Post-Merger Integration
Ensuring M&A delivers full value

June 2014
Agenda

- Introduction
- Pace of Integration
- Integration Management Office (IMO)
- Day 1 Readiness
- Synergy Planning
- Conclusion
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Introduction
Success Rate of Post Merger Integration

The Japan CFO may not have executed the M&A transaction, but the Japan CFO more than likely will be responsible for its successful integration.

Q. What percentages of the targeted objectives/goals has the Company accomplished post-transaction?

Takeaway: A typical success rate for M&A is approximately 30%. For cross-border deals, that success rate drops to around 13%. (Successful M&A is defined as achieving more than 80% of targeted objectives/goals post-transaction.)

Source: Deloitte Tohmatsu Consulting (DTC) M&A survey 2010 (170 companies) and 2013 (224 companies).
**Post Merger Integration – Methodology for Success**

PMI, from early consideration to integration execution, is required for a successful integration.

Incorrect M&A process

A lack of strategy → Target selection → DD → Valuation → M&A Execution → A lack of planning post M&A

Acquiring targets becomes the main goals/objectives.

"Desired" M&A process

M&A completion → M&A success

M&A Strategy → DD/Valuation → PMI (Post Merger Integration)

PMI planning

The goals/objective of M&A is to derive value by acquiring targets which are consistent with the Company’s business strategy.

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**Post Merger Integration – Common Challenges**

PMI (Post Merger Integration) is typical issues preventing a successful integration for a cross-border M&A deal

Q. What were the barriers / obstacles experienced during the planning and execution phases of a cross-border M&A transaction?

<table>
<thead>
<tr>
<th>Barriers/Obstacles</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>Timing of barriers/obstacles</th>
</tr>
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<tbody>
<tr>
<td>Cultural barrier</td>
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<td>PMI</td>
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<td>Post-transaction governance</td>
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<td>PMI</td>
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<td>A lack of information about the target</td>
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<td>Pre-M&amp;A and PMI</td>
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<td>A lack of human resources for M&amp;A</td>
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<td>Pre-M&amp;A and PMI</td>
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<td>A lack of information on local markets</td>
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<td>Pre-M&amp;A and PMI</td>
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<td>Synergy realization after M&amp;A</td>
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<td>PMI</td>
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<td>Lack expertise with negotiations</td>
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<td></td>
<td>Pre-M&amp;A</td>
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<tr>
<td>Language barrier</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pre-M&amp;A and PMI</td>
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<tr>
<td>Others</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Deloitte Tohmatsu Consulting (DTC) M&A survey 2010 (170 companies)
Post Merger Integration – Started Planning for PMI

Less than half corporations start PMI planning at DD phase

Q. When did you start PMI planning in regards to the recent M&A deals?

Europe
- 50% in DD Phase
- 40% in Purchase agreement negotiation phase
- 10% in Between purchase agreement and closing

US
- 40% in DD Phase
- 47% in Purchase agreement negotiation phase
- 13% in Between purchase agreement and closing

Japan
- 7% in DD Phase
- 47% in Purchase agreement negotiation phase
- 46% in Between purchase agreement and closing

A ratio of respondents

Source: DTFA, Merger Market May 2013
Key Success Factors for Japan Inbound PMI

- Define and share appropriate pace of integration
- Establish strong Integration Management Office (IMO)
- Ensure issue-free Day1 with well-prepared plans
- Identify concrete actions and benefits for synergy realization
- Take a customized approach for PMI capabilities building
Pace of Integration
Integration Blueprint

Typical Contents of Integration Blueprint

- Scope of transaction
  - People, Location, Products, Revenues and profit

- Deal Rationale
  - Why is the deal being done
  - High level explanation of how the business will fit into the acquirer's business
  - Deal value driver

- Timeline
  - What deliverables are required from the integration team, when
  - Any external dates which need to be factored in

- Synergies
  - What are they? Where and when will they be achieved?

- Key integration principles to be applied

- What will success look like
  - What MUST happen on Day 1
  - What will customers see
  - What will happen for staff
  - What must happen in the first 3 months, first year?

- What are the key questions to be answered

- Integration program governance

Integration Blueprint Example

10 Global CFO Program | Japan
Integration Management Office (IMO)
Rationale of IMO
Why do we need IMO?

Integration Design
- Define pace of integration
- Resolve conflict of interests
- Stick to deal value driver

Cross-Functional Alignment
- Ensure consistency across a wide range of functions (e.g. sales, HR, IT)

Escalation to Top Management
- Escalate issues and decision-making requirements in a timely manner

Change Management
- Drive not only acquirer’s own organization but also target organization
- Need additional efforts for Japan inbound PMI as degree of change is larger
Cross-border IMO

Frequent communication between the two IMOs was an important factor to drive an efficient cross border PMI and secure a successful Day 1

Team Structure

![Diagram of team structure with roles and communication lines]

Project Approach

- With the time difference between Japan and the US we could deliver tasks and resolve issues around the clock

Key Challenges

- Facilitating two IMO locations with different members and roles
  - IMO US: Monitor Co2 (US) functional teams
  - IMO JP: Monitor Co1 (JP) functional teams
- Day 1 Readiness on a global scale was required
  - Cross border PMI of a carve out deal. There were many separation issues

How the Challenges were addressed

- Internal IMO meetings were held everyday and 2 Deloitte JP members with Co1 member went to the US to align understanding of integration policies
- Align tasks with integration blueprint
- Day 1 readiness was secured by frequent communication between IMO and functional teams

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Day 1 Readiness
Overview of Day1 Readiness

- To ensure the business is fully prepared for the day of legal control of the acquisition, a Day 1 process has been implemented at the start of the program.
- The overall objective is to ensure statutory, contractual and commercially critical requirements have been met and financial controls are in place, so that the business can function successfully on Day 1 which limits adverse impact on customers, suppliers and staff.
- The main objective is to identify, agree, resource, implement and monitor the large number of statutory, contractual and commercially critical tasks that will need to be in place on Day 1.
- Clearly understand and plan the sequence of events before and on Day 1 (including internal and external communications to all stakeholders).

Key Approach to Day1 Readiness

A. Walk the Wall

B. Day1 Readiness Stress Test and Day1 Simulation Workshop

C. Command Center

D. Addressing Standalone Issues
Case Study A

“Walk the Wall” Overview

Walk the Walls Objectives

- Create cross functional alignment on Day 1 vision, milestones and requirements
- Create a cross functional roadmap of the key milestones through Day 1
- Identify key dependencies and planning timeline issues that require resolution

Walk the Walls Overview

- Each functional team prepares Day1 milestones as pre-requisite for the WTW activity
- All functional teams together conduct WTW Activity
- Output, e.g. cross functional roadmap is published

All functional teams put their milestones “on the wall” to identify major dependencies and ensure consistency
## Case Study B
### Day1 Readiness Stress Test

IMO poses multiple validating questions to relevant functional teams to identify missing parts in Day 1 integration plans

<table>
<thead>
<tr>
<th>Topic</th>
<th>Functional Attendees</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Deliver “one face to the customer”</td>
<td>Sales, Aftermarket, Legal, Finance</td>
<td>60 min</td>
</tr>
<tr>
<td>2. Record to report and Day 1 compliance requirements</td>
<td>Finance, Tax, Legal</td>
<td>60 min</td>
</tr>
<tr>
<td>3. Finance planning and forecasting</td>
<td>Finance, Sales, IT, HR</td>
<td>45 min</td>
</tr>
<tr>
<td>4. Employee enablement</td>
<td>Facilities, IT, HR</td>
<td>30 min</td>
</tr>
<tr>
<td>5. Employee hire-to-retire lifecycle</td>
<td>HR, IT, Finance</td>
<td>45 min</td>
</tr>
<tr>
<td>6. Execute order-to-cash process</td>
<td>Finance, Supply Chain, Sales, Aftermarket, IT, Mfg.</td>
<td>45 min</td>
</tr>
<tr>
<td>7. Execute procure-to-pay process</td>
<td>Supply Chain, Mfg, Logistics, Finance, IT</td>
<td>30 min</td>
</tr>
</tbody>
</table>
Case Study B
Day1 Simulation Workshop

Multiple functional teams simulate what they need to do from Day 1 by following new operational flow

Objectives
- Confirm if all the integration preparations are fixed for Day 1 with the point of view from Sales fields
  - Sales fields: Clarify assumed concerns or questions regarding sales activity under new organization
- HQ: Review whether solutions to concerns / questions from Sales field have already been prepared or not

Attendees
- 20 from Sales (e.g. Branch)
- 26 from Sales Integration Project Team
- 30 from HQ

Results
- Over 90% of concerns / questions had been already considered
- On the other hand, less than 10% of concerns / questions were not considered
  → Need to consider the solution and explain to sales fields

<table>
<thead>
<tr>
<th>Considered</th>
<th>Not Considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>258</td>
<td>18</td>
</tr>
<tr>
<td>93.5%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
Case Study C
Command Center

Command center serves as a single point of contact from all the employees to resolve issues with high impact to business

Objectives of Command Center

- Provide centralized point for expedient tracking, facilitation and resolution of issues
- Provide ultra-rapid escalation, decision making and communication in support of workstream teams to ensure an issue-free Day 1
- Manage and report on overall Day 1 execution progress
- Knit together the work of all the teams, not duplicate work the workstream teams are already doing

Command Center (Sample)
Case Study D
Standalone Issue

Standalone Issue: To handle with the lack of functions as a result of merger of business unit or issues to be dealt for separation of business division

Framework of Standalone Issue

- **Shared Services**: Corporate functions such as HR, accounting, finance, legal, purchasing, IT are provided by HQ or group company.
- **Shared Facilities**: Offices, factories, distribution centers are shared with HQ or group companies.
- **Shared Employees**: Some employees who serves both target and non-target businesses will not serve target post close.
- **Loss of Scale Merit**: Raw material costs and welfare expenses, which are currently discounted price for large enterprise, are needed to be revised.

To address these issues, TSA (Transition Service Agreement) and migration plan are required.
Synergy Planning
Many companies faced with “Lack of experiences to develop synergy plan” and “Lack of resources” in their cross-border integration.

Q. What were the barriers/obstacles experienced during the synergy planning?

- Lack of resources: 50.0%
- Lack of experiences to develop and quantify synergy plan: 83.3%
- Stuck planning due to conflict between buyer and acquirer: 11.1%
- Less commitment to achieving synergy target: 22.2%
- Others: 5.6%

Target: Companies that experienced Cross Border M&A

Source: Questionnaire result of Deloitte Tohmatsu Consulting (DTC) seminar (2009)
Conclusion
Key Success Factors for Japan Inbound PMI

1. Define and share appropriate pace of integration
2. Establish strong Integration Management Office (IMO)
3. Ensure issue-free Day1 with well-prepared plans
4. Identify concrete actions and benefits for synergy realization
5. Take a customized approach for PMI capabilities building
Session Summary
Pre-Integration Planning

CFOs commented:
(abridged and edited for clarity)

“The steps that companies should take to plan for the integration depends on the purpose of the acquisition. An integration driven by synergy capture will have a drastically different approach than an integration with the objective of market entry acquisition.”

“The key point in careful planning is to decrease the public effects. In Wal-Mart and Seiyu case, keeping the Seiyu brand-name allowed the M&A to have less effect on the consumer behavior.”
Pace of Integration – difficulties in the integration of the target company

CFOs commented:
(abridged and edited for clarity)

“Thinking about cost efficiency becomes a key during the integration. It might be easy to replace or integrate staff, but it takes time to train them.”

“There are issues with software differences, and being able to plan out the steps in implementing those technical changes heavily shift the cost and timeframe of the integration.”

“Quality issues can be managed in short term, but financial issues need to be looked over for a longer period of time, and this could cause the plan to be skewed.”
Cross-border acquisitions face strong cultural differences

CFOs commented:

(abridged and edited for clarity)

“Especially with cases of Japanese companies acquiring foreign companies, policies and values established within those entities need to be changed, and that is very challenging.”

“When we acquired a same size Japanese company, we realized that successful integration comes from understanding and agreeing on the policies and values of both the acquiring and the target company.”

“Making sure that the message is received and understood by the other company is important.”
Building stronger relationship and trust with the target company is essential

CFOs commented:
(abridged and edited for clarity)

“Sometimes compromise has to be made, and the acquiring company needs to think from the viewpoint of the other company.”

“After-business hour drinking sessions, or something that allows people from both sides to interact is very important to work together going forward.”

“Stronger trust cannot be achieved by being in the same room, or reserving time to discuss something. There has to be a offsite session or a workshops where both sides are forced to work together. Combining strengths to achieve things rather than just sharing ideas is the key.”
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