

How to gain value from M&A

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Agenda



Winds of change



Setting the scene



Creating the M&A value case



Think end-to-end M&A



Post Merger Integration



Q&A

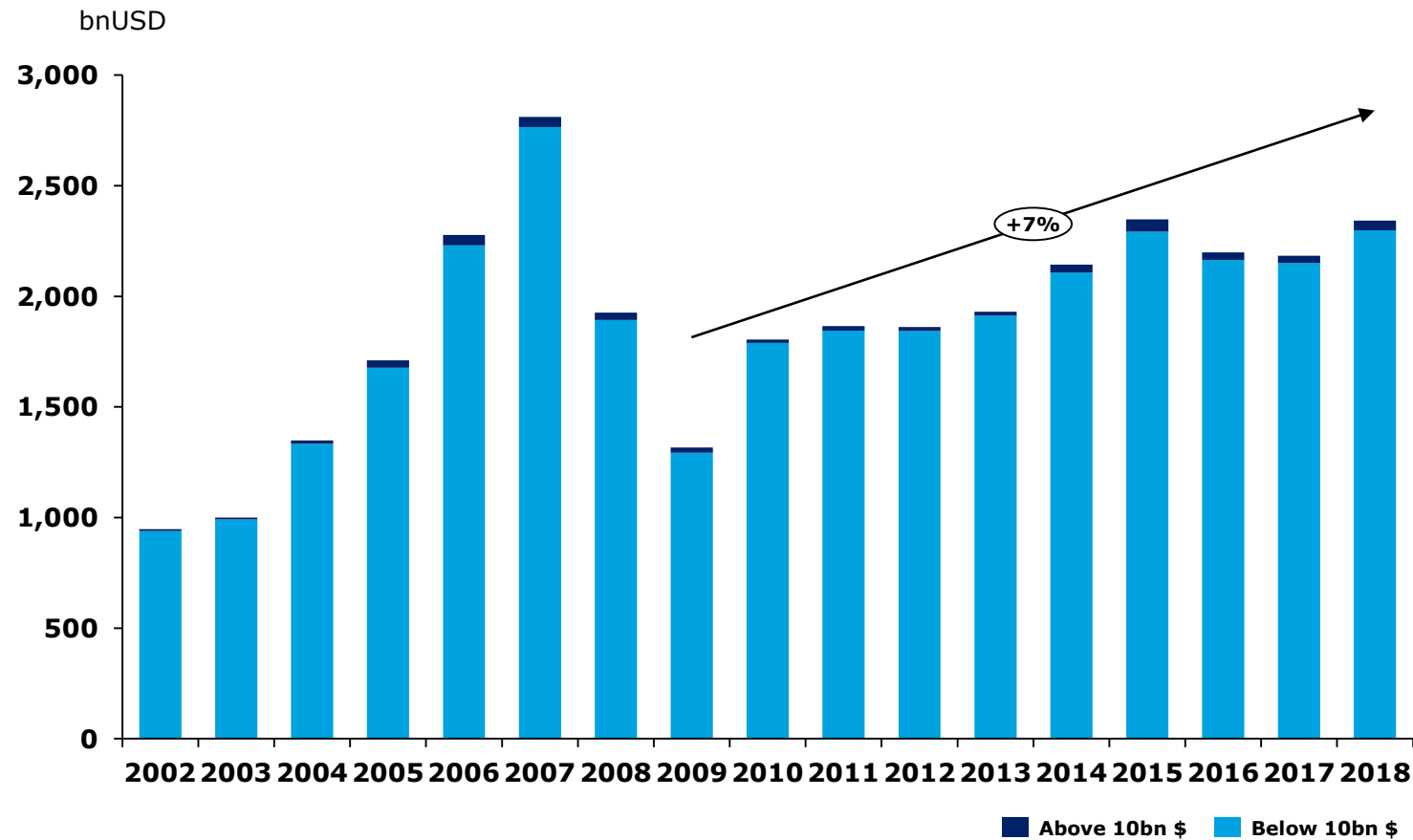
Winds of change



Why are we all here?

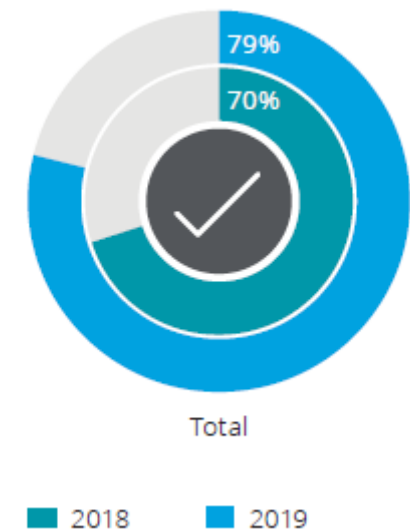
M&A activity continues to rise

Global M&A volumes 2002-18



Source: Dealogic Report 2002-2018, Deloitte M&A Trends 2019

Percentage of organizations expecting an increase in the average number of deals over the next 12 months



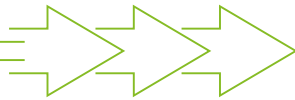
Winds of Change

We see headwinds as well as tailwinds – however, outlook remains positive

Economic and Political Uncertainty

341bps

the economic policy uncertainty index hit at record highs towards late last year and continues into 2019



Easy access to financing

\$436bn

a record level of M&A financing was raised from the bond markets in 2018

Regulatory pressures

\$300bn

worth of mega-deals were withdrawn due to regulatory or political pressure, the highest since 2016

Global Investments

46%

of the campaigns launched in the last 12 months were global, up from 31% in 2014, with significant growth in UK, Canada and Japan



High Private Equity Activity

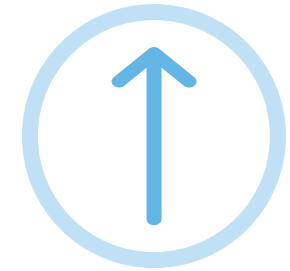
\$765bn

worth of deals were done by private equity in 2018, the highest levels since 2007

Disruptive M&A

\$217bn

was spent by corporates in 2018 to acquire disruptive technologies, the highest on record and up by 28% from the previous year



69%

of corporate respondents report more cash reserves

#1

primary intended use of that cash is to fund M&A deals

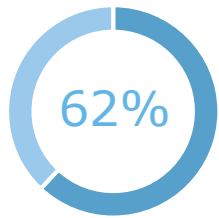
Setting the scene



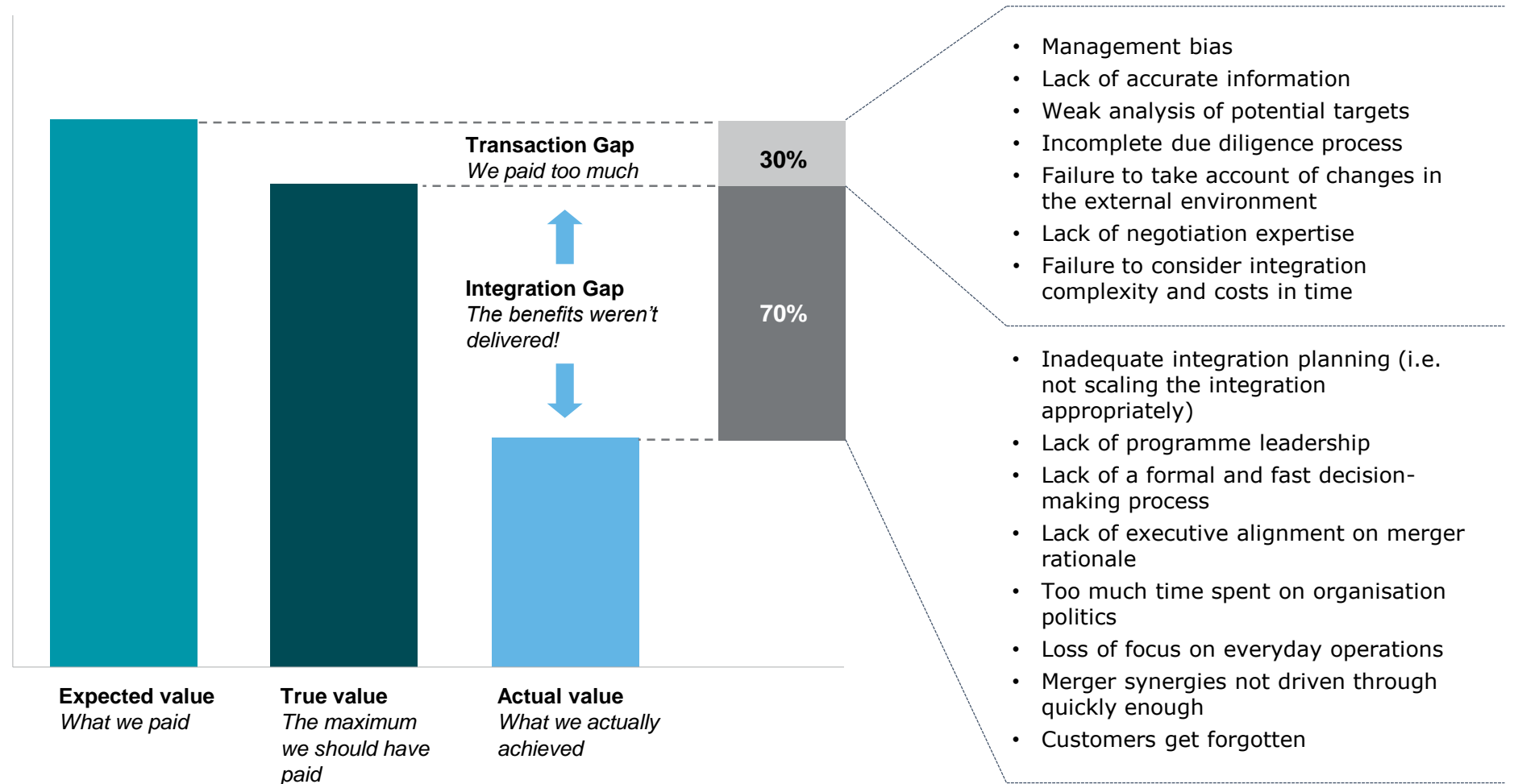
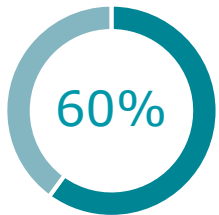
Most M&A transactions fail to deliver the expected results

Almost two-thirds of all M&A transactions globally fail to deliver the synergies and value envisioned, and one in four transactions result in diminished value

Failure to reach integration targets
(company view)

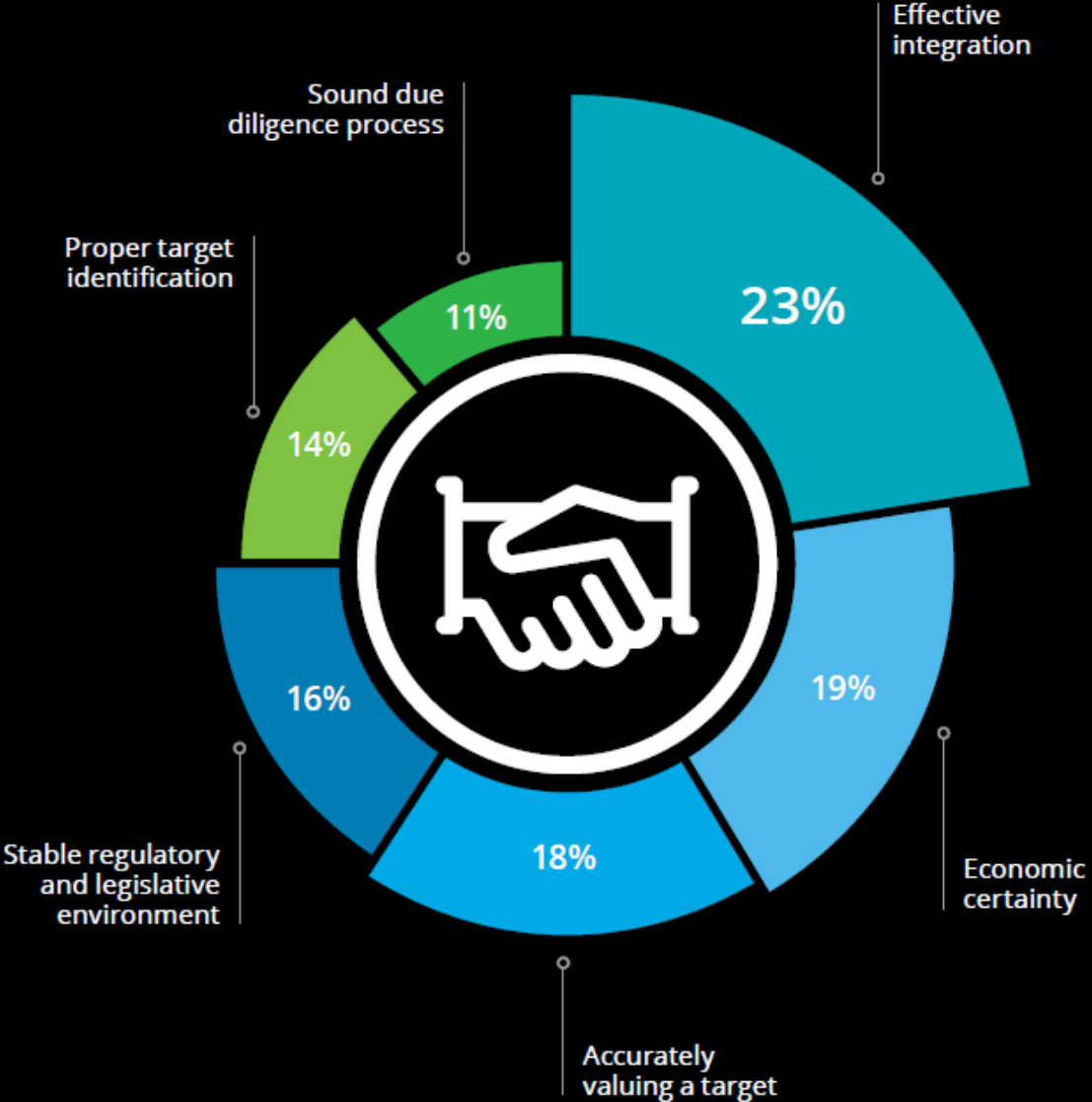


Failure to create shareholder value
(market view)



What makes a deal successful?

We have asked 1.000 executives



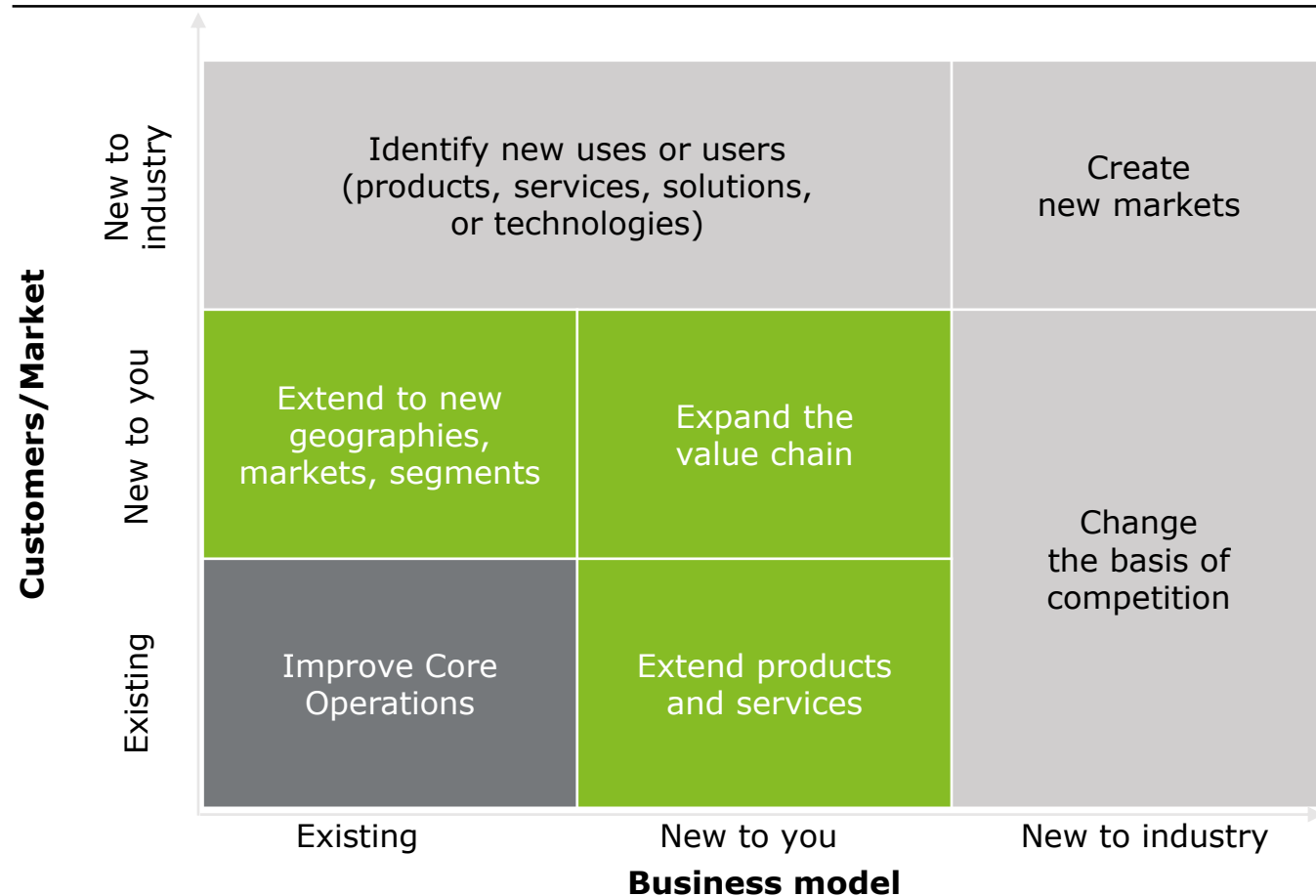
Creating the M&A value case



M&A is a lever for growth, innovation and improving the core business

Growth options and strategic elements should be reviewed to understand and define the strategic rationale for M&A transactions

Growth matrix

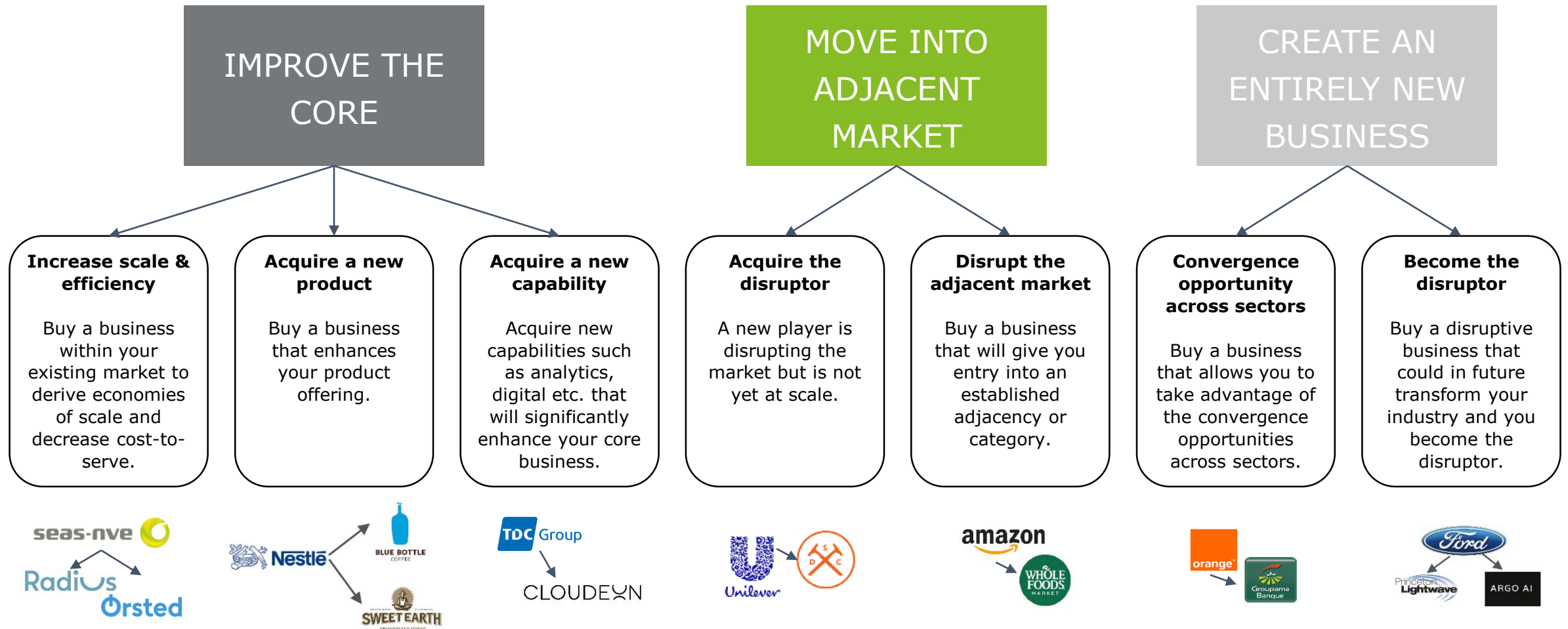


Business model

Core	Predominantly assimilation 60% of investments
Adjacent	Leverage capabilities of Target; some "reverse integration" 30% of investments
New	Mix of capabilities; sometimes kept autonomous for focus 10% of investments

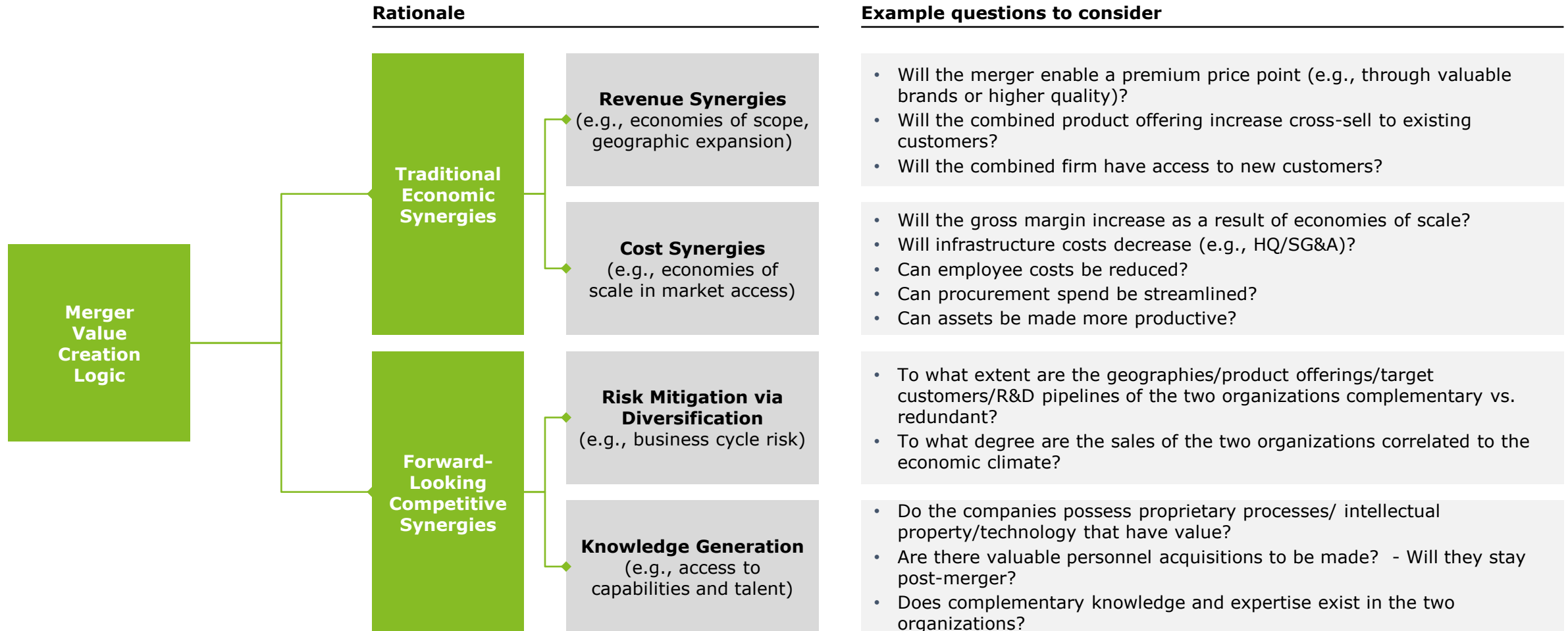
The role of M&A in realizing the corporate strategy

M&A transactions are a strategic way to disrupt and transform companies to strengthen their product portfolio, gain the benefits from economies of scale or simply get ahead in the digital game



Creating the M&A value case

It starts with a clear and validated picture of where the value that the deal should bring comes from



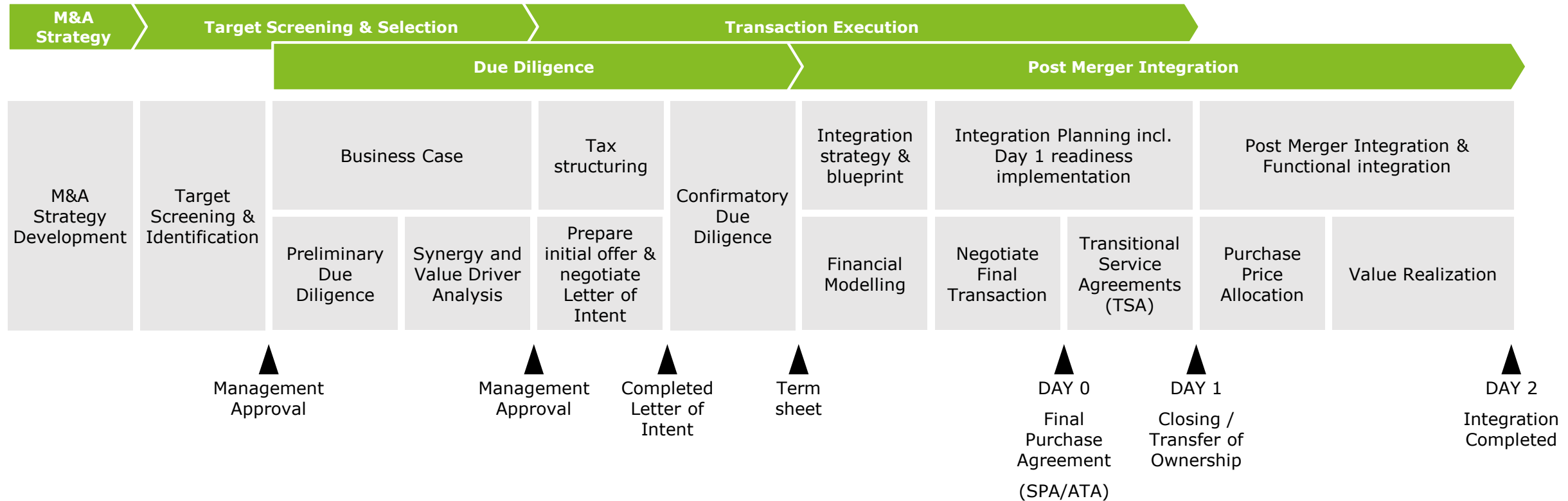
Think end-to-end M&A

How it all needs to be connected across the deal cycle

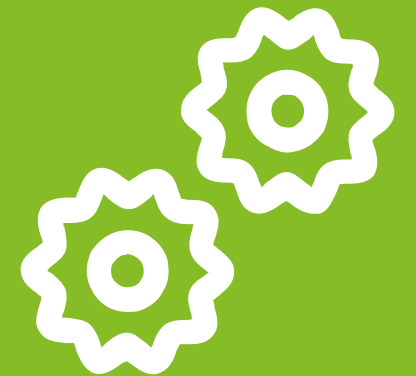


The high-level end-to-end M&A process (buy-side)

An end-to-end perspective is needed to derive value from M&A



Post Merger Integration



Key integration challenges

Challenges should be addressed in the integration programme



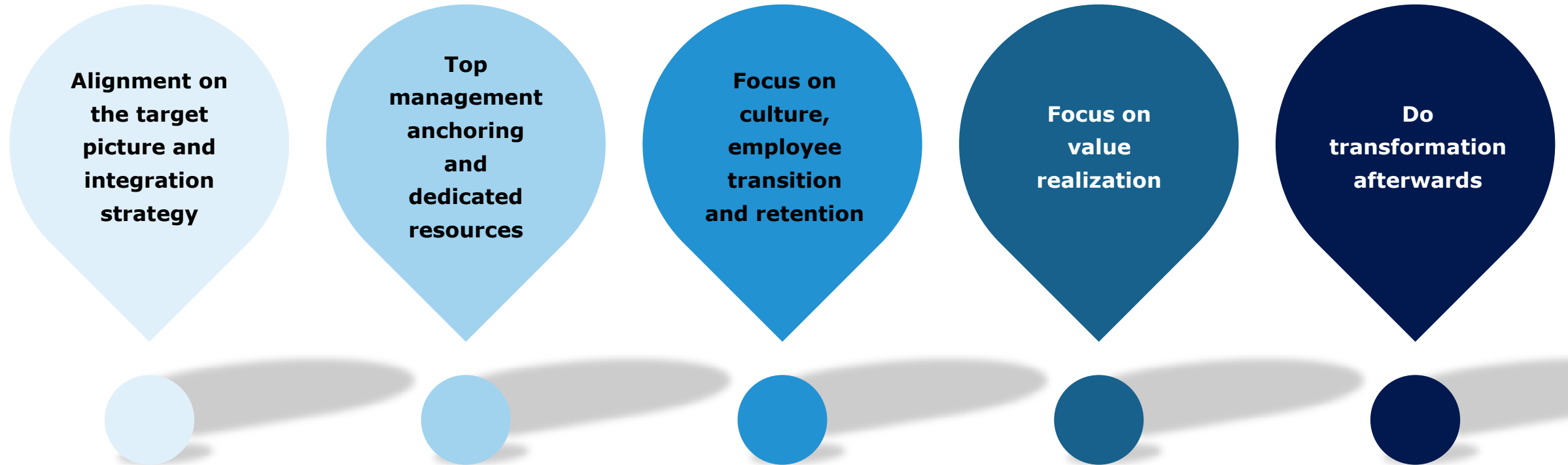
Key levers for success

Our experience shows that early and effective planning and discipline in managing any integration is a key lever for success



Key success factors for integrations

Our experiences have taught us to keep focus throughout a complex process

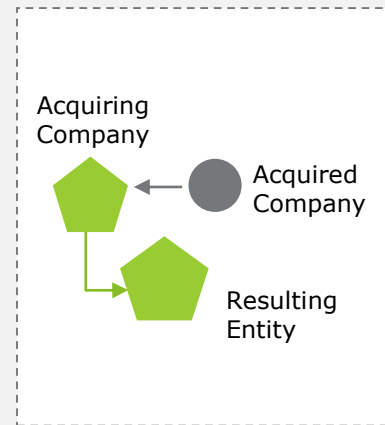


Integration strategy to realize the value case

M&A transactions have potentially one of four different integration approaches or deal types

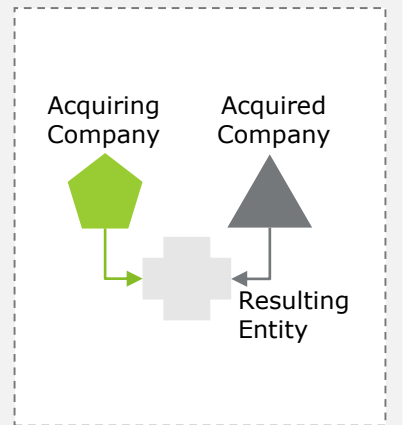
Assimilation

- Calls for rapid and efficient conversion of one organization to the strategy, structure, processes and systems of the parent
- Process/systems adopted from parent company
- Significant resources dedicated to integrating operations
- Easiest path towards achieving aggressive synergy targets
- Parent's compliance standards will dominate the acquired entity



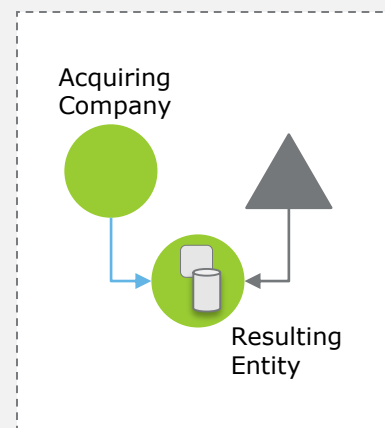
Transformation

- Entails synthesizing disparate organizational and technology pieces into a new whole
- Significant people, process and technology impact
- Significant planning
- More deliberate focus on execution
- Extensive use of internal and external resources
- Complex change management characteristics



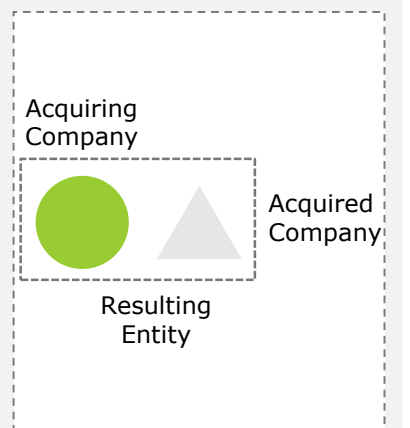
Metamorphosis

- Means selecting "best" processes, structures and systems from each company to form an optimized operating model
- Processes and tools are fine-tuned and optimized using best practice from either company
- Hybrid approach used in governance structure
- Significant resources dedicated to integrating operations

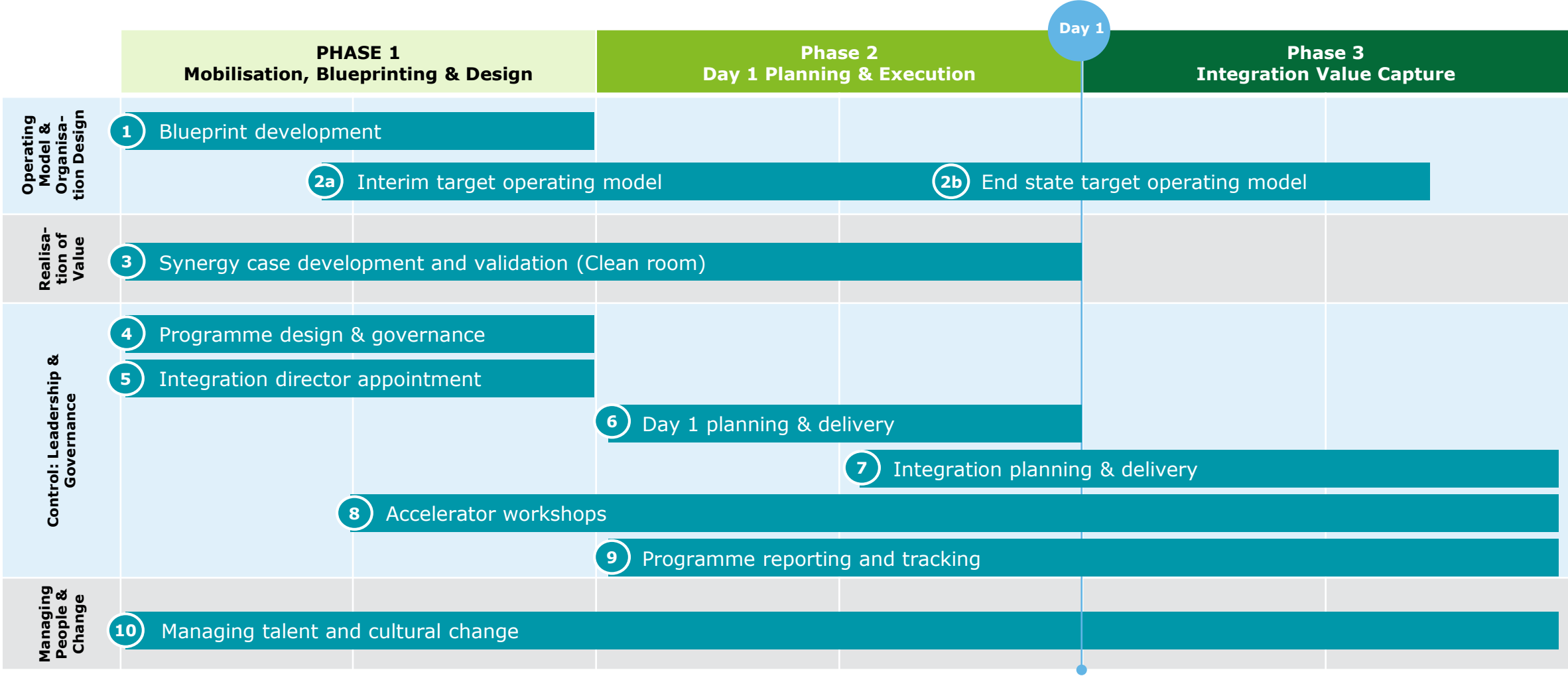


Retention

- Supports individual companies or business units in retaining their unique capabilities and cultures
- Minimal standardization outside of contracts consolidation and financial reporting roll up
- Holding company controls the operating companies using a "portfolio" model
- Governance limited to management control, performance targets and expectations

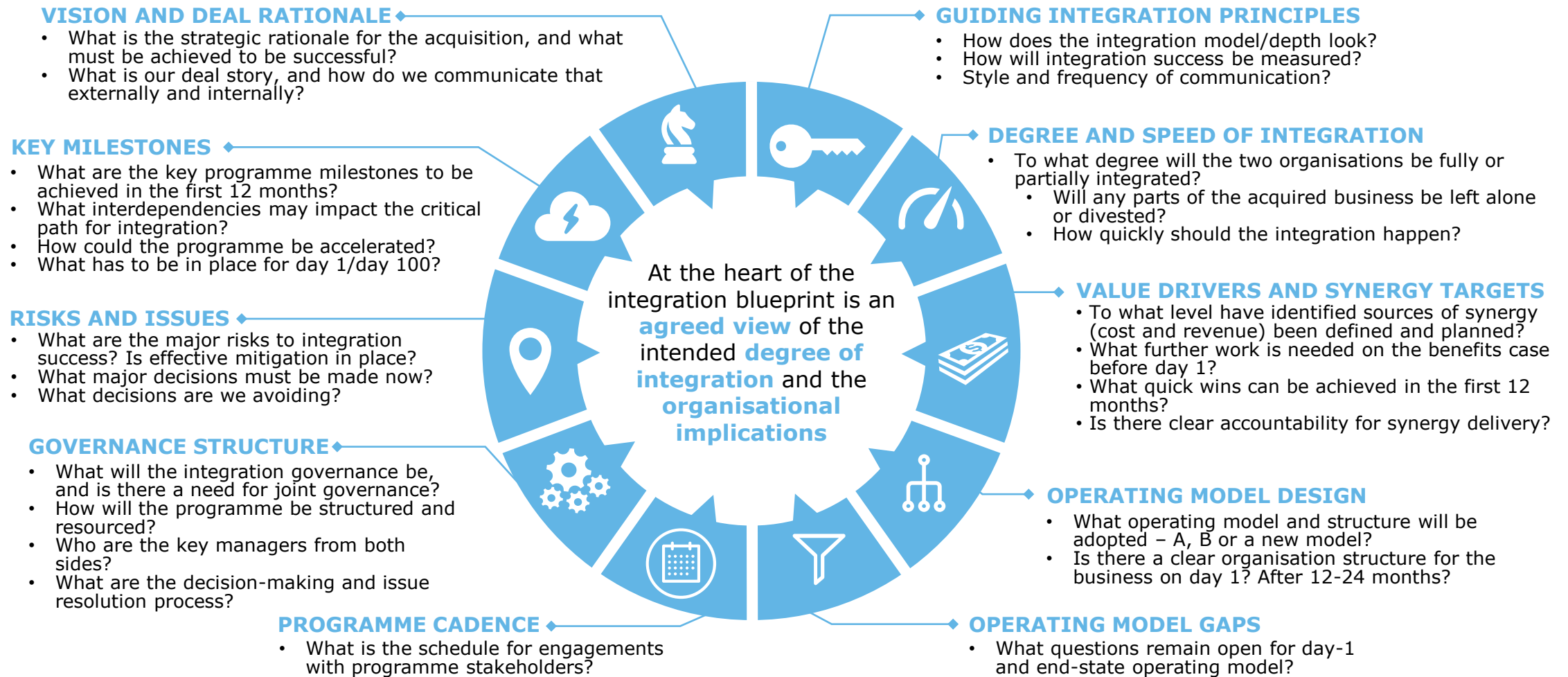


Integration is typically executed in three high-level phases

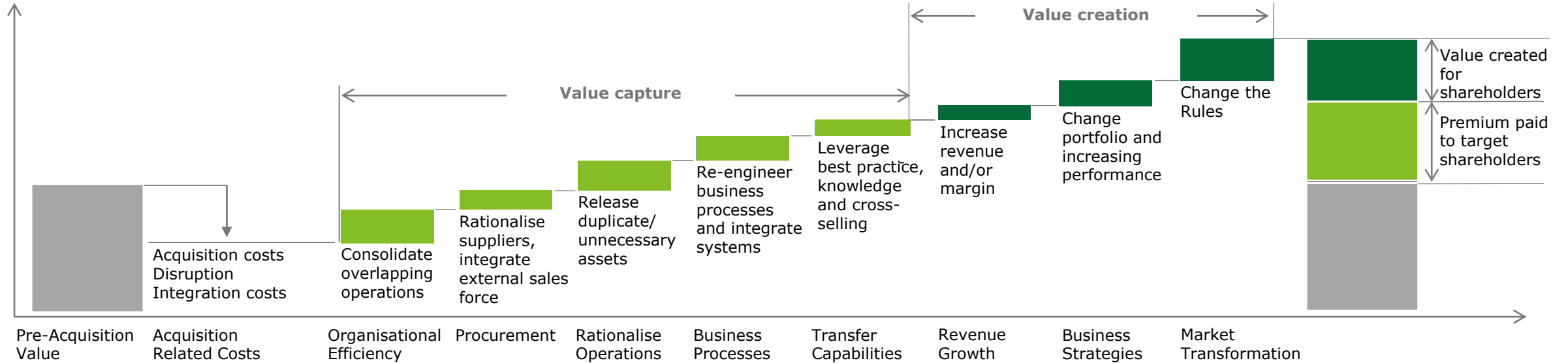


Begin with the integration blueprint

The most successful integration programmes have developed a blueprint, which answers the key questions before day 1



Operationalize the synergies



Synergy development

- Definable and quantifiable
- Have clear ownership and accountability
- Linked to lead KPIs and operational milestones
- Baselined against previous performance
- Prioritised and agreed: 5-10 key projects
- Integrated into performance measurement processes

Quick-wins (0-6 months)

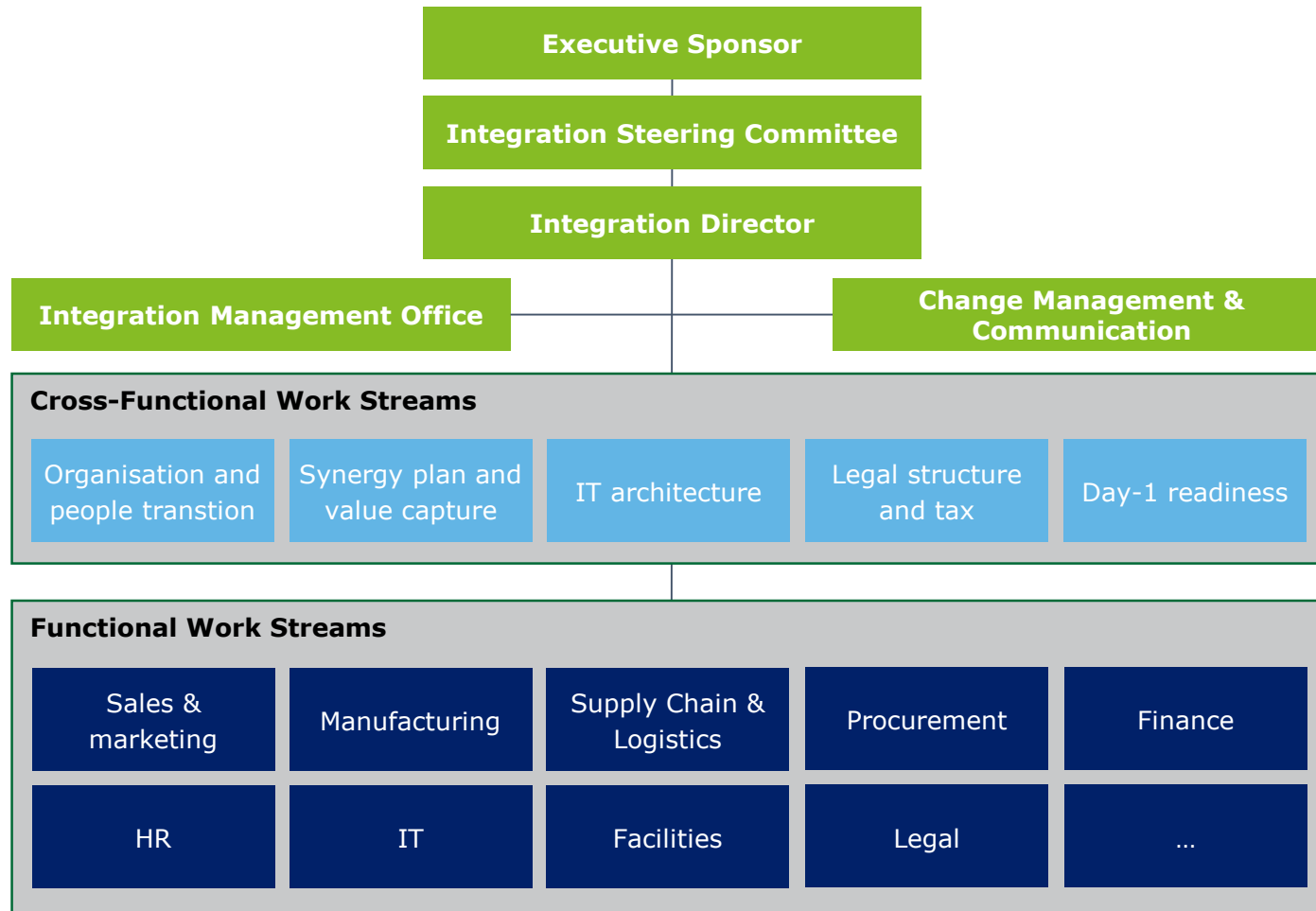
- Financing and insurance savings
- Immediate procurement synergies
- Immediate working capital improvements
- Day 1 organisation synergies

Value driving projects (6-24 months)

- Day 2 organisation and real estate synergies
- Shared services and outsourcing
- Production network and capacity optimisation
- Supply chain optimisation
- Tax efficient operations
- Sales channel optimisation
- Cross-selling synergies
- New products and services
- IT system and infrastructure synergies

Example of how to organize an integration programme

Illustrative



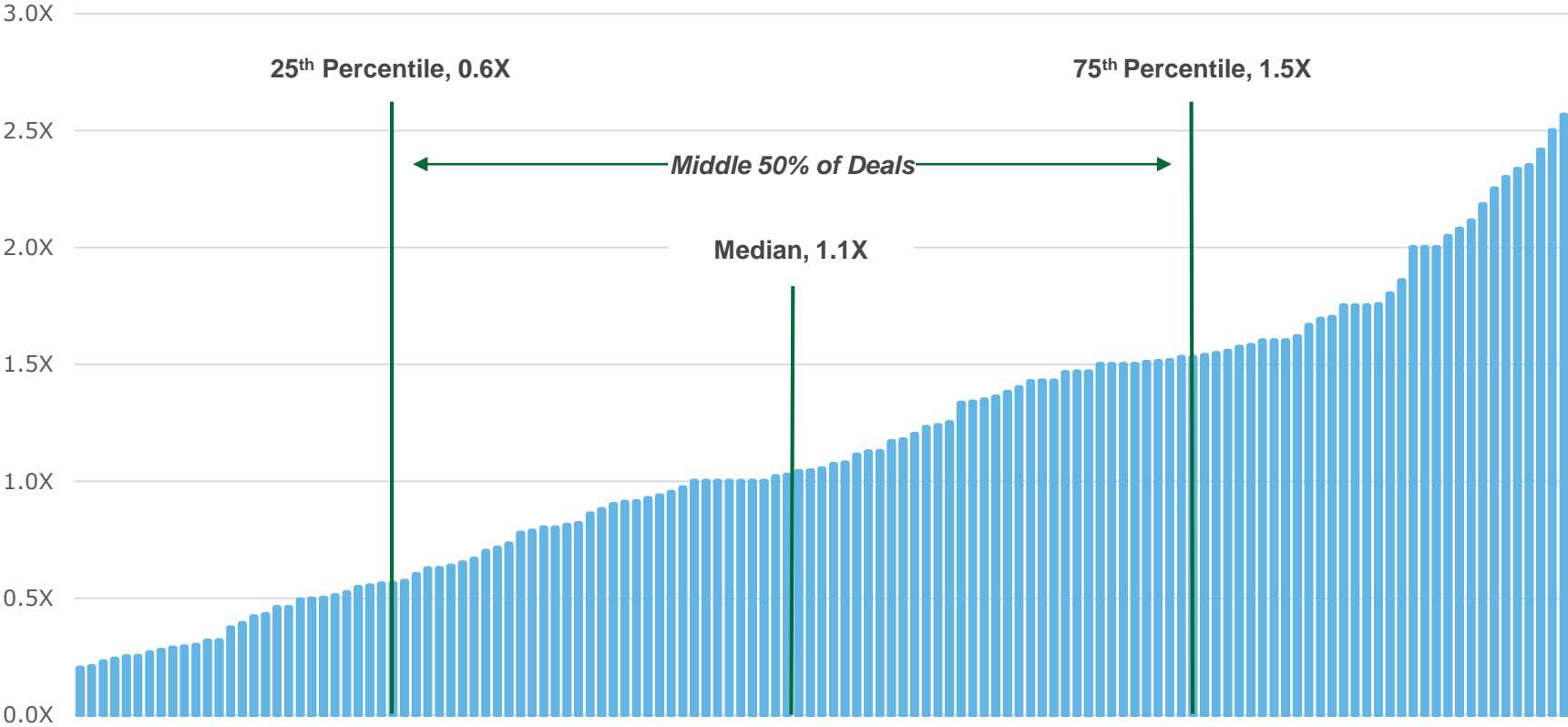
Key decisions to be made

1. Appointment of Programme Sponsor and Integration Director
2. Steering Committee members and frequency of meetings
3. Confirmation of workstreams
4. Appointment of experienced leads for each workstream
5. Identification of potential workstream contacts in the target organisation
6. Are there any workstreams best led by a person from the target?
7. Can the integration be driven from the centre or does it require a geographical dimension?
8. What are the key geographies/BU that need to be represented in the structure?
9. Who will take the lead and accountability in each geography/BU?
10. Interface between central functions and geographies – how will this be managed?

Integration costs are typically at the level of yearly synergies

Integration cost estimates as a percentage of cost synergies, for the middle 50% of deals, ranged from 0.6X to 1.5X with a median of 1.1X

Integration Implementation Cost as % of Cost Synergies

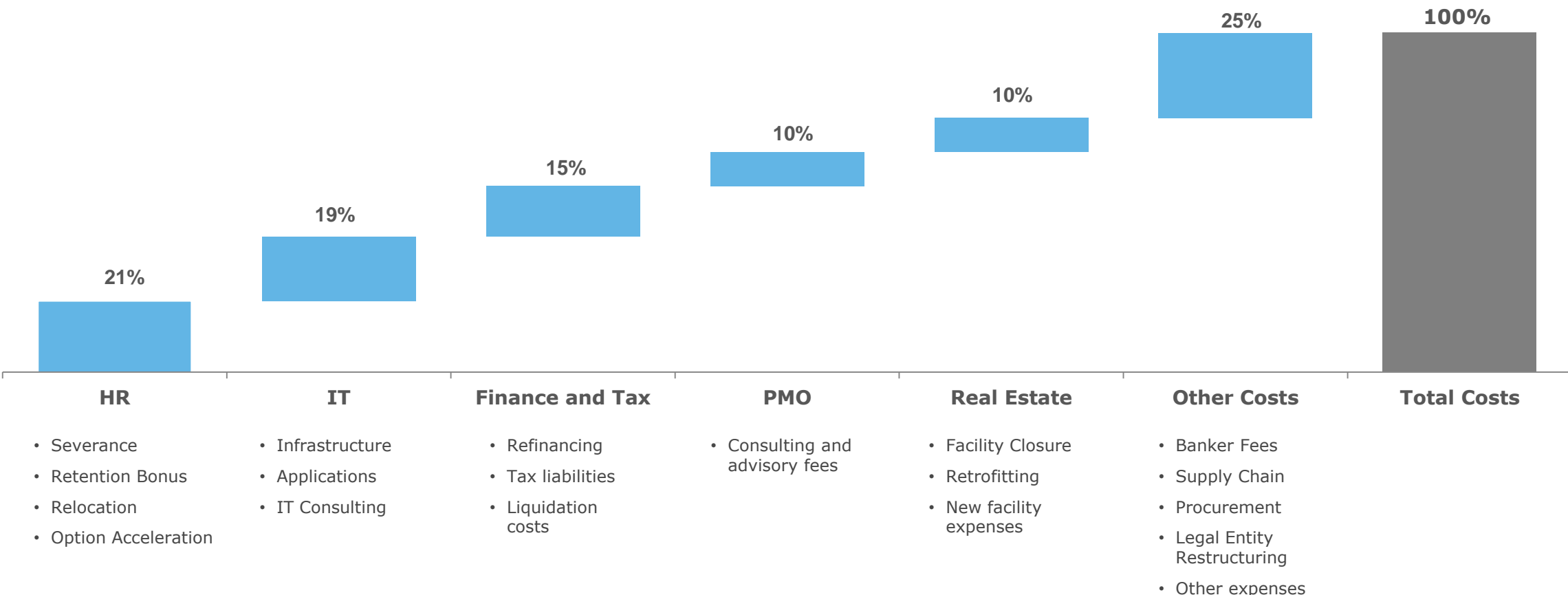


Source: Public and Deloitte Proprietary Information

Functional break-down of integration costs

HR and IT are typically the two largest functional expense categories that on average account for 40% of the total one-time integration costs

Integration one-time cost functional break-down



Source: Public and Deloitte Proprietary Information

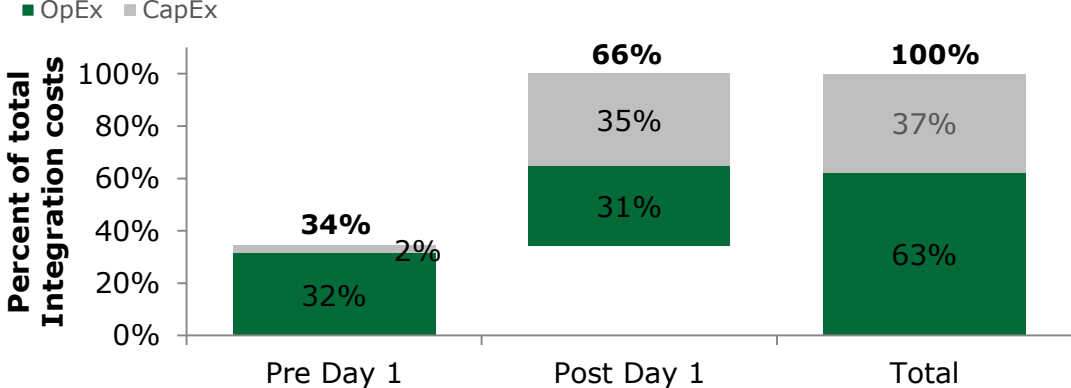
Case example of a successful integration project

Integration costs were estimated at 3.1% of combined expenses, driven by professional services fees and significant implementation costs

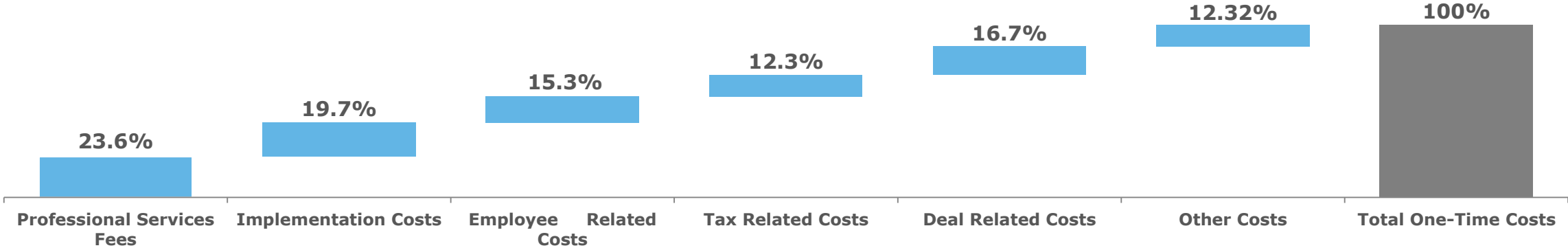
Deal background

Industry	Consumer Products
Acquirer Revenue	\$4.0B
Target Revenue	\$1.1B
Consolidated Costs	\$4.2B
Deal Size	\$1.8B
Integration Costs	\$132M

Integration cost timing



Integration cost break-down



Source: Deloitte Proprietary Information. Professional fees include consulting and advisory fees related to integration execution. Implementation costs include registration fees for canceled and new products, and potential supplemental distributor fees and IT implementation costs. Employee Related costs include cost for severance, retention and relocation. Tax cost are costs set aside to address historical liabilities. Deal costs include Investment banker fees.

Q&A



Thank you!



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