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Brazil 2015 Integration Survey

Understanding the challenges to maximize M&A investment

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Executive summary

Although the uncertainties regarding the economic environment in Brazil tends to have a negative impact on strategic transaction volume, mergers and acquisitions (M&A) activities continue strong in the country and our survey revealed expectations that the pace of merger activity would continue. Our survey revealed that despite some persistent challenges in deriving value from the integrations, more than 60 percent of respondents confirmed their interest of doing M&A deals in Brazil in the next two years.

In our report, we asked more than 80 executives that had done M&A deals in Brazil in the last 3 years what were their drivers for successes, main risks and challenges, and what companies can do to help increase the likelihood of return on the investments made.

Our survey revealed several key points:

- When asked about synergies, only 43 percent of the executives indicated that they exceeded or met their synergy targets; while 18 percent said they fell short. An additional 17 percent were not sure if they met the targets or did not define targets;
- Brazilian survey respondents noted an average of two years to achieve the planned integration synergies, while the US average[1] is the first six months after close;
- Respondents determined the following four key drivers of success in an integration: having strong executive sponsorship, involving management from both sides (buyer and target), more rigorous selection and a dedicated integration team, and developing a comprehensive integration plan;
- In the future, the majority of respondents said they would focus more on their change management program, cultural fit alignment and a more rigorous selection of integration leader and team;
- Factors such as: size of the deal, size of the target or buyer, cross border versus national deals, among others did not have a material impact on success.

Although we have seen an increased maturity on how companies are conducting deals over the last few years (i.e., practically every respondent, 95 percent, had done a due diligence work previously with increased involvement of external specialists such as consultants, lawyers, and investment bankers), 18 percent of deals were still perceived as not successful and 35 percent did not capture synergies or synergies were not measured.

One important point that our survey presented was the value of assigning an integration team with the right skill set for post-merger integration. External support can be invaluable, but it should not be a substitute for a strong and dedicated internal integration team to move the integration faster.

Additionally, most companies spend most of their efforts in activities such as due diligence and valuation during the transaction period, disregarding the time and energy necessary for the integration in itself and therefore underestimating their total cost and time for the deal.

In our report, we asked more than 80 executives that had done M&A deals in Brazil in the last 3 years what were their drivers for successes, main risks and challenges, and what companies can do to help increase the likelihood of return on the investments made.

[1] "Integration Report 2015 – Putting the pieces together" (Deloitte, 2015)

It is important for companies to consider that once a transaction closes, they have a critical window of time to:

- **Realize synergy value:** companies should review the quality of financial figures and involve the target's management early in the process to validate synergies and prioritize the low hanging fruit such as Selling, General & Administrative Expense (SG&A) or contract optimization.
- **Review combined governance:** companies might consider a timely definition of the combined company management team in order to minimize impacts to the decision making process and business disruption.
- **Retain key talent:** companies need to consider early, consistent and broad communication to manage uncertainty and resistance.
- **Minimize integration timing and efforts:** companies should also consider adequate planning in order to use limited resources in an efficient way and to not lose competitiveness due to integration distraction.

Brazilian survey respondents also ranked change management and cultural alignment as key factors where they would focus more. These factors appear more prominent in Brazil than in our survey in the US; there they ranked a phased approach, a better communication, and a more rigorous selection of integration team as key factors to focus in future integrations.

In the pages that follow, we look at what our respondents identified as critical success factors combined with our experience in dealing with several integration processes so that you can be successful in your next transaction.

Renata Muramoto
Deloitte Latin America
Mergers & Acquisitions
Consulting Lead Partner

About the survey

For about two months starting in mid-June 2015, Deloitte polled 87 executives around the globe that had done M&A activity in Brazil in the previous 36 months.

Executives came from companies of all sizes (52 percent of them with a revenue of over USD 1 billion), split almost evenly between private enterprises and open capital corporations.

Seventy-one percent of them were domestic deals, and the most common (mode) cost of transactions was between 1.0 and 99.9 million USD (35 percent).

Manufacturers accounted for the largest proportion of all deals (35 percent), followed by Technology (15 percent) and Energy/Oil & Gas companies (11 percent).

All survey results are included in the appendix. Note that some percentages in the charts throughout this report may not add to 100 percent due to rounding, or for questions where survey participants had the option to choose multiple responses.

Survey findings

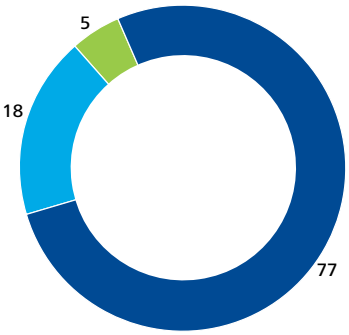
Over two out of three survey respondents claimed to have had a formal integration strategy plan in place during their deal. An integration plan outlines how and when major resources, processes, assets and commitments of the buyer or seller company will be joined, and can be a key success factor to achieve the strategic goals of the transaction.

More than 85 percent of the companies with integration plan reported their transaction to be successful, with only 10 percent considering it unsuccessful or neutral.

Overall, more than three out of four (77 percent) respondents reported their integration to be successful, with 18 percent of them claiming it to be either unsuccessful or neutral.

When looking only at respondents who had developed an integration plan, it was interesting to note that 87 percent of them reported to have successful deals, versus only about half of those who did not have a plan, showing a positive success trend related to having a formal integration strategy plan.

How successful do you feel the integration was or has been to date?
(in%)



Successful
Unsuccessful or neutral
Do not know or N/A

Was there a formal integration plan?

Yes: 69%

Of those who **had** an integration plan the integration was…

87%
Successful

10%
Unsuccessful or neutral

3%
Do not know or N/A

No: 31%

Of those who **did not** have an integration plan the integration was…

54%
Successful

31%
Unsuccessful or neutral

15%
Do not know or N/A

Synergy and value capture

When asked about synergies, three out of four companies said they had developed synergy targets and plans for the integration. Of those who had developed a target, 89 percent said their integration was successful, versus only 61 percent of those who have not developed a synergy target plan.

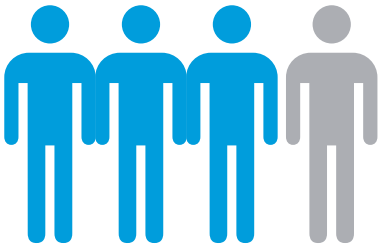
Comparison to other country surveys

Respondents to the US Integration Survey noted that 43 percent of synergies were realized in less than 6 months, with an additional 31 percent achieving their synergies in 7 to 12 months.

How long did it take to realize synergy targets?

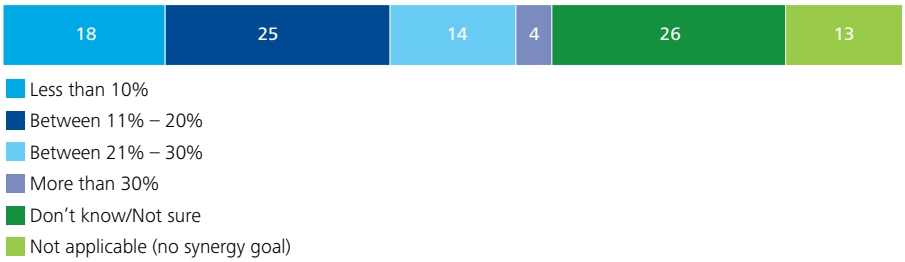
- 5% 6 months or less
- 22% 7 to 12 months
- 21% 13 to 24 months
- 29% Longer than 24 months
- 12% Not applicable
- 11% Don´t know/Not sure

Three in four respondents have developed a synergy target during integration



Of those who **had** developed a synergy target...	Of those who **did not** develop a synergy target...
89% Successful at their integration	61% Successful at their integration
11% Unsuccessful or do not know	33% Unsuccessful, do not know or neutral

As a proportion of the total deal value, what were the planned synergy targets? (in %)



Culture and change management

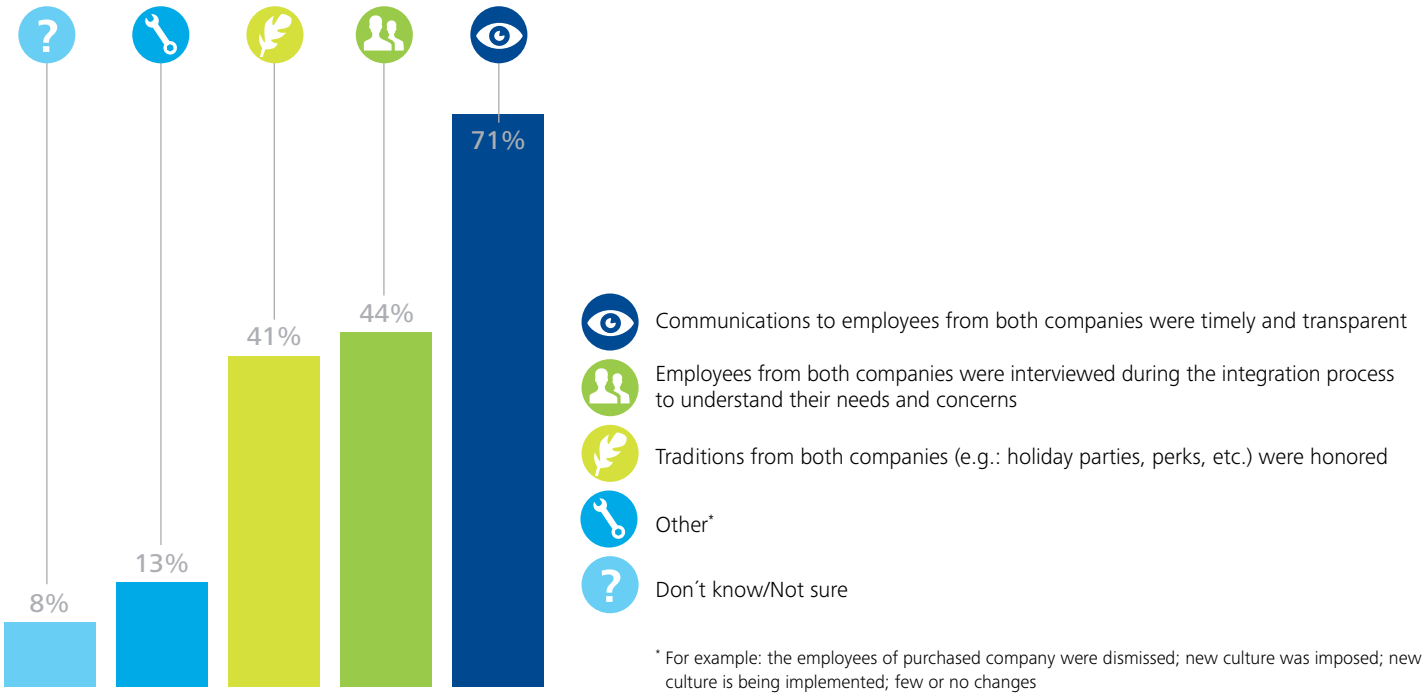
The majority of executives, 74 percent, deemed the alignment of culture between the two companies important to the success of the integration. Only 8 percent of them assumed it was not an important factor.

Communicating transparently and consistently with employees was one of the top five factors in achieving a successful integration. Most companies (71 percent) have managed the alignment of cultures by practicing transparent and timely communication to employees of both companies.

Having a better change management program and better cultural alignment were considered the most important areas of focus for a future deal, demonstrating that while most executives see the importance of these factors, they still believe improvements can be made to this area.

Almost three in four respondents considered culture alignment between companies an important factor in the success of integration.

How was the alignment of cultures managed? (multiple responses)



* For example: the employees of purchased company were dismissed; new culture was imposed; new culture is being implemented; few or no changes

Due diligence and financial impact

The vast majority, 95 percent, of executives interviewed performed due diligence work before their integration. Accounting and Finance, together with Tax and Labor, were the items most often included in the due diligence work. In terms of results, 38 percent of the companies said that performing a due diligence resulted in a decrease of 10 percent or more in their transaction price, while the remaining repondents did not see an impact in the price.

Executives have also noted due diligence as the main factor to mitigate tax risks (56 percent) and as one of the top three factors for achieving a successful integration.

Starting integration planning during due diligence phase was considered one of the top 10 areas to be focused more in another deal in the future, as to better understand risks and integration efforts.

Respondents have analyzed the impact of due diligence work in their deal price

28%
Decreased by 10%

10%
Decreased by more than 10%

62%
No impact

Percentage of respondents who included the following areas in their due diligence work

91%
Accounting/Finance

83%
Tax

79%
Labor

65%
Operations

60%
Commercial

53%
Human resources

52%
Information technology

Project governance and integration efforts

Survey respondents identified several critical factors in achieving a successful integration[2]:

- Having strong executive sponsorship;
- Involving management from both sides;
- Assigning a dedicated integration team;
- Developing a comprehensive project plan.

Forty-seven percent of executives confirmed that employees in the team had dual roles (dedication to integration and normal roles) and 45 percent stated that some members were dedicated full time and some were dedicated only part time.

Aside from the internal integration team, 49 percent of the respondents affirmed to have hired external help for the integration, while the remaining 51 percent opted to do it internally only.

When thinking about what they would do differently in a new deal in the future, executives have listed the main areas[3]:

- Better change management program;
- More focus on cultural fit or better cultural alignment;
- More rigorous selection of the right integration manager/team.

These responses gives us insight into the importance of having a well-structured integration program for the success of the deal, with a team with the set of skills and a robust change management and cultural alignment program.

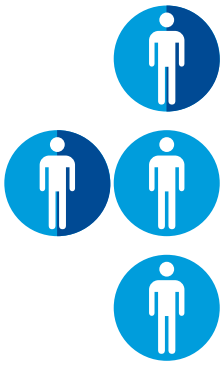
[2] Weighted average of first, second, and third most important areas (using weights of 3, 2 and 1 respectively)

[3] Weighted average of first, second, and third most important areas (using weights of 3, 2 and 1 respectively)

Comparison to other country surveys

Respondents to the US Integration Survey cited their top three focus areas as faster pace of integration (15 percent), a phased approach (14 percent) and a better communication strategy (14 percent).

Were the integration team dedicated full time?



47%
Part time dedication (dual roles)

45%
Some part time, some full-time

4%
Full time dedication

M&A executives cited their top three focus areas for the next integration[4]

21%
Better change management program

12%
More focus on cultural fit or better cultural alignmentm

11%
More rigorous selection of the right integration manager/team

[4] Weighted average of first, second, and third most important areas (using weights of 3, 2 and 1 respectively)

Our take

Brazil continues to be an important part of company growth strategies despite the uncertainties regarding the economic environment.

Our study of mergers and acquisitions (M&A) activities in Brazil focused on three sources of information. First, we reviewed the quantitative data compiled by a variety of published reports by companies that track M&A data. This data helped us understand trends in the market over the last few years.

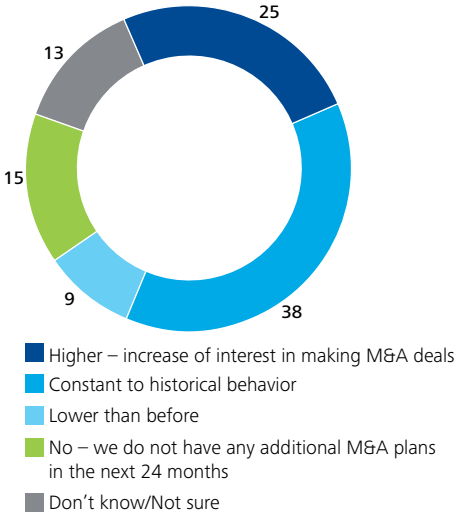
Second, interviews were conducted with Deloitte M&A, Tax and Regulatory specialists to supplement the quantitative data with qualitative understanding of the socioeconomic and political drivers for the data.

Finally, we used our 2015 Integration & Divestiture Brazilian Survey focused on executives that had completed an integration in Brazil for strategic reasons in the last three years to understand specific trends from actual deals. (The results of the survey are included in the appendix).

A common trend in M&A activity is that during recessionary periods, as the one Brazil has been going through, strategic buyers[5] get more selective. This has not been different in Brazil, and compared to the first semesters of the past four years, the volume of deals in Brazil has decreased as of 2015, while their values have been increasing on average.

While we know that an economic crisis tends to have a negative impact on strategic M&A volume, our survey revealed that interest in investing in Brazil remains an important piece of investor's business strategy. This can be seen by our survey numbers, whereas 25 percent of the respondents anticipated an increase of interest in doing M&A deals in Brazil for the next 24 months, while 38 percent of them claimed their company's behavior as to M&A activity will be constant to historical behavior (at least one deal in the last three years), showing that despite the decrease in volume of deals, interest in doing business in Brazil in the future is still strong.

Do you anticipate your company to pursue any additional deals in Brazil for the next 24 months? Please indicate the intensity of the M&A strategy approach of your firm (in %)

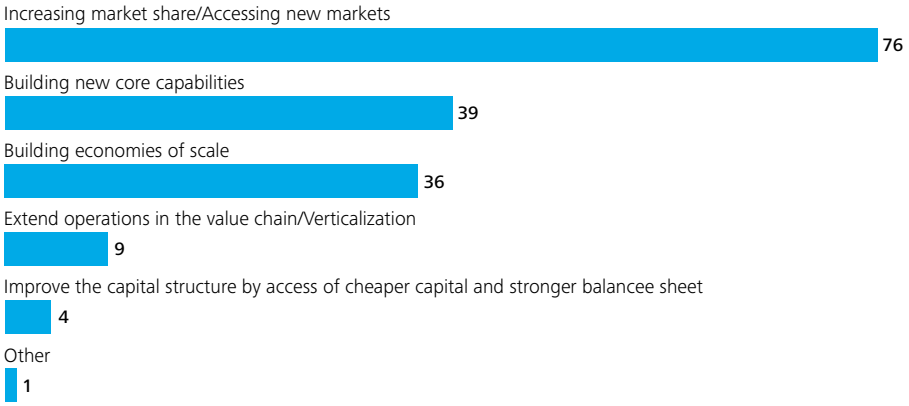


[5] We are defining strategic buyers as companies willing to increase their market share by acquiring smaller companies, merging with competitors or even establishing new product/service lines by an asset or equity deal

Furthermore, our survey also shows interest of strategic buyers in acquiring companies as part of their expansion in the region. The majority (56 percent) of respondents noted that "increasing market share and access to new markets" was one of their main drivers in pursuing the deal.

Despite economic turmoil, our survey with M&A executives indicates that companies are still optimistic and willing to do business in Brazil and expand their business into the region.

Main drivers to pursuing deal (in %; multiple responses)



"Now is the right time to buy. A few years ago, the value of the assets were completely overpriced, however the market is returning to normal. Currency devaluation and the assumptions of negative GDP [Gross Domestic Product] growth when put in a valuation model helps deals in Brazil make more financial sense."

Eduardo Martins, Deloitte Financial Advisory Services Partner in Brazil

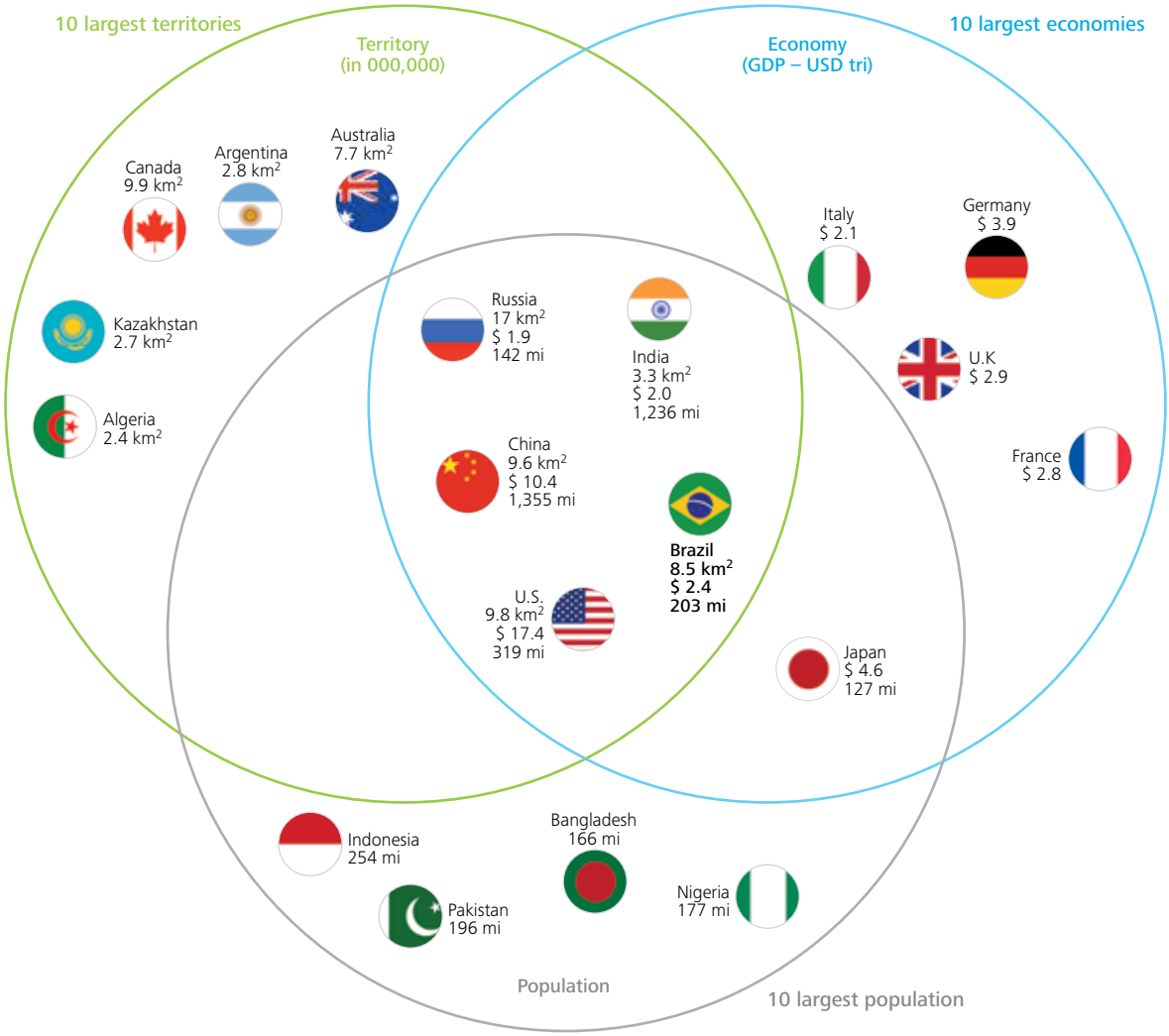
Brazil remains an important market

One might wonder what justifies the high willingness of doing M&A business in Brazil in the future, even during such a turbulent economic and political setting. Independent factors also play a big role for steady interest in M&A activity in Brazil.

Brazil has an unique intersection of being one of the most populous countries in the world, one of the largest territories and one of the ten largest global economies, likely one of the primary reasons that despite the current recession and political instability, and remains one of the most important global economies.

Unique intersection

These countries encompass over 38 percent of the world's land coverage and 42 percent of the world's population and hold a combined GDP of USD 34.1 trillion



Source: Deloitte Research; The World Factbook CIA, 2014. Date accessed: September 2015

[6] Doing Business 2015: Going Beyond Efficiency (World Bank)

[7] "Integration Report 2015 – Putting the pieces together" (Deloitte, 2015)

[8] Day One: First day of buyer's legal possession of purchased company

While investing in Brazil has upsides such as its attractive current financial/currency devaluation, and global position, doing business in the country means facing many challenges and particularities present locally that can make it harder than usual to achieve anticipated deal returns. The primary drivers for this increased difficulty are Brazil's legal, regulatory and tax system complexity. Recently, in the World Bank's annual "Doing Business Report", Brazil was ranked 120th in the world (out of 189 countries surveyed) for ease of doing business[6], illustrating the country's difficulty in facilitating business and investments.

Doing business in Brazil

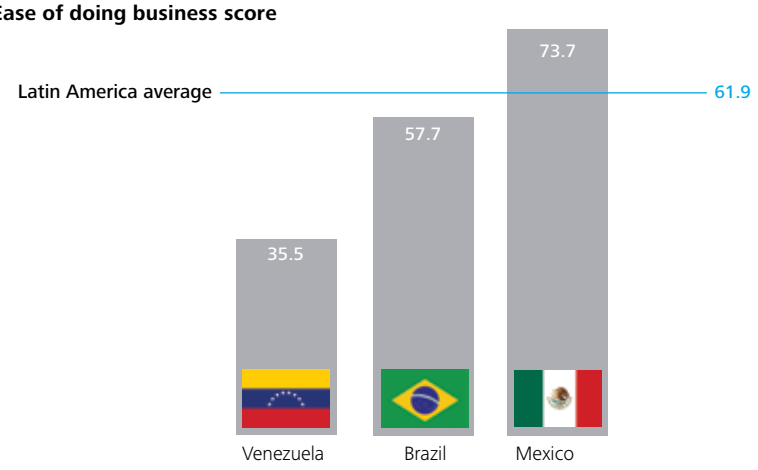
Brazil has been an exciting growth story globally and the recent soccer World Cup and the 2016 Olympics have kept the spotlight here for foreign investment over the last few years.But while the country has made some advances in reducing its business complexity, Brazil has not reformed at pace with its growth and was still below the average for its Latin American peer countries, according the World Bank ranking of ease of doing business (see chart below). Recent economic fallout of Standard & Poor's demoting Brazil debt to junk status has increased the challenge of M&A activity in the country as to the difficulty it brings for foreigners to invest and for domestic companies to borrow.

Business challenges in Brazil plays a big role in mergers and acquisitions executions in the country. According to the 2015 Integration Survey published by Deloitte US[7], US integration teams achieved their proposed synergies, on average, in the first six months after Day One[8]. On the other hand, in the Brazilian survey most respondents noted that it took around two years to achieve the planned integration synergies, four times longer than that of the US companies. Based on our experience and expert interviews, typically companies have difficulty achieving the anticipated value of their deal in Brazil as a result of these three factors: legal and regulatory complexity; tax complexity and insufficient integration planning to address the Brazilian complexities.

1. Legal and regulatory complexity

Brazil has dozens of regulatory bodies and thousands of complex processes and regulations with which companies must comply simply to operate in the country. However, M&A deals face an additional level of complexity, and the reason for that are many and often unforeseen by business investors.

Ease of doing business score



Source: Doing Business 2016 (World Bank)

Depending on the industry within which the company operates, there are variety of licenses and regulatory approvals that must be updated for the new entity and are triggered by changes in ownership. Formal legal entity names must be updated with these regulatory bodies, and in some cases, these must be updated in each state that the company operates. Moreover, while some of these updates are simply declaratory (i.e. you need to update the body, but can continue to do business in the meantime), other approvals must be completed prior to deal close. Any delays or issues obtaining these preapprovals can immediately stop business operations as without them you cannot legally continue to operate. Finally, it is important to note that the rules, requirements and timelines vary from body to body and in many cases depend on each other, thus inefficiency in one step can impact the entire chain of approvals.

The uncertainty, potential delays, and the need to synchronize the approvals in different states to conclude the transaction is a challenge that needs to be closely worked across the integration and legal teams. Buyers should quickly understand the rules that the acquired company should comply with, specifically the operational gaps and required controls in order to mitigate them as misunderstandings in this area can quickly erode deal value.

One example of this issue can be seen in the local acquisitions of generic medicine companies by multinational prescription pharma companies. Several of them had difficulty standardizing and complying with quality standards, which had a material impact on the business model and profitability. For multinationals, those that succeed in Brazil are those that learn to adapt, and adapt quickly.

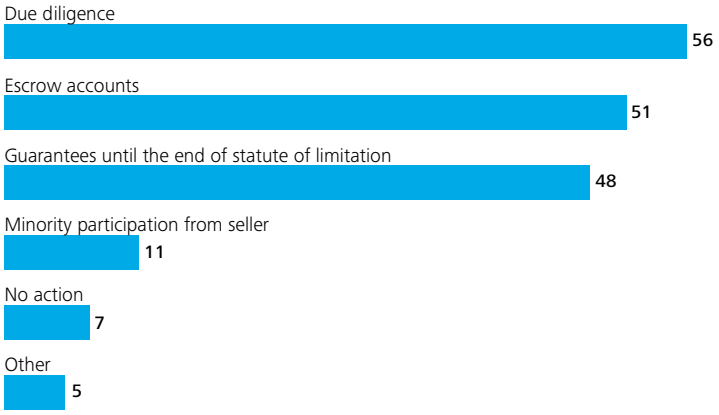
Finally, the level of legal entity rationalization that a company chooses to do post close has a significant impact on the ability to fully integrate the businesses or receive potential tax benefits.

2. Tax complexity

Compliance with tax regulations can also be a major pain point through the deal for a variety of reasons. Without appropriate due diligence the buyer could be held responsible for major tax liabilities. During the deal, without a knowledgeable tax strategy, integration plans can trigger costly tax liabilities that can materially affect deal and synergy value and the ability to integrate while securing the operational benefits of the acquisition.

Tax issue was top of mind for many of our survey respondents. More than 80 percent of respondents noted that tax diligence was included in the scope of the deal due diligence. Due diligence was also the top action taken to mitigate tax risks according to M&A executives surveyed. Escrow accounts and guarantees were the second and third most used tools to mitigate tax risks employed by the integration leaders responding to the survey.

What were the actions taken to mitigate tax risks?
(in %; multiple responses)



First, the buyer must decide how to structure the deal. In Brazil, share deals (deals where the buyer purchases the common shares of a company and own the corresponding liabilities and assets) are much more common than asset deals (where the buyer only acquires the assets). There are several reasons for why. First, asset deals trigger indirect tax liabilities -- e.g. value-added tax (VAT) obligations that must be understood – and built into the deal price which can be complex. Secondly, share deals allow amortization of goodwill (intangible assets) which can provide a material tax benefit.

During the post-deal phase, tax structure planning can play a significant role in achieving synergy goals. For example, if the target has recently had a loss in results there could be a potential tax reduction for the target when tax credits are transferred (during the legal entity harmonization phase).

One final watch area in regards to tax strategy pertains to companies that wish to centralize some functions into their existing structures abroad. Expectations about potential synergies should carefully consider tax limitations that may impair your capability to achieve. For example, a global efficiency model where you leverage a shared service abroad might incur unexpected taxation that could erode all potential savings.

3. Integration complexity

The final and most overlooked area where companies struggle with when completing their deal in Brazil is insufficient planning to deal with integration complexities. Though Brazilian companies have some familiarity with the first two pain points noted, Brazilian and multinational companies alike have difficulty with integration planning. In fact, when we asked integration leaders where they would devote more focus on the next integration, several of the top rated responses related to integrating planning and set-up in some way.

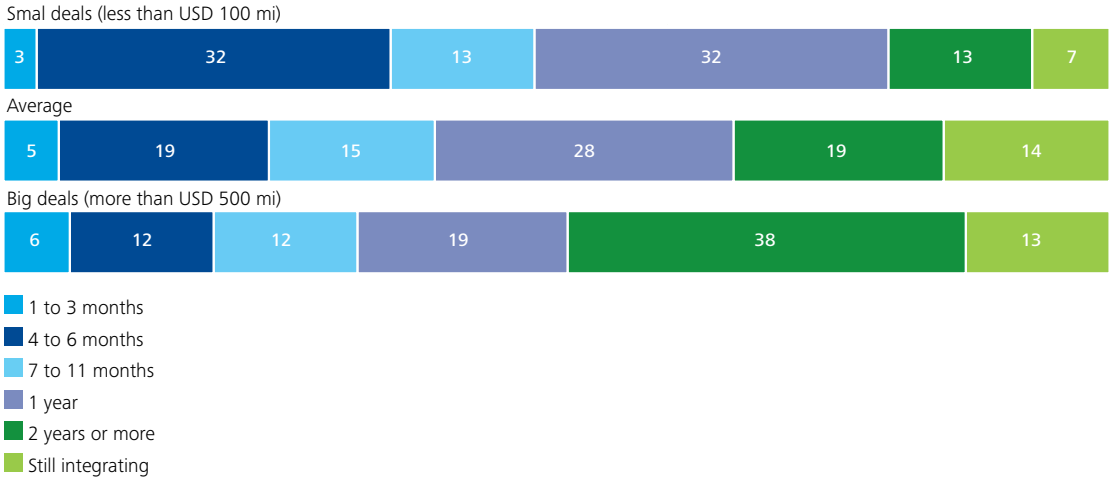
Typical challenges of integration execution in Brazil

Integrations typically take more time, intensity and resources than assumed.

One of the first pitfalls an integration leader can make is to underestimate the time, intensity and resources required to integrate the companies properly.

Time. Integration planning should start early with a suggested commencement during financial due diligence. Our experience shows that integration leadership should set aside about one year for integration planning broken into six months prior to the expected Day One and six months post close. The integration leaders surveyed reinforced this, and the majority of respondents noted that it took them about one year to complete their integration goals, with an additional 19 percent taking two years or more. Unsurprisingly, variations for this answer were heavily dependent on the size of the deal. Large deals (defined as deals larger than USD 500 million) on average took two years to complete. Small deals were more likely to have answers in the 4 – 11 month categories – but still on average took one year. The reason for this difference in timing between small and big deals can be found in factors such as regulatory approvals or Information Technology (IT) implementation timing. As such, it is a good rule of thumb to estimate about one year for your integration plan.

How long did it take to complete all the integration goals? (in %)



> "Closing is easy. Capturing the value is the hard part and it's difficult for many organizations because they do not set aside the time and resources to do it."

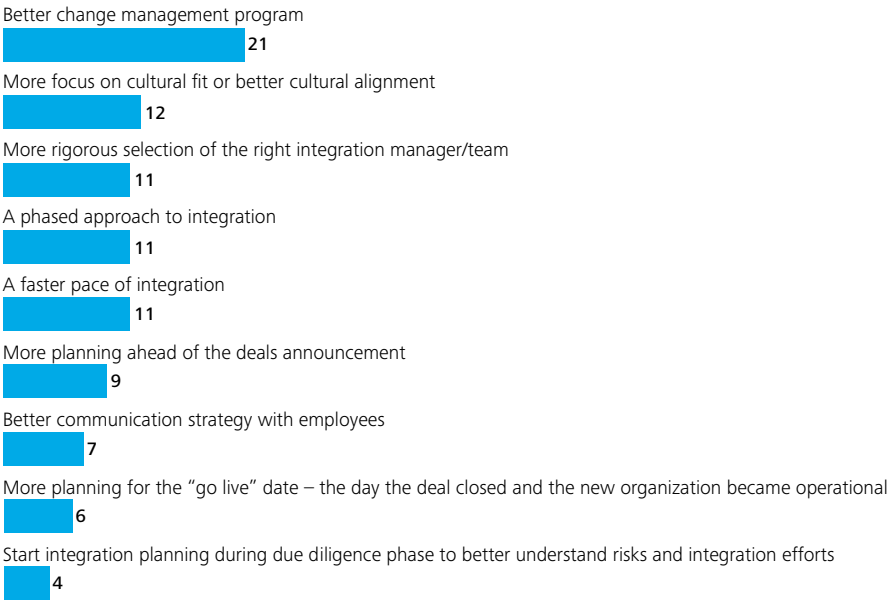
Felipe Klemperer, director of Strategy and Business Development, Mosaic Company

Intensity and resources. Underestimating the intensity and resources of an integration is also a major pitfall. Most of the time all participants or team members of an integration team have "day jobs", meaning time is scarce. Understanding the resources needed is critical to the planning and execution phase. When executives were asked the areas they would focus more in a future deal (1) a more rigorous selection of the integration manager team, (2) a phased approached to the integration and (3) a faster pace of integration were in the top five areas chosen by respondents.

One integration leader surveyed went further to note that "many people think they can do it by themselves and do not ask for money or support. Then they have to do it all alone and while running the business day to day and you see years later that it is still not done."

Based on the over 2,500 deals Deloitte has assisted around the globe and in Brazil, a consistently raised lesson learned is the integration leaders wish they had moved faster and dedicated full-time resources sooner. It is very hard to run an integration at the pace required to meet the timelines with part-time resources.

Assuming you were to do another deal in the future, please rank, in order of importance, the three areas you would focus more on the next time (in %; answers weighted)



"Good planning can optimize the value but many people focus on the planning and do not put the same effort toward the execution. Bad implementation can put at risk what you expect in the beginning."

Marcelo Natale, Deloitte Tax Partner in Brazil

Synergies

A second major pitfall area is around the achievement of synergies. Since synergies are typically a significant driver of deal value, problems here can have a material impact on success of the deal.

Overestimation in due diligence. A strong synergy program builds into the transaction the strategic, operational and cultural fit of the acquired company to ensure that "1+1 = 3". It is also important to understand the complexities of estimating cost synergies. Once identified, they need to be validated by the operational executives charged with delivering the results. Often times this identification is a hand off (the completed plan is simply handed over to the executive to execute) versus a buy-in (where there is an opportunity to provide input into the plan) by the operational executives. As a result – in our experience – once you move to the planning phase and request business owners to validate or create detailed plans to support the synergy projections created in due diligence you typically see some leakage and a reduction of the synergy total. Since the due diligence projections are typically upon which the deal value is based, this can significantly reduce the buyer's ability to keep the deal accretive.

Underestimation in planning phase. Unfortunately, the other side of this coin is that in the planning phase, the synergy projects can be reduced. In some cases, this is because with additional information or with specific business owner knowledge a synergy that was "overestimated" is then right sized. When creating the integrated project plans, at times it is required to delay the project required to achieve the synergy. For recurring synergies, each month of delay can have a real impact on the total synergy returns. Many times, due diligence did not estimate or include all of the costs required to achieve the synergies which also reduces the overall return. Finally, without a specific top down target, a business owner has only upside to reduce the synergy projection to increase the probability of achieving it.

Synergy program best practices

1. **Top down targets are assigned to business leaders in alignment with the due diligence.** For example – if the due diligence projects synergies of USD 50 million, USD 15 million from human resources (HR) initiatives, USD 15 million from supply chain and USD 20 million from IT initiatives, you would give a target of USD 15 million to the HR leaders, USD 15 million to the supply chain leader and so on. However, every dollar accounted for in the synergy model created during the due diligence phase is assigned to an executive via the top down target setting process.

2. **Bottom-up synergy plans are developed by business owners to reach these targets.** Continuing the example noted above, HR would then be asked to provide detailed synergy projects and plans to achieve their target of USD 15 million. Typically, they are given the high-level diligence projections that made up their USD 15 million target, and can then adjust or provide details as appropriate. Ultimately, they must identity synergy projects to reach the 15 million.

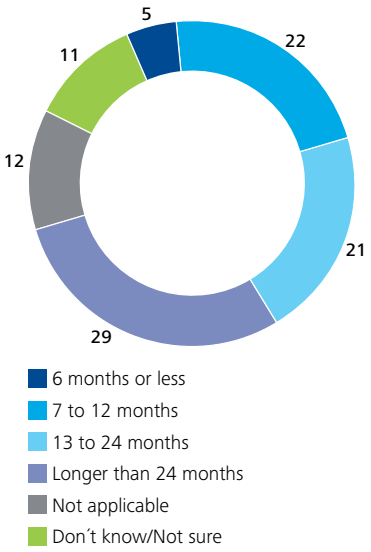
3. **Final synergy projects are built into existing financial tracking mechanisms.** Once the synergy projects are finalized, they should be built into the formal financial planning and analysis tracking mechanisms that are already managed by the finance team. Typically, companies have programs where executive bonuses are tied to achieving specific financial results. We recommend to ask for the five year plan for achieving synergies. If leaders are held accountable through their annual budget process for the next five years, it reduces the likelihood of synergy leakage considerably.

Synergies are typically overestimated in due diligence, underestimated in pre-close planning and poorly tracked post close.

Poorly defined synergy tracking programs. This occurs for a variety of reasons. First is timing. According to the survey results, and in alignment with our experience, the majority of synergies are achieved in periods longer than 24 months. Since the typical timing for the Integration Management Office is six months to one year, one of the key mechanisms for tracking synergy achievement is gone. As Eli Goldratt, a famous business management thinker, said, "Tell me how you measure me, and I will tell you how I will behave". Synergies that are not measured are typically not achieved.

Multinational synergy assumptions. There is one last key challenge for multinationals that do business in Brazil. Because Brazil is such a closed market (high import taxes, strong currency controls), it limits the ability to take advantage of some global synergies. We have seen many examples of multinationals that want to enter the Brazilian market, and build their synergies on leveraging their global platform. Unfortunately, in large part to the Brazilian import/export regulations and tax policies, this approach can be costly. The successful multinationals are those carefully understand the rules and can adapt their global model to play in the Brazilian market. Multinationals planning to enter Brazil should focus their synergy model on the synergies and efficiencies the target company can bring as their business model is already adapted to survive in the local market. Synergies based on the global model should be carefully reviewed and validated by local legal and tax experts before proceeding.

How long did it take/will take to realize synergy targets? (in %)



Change, culture and communications

The final challenge in integration execution is around underestimating the work required around culture, change and communications. We will discuss this in more detail in the next section, on best practices to implement in M&A deals.

Best practices to build into your next deal

Though there are many potential pitfalls, there are also many well-known best practices that can be leveraged in your next integration plan to help mitigate some of the risk factors. Based on our experience and results from the survey, we would like to review five critical actions an integration lead can take to help set their deal up for success in Brazil:

"A number of deals fail because they simply pay too much or have no idea of what they will do with the company strategically, what will be the real end state, the timeframe and their obstacles and risks"

Kurt Babe, Deloitte US Consulting Director

1 **Conduct a good due diligence process.** It is valuable, where appropriate, to engage the business leadership to provide high-level validation of the due diligence and integration planning approach. We have begun to advise our clients on conducting an executive workshop prior to closing the deal, where leaders align on the strategic intent, estimate timing of integration initiatives, and validate synergy projections as an input to board approval to continue with the deal. This can help engage the ultimate business leaders earlier in the process and show senior leadership that in addition to the financial estimates there are specific plans outlined to ensure the deal objectives are met.

2 **Have strong executive sponsorship.** Depending on the size of the deal, success or failure can have a material impact on the entire business. As a result, we highly recommend that integration leaders develop a stakeholder map, where each stakeholder group is clearly outlined and each group has a specific cadence where they are informed (at the level of detail appropriate for their level) and allowed to provide input to integration planning. You can always adjust or cancel the cadence as required, but having a specific time with leaders already calendared allows quick resolution of potential issues and risks, while ensuring alignment across all impacted stakeholder groups.

3 **Assign a dedicated team of your top performers.** A strong integration lead is thinking through the big picture, understands the strategic impacts of the deal and the impacts and risks of each decision for the overall business. Survey respondents noted "a more rigorous selection of the right integration manager/team" as one of the things they would put better focus on in their next integration because the team can be a huge "make or break" for integration success. We recommend that integration leaders identify as many full time resources as they can, assign the best to each role, and make sure they are assigning strategic thinkers that understand the impacts to the business of the integration decisions being made.

Identify a full time resource: Depending on the size of the deal, you will want to dedicate as many full time resources as feasible. As noted above, integrations are typically all consuming and move at a fast pace. Asking resources to do both their full time job and the integration will either result in an impact to the daily business or delays in achieving integration goals. In our experience, the IT, HR and finance integration work streams nearly always need full time dedication.

Dedicate the best of each function: Great integration leaders also understand the importance of dedicating their strongest subject matter experts for each functional area. In fact, where possible, put your best performers on the integration and backfill their roles with contracted support or more junior resources. This is because the existing processes are already steady state. Where you need your brain power is shaping the processes of the combined organization. You also want resources that are senior enough to make decisions on behalf of the function, while still being able to drive the significant amount of work that comes with an integration.

They cannot just be project managers: Integration leaders have do more than status reporting, they need to understand the strategic importance of the deal and be capable of managing across functions and be quick to identify risks.

4 **Develop a comprehensive plan.** Comprehensive integration plans are phased, tied to integration goals, have clear owners and account for interdependencies between teams.

Phased plans: In order to focus integration work stream leads (and not overwhelm the teams), we recommend breaking the integration into specific phases. For example: Day One, 100 Days Post Close and Year One. Each plan outlines the specific activities that must be conducted in that period of time, and the Integration Management Office (IMO) can ensure that for each phase the independencies and timing are aligned.

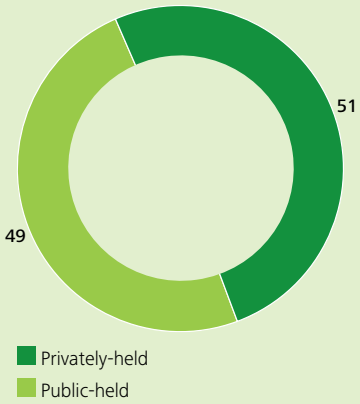
Tied to integration goals: In the beginning of the integration, we always recommend that leaders clearly identify their integration goals or how they will measure their integration success level. These should be clear to all stakeholders – from leadership to work stream lead – and every plan and milestone should somehow tie and contribute to achieving one of these goals.

Clear owners: Each integration goal should have an owner, likely the leader of that specific business or function. Clear accountability is critical, and the status of the activities for each owner need to be transparent and timely.

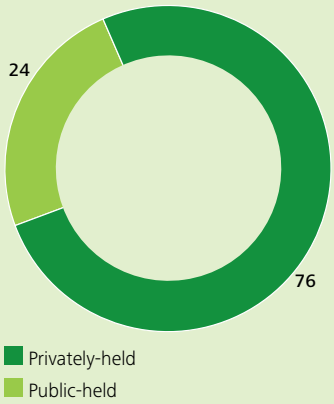
Interdependencies: Given the transformational nature of most deals, understanding and addressing interdependencies between work stream plans is critical. Unfortunately, most functions are accustomed to working in siloes, and continuing this style of working can have major consequences for an integration. The IMO can leverage multiple mechanisms to ensure interdependencies are addressed between processes and plans. For example, you can host a workshop where you go through the new Order to Cash process from end to end with all of the impacted parties in the room and ensure that the handoffs between each function have been addressed.

5 Create a robust communications, change and culture program. The number one and number two focus area noted for integration leaders for their next integration are around culture, and consequently, talent retention. Culture is typically a pain point in integrations because it can be hard to understand and unlike some of the other functional areas, is not always a skillset that is well developed within a business. Surveys from Deloitte show that 30 percent of integrations fail due to lack of culture fit. It also shows that 45 percent of target executives leave the company in the first year and 70 percent in the second year. Culture and change challenges can be even more noticeable when a large company is purchasing a family owned business where the presence of the former owner is very strong. This problem can be more prevalent in Brazil, where many businesses are family owned. According to the survey respondents, 76 percent of the purchased companies were privately held (despite the fact that only 51 percent of the buyers were private).

Is you company public or privately-held? (in %)



Was the purchased company public or privately-held? (in %)



Three specific actions integration leaders can take in their integration include:

Understand the differences between the cultures and create specific action plans to address potential pain points. Specifically, the buyer needs to understand the operating model and overall cultural archetype of the target, and what specific components are important to them from an operational and cultural perspective. This can be done through focus groups, culture surveys or fireside chats with buyer and target employees. For example, if you discover that the buyer has a more top down decision making style, but the target values participatory decision making – work with your leaders to find opportunities to include participatory decision making into their teams as appropriate and try to align this with the integrated business model. In the example of engaging a strong owner of a family owned target, actively engage the owner in planning and people engagement.

Communicate clearly, frequently and to everyone. Communications is a key element of any integration plan/execution and one where most companies fall short. Misunderstanding and miscommunications can create many problems in integrations – specifically around maintaining top talent and reducing business distraction. We advise our clients to create a coordinated communication approach that ensures each stakeholder group understands deal rationale, progress and upcoming changes. Communications should be broken down by message, audience, vehicle, timing and frequency.

Create formal and informal feedback processes. Create consistent talking points that all levels of leadership understand and ensure that employees feel they have opportunities to share and address their concerns throughout the integration.

Case study

Recently, we helped support the USD 250 million acquisition of a business unit for the Brazilian branch of a USD 10 billion multinational that we will call Project S. This integration had no material business disruption on Day One, were able to close down their IMO four months after Day One, were on track to exceed their synergy projections and completed two IT integrations and a complete Legal Entity Consolidation in addition to closing the deal. Leveraging the best practices above we can review some of the specific actions taken to achieve this success.

1 **Conduct a strong due diligence.** During their due diligence process, they brought in specific functional leaders to help review and validate the deal rational and diligence findings. They also negotiated a variety of purchase conditions based on problem areas found during due diligence. Finally, they created strong, detailed synergy projections that required minimal adjustments during the planning phase.

2 **Have strong executive sponsorship.** Project S' executive sponsors understood the importance of staying engaged, and as such we created the governance structure and reporting cadence shown below. There were a few moments in the project that required the quick engagement of the executives and because of the regular touchpoints, they were able to understand, address and intervene for these issues in a timely way.

3 **Assign a dedicated team of your star performers.** Project S identified full time resources to support their critical areas and had the ultimate business leader involved as work stream leaders from the beginning of the business which enabled the IMO to close down and transition to the business quickly. In addition, they had relatively senior roles driving the integration planning (e.g. the Controller led the Finance stream) to ensure that the processes developed in the integration were appropriate for the business long term.

4 **Develop a comprehensive plan.** Project S had detailed plans, validated through three interdependency workshops and signed off by country and global leaders through a certification process. Plan progress was reviewed in weekly touchpoints and cross-functional dependencies were discussed in weekly team meetings. In addition, there was a separate cross-functional task force identified to create specific plans for the legal entity consolidation that aligned with the overall integration plans.

5 **Create a robust communications, change and culture program.** Communications were designed to be frequent and shared by various levels throughout the integration. The senior executives went on a road show to all of the locations to meet the target employees to answer and address questions. In addition there were a variety of Day One communications shared with employees that proactively addressed major questions.
Culture & Change: Project S conducted a culture survey before Day One, which helped the leadership understand the differences and potential pain points. We conducted meetings with each functional lead to share the results for their function/business and then created specific action plans. These action plans were executed over a two month period and when a pulse survey was conducted a month after close, nearly every pain point had seen a material improvement in scores (in many cases doubling the engagement scores) and a reduction in problem areas. Employee concerns were raised and quickly addressed via monthly coffee chats that were conducted by leads in the employee locations since the beginning of the integration.

Project S Reporting Cadence

Group	Example of participants	Cadence
Steering Committee	COO, CFO, General Counsel, Senior Vice President (SVP) of Commercial, SVP HR	Call: 30 minutes every two weeks Email update each alternating week
Sponsors	Global Strategy Director SVP of International, Brazil CFO, Brazil Strategy Director	1 hour every week
Change Counsel	Directors of each Brazil function	1 hour every month

Conclusion

As Brazil continues to face an economic recession new opportunities will emerge. Although buyers are getting more sophisticated in completing their transactions, much work is still needed in capturing the full value of the deal, setting up the right governance, retaining the key talent, and minimizing the time and cost to complete the integration.

These challenges will be further impacted by the specific complexities of the deal, the economic and regulatory environment of Brazil, and talent that will be responsible for planning and executing of the integration. As presented in this report, there are several key drivers that companies should consider in order to maximize the deal value and minimize the costs and risks. Remember that no deal is perfect, but every deal has the chance for success when we combine the lessons learned, clear vision and focus, and experience and dedicated team.

"It can be difficult to get all of those elements done correctly, but it's far from insurmountable – and effective integration planning and thoughtful execution led by a knowledgeable team are key to M&A deal success."

Renata Muramoto, Deloitte Latin America Mergers & Acquisitions Consulting Lead Partner

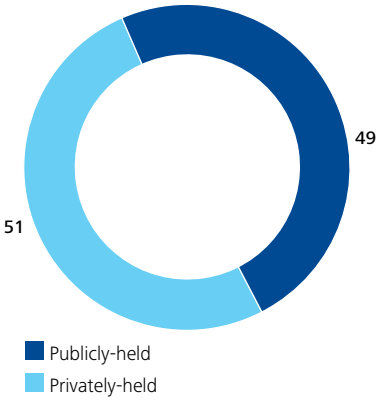
Appendix

Note: some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

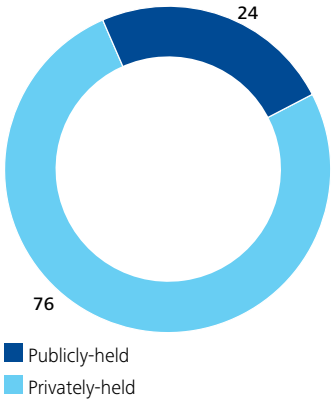
Acknowledgment
We would like to thank all survey respondents and interviewees for their time and the insights they shared for this report.

Complete survey responses

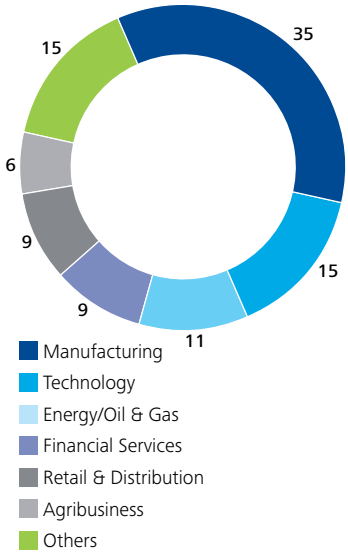
Is your company publicly or privately held? (in % of respondents)



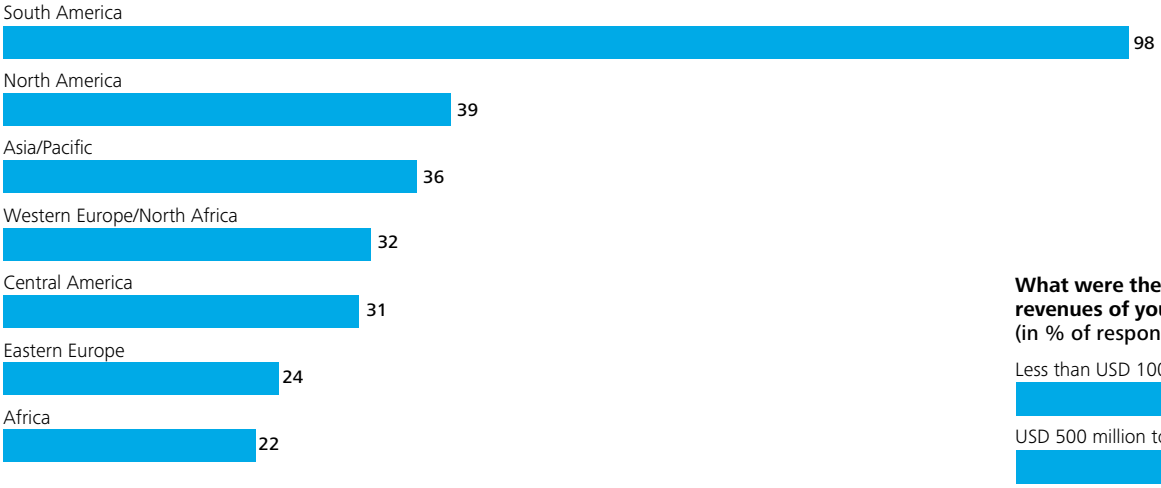
Was the company you acquired publicly or privately held? (in % of respondents)



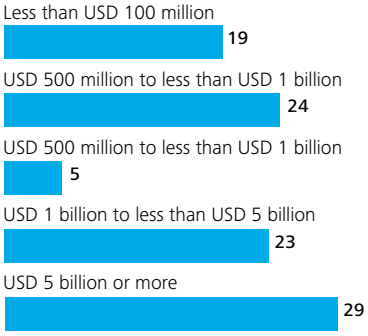
Please select which is your organization's core business industry, amongst the list below (in % of respondents)



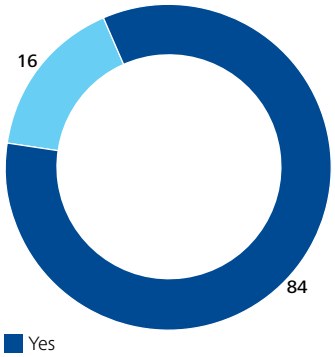
Please select the regions in which your company operates (in % of respondents; multiple responses)



What were the approximate annual revenues of your company in 2014? (in % of respondents)

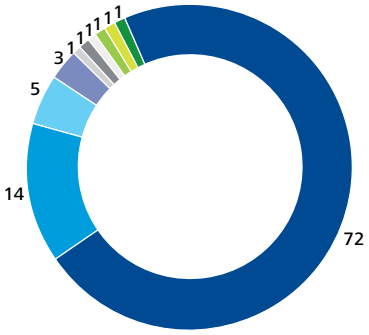


Had you done business in Brazil before this transaction? (in % of respondents)



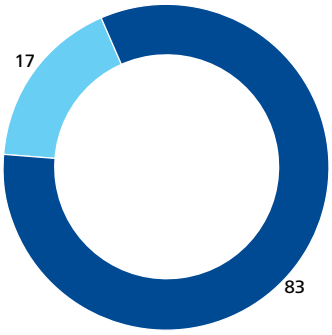
- Yes
- No

Where the headquarters of your business is located? (in % of respondents)



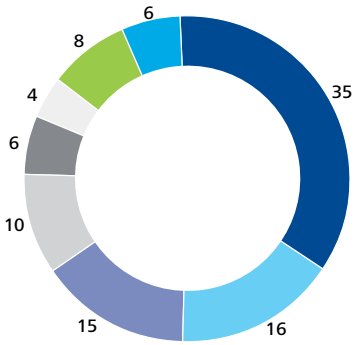
- Brazil
- United States
- Germany
- Japan
- China
- Belgium
- Israel
- Norway
- Chile
- France

How many legal entities did you own in Brazil at that time? (in % of respondents)



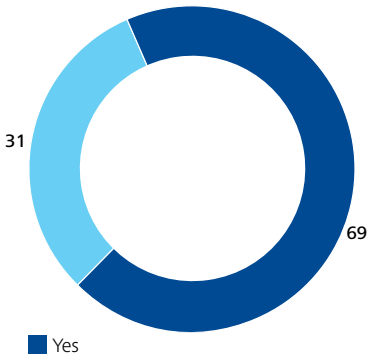
- Two or more legal entities
- One legal entity

Please indicate the transaction value (in % of respondents)



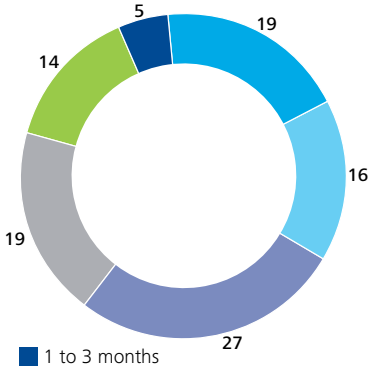
- Less than USD 1 million
- USD 1 million to USD 99.9 million
- USD 100 million to USD 249.9 million
- USD 250 million to USD 499.9 million
- USD 500 million to USD 999.9 million
- USD 1 billion to USD 5 billion
- More than USD 5 billion
- Don't know/Not sure

Was there a formal integration strategy put in place? (in % of respondents)



- Yes
- No

How long would you estimate it took to complete the majority (>80%) of the integration goals (counting from the date when the purchase agreement is signed)? (in % of respondents)



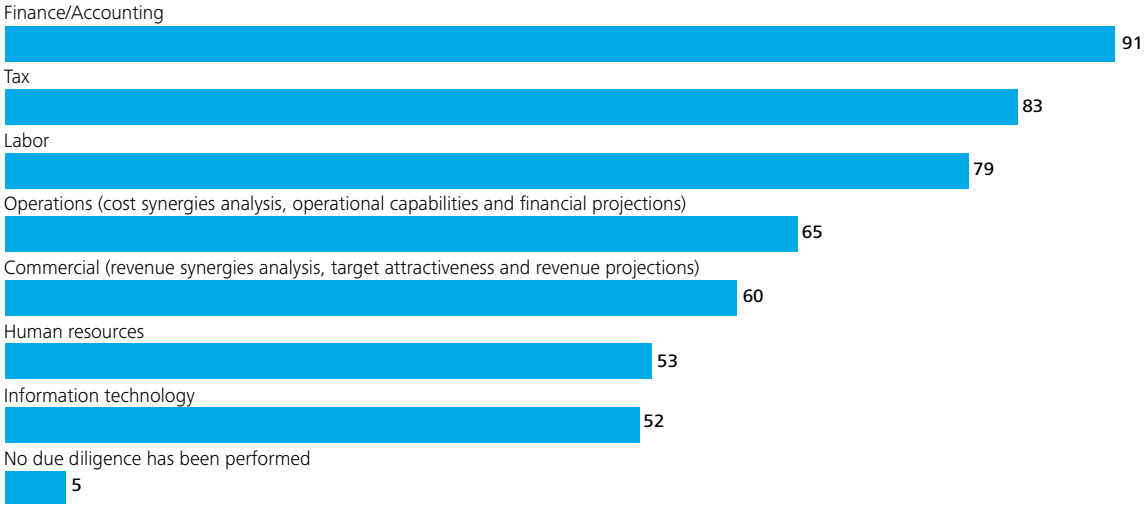
- 1 to 3 months
- 4 to 6 months
- 7 to 11 months
- 1 year
- 2 years or more
- We are currently still integrating

How successful do you feel the integration was or has been to date? (in % of respondents)

In thinking about the factors that were important in achieving a successful integration, please rate in order of importance (in % of respondents)

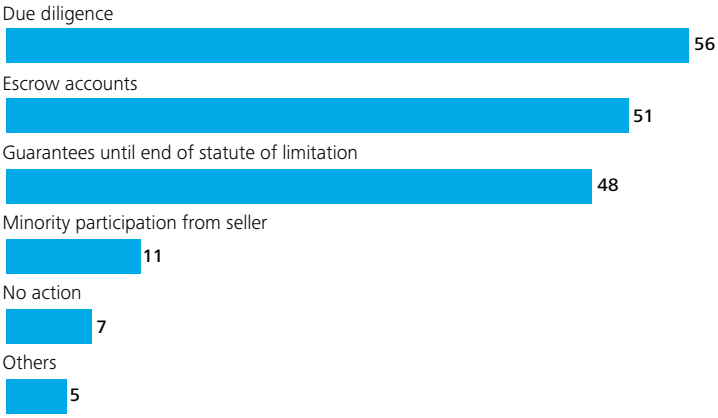
	Most important	Second most important	Third most important	Fourth most important
Having strong executive sponsorship	43	15	5	3
Developing an comprehensive project plan with a risk governance, optimizing the use of resources, budget and timing	11	7	16	12
Perform due diligence	9	5	2	8
Start integration planning during due diligence phase	7	4	7	10
Involving management from both sides (the acquirer and the acquire)	6	26	12	6
Communicating transparently and consistently with employees	6	7	21	12
More rigorous selection and a dedicated integration team	6	20	14	11
Assess and address the cultural fit between the two organizations	6	6	5	14
Developing a robust synergy plan	5	6	12	10
Allocating an adequate budget for the integration	1	2	5	7
Hiring an external firm to assist with integration	0	2	1	7

What items were included in the scope of the due diligence work? (in % of respondents; multiple responses)

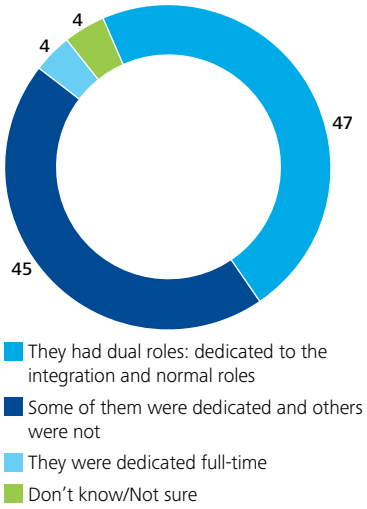


To what extent have due-diligence results impacted the transaction price?
(in % of respondents)

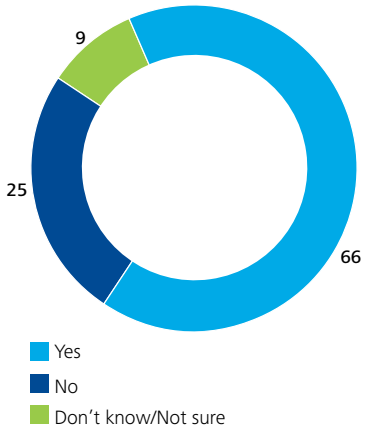
What were the actions taken to mitigate tax risks?
(in % of respondents; multiple responses)



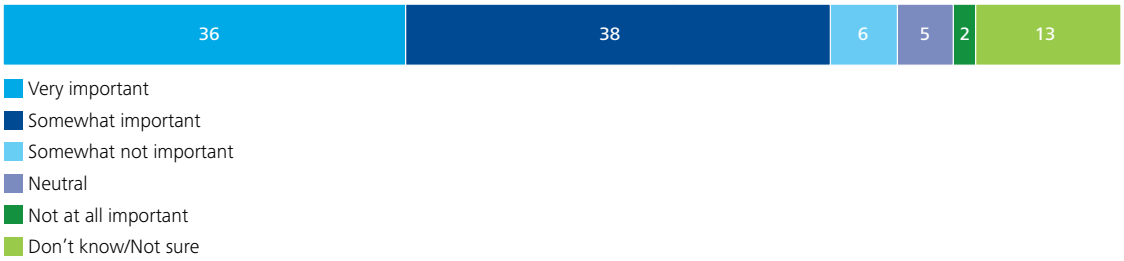
Were the people on the integration team fully dedicated to the integration process or were they also required to continue their normal organization roles?
(in % of respondents)



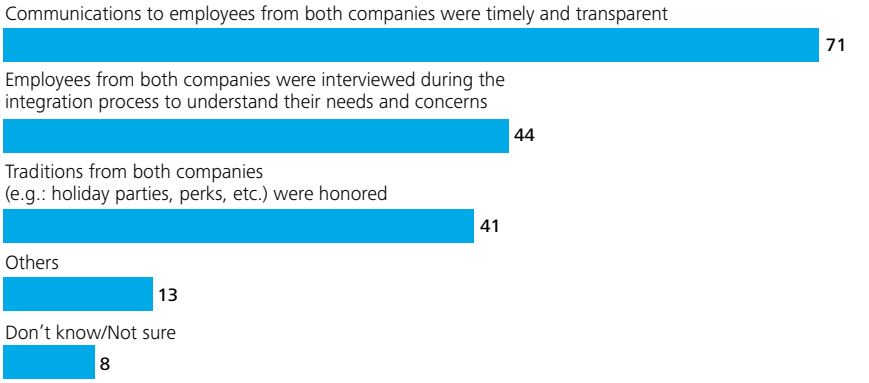
Did you consider all the legal entity merger requirements in your integration goals?
(in % of respondents)



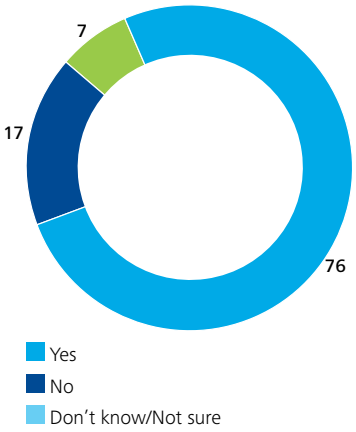
How important was the alignment of cultures between the two companies to the overall success of the integration? (in % of respondents)



How was the alignment of cultures managed? (in % of respondents; multiple responses)



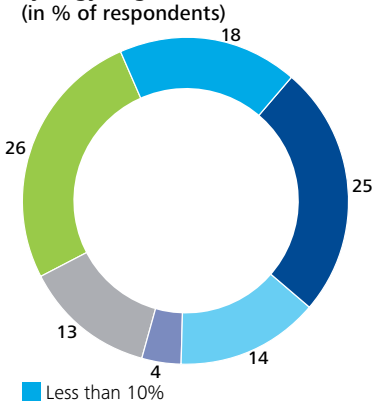
Did you develop synergy targets and plans for achieving them during the integration? (in % of respondents)



Were the initial synergy targets achieved, exceeded or did they fall short?
(in % of respondents)

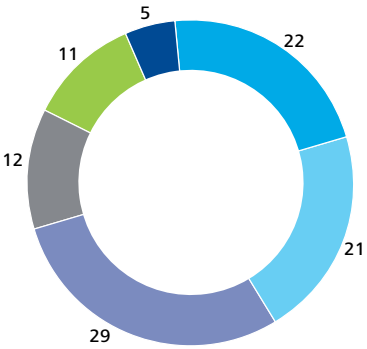
- Exceeded initial targets
- Achieved initial targets
- Fell short on initial targets
- Still in progress of counting synergies
- Not applicable, since I did not develop synergy targets
- Don't know/Not sure

As a proportion of the total deal value, what were the planned synergy targets?
(in % of respondents)



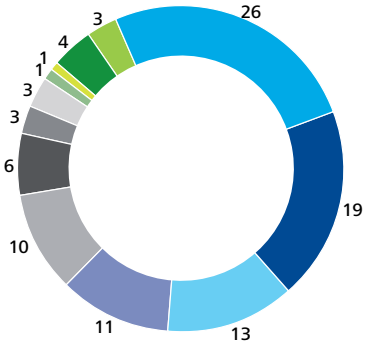
- Less than 10%
- 11% to 20%
- 21% to 30%
- More than 30%
- Not applicable, since I did not develop synergy targets
- Don't know/Not sure

How long did it take/will take to realize synergy targets?
(in % of respondents



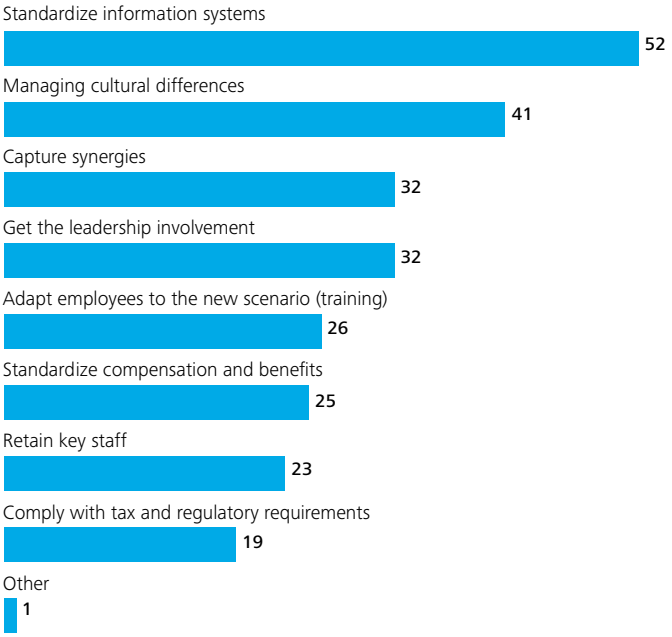
- 6 months or less
- 7 to 12 months
- 13 to 24 months
- Longer than 24 months
- Not applicable
- Don't know/Not sure

In which functional area do you see the biggest need for improvement, in terms of integration skills and capabilities in the future? (in % of respondents)

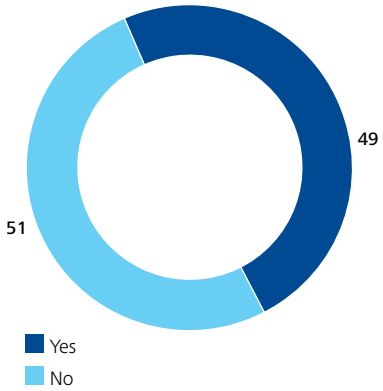


- Information Technology
- Sales & Marketing
- Human Resources
- Change Management
- Operations/Supply Chain
- Finance & Accounting
- Manufacturing
- Tax & Regulatory
- Communications
- Research & Development
- None
- Don't know/Not sure

Which of your actions below have required greater effort than expected? (in % of respondents; multiple responses)



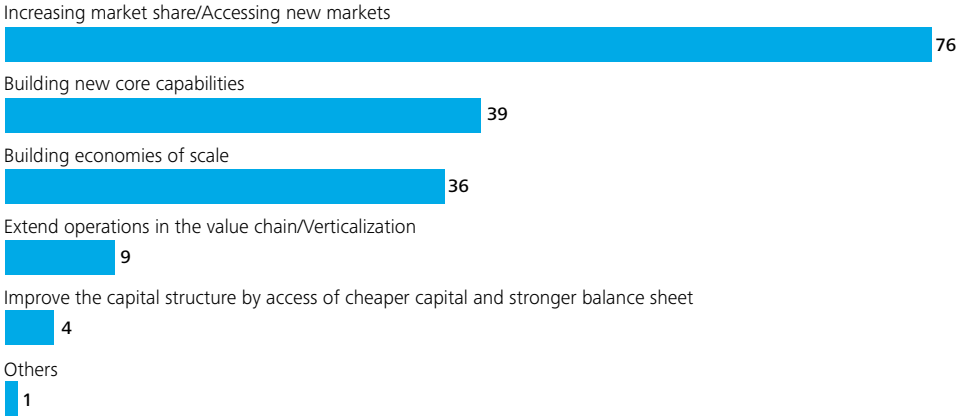
Did you hire external help? (in % of respondents)



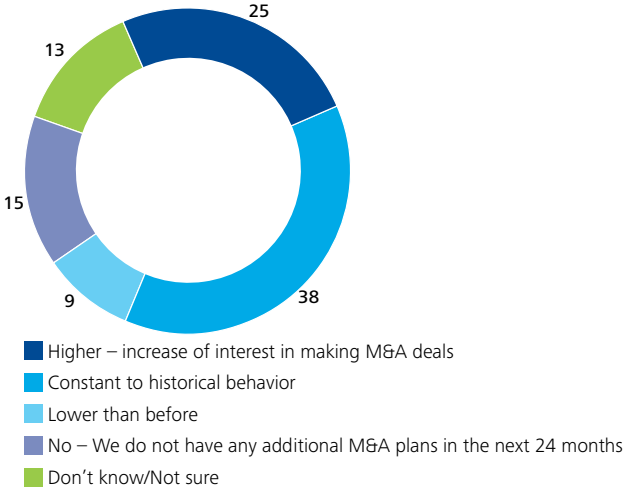
Assuming you were to do another deal in the future, please rank (in order of importance) the three areas you would focus more on the next time (in % of respondents)

	Most important	Second most important	Third most important
Better change management program	18	31	9
A phased approach to integration	14	9	5
More rigorous selection of the right integration manager/team	14	11	5
More planning ahead of the deal's announcement	9	5	16
More focus on cultural fit or better cultural alignment	9	13	21
A faster pace of integration	9	13	11
More planning for the Day 1 – the day the deal closed and the new organization became operational	8	3	8
Start integration planning during due diligence phase to better understand risks and integration efforts	6	1	0
Better communication strategy with employees	4	8	14
Larger budget for integration	3	2	6
Better communication strategy with customers	2	2	2
Better communication strategy with suppliers/distributors	2	3	0
Others	2	0	3

Please indicate your main drivers to pursuing this deal
(in % of respondents; multiple responses)



Do you anticipate your company to pursue any additional deals in Brazil for the next 24 months? Please indicate the intensity of the M&A strategy approach of your firm
(in % of respondents)



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Brazil 2015 Integration Survey – Understanding the challenges to maximize M&A investment

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