



# Unlocking ‘Synergistic Benefits’ from M&A Transactions

By **Rahavan Yoganathan, Principal, Crowe Horwath Sydney**

After the global financial crisis, many strategic and financial investors have had to rethink their approach to M&A. Traditional drivers of returns such as GDP growth, multiple arbitrage and leverage can no longer be relied upon to deliver deal value and the ongoing economic crisis in the euro zone suggests that this is likely to be the new reality for some time now.

That being said, it's not all doom and gloom. There are significant M&A opportunities in the current market as evidenced by the number of deals announced (refer to figure 1). However, there is some indication that strategic and financial investors are being more rigorous with respect to their deal criteria with the number of deals being closed being significantly lower (refer to figure 2). Anecdotal evidence suggests that the lower closure rate in part relates to a greater focus of due diligence on the confirmation and quantification of anticipated non-financial drivers of deal value.

In fact, a recent Bain & Company study found that post-recession acquisitions deliver triple the value of acquisitions in any other period.<sup>1</sup> Whilst asset values tend to be depressed post-recession and therefore generally offer greater value the fact that acquirers more frequently pay cash rather than stock, encourages better due diligence and more-realistic prices.

We believe that to unlock and drive value from M&A opportunities, investors must focus on identifying and realising ‘synergistic benefits’ – the unique benefits that arise only when two entities are brought together. Common synergistic benefits include the removal of duplicated corporate functions and shared operating activities, and consolidation of facilities.

To successfully unlock synergistic benefits from transactions, investors should follow these five steps during the pre-deal planning phase:

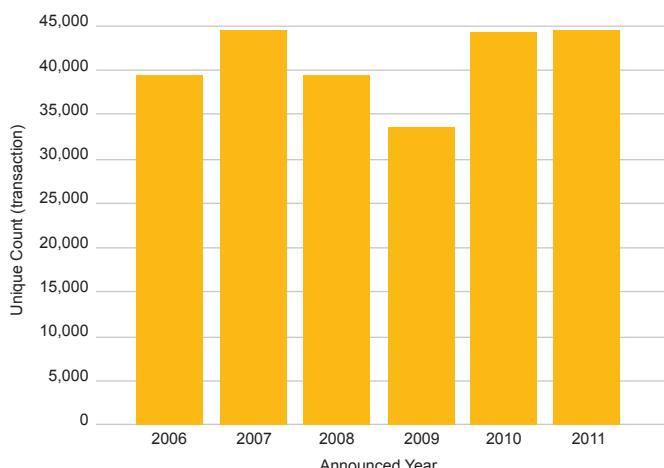
- 1. Define strategy.** Clearly define the organization's strategy and how a particular acquisition supports this. Be ruthless in your definition of acquisition criteria.
- 2. Quantify value.** Identify and quantify where the value in a particular transaction is perceived. Do not be overly optimistic with the quantification of possible synergies (refer to figure 3).
- 3. Confirm each value item.** Focus due diligence efforts on confirming each deal value item. For example, if you expect that access to a distribution channel will be a key value item, due diligence needs to focus on confirming the distribution channel exists. Due diligence must also focus on the probability of successfully realizing the value of the key item once the merger is complete.

More often than not, due diligence focuses on satisfying the financial drivers of a transaction, such as a bank's credit committee or an investment committee. As a result, many investors overlook the need to confirm the acquirer's value drivers.

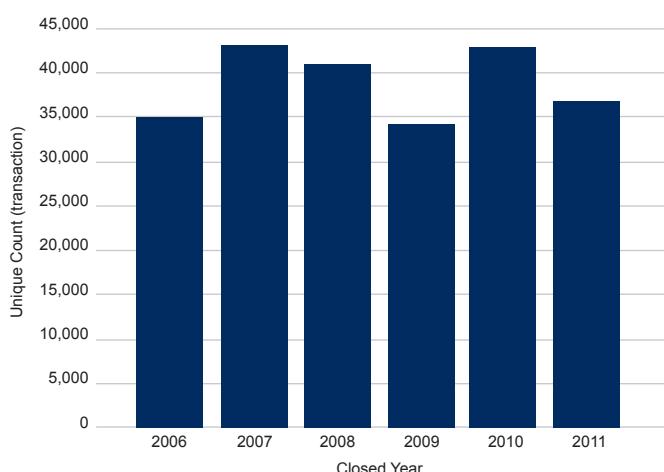
- 4. Develop an integration plan.** Develop a detailed integration plan during the due diligence phase and roll it out as soon as the deal is confirmed. The integration plan should assess any potential issues identified during the due diligence process. Don't wait for the deal to be completed before starting this process.
- 5. Focus on non-financial aspects.** The integration plan must focus on financial and non-financial aspects of the deal, including cultural and operational integration. The plan must clearly state who has responsibility for each aspect of the deal, and clear methods for accountability and measurement of progress.

<sup>1</sup> <http://www.bain.com/publications/articles/10-steps-to-successful-ma-integration.aspx>

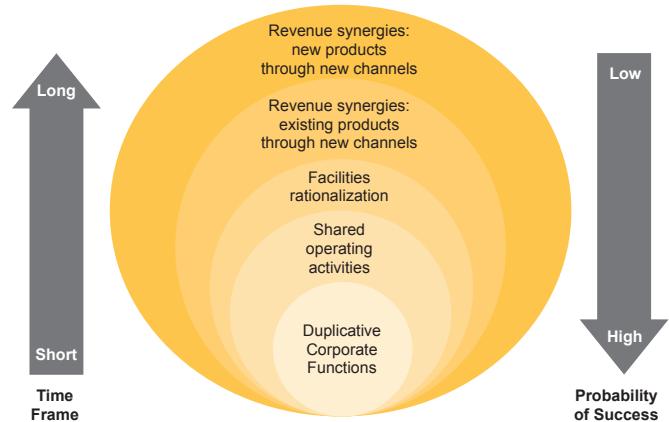
**Figure 1: Global M&A deals announced as at November 2011**  
 (Source: Capital IQ)



**Figure 2: Global M&A deals closed as at November 2011**  
 (Source: Capital IQ)



**Figure 3: Common types of deal synergies – timeframe vs probability of successfully realising 'synergistic value'**



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#### For more information:

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