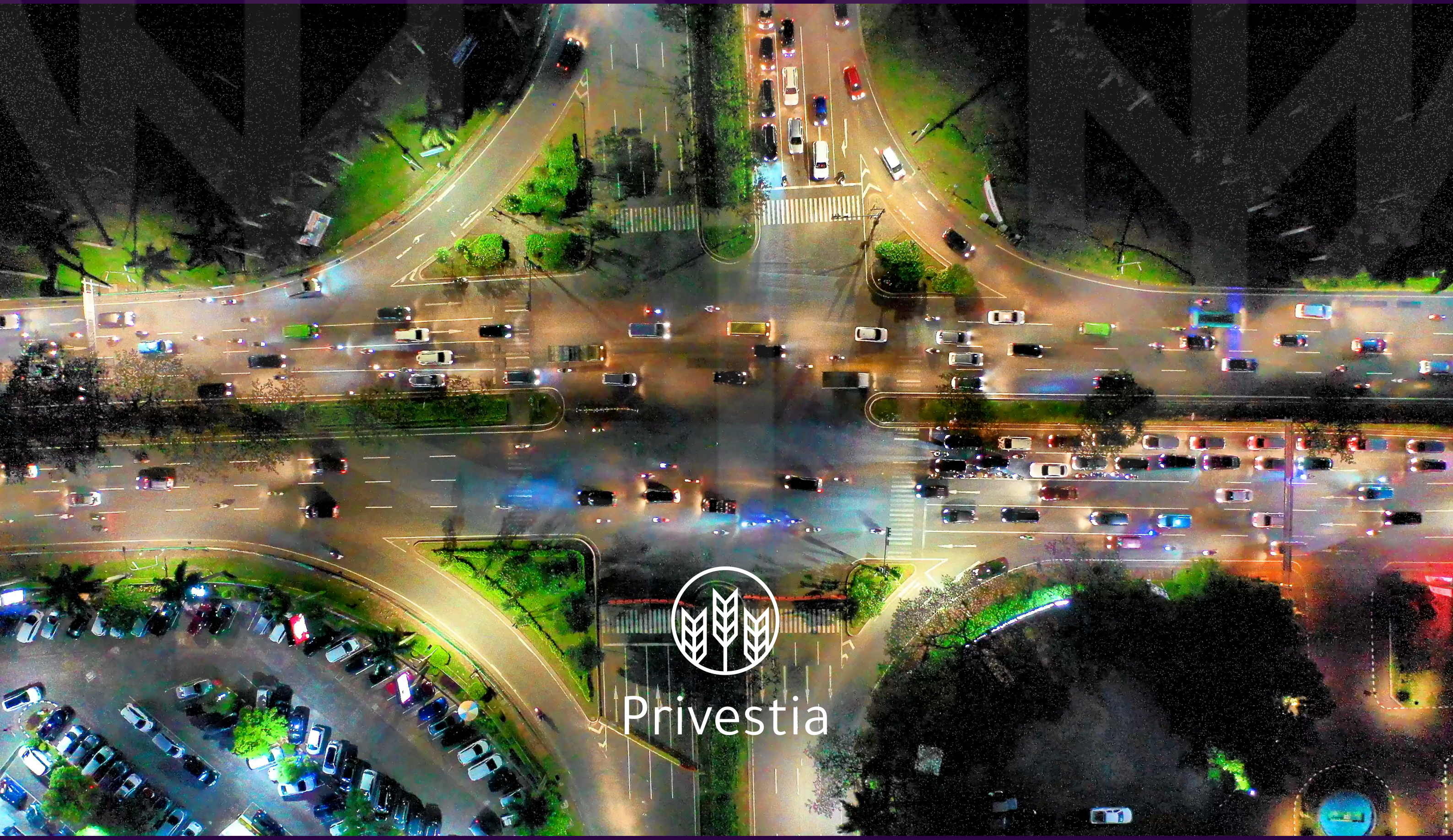
the art of Market **Consolidation**



Sometimes, the dissolution of companies can be a beneficial idea. This allows their power and capabilities to be unleashed once more, where the aggregated value becomes greater when disassembled. This primarily pertains to well-established and excessively regulated companies, those where the entrepreneurial spirit has waned, and bureaucratic control reigns…

However

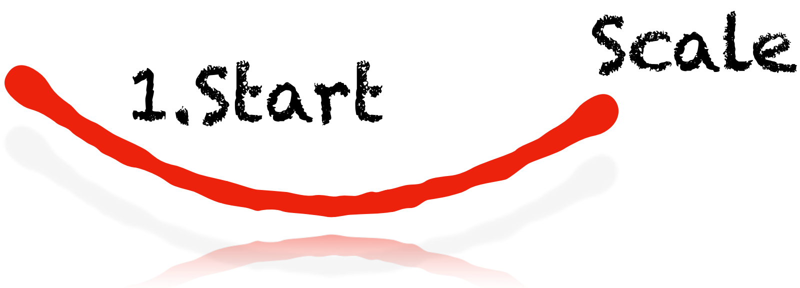
However, on occasion, *it is more advantageous to merge companies. By consolidating them, one can extract greater value, achieve a swifter entry into the market, maintain a competitive edge, and bring together the talents of all entrepreneurs to form a single, thriving enterprise. This is especially relevant to startups and young businesses, characterised by immense growth potential but constrained by limited cash flow.*

Privestia

CONTENT

the art of

MASTERING INDUSTRY AND MARKET CONSOLIDATION

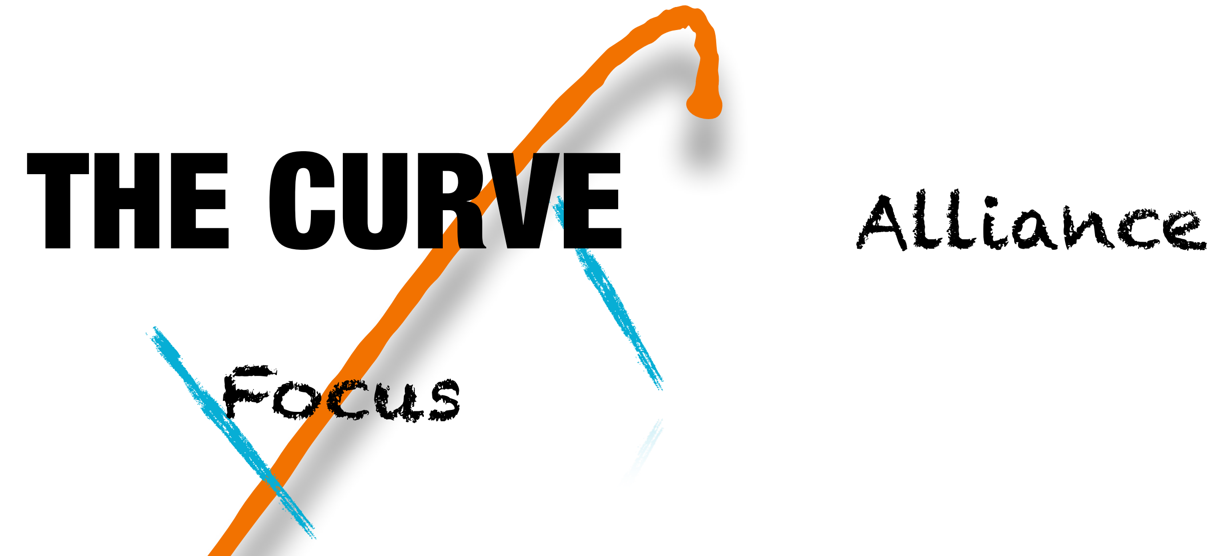


Market and industry consolidation represent some of the most intriguing business prospects on the horizon. The upcoming decade is poised to experience an unparalleled surge in acquisitions, albeit not across all markets, but specifically within certain predictable sectors. Privestia is committed to assuming responsibility for the successful execution of a consolidation strategy through meticulous, hands-on analysis and decision-making.

Privestia has honed its expertise in scrutinizing markets and industries to identify the ideal candidates for achieving successful market and/or industry consolidation. We methodically and proactively plan our consolidation strategies with the ultimate goal of establishing a single, dominant consolidated company in the market. It is this holding company that, in

The consolidation curve

If you take a close look back, you'll notice that every company that has managed to survive for an extended period, ultimately reaching full maturity or establishing a dominant presence in its marketplace, has followed a distinct trajectory. This trajectory, often referred to as the "curve," comprises stages that virtually all enduring companies navigate, irrespective of their industry. This curve typically takes on an S-shape when defined in terms of merger and acquisition activity or the concentration (or lack thereof) of companies within a specific market space. Regardless of their position on the curve, all companies progress through four key stages: "start," "scale," "focus," and "alliance."
For our successful consolidation strategy, it is essential to first select a market focus and then identify where the key players in that market stand along the curve.



The market

Selecting a market for consolidation requires specific criteria for decision-making. First and foremost, the chosen market must be in the appropriate stage for consolidation. Additionally, there should be a sufficient number of players in the market to justify the consolidation, ensuring that it results in more than just a larger niche player.
Ideally, the market should also have the potential for significant growth, both as a market itself and to allow the dominant consolidated player(s) room for expansion following the consolidation.

The choice of markets.

Once the market is identified, Privestia compiles a shortlist of companies that are in the appropriate stage. Each potential acquisition target is likely the top player in its respective field, for its own distinct reasons.

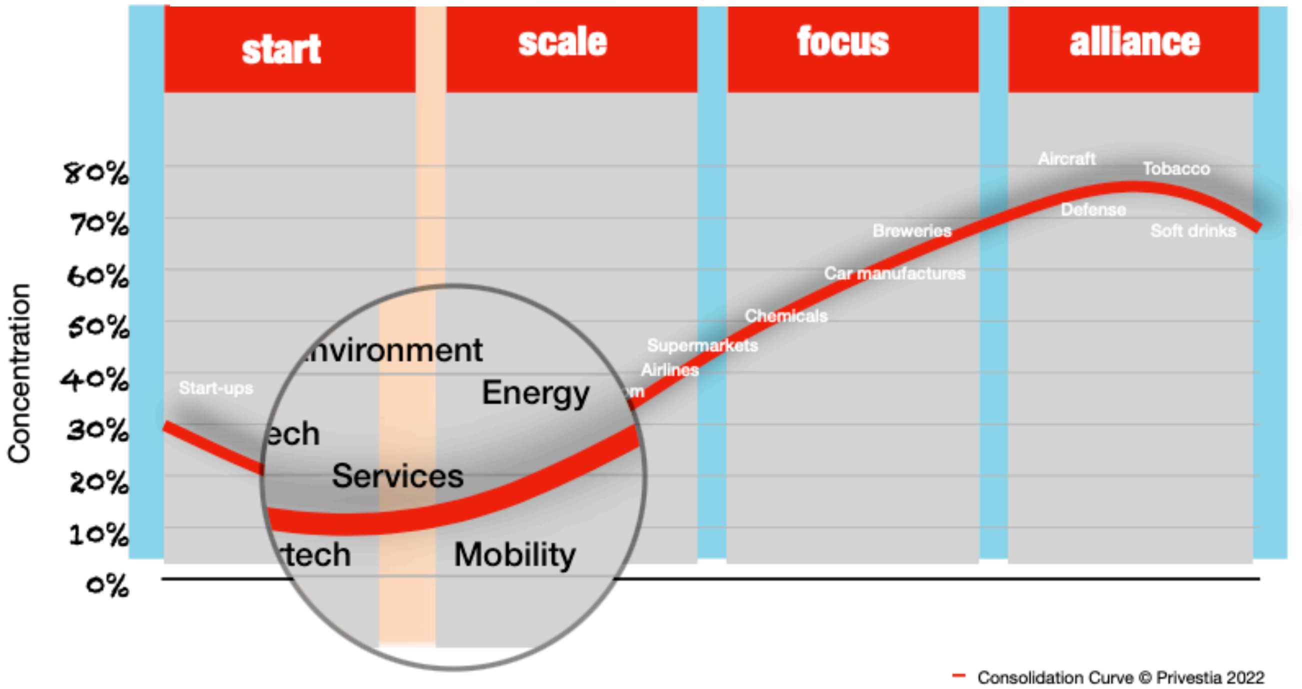
THE STAGES

the 1st “start” stage

The "start" stage encompasses a wide array of businesses, including startups, spin-off industries, and those subject to regulation or safeguarded by tariff barriers or foreign ownership restrictions. This stage is defined by the industry or market consolidation phase, rather than the age of a company, although many participants are indeed startups.

A fitting description of this stage would be an environment characterised by boundless innovation, abundant opportunities, and a significant degree of risk. Companies subject to protectionist restrictions face substantial risk when these restrictions are eventually lifted through privatisation and/or deregulation. With low entry barriers (often government-controlled), this stage attracts a multitude of contenders. However, as the industry or market space becomes increasingly crowded, competition intensifies, with companies racing to establish and safeguard their market positions.

In summary, this is a period marked by an unprecedented surge in new activity, with ample capital pouring in from various sources, including venture capitalists, seed money, startup financing, subsidies, and more.



ENTRY POINT PRIVESTIA MARKET CONSOLIDATION

Industries remain in the "start" stage until substantial industry consolidators emerge, altering the dynamics of the sector by leveraging their scale to dominate others. This is the point at which Privestia's consolidation strategy through mergers and acquisitions commences, positioning the industry and markets for the subsequent stage.

The 2nd stage; “scale”

After progressing through the "Start stage," companies have staked their claims to the initial available territory. Nevertheless, in some industries, consolidation rates can eventually soar to as high as 45 percent.
To continue their ascent along the consolidation curve, companies must employ new strategies to expand, grow, capture market share, and safeguard their established positions.
This is the juncture where industry leaders come to the forefront. They must continually evaluate their next acquisition target or devise fresh growth plans. The competition for capturing market share intensifies, leading to frequent shifts in the positions of these leaders.
This stage culminates with the tangible manifestation of the initial consolidation phase, characterized by an approximately 45% concentration of companies within the markets or industries.

EXIT POINT OF PRIVESTIA

3.Focus

The 3rd stage; “focus”

The Focus stage is characterized not by a “flurry” of merger activity, as in stages 1 and 2, but by substantial mega-deals and large-scale consolidation efforts. The primary objective now is to establish a position as one of the few global industry giants. The established rules of the game are well defined at this point, and significant changes are typically only possible through external events or the intervention of industry incumbents.
While the number of mergers starts to decrease, their scale continues to grow as competitors vie to be among the last remaining players. In contrast to Stage 2 acquisitions, where larger competitors typically absorb smaller, weaker entities, Stage 3 consolidation plays usually involve "mergers of equals." The integration challenges associated with such large deals are significantly higher, and Stage 3 mergers often make headlines for eroding shareholder value.

4.Alliance

The 4th stage “alliance”

The pinnacle of the curve, the Balance and Alliance stage, represents the ultimate phase. In Stage 4, we find industries that have undergone extensive consolidation, such as tobacco, aerospace and defense, and soft drinks. These sectors are now dominated by only a handful of large companies that have successfully emerged as the undeniable leaders in their respective fields. The longevity of their success hinges on how well they manage and safeguard their premier positions.

However, the scope for maneuvering is significantly reduced, and strategic opportunities become increasingly scarce. In this stage, substantial mergers are no longer a significant option due to the industry's prior consolidation.

Instead, Stage 4 companies leverage their competitive position by optimizing cash flow, protecting their market standing, and responding to and adapting to shifts in the industry's structure and emerging technological advancements. These companies often encounter challenges in expanding their market share because they have already reached a high level of market penetration. Furthermore, they frequently face government scrutiny due to their involvement in what is perceived as an oligopoly or monopoly.

Consequently, alliances and spin-offs become much more appealing strategies. It appears that spin-offs are making a resurgence, taking us back to Stage 1.


5.970
1.720
539,137
1.710
0.314
1.180
10,000
0.460

INVESTMENT STRATEGY

<u>The Vision:</u> In numerous industries, the need for consolidation is evident. It's a rare skill to secure a first-mover advantage by identifying a market or industry opportunity before any competitors. For Privestia, it was imperative to develop a successful model for acquisitions and pinpoint the most promising acquisition candidates for consolidation.

<u>Creating a Merger Integration Engine:</u> Once a company's board of directors adopts an acquisition strategy and completes the initial wave of deals, the vision is typically affirmed. This marks the commencement of the Scale stage. Nevertheless, the paramount factor differentiating success is our capacity to effectively integrate the large number of acquisitions into our core business. To manage this, leading companies establish what is commonly known as an "integration engine" to swiftly and seamlessly assimilate their

when we exit.

Once companies reach Stage 3, they find themselves at a critical juncture: either they continue on the path to success or face potential failure. While each company confronts its own distinct challenges, the influence of the business cycle imposes rules that are universally applicable.
As their industries transition from Stage 2 to Stage 3, companies must undertake a substantial strategic transformation.
This transition can significantly disrupt a company's business strategy and management processes. It may serve as a clear signal that the senior management team must thoroughly reassess their medium- to long-term plans to ensure that their strategies are aligned with the path to success.
This juncture is the appropriate moment for Privestia to exit from the consolidated company, either through an IPO or equity sale. Stage 3 will necessitate a heightened (and potentially new) focus, potentially resulting in spin-offs, and very likely, the appointment of a new CEO and management.

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