

Speed of integration improves M&A success*

PwC M&A Integration Survey Report 2008



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The heart of the matter

Why do deals continue to fall short in creating real value? They don't have to. The secret to success lies in the early planning and timely execution of integration tasks.

While there may be many reasons for pursuing a merger or acquisition, it's ultimately about creating long-term value for shareholders. That's what doing business—and deals—is all about.

Yet far too often real shareholder value is lost, not gained, after the paperwork has been signed and all the bankers and lawyers have gone home. Achieving financial and operational objectives post close continues to remain elusive.

So why are deals continuing to under perform—even when management sets the right course with a solid strategy?

According to findings from the PwC M&A Integration Survey Report 2008, the early and timely execution of a few key—but fundamental—integration initiatives are directly related to capturing deal value. The survey also reveals a close connection between completing integration activities during a critical window of opportunity—the first 100 days post close—and improved profitability, cash flow and productivity.

Yet despite all the apparent benefits associated with early planning and rapid execution, many executives still report being comfortable taking their time when it comes to the work of integration.

Deals create opportunities to introduce leading practices and redefine business processes and cultures. They also provide the opportunity to boost performance by redesigning organizational structures and systems that otherwise might have remained the same if not for the deal. Deals comprise a sequence of prioritized, interrelated tasks. When organizations understand the interdependencies of integration initiatives—and speed up the execution of integration activities—they can stop leaving deal value on the table and start delivering greater return to shareholders.

The old adage “timing is everything” has never been more true than when it comes to executing a complex merger or acquisition. Done properly, deals can yield a higher shareholder value—perhaps much higher than you ever thought possible.

An in-depth discussion

Deals under perform
for some very specific
reasons. It seems buying
is easy, owning is hard.

In 2008, PricewaterhouseCoopers surveyed senior management from a sampling of large capital and middle market US companies which had completed a merger or acquisition in the past three years. Respondents had direct first-hand knowledge of the issues their organizations dealt with during the M&A integration.

The goal of the study was to understand the current state of M&A integration practice and its impact on management's assessment of deal success.

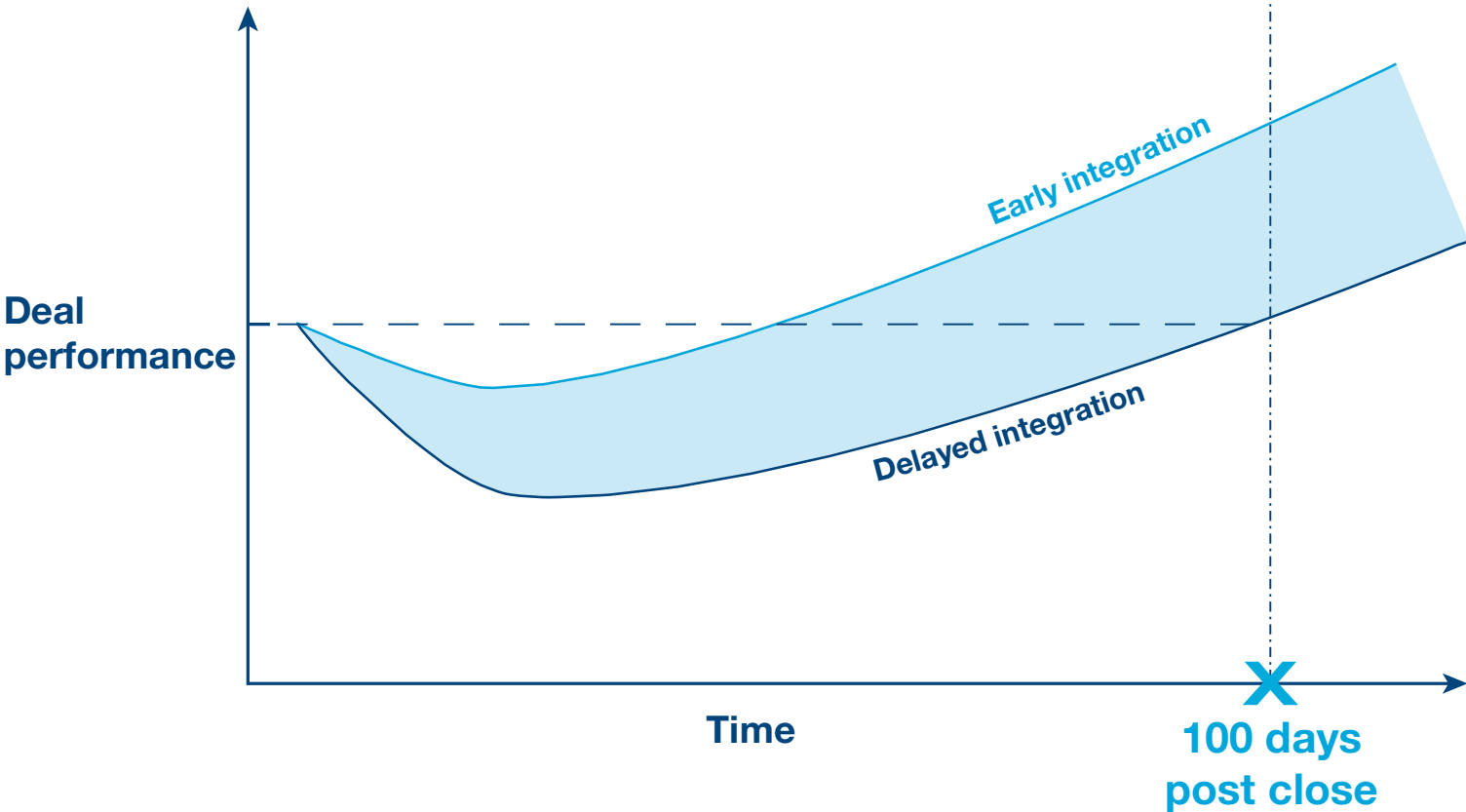
Among other findings, our survey results found higher levels of deal performance when certain integration tasks were started and completed within the first 100 days post close.

Our survey findings are summarized on the following pages.

Early integration planning – a window for change

Our findings suggest that the time frame in which it is possible to make significant, positive changes is very short. The period from deal announcement through the first 100 days after closing the deal is particularly significant, because it is then that people are most open to new ways of thinking and working. It is essential to set the right course early during the transition, otherwise, attitudes may harden like concrete that sets before it has been poured.

Figure 1. Deal performance is enhanced when key integration tasks are started and completed within the first 100 days post close



Finding #1 — Strategic goals are easier to reach than financial and operational targets

Survey participants reported far greater success in reaching their strategic goals for a transaction than in achieving a deal's financial and operational targets.

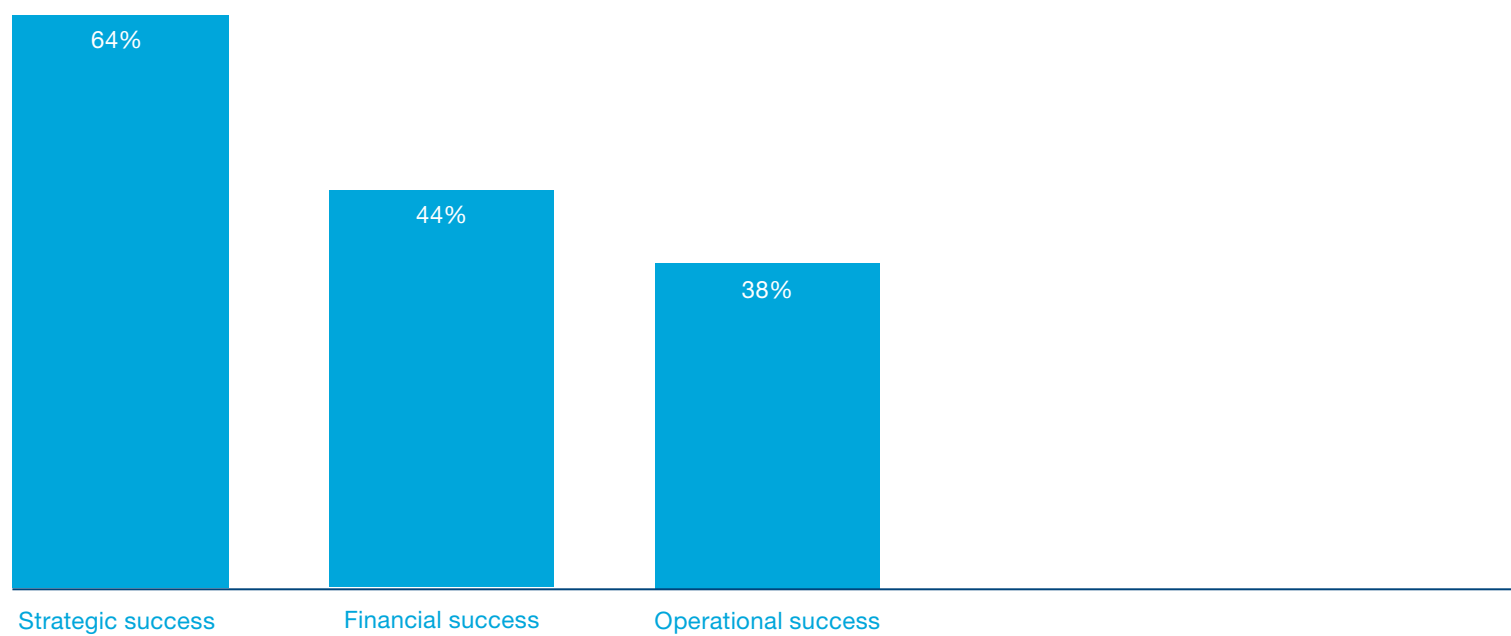
While 64% of respondents characterized recent deals as a significant success from a strategic standpoint, only 44% said they experienced significant success in achieving their post-deal financial goals. Even fewer, just 38%, experienced success in reaching their operational goals.

In some ways this finding is far from surprising. The strategic goals set for a deal may actually be easier to achieve than the longer-term financial and operational targets—and our survey results may simply be reflecting that reality.

In fact, a deal's strategic purpose is often realized by the mere fact that the transaction moves forward in the first place. Said another way: the strategy driving a deal gets satisfied when the deal itself gets done.

It is the financial and operational goals, however, that remain the real challenge—which companies so often struggle to accomplish.

Figure 2. Percentage who agree their most recent deal was a “significant success” strategically, financially and operationally



Source: PwC M&A Integration Survey Report 2008

Finding #2—Buyers don't always get what they ask for

The reasons for doing a deal often differ from the objectives actually achieved.

While buyers reported many reasons for undertaking a merger or acquisition, the two most commonly cited were growing market share and gaining access to new markets.

64% of respondents said growth in market share was a “very important” objective, the highest of all objectives presented. Accessing new markets was the second highest ranked objective at 55%.

By comparison, the deal objectives respondents reported as actually having most “completely achieved” include gaining access to new:

- products (79%)
- technologies (77%)
- markets (75%)
- brands (71%)
- distribution channels (71%)

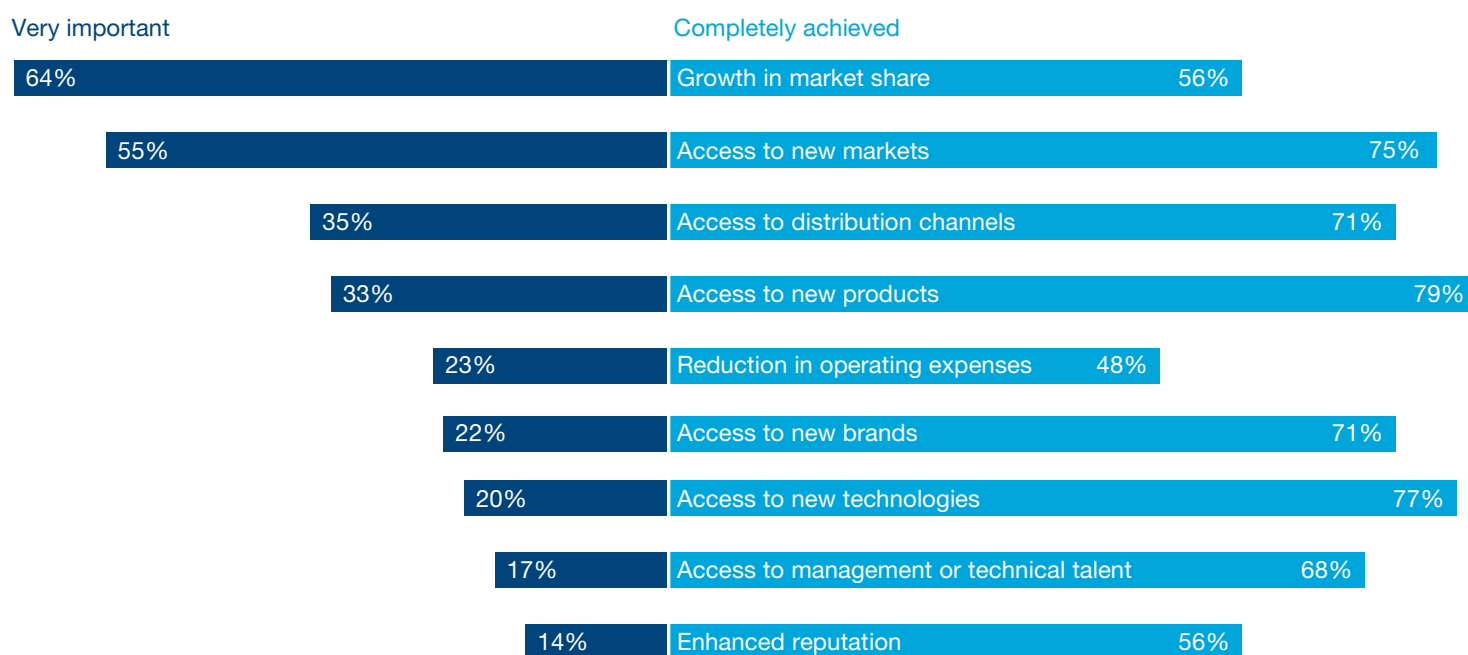
In fact, of the two most common reasons given for doing the deal, only one of them—access to new markets—also made it into the top five objectives reported as being actually achieved.

These results are consistent with data presented in past surveys, and support the notion that companies frequently believe their deals are more successful strategically than they are financially or operationally. Buyers often gain access to new products, technologies, markets, brands and distribution channels simply by doing the deal.

However, financial or operational goals—like growing market share, increasing profitability or cash flow, cutting operating expenses, and enhancing reputation—are harder to achieve.

In fact, reduction in operating expenses is the deal objective least achieved, at only 48%. Its poor showing is indicative of just how challenging it can be for newly combined companies to realize their desired synergies and capture deal value.

Figure 3. Percentage who report their objectives for undertaking the deal were “very important” compared to the percentage who believe these objectives were “completely achieved”



Source: PwC M&A Integration Survey Report 2008

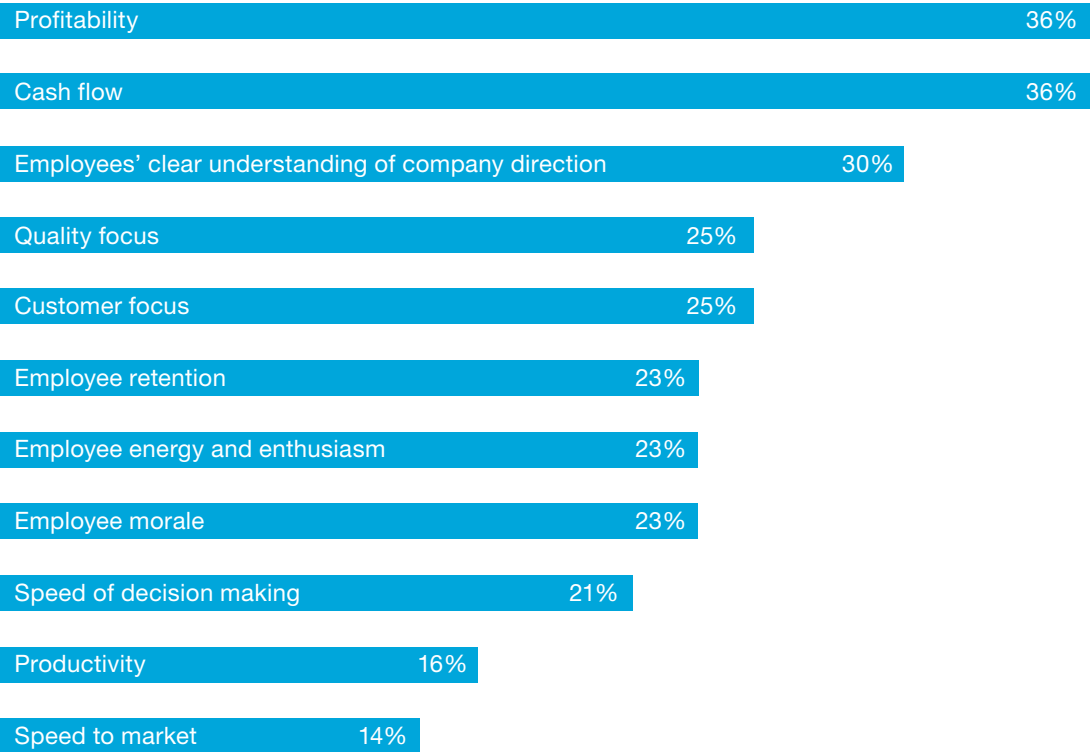
Finding #3—Few succeed where they need to the most

Few organizations report highly favorable results in areas of critical performance.

Our survey findings reflect that companies are experiencing less than desirable results in many areas of critical post close performance.

For example, only 36% of finance executives report “very favorable” results when it comes to improvement in profitability and cash flow following the deal. Favorable results were least likely to be achieved in the areas of employee retention, energy and enthusiasm, and morale (all at 23%), speed of decision making (21%), productivity (16%), and speed to market (14%).

Figure 4. Percentage of finance executives reporting “very favorable” results in key performance areas



Source: PwC M&A Integration Survey Report 2008

The first 100 days
post close: speed
drives success rates
through early planning
and timely execution.

Finding #4—Faster integration in the first 100 days post close improves profitability and cash flow

While integration efforts often take 18 months or longer to fully complete, our survey results suggest a higher probability of capturing deal value when planning starts early and integration is executed rapidly. In fact, some of our findings show a relationship between completing certain key integration activities within the first 100 days post close and improvements in profitability, cash flow, productivity and other measures.

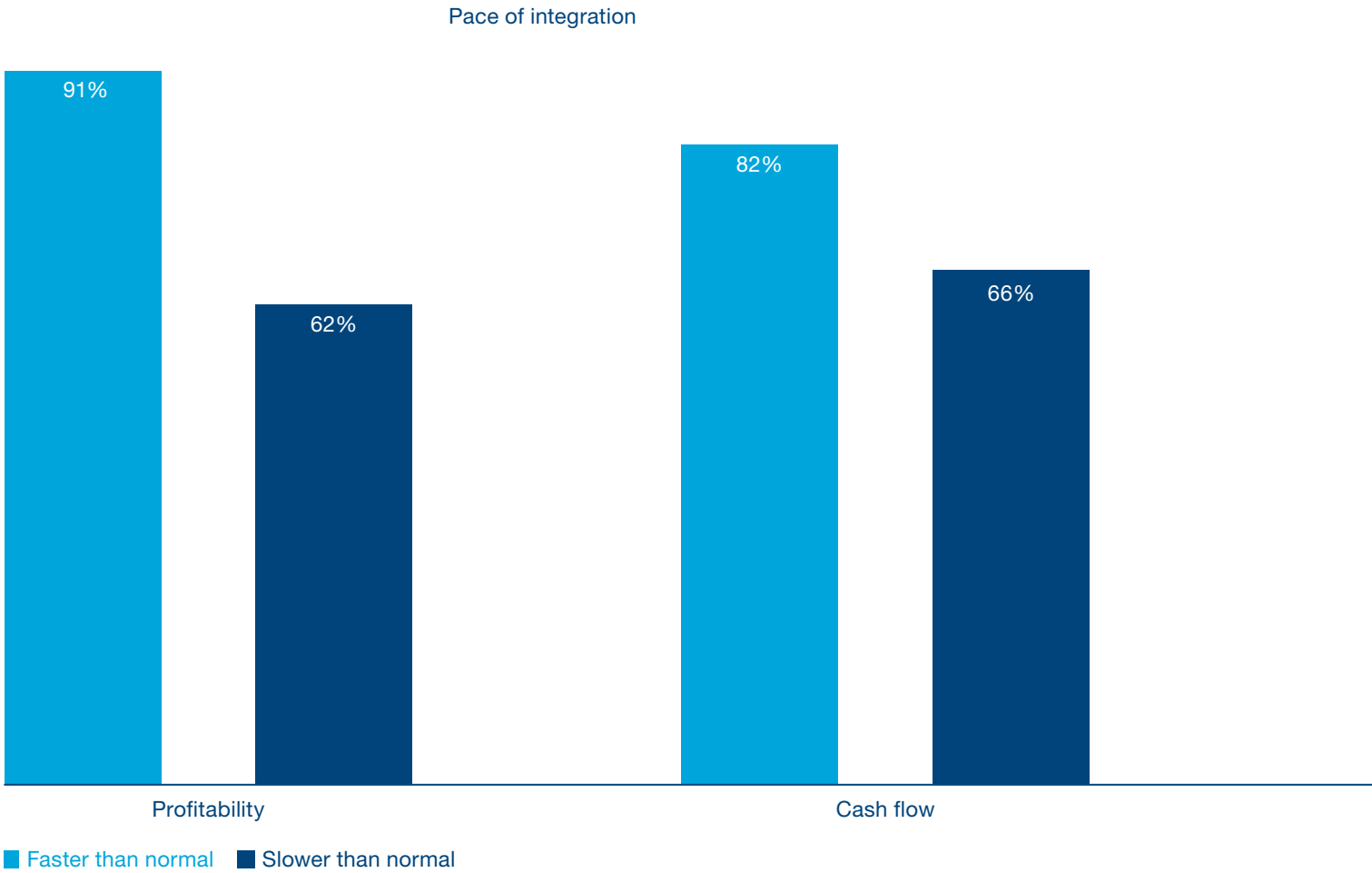
The reported success rate for post-deal profitability and cash flow was sharply higher when integration activities were performed at a “faster than normal” pace than at a pace that was “slower than normal.”

A full 91% of survey respondents said they achieved “very favorable” or “somewhat favorable” profitability results if deal integration work was completed faster than their company’s typical pace of work, as compared to only 62% when work was completed at a slower than normal pace. Similarly, 82% of respondents said they achieved favorable cash flow results when the integration was faster than normal, as compared to 66% when work was slower than normal.

Moreover, profitability and cash flow results were also more favorable when the integration of operating policies was completed in the first 100 days post close.

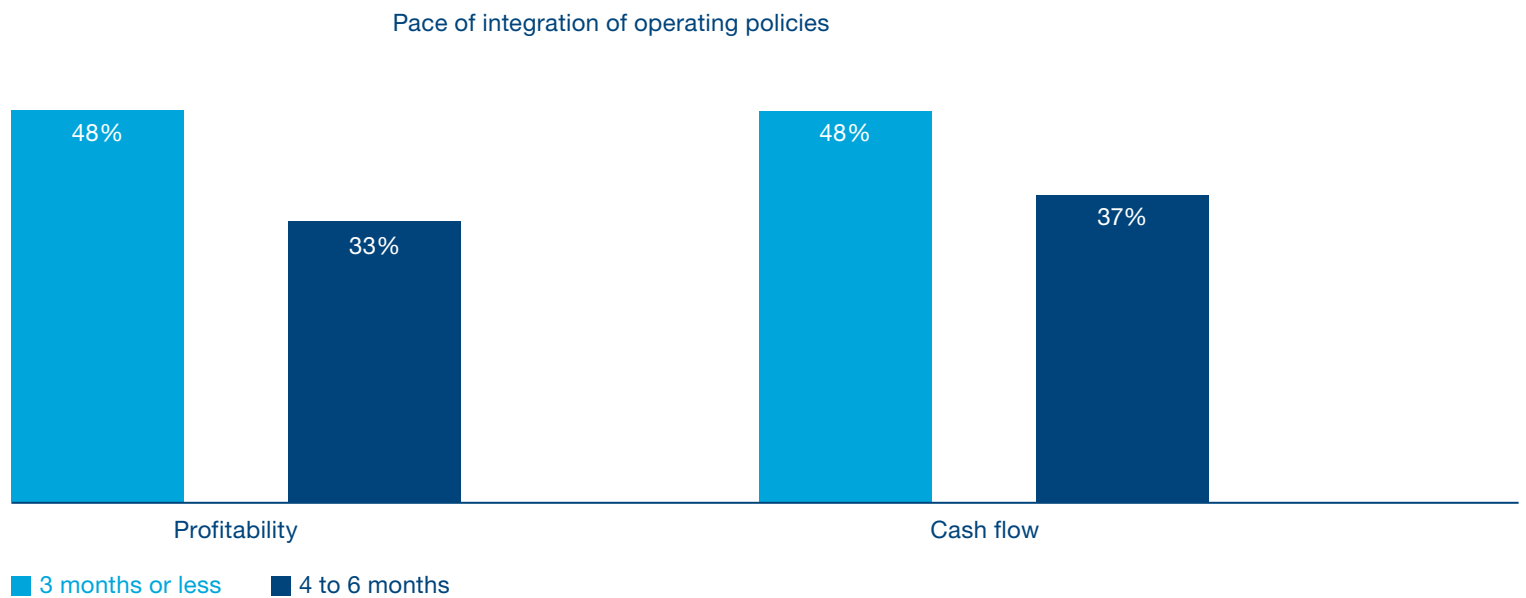
Forty-eight percent of respondents reported “very favorable” profitability and cash flow results when operating policies were integrated in three months or less, compared with just 33% (for profitability) and 37% (for cash flow) for those who took four to six months or more. When operating policies were integrated within the first 100 days post close both profitability and cash flow results improved.

Figure 5. Percentage who agree profitability and cash flow were either “very favorable” or “somewhat favorable” based upon the overall pace of integration



Source: PwC M&A Integration Survey Report 2008

Figure 6. Percentage who agree profitability and cash flow were “very favorable” based upon the pace of integration of operating policies



Source: PwC M&A Integration Survey Report 2008

Finding #5—Effective communication in the first 100 days post close improves employee productivity

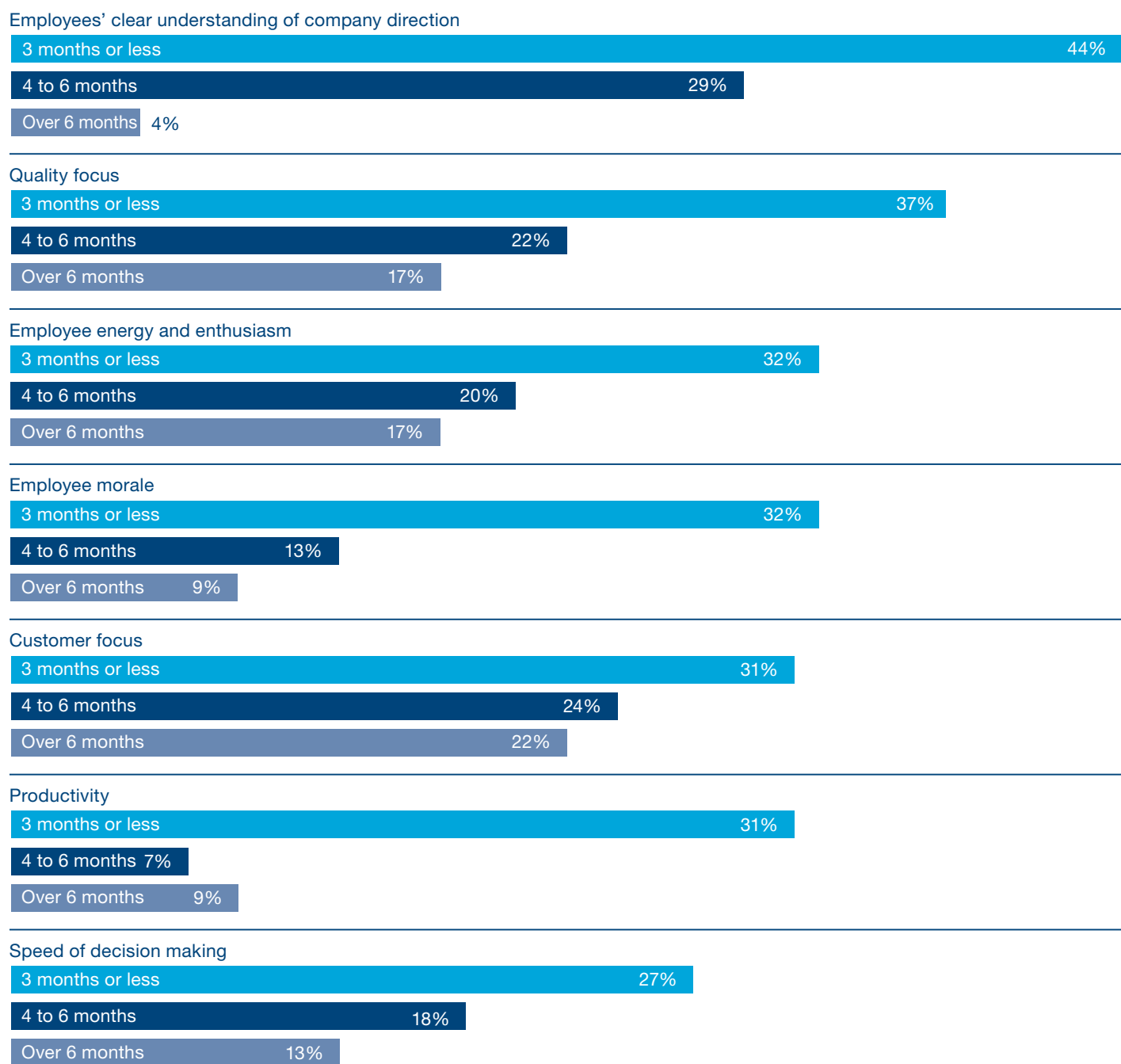
Effective change communication delivered in the first 100 days post close positively impacts employee productivity, as well as employee energy, enthusiasm, and morale.

Respondents reported that productivity was greatly enhanced if employee communication objectives were achieved quickly. When these objectives were completed in three months or less, 31% reported “very favorable” productivity results, compared to just 7% who took four to six months to achieve their objectives or 9% who required even more time.

The same held true for boosts in employee morale and employee energy and enthusiasm. When the organization fulfilled its communication objectives within the first 100 days post close, 32% of respondents said they achieved very favorable results in both employee morale and energy and enthusiasm, compared to only 13% (for morale) and 20% (for energy and enthusiasm) who required four to six months, and 9% (for morale) and 17% (for energy and enthusiasm) who needed even more time.

Similar results were reported in other key areas such as speed of decision making and employee understanding of company direction.

Figure 7. Percentage who agree deal results were “very favorable” in key performance areas based upon time in which employee communication objectives are met



Source: PwC M&A Integration Survey Report 2008

Finding #6—Integrating operating policies in the first 100 days post close helps employees focus their efforts

Employees better understand how to focus their efforts when operating policies are integrated within the first 100 days post close.

Quickly integrating operating policies helps solidify an awareness of a company's new direction which, in turn, better positions employees to help the company succeed by focusing their efforts on the things that matter most.

A full 83% of respondents said they achieved favorable results with regard to a “clear understanding of company direction” if the operating policies of the two organizations were integrated within three months or less post close. When the integration took four to six months or more, that figure dropped to 70%.

Figure 8. Percentage who agree employees better understood their company's new direction based upon the time needed to achieve the integration of operating policies

Pace of integration of operating policies



Source: PwC M&A Integration Survey Report 2008

Finding #7 — Integration urgency remains low despite the apparent benefits of early planning and timely execution

Despite all the benefits associated with early planning and timely execution, most respondents report no sense of urgency to accelerate integration.

Perhaps the most surprising survey finding is that, despite the general lackluster performance reported by respondents and the clear benefits associated with early planning and fast execution, 69% of respondents believe their company's integration work was handled at the "right pace." And most said they wouldn't have changed the speed of execution even if they had the opportunity. Only 25% admit they should have acted more quickly.

A full 73% said their company operated at a normal or slower-than-normal pace during the post close integration, with only 27% of respondents reporting their organization accelerated its normal operating speed to complete deal integration.

Just 18% of respondents reported they integrated their operating policies within the first 100 days post close. The majority, 82%, said it took their company four, six, eight or more months after close to integrate important operating policies.

Figure 9. Percentage who say their recent integration should have been completed “more quickly” compared to those who say it was done at the “right pace” or should have gone “more slowly”

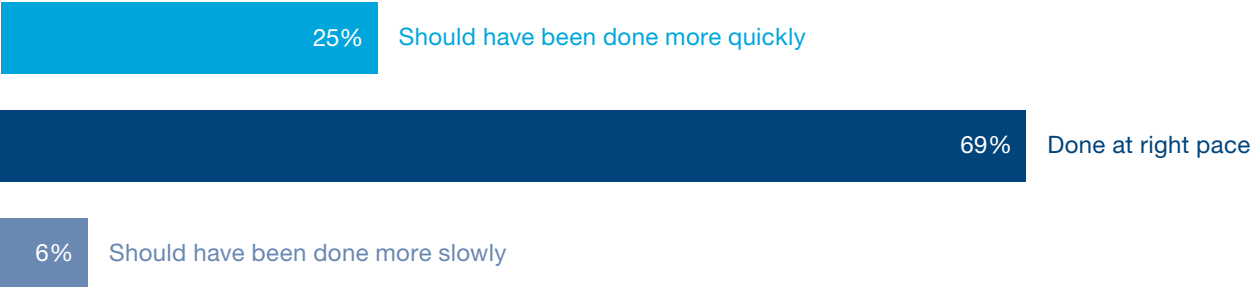


Figure 10. Percentage who say integration activities were executed at a “faster than normal” pace compared to a “normal” or “slower than normal” pace

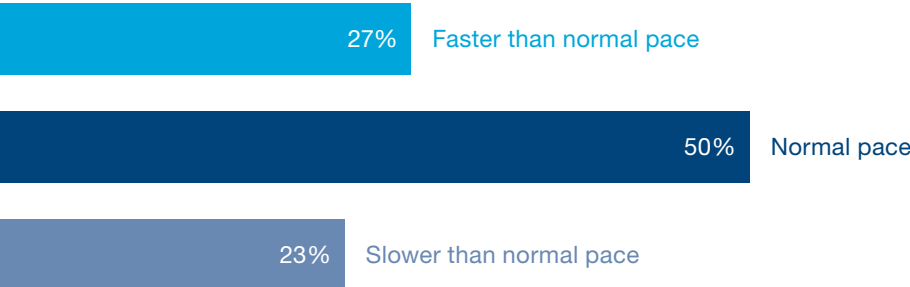
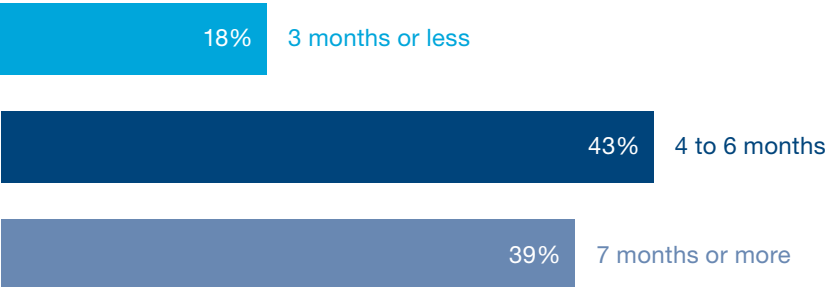


Figure 11. Length of time to integrate operating policies



Source: PwC M&A Integration Survey Report 2008

IT integration and people issues remain the most difficult challenges.

Large-scale changes that are part and parcel of a merger or acquisition carry with them extensive opportunity costs: business may be disrupted and productivity can suffer as employees—confused about today's priorities and tomorrow's direction—spend inordinate amounts of time speculating about the future.

A merger or acquisition provides a temporary window of opportunity for enhancing the organizational structure, redeploying people, redefining roles, streamlining business processes and improving IT systems and reporting tools. However, the ability to quickly bring together the right combination of people, processes and technology to achieve the synergies required for optimal value creation often proves elusive.

Finding #8—Integrating information systems is often considered the biggest post close challenge

Overcoming the complexities inherent in the integration of information systems, operating procedures, business processes and management practices has proven to be a daunting, disruptive and overwhelming task for many.

Our study reveals that over half of respondents—58%—say information systems integration issues prove to be a difficult integration challenge to resolve. And nearly half of respondents (45%) report that these challenges have directly contributed to “significant” or “moderate” delays in meeting the goals established for the deal.

Figure 12. Percentage who found integrating information systems to be difficult and those who say it resulted in delays to the overall integration

Integrating information systems



Source: PwC M&A Integration Survey Report 2008

Finding #9—Addressing people and cultural issues early is essential to capturing deal value

According to the PricewaterhouseCoopers 11th Annual CEO survey, 60% of US respondents reported cultural issues and conflicts as their greatest barrier to M&A success.

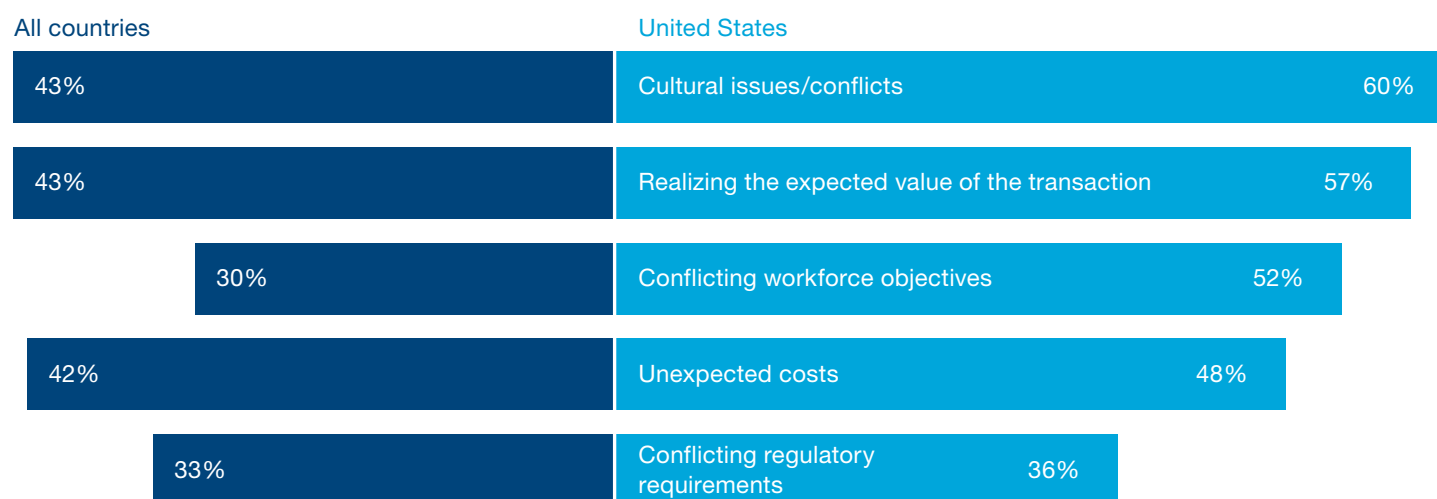
Larger companies tend to experience the biggest challenges from cultural issues and conflicting workforce expectations. This may be because they are more likely to engage in cross-border mergers and acquisitions than smaller companies. Additionally, key differences across regions were noted, with over half of US respondents (52%) placing more concern on the need to resolve conflicting workforce objectives during mergers and acquisitions than those from other parts of the world.

The CEO Survey also found that the broader “people agenda” was one of the top priorities for their organizations, with 58% of CEOs saying that it is one of their top priorities. However, much fewer—only 14%—report strongly agreeing that senior management spends adequate time on people issues during times of strategic change.

According to CEOs, some of the most critical barriers to success during periods of large-scale, transformational change cited include:

- Lack of engagement or motivation of middle managers to drive change (50%)
- Lack of change management skills and experience in senior management (48%)
- Lack of collaboration across functions to execute the change (45%)
- Lack of communication on the personal benefits of the organizational change (39%)

Figure 13. Cultural issues are the biggest barrier to successful M&A



Source: PricewaterhouseCoopers' 11th Annual Global CEO Survey, 2008

What this means for your business

You could be losing deal value by failing to plan soon enough or act fast enough. Accelerating the transition improves results enterprise wide.

There is no value in a prolonged transition. If you're not planning early enough and acting fast enough, you could be leaving value on the table. Delaying integration activities adds costs, slows growth, erodes profit and reduces or postpones the payback.

When done properly, the value of a deal—and the opportunities it presents—may be much more than you think.

- Deals open a window to redefine processes, cultures and ways of working.
- Deals create possibilities to boost performance through sustainable change and continuous process improvement efforts that could transform the entire business.
- Deals can lay the groundwork for embedding enterprise agility, preparing the company to respond more quickly and efficiently when new challenges—or opportunities—arise.

The basic principles to an Accelerated Transition™ are straightforward: improve your odds of achieving the right synergies and capture the desired deal value by ensuring a fast-paced integration using a disciplined process, well-coordinated launch, and relentless focus on the key value drivers behind the deal.

PwC's Seven Fundamental Tenets of Successful Integration

Capturing sustained economic value in a merger or acquisition is one of the most significant challenges for today's growth-minded companies. As you might expect from PwC, we have a point of view about how our clients can best go about reaching their objectives. We believe there are Seven Fundamental Tenets to Successful Integration.

1. Accelerate the transition.

There is no value in delay. It is critical to focus on obtaining bottom-line results as quickly as possible to maximize shareholder value. Prolonged transitions slow growth, diminish profits, destroy morale and productivity, and lead to missed opportunities and loss of market share. On the other hand, accelerated transitions result in more rapid return on deal investment, better capitalization on post-deal opportunities, and reduced organizational uncertainty.

2. Define the integration strategy.

Integration is a highly tactical effort. But the tactics must be implemented in ways that capture and protect the value of the deal. Rapidly converting acquisition strategy into integration strategy is of paramount importance. Integration priorities are easier to identify and execute when a clear integration strategy is well defined and communicated.

3. Focus on priority initiatives.

Resource work load limitations demand that integration efforts be prioritized. And shareholder value must drive the allocation of resources for meeting those priorities. First, potential sources of value capture and value creation must be identified. Then, resources are allocated based on potential financial impact, probability of success, and timeline requirements.

4. Prepare for “Day One.”

Critical “Day One” tasks need to be identified early, before longer-term, more detailed planning commences. This allows for prompt identification of long-lead time items, well before they can turn into closing day surprises. A detailed plan should then be created, including all actions that will be put in place on Day One. Planning for Day One should begin in conjunction with the due diligence process.

5. Communicate with all stakeholders.

Communicate early and often with all stakeholders, including customers, employees, investors, suppliers/vendors, and the general public—providing information that addresses their special concerns, yet is consistent in overall theme and tone. Communication should articulate the reasons behind the deal, reveal timing for key actions, and be candid about both what is known and what is unknown. Feedback mechanisms should be included to ensure the dialogue is two-way.

6. Establish leadership at all levels.

Swift selection of key management posts early in the transition is critical for minimizing uncertainty, assigning accountability, defining functional authority, and establishing role clarity. Companies need to quickly define organization structure and operating model, and clarify key management roles and interrelationships.

In addition, during the initial phase of integration, a team-based control structure should be established to link integration strategy and leadership with task-level action, and to coordinate issue, action and dependency management across the organization. A successful integration management structure must define clear responsibilities and reporting relationships. Teams of functional specialists are tasked with integrating core functional areas. They, in turn, report to a team of individuals with overall responsibility for managing the integration. Finally, a steering committee of senior leaders provides oversight for the overall effort.

7. Manage the integration as a business process.

Mergers and acquisitions rarely fail due to flawed strategy. Rather, failure is most often a result of not executing the strategy in a timely fashion. Successful integration must happen quickly and systematically—the period of time between deal announcement and deal close, and the first 100 days post close, are absolutely critical to realizing quick wins and preparing the company to maximize value over the long term.

Methodology

In 2008, PricewaterhouseCoopers surveyed senior management from a sampling of large capital and middle market US companies which had completed a merger or acquisition in the past three years. The goal of the study was to understand the current state of M&A integration practice and its impact on management's assessment of deal success.

We asked a third party survey company to conduct over 125 telephone interviews with these executives. Respondents participating in the survey were guaranteed anonymity for themselves and their companies, and were screened to ensure they had direct first-hand knowledge of the issues their organizations dealt with during the M&A integration.

Of the companies participating in this survey, 37% had \$1 billion or more in annual revenue, 48% had \$100 million to under \$1 billion, and 15% had under \$100 million in revenue. Survey participants fell into the following broad industry groups:

- technology, information, communications or entertainment (32%)
- financial services or insurance (27%)
- industrial products or services (19%)
- consumer products or services, including retail (12%)
- healthcare products or services (10%)

Sixty-two percent of interviewed respondents were senior executive management, with titles including CEO, President, COO and CFO, etc. The remaining 38% were comprised of other senior managers, with titles including VP of Corporate Development, Operations, Human Resources and Strategic Planning, Information Technology, etc.

To have a deeper conversation about how this subject may affect your business please contact:

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