

**Succeeding with M&A value realization**

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## Agenda


- 1 THE OPPORTUNITY
- 2 THE CHALLENGE
- 3 THE WHY
- 4 THE HOW
- 5 THE FL SCHMIDT CASE, BY MICHAEL DURICKO
- 6 Q&A

# The opportunity: M&A is the preferred strategic tool for growth

Today, companies are facing business model disruption due to new technologies, changing customer behavior, and industry convergence, these trends lead companies to use M&A more than ever to ensure growth and transformation

## M&A as an opportunity to realize disruptive growth

**TECHNOLOGY SHIFTS**



AI      Cloud      Fintech

IoT      Robotics      Big Data

**CONSUMER BEHAVIOR SHIFTS**



Ownership      Competition      Corporate

Access      Collaboration      Peers

**CONVERGE ACROSS SECTORS**



New health      New consumer      Sustainability

New mobility      New finance      New factories

**79%**

of businesses have been disrupted or will be facing disruption soon

**41%**

of companies are building up M&A capabilities to realize disruptive growth opportunities

# The opportunity: What value M&A can bring

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

## M&A growth matrix

|                  |              |   |                              |                                 |
|------------------|--------------|---|------------------------------|---------------------------------|
| Customers/Market | Transforming | Identify new uses or users (products, services, solutions, or technologies) |                              | Create new markets              |
|                  | Adjacent     | Expand the value chain  | Expand the value chain       | Change the basis of competition |
|                  | Existing     | Improve core operations   | Extend products and services |                                 |
|                  |              | Existing  | Adjacent                     | Transforming                    |
|                  |              | <b>Business model</b>   |                              |                                 |

## Business model transformation

|                     |   |
|---------------------|---|
| <b>Core</b>         | <p><b>Predominantly assimilation</b></p> <p>60% of investments</p>                                  |
| <b>Adjacent</b>     | <p><b>Leverage capabilities of Target; some “reverse integration”</b></p> <p>30% of investments</p> |
| <b>Transforming</b> | <p><b>Mix of capabilities; sometimes kept autonomous for focus</b></p> <p>10% of investments</p>    |



## Agenda

1

THE OPPORTUNITY

2

THE CHALLENGE

3

THE WHY

4

THE HOW

5

THE FL SCHMIDT CASE, BY MICHAEL DURICKO

6

Q&A

# The challenge: Then and now – the evidence

Our latest and most extensive research shows that – on average – acquisitions destroy value with a negative return of -2,1%

“The Case Against Mergers”, *Business Week*, October 1995:

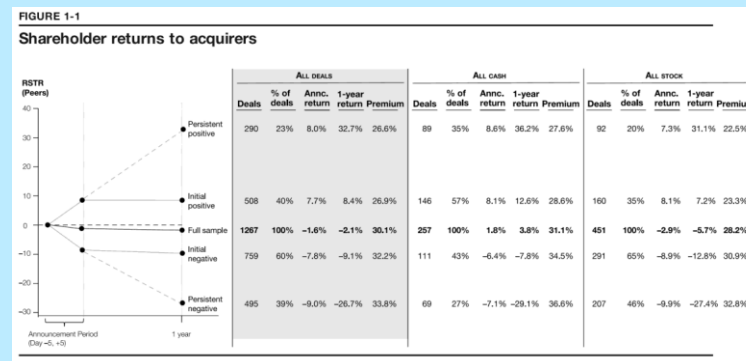


**65 %** of all major deals destroy value for the buyers

Deloitte’s latest survey of 2.500 deals above \$100m from 1995 – 2018:

**56 %** of acquirers destroy value compared with industry peers

- This is an improvement over the period from 64% in 1995-2002
- On average, acquisitions destroy 2,1 % value for buyers
- The stock market expectations at announcement day is a very good indication of deal success
  - as persistently positively received deals generate a first year return of 32,7 %
  - whereas persistently negatively received deals have a negative return of 26,7 %







## Agenda

1

THE OPPORTUNITY

2

THE CHALLENGE

3

THE WHY

4

THE HOW

5

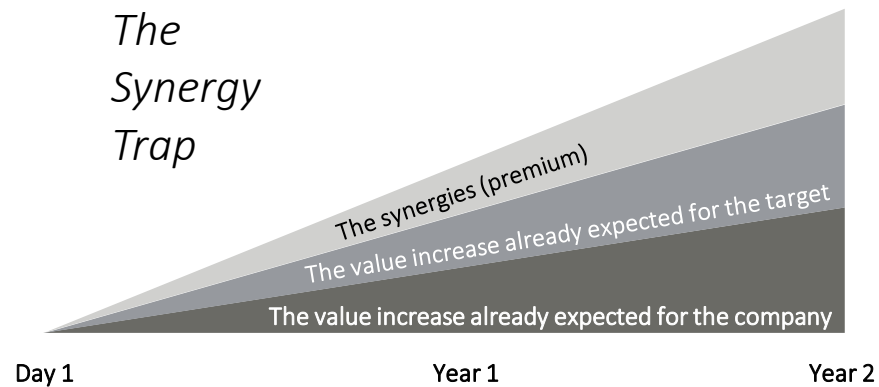
THE FL SCHMIDT CASE, BY MICHAEL DURICKO

6

Q&A

# The Why

You pay for the acquisition up front – from then on it is a matter of delivering the benefits, less the premium paid



1

Failure to understand the performance trajectory already priced into the shares of both stand-alone companies

2

Failure to consider synergies in both competitive and financial terms (relative to competitors)

3

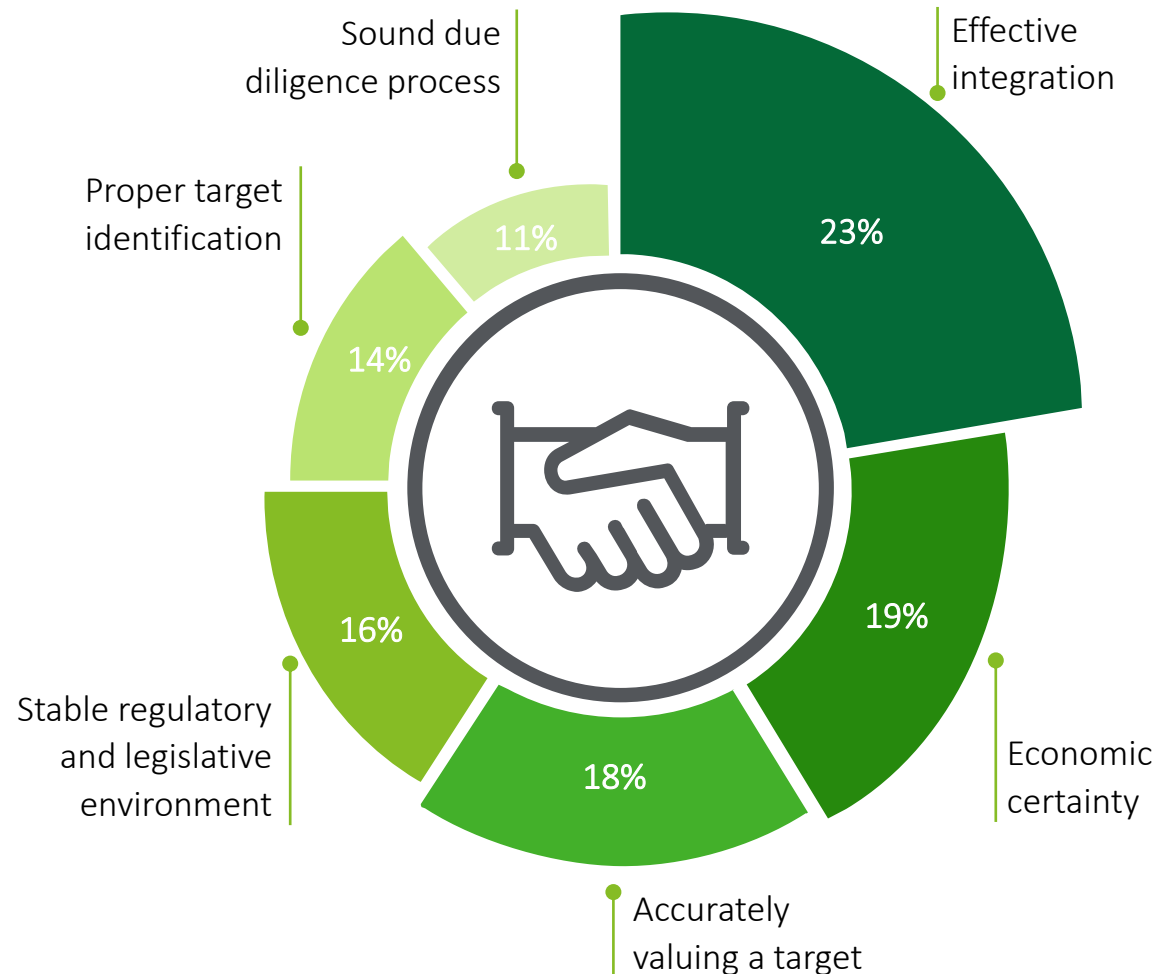
Failure to understand the performance promises built into paying an up-front premium



## The Why: Successful M&A value realization

Successful M&A transactions start with a clear and validated picture of how value can be created which is accomplished through a successful M&A strategy and target identification, due diligence, PMI and value realization

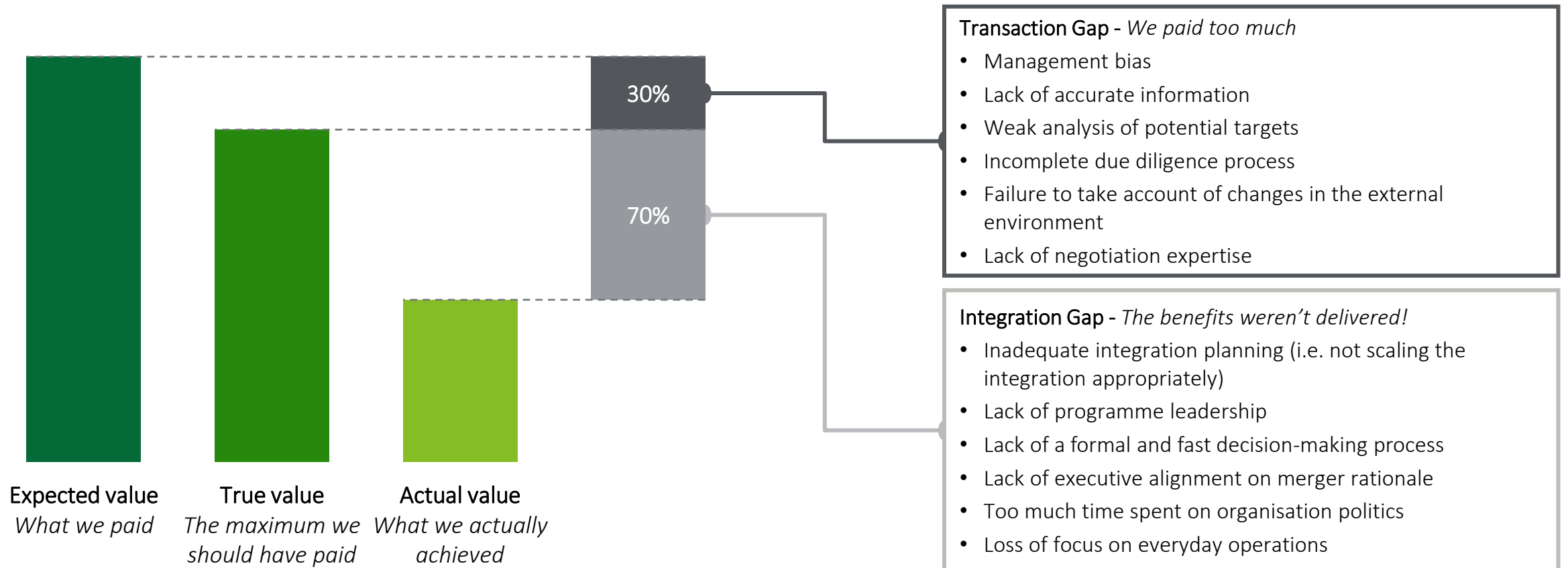
We have asked 1000 executives, what makes a deal successful



# The Why: Most value is lost in the integration phase

More than half of all M&A transactions fail to deliver shareholder value, mostly related to synergy delivery in the integration phase

## The value gap in M&A – it is mostly about integration





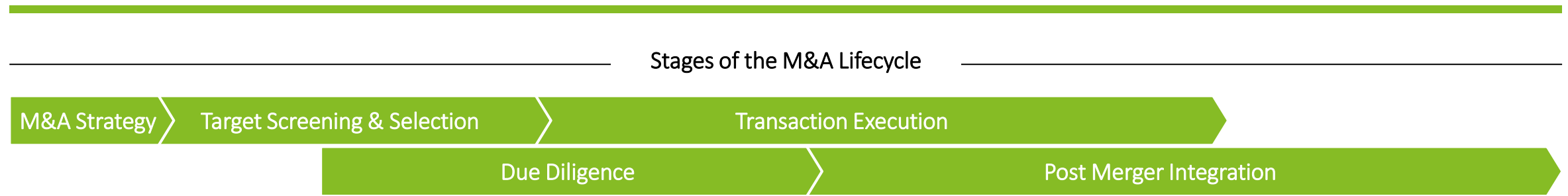
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# The how: End-to-end perspective is key

Most companies that succeed in harvesting the full value potential of their M&A transactions have had a strong focus on value potential and value realization throughout the full M&A lifecycle

## M&A Lifecycle





# Identify the right deal: Being a proactive acquirer

Proactive acquirers have an M&A strategy which ensures that they chose deliberately among alternative options – compared with the reactive acquirer chasing the available deal

## M&A strategy components



Baseline development

Understand company's **own strategy** and identify **areas of growth** and opportunities based on **market trends** and **internal portfolio analysis**

Objective



Initial target screening

**Assemble longlist** within growth areas and **define evaluation criteria** for initial screening to generate shortlist and consider **who would be the best owner of a company**



Target selection

Develop and evaluate **detailed target profiles** and **determine highest priority target**

Output

- Goals and aspirations
- Market analysis
- Portfolio diagnostic

- Longlist
- Evaluation criteria incl. owner logic
- Shortlist

- Detailed target profiles
- Target selection



**Having a BATNA:** Working proactively with an M&A strategy will ensure that you can evaluate a deal against a alternative options (Best Alternative To a Negotiated Agreement)



# Execute the deal successfully: Due diligence

Proper diligence helps define the value drivers, issues and red flags, which will impact the value, risk and scope of the deal – and give an early view on integration issues

## How to execute the due diligence successfully

### Acquisition rationale and value drivers

Acquisition rationale and value drivers determine price and structure of transaction and define the scope of the due diligence

|           |                   |
|-----------|-------------------|
| Growth    | Intangible assets |
| Products  | Markets           |
| Customers | Capabilities      |
| Culture   | IP                |
| Risk      | Etc.              |



### Due diligence process

Due diligence process helps identifying potential risks, tests validity of claims, and begins to organize for integration

|             |            |
|-------------|------------|
| Financial   | Tax        |
| Legal       | Commercial |
| Operational | IT         |
| ESG         | HR         |
| Digital     | Etc.       |

### Typical Due Diligence Issues

- Early capture and realization of synergies from the transaction
- Uncertainty around target management's claims on growth
- Stability of customer base
- Accelerating time to close
- Tax and accounting structuring
- Operational gaps (IT-systems, people, locations, contracts)
- Effect of regulatory matters
- Identification and quantification of tax exposures and related benefits
- Employee benefits, IT systems and risk management practices

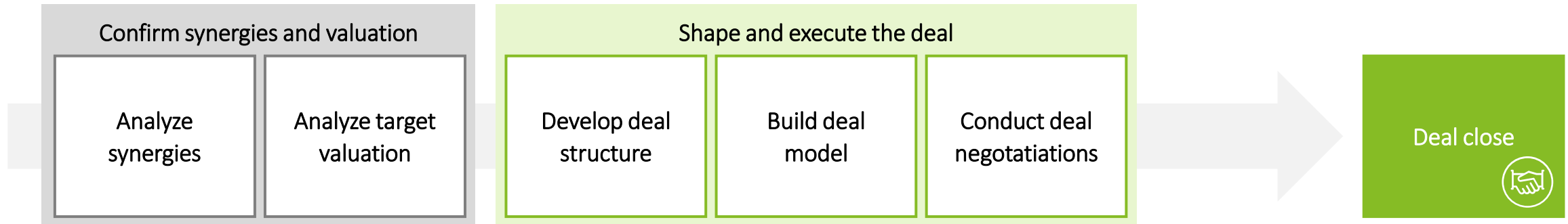




# Execute the deal successfully: Valuation

Transaction execution focuses on confirming the valuation and synergies identified in the due-diligence, as well as shaping and executing the deal

## How to execute the transaction execution successfully



### Take-aways

- **The valuation** should be the ultimate business plan that drives the integration strategy (instead of being just a set of assumptions)
- **Look beyond DCF** to the synergies required, considering the cost of capital, beyond what each firm was expected to accomplish independently (Economic Value Added)

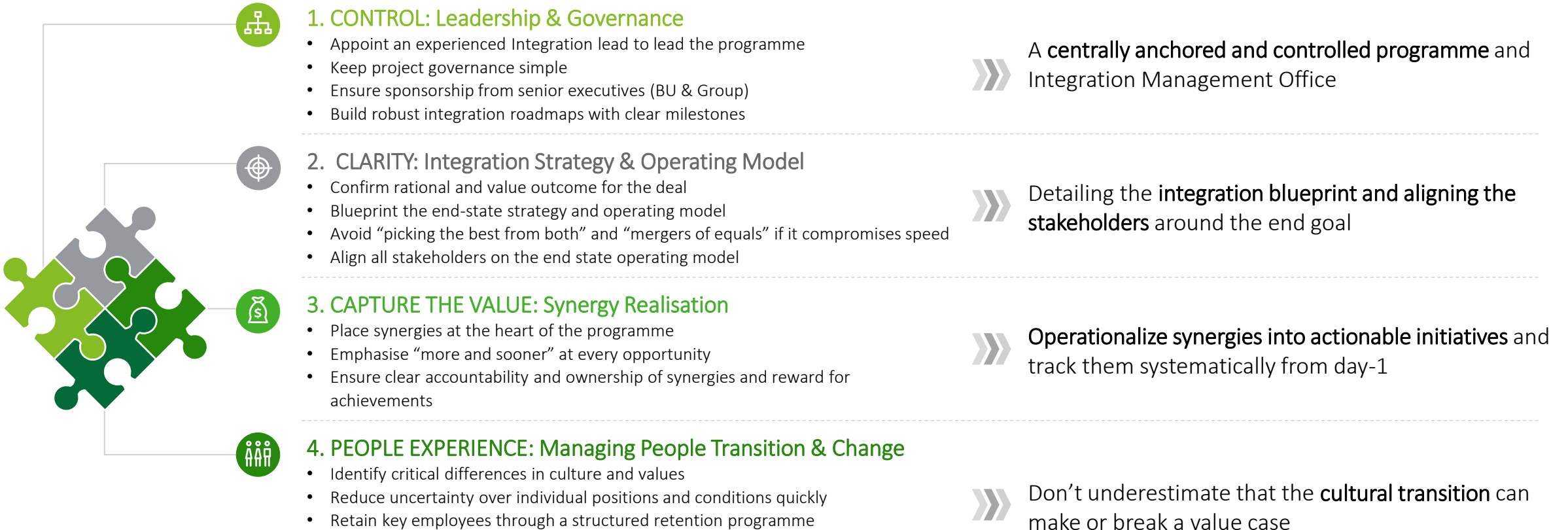


# Deliver the promised returns: Integration best practices

To succeed with integrating the acquired targets and realize the expected value it is important to ensure key factors are in place,

The integration requires sharp focus on four critical areas...

...to be incorporated into the approach



# Deliver the promised returns: The technology challenge

Tech is often seen as the “longest pole in the tent” – the emergence of new disruptive technologies can change that – and can potentially change the dynamics of the transaction through the various phases pre- and post-signing.

## How tech can play a role across the lifecycle



### ACCELERATION

Accelerate integrations, divestitures, and JVs



### OPTIMISATION

Streamline and harmonise business processes



### POSSIBILITY

Unlock revenue synergies and transformational change



### CATALYST

Catalyst to new ways of executing the deal

# 1

## Shape the Strategy and Identify the Deal

Deploy strong execution tools and platforms from the start to ensure strong governance, reporting, and transparency across the lifecycle.

# 2

## Prepare and Execute the Deal

Use AI and Cognitive platforms together with BigData and combine data source to analyse markets, competitors, sector and industry trends, and to identify current and future targets to approach.

# 3

## Deliver the Promised Returns

Leverage existing cloud-based pre-configured solutions, to accelerate implementation of core business processes while optimizing processes, accelerate cost synergies and TSA exits

# 4

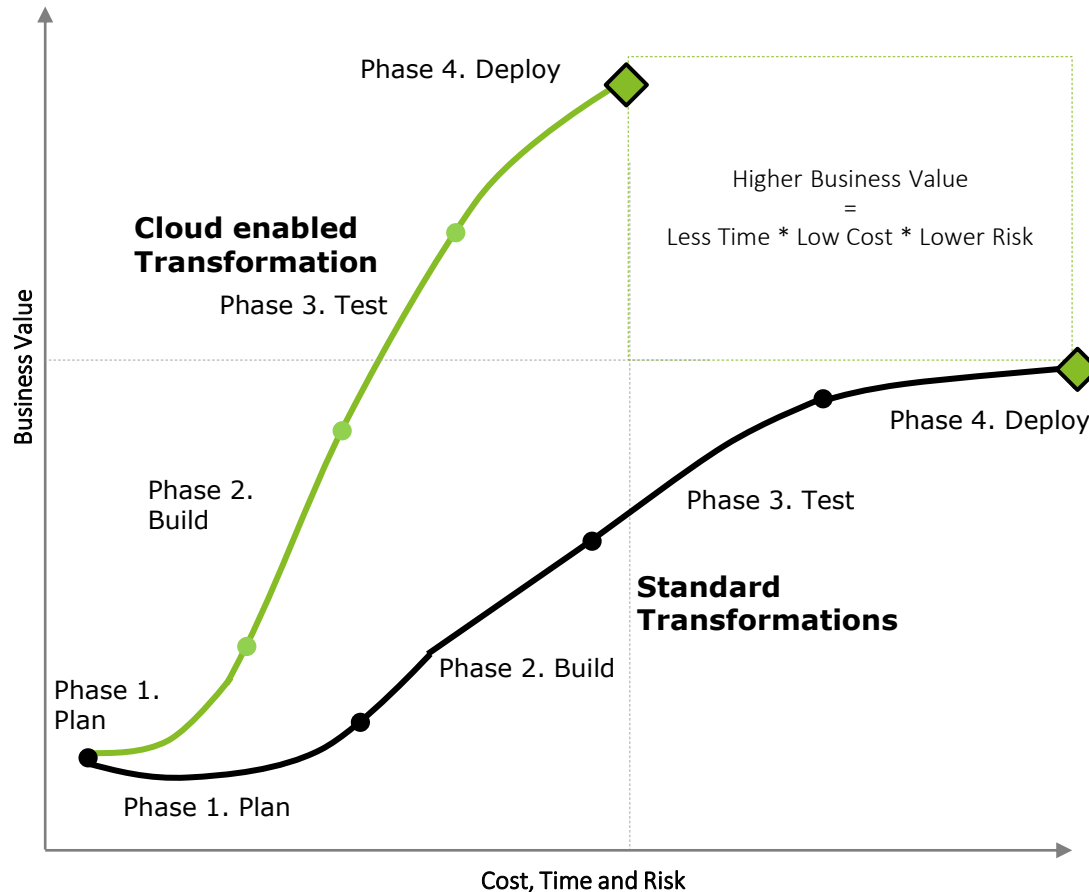
## Transform and Realise Greater Value

Use AI and predictive analytics to identify and predict revenue and cost synergies by leveraging existing company data

# Deliver the promised returns: Cloud enabled M&A

Best-in-breed cloud-based pre-configured solution which enables rapid digital transformation of core business processes and technology architecture using industry best practices in a consumption model

Higher business value is...



...enabled by pre-configured platform, proprietary accelerators and tailored methodologies



Accelerators Methodologies



# Deliver the promised returns: The case for culture in M&A






Substantial deal value can be lost while waiting for culture integration to 'happen naturally'

**43%** of deals delayed, terminated, or experienced negative impact to purchase price due to culture issues






**67%** of deals experiencing delayed synergy realization due to culture / employee experience issues<sup>1</sup>

**2X** The rate at which employees value culture more than they value compensation and benefits

## Culture in M&A - lessons learned

-  **Culture matters as soon as the deal is announced:** pre-close planning showcase cooperation post-close.
-  **Leaders must define and exemplify** desired behaviours and engage with to ensure authenticity and to build momentum.
-  **Culture surveys illuminate similarities/differences** between companies and geographies, but **employee stories make that data meaningful.**
-  **Actions speak louder than words**  
Stating a desire for 'best of both' requires concrete actions.
-  **Culture sprints are useful ways to test out your ideas for culture change before rollout,** allowing you to quickly refine if needed.

## The objective is to make culture an enabler instead of a blocker

-  **Unite strong behaviours and values** from both companies to create a competitive-enabling performance culture.
-  **Actively engage employees** by formulating an inspiring culture ambition and interventions to guide the integration work.
-  **Create mutual awareness** and acceptance for cultural differences to reduce frustration and misalignment.
-  **Maintain business momentum** and continuity.
-  **Drive organisational alignment** based on collective values and behaviours and start shaping future ways of working.



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Thank you!



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