Post Merger Integration Survey 2009

European results

Delivering Deal Value

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Introduction

Contracts are signed, the purchase price is paid, the employees, other stakeholders and public are informed – now what? Every year the same question is asked by companies who have embarked on the adventure of an acquisition.

Acquisitions often have a significant impact on the business. Management should therefore be closely involved in all phases of the acquisition, pre deal, during the execution and post deal. After all, sustainable value creation is not achieved by closing the transaction, but by conducting successful joint businesses afterwards.

With this study, we want to give you an understanding of critical success factors of transactions and do's and don'ts in the approaches to transactions. To learn and benefit from the experiences of other companies integration projects is time well spent.

Our findings mostly reflect the positive macroeconomic environment in Europe up until mid 2008. The economic downturn is going to influence the entrepreneurial context of transactions and post merger integration activities. We believe that future transactions will be even more focused on value creation. Management's attention will be turned primarily to the organisation and structure of the acquired company and the potential to grow the joint business in the current market conditions.

We wish you a pleasant and insightful read.

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Executive summary

The findings of the survey reflect the economic environment during the past three years. Most of the acquisitions were primarily intended to create top line growth, by capturing new regions, new customers or new products.

The distinctive phases of a transaction (initiation, due diligence and integration) are often assigned to separate areas of responsibility and therefore contain the risk of information loss at interfaces, for example the due diligence findings are only used infrequently during integration planning.

Although often analysed and published, areas such as communication, change management and the handling of (managerial) employees, remain challenging during integration. If these 'soft issues' are ignored, they can easily impact 'hard numbers'.

The current macroeconomic trend of declining demand has impacted M&A activities severely. Firstly, the number of mergers and acquisitions decreased significantly. Secondly, the focus of transactions is shifting from growth to efficiency, hence future integration projects will have strong consolidation and restructuring components.

We believe that in the current economic downturn, post merger projects will tend to focus more on the following issues:

- "Value enhancement" instead of increased company growth
- Robust and well controlled transition from the due diligence phase to the integration, ensuring that all relevant due diligence findings are captured and addressed
- Rapid transformation with regard to change management issues and efficient communication

This study is a compilation of post merger integration surveys conducted by PwC in eight European countries with more than 250 top executives, who were part of post merger integration projects during the past three years. These executives belonged either to the acquirer or to the target company. The surveys took place during the first part of 2009. Detailed information about the participating companies is included in the appendix.

Section 1

Key findings

Key highlights

1

The primary transaction objective is growth

The majority of the respondents consider a strengthened market share and (cost) synergy goals to be the most important objectives of a transaction.

2

Due diligence has become standard

In 81% of all transactions, companies carried out some form of due diligence. The relevance of the diligence findings post deal can be improved by focusing more on operational and commercial aspects pre deal.

6

Early involvement of the integration team is key to success

A majority of Boards is involved in the acquisition pre deal, but that percentage drops once the deal has been closed. For the integration team, it is the reverse and ideally, executives would like to see this involvement increase, especially pre closing.

7

Integration objectives not part of remuneration schemes

Successful communication of integration goals to the stakeholders such as employees, customers, suppliers and vendors is key and currently lacks quality.

3

Transactions are considered successful. However, integration costs are underestimated

The majority of respondents view their transaction as successful based on the achievement of synergy and performance targets. However, the budgets of integration projects are often extensively exceeded.

4

Early planning of integration is critical

Planning the post merger integration phase prior to deal closure helps to better achieve cost synergies and timely access to new products and markets.

5

Most companies closely monitor integration progress

More than 70% of the companies measure integration success systematically by means of KPI reporting and following-up financial effects of the integration activities.

8

Communication needs to improve, especially during first 100 days

More than three quarters of the respondents indicated that the compensation scheme of the integration leader is not linked to the integration goals.

9

Speed is critical

In retrospect, more than 60% of the executives argue that a faster integration would have delivered more cost savings and would have reduced uncertainty.

10

Challenges around the human element are still key

Alignment of the organisation and alignment of processes are seen as the toughest post-deal challenges, closely followed by the alignment of different cultures.

Section 2

Results in detail

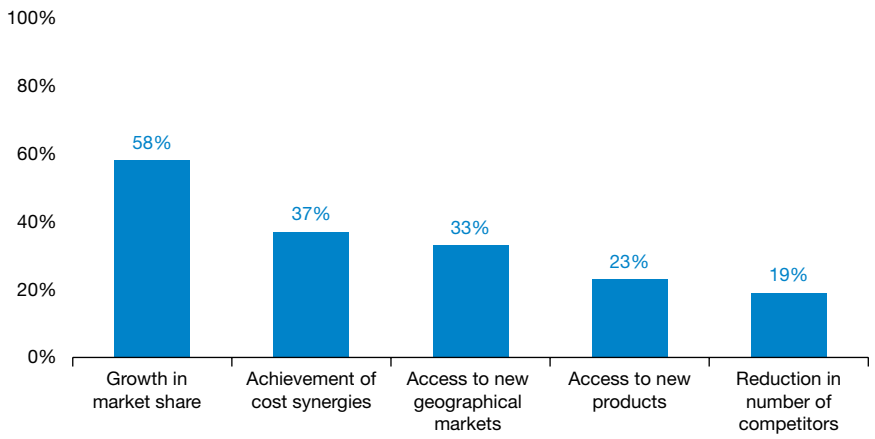
The primary transaction objective is growth, followed by margin improvement

PwC view

These objectives reflect the positive economic environment of the three years to mid-2008. Companies typically were more focused on sales growth, rather than on profitability improvement. Due to the economic downturn, emphasis will switch to cost issues and future deals will have a stronger focus on margins and profitability improvement.

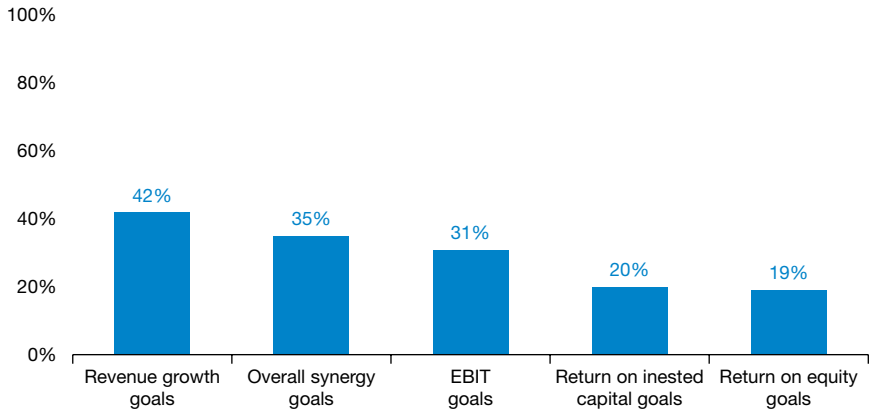
Growth related objectives are the most important drivers for acquisitions.

Figure 1: Strategic objectives of transactions



The strategic objectives are reflected in the financial objectives where sales growth is the dominating KPI.

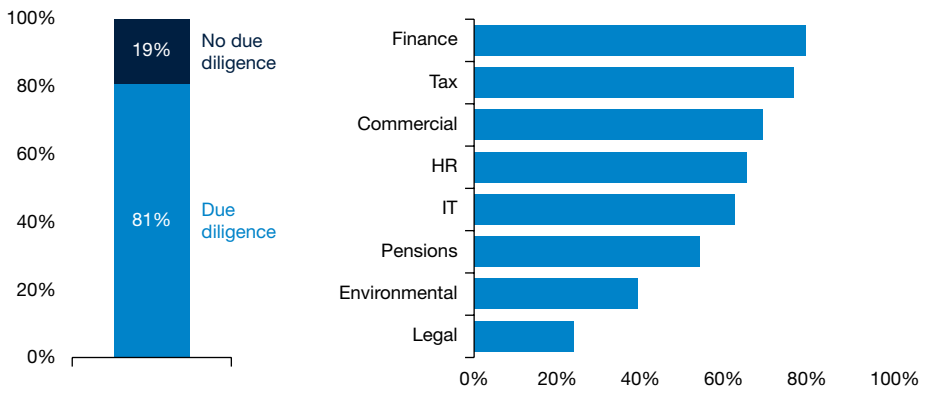
Figure 2: Financial objectives of transactions



Due diligence (DD) has become standard – DD findings are important for making acquisition decisions and integration planning

DD is conducted prior to almost every transaction. In most cases however, the various areas of DD are performed separately, rather than as an integrated Business DD approach. Almost all areas of DD have an impact on the purchase decision. Classic financial DD and analysis of the market and competitive conditions (Commercial DD) are rated as top priorities.

Figure 3: Due diligence execution



The results show that companies focus the DD on financial aspects and pay less attention to operational issues. However, when asked what could be improved in the integration process, many participants mentioned improving the quality of the DD process by intensifying the operational and commercial efforts.

PwC view

The understanding of the transaction as an overall process, beginning at the M&A phase and ending with the completed integration, is not yet common place. A certain degree of staff consistency for example, would bring more continuity to the overall process. Particularly the identification (pre deal), the validation (in DD) and the realisation of synergies (post deal) should fall into the same area of responsibility.

"Greater rigour is required in future due diligence as a number of difficulties/ additional costs arose on this acquisition as a result of gaps in due diligence."

"More thorough IT due diligence.
Focus on synergies, customers & markets"

Survey participants

Overall, transactions are considered successful. However, the costs to achieve integration are underestimated

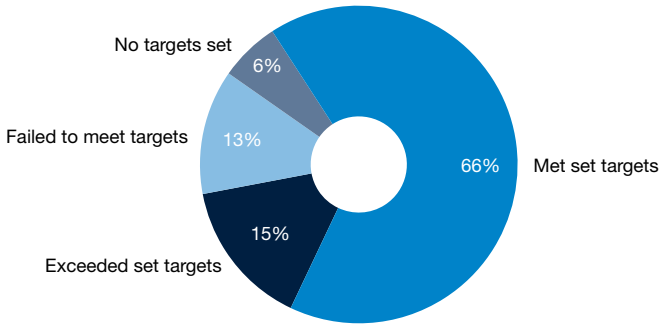
PwC view

In the current economic climate, efforts to realise potential synergies will gain in importance. The systematic evaluation, planning and execution of potential synergies during the integration phase can reduce costs of the merged entities and therefore enhance the enterprise value.

In addition to the costs, the time to implement is often underestimated as well, potentially resulting in an uncontrolled use of resources. This often leads to overburdened employees or the disregard of daily business. The accurate planning of internal costs is essential for an integration project.

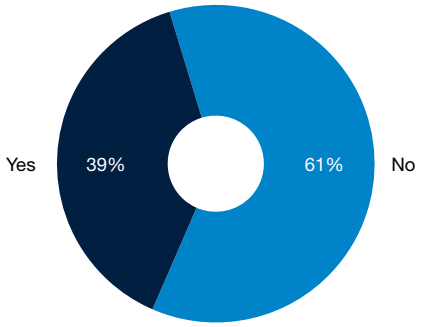
The realisation of synergies and performance targets is high - over 80%. The result is much higher than in previous PwC studies, which indicates that companies are taking transaction preparation and integration issues more seriously.

Figure 4: Achievement of synergy and performance targets



To achieve the integration targets, over one third of the participants reported an overrun on the planned integration costs.

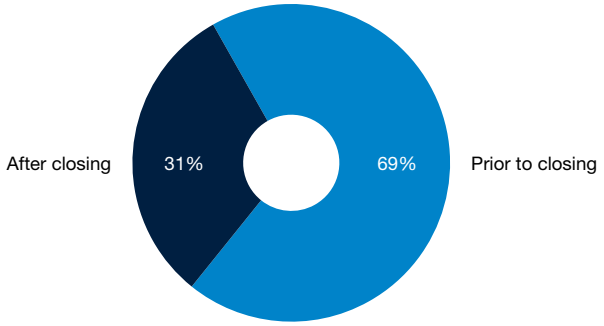
Figure 5: Overrun of planned integration costs



Early planning of integration activities is critical

A third of the companies surveyed started planning their integration activities after closing the deal, leaving them little time for a structured and elaborated approach.

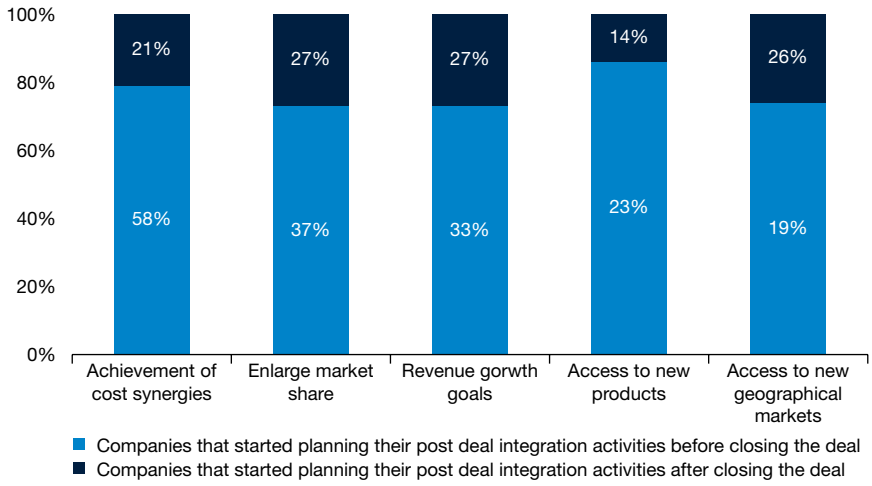
Figure 6: When companies started to plan their integration activities



PwC view

This is a missed opportunity as the results show that planning the post deal integration phase prior to the deal's closure helps to better achieve the acquisition objectives. Starting early does not only provide more time, but more importantly, more options.

Figure 7: Achievement rates of objectives, based on full achievement



"Start way earlier with a good plan of what I want to achieve"

"Define integration strategy and team > 3 months prior to closing"

Survey participants

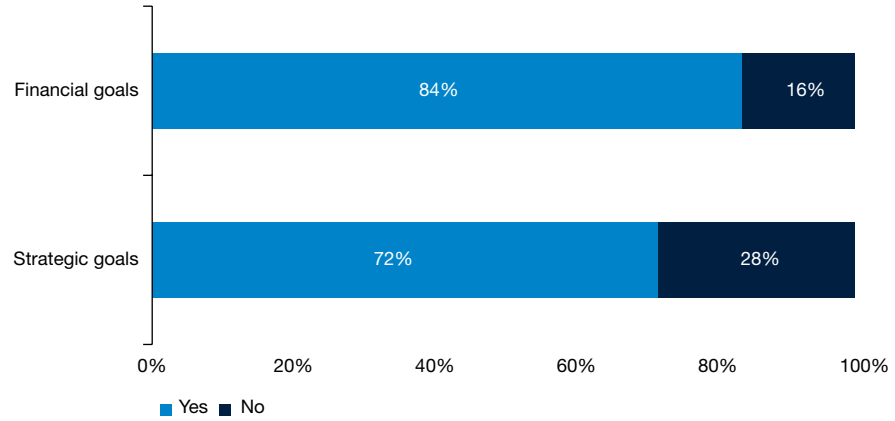
Most companies closely monitor the integration progress

PwC view

Monthly review appears to be the most common frequency of financial and strategic performance measurements. However, more attention is given to measuring financial goals, most likely due to the convenience of measuring quantitative data.

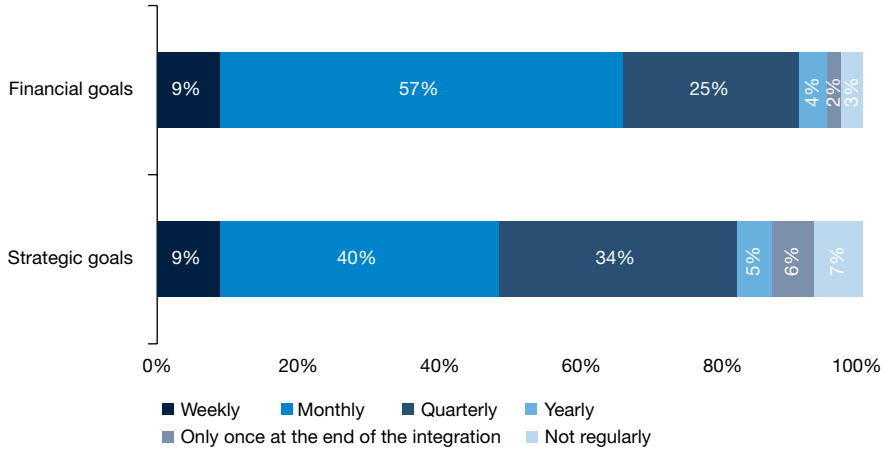
84% of the respondents continuously monitor the process of financial integration goals. Most of the companies (72%) also measure progress of the strategic targets.

Figure 8: Measurement of financial and strategic goals



Considering that strategic goals tend to be more long term, the popularity of performing quarterly reviews may be a rationale behind this.

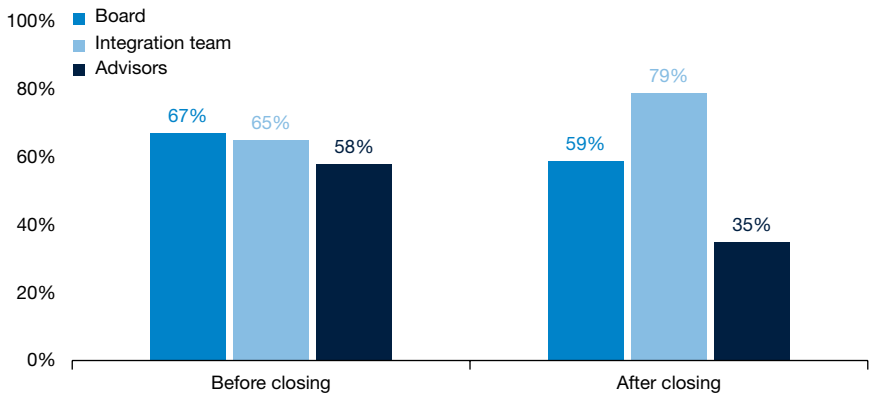
Figure 9: Frequency of measuring financial and strategic goals



Early involvement of the integration team is key to success

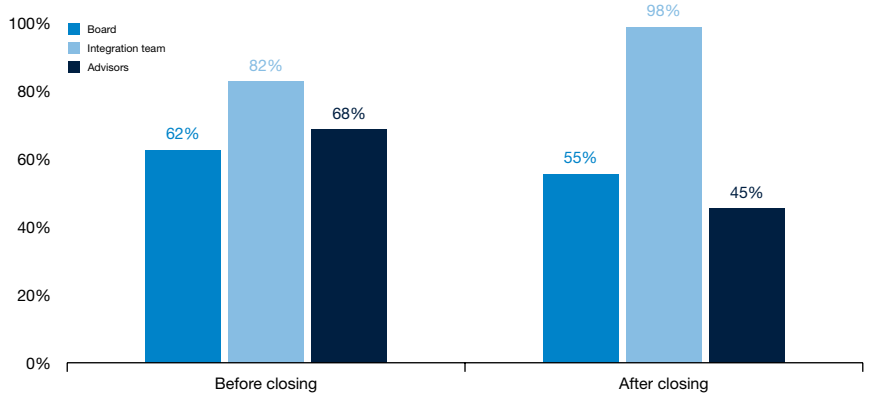
Given the strategic importance of acquisitions, it is not surprising that the majority of Boards (67%) is involved before closing the deal. However, once the deal is closed, the involvement of Boards drops to approximately 59%. In 35% of the cases, the integration team is not or hardly involved in the planning process before closing the deal. Their involvement increases post closing, but still not to the levels of full involvement.

Figure 10: Actual level of involvement during integration (medium/high)



Board level involvement is more or less at par with what participants would like in an ideal situation. However, the involvement of the integration team (especially pre deal) should be higher. Participants would also like a higher involvement of advisors.

Figure 11: Ideal level of involvement during integration (medium/high)



PwC view

Management attention is critical in ensuring (integration) targets are reached, before closing the deal and during the integration period.

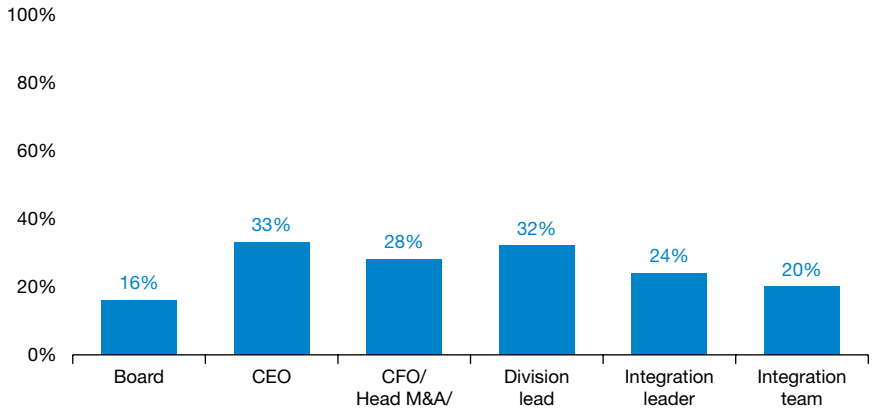
Integration objectives are not part of remuneration schemes

PwC view

In general, a strong link between the incentives and the integration goals will ensure a higher degree of success. Linking the compensation schemes of the integration leader and the integration team to the integration goals is advised if (i) the leader and team can have an effective impact on the achievement of the integration goals and (ii) if these achievements are measurable.

In a vast majority of the cases, respondents indicated that the compensation scheme of the management team and integration leader/integration team is not linked to the integration goals.

Figure 12: Extent integration success is linked to the compensation schemes



"More involvement and dedication of the integration team, instead of them seeing it as an job on the side"

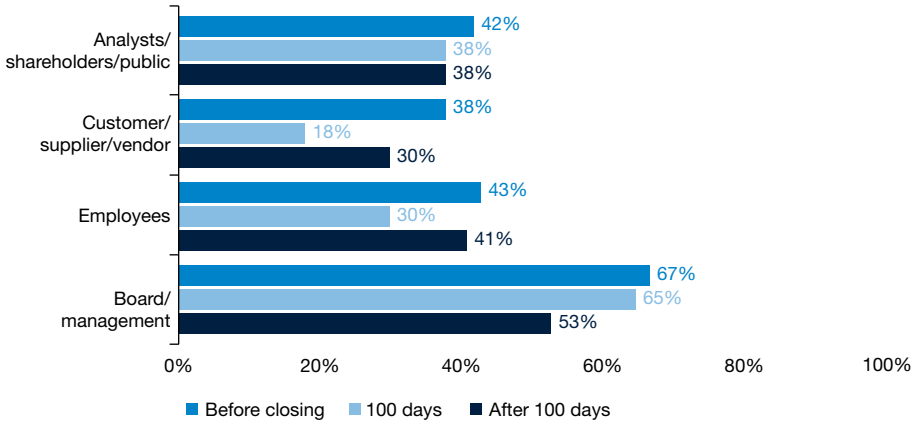
Survey participants

Successful communication of integration goals should include all stakeholders and focus on first 100 days

Communication of integration objectives before closing and during the first 100 days is mainly focused on the Board and on management.

The communication to other stakeholders equally important to the day to day operations – employees, customers, suppliers and vendors – lacks quality. Particularly the drop during the first 100 days – a time of great change and uncertainty – stands out.

Figure 13: Successful communication of integration goals



PwC view

During periods of change, clear and transparent communication is key. Therefore a clear communication plan should be established which allows for interaction and feedback and is flexible to change. Regular and frequent communication is critical in the first 100 days in reducing uncertainty and retaining key stakeholders and should not neglected thereafter.

"Communicate more open, find out the hidden frustration!"

"More focus on the employee's feelings and simplify communication"

Survey participants

Speed is critical

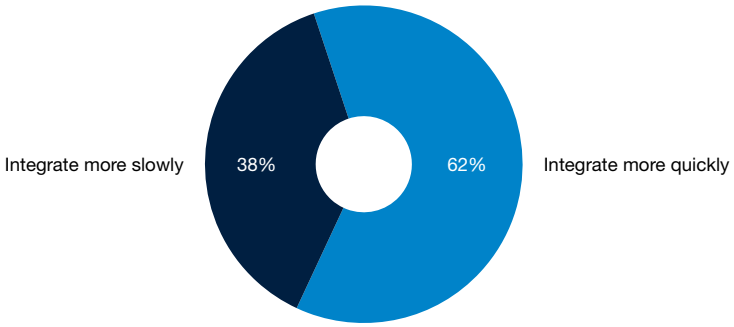
PwC view

Due to the changes and the additional workload connected to mergers, the involved employees often perceive the integration process as a burden. A fast and transparent integration can help minimize employees' concerns and ensure continuous loyalty to the firm. Additionally, it enables a more rapid return to day-to-day work.

More than 60% of respondents thought that the integration took too long. Reasons for wanting a faster integration are the potential cost savings, realising synergies sooner and the reduction of employee uncertainty.

The respondents who preferred a slower integration explained that this was mainly due to the complexity of the IT integration as well as by delaying non-critical integration processes.

Figure 14: Evaluation of integration pace in retrospect



"Uncertainty paralyses – always!"

"Well-defined structures must be established as soon as possible"

"We would have been able to implement the right ERP system rather than the suboptimal one we were forced to go with"

"Improved prioritisation of integration activities. Certain integration projects could be executed 6 to 12 months later"

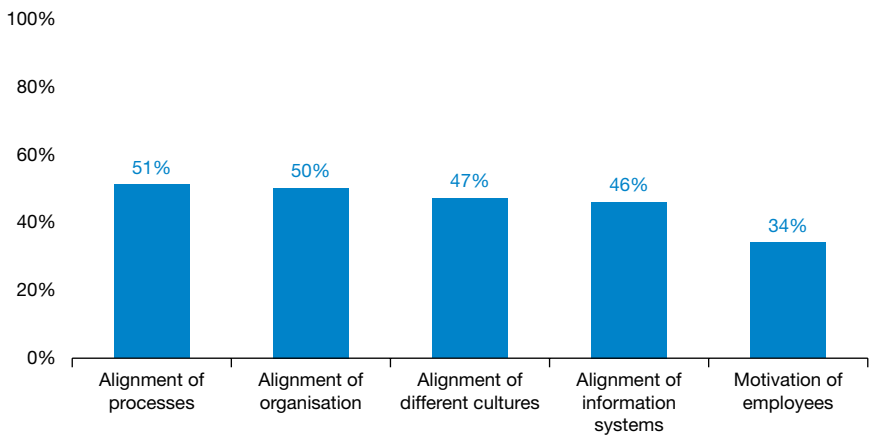
Survey participants

Alignment of the organisation and alignment of processes are seen as the toughest post-deal challenges, closely followed by the alignment of different cultures

An increasing process orientation and the continuing importance of information systems in many companies have shifted the focus in the integration phase towards processes and IT. They rank as the #1 and #4 challenge in managing the integration.

Challenges around the human element, such as alignment of different cultures and motivation of employees are also seen as major challenges for the integration.

Figure 15: Top five challenges in the integration



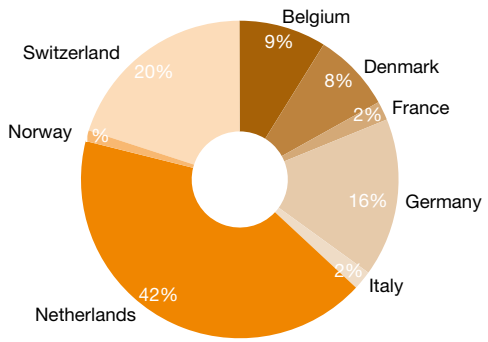
When asked what they would do differently if participants could repeat the integration, the top three answers were: a more detailed integration planning upfront, a shorter integration process and improved communications. Additional answers were: involve a dedicated integration team earlier in the process, improve quality of integrated business due diligence and more attention for cultural differences.

> "We should have made a clearer choice for one IT infrastructure and one set of administrative processes, rather than trying the best of both worlds solution."
>
> "More attention for communication, provide clarity to all involved"
>
> Survey participants

Appendix 1
Participants profiles

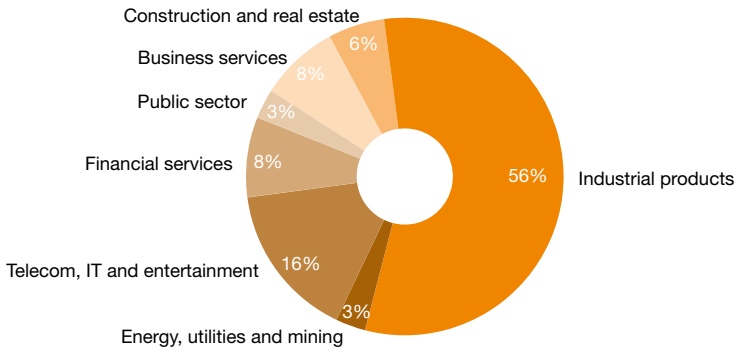
This report is a compilation of different post merger integration surveys sent out in the following countries:

Figure 16: Country of survey participants



This report shows the overall results of the combined surveys. The surveys were sent out during the first months of 2009.

Figure 17: Industry of survey participants



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