Delivering deal value

The seven fundamental tenets of successful M&A Integration

Consulting services

pwc

Introduction

Research shows that most merger integrations fail to meet their expectations. The deals often fall short when the time comes to translate the carefully developed strategy into the right mix of people, process, and technology. This doesn't suggest companies should hold off on doing deals, as the deal often represents the most compelling way to achieve the desired growth and efficiencies.

While the challenge is large, smart buyers can take steps to improve their odds. Perhaps the most important is to ensure it's a fast-paced integration that makes early use of disciplined planning, a well coordinated launch, and a relentless focus on the key value drivers behind the deal.

At PwC, that is precisely the approach we take.

We help clients execute rapid integrations to achieve desired synergies and allow for a quick return to 'business as usual'. Doing so adds shareholder value, frees up human and financial capital for reinvestment in core operations, and enables clients to complete a greater number of transactions in a shorter period of time.

Our focus is on working with clients, to avoid the common pitfalls, enhance the ability to successfully close a deal, and deliver deal value. This process starts early, from due diligence, to setting the objectives, finding the right price and "Day One" design, to take the actions necessary and achieve integration success. From strategy through execution to help make change stick.

The seven fundamental tenets of successful integration

Capturing sustained economic value in a merger or acquisition is one of the most significant challenges for today's growth-minded companies. Based on our experience from having worked on numerous deals, we believe there are seven fundamental tenets to achieve a successful integration.

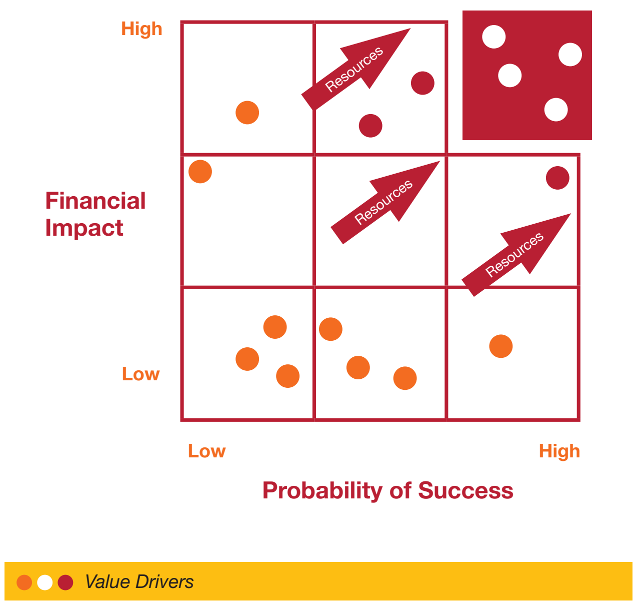

Figure 1 – Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.

1. ***Accelerate the transition***. There is no value in delay. It's critical to focus on obtaining bottom-line results as quickly as possible to maximise shareholder value. Prolonged transitions slow growth, diminish profits, destroy morale and productivity, can lead to missed opportunities and loss of market share. On the other hand, accelerated transitions result in more rapid return on deal investment, better capitalisation on post-deal opportunities, and reduced organisational uncertainty.

2. ***Define the integration strategy***. Integration is a highly tactical effort. But the tactics must be implemented in ways that honour the overarching strategic direction of the combined business and capture and protect the value of the deal. Rapidly converting acquisition strategy into integration strategy is of paramount importance. Integration priorities are easier to identify and execute when an integration strategy is well defined and clearly communicated.

3. ***Focus on priority initiatives.*** Resource work load limitations demand that integration efforts be prioritised, and Shareholder value must drive the allocation of resources for meeting those priorities. First, potential sources of value capture and value creation must be identified. Then, resources are allocated based on potential financial impact, probability of success, and timeline requirements. (see Figure 1).

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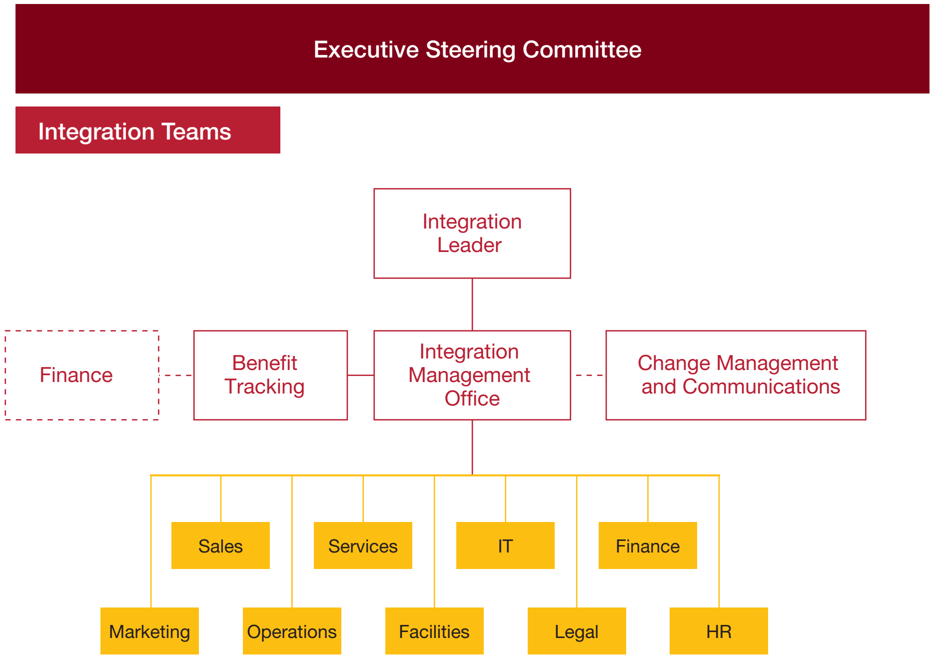

Figure 2 – A team of specialists responsible for integrating core functional areas reports to individuals responsible for the overall integration. This structure ensures that tactics are closely aligned and dependencies are coordinated to directly support strategy.

4. ***Plan the integration and prepare for Day One early.*** Critical "Day One" tasks need to be identified early, before longer-term, more detailed planning commences. Allowing for prompt identification of long-lead time items, mitigating any "closing day surprises". A detailed plan should then be created, including all actions that will be put in place on Day One. Planning for Day One should begin in conjunction with the due diligence process.

5. ***Communicate with all stakeholders.*** Communicate early and often with all stakeholders, including customers, employees, investors, suppliers/vendors, and the general public – providing information that addresses their special concerns yet is consistent in overall theme and tone. Communication should articulate the reasons behind the deal, reveal timing for key actions, and be candid about both what is known and what is unknown. Feedback mechanisms should be included to ensure the dialogue is two-way.

6. ***Establish leadership at all levels.*** Selection of key management posts early in the transition is critical for minimising uncertainty, assigning accountability, defining functional authority, and establishing role clarity. Companies need to quickly define organisation structure and operating model, and clarify key management roles and interrelationships. Integrations are led from the top, to start to embed a cultural shift within the combined businesses.

In addition, during the initial phases of integration, a team-based control structure should be established. This is to link integration strategy and leadership with task-level action, and to coordinate issue, action, and dependency management across the organisation. A successful integration management structure must define clear responsibilities and reporting relationships. Performance and incentives must be realigned to factor integration success into senior team accountability.

Teams of functional specialists are tasked with integrating core functional areas. They, in turn, report to a team of individuals with overall responsibility for managing the integration. Finally, a steering committee of senior leaders provides oversight for the overall effort. (see Figure 2).

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7. ***Manage the integration as a business process.*** While every deal is different, there are key milestones companies should aim to achieve. We provide best practice processes to follow, in order to help achieve these milestones. We believe integration deliverables should be broken into three phases, to be executed in a timely fashion, in order to maximise value over the long term. (see Figure 3).

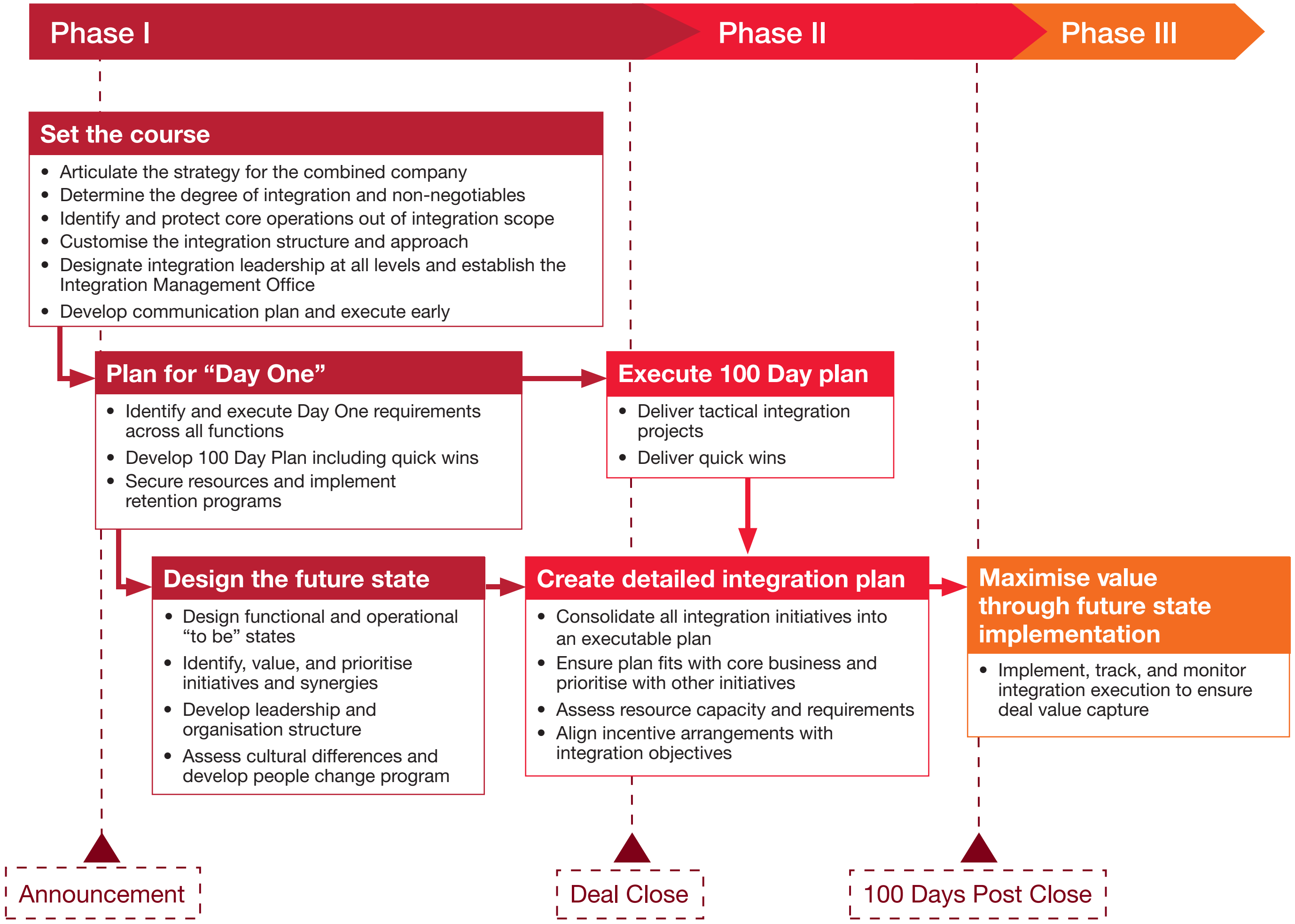

Figure 3 — The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.

How we can help

Our approach for delivering integration success

- Disciplined to help achieve early – and regular – wins
- Tailor our services to compliment client needs and capabilities
- Experienced and dedicated Merger Integration specialists with 100+ integrations locally and abroad

Integration management support

- A proven integration methodology, tools, templates and guides, support across all phases of the deal
- Centralised Integration Management Office staffed by Merger Integration specialists facilitating the over-all process
- “Roll-up our sleeves” style to work as one team with clients

Functional integration assistance

- Subject matter and process experience including finance, HR, IT, Operations, and Sales

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