



*When Time Matters.*

# M/A Integration Joe Huguelet - On Point

September 26, 2009



# Agenda

- ▶ M/A History - Industry Statistics
- ▶ Change
- ▶ Successful Acquisitions
- ▶ Integration
- ▶ Principles - Approach
- ▶ Case Study (pending time)



# Joe Huguelet, Managing Director On Point Consulting

- ▶ 25 years' industry experience
- ▶ Focus
  - M&A Integration
  - Deliver Deal Value With a Sense of Urgency
  - Insurance/Financial Service Senior Executive



# History of M/A

- ▶ 58% of all M/A's fail to create value (Kearny study - Habeck et al. 2000)
- ▶ Productivity is reduced up to 50% in the first 4-8 months post close (Huang/Kliener -04)
- ▶ 2/3 of companies post M/A lose market share in the first quarter, 90% by the 3<sup>rd</sup> quarter (Harding and Rouse – 2007)
- ▶ 83% of all M/A's fail to produce shareholder value (KPMG 1999)
- ▶ 55-77% of acquisitions fail to deliver financial promise (Carleton/Lineberry–04)
- ▶ Out of 150 tracked deals valued at \$500M or more, half destroyed shareholder value (Business Week – Feldman and Pratt, 1999)
- ▶ Half of the executives involved in M/A leave within 3 years (Galpin/Herndon–00)



# History of M/A

- ▶ Without full and early communication of the new vision and strategy, those who remain are confused and lead to infighting (Harding and Rouse – 2007)
- ▶ Two-thirds of newly merged companies fail to add shareholder value (Harvard)
- ▶ 50-80% of acquisitions fail to create a sustainable competitive advantage (Wharton)
- ▶ More than 50% were not able to provide any integration after 3 months, 33% did not complete acquisition for more than two years or could not say when they could complete the integration (CIO magazine)
- ▶ 83% of all M/A produce no benefit to shareholders( KPMG 1999)



# History of M/A

- ▶ 60% of deals destroy value (Deloitte reported by Angus Knowes-Cutler in 2003)
- ▶ Mercers cultural integration snapshot survey, out of 119 companies, 44% reported between \$1-5M was lost in the transaction and 1/4 estimated over \$5M
- ▶ A majority of mergers do not achieve success. Failures were due to poor implementation rather than a flaw in the transaction itself (FTC)
- ▶ Improved profitability, cash flow and productivity is closely tied to completing integration activities in the first 100 days (PwC 2008)



# History of M/A

- ▶ 64% of deal respondents (CEO's) characterized deal as a success, only 44% experienced success in their financial goals and only 38% claimed success in their operational goals (PwC)
- ▶ 36% of Finance executives report favorable results in improving profitability and cash flow, morale 23%, decision making 21%, productivity 16% and speed to market 14% (PwC 2008)
- ▶ 60% of respondents in PwC's annual CEO survey report cultural issues as their greatest barrier to M/A (PwC 2008). CEO's felt 50% of middle managers lack motivation to drive change and 48% of senior management lack change management skills
- ▶ More than half of deals fail to deliver expected value because they shoot at the hip rather than use disciplined hard nosed analysis (Deloitte - Straight Talk)





# Successful Acquisitions

- ▶ Zero Correlation Between Success and Buying Cheap
- ▶ Buy Quality Assets, Integrate & Run Them Well
- ▶ Stretch, but Realistic Goals
- ▶ Integration Team to Redo Financial Due Diligence
- ▶ Tie Deal Drivers to Detailed Plans
- ▶ Bridge Gap Between DD and Execution
- ▶ Clearly Define Objectives/Create Rigorous Metrics
- ▶ Executive Involvement, Protect Current Business
- ▶ Over Communicate - Avoid Surprises
- ▶ Focus on People - Stimulate Ownership
- ▶ Execute Plans with a Sense of Urgency



# Integration – Priority #1

- ▶ Systemic Root of Historic Failures
- ▶ Today's Economic Climate (credit/valuation) has Significantly Reduced Deal Activity
- ▶ Deal Scrutiny is at a Peak, (Revenue Lift Discounted)
- ▶ There is “0” Tolerance by Stakeholders for Less than Near Perfect Execution
- ▶ Opportunistic Deals are Being Done by Less than Experienced Acquirers
- ▶ Even Acquisitive Companies Can Improve Their Integration Approach
- ▶ Platform Expansion has Leverage in Synergy



# What You Don't Know

- ▶ The Not So Evident Issues are Often Critical
- ▶ Ability to Buy Does Not Mean Readiness to Own
- ▶ In Times of Uncertainty People Need Guidance
- ▶ Don't Assume They Will Figure Out New Roles
- ▶ Some Information is Better Than None



# On Point – Guiding Principles

- ▶ Integrate where it matters
  - Be selective where you integrate
  - Extract value and reduce unnecessary friction
  - Crisp execution, Speed makes the difference
- ▶ Quick early wins!
- ▶ Understand all perceptions – over communicate
- ▶ Focus firepower on the core business
  - Align integration projects to deal drivers to meet objectives
  - Plan to maintain market presence during integration
- ▶ Culture requires attention (not cumbya)
  - Shared decision making processes, make quick, hard decisions



# On Point's Approach to Integration

## ▶ Integration Process

- Focus on Integration – allow company to focus on their business
- Integration team in sync with due diligence team
- Integration Planning starts prior to closing (LOI to Closing)
- Create Governance (Communication, Risk, Issue, Decisions, etc)
- Alignment of deal drivers to integration plan and deal dashboards
- Establish Plans (Business Process, Organization, Technology, HR, Culture, Sales/Marketing, Finance...)
- Day 1 and Week 1 specific plans
- 30, 60, 90 day and beyond functional / milestone plans
- Rigorous metrics / reporting / prioritization
- Employee training/mentoring
- Clear and frequent communications



# Integration Domain Model

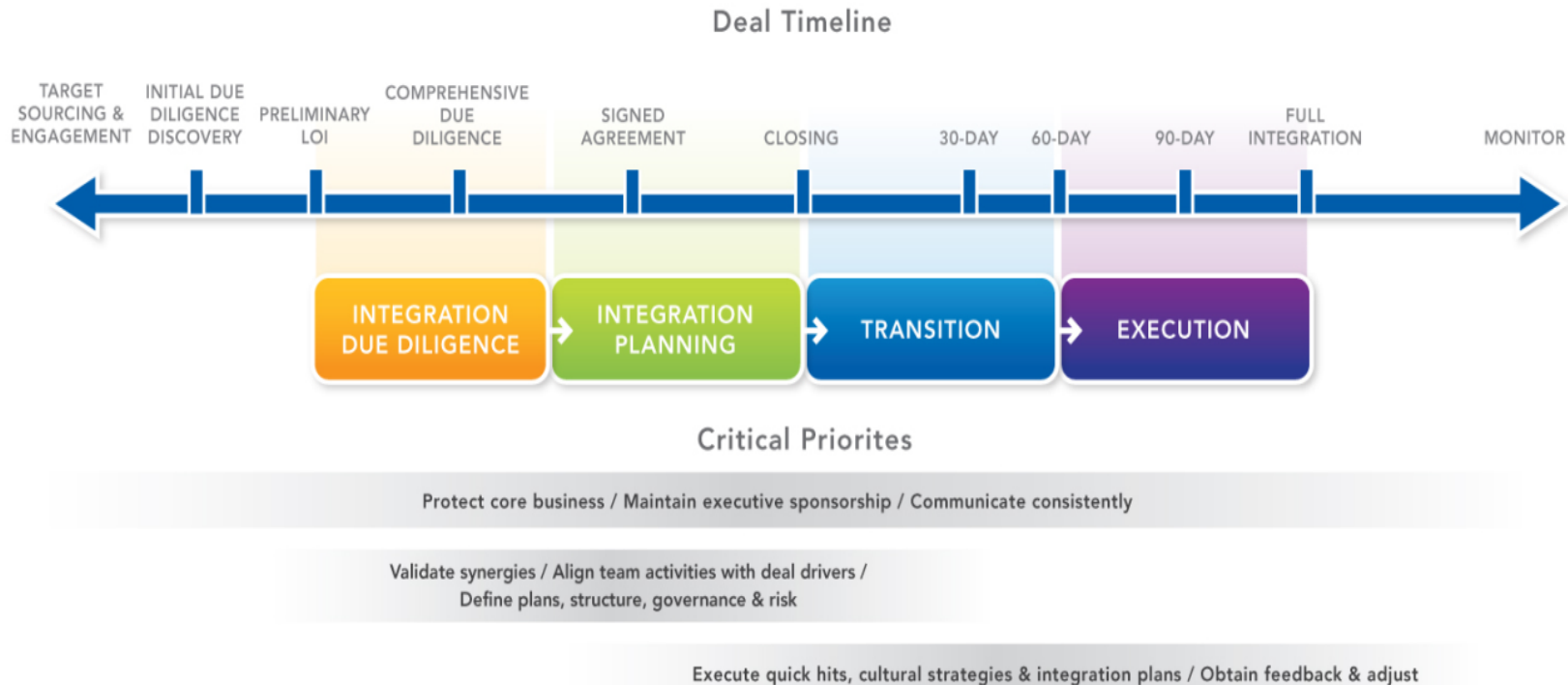
- ▶ Holistic approach
  - Plan all domains
    - Prioritize functional challenges
    - Crisp execution with sense of urgency





# 4-Phase Integration Approach

## On Point Consulting's 4-Phase Integration Model





# Case Study

- ▶ Acquisitive company with capacity challenge
- ▶ Experience and structure are invaluable
- ▶ Dedicated leadership produces quick results
- ▶ Even a good process can improve to a great one