Participation Report on “Asian Business Dialogue on Corporate Governance 2017” held by ACGA

Vincent Poizat of Deloitte Touche Tohmatsu pointed out that corporate governance in the context of M&A –“M&A governance” is a critical issue companies face regarding M&A.

Summary of Speech by Vincent Poizat

Vincent Poizat
Risk Advisory
Deloitte Touche Tohmatsu LLC

- M&A’s success rate remains low globally, despite improvements in various M&A tools over the last twenty years.

- The key to M&A success, as seen among mature serial acquirers, is corporate governance processes in the context of M&A, especially with regards to risk management, deal review and approval processes– “M&A governance”; however this is largely lacking at most companies.

- As the word “governance” suggests, M&A governance is based on a risk management approach to M&A led by the board, which encompasses not just target-related risks but also strategic and execution risks.

- Following a customised review of the firm and its M&A environment, such as review of the M&A strategy, M&A targets universe, potential competitive bidders, regulations, integration policies and deal execution practices, one can not only enhance internal M&A processes but also design a robust, risk-based template for boards and appropriate committees to assess deals as well as a practical set of approval processes, applicable to all transactions.

- This approach leads to systematic and efficient deal reviews and approval processes; it also provides a good platform to improve board and committee members’ effectiveness when it comes to approving M&A deals.

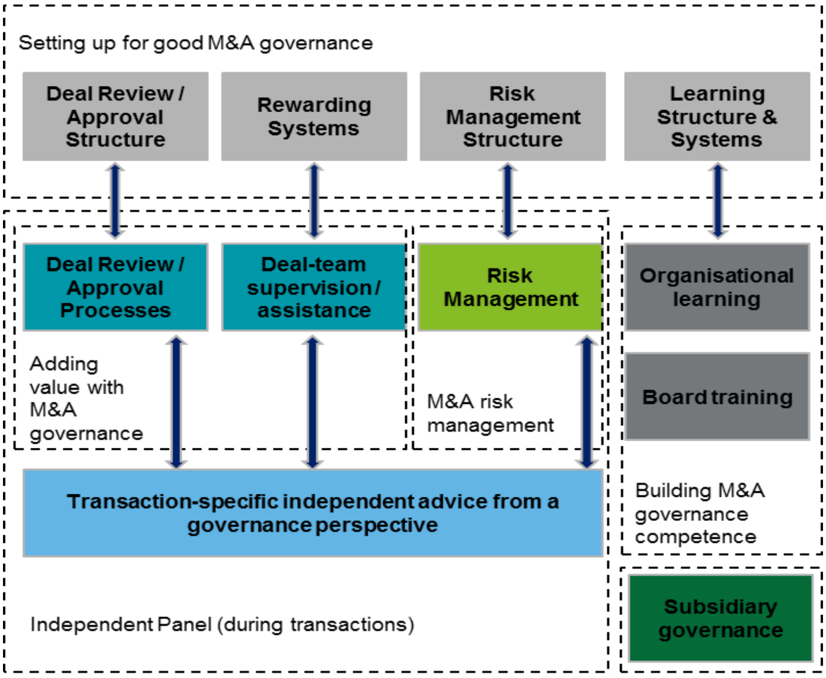
- Investors will increasingly demand that their invested companies oversee transactions in a systematic and robust manner. Companies should take their calls seriously.

See P2 for further details.

M&As that do not create value are a critical problem globally

When I first became involved in M&A, about twenty years ago, research showed that M&A's track record as a value-creation tool was rather appalling, with only 30% of deals adding value to the acquirer and 40% of deals destroying value. These numbers don't even include all the wasted efforts and thus wasted value spent on fruitless origination and deals that never closed.

So people got busy, and since then much progress has been made on various M&A tools such as M&A strategy models, valuation techniques, due diligence standards and integration planning. And now, twenty years later, the M&A success rate… hasn't changed at all.
The M&A landscape, however, has changed. Among the more mature acquirers who were already active back then, some – the serial acquirers – have perfected their M&A governance processes and are achieving significantly higher success rates. On the other hand, an increasing number of less experienced companies continue to approach M&A with substandard oversight processes and are plagued with impairment losses, rushed exits at a loss, and reputational damage as a result of their M&A initiatives. The difference between the two groups is not M&A tools and techniques, which are readily available. The difference is corporate governance processes in the context of M&A.



Deloitte's M&A governance offering ecosystem

M&A failures

Value in M&A can be achieved in only one way – closing a good deal. On the other hand, it can be destroyed in many ways, from failure to originate or close a good deal to succeeding in closing a bad one (generally but not limited to paying too high a premium for a given business or paying a justifiable premium on a business out of which the acquirer subsequently fails at capturing value).

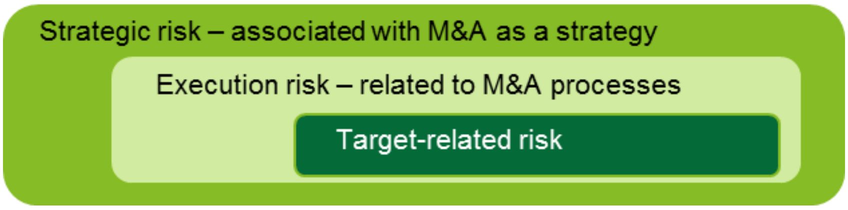
Among many others, the typical ways in which companies destroy value in M&A are:

- unrealistic or too broad investment criteria
- lack of systematic origination process
- lack of well-defined execution process with clearly assigned responsibilities
- the interference of political or personal agendas
- the use of the concept of "strategic investments" to justify uneconomic ones
- or again the lack of diligent and integrated work on synergistic value and its capture plan post-acquisition.

All the above and more happens routinely and yet boards and committees, often limited by their lack of expertise in M&A, the lack of clear and complete deal information and the absence of a systematic deal review and approval process, find themselves rubber-stamping whatever transaction is proposed by management.

Improving the odds with M&A governance

The first step to changing this is a better understanding of M&A risk throughout the company, from the deal team to the board. Beyond the risk associated with the target (typically addressed through due diligence), there are material risks associated with M&A strategy and M&A execution. For example, a strategy targeting popular targets may give rise to more competitive transactions and thus put pressure on price, or a company with a complex organisational structure and little success so far at integrating acquired businesses probably presents a higher risk of failure to capture value. Some of these risks can be addressed through implementation of best practices; however most of them will remain present at a certain level – often at a significant and sometimes at a critical one.



M&A risk management should be at the core of deal reviews and approvals. Boards and committees must be given a clear picture of three types of risks:

- Key risks intrinsic to the company and its business environment
- Risks associated to the transaction process
- Risks related to the offer (e.g. are key risks identified in the due diligence investigation properly addressed in the offer?)

Investors will not settle for the current situation. They will demand that M&A-savvy boards and committees approve transactions in a systematic, efficient manner following a thorough review of two main items: strategic fit and M&A risk. Companies must review their M&A governance so that they can meet their demands. Only then shall we see a significant improvement in the global M&A success rate.

Q&A

Question: Aren't M&A advisors, somewhat responsible for bad deals?

Answer: The M&A process belongs to the acquiring company and so does the responsibility. In the absence of wrong-doing (whether tort or negligence) from the part of the advisor, it is the acquirer's responsibility and indeed freedom to take the advice or not. Actually, how you interact with your M&A advisor is itself part of execution risk. Following advice blindly is a negligence of responsibility. One must build trust with the advisor but still discharge stewardship responsibilities using his own judgement.

Question: Isn't technological disruption and the consequent, complex technology-driven deal an additional cause of deal failure?

Answer: Complexity always is a compounding factor to deal challenges. However, research shows that technology-driven deals tend to be more successful, on average, than deals focused on geographic expansion or business diversification. For more disruptive and earlier-stage technologies, besides M&A, companies may consider corporate venture capital, which involves smaller amounts invested in a diversified portfolio to accommodate the risks associated with earlier- stage technologies.

ACGA 17th Annual Conference
Asian Business Dialogue on Corporate Governance 2017

Date	November 14th (Tue) – 15th (Wed), 2017
Place	Trident Hotel Bandra Kurla (Mumbai, India)
Theme	Nurturing Corporate Governance Ecosystems in Asia
Organiser	Asian Corporate Governance Association (ACGA)

Deloitte Touche Tohmatsu assists clients to ensure effective oversight of M&A transactions along efficient review and approval processes. We use a risk management approach based on M&A best practices and a set of strategic tools; this ensures process integrity (from origination to post-deal integration) and enables more efficient and objective decision-making in M&A.

Vincent Poizat / Masahiko Kitazume / Kenichi Komatsu
Risk Advisory
Deloitte Touche Tohmatsu LLC
3-3-1 Marunouchi, Chiyoda-ku. Tokyo
Shin-Tokyo Building, Japan, 100-0005
E-mail grcjapan@tohmatsu.co.jp