Mergers and Acquisitions

Realizing the Value

#RealizingtheValue

After completion of this presentation, you will be able to:

- **Objective 1:** Focus on adding strategic value to the business
- **Objective 2:** Understand when to start preparing for an acquisition to increase your chances of success
- **Objective 3:** Discuss the pros and cons of different types of acquisition strategies

In 2007 eprentise was founded on its original product, FlexField

- Enables customers to make unprecedented changes to their financial chart of accounts while maintaining transactional history and data integrity.

In 2009 we introduced our Consolidation, Divestiture, and Reorganization products

- Transformational software which can copy, change, filter, or merge all elements of Oracle EBS financial systems to address ever-changing business needs, such as regulatory compliance and growth opportunities.

Transformation to Optimization

One-time usage to subscription model

In 2020 we began expanding to new markets with our C Collection analytics suite, and our Audit Automation software

- C Collection analytics provides transparency and identifies potential problem areas with transactional data. This allows users to reduce costs, leverage opportunities across the enterprise, improve business processes, and increase the confidence level of the users in their data, processes, and operations.
- Automated Audit provides finance teams with drill-down data from a balance sheet report into the transaction-level detail. The software covers hundreds of substantive procedures for the entire enterprise domain and builds in consistent audit processes and workflows across the organization.

ORACLE | Partner

Focus on Shareholder Value

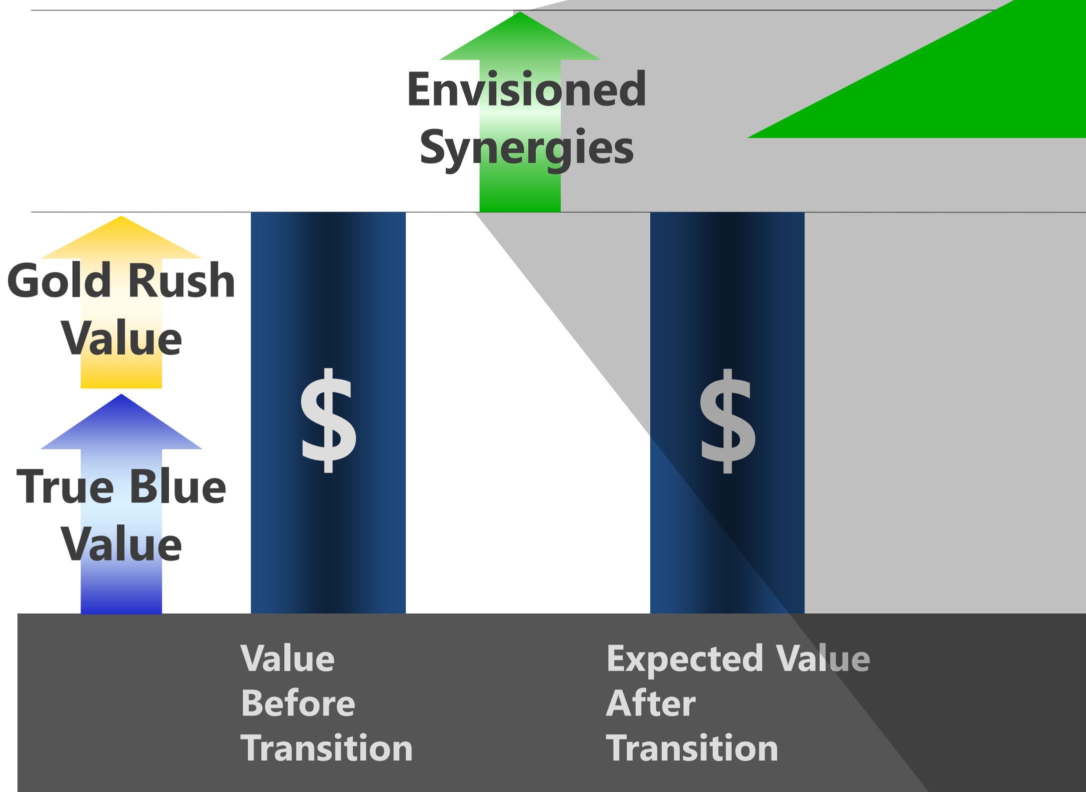
The New Company:
More than the Sum of Its Parts
or Less?

True Blue

TRUE BLUE INC. ANNOUNCES ACQUISITION OF GOLD RUSH LTD.

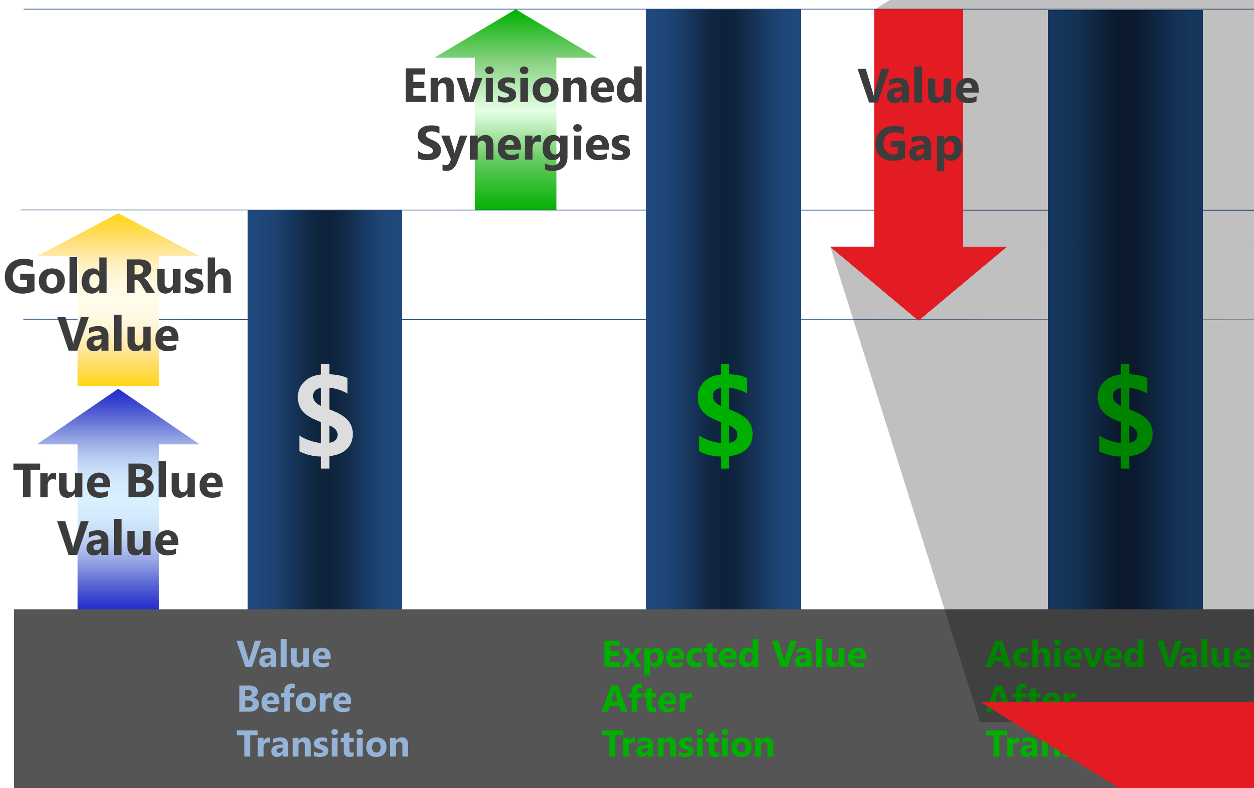
Gold Rush

The Hope



Envisioned Synergies

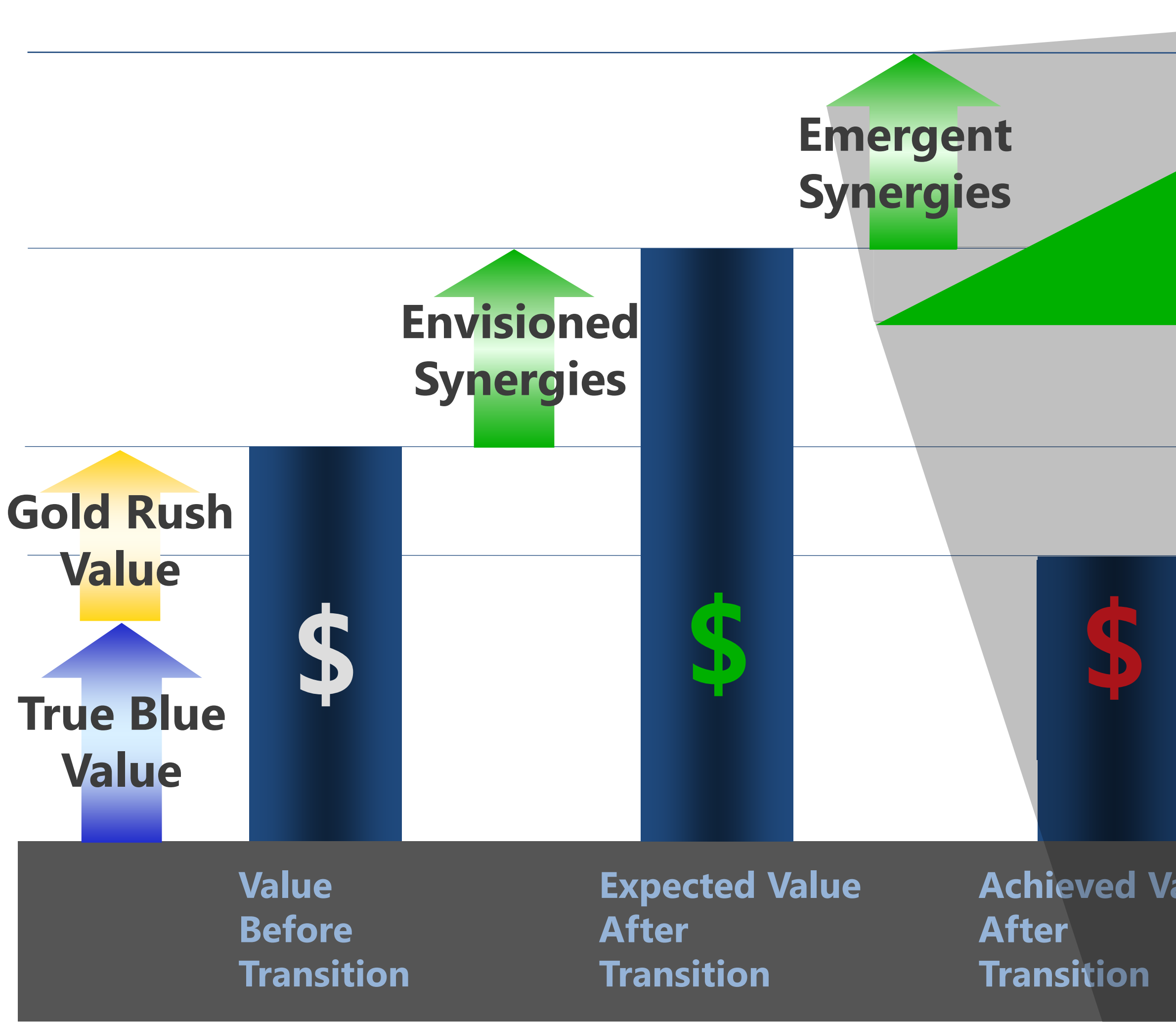
- ▲ Shareholder value: the net present value of cash flow freed by…
- ▲ Cost reduction
  - ▲ Economies of scale
  - ▲ Combination of duplicate corporate functions
  - ▲ Streamlined sales forces
- ▲ Capital efficiency
  - ▲ Rationalized assets
  - ▲ Combination of duplicate facilities
- ▲ Revenue enhancement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



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



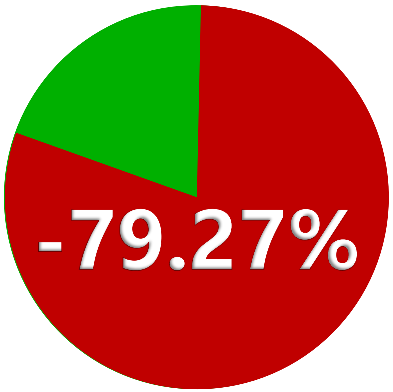
Emergent Synergies

- 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

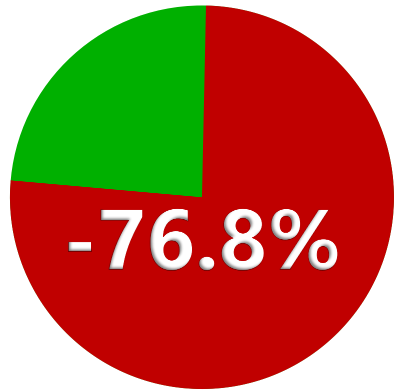
The Odds

"70-90% of acquisitions are abysmal failures"

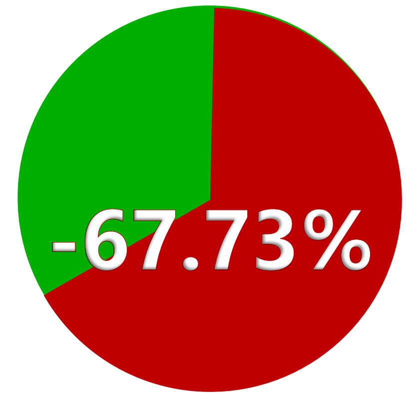
Harvard Business Review, 2016



2012 – Autonomy was valued at $11.7B upon acquisition by HP - within the year, HP had written off a loss of 79.27%



2014 – Purchased for $12.5B, Google sold the mobile handset division acquired from Motorola at a 76.8% loss within 2 years



2015 – Yahoo wrote off a 64.73% loss on the $1.1B acquisition of Tumblr in less than 2 years

When synergies don't align, valuations suffer.

2002 – Without a proper understanding of the landscape they were embarking upon, AOL acquired Time Warner for $165B in 2000 only to subsequently report a write-down of $99B by end-of-year 2002

-$153,000,000,000

This record-breaking write-down is the largest ever reported. Adjusted for inflation in 2021, that's a loss of over $153B on a $255B acquisition.

The Transition Process

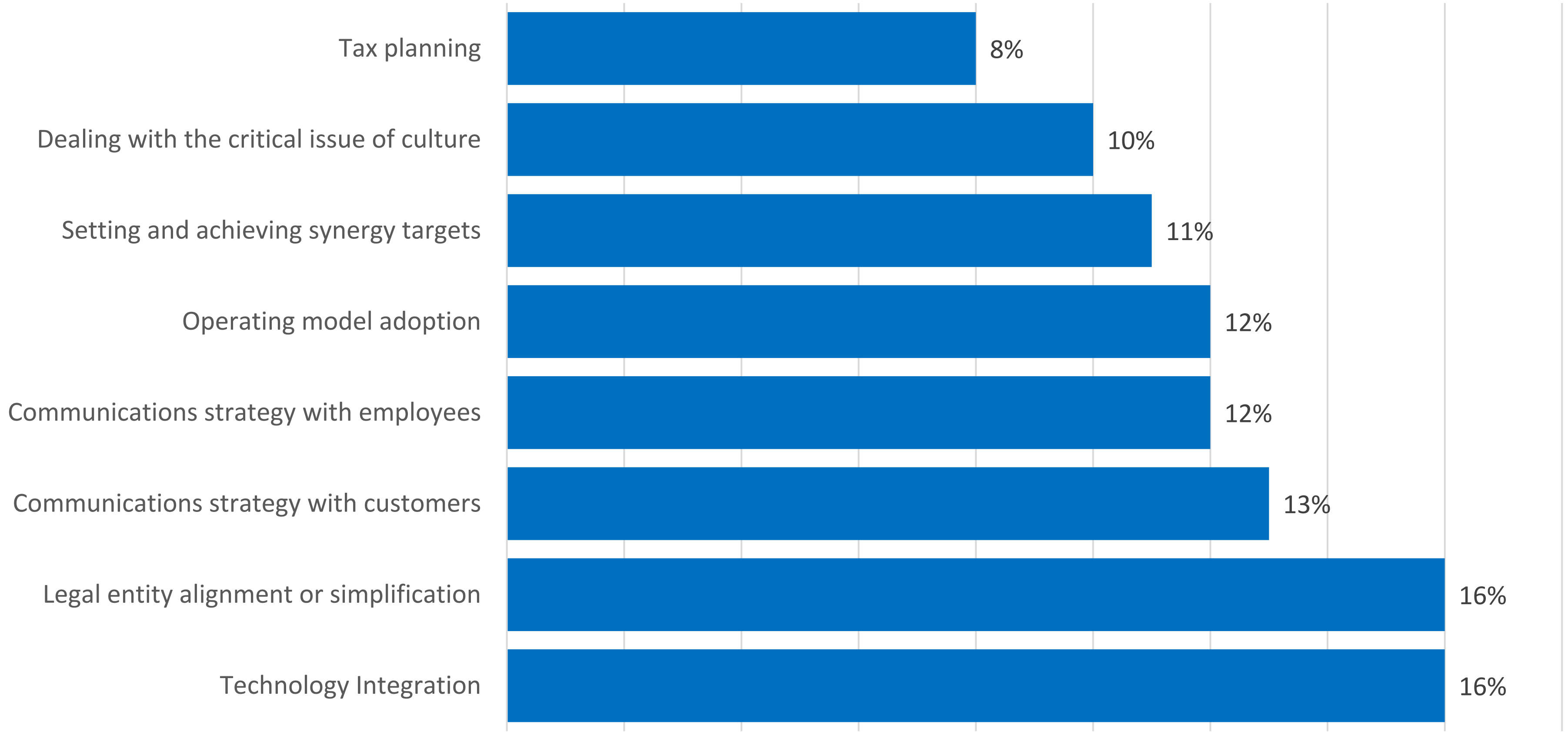
In Which the Merger Delivers Shareholder Value or Kills It

In a survey of over 800 executives, Deloitte found that the top 3 reasons for MAD failures are:

- Ineffective integration strategy
- Improper target identification
- Delays and lack of speed

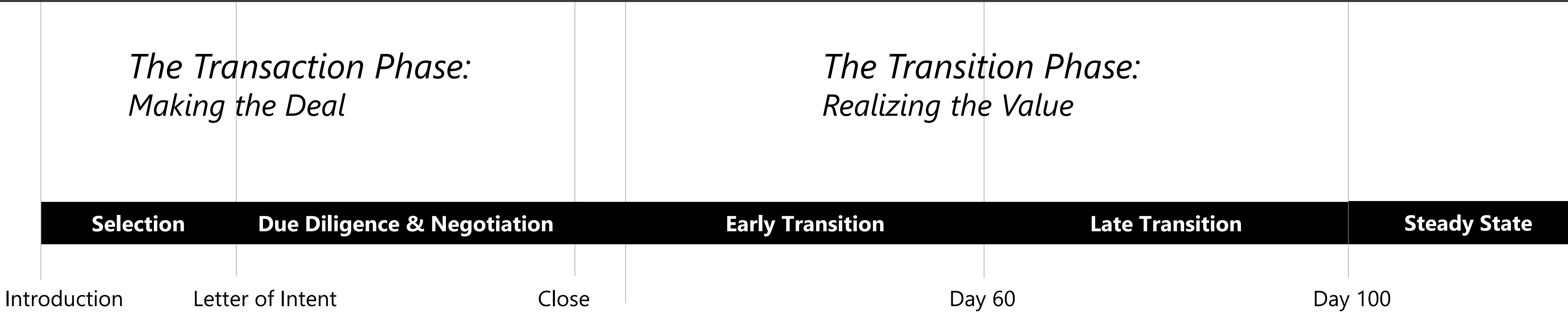
Hurdles to effectively manage integration in a virtual environment:

Q: What is the biggest hurdle to effectively manage the integration phase of a deal in a purely virtual environment?



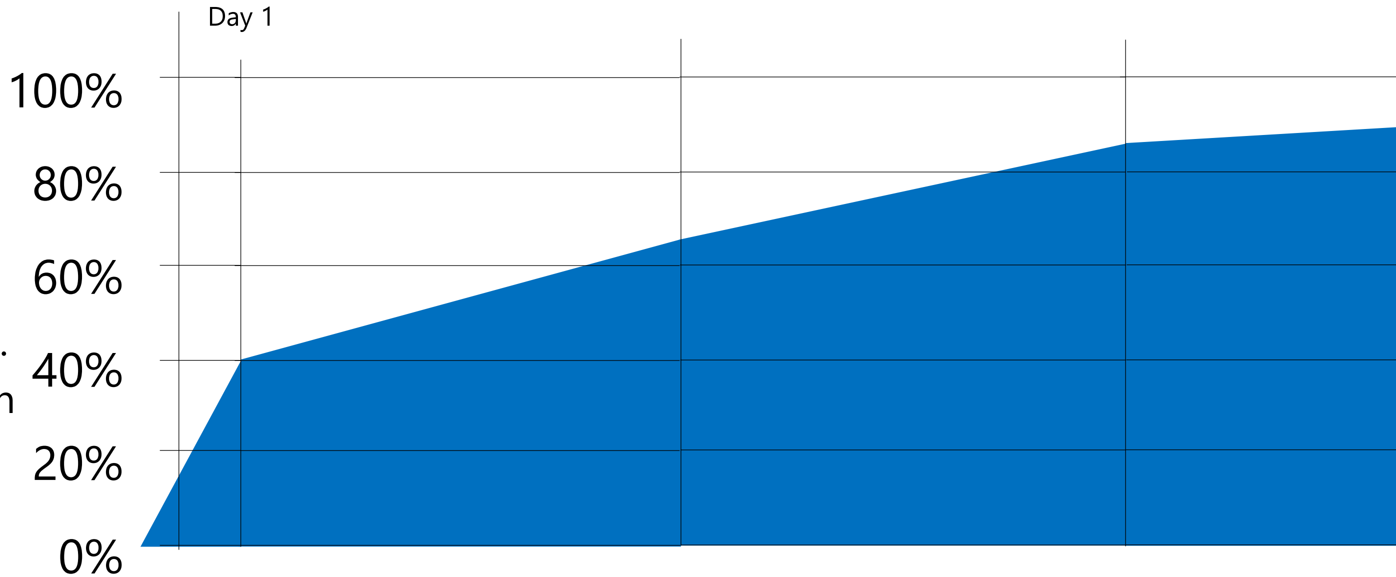
M&A Trends Survey: The future of M&A
Deloitte, October 2020

M&A Transition Process: The Critical Period



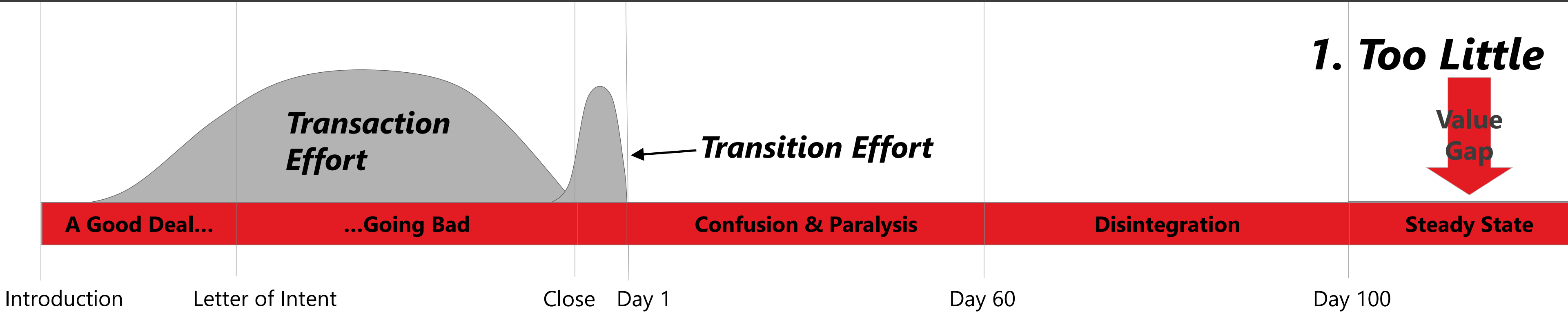
Why the First 100 Days Are Critical

- By Day 1, 40% of the changes that will *ever* occur have been initiated.
- At Day 60, 65% have been initiated.
- At Day 100, 85% have been initiated.



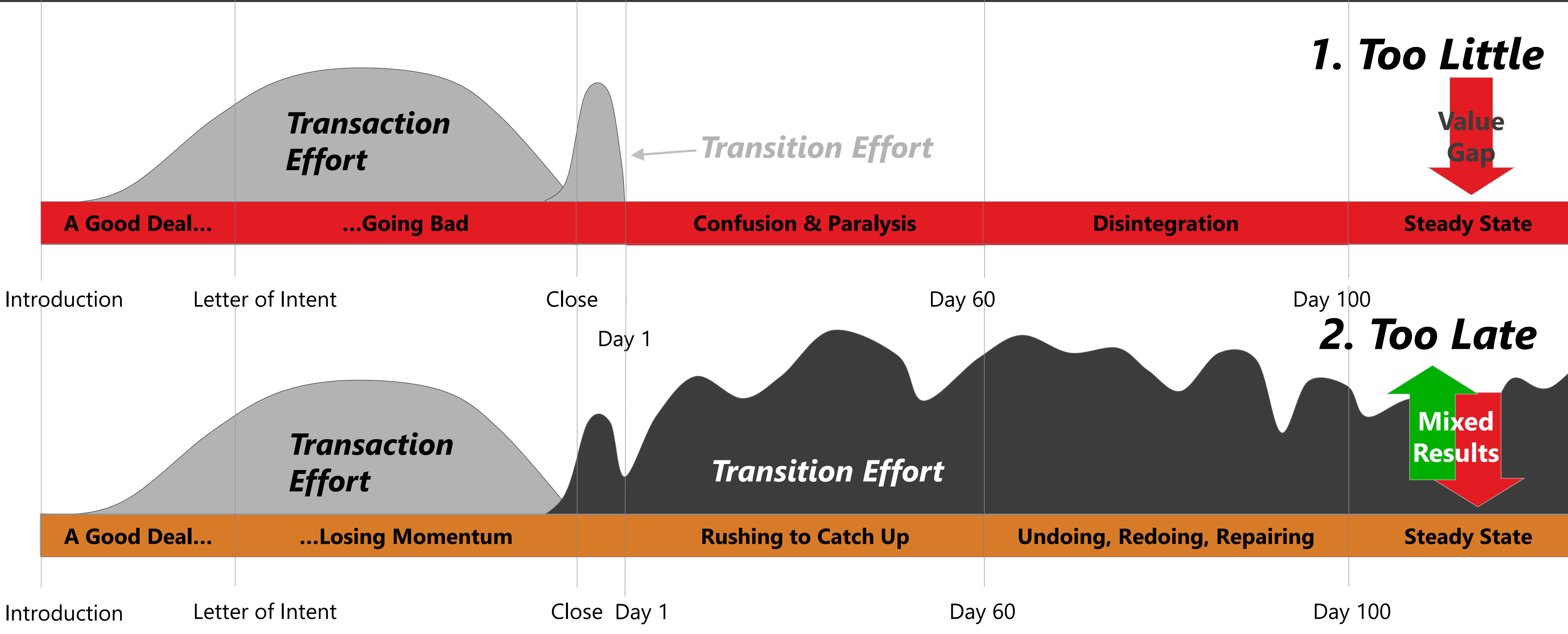
- The remaining 15% of the initiatives must build on those of the first 100 days.
- Changes introduced after the critical period succumb to waning momentum & priority shifts.
- Between Day 100 and 6 Months – for better or for worse – the company settles into a new steady state.

Three Ways to Manage a Transition



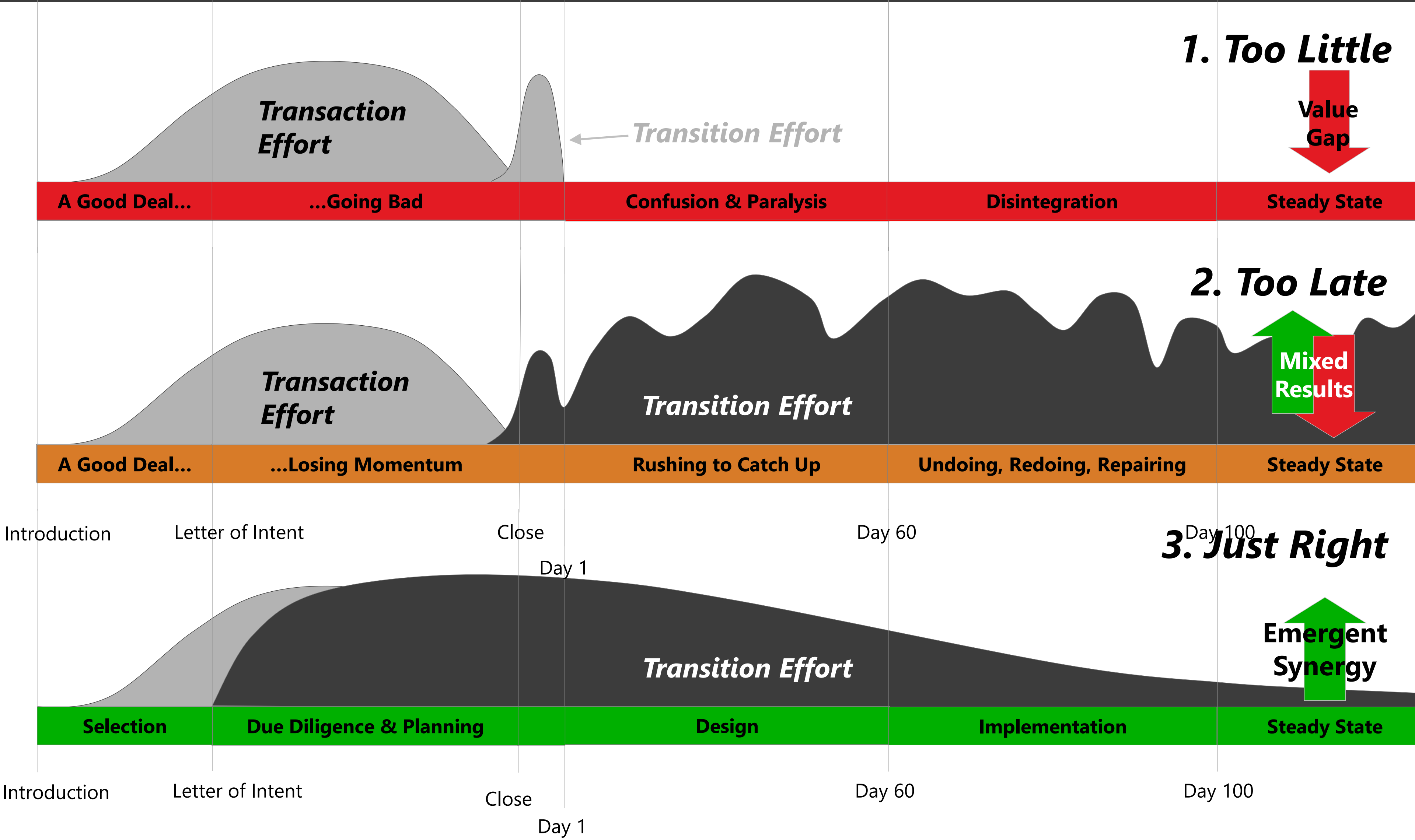
- **Danger: Deal-making is the cool, high-profile phase of a merger or acquisition**
- **Illusion: A good deal guarantees a successful merger or acquisition**
- **Temptation: Limit the transition effort to Day 1 hoop-la**
- **Results:**
  - **"Studies indicate that one of every two PMI efforts fares poorly."**
    - Post merger integration: Hard data, hard truths, Deloitte, January 2010
  - **"If given the chance to do the last deal again, four fifths of executives said that in hindsight they would have quickened the pace of integration. Another 62 per cent would have introduced a second wave of integration to bring the two organizations closer together."**
    - PMI and Failures in M&A, MNA Global, August 2019
  - **"The deal is won or lost after it's done."**
    - Kenneth W. Smith, Mercer Management Consulting

Three Ways to Manage a Transition



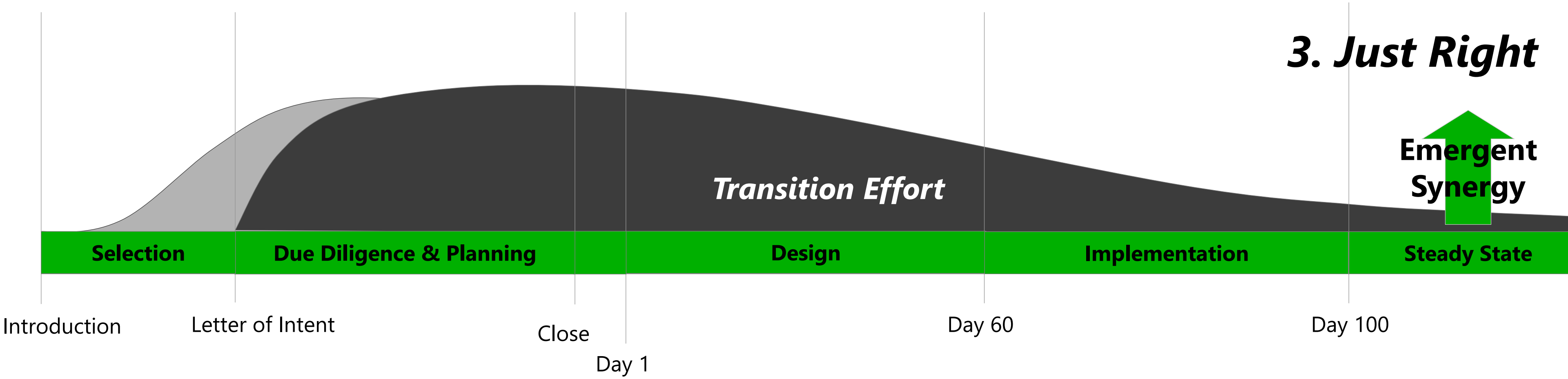
- Deal-makers' interest ebbs after the closing – they fail to impart their vision, knowledge, focus, and momentum to transition management
- Visioning, planning, organizing for the transition doesn't start until the deal is closed – or never occurs at all, as the transition teams rush into action
- Events 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

Three Ways to Manage a Transition



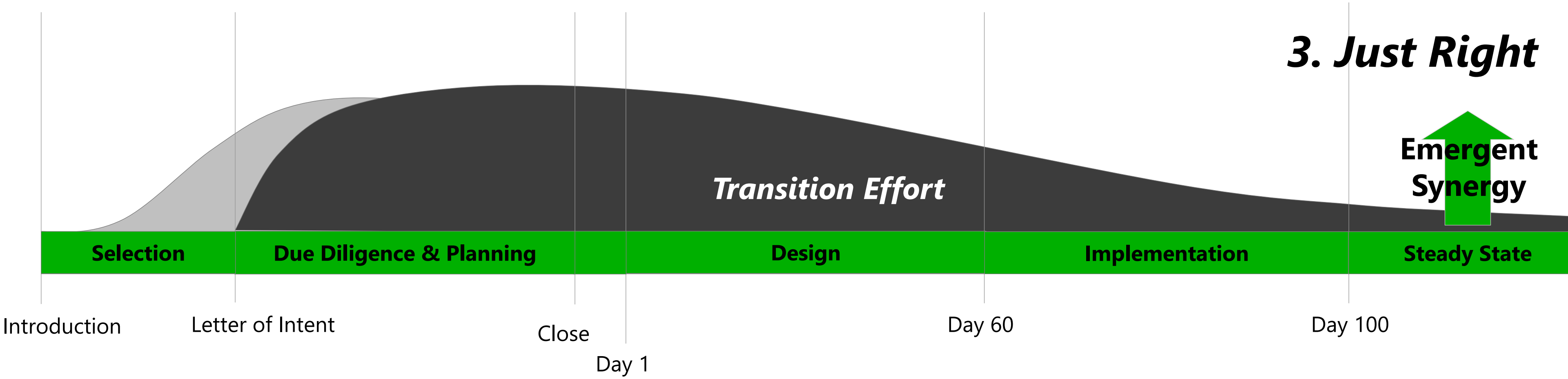
Three Ways to Manage a Transition

- ▲ 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

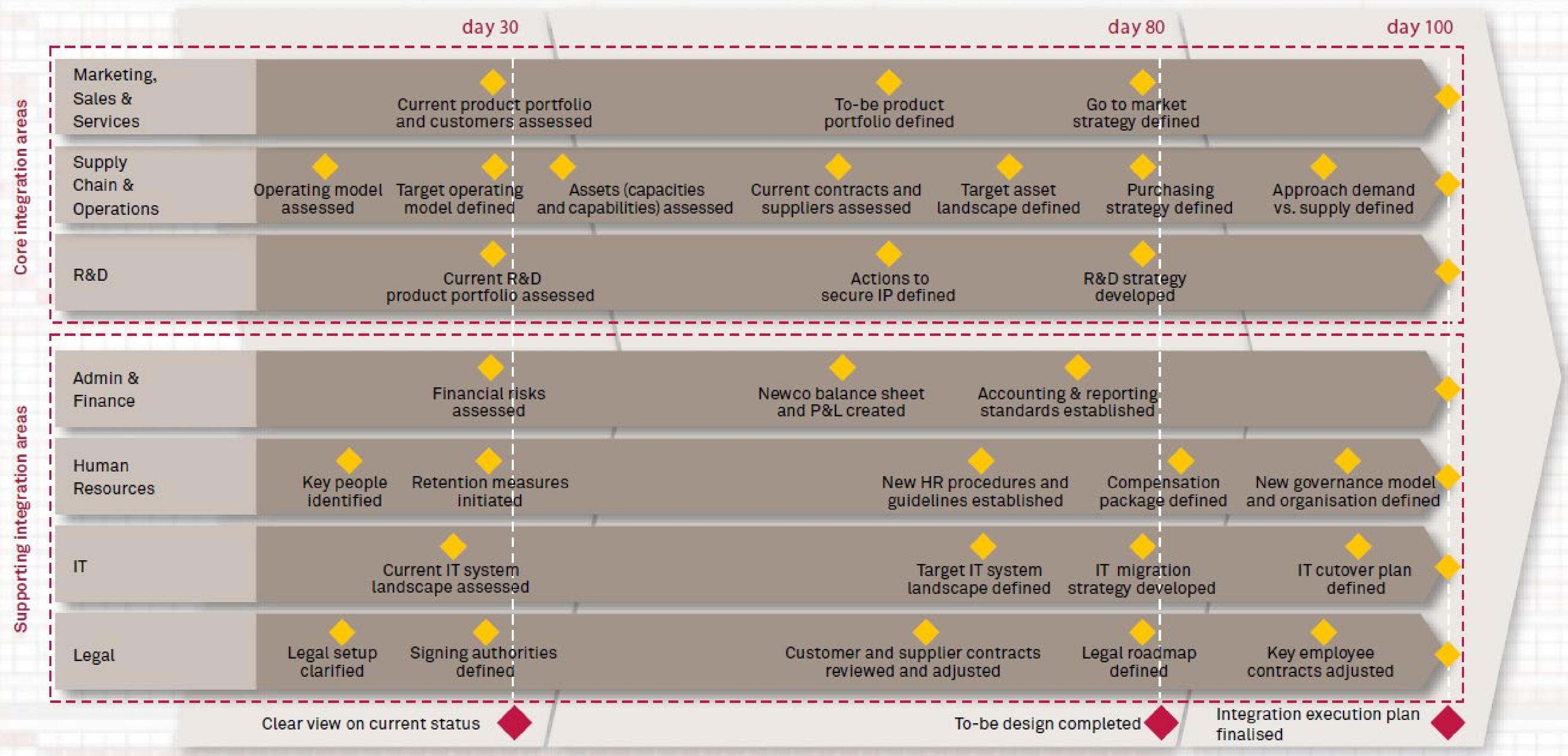


The Integration Process: Key Success Factors

- **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



High-level plan for the first 100 days



An accurate planning of the first 100 days is a key requirement to incorporate all relevant stakeholders, decide on the appropriate detail of planning, adhere to a critical path and deploy the appropriate planning tool.

Integration area milestone — Global key milestones — Integration areas (exemplary)

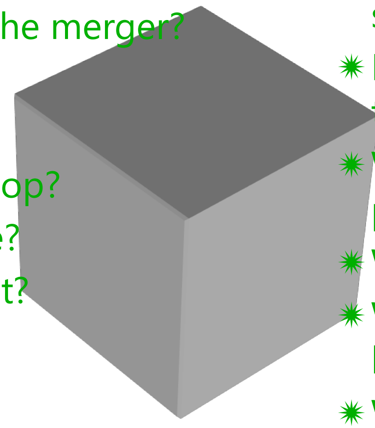
Capgemini: The First 100 Days
Capgemini, August 2016

Vision and Plan

Hit the Ground Running
in the Right Direction

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?



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?

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?

CSF: Fit the Transition Plan to the Merger Goals

True Blue · Gold Rush

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

• Obtain synergistic Gold assets such as:
  • Skills
  • Products
  • Processes
• Eliminate duplicate resources to cut costs
	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

	Synthesis		
• A marriage of equals • Vertical or horizontal integration • Extensive synergies • Economies of scale • A new identity that also preserves the old	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.

Key Success Factor: Focus on Customer Processes

"Acquiring companies experienced a 4.3% absolute price decline, on average, in the 3 years after an acquisition, with 61% of these companies underperforming industry competitors."

Koller, Tim, Marc Goedhart, and David Wessels, *Valuation: Measuring and Managing the Value of Companies,* Hoboken, NJ: John Wiley & Sons, 2005.

- 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!

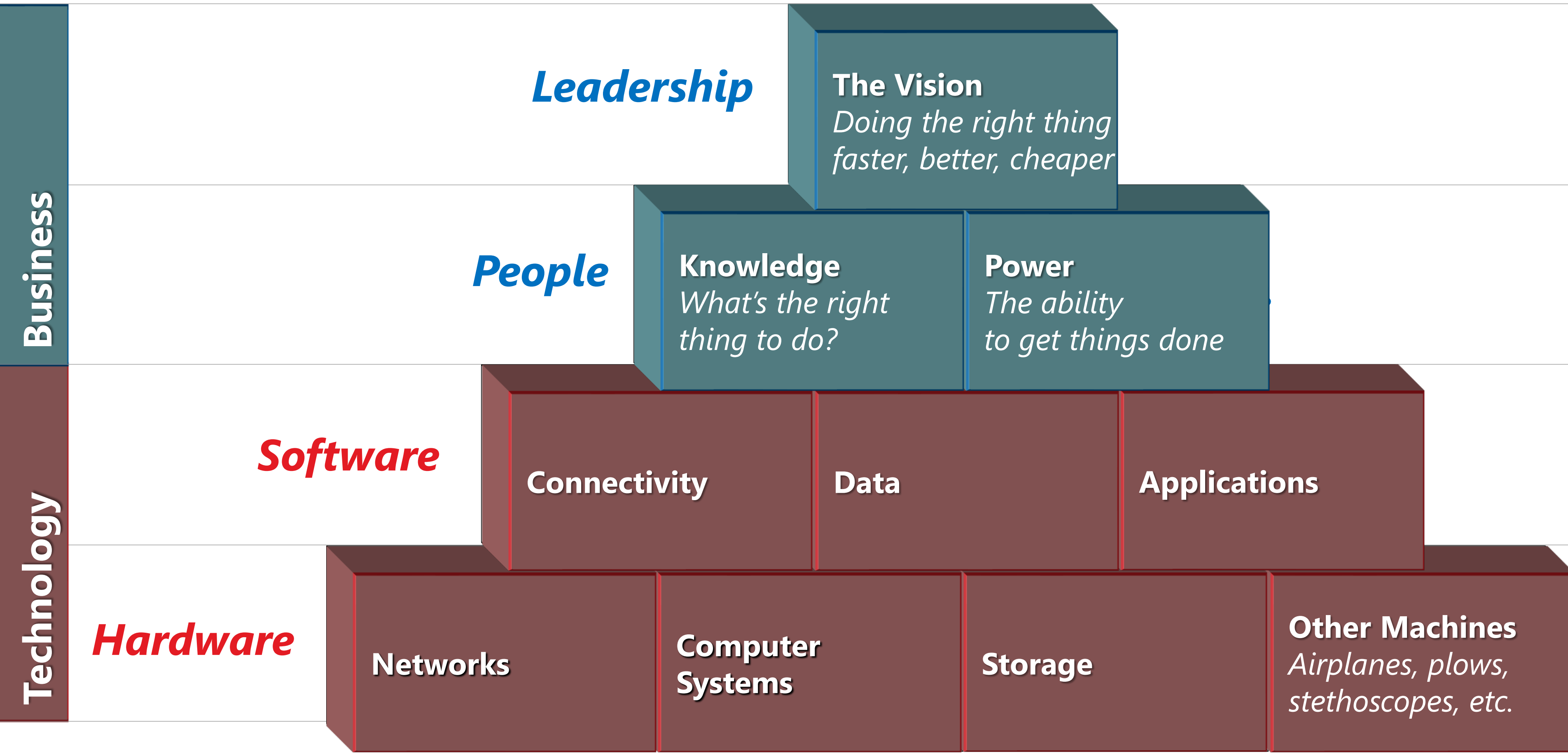
Using External Resources: Key Success Factors

- 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

Key Success Factor: Plan Technology Integration from the Top Down



Key Success Factor: Implement Technology Integration from the Bottom Up

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

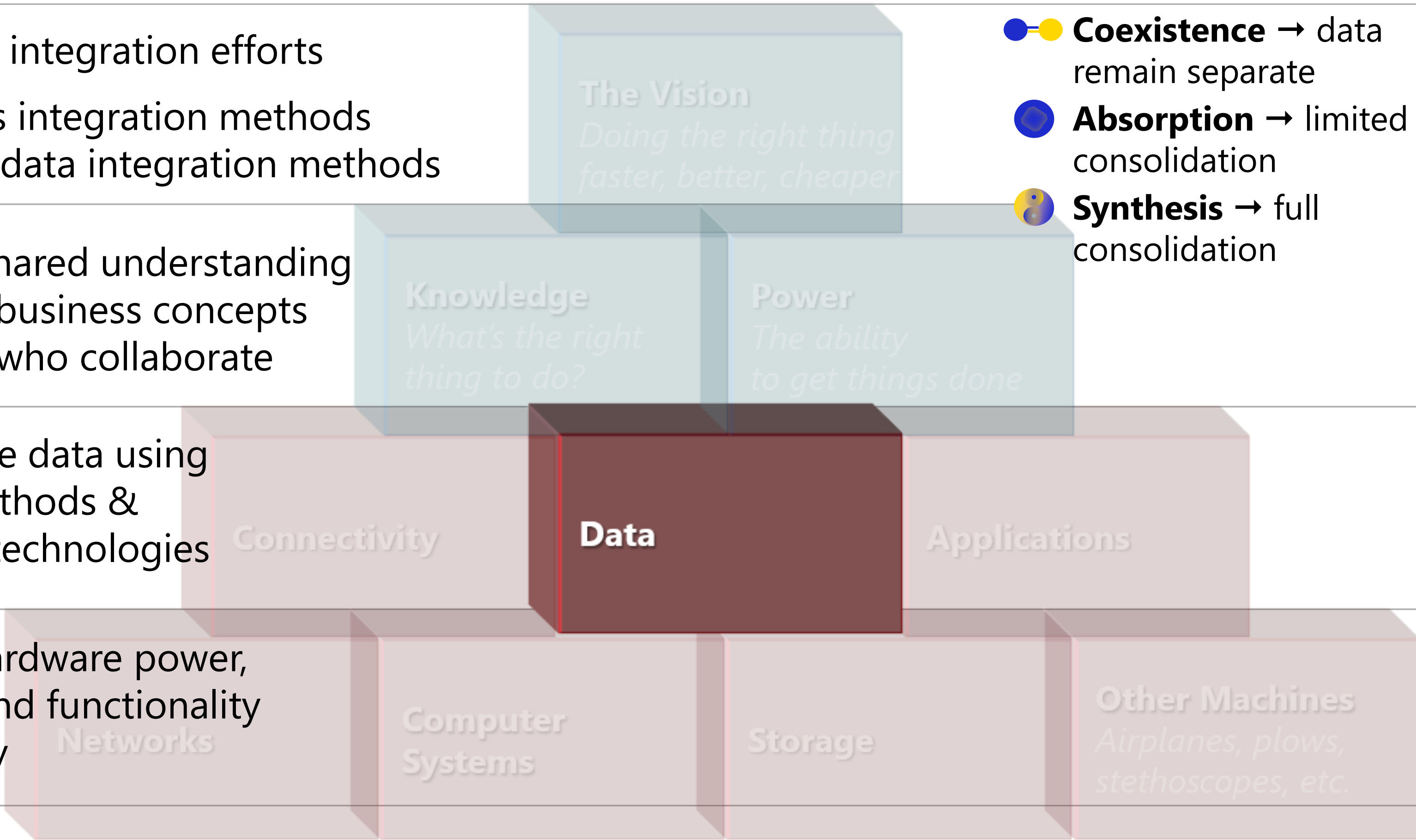
Technology

- ▲ 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

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 Ledgers, Legal Entities, Operating Units, Inventory Organizations to standardize business processes and leverage synergies of both companies

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