M&A Capability
Danny A. Davis

A webinar for Axial Market

DD Consulting
M&A Integration and Separation specialists

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Danny A. Davis

- Deals small to large, from 2 days to 3 years
- Training, Coaching, Consulting, Integration Director, sitting on the steering committee
- Speaking: Conferences, Business schools (Henley, LBS, Ashridge, CASS, Brunel, Vlerick)
- Sits of the CMI experts panel
- DD Consulting is a founding partner of the Global PMI partners network
- My new book easily found on Amazon. Has been approved by CASS, Loyola & South Carolina (Darla Moore) business schools and put onto their reading list. The first chapter is given to students at London Business School, Insead, Vlerick, Imperial College, Loyola, Fisher, Indiana (Kelly), and Cornell.
- http://www.amazon.co.uk/Integration-Planning-Delivering-Business-Success/dp/1119944864
Why Improve your M&A Capability

• If we could improve our M&A by 1% what might that be worth and how much might it cost
• A company purchased 3 companies for £50mn each over the last 3 years (£150mn)
• We might expect to do more deals during the next few years (3-6 more deals)
• We have all heard that 80% of deals fail to deliver value
• If I assume a 1% improvement of that value due to improved M&A practice = $1.5mn (is that all profit?)
• What would you pay to get $1.5mn more profit for your company (Cost of that improvement could be virtually nothing in comparison, e.g. a set of training for all your M&A people)
• Do you think it might be possible to become 5% better at your M&A or 10%
Capability for M&A

- What is our M&A strategy
  - How many companies will we buy, sell JV with over the next 3-5 years
- What is our M&A process
- Is there repeatability – playbook or methodology

- What do we need to know
- Who needs to know it
  - How can we share, learn, teach : knowledge and skills
  - Where can we buy these in
  - Hire new people
  - Hire advisors of consultants
    - Knowledge
    - Extra resource
    - Try to put the risk onto them
M&A Process

Discussions between parties, when appropriate: Offering Documents / Requests for information / Non-Binding Letter of Intent / Negotiation of terms / Term Sheet

M&A Strategy → Target Identification → Target Screening → Preliminary Due Diligence → Projected Synergies and Value Drivers → Business Case Validation & Bid Preparation → Contract Negotiation

Integration Due Diligence

100 – Day Planning Exercise

1 Integration Plan

Deep Dive Due Diligence → Negotiation of Final Transaction & Deal Structure

Approval of project and appointing of executive sponsor responsible for M&A

Set up NDA agreements → Decision to acquire target with indicative price mandate from M&A Board

Closing of deal Transition start, lead by integration project

Transaction Execution

Execution of Integration Plan

Finance → Operations

Board Approval

LEARN

Integration project fully phased out and handed over to line organization Learning secured

Operate New Business

Approval of project and appointing of executive sponsor responsible for M&A

Transaction Execution

Regulatory Review and Approval

Share plan with target / Set up Steering committee / Monitor Progress / Handover to line management when deal criteria met
Questions to ask yourself
Often used by Central M&A people with business units
Questions to ask yourself - Process

| Success          | Was your last deal a success?  
|                  | Could it have gone better? How?  
|                  | Are you ready for your next deal?  |
| Knowledge        | Do you have people that have planned and delivered mergers before?  
|                  | If you have such resources, could they do better? Which process steps, functions?  |
| Tools & Checklists | Do you have an integration methodology?  
|                  | Do you maintain Checklists? Do you use M&A Integration tools?  |
| Programme Management | Do you have a good process to set up a project management office for your M&A integration projects?  
|                  | Do you know the three key events that need to happen to ensure M&A integration success?  |
| Risks            | Have you run enough deals to be able to spot all of the risks?  |
| Synergies        | Do you have the experience to find all the synergies? Make a good estimate of their size? Really know how long it will take to deliver each one?  |
| Ready to integrate | Are you ready to integrate the new business? How will you run the new company to start with? And how will you manage this process longer term? What people do you have that can plan and run the integration? What will the new organisational structure look like? Can you do good customer reviews and ensure you don't loose any?  |
## Questions to ask yourself - Functions

<table>
<thead>
<tr>
<th>Category</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>How do you manage the process to establish interim management information and reporting? Can you consolidate financial data as rapidly as you like and need to?</td>
</tr>
<tr>
<td>IT</td>
<td>Will the company be able to run on Day 1, will the lights still be on? Do you understand the logical and/or physical IT separation &amp; integration issues when buying a carve-out? Do you understand the IT impact based on the way you decided to run the company?</td>
</tr>
<tr>
<td>HR</td>
<td>You need to run both companies and do all the integration work, do you have enough resource? Have you run a selection process and HR consultation process before? Will your HR people get the numbers right with regard to HR synergies and delivery?</td>
</tr>
<tr>
<td>Operations</td>
<td>How do you rationalize capacity and resource duplication? Can you rapidly identify areas where you can leverage economies of scale to improve the bottom line?</td>
</tr>
<tr>
<td>S&amp;M &amp;Branding</td>
<td>Do you understand customer segmentation, account management responsibilities and profitability, for both companies? Do you know the product range and how it will be sold starting DayOne? Do have a clear strategy how to manage the purchased brand?</td>
</tr>
<tr>
<td>Procurement</td>
<td>Have you worked out the future volumes, given combined operations and changes in product portfolios? Have you run large scale procurement rationalization projects?</td>
</tr>
<tr>
<td>Communication</td>
<td>Have you mapped out a detailed communication plan, responsibility, venue and media matrix for the period between signing and closing and post closing? Have you strategized how to keep the momentum and top performers informed and energized? How do you link your communications and integration plan to pull the business forward?</td>
</tr>
</tbody>
</table>
### Improve xxx M&A Capability: Resource across the company

#### SKILL SET
- M&A
- Corporate HQ
- Strategy
- Change Management
- Programme Management
- Project Management
- Transformation, Cost reduction, Restructure
- External Communications
- Internal Communications

#### NUMBER OF PEOPLE
- 20
- 60
- 200
- 800
- 1,400
- 3,000

#### Function
- Sales & Marketing
- HR
- IT
- Supply Chain
- Comms
- Procurement
- Finance

#### Division
- Country 1
- Country 2
- Country 3
- Country 4
- Country 5
- Div 1
- Div 2
- Div 3
Improve M&A Capability

Training programmes: integration specialist, functional tags, business unit CEO & CFO, leadership programmes

Ongoing Integration programmes

Integration Capability Review Project

Information gathering

Programme differentiators

M&A lifecycle

Current capability assessment

Tools and templates library

Harmonise integration approach

Organisation

L&D collaboration

Programme collaboration

Inputs:

Previous Integrations

Knowledge

People

Examples

Learnings

Tools

Outputs:

M&A Integration model / road map

Global M&A ‘Centre of Excellence’

Global Company M&A Community

Consolidated Integration Library

M&A programme on-boarding process

Targeted integration training courses

Previous Integrations

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M&A Capability Review
How to review where you are and get better!!

1. Immersion & Scoping
   - Kick-off
   - Understand what questions should be in the interview
   - Review previous deals from central view point
   - Understand where we think there are gaps

2. Review Capabilities
   - Interview 20 - 40 people that have been through mergers from different divisions, departments
   - Cover each division with M&A
   - Cover each function
     - Finance
     - HR
     - IT
     - Supply Chain
     - etc
   - Look at issues that cropped up on past deals, during the interview process, why did they occur, will they happen again, can we stop them
   - What went well, how can we ensure it continues
   - Capture corporate experience, lessons learnt, areas of improvement

3. Review Methodologies
   - Understand what tools templates and documents are available internally to help future deals
   - Understand how this internal knowledge can be shared
   - Understand how internal people currently get up to speed on a deal and prepare themselves
   - Review internal capability

4. Gap Analysis & Improvement
   - Review current situation, show gaps and make suggestions for improvement
   - This to be show in final power point presentations
   - Suggest KPI for the future
   - Strawman capabilities needed to deliver good integrations
   - Incorporate best-of-breed methodologies, tools and templates

5. Review & Refine
   - Flesh out draft capabilities
   - Incorporate feedback
   - Finalise documentation
   - Handover to team
   - Deciding on internal tags (who to train)
   - Training and role out

Weeks 1 2 3 4 5 6 7 8
What is Integration Capability? What should your methodology or play book contain?

In our view, integration capabilities are the sum of standard methodologies, approaches, pragmatic tools and templates and the degree to which these are embedded. Typically this include:

<table>
<thead>
<tr>
<th>Pre-deal Integration</th>
<th>Set-up</th>
<th>Planning</th>
<th>Implementation</th>
<th>Close-down</th>
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</thead>
<tbody>
<tr>
<td>Pre-close integration checklists</td>
<td>Objective and scope of integration</td>
<td>Project planning templates</td>
<td>Tracking templates</td>
<td>Integration evaluation</td>
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<tr>
<td>Integration approach</td>
<td>Guiding principles</td>
<td>Integration plan</td>
<td>Progress</td>
<td>Transfer from integration delivery over to business as usual</td>
</tr>
<tr>
<td>Consider commercial issues</td>
<td>Project structure</td>
<td>Integration targets / budget</td>
<td>Benefits and cost</td>
<td>Post acquisition performance monitoring</td>
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<td></td>
<td>Overall Roadmap</td>
<td>Sign-off of the integration plan</td>
<td>Risk and issue management</td>
<td></td>
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<tr>
<td></td>
<td>Governance structure</td>
<td>Communication</td>
<td>Reporting</td>
<td></td>
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<tr>
<td></td>
<td>Communication approach</td>
<td></td>
<td>Communication</td>
<td></td>
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<td></td>
<td>Integration Roles and responsibilities</td>
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<td></td>
<td>Detailed timetable</td>
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<td></td>
<td>Internal resources and external advisers</td>
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<td></td>
<td>Corporate structure</td>
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<tr>
<td>Prepare approval paper</td>
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M&A Integration course content – Page 1

Strategy, planning, mobilise, evaluate, track and deliver integrations
Business, functional, people, culture, data, systems, numbers
Synergies and how they might be used to value the company
Using integration to focus the mind for due diligence
Increase revenue, decrease costs....

1. M&A overview & Integration overview
   The M&A process, synergies, people, pre-deal integration, entity integration. The different types of M&A and thus integration

2. Integration planning
   How do we start the planning process, mobilise work streams and start the delivery?

3. Integration control
   What do we need to track, control, understand during the integration? How will we know if we are on target to succeed?

4. Integration process
   Understand the level of people and process needed for integration. Structure the delivery.

5. Strategy
   Where are we going? Where are we trying to get to? How long will it take to get there?

6. Synergy delivery
   Its about delivering savings - delivering more for less. Understand the business changes that occur as integration delivery progresses.

Motivation for M&A
M&A Integration
Integration Overview
Integration Planning
Integration Strategy
Integration Governance
Integration Control
Synergy Delivery
Integration Process
Tracking Delivery

HR
S&M
IT
Supply Chain
Finance
Procurement
Communications
HSSE & Property
Tax & Legal
7. HR
People, people, people! Plan the organisational structure, power, culture capability, pay and pension. The people will deliver the integration and the business. What will we do with them? How will they feel?

8. IT
Data is needed to run the integration, make decisions and run the business. How will we collect it? How do the people fit in?

9. Finance
The deal is about delivering the synergies, but also a new finance function, and improvement in efficiencies. We also discuss outsourcing.

10. Communications
We need to tell people internally and externally what is going on - poor communications will lead to disaster. What shall we tell them, why and when?

11. Sales & Marketing
One half of integration is cost cutting, the other is revenue improvement / generation. Cross-selling, up-selling, new products, improved pricing.

Discussion around the value of integrating the small functions when compared with the delivery potential of doing the integration work

13. Due Diligence
The whole day will be perforated with items that we need to think about during due diligence.

14. Valuation
There will be a discussion around the strategy of valuation

15. Game
There will be a game where teams decide on M&A strategy, value the company and run through a negotiation

**Key Discussion points during the course**
How can you get the most value out of your deal? What are the stages of a successful integration? How do you achieve the announced synergies? How do you estimate the costs? When do you start planning the programme? Who needs to be involved in the integration, and when? Which business areas are impacted? What tools and techniques do we use for structuring integration planning, delivery and tracking? **How should you balance the programme against business as usual?** What lessons have we learnt about avoiding the pitfalls? How to we maintain morale? How can we restructure but keep talent? How do we ensure performance is not affected? What effect does culture have?
Where can we buy Capability

- Trust
- People who know what they are doing
- If your not an expert how can you purchase these skills

- Individuals as expert
- Small advisory or consultancy
- Large advisory or consultancy
- Contractors

- Hire in new employee for the longer term
For more information, please visit...
www.ddavisconsulting.com
www.gpmip.com

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