

Strategy in Action

Getting the most out of an acquisition

Companies need to put in place a concrete and actionable plan to capture the full value of an M&A deal

WHAT do elections and M&A have in common? They both involve making promises to clinch the deal, and living with the reality the morning after.

At the recently concluded US Presidential Elections, even before the celebratory champagne bubbles have fizzled out, President-elect Donald Trump may already be experiencing his OMG moments. It was reported that Trump seemed surprised by the scope of the presidential duties as explained to him by President Obama, and did not realise that he needs to hire over 4,000 people to run the administration, a few hundred of which need to be in place by the time of his inauguration on Jan 20.

There are many lessons here for corporates involved in merger and acquisition (M&A) deals. Besides pre-deal due diligence on the acquisition target's financial, taxation and legal matters, an acquirer also needs a good understanding of the target's operations and plan for transition before it concludes the deal.

Various studies over the years have suggested that 50-75 per cent of all M&As fail to achieve their objectives. "From our experience, besides overpaying and poor strategic and cultural fit, failure to plan for transition and poorly executed post-deal transitions are the other key reasons why many acquirers do not realise the full value, and even destroy the value of what they acquire," says Wee Tze Wee, Mergers & Acquisitions Operations Leader for PwC Singapore, drawing from PwC Deals practice's experience advising over 70-80 completed deals each year in various capacities.

Taking control and planning for transition

Many acquirers in Asia fail to plan early and comprehensively to take control of the acquisition target, and for the transition to new owners and/or integration with the acquirer's existing operations.

"Integration today is increasingly complex, and the scope and efforts are often underestimated. Acquirers sometimes think of integration as a post-completion exercise and often leave it till too late," says Mr Wee.

Before the deal is signed, the acquirer should already form different workstreams to discuss with the target various aspects of taking

control and transition as well as integration of front and back offices, with associated resource and costs quantified. The synergies and post-deal operational improvement opportunities should also be identified and the benefits estimated, with concrete plans formulated to capture them, and reporting process designed to track the execution of these plans.

In an increasingly post-industrial economy, the value of a business no longer lies in just the hard assets it owns, its intellectual properties or its brand. Even for a manufacturing company, an increasing proportion of its value today resides in its key employees, customer base, supplier and distributor networks. These soft assets are not proprietary and therefore can be impermanent. They are also stakeholders in any M&A, as their own interests are tied to the target. Companies must deal with the potential impact of the acquisition on these stakeholders. A clear communication strategy and plan, both internal and external, are critical in preserving value.

"The tone from the top is crucial during these times. It is extremely important to demonstrate strong leadership and clear strategic direction in order to rally the entire organisation and the market behind the deal," says Mr Wee. "In addition, it is important during the pre-deal due diligence process for the acquirer to get a sense of how the key employees, customers and suppliers see the deal, and how they will react to it."

Post-deal operational improvements

When economies were growing at breakneck speed, M&As were mainly about grabbing market share and production capacities. However, as growth moderates, squeezing value out of synergies and operational improvements becomes increasingly important for acquirers to unlock value potential in the target and justify the price paid.

These synergies and operational improvements can be broadly divided into markets, products and costs. On the cost front, it is important to look at harmonising organisational structures to remove duplication, and streamline operational processes to enhance efficiency.

Another area which may present immediate opportunity is to optimise the organisation's working capital and free up cash through better receivables, payables and inventory management. "In a low interest rate environment, many fast growing businesses are more

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'We have helped organisations re-look their entire reporting framework and process, and address the gaps.'

laissez-faire about the size of its working capital. While a cash release of 5 or 10 per cent of revenue may not be significant in terms of interest savings, it goes straight to the business' valuation, and that immediate value creation can be sizable," says Mr Wee.

For an acquirer to drive synergies and cost efficiencies, it needs good timely and reliable information. Too often fast growing businesses neglect this aspect of its back office as it is seen as a cost and not a priority given the fast growing top line. "That is akin to flying with a poor instrument dashboard," says Mr Wee. "Okay in clear skies but not when it is crowded or in bad weather."

"Enhancing transparency and streamlining the reporting process will allow management to achieve better and faster decision making. We have helped organisations re-look at their entire reporting framework and process, and address the gaps. The aim is to streamline this critical function and to make it simpler, faster, better and easier," explains Mr Wee.

Leveraging a global network

As an accountant who has spent most of his career in a global management consulting firm and an international software company, Mr Wee had never imagined being a partner in the Deals Advisory practice of a Big 4 professional services firm.

When he was headhunted by PwC five years ago to build its M&A operations advisory business in Singapore, the space was far less crowded than it is today. This practice area was practically unknown in Singapore, and remains so in many parts of Asia even

today. "There are currently some 1,000 M&A operations consultants embedded within our Deals practice in PwC globally. These consultants have the 'deals mindset', operate at 'deal-speed' and dedicate themselves to helping their clients in M&A situations. They are supported by our 41,000 consulting and strategy experts from our Consulting practice worldwide, which specialises in large-scale business transformations," says Mr Wee.

He adds: "As part of our integrated approach to serving our clients, we strive to work with them each step of the way from strategy to execution. Our M&A operations teams are clearly in the execution end of that continuum. This is where the tyres hit the road, where we get our hands dirty and help clients implement their plans and translate their pre-deal 'promises' from PowerPoint to reality. It is exciting and the reason why I spring out of bed each morning to go to work, to see the value we create for our clients each day."

I This is the last instalment of a five-part series 'Strategy in Action', which is brought to you by PwC