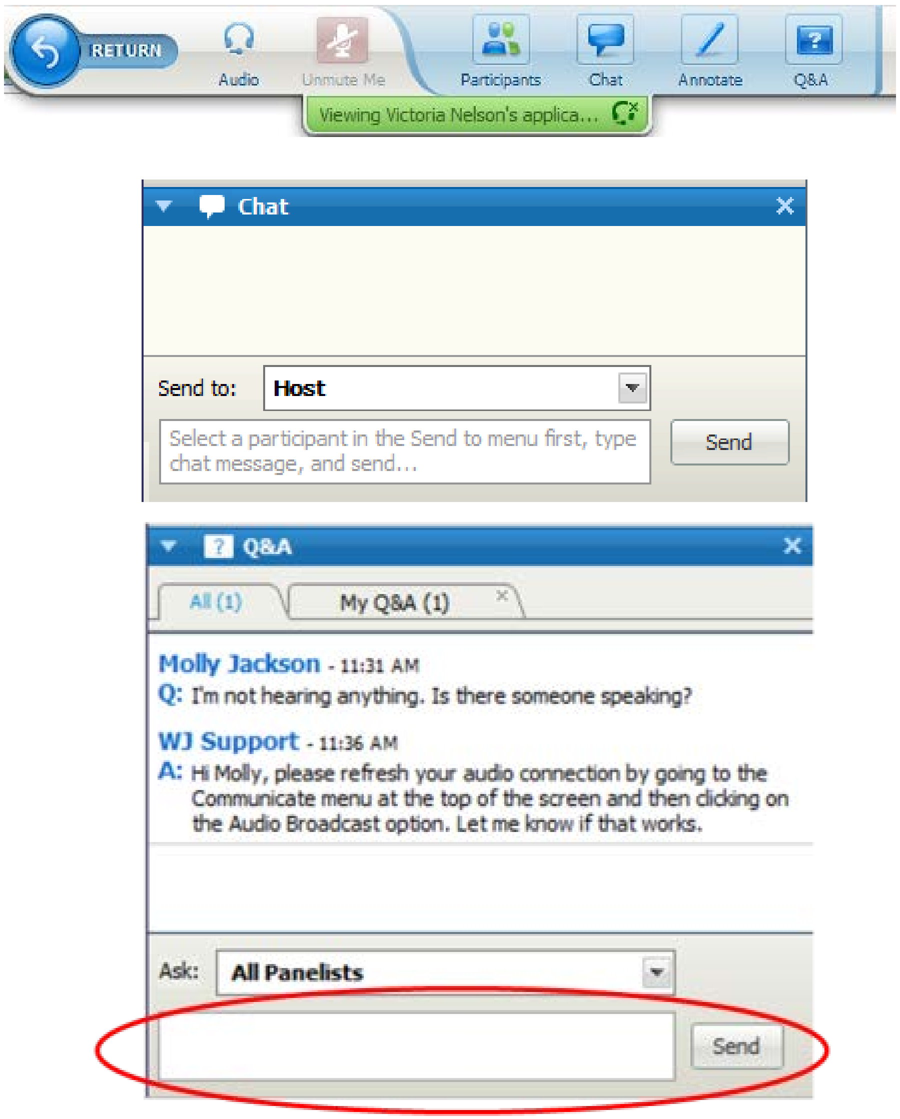
An IT Perspective of an Acquisition

The Top Six Must-Do List

Webinar Mechanics

- Submit text questions.
- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers: http://www.linkedin.com/groups/EBS-Answers-4683349/about
- Everyone will receive an email within 24 hours with a link to view a recorded version of today’s session.
- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.
- We will be sharing the responses from the poll questions, as well as webinar highlights, on Twitter – be sure to follow us (**@eprentise**)!



Learning Objectives

After this session you will be able to:

Objective 1: Learn the importance of focusing on business value to realize the potential of acquisitions

Objective 2: Discuss Emergent Value synergies, such as reinventing processes and shedding obsolete practices.

Objective 3: List the six essential post-merger steps to take to avoid the common pitfalls of failed mergers.

eprentise Can…

- Consolidate Multiple EBS Instances
- Change Underlying Structures and Configurations
  - Chart of Accounts, Other Flexfields
  - Inventory Organizations
  - Operating Groups, Legal Entities, Ledgers
  - Calendars
  - Costing Methods
- Resolve Duplicates, Change Sequences, IDs
- Separate Data

…So Our Customers Can:

- Reduce Operating Costs and Increase Efficiencies
  - Shared Services
  - Data Centers
- Adapt to Change
  - Align with New Business Initiatives
  - Mergers, Acquisitions, Divestitures
  - Pattern-Based Strategies
    - Make ERP an Adaptive Technology
- Avoid a Reimplementation
- Reduce Complexity and Control Risk
- Improve Business Continuity, Service Quality and Compliance
- Establish Data Quality Standards and a Single Source of Truth

Focus on Shareholder Value

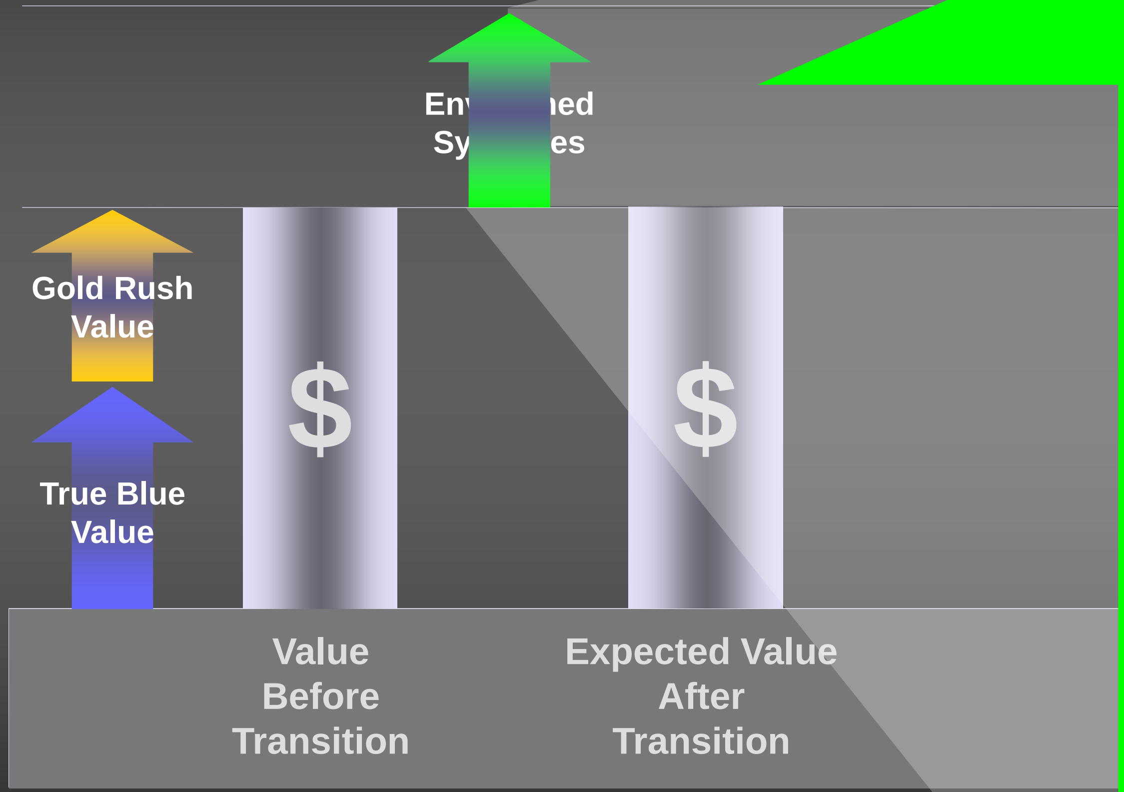
The New Company:
More than the Sum of Its Parts
or Less?

True Blue

TRUE BLUE INC. ANNOUNCES ACQUISITION OF GOLD RUSH LTD.

Gold Rush

The Hope



- ▲ Shareholder value: the net present value of cash flow freed by…
- ▲ Cost reduction
  - ▲ Economies of scale
  - ▲ Combination of duplicate corporate functions
  - ▲ Streamlined sales forces
- ▲ Capital efficiency
  - ▲ Rationalized assets
  - ▲ Combination of duplicate facilities
- ▲ Revenue enhancement
  - ▲ Product development synergy → new products
  - ▲ Shared marketing skills
  - ▲ Combined distribution network

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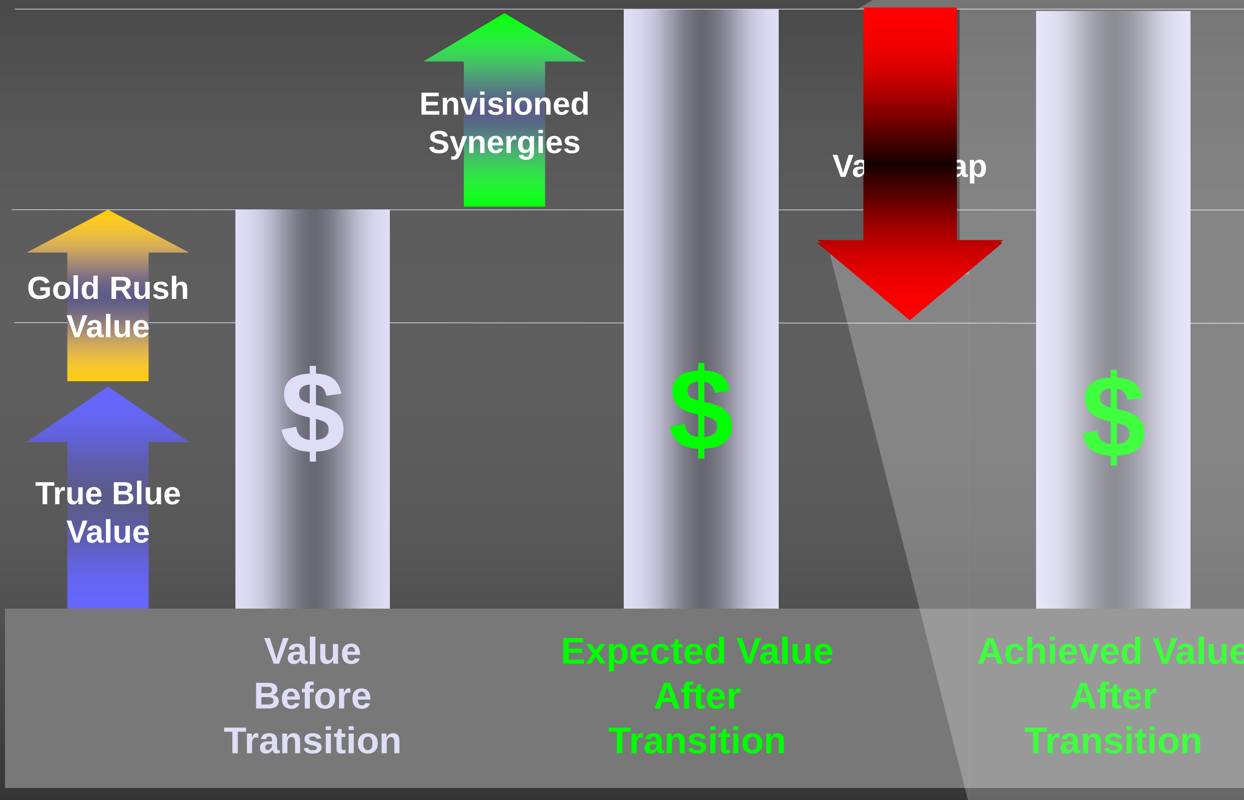
The Value Gap



- ▼ Slow integration
- ▼ Inexperience
- ▼ Lack / loss of vision
- ▼ Management wars
- ▼ Culture clashes
- ▼ Failure to manage risk & change
- ▼ Bad communication with stakeholders
- ▼ Prices rise, quality falls, customers leave
- ▼ Alliances & supplier relationships degrade
- ▼ Key people leave
- ▼ Business continuity lost

Emergent Value

- Take advantage of complimentary resources at all levels
- Find more profitable uses for assets
- Achieve both strategic and operational fit
- Discover new market opportunities
- Sell new products to existing customers
- Reinvent processes and shed obsolete practices
- Capitalize on creativity and excitement evoked as new colleagues interact

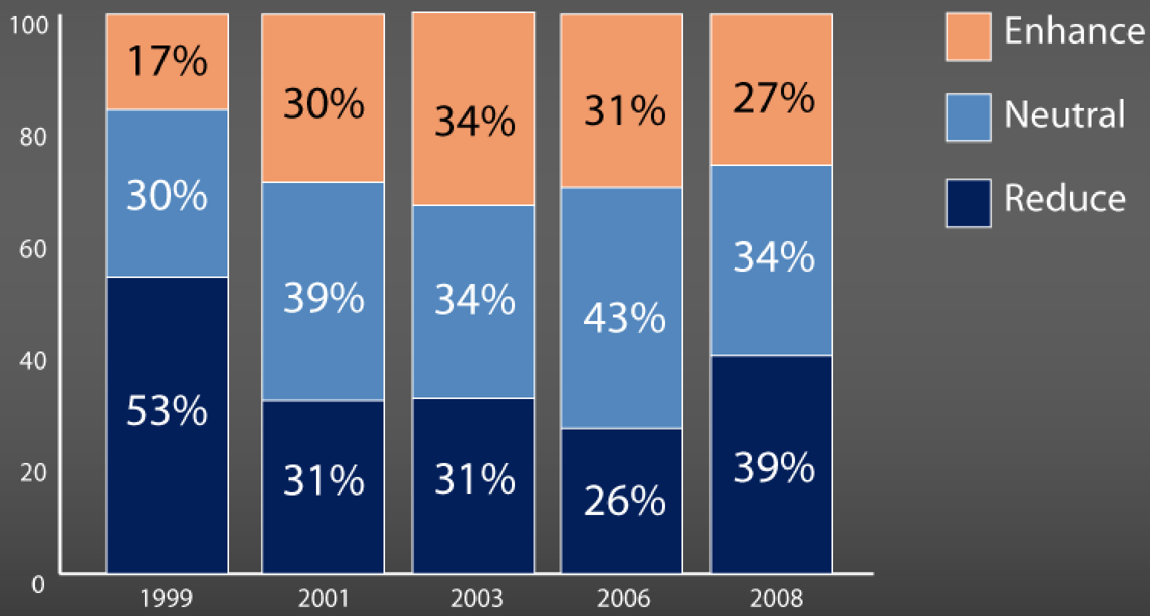
Major Mergers of the Last Decade

Value Measured: Stock Performance vs Industry Peers

Value enhancement trend from 10 years of KPMG International's M&A surveys

KPMG International, 2008

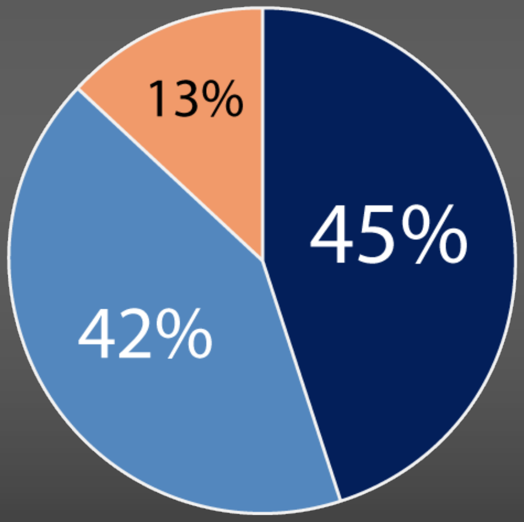
Base: 100% of corporate respondents



Do competitive corporate deals deliver?

KPMG International, 2008

Base: Corporate respondents involved in competitive tenders



Note: *Measurement of value created is based on company share price movements relative to average industry sector movement during a two year period. Factors other than the deal may have affected share price movements over the period.*

Poll Question

The Transition Process

In which the Merger
Delivers Shareholder Value
or Kills It

M&A Transition Process: The Critical Period

The Transaction Phase:
Making the Deal

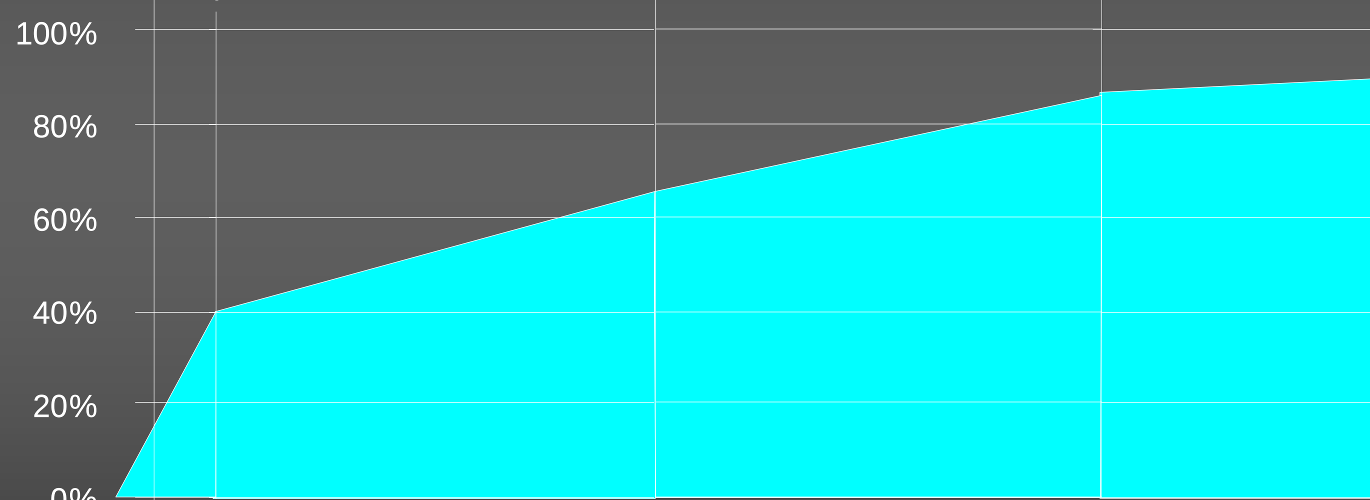
The Transition Phase:
Realizing the Value

Selection	Due Diligence & Negotiation	Early Transition	Late Transition	Steady State

Intro-duction · Letter of Intent · Close · Day 1 · 3 Months · 6 Months

Why the First 6 Months Are Critical

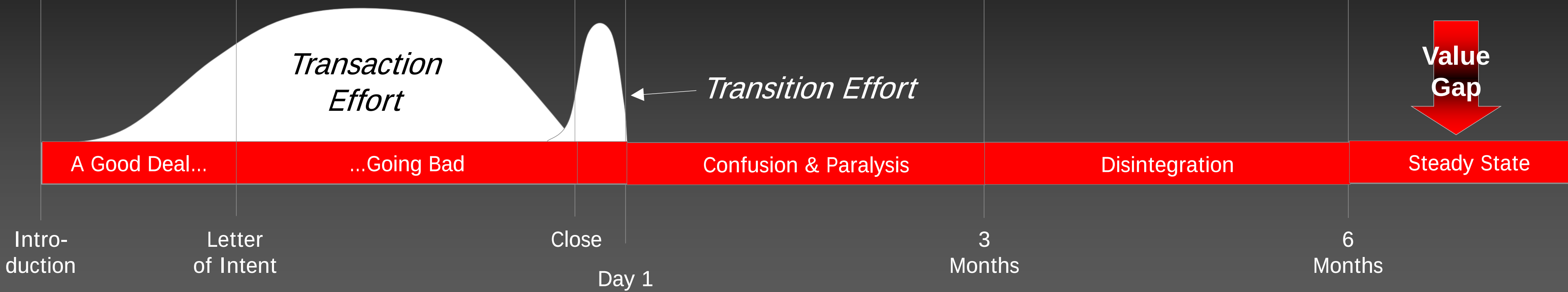
- By Day 1, 40% of the changes that will *ever* occur have been initiated.
- At 3 Months, 65% have been initiated.
- At 6 Months, 85% have been initiated.



- The remaining 15% of the initiatives must build on those of the first six months.
- Changes introduced after the critical period succumb to waning momentum & priority shifts.
- At around 6 months– for better or for worse – the company settles into a new steady state.

Three Ways to Manage a Transition

1. Too Little



- **Danger: Deal-making is the cool, high-profile phase of a merger or acquisition**
- **Illusion: A good deal guarantees a successful merger or acquisition**
- **Temptation: Limit the transition effort to Day 1 hoop-la**
- **Results:**
  - **"Good post-merger integration rarely makes a really bad deal work, but bad execution almost always wrecks one that might have had a shot."**
    - The Case Against Mergers, Business Week, October 1995
  - **Late 1990s mergers failed when "managers... underestimated the costs and logistical nightmares of consolidating the operations of companies with very different cultures, ... overestimated cost savings, and failed to keep key employees aboard, sales forces selling, and customers happy."**
    - Why Most Big Deals Don't Pay Off, Business Week, October 2002
  - **"The deal is won or lost after it's done."**
    - Kenneth W. Smith, Mercer Management Consulting

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Three Ways to Manage a Transition
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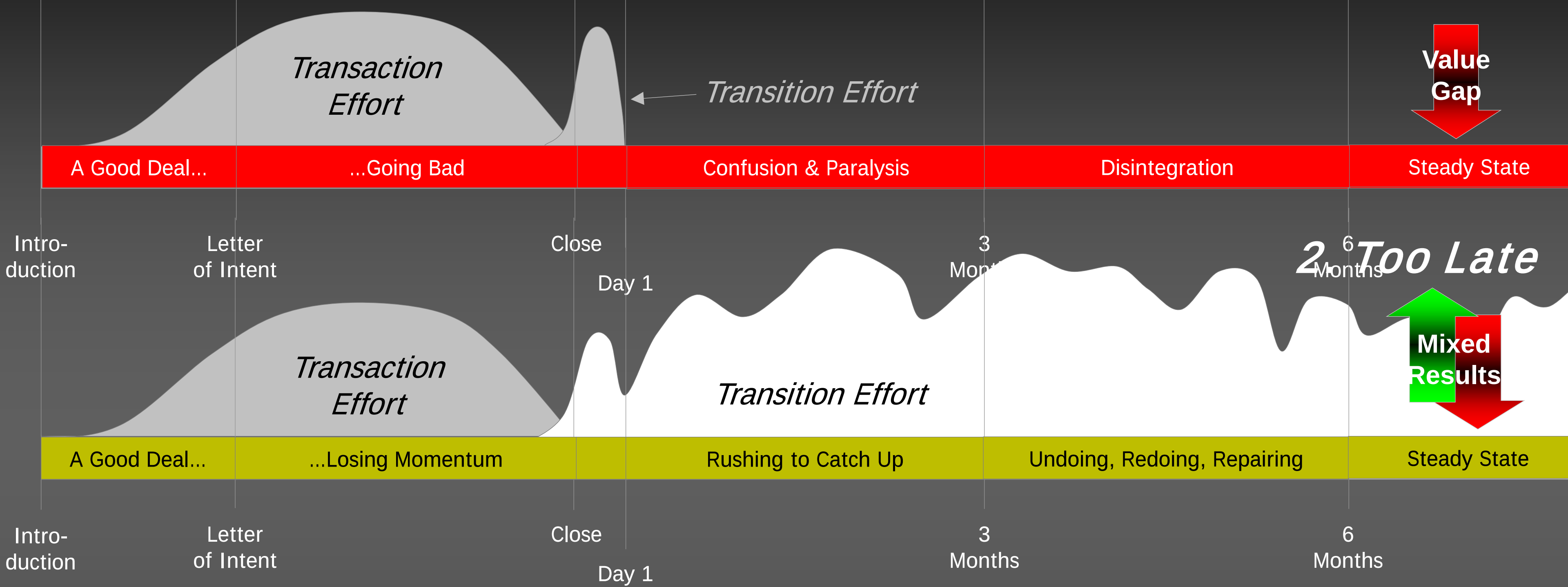

- **Deal-makers' interest ebbs after the closing – they fail to impart their vision, knowledge, focus, and momentum to transition management**
- **Visioning, planning, organizing for the transition doesn't start until the deal is closed – or never occurs at all, as the transition teams rush into action**
- **Events race ahead and out of control – customers, key employees, and shareholder value are lost in the chaos**
- **Time, money, and energy are burned in firefighting and fixing mistakes**

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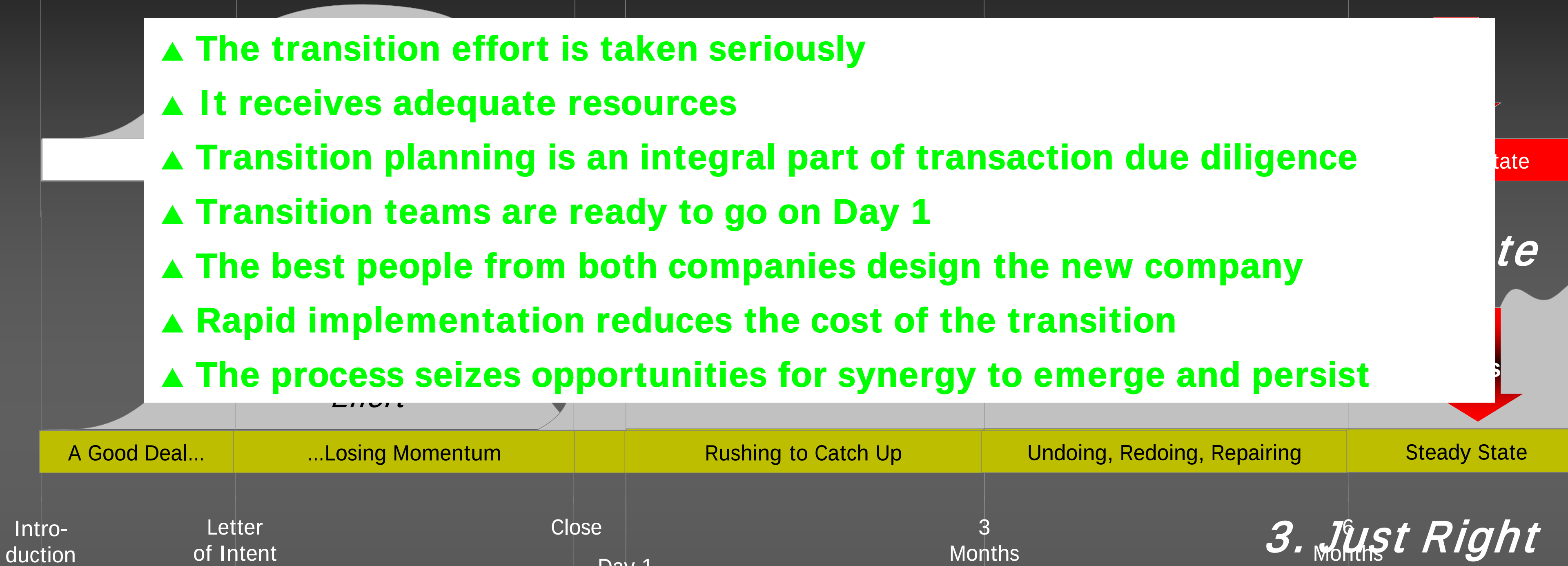
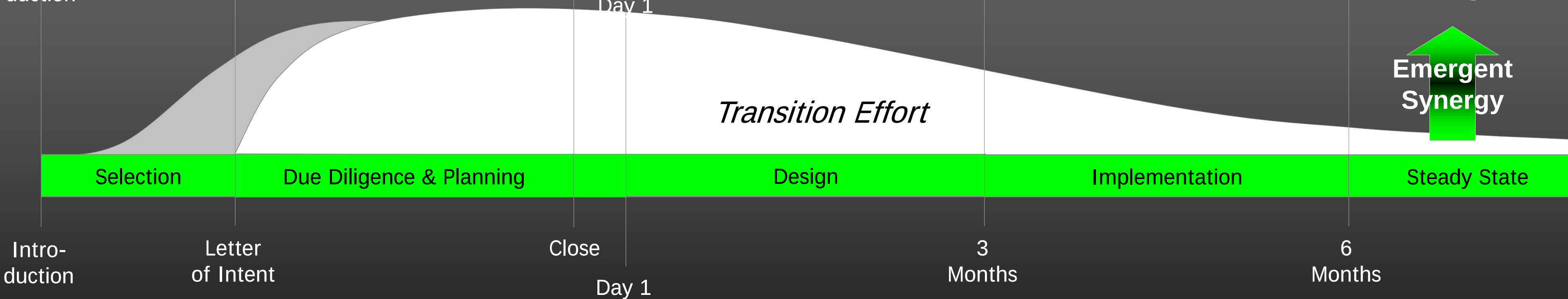
Three Ways to Manage a Transition

1. Too Little

- ▲ **The transition effort is taken seriously**
- ▲ **It receives adequate resources**
- ▲ **Transition planning is an integral part of transaction due diligence**
- ▲ **Transition teams are ready to go on Day 1**
- ▲ **The best people from both companies design the new company**
- ▲ **Rapid implementation reduces the cost of the transition**
- ▲ **The process seizes opportunities for synergy to emerge and persist**

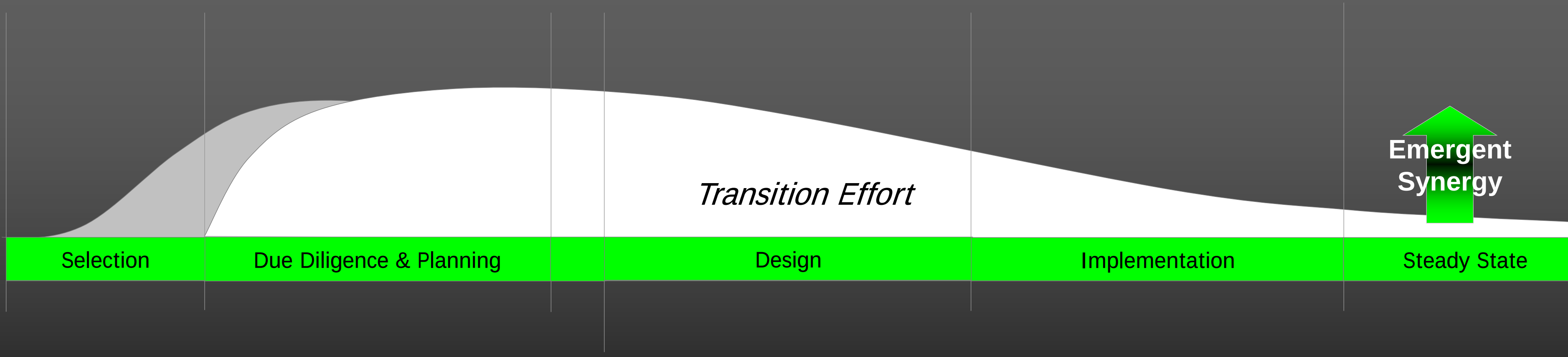


3. Just Right



The Integration Process: Key Success Factors

- ▲ Proactive Integration
  - ▲ Transaction and Transition as a Single Unified Process
  - ▲ Experienced and Trusted Leadership
  - ▲ Vision and Focus
  - ▲ Adequate Resources
- ▲ Speed & Momentum
  - ▲ Staying Ahead of Events
  - ▲ Early Realization of Merger Value
  - ▲ Prompt Action on People Issues
  - ▲ Sustaining Energy and Enthusiasm



Poll Question

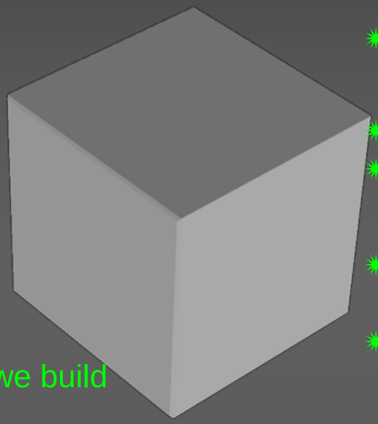
Vision and Plan

Hit the Ground Running
in the Right Direction

Thinking Outside of the Box

Why?
Key Business Strategies and Synergy Opportunities

- Why are we merging?
- How will we know that we are successful?
- What are our integrated operational strategic goals?
- How will we consolidate to achieve maximum benefit from both organizations?



How?
Management Philosophy

- What kind of culture/employee environment will we build and foster ?
- What type of management style will we employ?
- What strengths of each organization will we leverage?
- What weaknesses will we overcome with the merger?
- What policies should we adopt?
- What new policies must be developed?
- What skills to we need to retain and develop?
- What should our culture characteristics be?
- What initiatives should we continue or halt?

What?
High-Level Business Operating Model

- How will we manage our key business processes?
- What is in scope?
- What are our product, market and channel strategies and desired core competencies?
- How can each function or process contribute to achieving the merger objectives?
- What must happen to integrate each process?
- What will the integrated process look like?
- What will the integrated organization look like?
- What skills and knowledge must we maintain?
- What will our systems and applications infrastructure look like?
- What systems must we roll out to enable the integration?
- What data and information must be consolidated or converted?
- How will we support our systems and users?

True Blue Gold Rush

CSF: Fit the Transition Plan to the Merger Goals

Merger Goals	Before	After	Transition Plan
• Improve Blue's financials • Geographic expansion of markets: Blue + Gold • Fix up Gold for resale	***Coexistence*** True Blue Gold Rush		• Little / no integration • Arm's length distance • Blue $$ reporting imposed on Gold • Fix-up changes (maybe big) to Gold

• Obtain synergistic Gold assets such as:
  • Skills
  • Products
  • Processes
• Eliminate duplicate resources to cut costs
	Absorption
	True Blue Gold Rush
		True Blue	• Gold to become an integral part of Blue
			• Careful integration of Gold's assets to realize synergies
			• Combine, reorganize, reduce

• A marriage of equals • Vertical or horizontal integration • Extensive synergies • Economies of scale • A new identity that also preserves the old	***Synthesis*** True Blue Gold Rush	*Blue* *Gold*	• A complex transition • Synthesize a new company from the best of both • Preserve what works well in each • Remove redundancies

Processes

Designing the Synergies into the New Business

Key Success Factor: Focus Effort on Core Processes

Merger Type	Process Transition Method Based on *Merger Type*	*+ Focus on Core*
True Blue · Gold Rush Coexistence	100%	5% · 95%
Effort Index:	***2***	***3***
True Blue Absorption	100%	27% · 3% · 70%
Effort Index:	***20***	***7***
Blue *Gold* Synthesis	100%	2% · 28% · 70%
Effort Index:	***77***	***23***

- ▲ Focus on processes that are the **Core** of the merger vision.
- ▲ Save high-effort methods such as Synthesis for them.
- ▲ Integrate processes by Synthesis or Absorption only where this effort will deliver synergy value.
- ▲ Leave non-Core processes to coexist. Usually at least 70% of processes are non-Core.
- ▲ Free transition teams to concentrate on the key strategic processes.

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Key Success Factor: Focus on Customer Processes

McKinsey Study of Large Mergers in the Late 1990s:

- Overall, acquirers posted organic growth rates 4 percent below their industry peers, with 42 percent of acquirers losing ground.
- Declining revenues are a red flag to skeptical markets ready to question the price paid for an acquired company.
- - *Mastering Revenue Growth in M&A, Summer 2001*

The Citigroup merger is "regarded by some as one of the worst mergers of all time…Citigroup stuck businesses together but ran them independently… Each part of Citigroup was run like a separate fief."

- New York Times April 3, 2008

- ▲ Give priority to customer-facing processes – Sales, Support, Order Management.
- ▲ Design processes to present one consistent face to the customer.
- ▲ Deliver the benefits of merger synergies visibly to customers – new products, better service, more for their money.
- ▲ Create and staff interim processes to sustain the quality of products and services through the transition.

People

Realizing Merger Value
by Getting the Best
to Give Their Best

Acting from Survival Needs Leads to:

- ▼ Fear & distrust
- ▼ Jockeying for position
- ▼ Rigidity & resistance to change
- ▼ Paralysis, distraction, collapse of productivity
- ▼ Resentment, sabotage, litigation
- ▼ The best people resigning
- ▼ The worst people becoming resigned

Minimize!

Maslow's Hierarchy of Human Needs

Self-Actualization
Curiosity
Achievement
Creativity

Social
Belonging
Recognition
Self-Esteem

Survival
Food
Shelter
Safety

Acting from Self-Actualization Needs Leads to:

- ▲ Sense of ownership of the new company
- ▲ Eagerness to contribute to the change
- ▲ Freedom to focus on new processes and systems
- ▲ Constructive criticism
- ▲ Welcoming of new colleagues
- ▲ Creative ideas
- ▲ Discovering emergent synergies at all levels

Maximize!

Using External Resources: Key Success Factors

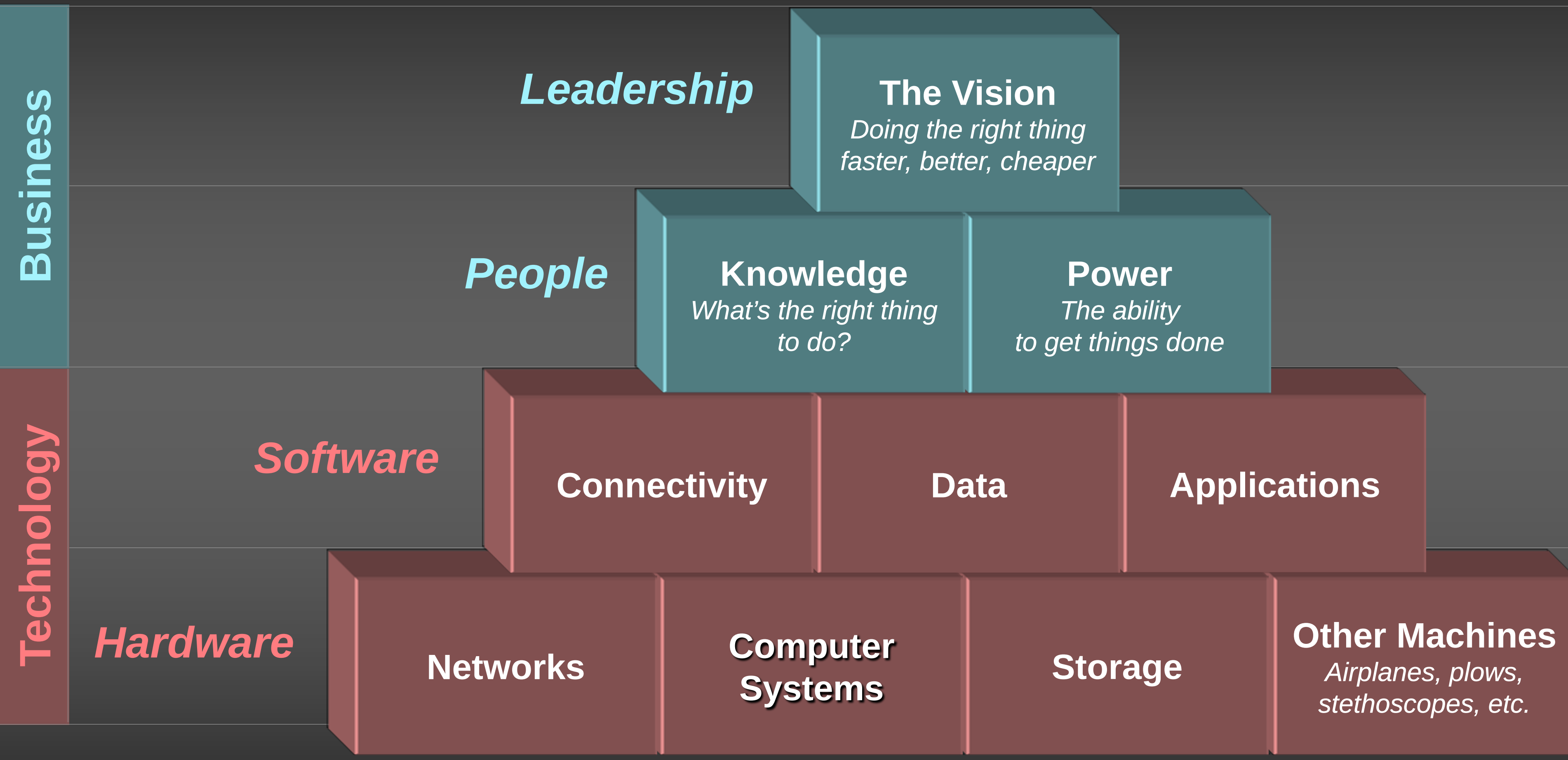
- Fill in-house gaps in merger transition experience
  - Ability to manage the business ≠ ability to manage a merger
  - External experts can develop in-house merger capability
- Use an independent external firm specializing in merger integration
  - Avoid conflicts due to other services from the same provider
  - Independent firm can select best providers of extra services
- Overcome the double resource crunch of a merger transition
  - Enough competent people to accomplish the integration
  - Enough competent people to keep the business humming through the transition
  - When they're done, they're gone
- Leverage purchase accounting to pay for the transition
  - Transition costs don't drag down the operational bottom line
  - Transition achievements become permanent, reusable operational improvements

Technology

Enabling the New Enterprise
without Delaying the Transition

Technology Enablement

Key Success Factor: Plan Technology Integration from the Top Down



Key Success Factor: Implement Technology Integration from the Bottom Up

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Data Integration: Key Success Factors

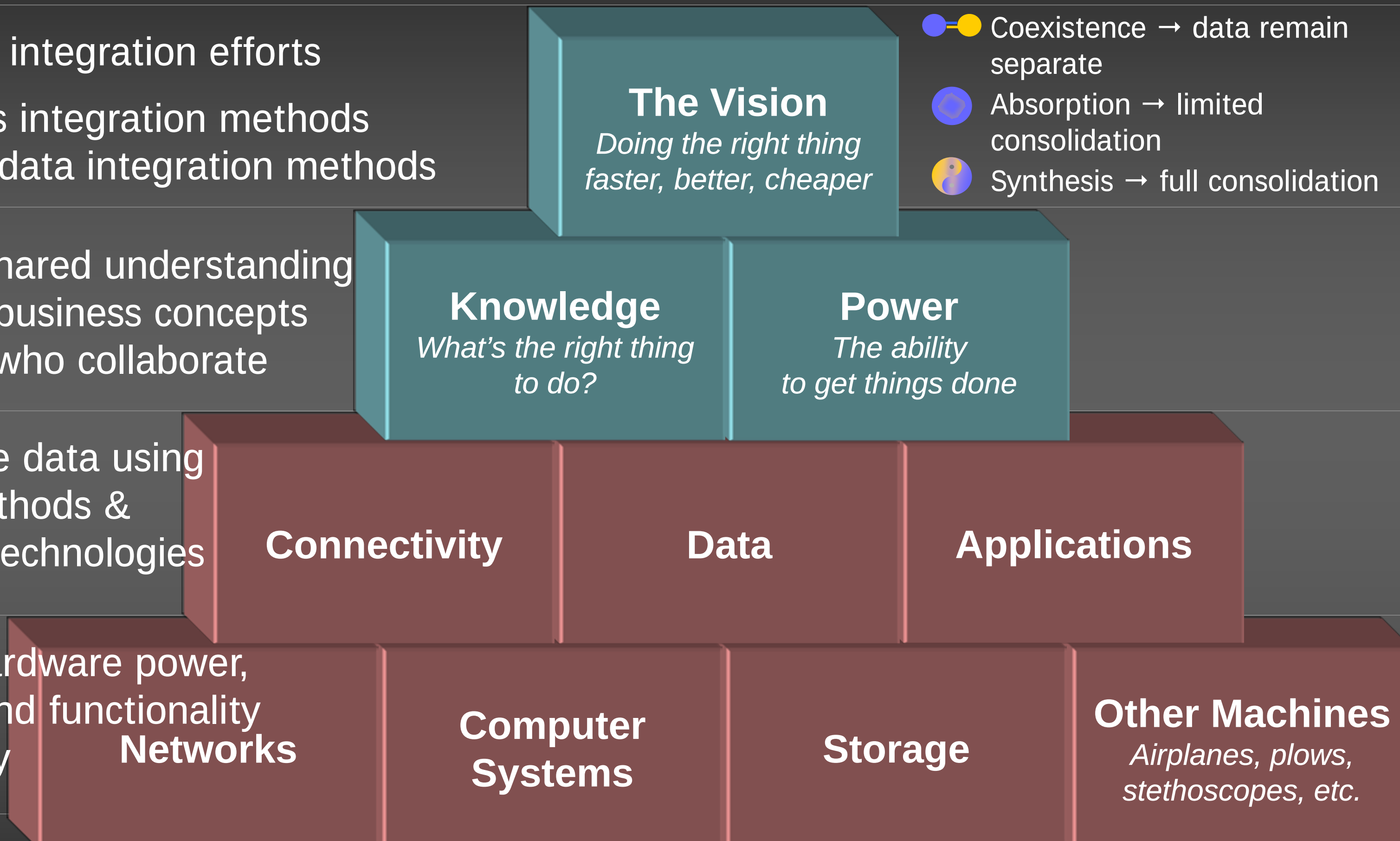
Key Success Factor: Plan Technology Integration from the Top Down

Business

- Focus data integration efforts
- Let process integration methods determine data integration methods
- Establish shared understanding for crucial business concepts among all who collaborate

Technology

- Consolidate data using proven methods & advanced technologies
- Address hardware power, capacity, and functionality issues early



- Coexistence → data remain separate
- Absorption → limited consolidation
- Synthesis → full consolidation

Key Success Factor: Implement Technology Integration from the Bottom Up

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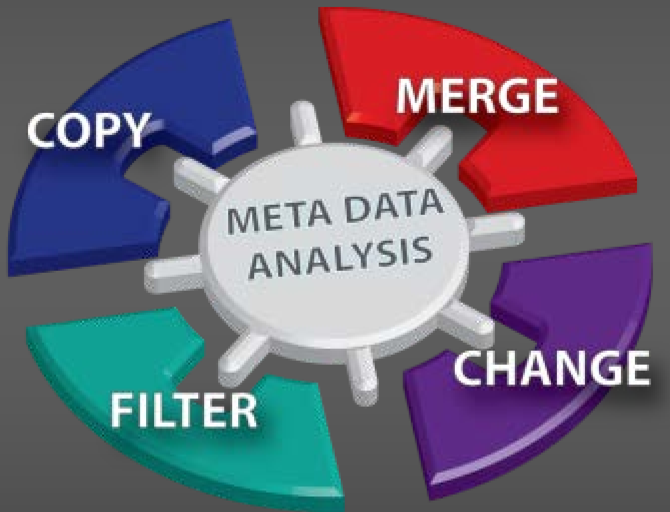
Poll Question

eprentise Metadata Analysis and Knowledge Repository

Underlying technology that understands every relationship between each piece of data in the E-Business Suite database, allowing eprentise to maintain 100% data integrity.

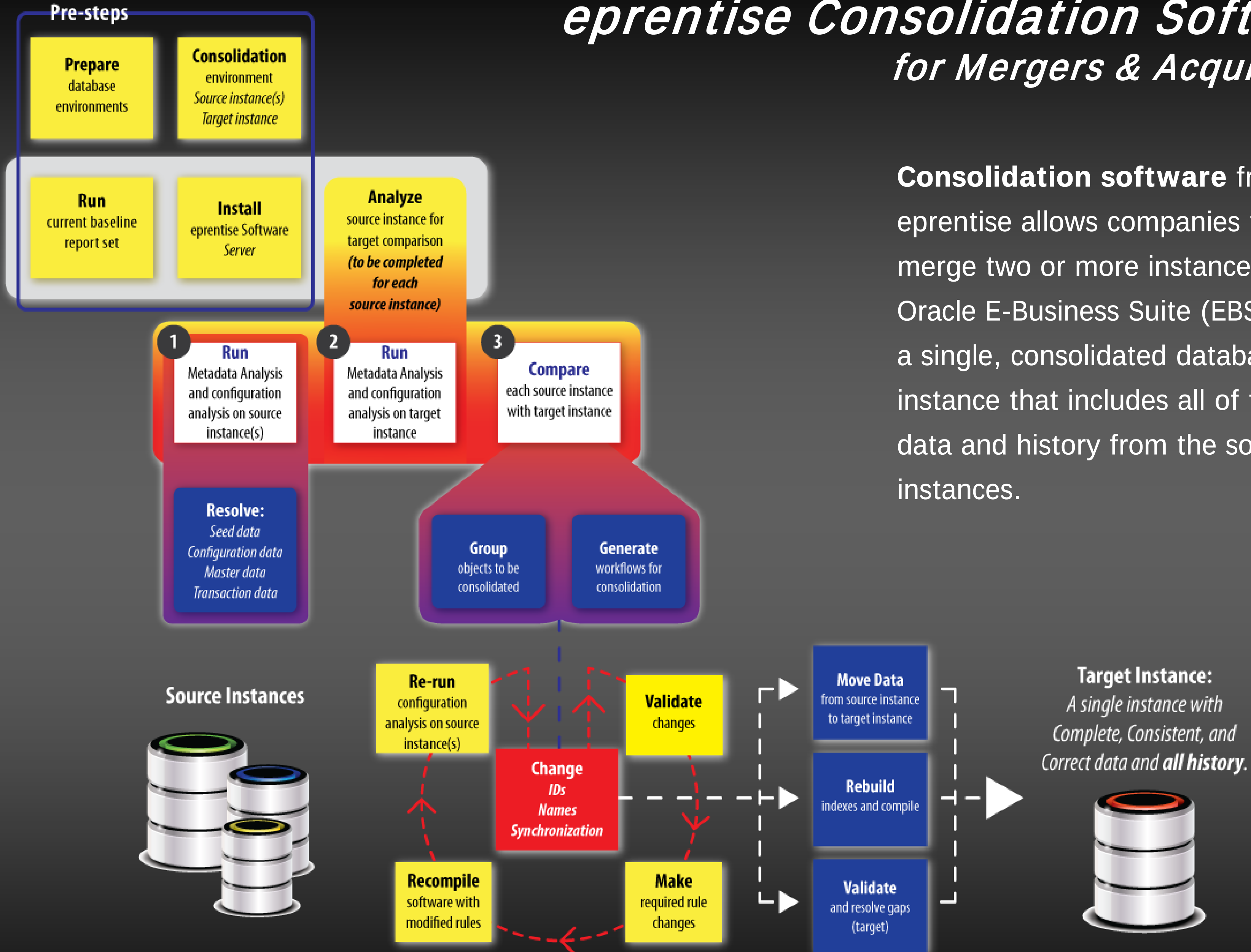


Metadata Analysis

- Core of the eprentise software suite
- Identifies, documents, and validates internal data structures and data content of both source and target databases
- Allows eprentise to copy, filter, change, and merge existing data according to built-in or user-defined business rules

eprentise Metadata Analysis and **Knowledge Repository** are intelligent, learning and building from each successive implementation.

eprentise Consolidation Software
for Mergers & Acquisitions



Consolidation software from eprentise allows companies to merge two or more instances of Oracle E-Business Suite (EBS) into a single, consolidated database instance that includes all of the data and history from the source instances.

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Sequence of Post-Merger Integration Steps

1. Align calendars and charts of accounts with acquiring company
2. Investigate statutory and regulatory requirements in all countries in which the combined entity will operate
3. Revalue assets and date placed in service
4. Align versions of Oracle E-Business Suite
5. Consolidate instances
6. Reorganize within a single instance to align Sets of Books (or ledgers), Legal Entities, Operating Units, Inventory Organizations to standardize business processes and leverage synergies of both companies

Questions?

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