Deloitte.



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

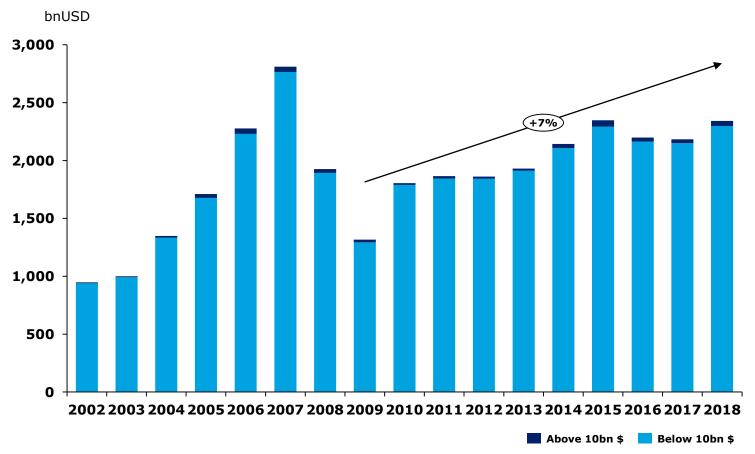
Winds of change



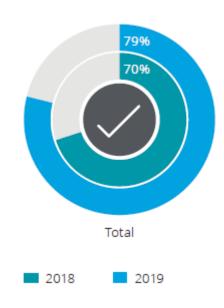
Why are we all here?

M&A activity continues to rise

Global M&A volumes 2002-18



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



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

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worth of mega-deals were withdrawn due to regulatory or political pressure, the highest since 2016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

\$765bm

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

Disruptive M&A

\$217bm

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



59%

of corporate respondents report more cash reserves

#1

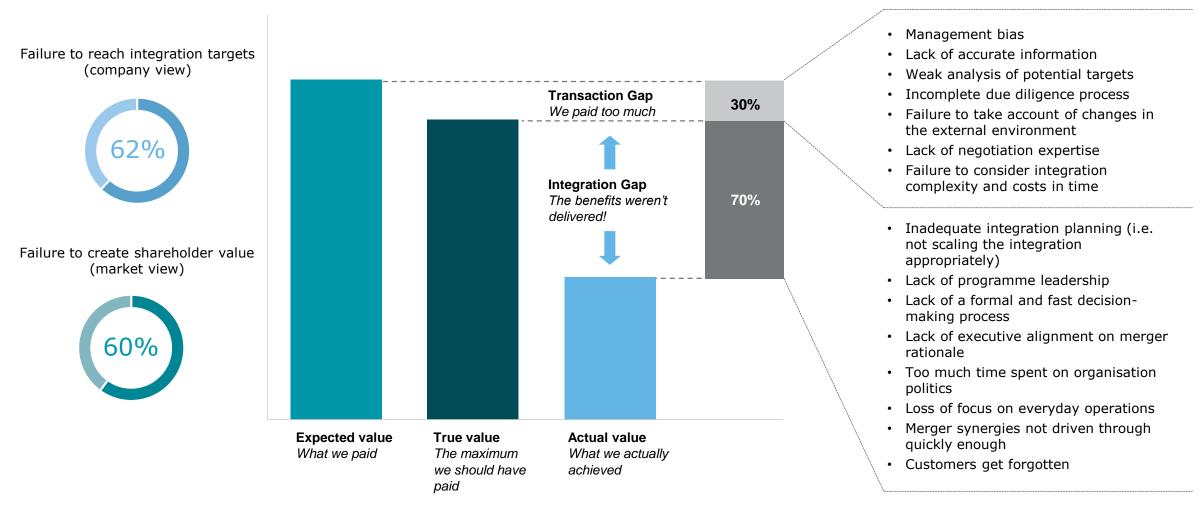
primary intended use of that cash is to fund M&A deals

Setting the scene



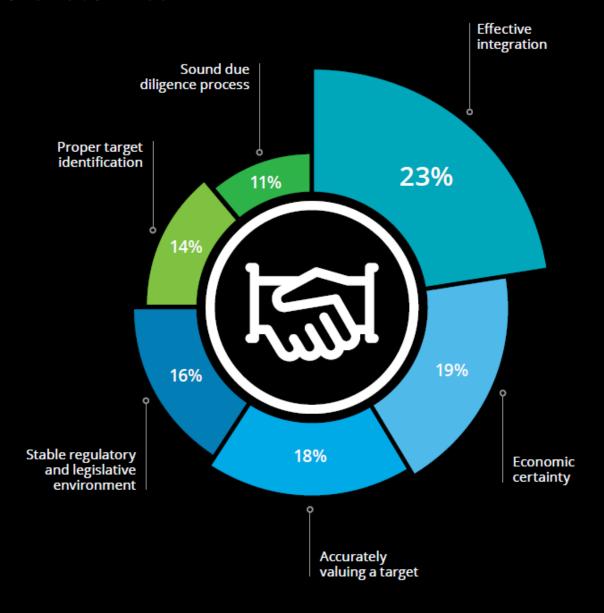
Most M&A transactions fail to deliver the expected results

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



Source: Deloitte, Merrill

What makes a deal successful? We have asked 1.000 executives

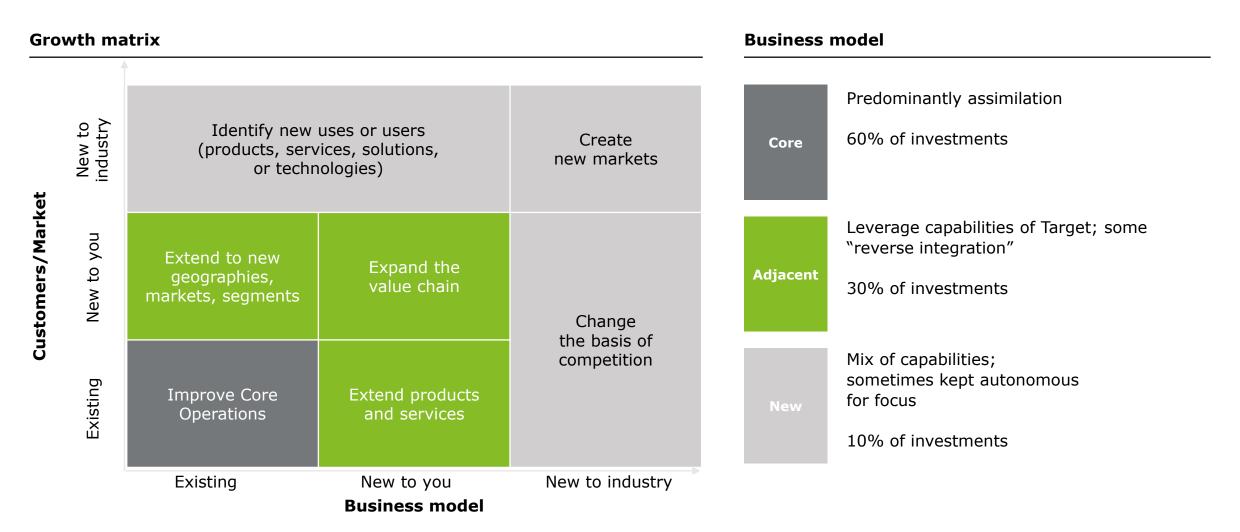


Creating the M&A value case



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



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

IMPROVE THE CORE

Increase scale & Acquire efficiency pro

Buy a business within your existing market to derive economies of scale and decrease cost-toserve.

Acquire a new product

Buy a business that enhances your product offering.

Acquire a new capability

Acquire new capabilities such as analytics, digital etc. that will significantly enhance your core business.

Acquire the

MOVE INTO

ADJACENT

MARKET

A new player is disrupting the market but is not yet at scale.

disruptor

Disrupt the adjacent market

Buy a business that will give you entry into an established adjacency or category.

CREATE AN ENTIRELY NEW BUSINESS

Convergence opportunity across sectors

Buy a business that allows you to take advantage of the convergence opportunities across sectors.

Become the disruptor

Buy a disruptive business that could in future transform your industry and you become the disruptor.









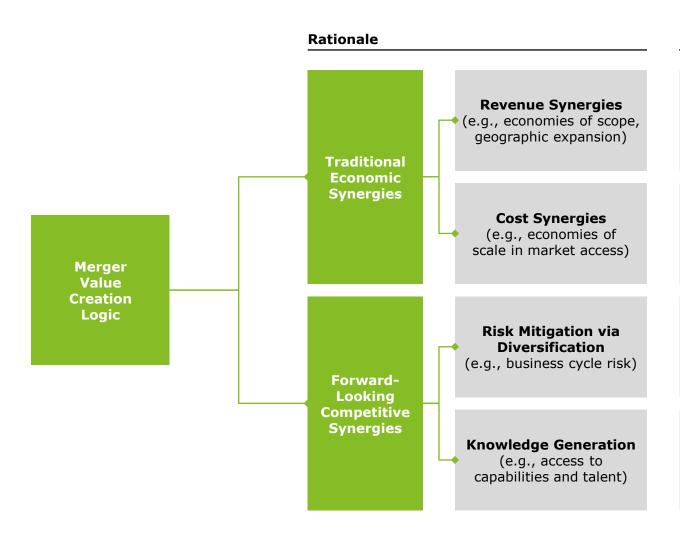






Creating the M&A value case

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



Example questions to consider

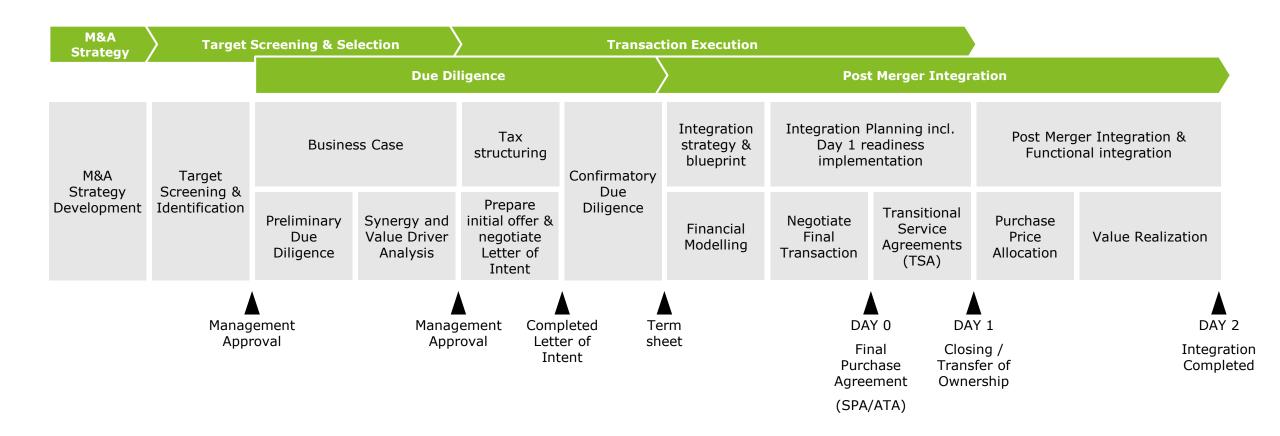
- Will the merger enable a premium price point (e.g., through valuable brands or higher quality)?
- Will the combined product offering increase cross-sell to existing customers?
- Will the combined firm have access to new customers?
- Will the gross margin increase as a result of economies of scale?
- Will infrastructure costs decrease (e.g., HQ/SG&A)?
- Can employee costs be reduced?
- Can procurement spend be streamlined?
- Can assets be made more productive?
- To what extent are the geographies/product offerings/target customers/R&D pipelines of the two organizations complementary vs. redundant?
- To what degree are the sales of the two organizations correlated to the economic climate?
- Do the companies possess proprietary processes/ intellectual property/technology that have value?
- Are there valuable personnel acquisitions to be made? Will they stay post-merger?
- Does complementary knowledge and expertise exist in the two organizations?

Think end-to-end M&A

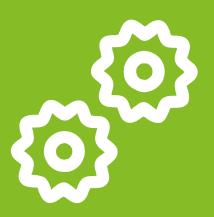
How it all needs to be connected across the deal cycle

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

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

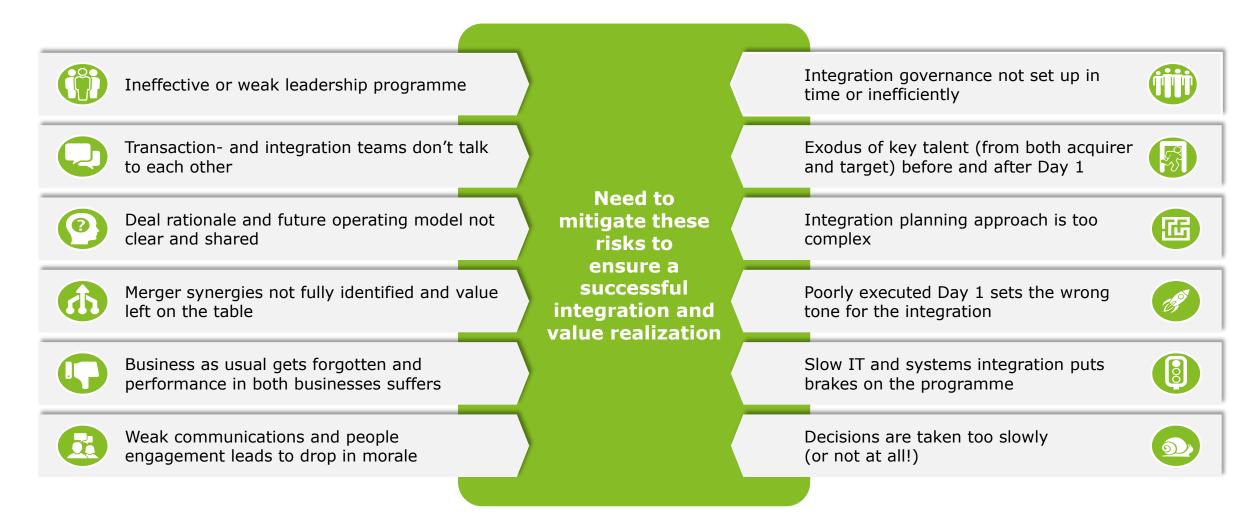


Post Merger Integration



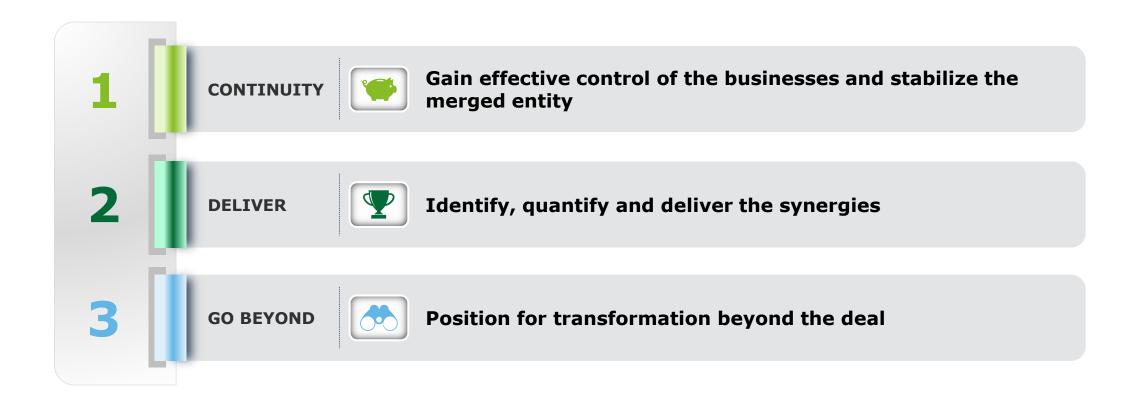
Key integration challenges

Challenges should be addressed in the integration programme



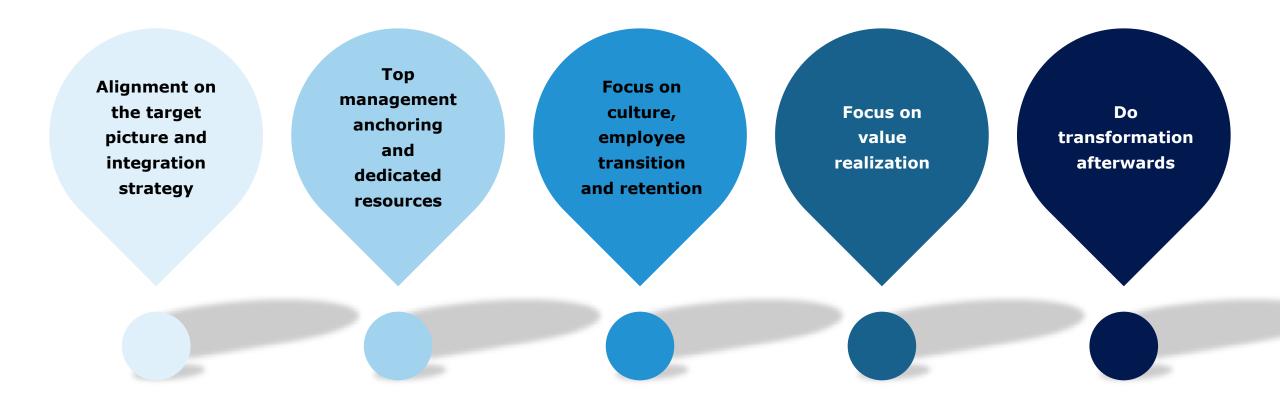
Key levers for success

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

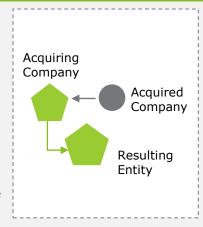


Integration strategy to realize the value case

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

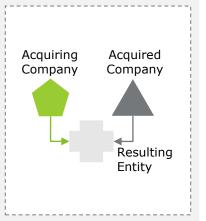
Assimilation

- 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



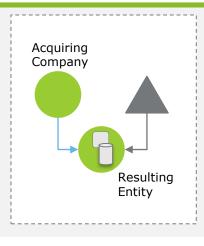
Transformation

- 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



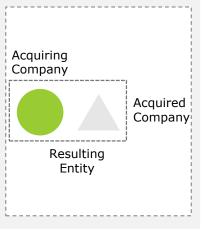
Metamorphosis

- 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

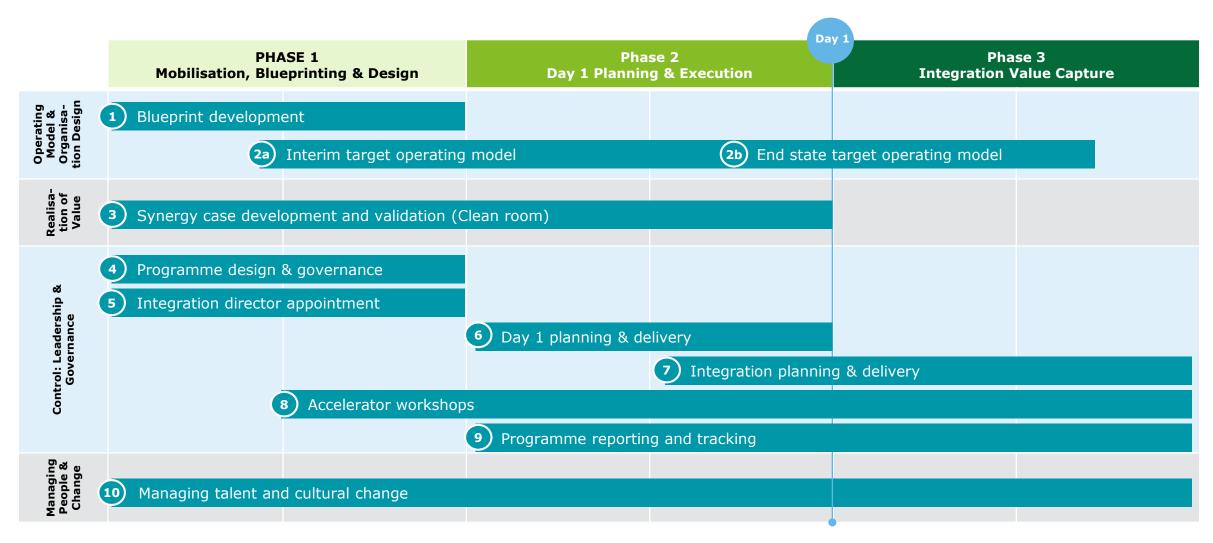


Retention

- 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

VISION AND DEAL RATIONALE +

- What is the strategic rationale for the acquisition, and what must be achieved to be successful?
- What is our deal story, and how do we communicate that externally and internally?

KEY MILESTONES

- · What are the key programme milestones to be achieved in the first 12 months?
- What interdependencies may impact the critical path for integration?
- How could the programme be accelerated?
- What has to be in place for day 1/day 100?

RISKS AND ISSUES +

- What are the major risks to integration success? Is effective mitigation in place?
- What major decisions must be made now?
- What decisions are we avoiding?

GOVERNANCE STRUCTURE

- What will the integration governance be, and is there a need for joint governance?
- How will the programme be structured and resourced?
- Who are the key managers from both sides?
- · What are the decision-making and issue resolution process?

PROGRAMME CADENCE +

• What is the schedule for engagements with programme stakeholders?

IDING INTEGRATION PRINCIPLES

- How does the integration model/depth look?
- How will integration success be measured?
- Style and frequency of communication?

DEGREE AND SPEED OF INTEGRATION

- To what degree will the two organisations be fully or partially integrated?
 - Will any parts of the acquired business be left alone or divested?
 - How quickly should the integration happen?

VALUE DRIVERS AND SYNERGY TARGETS

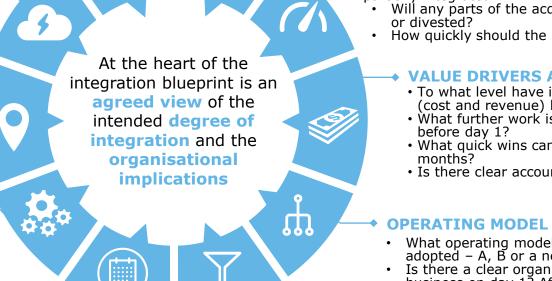
- To what level have identified sources of synergy (cost and revenue) been defined and planned?
- What further work is needed on the benefits case before day 1?
- What quick wins can be achieved in the first 12 months?
- Is there clear accountability for synergy delivery?

OPERATING MODEL DESIGN

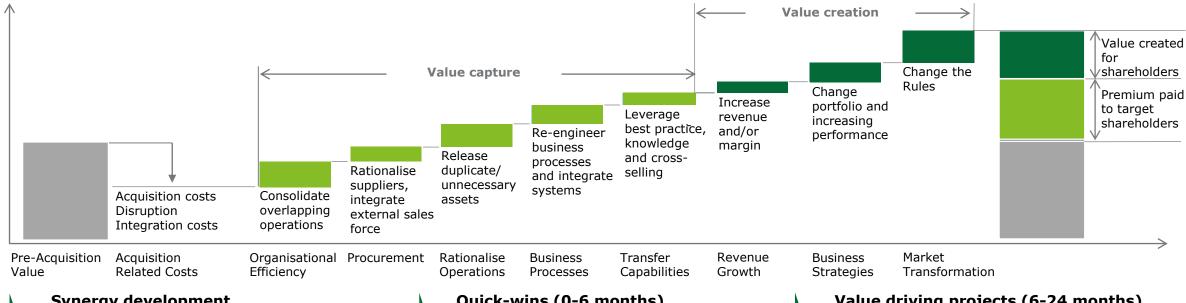
- What operating model and structure will be adopted - A, B or a new model?
- Is there a clear organisation structure for the business on day 1? After 12-24 months?

OPERATING MODEL GAPS

 What questions remain open for day-1 and end-state operating model?



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

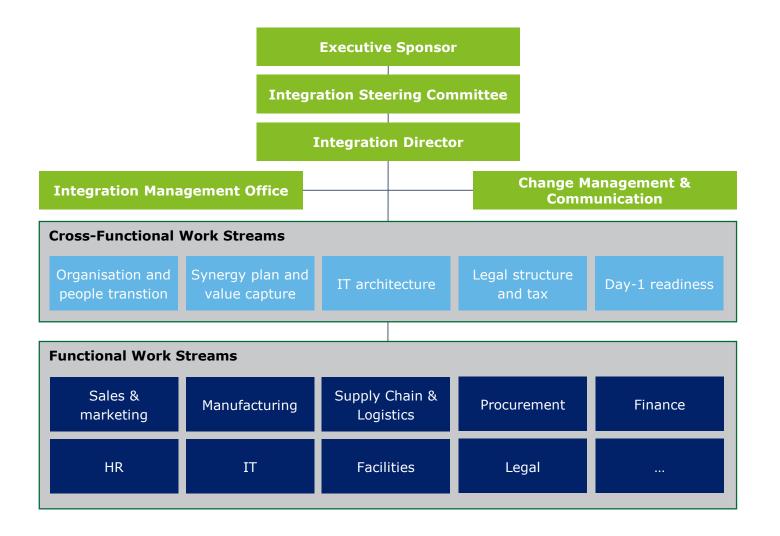
Quick-wins (0-6 months)

- 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





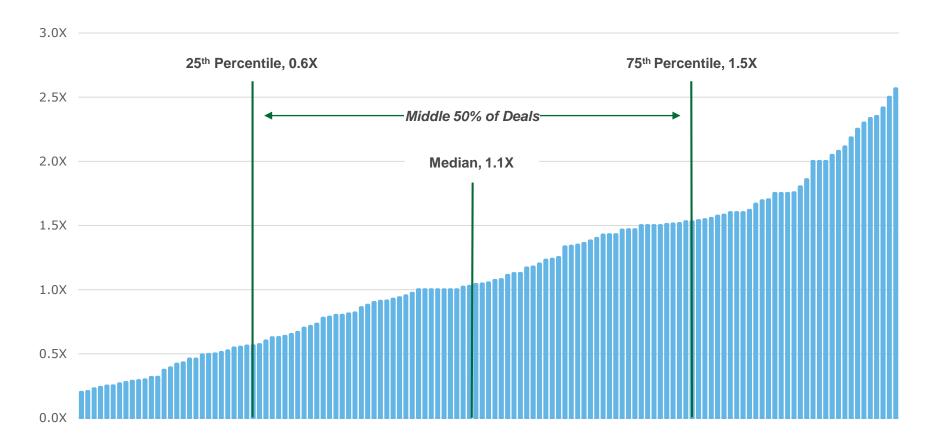
Key decisions to be made

- 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

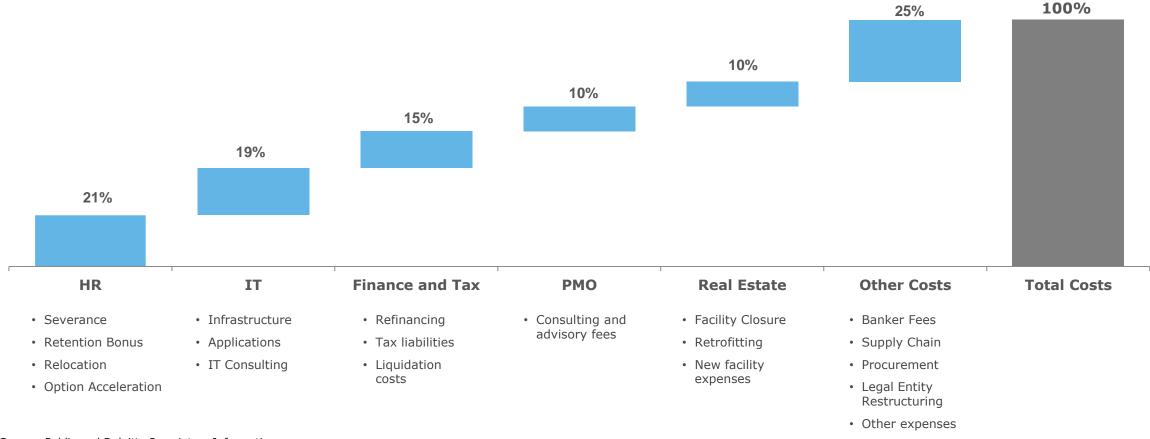


Source: Public and Deloitte Proprietary Information

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

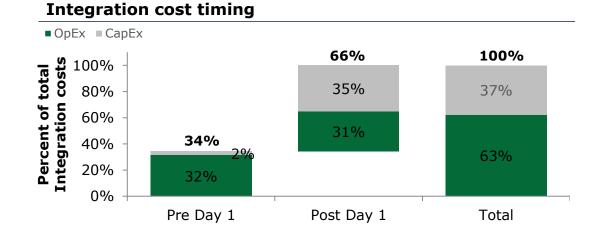


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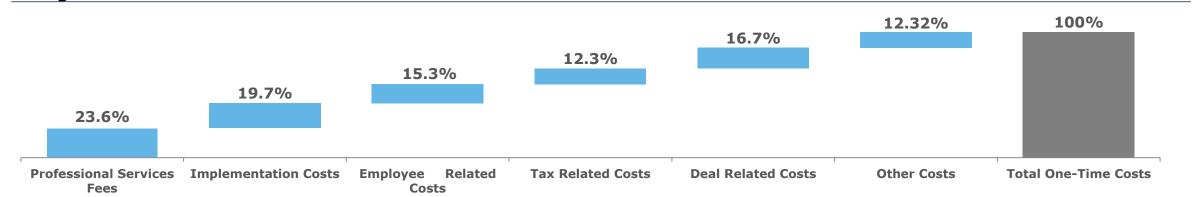
Case example of a successful integration project

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

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



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





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Thank you!



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