M&A

Post-Merger Integration

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Foreword

Post Merger Integration: Expert knowledge from practice

This study addresses the age-old question of "What was the benefit?" in practical terms. It is well known that not all integrations deliver the anticipated success, which makes it all the more astonishing that more literature and studies exist on the subject of acquiring a company – classic M&A – than on the subsequent Post-Merger Integration. It is thought a key reason for this gap is that Post-Merger Integration (PMI) is hardly recognised as a management task in traditional university syllabuses. Even today, few experts have practical knowledge of PMI. As a consequence, we cannot expect to gain any in-depth knowledge of the underlying mechanisms and rules from the majority of people who are part of an integration process. That is a breeding ground for serious errors.

This study makes a contribution to closing the existing gap somewhat.

The study consistently addresses the development of an integration concept as a starting point for integration work. A holistic concept, or master plan, helps to capture the inherent complexity of the task and reduce it down into meaningful and appropriate planning. The main benefit is that all – even inexperienced – participants can quickly be brought up to the same level of knowledge and progress. It is normally key for an integration concept to build on the experience and expertise of the users responsible and to have the possibility of developing further in the course of the process.

The study takes this idea as the basis for its questions and thus approaches key aspects of practice. These include questions on management as a necessary sponsor of an integration concept, dealing with corporate culture as a basis for a shared understanding of cooperation, human resources and management as motivational factors and monitoring the outcome to gauge the success of an integration.

In some cases the study reveals considerable differences between frequent and infrequent acquirers and shows some surprising approaches within the companies.

Augsburg, November 2015

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Foreword

Integral M&A management as the key to success

M&A projects are often unintentionally broken up into individual projects which lose their connection to one another or damage the business and target as a result of dealing with integration too late. The model of a separate strategy project, the onset of an M&A transaction (potentially years later) and delayed integration due to a lack of preparation during the transaction is the greatest error in M&A project planning and leads to the greatest destruction of value. Professional management of the fracture points between strategy, transaction and implementation is thus an important key to success. How should this be tackled?

Firstly, with regard to the strategy versus transaction interface, the M&A transaction should ideally follow immediately after the strategy project. If this is not possible – which is often the case because the search for a target takes a long time – then a further strategy check should be carried out immediately before the transaction stage begins in order to verify the "strategic fit" of the candidate and the transaction path.

Now for the transaction versus integration interface: anyone who does not address implementation until day one has already lost, as they will then be left empty-handed. The integration part of the concept must be prepared in parallel to the transaction so that it is possible to act immediately right from day one. This involves not only preparing measures, but also providing the necessary competencies and capacities required for covering what will now be a far greater workload.

A solution is offered by a process management model comprising, for example, the core processes of "strategy", "transaction" and "implementation", which continuously run in parallel from beginning to end. A process manager should be appointed for each process, with overall responsibility being in the hands of one project manager who has to report to a steering committee which is responsible throughout. This type of integral end-to-end M&A management has proven to be the key to success and has gained increasing acceptance in practice, as this study shows.

Gauting, November 2015

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About this study

In search of a professional approach to Post-Merger Integration

Numerous studies on the subject of mergers and acquisitions (M&A) published in recent years are concerned with strategic questions as well as the success and failure of M&A transactions. This study goes a step further: we focus on the practical implementation of acquisitions and examine the extent to which the approaches of companies who are routinely involved in M&A transactions differ from those of companies with less transaction experience. Our hypothesis was that "frequent acquirers" (more than three acquisitions in the last three years) incorporate their experiences from previous transactions into their current processes, thus enabling best practice approaches to emerge.

We have derived practical professional tips from the detailed results and summarised them in an overview at the end of the study (pages 30-31) as a professional guide for your M&A activities.

Initiators

This study was carried out by Accuracy and Aon Hewitt. Accuracy is a leading global corporate finance consulting firm. Aon Hewitt is a leading global provider of services in the field of human resources. Further information on Accuracy and Aon Hewitt as well as on the authors can be found in the appendix. This study was supported by the Gesellschaft für Post Merger Integration e.V. and the Bundesverband Mergers & Acquisitions e.V.

Participating companies

The participating companies represent a mix of international listed stock corporations and family businesses based in Germany operating in different industries. The responses of around 50 participants who took part in an online survey in the first quarter of 2015 were analysed for the study. When assessing the responses we differentiated between "frequent acquirers" (referred to hereafter as "FAs") and "infrequent acquirers" ("IAs"), who are equally represented among the companies surveyed. Detailed participant statistics can be found in the appendix to this report.

Summary of results

Strengths and weaknesses of established PMI practice

Synergies

only
75%
plan synergies separately and specifically

41%
of IAs
continue to run the target as a **standalone company**

34%
do not pay for synergies, willingness to pay for synergies is generally low

Lack of awareness of potential synergies!

Processes

69%
foster **links** between staff and processes throughout the transaction stages

40% of IAs
75% of FAs
use a **project management office (PMO)**

Acquisition controlling
monthly
for 2 years
ideally **short,** but **intense!**

67%
do **not plan budgets for tracking risks and pursuing claims**

HR aspects

only
40%
examine the management of the target during DD

but

High level of awareness that the management of the target and corporate culture are causes of failed acquisitions!

but

40% of IAs
33% of FAs
do not examine corporate culture during due diligence

Case-by-case decisions!

43%
in relation to **harmonising remuneration and benefit structures**

✓ proven successful

Pre-Deal

Planning the transaction and setting objectives

What strategic transaction objectives are you pursuing through acquisitions?

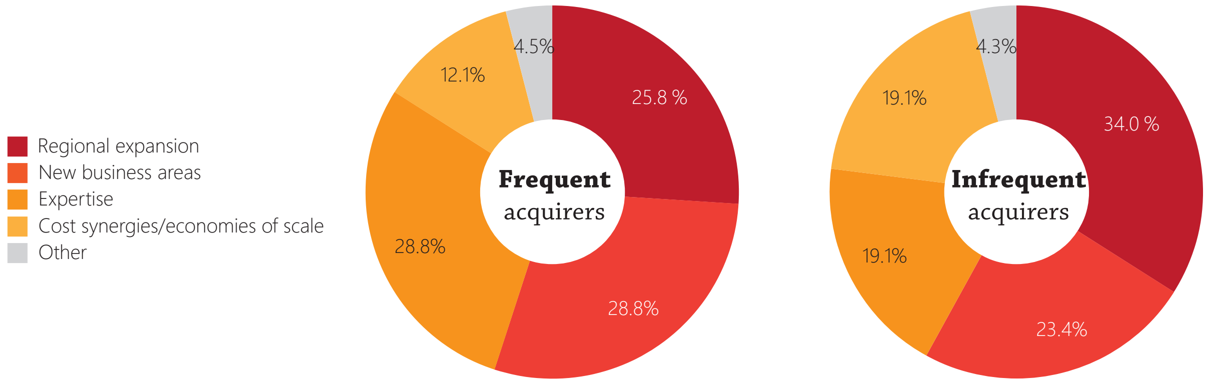

Figure 1: Strategic transaction objectives of acquisitions

The priority decision-makers in companies assign to the two acquisition objectives of growth and cost savings varies depending on the economic climate. Owing to the positive economic situation at the time of the survey, growth is currently the dominant acquisition objective for the participants in the study. However, in view of the limited investment opportunities (there are not enough interesting targets or the purchase prices being asked are too high due to the intense competition), the desired degree of growth cannot be achieved through acquisitions despite sufficient liquidity in many cases.

Acquiring expertise and entry into new business areas are each cited by 28.8% of the FAs surveyed as strategic transaction objectives behind acquisitions. As the FAs tend to be larger companies, in the authors' assessment they are more often reaching the limits of organic growth or are under pressure to enter a market or develop know-how rapidly. They are therefore more prepared (or obliged) to realise growth through M&A activities.

In our experience, IAs are also increasingly engaging in acquisitions to leverage growth potential. The predominant objectives among this group are access to new markets and regional expansion (34%), followed by entry into new business areas (23.4%).

Cost synergies are currently of considerably less importance to an average of 15% of all study participants than growth, market entry and expertise.

Planning the transaction and setting objectives

How do you define synergies?

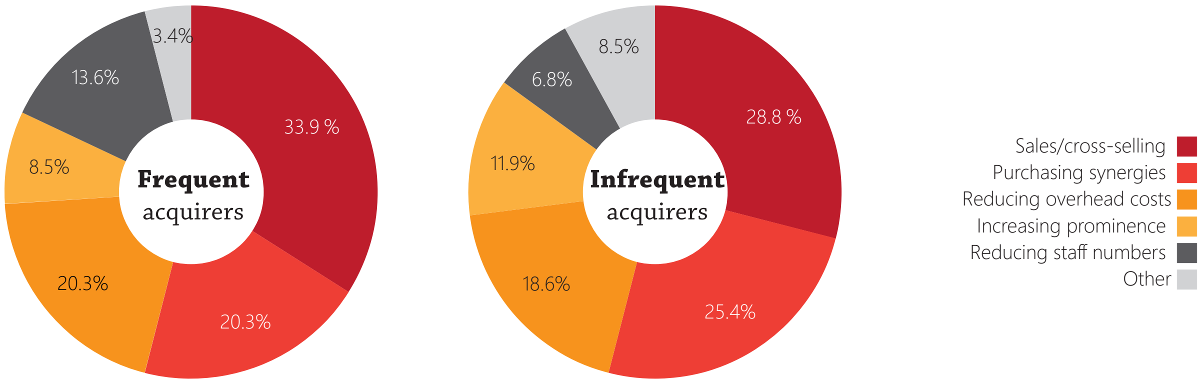

Figure 2: Defining synergies

For the majority of companies surveyed,

- better sales and/or cross-selling opportunities (31.4% of all respondents),
- purchasing synergies (22.9% of all respondents) and
- reducing overhead costs (19.5% of all respondents), particularly in the areas of administration, IT and sales/marketing,

are the main synergy effects they are seeking to achieve with an acquisition. From this we can ascertain that sales and/or cross-selling opportunities are relatively more important to FAs (33.9%) than to IAs (28.8%), while purchasing synergies have greater significance for IAs than for FAs (25.4% versus 20.3%). Due to the size of their organisations and existing sourcing strategies, FAs tend to have already achieved savings potential during purchase, while IAs might not intend for this to happen until the acquisitions.

By contrast, reducing staff numbers and increasing company and brand awareness play a comparatively minor role (10.2% of all respondents in each case). Reducing staff numbers plays a relatively minor role for IAs (6.8%) as compared with FAs (13.6%). This can partly be explained by the fact that FAs can fall back on existing structures, particularly in central functions such as finance or HR and frequently also sales.

Planning the transaction and setting objectives

How detailed is your synergy and cost planning?

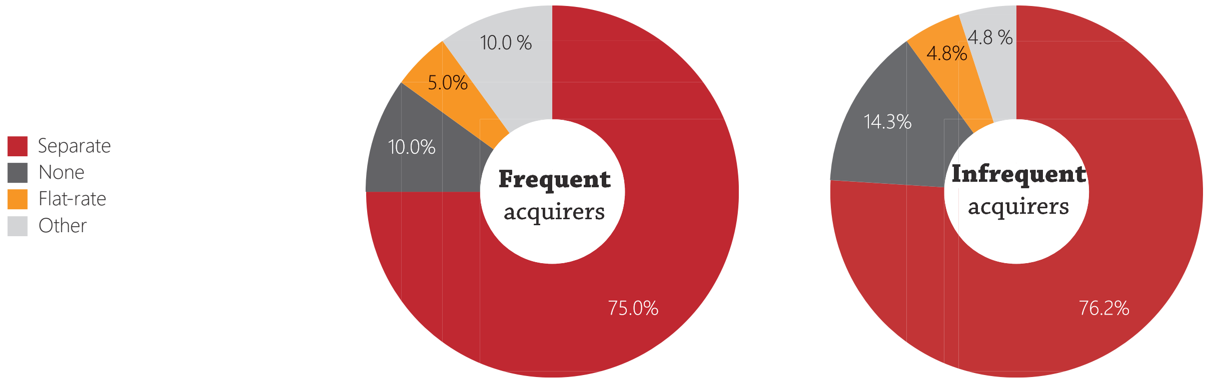

Figure 3: Form of synergy and cost planning

Overall, the participants' responses do not reveal any significant differences between FAs and IAs. It can be seen that, in practice, separate planning of synergies and costs has largely become established in both groups. Around three quarters of all respondents stated that they plan sales and cost synergies and non-recurring transaction and integration costs separately in the context of acquiring a company. In practice, therefore, three-step planning and controlling concepts have become established, which the authors consider to be effective if they are interpreted and applied correctly.

Although many companies have established professional processes for planning synergies and costs (separate planning of sales and cost synergies and integration costs), the specific form of planning nevertheless frequently depends on the transaction situation (e.g. little transparency as regards the target, time restrictions for carrying out due diligence), which was explicitly confirmed by some of the participants in the study.

In addition, on average only 4.9% of all participants carry out flat-rate planning in the form of percentage-based overhead rates.

It is notable that 10% of all FAs do not carry out detailed synergy and cost planning. Even "professionals" have room for improvement, therefore.

Professional tip

Plan sales and cost synergies and integration costs separately. This will enable you to determine the purchase price in a more transparent fashion from the outset. Furthermore, this way you can more easily monitor deviations during the integration stage and learn lessons for subsequent projects.

Planning the transaction and setting objectives

What proportion of the purchase price is attributable to planned (net) synergies?

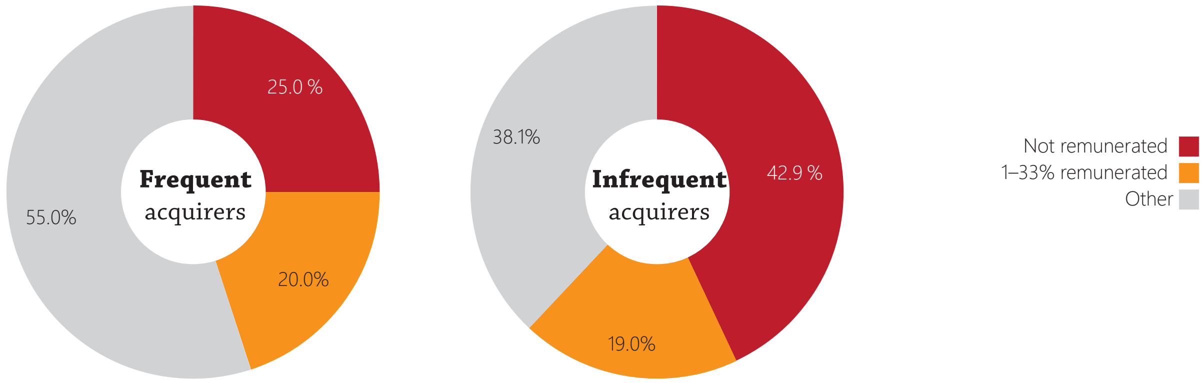

Figure 4: Planned (net) synergies as a proportion of purchase price

One third of all respondents did not pay for synergies. A further 44% of all companies determine this on a case-by-case basis or pay for only a small portion of synergies (up to 33%). None of the companies surveyed stated that they pay or intend to pay for more than 33% of synergies. The lack of willingness to pay for synergies is significantly higher among IAs than among FAs (42.9% versus 25%). The large proportion attributable to “Other” is conspicuous for both FAs and IAs. In such cases, synergies tend to be paid for on a transaction-specific basis. This also explains the high proportion of FAs who more frequently (have to) deviate from broad-brush negotiation patterns due to the large number of transactions.

Competitive (auction) processes with private equity funds and foreign investors are increasingly taking place as a result of the current macroeconomic conditions (in particular, low interest rates and the weak Euro) and the M&A seller’s market, leading to higher purchase prices. The objective of not paying for synergies is more difficult to realise in the present market environment. This makes it necessary to pay greater attention to synergies, particularly with regard to justifying purchase prices to decision-makers and supervisory bodies

Participant opinion:
„The acquisition must be worthwhile from a standalone perspective.“ ”Synergies are just the icing on the cake.“

Increase the focus on potential synergies in your planning. This will improve your negotiating position in increasingly competitive processes

Professional tip

Deal Execution

Executing the transaction

Is the acquired company generally integrated into an existing business or continued as an independent entity?

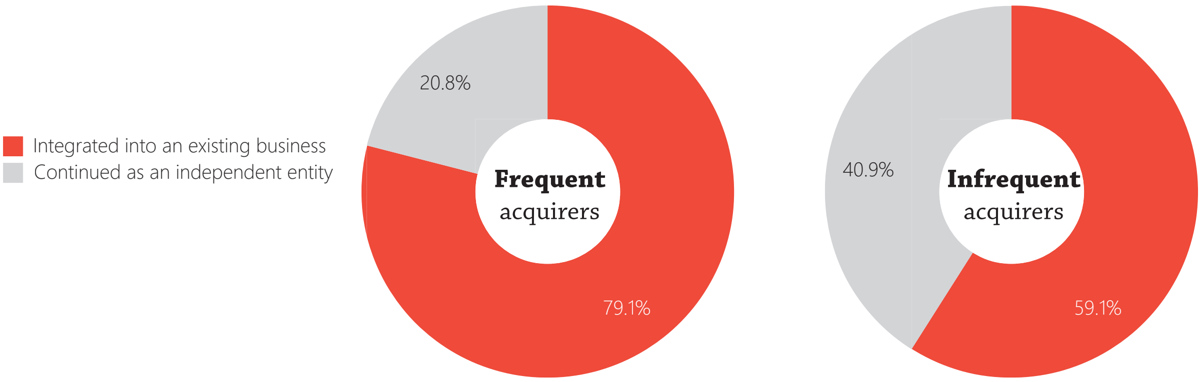

Figure 5: Integrating the target or continuing it as a standalone entity

Ideally, the process of ascertaining whether the target is to be integrated into the existing business or continued as an independent entity will develop during the course of the M&A process. At the beginning it is rather an abstract strategy that generally becomes increasingly specific as newer insights are gained from the due diligence stage. At the latest, a decision regarding the integration strategy should have been made by the time the contract is signed in order to structure the post-closing stage in an efficient and targeted manner.

FAs (79.2%) integrate considerably more frequently than IAs (59.1%), which continue to run their targets as independent entities in around 40% of cases.

The decision as to whether a target will be integrated or continued as an independent entity has a significant impact on the employees of both companies. The harmonisation of different corporate cultures will thus be of particular importance in the event of an integration (see also Figure 21: Reasons for failed transactions).

Professional tip

When deliberating on the degree of integration, consider the compatibility of the different corporate cultures and check for potential obstacles during the due diligence stage. Make a decision on integration by closing at the latest so that the ongoing process can be aligned with this aim.

Executing the transaction

How do you check the plausibility of your synergy and cost planning?

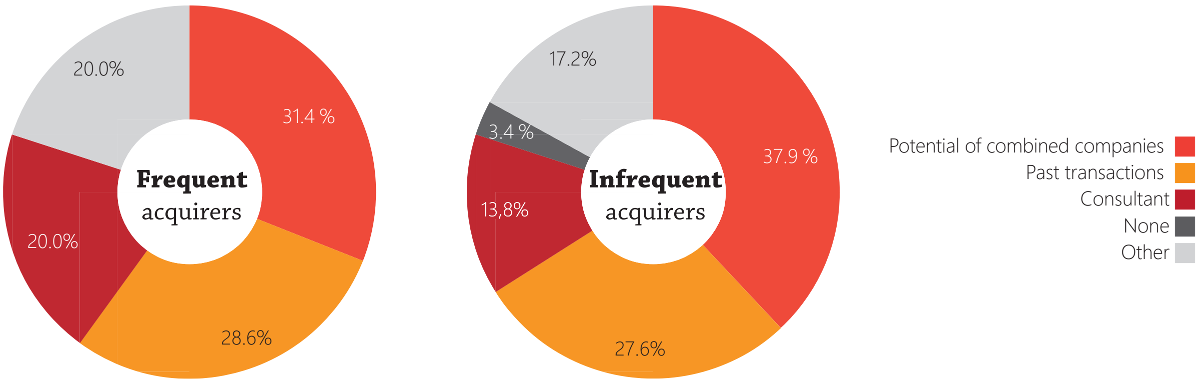

Figure 6: Method of checking the plausibility of synergy and cost planning

There are no significant differences between FAs and IAs with regard to checking the plausibility of synergy and cost planning. This takes place:

- primarily by estimating the future potential that can result from combining acquirer and target (34.4% of all respondents),
- based on comparisons with historical transactions (28.1% of all respondents) and
- based on plausibility checks by external consultants (e.g. transaction, M&A or strategic consultants) in around a fifth of cases.

If the purchaser is operating in familiar markets with the acquisition, the plausibility of the planned synergies is often checked through "introspection", i.e. using the expertise of the company's own employees. This is generally lacking if a purchaser intends to penetrate unfamiliar markets by way of the acquisition (e.g. in terms of geographical expansion or new business models). In such cases, it can prove beneficial to involve external consultants in the M&A process to check the plausibility of synergy and cost planning.

In addition, this frequently occurs for corporate governance reasons (checks and balances, i.e. separation of responsibilities and dual control) in many larger – particularly capital market-oriented – companies in order to guard against overestimation of potential and underestimation or selective perception of risks by the decision-makers in the M&A process. Besides engaging independent consultants, they institutionalise processes that ensure that M&A projects and the strategic and operational considerations they are based on also undergo critical internal checks regularly, e.g. through clear separation of responsibilities between the strategy, M&A or finance department or between operating businesses and the central holding company.

Introduce control processes to ensure in general, but also with particular regard to financial and synergy planning and the resulting company valuation, that fundamental transaction hypotheses are frequently examined critically.

Professional tip

Deal Execution

Executing the transaction

When and in what form are management audits carried out?

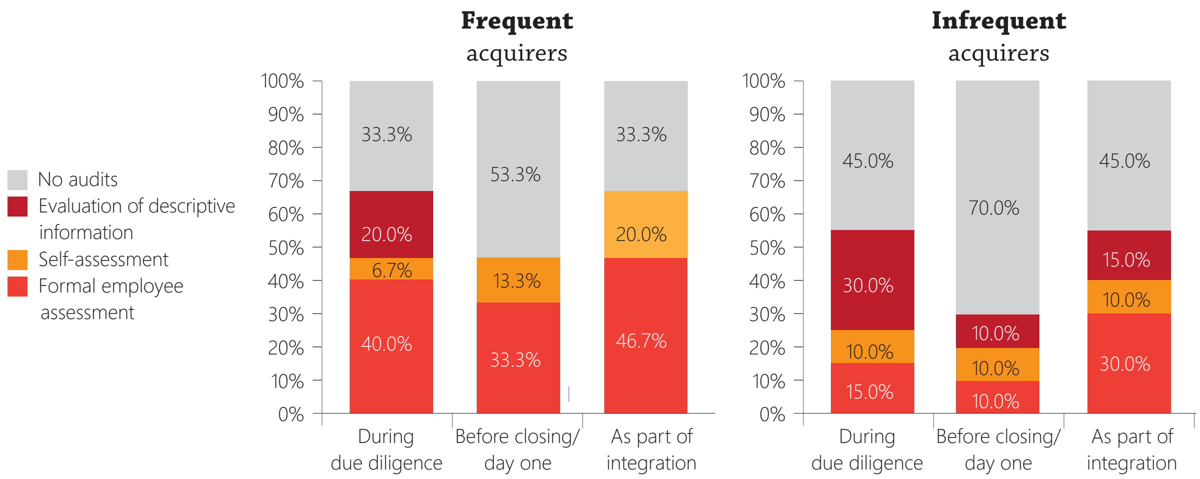

Figure 7: Timing and form of management auditss

Management audits play a very minor role in M&A transactions. When making the purchase decision over a third of FAs and almost half of IAs forego examination of the management. This is surprising, as the management of the target was cited most frequently as the reason for a transaction failing (see Figure 21: 17.4%). FAs tend to attach greater importance to the subject of management audits and examine the potential of their target's management team at an earlier stage of the transaction.

Nevertheless, it is particularly surprising that over half of the participants did not even take the opportunity to examine the management's competence in implementing the transaction objectives at the pre-closing stage. Legal, tactical and confidentiality reasons may also play a role here in some cases. However, there are sufficient examples to show that a management audit is possible even at this stage of the transaction.

Leadership and management competencies and skills can generally be assessed very easily and with a high degree of reliability, particularly given the availability of numerous standardised assessment tools. The decisive factor in this regard is a marked orientation towards potential and development. The standard is a comprehensive competence assessment in parallel to potential-oriented tests. This approach also enables feedback to be given to managers and departments with appropriate development measures. As an alternative to a comprehensive employee assessment, it is also possible to carry out "slimmed down" versions of a management audit. For example, this can be done as part of a self-assessment by the manager, an interview, or an evaluation of descriptive information. However, many companies do not even take this opportunity to evaluate such easily accessible information.

During a due diligence process there is an opportunity to assess the managers working for the target against a previously defined requirements profile. In this process, the demeanour, management style and reactions of the persons involved can be observed, regularly analysed and discussed.

Professional tip

Carry out management audits as early as possible in an M&A transaction. Ideally, such an examination will take place as early as the due diligence stage, as the quality of the management is an important criterion for achieving the transaction objectives.

Deal Execution

Executing the transaction

When and in what form is an analysis of the corporate culture at the target carried out?

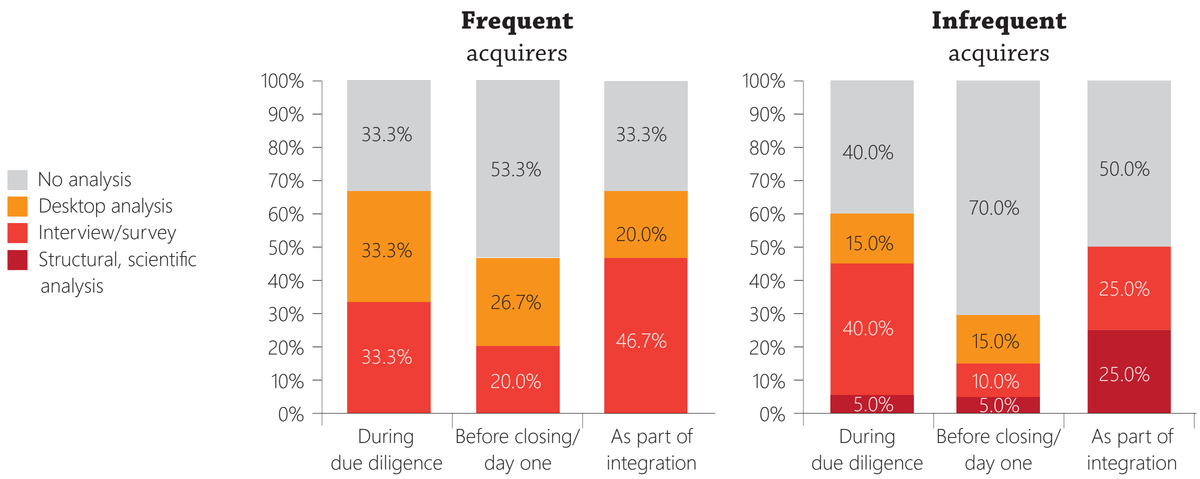

Figure 8: Timing and form of corporate culture analysis

A third of FAs and 40% of IAs do not examine corporate culture during due diligence. It is understandable that broad and systematic collection of data is not generally possible at this point. However, the responses of the remaining participants show that it is at least possible to carry out rough analyses based on interviews and a desktop analysis.

The management can be surveyed on corporate culture during the due diligence stage. Further indications as to the corporate culture can be assessed by way of a desktop analysis. Information from documents in the data room, e.g. results of previous employee surveys, results of exit interviews (► GLOSSARY) as well as employer branding documents (► GLOSSARY) or generally accessible sources can be analysed in this process. The latter include social media, internet forums and general observations that can be made during a site visit, for example.

Corporate culture can be described, among other things, as the way decisions are made, the perceived hierarchies, the way employees interact with one another, the number of regulations, the relationship with employee representatives and the level of integration of earlier acquisitions.

The transaction objectives determine the way cultural integration should be carried out. Here, a distinction is made between the possible core strategies of preserving one culture, combining two cultures or founding a new shared culture. In the authors' view, the concept should not be based on the broad-brush approach of attempting simply to impose the structure and culture of the acquirer on the target. In many cases, culture is key to success and is the very thing that makes the target attractive to the acquirer.

Start analysing the corporate culture as early as during due diligence. On the one hand, the result should serve as a further critical examination of the purchase decision. On the other hand, the input should be used to begin planning the (cultural) integration during the due diligence stage.

Professional tip

Post-Deal

Measuring the success of a transaction

How is the success of a transaction measured?

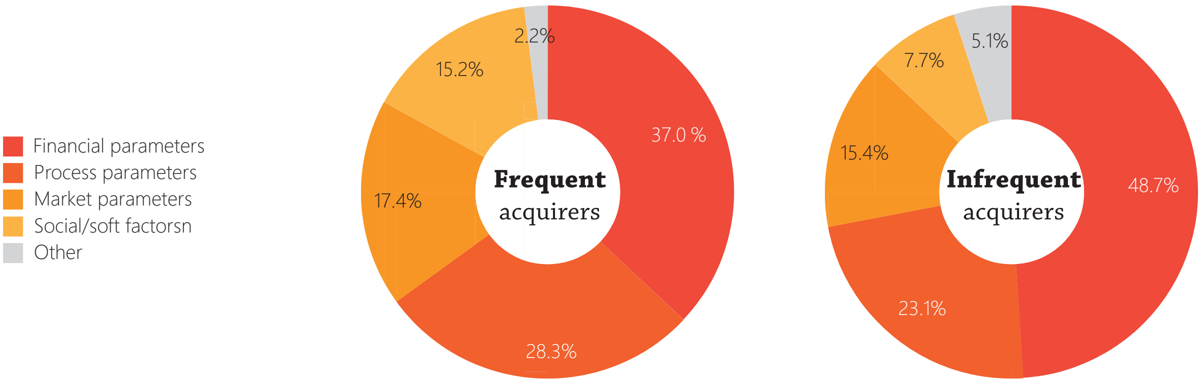

Figure 9: Measuring the success of a transaction

The measurement of success is traditionally dominated by financial measurement parameters. This study also confirms this: 42.4% of all respondents stated that they use mainly financial measurement parameters (e.g. EBIT/EBITDA, Free Cash Flow, ROI) to assess the success of a transaction. This is significantly more pronounced among IAs (48.7%) than among FAs (37%). In the view of the authors, this can be explained chiefly by the fact that IAs have not yet fully developed their acquisition controlling (i.e. for controlling the integration process) or – mistakenly – consider it unnecessary.

The comparison shows that process-related measurement parameters are slightly less significant and social/internal measurement parameters considerably less significant for IAs. This may be explained by the fact that FAs are mostly larger and often listed companies and thus frequently of interest to the public. For this reason alone, these companies cannot neglect "soft" factors. Moreover, (internal) "social/soft" factors are useful as an early warning system for growing dissatisfaction among employees. They enable latent risks to be identified at an early stage and reduce the possibility of unexpected situations and their consequences.

As market-related factors (particularly access to new markets) are currently key strategic transaction objectives, one might expect that companies would attach greater importance to them when measuring the success of a transaction (e.g. customer satisfaction, market share). However, measurement of market-related factors only ranks in third place among FAs (17.4%).

In view of the major significance the merging of corporate cultures has for the success of a transaction (see Figure 21), the advancement of cultural integration should be considered as a separate measurement parameter.

Professional tip

Include soft indicators when measuring the success of a transaction. Be aware of the often key importance of corporate culture for the success of a transaction and define milestones with reference to cultural integration.

Measuring the success of a transaction

How is the success of a transaction measured in financial terms?

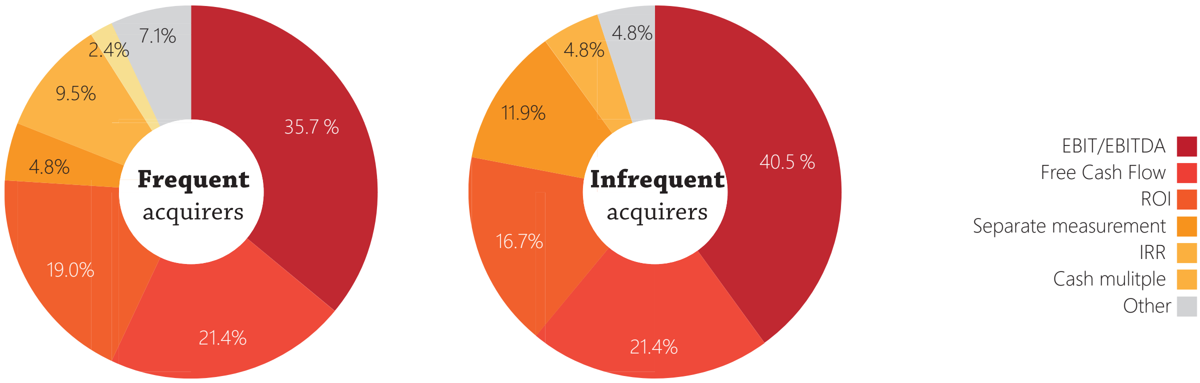

Figure 10: Measuring the success of a transaction in financial terms

37.5% of all respondents use the EBIT or EBITDA indicator to measure the success of a transaction. Free Cash Flow follows in second place with 20.5% of all respondents and ROI comes in third with 17% of all responses. The differences between FAs and IAs are not significant and point to the same trend.

Although synergies are often planned separately, in some cases their measurement is "aggregated", i.e. for both units together with no separate measurement of synergy effects. Thus no specific and objective categorisation of possible deviations and their causes is possible.

Post-Deal

Measuring the success of a transaction

How do you assess the quality of your synergy and cost controlling?

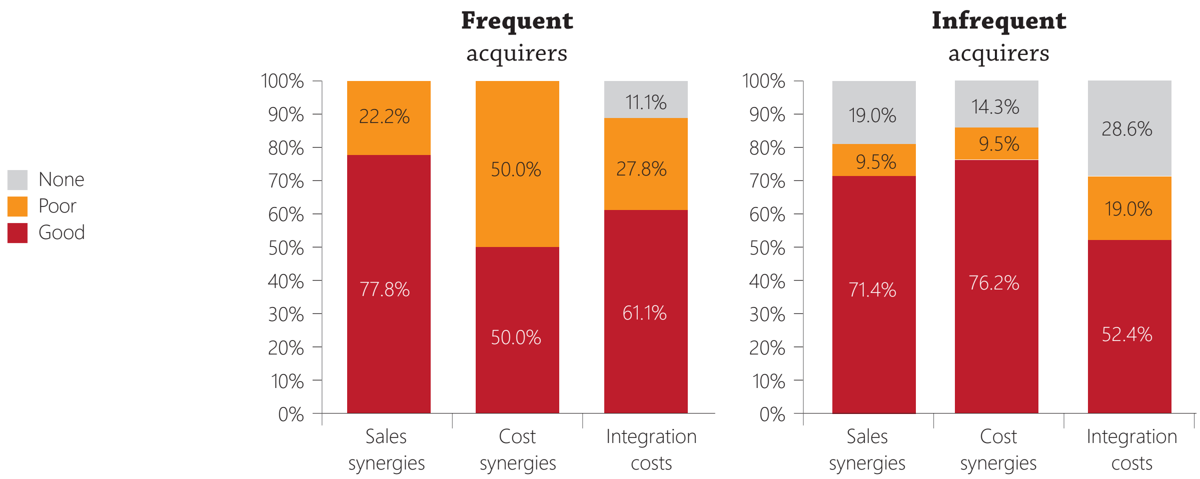

Figure 11: Assessing the quality of sales and cost synergy controlling and controlling of non-recurring transaction and integration costs

The content of synergy controlling reflects the strategic transaction objectives and is focused on growth-oriented sales synergies (see Figure 2: Defining synergies).

Among FAs, the quality of sales synergy controlling tends to be good (77.8%), while the quality of cost synergy controlling (50%) and of non-recurring transaction and integration costs (27.8%) was viewed rather critically. 11.1% of respondents reported no controlling of non-recurring transaction and integration costs. In the view of the authors, this is particularly critical if significant integration costs are to be expected (e.g. through harmonising IT or closing locations).

The quality of cost synergy controlling is assessed as significantly better in IA companies (76.2%) than in FA companies (50%). A significant proportion of IAs do not carry out any sales synergy (19%) or cost synergy controlling (14.3%) at all. IAs attach even less importance to controlling non-recurring transaction and integration costs than FAs (28.6% and 11.1%, respectively). This may be explained by the fact that the level of complexity and thus also the potential costs are frequently lower for smaller companies than for FAs.

Professional tip

Establish processes for controlling sales and cost synergies as well as non-recurring transaction and integration costs. This will enable you to avoid surprises and identify lessons for future transactions.

Measuring the success of a transaction

How often do measure the success of the transaction in financial terms?

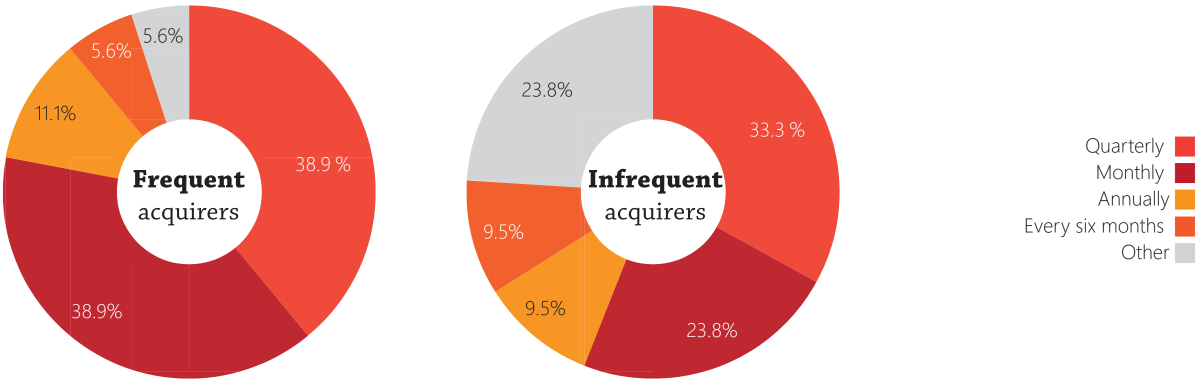

Figure 12: Interval for measuring the success of a transaction in financial terms

35.9% of all participants in the study measure the success of the transaction at quarterly intervals, followed by monthly intervals (30.8%). In most cases, the period for tracking the success of the transaction is two to three years (see Figure 13: Length of period for measuring the success of a transaction in financial terms).

The more acquisitions a company undertakes, the shorter the intervals for measuring the success of a transaction. FAs tend to be subject to higher regulatory requirements (capital market, internal committees), which means they generally measure more rigorously so as to be able to react to possible deviations more quickly.

In individual cases, however, the less frequent measurement on the part of IAs, which is closely associated with the tendency of these companies to focus less on M&A activities, can lead to critical issues being “discovered” too late. It should further be noted that the differing levels of intensity with respect to measuring the success of transactions in financial terms could also be attributable to different business models. Therefore we believe it makes good sense to measure new and/or more volatile business areas more thoroughly, while other business models/industries with a stable and regular cash flow (e.g. real estate companies) can be measured at longer intervals.

Measure the success of the transaction regularly, particularly in the first year after the acquisition. Define the measurement intervals depending on the dynamics of the business model or industry of the target.

Professional tip

Post-Deal

Measuring the success of a transaction

Over what period do you measure the success of a transaction in financial terms?

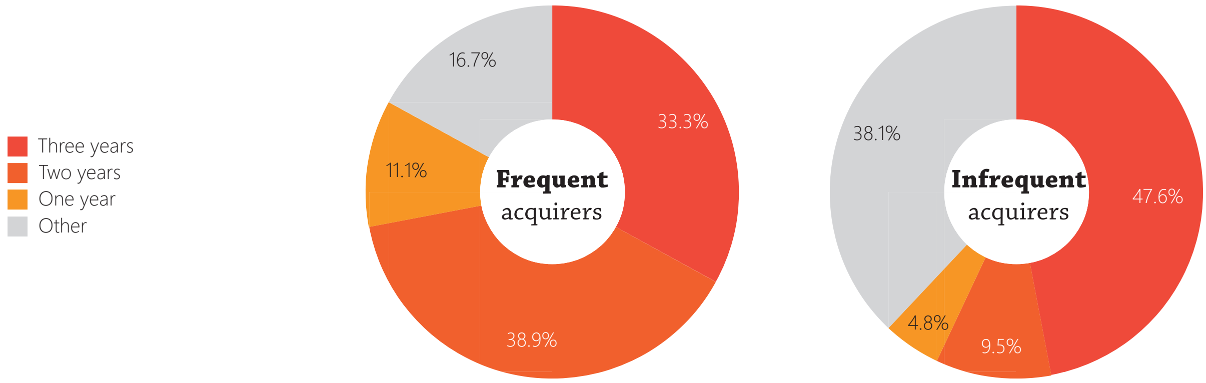

Figure 13: Length of period for measuring the success of a transaction in financial terms

Measurement of the success of a transaction predominantly takes place over a period of two or three years. FAs tend to measure the success of a transaction over a period of two years (38.9%), while most IAs tend to measure this over a period of three years (47.6%). However, despite the shorter duration of measurement, FAs measure the success of transactions more intensively than IAs (monthly and quarterly). The significant prominence of the "Other" answer option in the survey suggests that these companies measure the success of transactions occasionally at most.

The closer the tracking of the success of transactions is to closing, the more intensive it is. Therefore, the more time that has elapsed since closing, the less intensive monitoring becomes. A longer measurement period of more than three years often only has limited significance as, in general, different effects can no longer be distinctly attributed to the transaction.

In addition to financial objectives, in the authors' view it is also advisable to monitor strategic or qualitative assumptions (e.g. in relation to technological or regulatory conditions) during the course of the integration stage. Experience shows that this prompts stimulating discussions on a strategic level and leads to interesting conclusions for subsequent projects. Such non-quantitative controlling may even be appropriate over a longer period, depending on the level of complexity.

Professional tip

Restrict your financial acquisition controlling to two years, as it is usually hardly possible to separate the individual influencing factors after this. A longer controlling period may be appropriate for qualitative, strategic assumptions.

Transferring information – safeguarding contractual claims

How are the insights gained during due diligence tracked and asserted with respect to the seller?

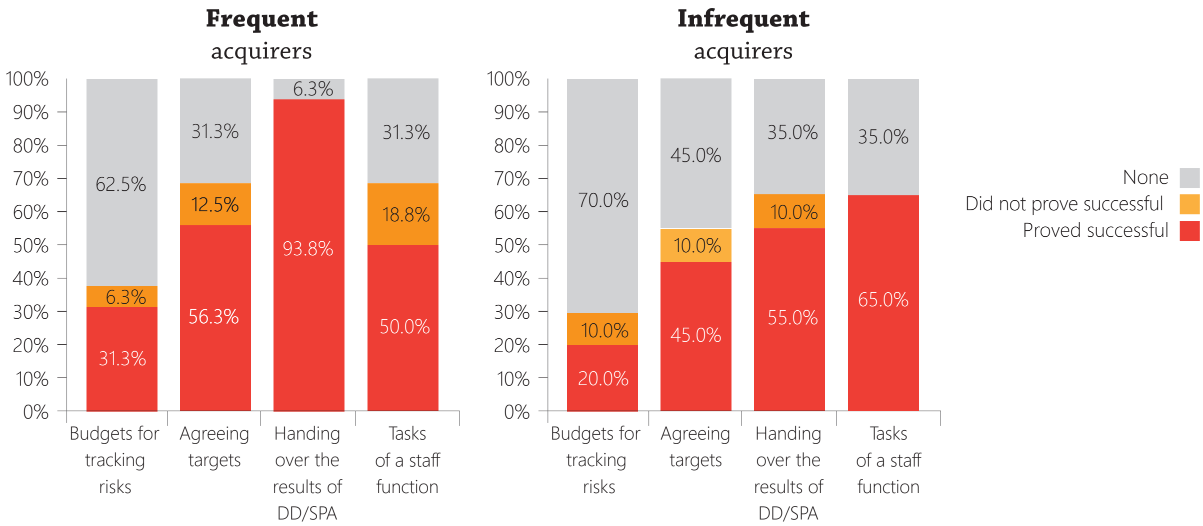

Figure 14: Tracking and asserting insights from due diligence

Frequently, insufficient attention is paid to tracking risks and asserting claims relating to the transaction (e.g. breaches of warranty under the purchase agreement). Two thirds of all the companies surveyed do not provide a budget for this. However, it has proved fully worthwhile if used. FAs often operate in a more structured and professional manner in this regard due to their experience. Overall, there is significant potential for improvement through the introduction of systematic processes.

If insights from due diligence are tracked and asserted, FAs (56.3%) link this more strongly than IAs (45%) with target agreements for managers and are satisfied with this approach.

For 93.8% of FAs it proved successful to arrange a structured handover of the results of the due diligence stage, negotiation stage and conclusion of the purchase agreement to those responsible for integration. By contrast, there is no handover at all for 35% of IAs; 85% of IAs who perform a handover rate it positively.

Staff functions are viewed more critically: using a staff function to track risks and assert claims relating to the transaction did not prove successful for 18.8% of the FAs surveyed; 31.3% do not even introduce them. Due to their company size, the IAs surveyed (65%) more frequently established specialist teams to process special projects, including post-closing work, and tend to be satisfied with this approach.

Make a budget available for pursuing claims for breaches of warranty under the purchase agreement promptly after closing and asserting them against the seller in due time. Ensure knowledge is transferred in the M&A process so that critical information is not lost during the individual stages.

Professional tip

Post-Deal

Transferring information – safeguarding contractual claims

To what extent were the persons responsible for the integration involved in advance and what proved most successful in practice?

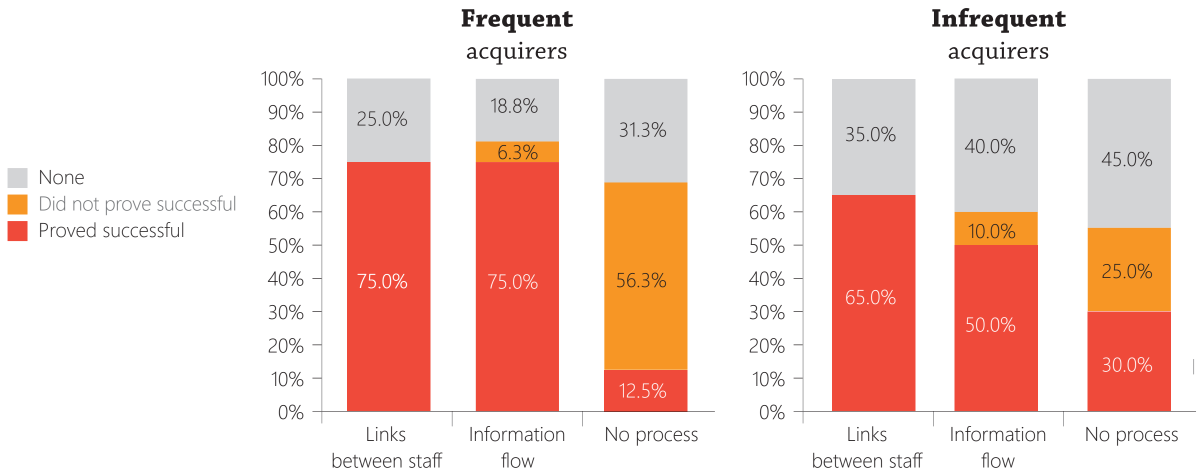

Figure 15: Involving the responsible persons in advance of the transaction

Participant opinion:

„The most important lesson for PMI success is to involve the persons responsible for integration and the operational managers in the pre-merger stage and DD right from the start"

In the view of the authors, a defined process for fostering links between staff at the different stages of the M&A transaction is the most effective measure for implementing a transaction successfully and in line with objectives. This is also reflected in the practice of the acquiring companies: three quarters of FAs and two thirds of IAs cite links between staff as a successful measure.

Similarly, a process whereby the information obtained is only forwarded in a prescribed manner has proved successful. Here, too, 75% of FAs (and half of IAs) ensure by means of tried-and-tested processes that insights gained in early stages of the M&A process are not lost on the closing date, but are known and available to the persons responsible for integration.

IAs use prescribed processes in the individual stages of the transaction less frequently than FAs.

Overall, in the opinion of the authors, there is significant potential for improvement among IAs, but also among "professional FAs", in the structuring of M&A processes with respect to the transfer of knowledge between the individual stages.

Professional tip

Introduce structured M&A processes that foster links between staff in the individual stages. In particular, this will enable you to protect against expertise being lost in the course of the process.

Using a Project Management Office (PMO)

Do you use a Project Management Office team after concluding the transaction to ensure its success?

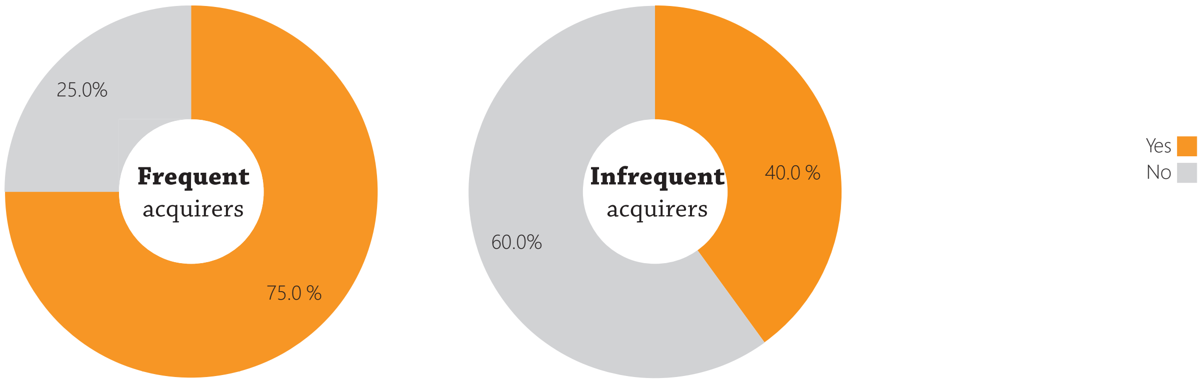

Figure 16: Using a project management office (PMO)

A Project Management Office (PMO) supports the implementation of a coherent, cross-project, methodically structured and therefore reproducible approach, thus making a direct contribution to safeguarding quality and experience. Furthermore, it should ensure that a project (in this case an integration) is implemented effectively, on time and on budget.

Analysis of the study shows that experienced FAs use project management offices significantly more often (75% versus 40%). In such cases, the links between the acquisition and integration process – ideally involving the same people – are ensured due to the bundling of competencies.

Nevertheless, in the view of the authors there is significant potential for improvement in relation to structuring integration projects seamlessly. Consulting practice has responded to this and also offers integrated management of PMI projects in addition to support with individual work packages (e.g. finances or HR).

Participant opinion:

„The cost of integration was underestimated; insufficient resources for integration in the parent, integration was attempted "in passing" by means of operational functions only"

Implement a PMO organisation, particularly for larger projects. This will enable you to structure your integration processes more efficiently, assist the decision-makers in day-to-day business and obtain the necessary focus on the acquisition objectives.

Professional tip

Post-Deal

Considering HR aspects

How do you measure transaction success from an HR perspective?

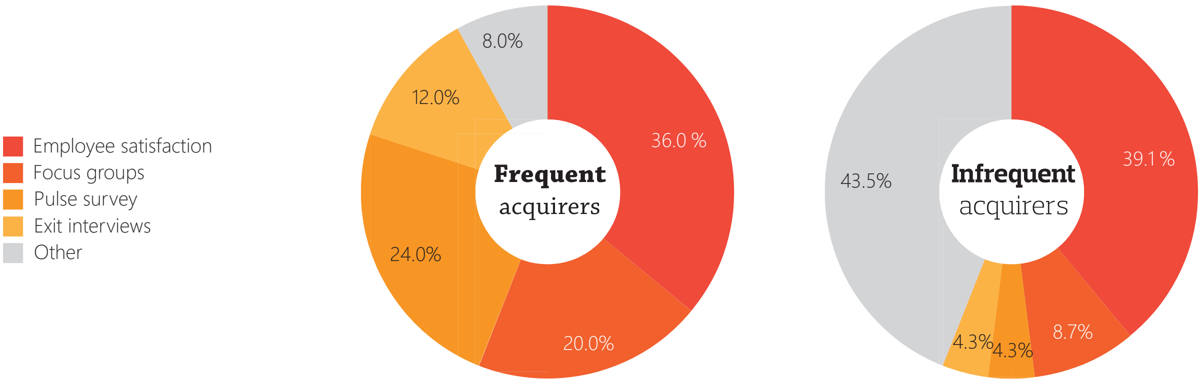

Figure 17: Measuring success from an HR perspective

Over a third of all companies surveyed conduct general surveys on employee satisfaction. In this respect there is no significant difference in the practice of FAs compared to that of IAs. However, experience shows that the insights from these surveys come too late for companies to be able to react quickly and effectively. Therefore, specific and timely surveys, such as focus groups or pulse surveys (► GLOSSARY), are more effective in the context of integration. It is notable that the proportion of FAs using these forms of survey (focus groups: 20%; pulse surveys: 24%) is significantly higher than that of IAs (focus groups: 8.7%; pulse surveys: 4.3%).

Participant opinion:

„Too little focus on emotional factors and culture"

The mood changes at different stages of a transaction and can range from enthusiasm to disappointment and frustration. In order to be able to react as promptly as possible to low spirits, not just financial measurement parameters but also employee satisfaction should be measured at short intervals.

Professional tip

Measure employee satisfaction with regard to the progress of integration at short intervals using focus groups or pulse surveys so as to be able to react promptly and effectively to hesitation and undesirable developments.

Considering HR aspects

Which responsible persons involved in transactions receive a corresponding pay incentive?

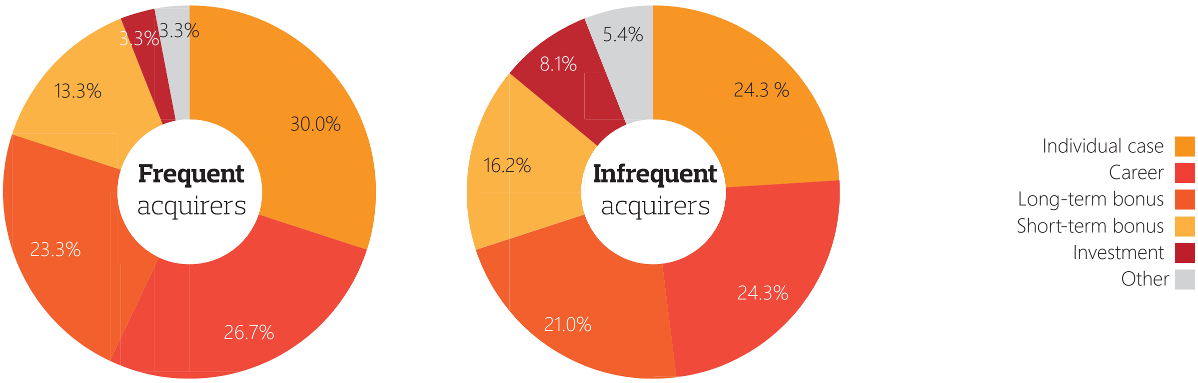

Figure 18: Incentives for responsible persons involved in the transaction

Assuming responsibilities in connection with an integration (Post-Merger Integration) is often a “career springboard” for the persons concerned due to management perception.

Among the companies surveyed, rewards, for example in the form of a share in the company (6%), played a relatively minor role compared to private equity companies, which, in our experience, use this method considerably more often. A reason for this may be the difficulty of assessing an individual’s contribution to success. However, almost a quarter of companies offered special payments aimed at the long term and in some cases linked directly to integration targets. “Individual case” and “Other” also include employee retention schemes (including “retention for a time”), which, from experience, are often used in the context of a transaction.

In the opinion of the authors, short-term incentives which may lose their effect as soon as a purchase agreement has successfully been concluded, are not apt to support a successful integration. A long-term remuneration scheme with targets linked to integration milestones and results is more effective. It can also be designed in such a way as to achieve an employee retention effect. The targets agreed for responsible persons whose role ends after due diligence or conclusion of the contract should at least take the handover to the persons responsible for integration into account.

Design bonus schemes with targets that are linked to seamless collaboration between those responsible for the different stages of the transaction and, in particular, to the long-term success of the integration.

Professional tip

Post-Deal

Considering HR aspects

What role does adapting remuneration/benefit structures play in an integration?

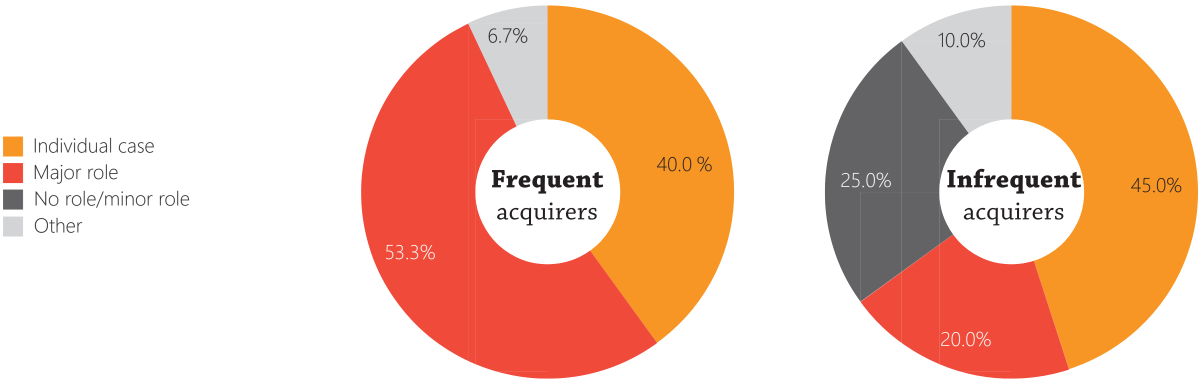

Figure 19: Role of adapting remuneration and benefit structures

For 40% of FAs and 45% of IAs, remuneration and benefit structures (► GLOSSARY) are adapted on a case-by-case basis following a transaction. This indicates that the decision depends on the starting situation and transaction objectives. Experience shows that, in case-by-case decisions, if in doubt the costs incurred are not taken into account beforehand.

It is notable that a significantly higher proportion of FAs (53.3%) attach great importance to adapting remuneration and benefit structures compared to IAs (20%). There may be many reasons for the high level of importance attached to remuneration and benefit structures. In our experience, with regard to remuneration systems this may be because the adjustment costs for harmonising remuneration levels are often underestimated.

Professional tip

Plan the costs for the possible harmonisation of remuneration and benefit structures in advance. In doing so, note that advantageous (favourable) remuneration structures on the part of the target can be lost within the first three years after closing.

Considering HR aspects

If remuneration/benefit structures play a large role in an integration, over what period are they harmonised?

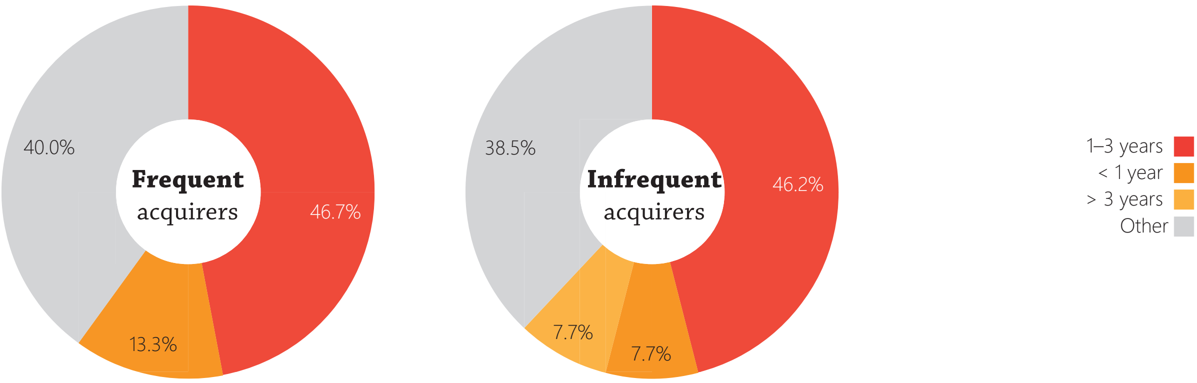

Figure 20: Period for harmonising benefit structures

From experience, different levels of income within an organisation are not maintained over long periods. The advantage of lower incomes at the target is therefore mostly just a matter of time. Furthermore, certain transaction objectives can be achieved only by adapting remuneration (e.g. incentive systems in sales that must be realigned with acquired products and changed requirements of sales employees).

The realisation is growing that from a company perspective benefit systems, which include pension plans, should be harmonised earlier rather than later. Over the long term, continuing with benefit systems that have grown historically leads to a level of complexity for the organisation that can no longer be properly managed. In addition, different systems prevent the company from growing together and thus also from achieving the transaction objectives (e.g. exchange of experts).

In almost half of the participants, benefit structures are adapted over a period of one to three years after closing. This period includes the timeframe necessary for an appropriate adjustment in practice while at the same time taking into consideration that the willingness to change structures diminishes after this period. Nevertheless, 7.7% of IAs wait longer than three years to carry out the harmonisation. This may be due to having less experience of integrations but may also be an indication that these companies have only concerned themselves with this issue (too) late.

Do not unnecessarily delay the appropriate harmonisation of remuneration and benefit structures. The longer an adjustment is delayed, the more sharply the willingness to change diminishes.

Professional tip

Post-Deal

Reasons for failure

Please state the main reasons for failed transactions?

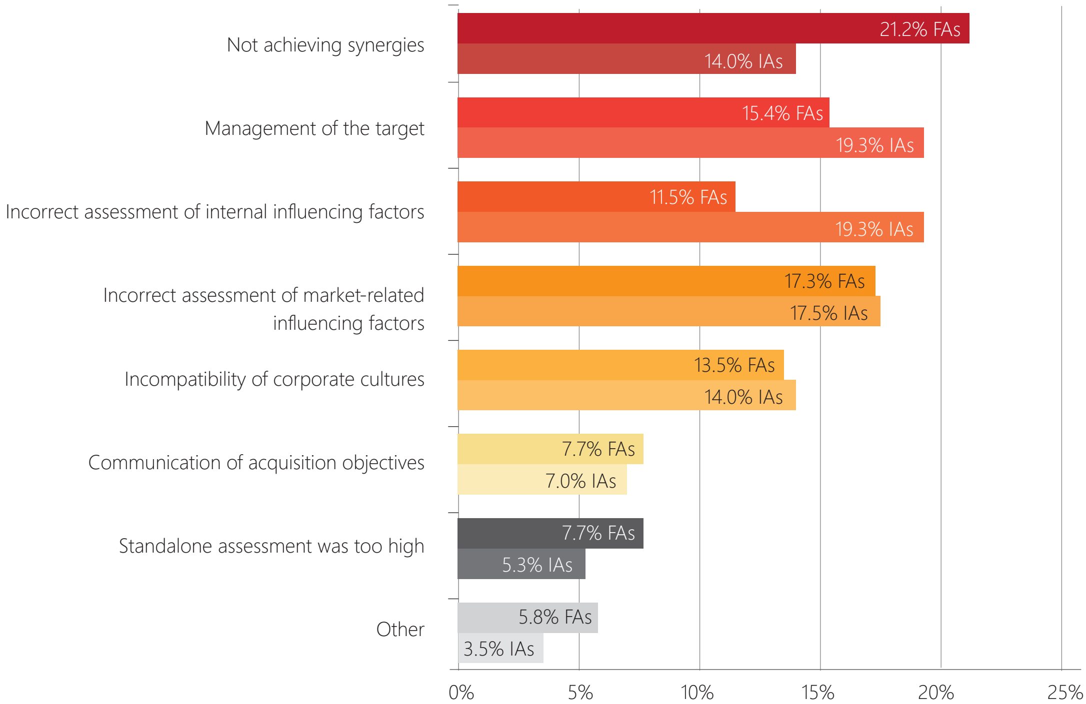

Figure 21: Reasons for failed transactions

In the assessment of all our study participants, the top 4 reasons for failed transactions are similarly serious: not achieving the planned synergy objectives, the management of the target and incorrect assessment of external and internal influencing factors.

At IAs, internal influencing factors, for example operating performance (19.3% compared to 11.5% among FAs) and the management of the target (19.3% compared to 15.4% among the FAs), have greater significance as reasons for failed transactions compared to the FAs, with the latter citing not achieving synergies most frequently by far. This confirms the experience of the authors that FAs also have significant potential for improvement with regard to realising synergy potential in connection with transactions.

Overestimating market and synergy potential are key causes of failed transactions at FAs. There is need for improvement at IAs, particularly with regard to operational due diligence and assessment of the management.

Compared to financial issues, HR issues have a rather minor significance throughout the entire M&A process. This approach can have a negative impact on the success of a transaction, particularly with regard to assessing the management of the target or the different corporate cultures.

Lessons Learned

Are there "lessons learned" processes in your company during and after integration?

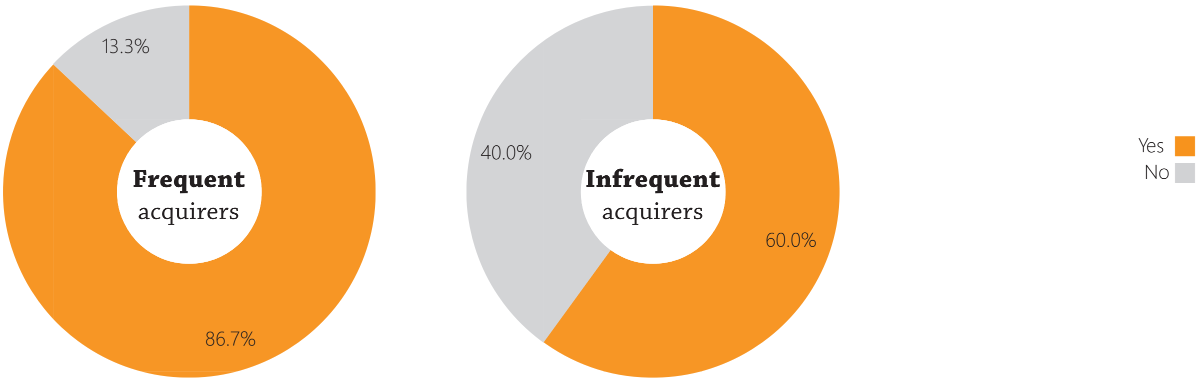

Figure 22: Availability of "lessons learned" processes

The more transactions a company undertakes, the more standardised the process and the more likely that lessons learned cycles will be carried out. With their help, companies introduce continuous improvement processes, learn from mistakes in past projects and thus establish best practice approaches in the M&A process.

Participant opinion:

„Question is not that mistakes will be made, but how quickly the organization can think on its feet to recover and find other opportunities to make up for any misses"

Participant opinion:

„Assess and take into account the resilience of one's own organisation at the M&A stage"

Institutionalise lessons learned processes, in order to not only learn from mistakes of the past in future projects, but also to develop the company's own best practices.

Professional tip

Professional guide

Tips for successful transactions

Pre-Deal

Plan sales and cost synergies and integration costs separately. This will enable you to determine the purchase price in a more transparent fashion from the outset. Furthermore, this also allows you to more easily monitor deviations during the integration stage and learn lessons for subsequent projects.

Increase the focus on potential synergies in your planning. This will improve your negotiating position in increasingly competitive processes.

Deal Execution

When deliberating on the degree of integration, consider the compatibility of the different corporate cultures and check for potential obstacles during the due diligence stage. Make a decision on integration by closing at the latest so that the ongoing process can be aligned with this aim.

Introduce control processes to ensure in general, but also with particular regard to financial and synergy planning and the resulting company valuation, that fundamental transaction hypotheses are frequently examined critically.

Carry out management audits as early as possible in an M&A transaction. Ideally, such an examination will take place as early as the due diligence stage, as the quality of the management is an important criterion for achieving the transaction objectives.

Start analysing the corporate culture as early as during due diligence. On the one hand, the result should serve as a further critical examination of the purchase decision. On the other hand, the input should be used to begin planning the (cultural) integration during the due diligence stage.

Post-Deal

Include soft indicators when measuring the success of a transaction. Be aware of the often key importance of corporate culture for the success of a transaction and define milestones with reference to cultural integration.

Establish processes for controlling sales and cost synergies as well as non-recurring transaction and integration costs. This will enable you to avoid surprises and identify lessons for future transactions.

Tips for successful transactions

Post-Deal

Measure the success of the transaction regularly, particularly in the first year after the acquisition. Define the measurement intervals depending on the dynamics of the business model or industry of the target.

Restrict your financial acquisition controlling to two years, as it is usually hardly possible to separate the individual influencing factors after this. A longer controlling period may be appropriate for qualitative, strategic assumptions.

Make a budget available for pursuing claims for breaches of warranty under the purchase agreement promptly after closing and asserting them against the seller in due time. Ensure knowledge is transferred in the M&A process so that critical information is not lost during the individual stages.

Introduce structured M&A processes that foster links between staff in the individual stages. In particular, this will enable you to protect against expertise being lost in the course of the process.

Implement a PMO organisation, particularly for larger projects. This will enable you to structure your integration processes more efficiently, assist the decision-makers in day-to-day business and obtain the necessary focus on the acquisition objectives.

Measure employee satisfaction with regard to the progress of integration at short intervals using focus groups or pulse surveys so as to be able to react promptly and effectively to hesitation and undesirable developments.

Design bonus schemes with targets that are linked to seamless collaboration between those responsible for the different stages of the transaction and, in particular, to the long-term success of the integration.

Plan the costs for the possible harmonisation of remuneration and benefit structures in advance. In doing so, note that advantageous (favourable) remuneration structures on the part of the target can be lost within the first three years after closing.

Do not unnecessarily delay the appropriate harmonisation of remuneration and benefit structures. The longer an adjustment is delayed, the more sharply the willingness to change diminishes.

Institutionalise lessons learned processes, in order to not only learn from mistakes of the past in future projects, but also to develop the company's own best practices.

Appendix

Participant statistics

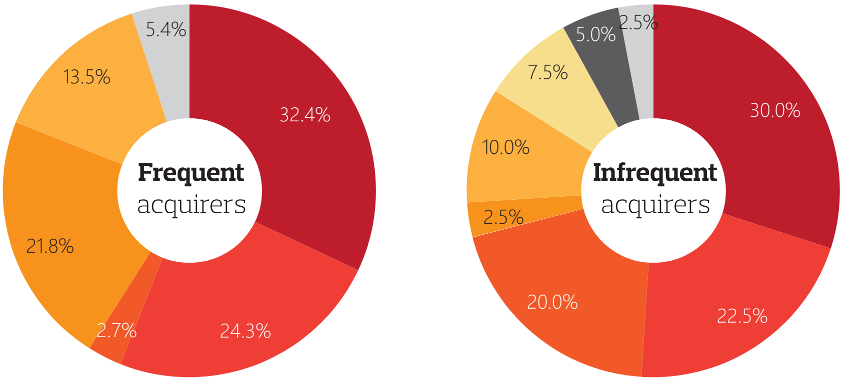

Figure 23:
Positions of the study participants

M&A Corporate Finance
Corporate Development/Strategy
Managing Director/
Management Board/
Divisional Director/Division Manager
Integration
HR
Financial/Legal
Legal
Other

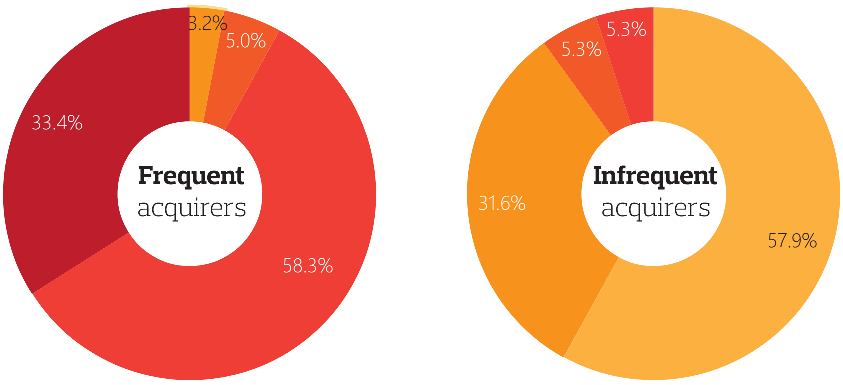

Figure 24:
Distribution of sales among the participating companies

< 1 bn
€ 1–4.9 bn
€ 5–9.9 bn
€ 10–50 bn
> € 50 bn

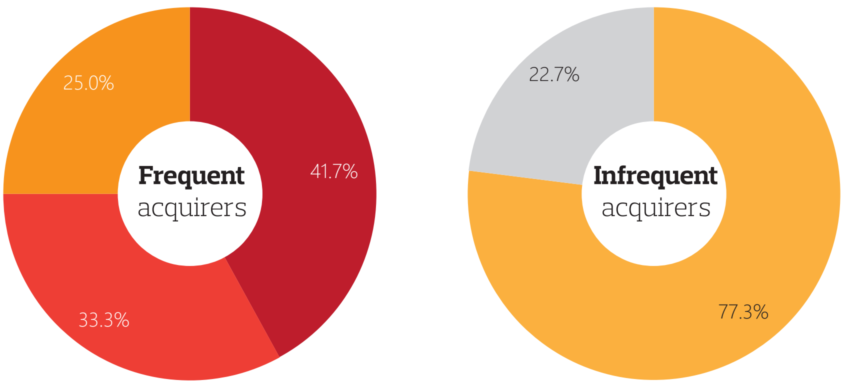

Figure 25:
Number of company acquisitions in the last three years

1–3 acquisitions
4–6 acquisitions
> 10 acquisitions
7–10 acquisitions
None

Appendix

Glossary

Term	Definition
Employer Branding	Employer Branding means the attractiveness of the company for future employees (e.g. university graduates).
Exit Interviews	Systematic surveying of employees who leave the company.
Pulse Surveys	Pulse Surveys are surveys that represent a snapshot in time. Pulse Surveys are generally carried out in addition to regular employee surveys. They enable you to obtain an overview of the mood in relation to a specific event quickly. Today's technology makes it possible to carry out Pulse Surveys quickly and on mobile devices.
Remuneration/Benefits	Remuneration refers to income (paid over the short or long term) that the employee receives in cash. Benefits are non-cash fringe and social benefits. One of the key fringe benefits is a company pension, which is one of the largest and most long-term obligations for many companies.

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About Accuracy

Accuracy is a leading global corporate finance consulting firm with offices in seven European countries, Canada and India. Its clients include well-known international groups, small and medium-sized enterprises and private equity companies. Accuracy has 37 partners and over 250 consultants worldwide. Its German offices are located in Frankfurt and Munich.

Further information can be found on our website www.accuracy.com.

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