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Integrating Brands

A guide to brand management in M&A

Contents

Foreword	**01**
Overview of key findings	**02**
Deloitte’s M&A Brand Outcome Framework: Considerations explained	**04**
Summary and recommendations	**10**
How Deloitte can help	**11**
Endnotes	**12**
Contacts	**13**

Foreword

Why brand management in M&A matters

When two businesses combine, what brand should they use? At what point in the deal is this considered and how should a decision be reached?

In our role as integration experts, we believe brand strategy should be considered early in the integration process and in much greater detail, to ensure optimum value is gained from the deal.

M&A is a fundamental aspect of business strategy and we expect large numbers of M&A deals as organisations emerge from the COVID-19 pandemic. Yet the well-publicised rate of M&A failures means that companies must continue to look for ways to improve the planning and execution of business combinations and integration. As integration specialists, we often see organisations announcing synergies and one-off implementation costs for an M&A transaction, without providing clarity about the brand identity for the combined organisation.

Brand is an intangible asset not usually recognised on the balance sheet. Consequently, it is rarely the focus of specific due diligence. Marketing is generally not involved in the pre-deal phase of a merger or acquisition, and brand equity is seldom the subject of scrutiny. Yet brand transition is a critical element of integration and brand strategy is key to communicating a clear vision for the future.

When the strategic rationale for a business combination is announced, there should be a well developed narrative on the future brand strategy. This brand narrative provides a crucial basis for the integration strategy, setting the direction from the start. The success of the integration and the future of the combined business may depend on it.

By focusing on brand transition strategy early in the deal process, the most appropriate options for delivering success for the business combination can be determined.

We are pleased to present this report, which summarises some of the key challenges and opportunities associated with brand management in M&A. In a world where brand is an increasingly valuable commodity, we help organisations develop and implement purposeful branding strategies as part of delivering a successful integration.

Peter Williams
Partner, Integration and Separation Services, Deloitte LLP

Overview of key findings

The value of a strong brand cannot be underestimated in today's fast-moving commercial environments, where customer loyalty is notoriously difficult to acquire and sustain.

Brand has come to encompass the core offerings and values of an organisation and has a huge impact on the performance of the combined business post deal.[1] Transacting parties therefore need to consider both the strategic and operational implications of the branding decision they make for their combined business.

1. Seven brand outcomes

We researched about 700 M&A transactions since 2006 with a transaction value exceeding £450 million. We find that there are seven distinct brand outcomes. Previous peer reviewed research identified just four types.[2]

2. Key insights

We have identified correlations between these seven brand outcomes and the deal type: merger, acquisition or reverse acquisition.

Furthermore, the choice of brand outcome varies by the sector involved in the business combination.

Brand outcome (strategy)	Brand outcome description	Deal example
Acquirer's brand (A)	The acquirer's brand is adopted for the combined business. The target's brand is removed altogether.	Carillion's acquisition of Alfred McAlpine resulted in the removal of the Alfred McAlpine brand. Carillion remained as the master brand.
Retain both (B)	The brands of both the target and the acquirer are retained in their original form. The target brand may reside as a business within the group or retain its position as a separately recognisable business line.	The Disney/Pixar combination resulted in both businesses retaining their existing brand. Pixar became a brand within the Disney group. (See case study, p. 5)
Combine (C)	This approach combines the acquirer and target brands to form a new brand where the identity of the original parties remains visible in the brand name.	Carphone Warehouse and Dixons became Dixons Carphone. (See case study, p. 6)
New brand (N)	An entirely new brand is created for the combined business that has limited or no identifiable connection to the combining businesses.	Tessera Technologies Inc acquired DTS Inc and the new group became Xperi Corporation.
New corporate brand (NT)	A new corporate brand is inserted above the existing brands to give a separate identity to the new group. Typically, both the target and acquirer brands are retained to maintain an identity for the existing businesses now captured as business units within the group.	In the combination of Lloyds TSB and HBOS, these brands were subsumed under the newly-created Lloyds Banking Group brand.
Associated branding (AB)	The brand of the target company includes a reference to association with the acquirer – on an ongoing basis, not just for transitional purposes.	In the Liongate/Starz combination, the target became Starz – a Liongate company.
Target's brand (T)	The target brand is adopted entirely for the combined business. The acquirer's brand identity is removed in favour of the target's brand identity.	Avago Technologies Ltd acquired Broadcom Inc and the Broadcom brand name was retained.

The brand outcome is also influenced by the relationship of the target company to the existing business proposition and markets of the transacting parties. Transactions that enlarge an existing footprint for a set of products or services in the same market are more likely to result in the acquirer's brand being adopted. In transactions where there is diversification in business proposition and markets, there are typically more creative brand outcomes.

Acquirers should therefore assess both the relative brand equity of the combining organisations and the impact of the combination on their businesses.

To ensure that the brand outcome decision is fully informed, acquirers should also consider other operational factors such as the cost and complexity of implementing the brand strategy as well as the cultural impacts of any brand changes. This is necessary to manage the brand transition as the integration of the businesses progresses.

3. Deloitte's M&A Brand Outcome Framework

Based on our research findings and experience working with clients, we have developed a framework to guide the branding decision in a business combination.

	Decision factor	Implication	Findings
Strategic	1. Deal type	The deal type (acquisition, merger or reverse acquisition) typically has a very strong bearing on the strategic rationale for the transaction, the case for synergies, and the sentiment of management in the new organisation.	Our research into about 700 historical M&A transactions shows: 1. The existence of seven brand outcomes following M&A. 2. A correlation between the three deal types and the seven brand outcomes.
Strategic	2. Industry sector	Sensitivity to customer behaviour is an important consideration in certain sectors where brand loyalty is particularly prevalent.	Prevailing competitor strategies or a high level of consumer engagement in the sector may influence the corporate brand outcome selected. Transactions involving consumer brands typically result in an outcome where the brand identities of the transacting parties are retained.
Strategic	3. Market diversification	Significant divergence between the products, services or markets of the companies affects the brand outcome selected, as the brand of one of the them may not be recognised in the market.	The brand of the target is commonly retained where there are differences between the existing products/ services or markets in which the two companies currently operate.
Strategic	4. Brand equity	Understanding relative brand equity may influence the brand decision due to the impact on customer retention.	Early analysis of the relative brand equity strengths of the acquirer and target may influence the branding decision, i.e. retain the target's brand to minimise customer churn following the deal. This can also be important internally, affecting culture and the identity that employees feel with the organisation.
Operational	5. Cost, complexity and culture	Brand transition can have significant impact on the operations of the business and the costs of the integration. These factors need to be considered as part of the business case for the transaction and in the brand outcome selected.	The cost of brand transition can catch out deal teams who fail to acknowledge this aspect of the business combination. Even if the deal type and relative brand strengths influence a decision about changing the brand, the operational implications and associated costs of brand transition may be too onerous and a simpler approach may be chosen.

Deloitte's M&A Brand Outcome Framework: Considerations explained

Brand selection and treatment must be determined by the objectives for the combined business and expectations about its values and behaviours.

The chosen brand outcome should ultimately reflect the business model that the integration programme is intended to deliver. As a key input to the integration strategy, values must be aligned, and visions must be shared to establish a common purpose and direction among all parties.

To determine the brand outcome most appropriate for any given transaction, we believe there are five key issues to consider. The relative importance of each of these will vary by transaction, but by using our M&A Brand Outcome Framework an appropriate brand outcome for the transaction can be selected.

1. Deal type

M&A is typically characterised as one of three deal types: acquisition, merger or reverse acquisition. Our research shows a clear correlation between deal type and brand outcome. The adoption of the acquirer's brand (outcome A) is commonly used when the consolidation happens within a market, typically between two competitors.[3]

Among the 700 or so M&A transactions we researched; the acquirer kept its own brand (outcome A) in 49% of them. Although this strategy can work effectively, it might ignore the impact on staff morale, culture and customer loyalty if not appropriately managed.

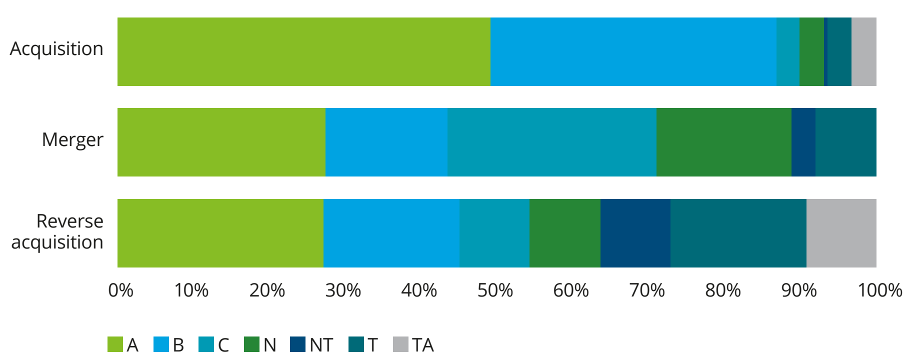
Highly recognisable brands can have a powerful influence, particularly in the FMCG sector or in mature consumer markets where household names and heritage brands hold emotional sway.

The acquirer dominant strategies[4] applied in such a high proportion of cases may also stem from an emotion-led decision by the acquirer, choosing to impose its brand as a 'right' for being the acquiring party.[5] Whether this leads to success or failure of the integration is not proved, and therefore an objective evaluation of all strategies is warranted.

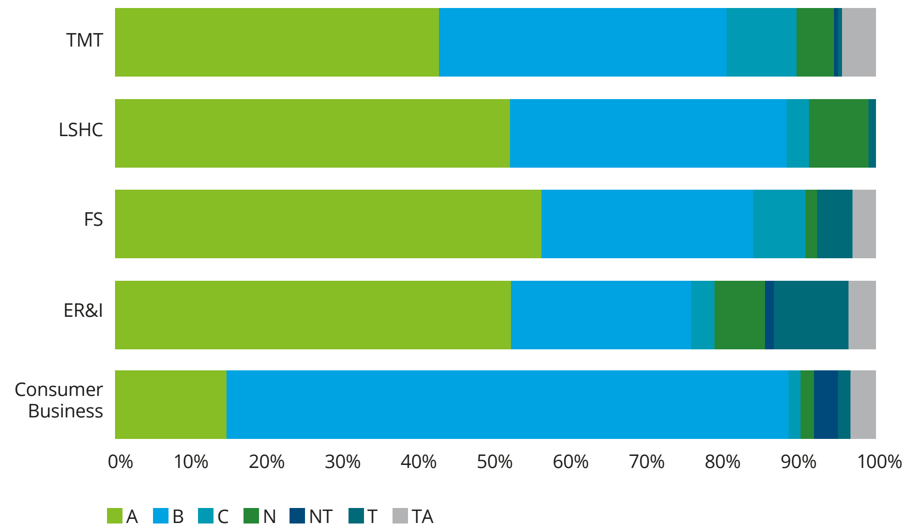
Mergers often result in the retention of the identity and heritage of the two companies by keeping both names (outcome B). However, where the purpose of a merger is to signal a substantial economic reorganisation, then a change of name (outcome N) or a combination (outcome C) of the two names is used to communicate a message of new capabilities, propositions and potential.[6] Mergers can be positioned as the combination of separate but complementary organisations, each bringing mutually advantageous attributes, products or services to the new company. When attitudes to each brand prior to the merger are similar, the adoption of a combined name is preferred by stakeholders (C). In mergers between more disparate entities or those that have stakeholders with differing attitudes, the outcome may well be to pursue a combination of the previous corporate brands. However, they are less likely to be as well perceived[7] and ultimately the value of both brands may be eroded as they lose their original specific appeal.

The most common outcome in reverse acquisitions, compared to the other deal types, is for the target's brand to be adopted (outcome T). This is not surprising, and this brand strategy is often a core part of a reverse acquisition strategy to retain value and accelerate growth.

Deal type



Industry sector



Case study

Illustrating digital success: Disney's $7.4 billion strategic acquisition of Pixar in 2006 took the original pioneer of family entertainment away from the drawing board by harnessing the dynamic new world of computer-generated animation. The combination of Pixar's technical capabilities and existing customer base with the globally recognised Disney brand and distribution channels resulted in massive expansion for Disney and captured the world's imagination (outcome B).

2. Industry sector

Our research revealed certain industry specific trends. While the 'traditional' branding decision outcomes (i.e. outcomes A and B – full absorption or full retention) were the most popular overall across all industry sectors, outcome B was particularly prevalent in the telecoms and consumer goods sectors. Innovative branding (i.e. the other types of outcome) are more complex and less popular across all sectors.

Consumer businesses are more likely to retain both brands in acquisitions and mergers

In our research, we found that within the consumer business industries, brand outcome B featured heavily. Consumer product businesses often have successful brands that are also used at the enterprise brand level. These brands are well known to their established consumer base, possibly as 'household' names. The acquirer is therefore likely to preserve a target's strong brand name in order to retain customers.

The technology sector supports brand combinations in mergers

The mergers in our research sample demonstrated a more diverse set of brand strategies across all industries compared to acquisitions. In the case of TMT (Technology, Media and Telecoms) brand outcome C was predominant: more than 50% of mergers resulted in a combined brand strategy being applied, probably reflecting a high level of consumer engagement in these sectors and convergence of products and services.

Energy, Resources and Industrials are more likely to establish a new brand in mergers

In 30% of mergers in the Energy, Resources and Industrials sector a new brand was adopted for the combined group. This is unlike other sectors where typically; the brand outcome includes some level of reference to both parties in the merger.

“In the high octane context of getting a deal done, it is understandable that brand can often be forgotten or only lightly considered. This may be due to a tendency to view brand as ephemeral, or limited to purely external elements such as names and logos. If the deal is a means to a positive and profitable end, then so too are the brands in question.”

Jon Tipple, Global Chief Strategy Officer, Futurebrand

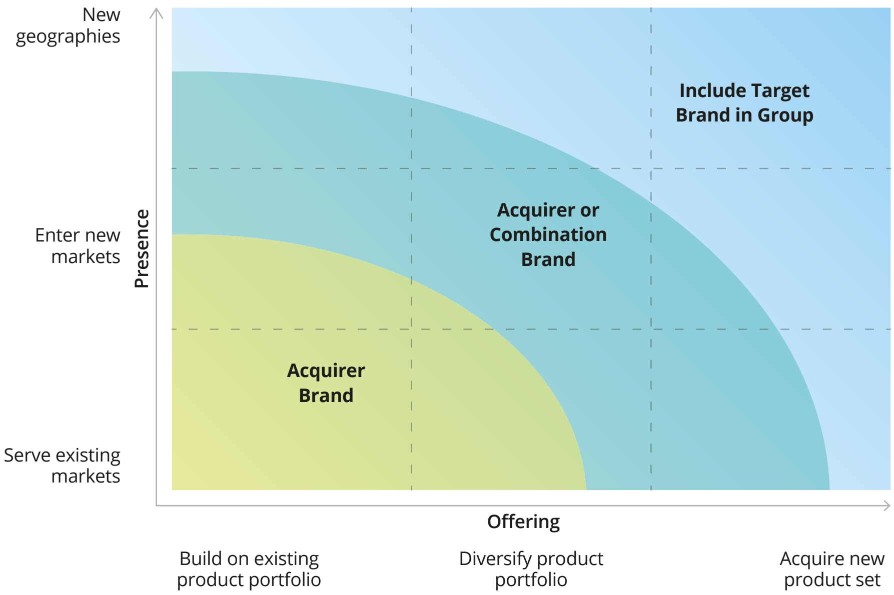
Case study

The right call: The 2014 Dixons/Carphone Warehouse business merger proved how retaining well-known household names can sometimes be a winning strategy. Initially the two telecommunications companies intended to come up with a completely new name and brand following the £3.8 billion transaction, but due to budgetary and time constraints they decided to simply call the new business Dixons Carphone. Significant investment was made to influence customers subtly and reassure them with new signage, branding and even in-store flooring to reflect both brand identities. Sensitive treatment and blending of both brand elements helped to put Dixons Carphone at the top of a highly competitive market for the first two years after deal completion (outcome C).

> “Brands are instrumental in shaping culture, coordinating organisational behaviour and bonding employees, as well as in signifying change publicly. They play a critical role in the ultimate deal outcome. It is reasonable to suggest that managers who attend to the brand question at the time of the deal can expect to maximise their chances of medium and long-term success.”

Nick Sykes, Global CEO, Futurebrand

Market diversification



3. Market diversification

All substantial transactions have certain unique characteristics, and this creates a challenge for the management teams in integrating the businesses. Innovative approaches may be required to resolve the issues, and this also applies to the brand outcome decision.

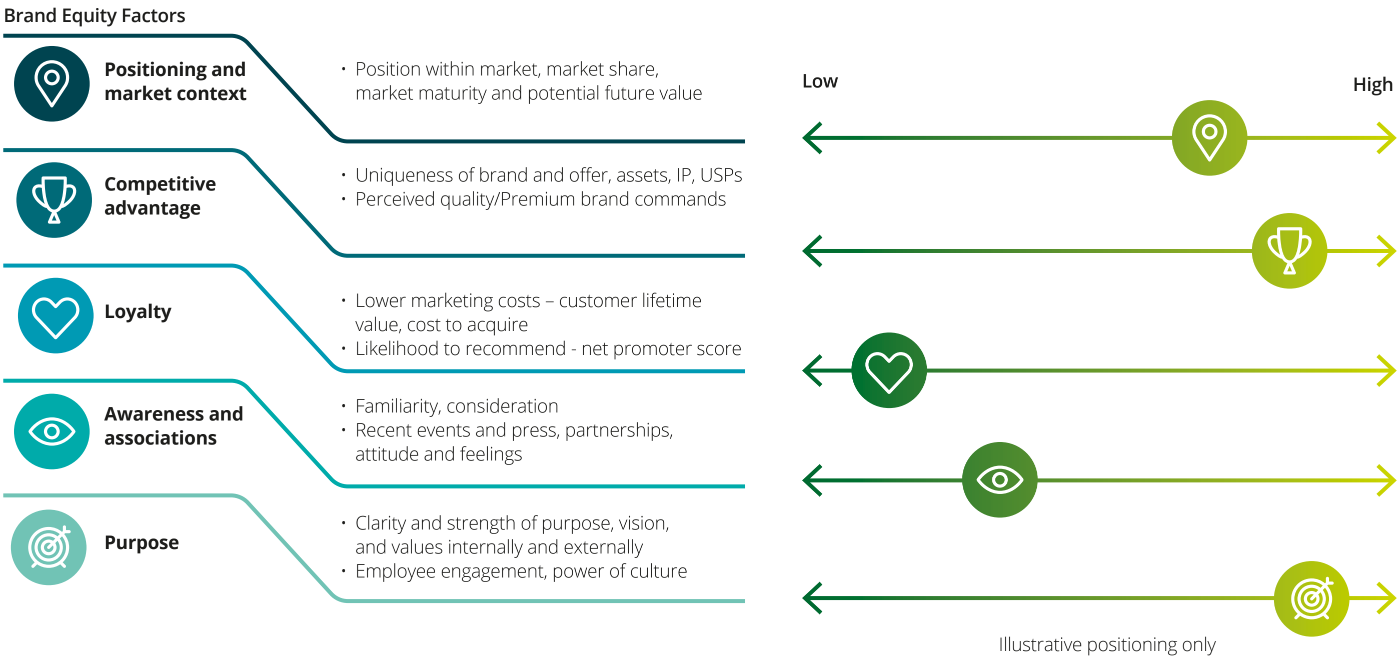
One size does not fit all, and there is no exclusive brand outcome for any one type of M&A transaction. Although research shows that deal type and sectors do exert a certain influence on brand outcome, it is clear that other factors also come into play.

For acquisitions in which the target business operates in another geography, or where the combination introduces new business units or enters a different part of the value chain, then the brand outcome may be more likely to involve retention of the target brand.

In 38% of the cases in our research, we found that the target brand was retained (outcome B) as a subsidiary brand to retain the identity of the original business in the enlarged group[8] but other more innovative strategies were also used (C, N, NT).

Special consideration should be paid to the inherent limitations in the ability of a brand to travel across borders,[9] particularly from emerging markets such as China to markets in the West. The multi-level nature of country, corporate and product brands may be linked to national cultures. This type of M&A therefore calls for careful consideration in the choice of particular strategies, as well as engagement by the managers in both the combining entities.[10]

Brand Equity Review Framework



4. Relative brand equity

The chosen brand outcome must be closely linked to the future corporate strategy of the combined business. Although acquirer dominant strategies are the most prevalent, this does not mean that they are always 'right'. Acquirers should assess the relative brand equity or 'strength' of their own and the target's brand when making a decision about which brand to retain, combine or release. The value of the brands of both parties relative to one another should be assessed when determining the eventual brand outcome and the need for any transitional branding measures.

For combinations that result in the expansion of existing or similar products and services in the same market, low scores for the target would support the adoption of strategy outcome A with the target brand being removed.

However, where brands of the target that score at an equivalent level or higher, consideration should be given to a strategy that retains the target brand, brand outcome B' or 'C'. A very high score for the target's brand may raise the prospect of using the target brand as the dominant brand, outcome T.

Customer insights

A key concern in an M&A transaction is that customer loyalty should be preserved and transitioned from the target to the combined business. The existence of multiple brand outcomes demonstrates that acquirers have to think carefully about the right strategy for achieving this. However, in many cases relatively little analytical work or market research is undertaken to evaluate whether customers of the target will naturally transition and switch their loyalty to become customers of the acquirer.

The brand equity review framework helps the acquirer to appraise brands from the customers' perspective. The value customers place on the brand of the target can be impartially assessed and conclusions drawn from the driving forces that shape customer opinion. It is a useful exercise to consider the customer's mind-set and view the brand from a different perspective.

Establishing existing patterns of customer behaviour and attitudes to the corporate brand should inform the longer-term brand strategy, as well as the potential need for transitional branding to ensure that customers are retained and feel valued 'post deal'.

Deal Type / Implementation Complexity

	Acquirer's brand (A)	Retain both (B)	Combine (C)	New brand (N)	New corporate brand (NT)	Associated branding (AB)	Target's brand (T)
	From day one the acquirer should quickly apply their brand to the target. It is important to make sure the target feels that they are part of a new business	The relationship between the two brands in the market should be closely monitored. Managing brand 'disassociation' will be key	The business needs to ensure the customer understands what the combined brand stands for and why, for them, it will be better than having two independent brands	With the existing brand's strength being relatively low, a higher degree of investment will be required to raise the new brand's awareness (purpose, vision, ethos)	Investment in this space will be primarily with investors as the branding changes will be to the investor touchpoints	The new branding will primarily impact the investor community and therefore requires carefully tailored brand change	The relationship between the two brands in the market should be closely monitored. Managing brand 'association' will be key
Acquisition	Low	Low	Medium	High	Medium	High	Medium
Merger	Not applicable	Low	Medium	High	Medium	Not applicable	Not applicable
Reverse Acquisition	Medium	Low	Medium	High	Medium	Medium	Low

Implementation complexity/cost: High, Medium, Low, Not applicable

5. Cost, complexity and culture

Integrating two businesses is a complex process, and brand transition is a key part of any integration strategy. We have identified four key factors that acquirers should examine when embarking on brand change during an integration, and the risks associated with each.

Costs can outweigh strategic intent

Implementing brand strategies that involve the creation of combinations or completely new brands is likely to be complex and incur large costs. Businesses often underestimate implementation costs, unless they have previous experience of a similar change, or have carried out a detailed audit of the brand assets of both businesses.

When executed at the correct moment in the integration, a brand change can create a renewed presence in the market. It signals a readiness by the company to engage in the market with its chosen products and service standards. Existing customers remain engaged, loyal, and may even feel a sense of pride in the product they have chosen to champion.

Certain organisations are clearly identifiable by a single corporate brand while others may contain a portfolio of recognisable corporate brands. Single-branded companies prior to an M&A transaction face a decision about whether to retain only that corporate brand, or whether to adopt another strategy that incorporates an additional brand within the group. Adding a brand will increase overall marketing costs and synergies may not be as achievable as they would be if there is consolidation into a single brand.

A phased approach is needed

Businesses may need to sequence their integration objectives and implement change in phases. Day one branding changes are often limited to material or symbolic brand changes, typically a refreshed website or other initiatives that visibly demonstrate new ownership. However, the overriding requirement is to present a reassuring external message of 'business as usual' while the organisation commences different operating processes internally. During integration, there may be further opportunities to increase brand awareness through affiliation activities or product launches. The final complete brand change may only be established when products, processes and services reach a sufficiently mature state.

Beware of cultural implications

Brands are born inside organisations, so change must start with employees. Businesses should regularly communicate their planned transformations to staff. When a change in brand signals a shift in corporate strategy (most notably in the combination brand outcome C or new brand outcome N), there needs to be clarity and consistency between communications, leadership decisions, performance management systems and applying brand values in practice. Without this, employees may find it difficult to embrace the corporate values or underlying business motivations, and performance and morale can suffer as a result. Clear communication helps employees to champion the objectives of the new organisation and exhibit the values associated with the brand in the external marketplace.

Continuous review and evaluation is essential

The process of integration can result in management and staff becoming too inwardly focused as they seek to transform their business. As a result, there should be numerous review points throughout the transition period, which can be as long as up to four years. Reviews mean that progress can be monitored against brand strength and integration objectives. By doing this effectively, businesses can ensure proposed brand changes remain relevant and continue to increase brand equity in the longer term. Consistently increasing sales and gaining market share are the overriding objectives for the success of the future business.

Case study

Flying high: Meggitt, a UK-based aerospace, defence and electronics company, acquired US aerospace and defence supplier K&F Industries for $1.8 billion in 2007. The move extended Meggitt's product line and diversified its portfolio, with K&F becoming a wholly-owned subsidiary of the buyer. Geographies and brand recognition played a key role in the brand strategy decision, with a new corporate brand being launched but with both the target and acquirer brands still being used for business units. The Meggitt name continued as a brand at corporate level, whilst the K&F Industries brand was retained for use with its established customer base (outcome NT).

“M&A offers a significant opportunity to establish a fresh, future-facing vision for the new organisation. There is potential to establish a market-leading or market-disrupting position as a business, while also communicating direction and inspiration to employees of both brands – creating something that people want to be a part of.”

Katie Farrell, Director of Brand, Deloitte and ACNE

Summary and recommendations

The vision and strategic rationale for an M&A transaction must always guide the brand outcome and in turn, the integration strategy. It is essential to establish connections between the corporate brand and its products, services, customers and people.

We recommend that rather than being driven by emotion in a transaction, or simply resorting to selecting the acquirer's brand, proper consideration should be given to the brand outcome prior to the deal being signed. This will support the development of a rational integration strategy and provide a clear basis for estimating synergies and implementation costs.

As per our M&A Brand Outcome Framework, we believe there are five areas to consider when deciding the most desirable brand outcome before the economics of the deal and the integration plan are finalised.

A considered approach using the framework provides a benchmark or reference point in reaching the decision.

Deloitte's M&A Brand Outcome Framework - overview of five considerations

1. Deal type: Identify the most suitable brand outcomes relevant to the deal type (acquisition, merger or reverse acquisition)
2. Industry sector: Consider trends in the sector and reflect on the relevance of those to the deal being contemplated
3. Market diversification: Evaluate the impact of the deal on the parties in respect to their relative products, services, markets and geographical footprint
4. Brand equity: Analyse the relative brand equities of the two organisations and determine their relative strength
5. Cost, complexity and culture: Consider the impact of implementation requirements for the potential brand outcomes and the budget required to fund the changes

Additional action points

- Establish the impact of the proposed transaction on the acquirer's existing business or the businesses of the merging companies.
- Engage marketing leaders from the outset and ensure that they have input to the commercial due diligence and establishing the vision for the integration strategy.
- Determine the role of the brand(s) in the deal and how it (they) may be affected.
- Consider the customer – possibly engaging third party research to gauge customer attitudes to ensure customer retention and the acquisition of new customers.
- Plan the optimal strategy for transferring the brand equity of the acquired brand to the acquiring company during the endorsement period.
- Plan key points for communicating the brand to customers and employees, and consider transitional branding.
- Develop a costing model for implementing brand changes, including for transitional branding for the target organisation. These costs should be factored into the business case for the deal.

How Deloitte can help

Our purpose is to provide expert advice that creates value for our clients executing M&A transactions that delivers better and more prosperous organisations.

Deloitte has extensive experience working with companies involved in M&A transactions of all sizes and complexities. Our M&A services are unrivalled, addressing all aspects from strategy, market assessment, due diligence and planning through to execution, integration and transformation. We are rated by ALM (formerly Kennedy) as both the largest professional services organisation and the leading M&A services firm, based on the depth and breadth of our capabilities.[11]

We have a dedicated brand strategy practice led by ACNE, our creative consultancy. Brand experts work within our M&A teams to help assess the strategic options for acquirer and target companies. Our objective is to deliver the most value to the future organisation by considering the needs of employees, customers, shareholders and society at large, developing a brand strategy which underpins the rationale of the transaction.

Post deal, our brand team can define a narrative to share the organisation's vision for the future and position the new business for success. We can also develop a strategy for the new brand(s), a strong visual identity, and compelling launch campaigns.

Our collective experience and the research within this paper reveals that brand management is a fundamental component in M&A success and we welcome the opportunity to share insights with our clients.

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Contacts

Peter Williams
Partner
Integration and Separation Services
+44 20 7007 6181
phwilliams@deloitte.co.uk

Paul Dunn
Director
Integration and Separation Services
+44 20 7007 2031
padunn@deloitte.co.uk

Katie Farrell
Director
Head of Brand, ACNE
+44 20 7707 3195
kffarrell@deloitte.co.uk

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