

Maximizing deal value through higher synergy realization

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Today's objectives

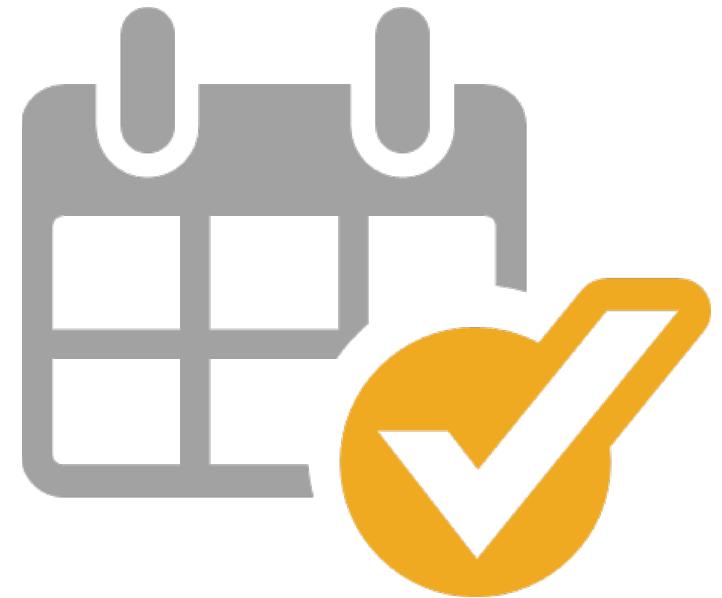
By the end of this session, you will be able to:

- Explain how deal value creation activities build and evolve from due diligence through planning and post-close execution
- Identify techniques to find higher tangible financial synergies and cost savings
- Recognize tactics for creating an internal environment geared for speed in post-close execution
- Express the benefits and limitations of an M&A Playbook
- Describe contemporary integration execution practices to place a heightened focus on value attainment



Agenda

- Insight from dealmakers
- Best practices & risk mitigating tactics
 - Identifying Synergies
 - Capturing Synergies
 - Preparing Internal Resources
- Concluding comments





Insight from Dealmakers

Today's M&A climate

- Competitive M&A market and higher pricing multiples
- Limited access to and visibility of target company information during due diligence
- Internal staff with limited bandwidth and M&A experience
- The increasing centrality and expense of the IT systems transition
- An increasing prevalence of cross-border international deals

2016 survey background and process

M&A is a major source of growth. In 2015, \$4.28 trillion in global value, the highest total of all time. In the first half of 2016, \$1.71 trillion of deals were consummated around the globe.

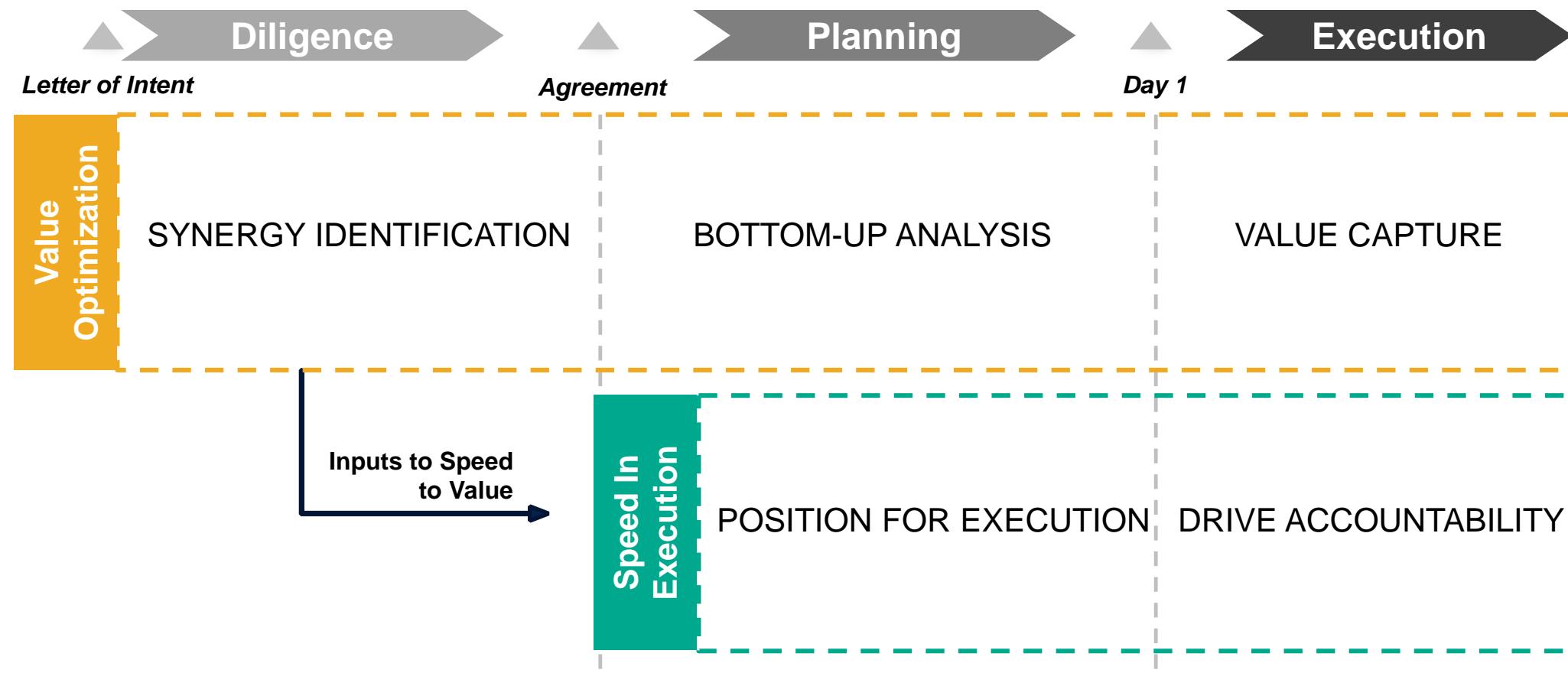
- For this year's survey, Crowe partnered with Financial Executives Research Foundation (FERF), to conduct a survey focused on both the predictable and overlooked risks inherent in contemporary M&A execution.
- **The approx. 200 survey respondents were a mix of public and private companies, both domestic and international. An “average respondent” had the following profile:**
 - Chief financial officer
 - Privately-held company
 - Domestic (U.S.) headquarters
 - \$350 million in annual revenue
 - 6 targeted transactions
 - 2 due diligence completions
 - 1 deal closed (worth \$47 million)

The centerpiece of the survey was registering respondents' experiences with the risks within the following M&A execution categories:

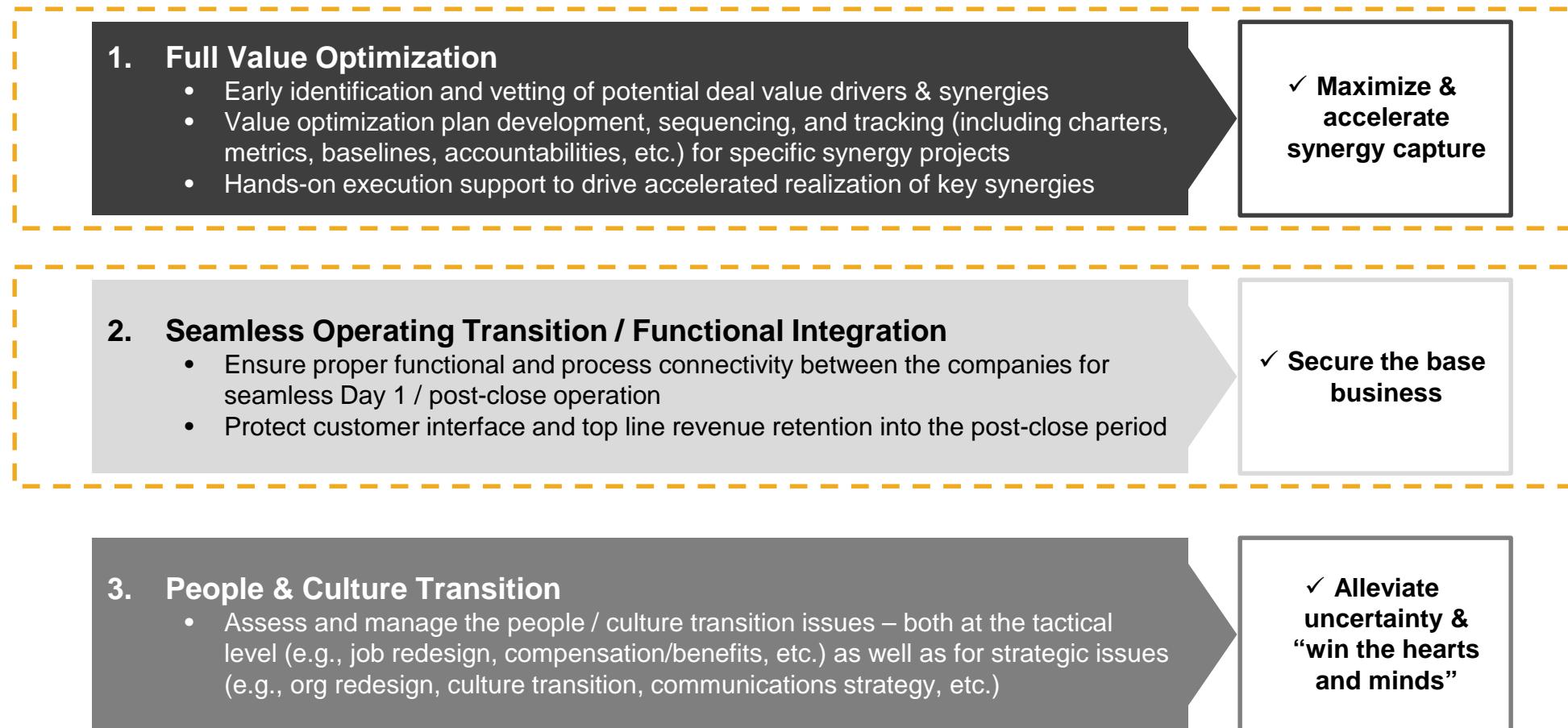
1. Target (as is a company to acquire)
2. Valuation
3. Due diligence
- 4. Integration**
5. Commercial – aka: top-line risks
- 6. Operational**
7. People & culture
- 8. Internal resources**
9. Governance & decision-making

Our view: Driving value across the M&A “value chain”

Value realization begins during due diligence and extends through execution



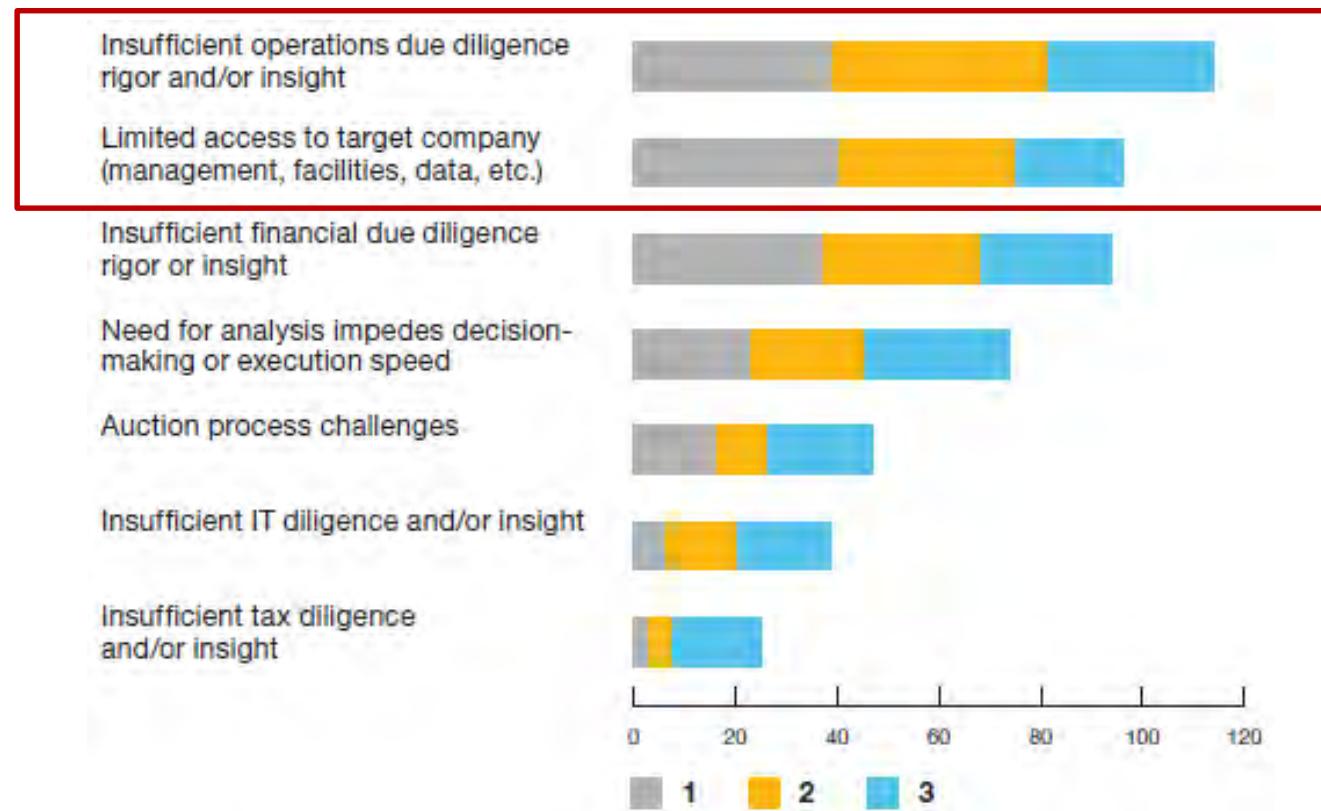
Our view: Three Macro Objectives, Three Macro Work Streams





Identifying Synergies

Due diligence risks



Source: Navigating the Risks of the Contemporary M&A Market, 2016 Survey Report by Crowe Horwath LLP and Financial Executive Research Foundation

Integration risks

Of the five specific risk issues listed, all related to realizing the full value of the deal.

The top three were the most troubling and critical by survey respondents:

- Underestimate integration work/challenge
- Underestimate time/effort/resources
- Lack of follow-through and post-close accountability

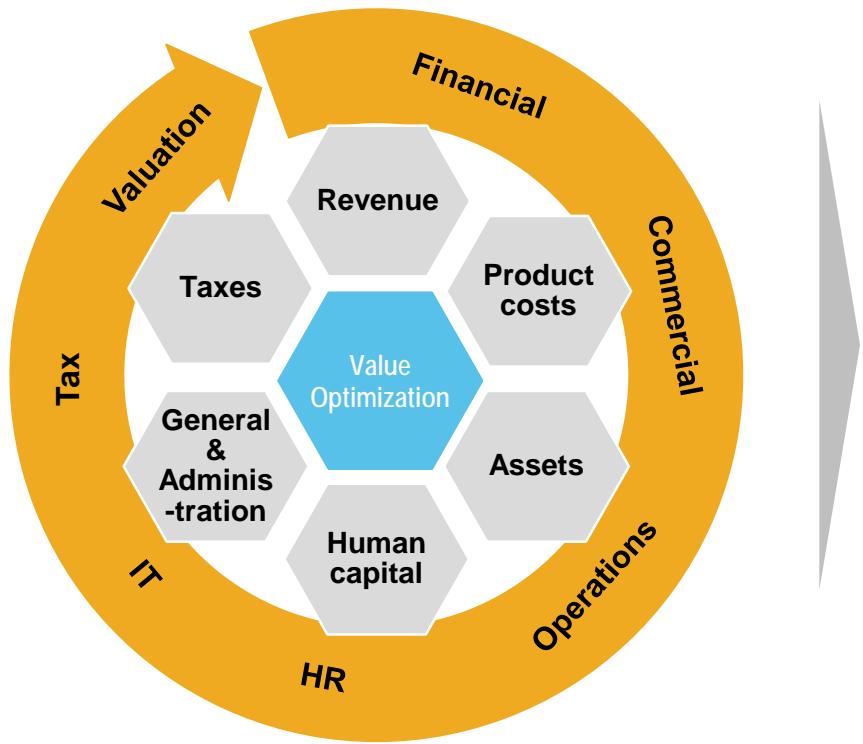
Integration risks



Source: Navigating the Risks of the Contemporary M&A Market, 2016 Survey Report by Crowe Horwath LLP and Financial Executive Research Foundation

Identifying all synergies

Deal Value GemstoneSM



Synergy Catalog

Integration Synergy Catalog					 Crowe Horwath
Item Number	Functional Area	Synergy Category	Value Driver	Description	Type of Synergy
1.1	Executive	T&E Reduction	COGS reduction	T&E reduction due to expense policy rationalization > Sales force T&E policies > Changes to reimbursement policy > Negotiated rates with carriers or hotels - new or existing (inherited) > Company cars, fleet and other provided travel	Cost Reduction
1.2	Executive	3rd Party Providers	G&A, Overhead cost reduction	Reduce or eliminate use of other 3rd Party service providers > Public Relations, Communications > Payroll processing > Legal > Professional services - tax, audit, consulting > Staffing, recruiting > Market research > Event / meeting planning > Other Business Services	Cost Reduction
1.3	Executive	Admin Offices	G&A, Overhead cost reduction	Close / consolidate administrative office locations	Cost Reduction
1.4	Executive	Corporate Services	G&A, Overhead cost reduction	Utilize corporate services not previously available > Shared Services > Library, research > Other headquarters / central office services	Cost Reduction
2.1	Finance	AR	G&A, Overhead cost reduction	Cash Collections improvement, DSO policy consolidation > Use M&A environment to improve AR policies with customers	Cost Reduction
2.2	Finance	Compensation, Benefits & Insurance	G&A, Overhead cost reduction	Combine Insurance providers, negotiate new policies and deductibles	Cost Reduction
2.3	Finance	Public Company Expense	G&A, Overhead cost reduction	SOX or Compliance-related expense reduction, such as: > CPA > Legal > Other Professional fees needed for SOX compliance	Cost Reduction
2.4	Finance	Public Company Expense	G&A, Overhead cost reduction	Elimination of Public company expenses, such as: > Board of Director fees > Reduced Director & Officer insurance > Public filing & reporting > Market listing fees	Cost Reduction
2.5	Finance	Cost of Capital	Working Capital Impt / Asset Utz	Interest expense savings, impact of debt restructuring	Cost Reduction

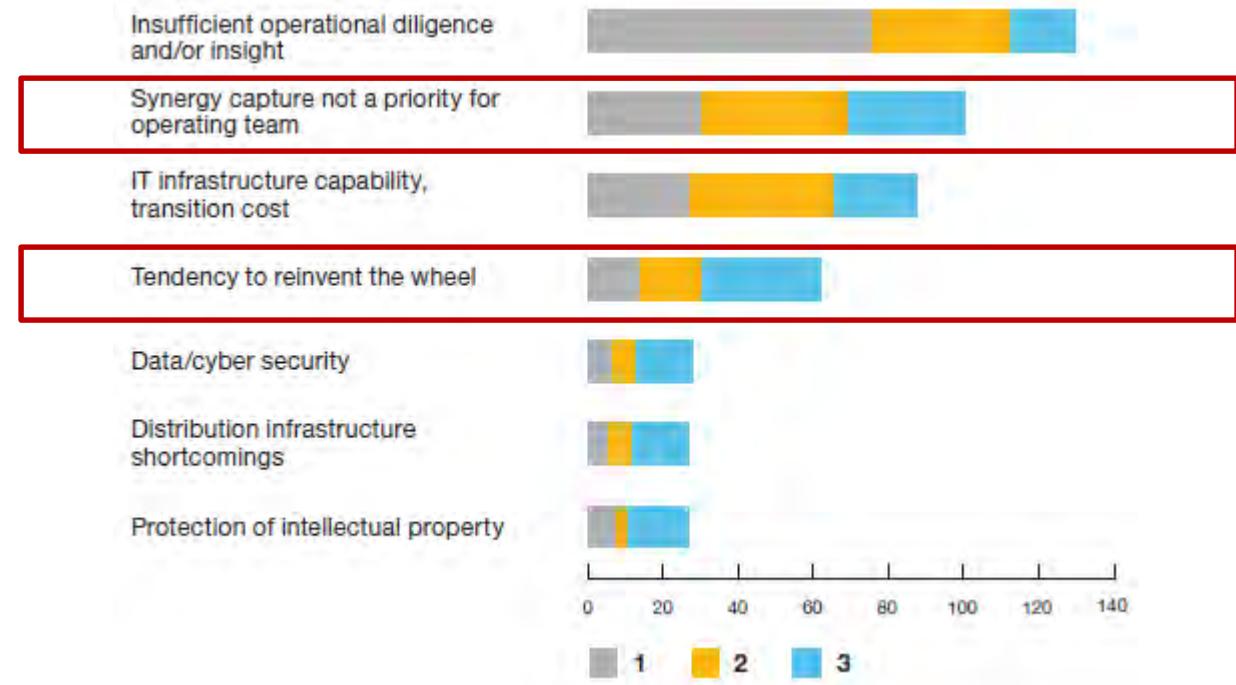


Capturing Synergies

Operational transition/synergy risks

- Operating team involvement is recurring theme
- **This reported shortage of operating team involvement is doubly problematic considering:**
 - The M&A market is increasingly competitive thereby limiting purely financial arbitrage opportunities and necessitating true operational value optimization to justify deal premiums
 - The “limited access to target company (management, facilities, data, etc.)” highlighted in the due diligence risks section, necessitates the involvement of an even more experienced operating team to yield quality insights
- The second risk, “synergy capture not a priority for the operating team,” also troubling due to the high ROI of speed

Operational transition / synergy risks

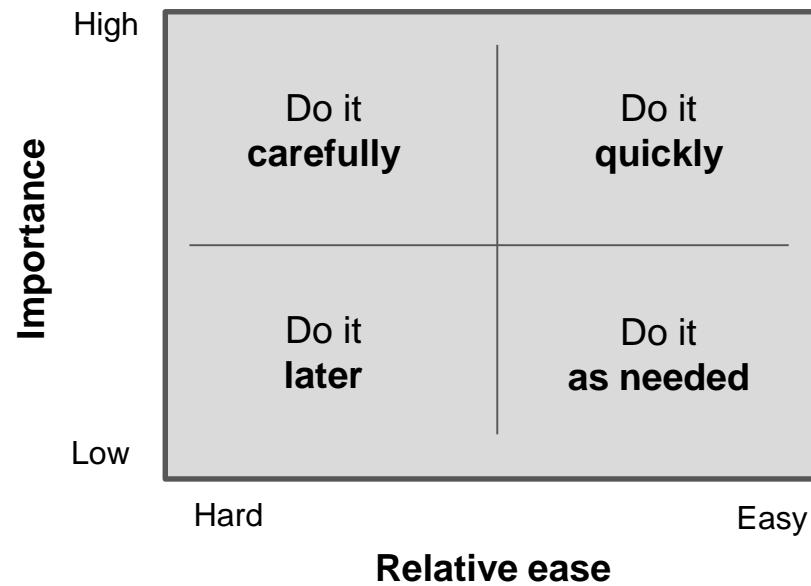


Source: Navigating the Risks of the Contemporary M&A Market, 2016 Survey Report by Crowe Horwath LLP and Financial Executive Research Foundation

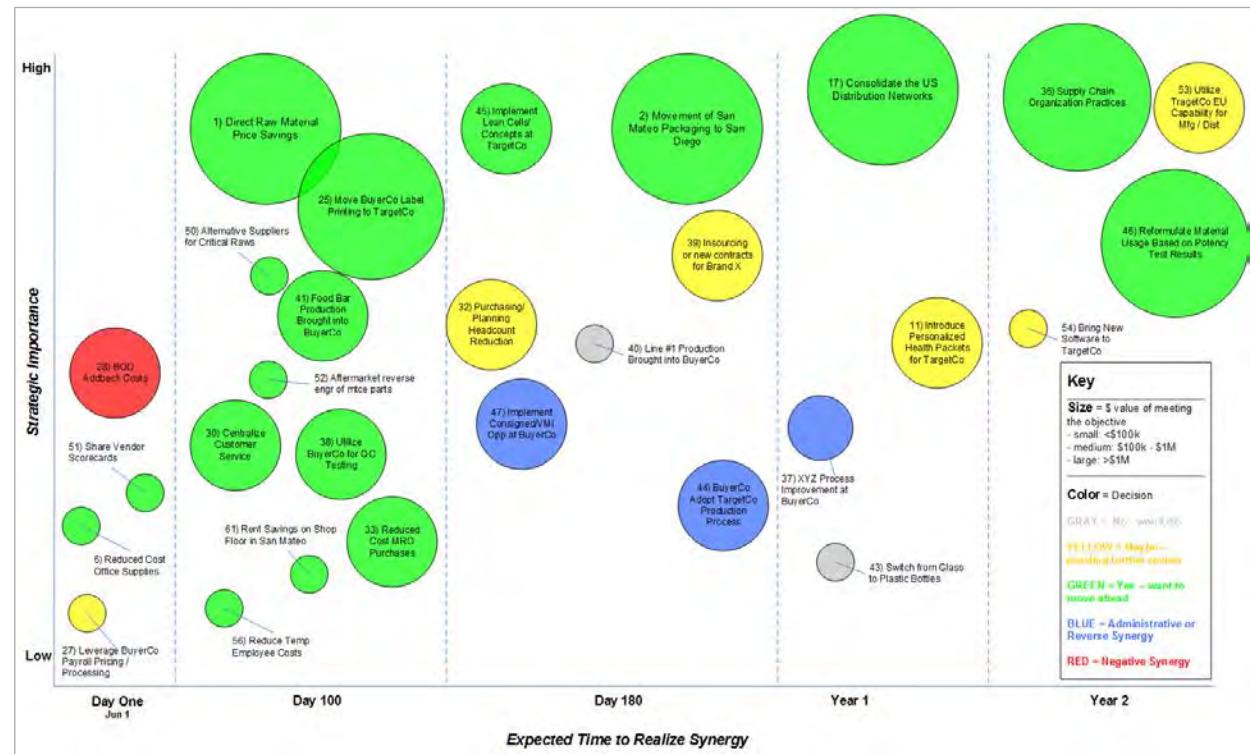
Synergy Prioritization

As a general rule, we want to capture all of the synergies and mitigate all of the risks in the first 100 days. The reality is that some things may have to wait – but they are captured on a roadmap to full value.

Synergy Prioritization Matrix



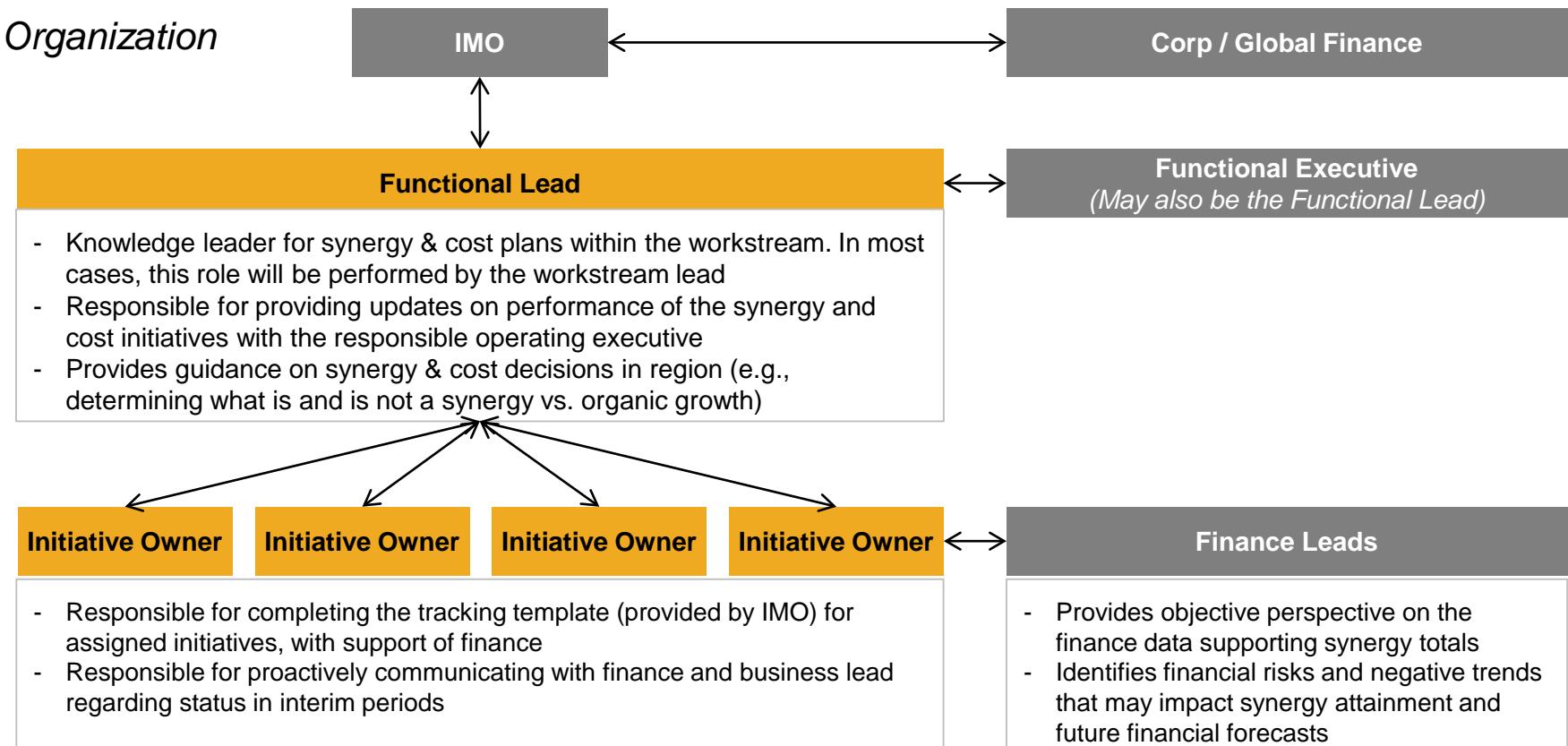
Synergy Timing Map



Synergy Tracking and Accountability

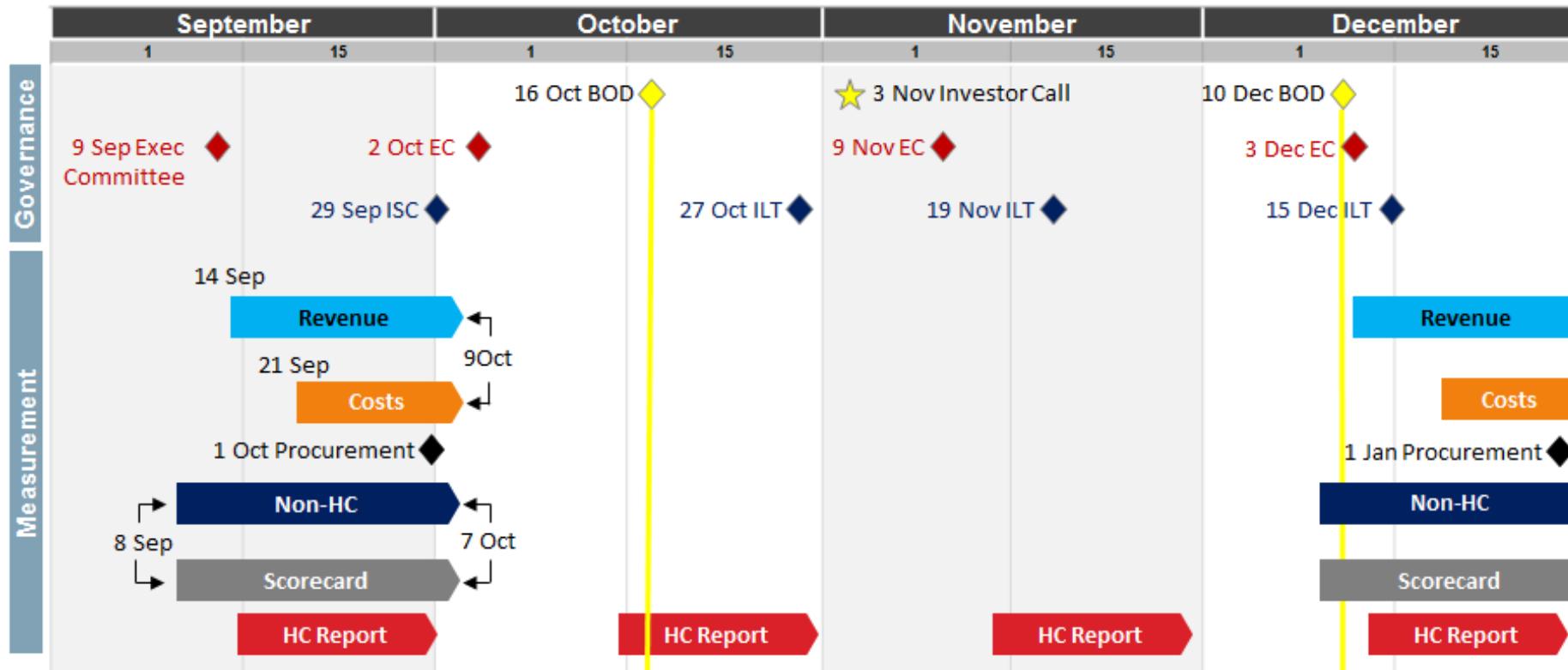
IMO facilitates the process to gather workstream input on results, validated by the Finance organization and the responsible Operating Executive

Illustration: Varies by Organization



Synergy Tracking and Accountability (continued)

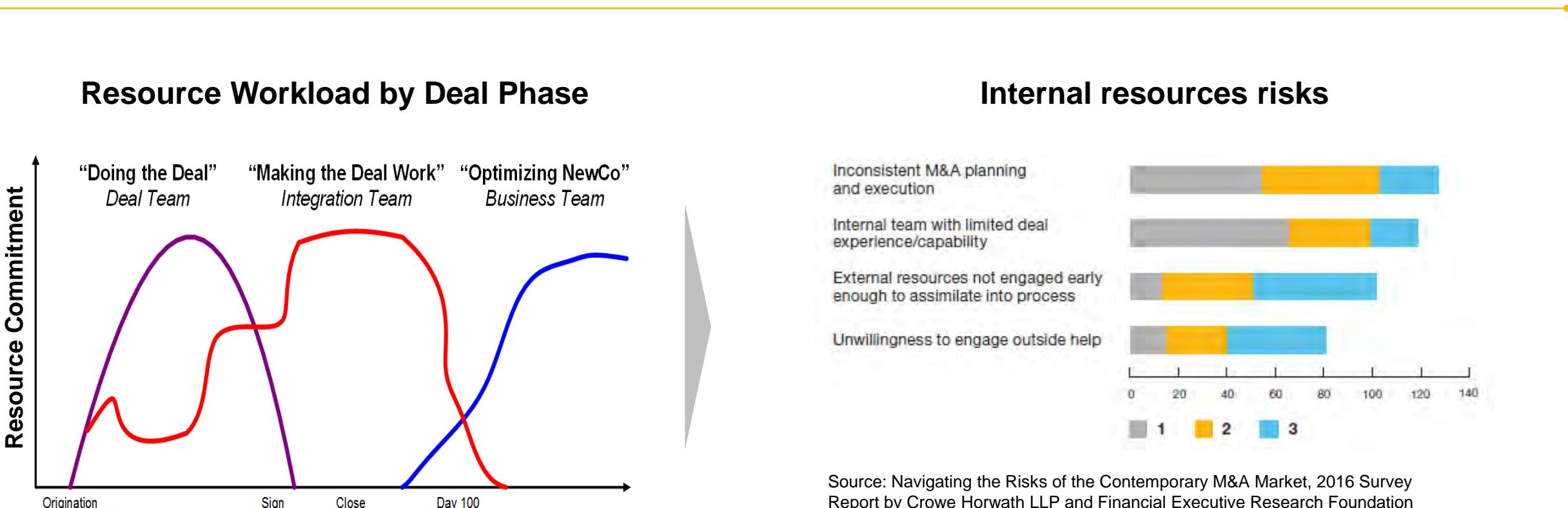
Synergy and cost reporting is driven by Executive Committee, Integration Steering Committee, Board of Directors Meetings and Investor Calls





Preparing Internal Resources

Internal resources risks



Preparing the team

Isn't there a checklist for doing integration right?

"I wish I could give the business unit a better starting point"

"The guy who led the last deal is gone"

"I was handed the project and bought a few books on Amazon to learn what to do"

"We started with old task lists from a previous project and a whiteboard..."

Example Work Breakdown Structure

Supply Chain	Manufacturing	Engineering & Technical Service	Quality
Spend Optimization	Facility Closure / Product Transfer	Engineering Team Structure	Quality Team Structure
Distribution Network Optimization	TargetCo Performance Improvement	Technical Service Team Structure	Quality Systems and Registrations
Supply Chain Team Structure	Make vs. Buy Analysis	New Product Development (NPD) Process	Environmental Compliance
Day-to-day Purchasing	Manufacturing Team Structure	NPD Project Portfolio	Safety Programs
Supplier Management	Bargaining Agreements / Work Rules	Configuration Management (e.g. BOMs, Routings, Drawings, Data)	Policies & Procedures (e.g. CAPA, RMA, Audits)
Sales & Operations Planning	OpEx and CapEx budget	Technical Publications	
Transportation Management	Operations Excellence Program Administration	Continuation Engineering	
DC Operations Management	Planning/scheduling and execution of production	Pre/post Sales Support	
Order Fulfillment	RM, WIP Inventory Management	Repair Center Operations	
FG Inventory Management	Equipment & Facility Maintenance		
	Manufacturing Engineering		

M&A Playbooks

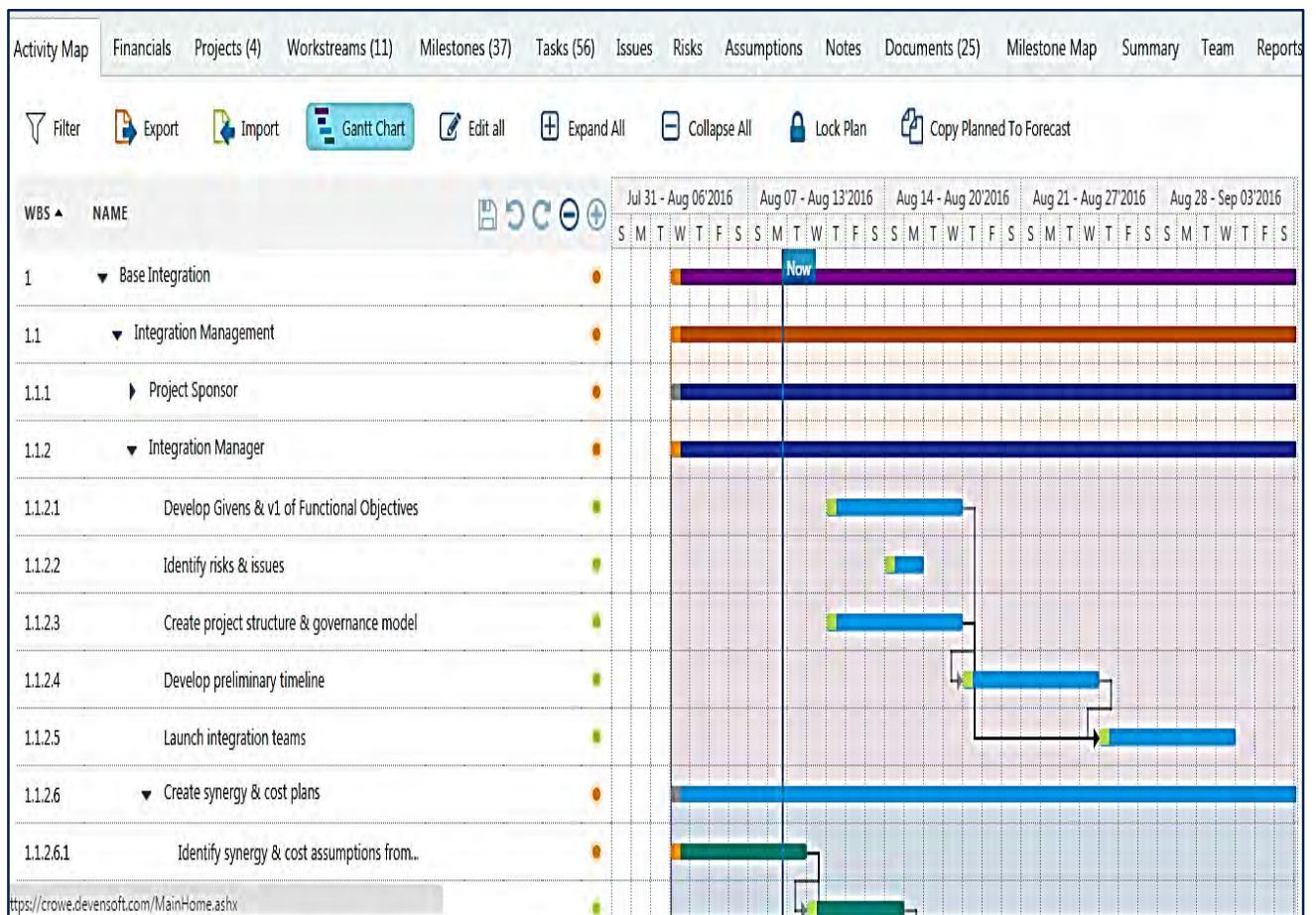
“We lack a uniform approach”

“This project was too big to manage via email and spreadsheets”

“I can’t absorb this 100-page playbook – just tell me what I need to do”

“We lose visibility to the deal as soon as we hand it over to the business unit”

Integration Execution Platform





Concluding Comments

Overlooked risks

- Respondents asked to identify the “most overlooked risks” in M&A execution.
- Issues were organized within the 15 categories shown to the right.

Most overlooked risks



Advice from C-suite and corporate development executives

If you could improve one aspect of your company's deal execution, from pre-deal planning through post-close execution, what would it be?

- *“Better and more robust playbook, well executed at several levels of the organization.”*
- *“Having a dedicated M&A team from pre- and post-closing to monitor exact progress throughout the deal.”*
- *“Better upfront evaluation in front of the letter of intent and early due diligence review/involvement from a broader base of the company’s functions.”*
- *“Pre-transaction estimate of post-merger implementation timeline: quality over speed.”*
- *“Improving the resources needed to do proper acquisitions.”*
- *“Post-closing integration plan.”*

Concluding remarks

M&A (and interest in M&A) still high, but a myriad of risks.

Risks heightened due to:

- Competitive M&A market, pricing multiples, etc.
- Increasing prevalence of international deals
- Increasing criticality and expense of integration to make the valuation and combination work

While some percentage of risks are true externalities, it seems clear that the bulk of the risks to capturing synergies are largely “controllable”, e.g.,

- Robust synergy due diligence, coupled with detailed analysis and prioritization during Integration Planning
- Framework and ‘catalog’ of potential synergies – and support with a robust Scorecard and tracking mechanisms
- M&A execution resources and readiness (e.g., M&A Playbook, vetting and pre-qualifying external partners)
- Operating team focus and post-close accountability

Material creation: 2/27/2017
Update/review: 3/2/2017

Thank you

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