

Capturing Synergies during Integration

How to complete the M&A integration process, minimize disruptions, and achieve desired synergies.*

The ultimate goal of any merger or acquisition is to create shareholder value. However, in the rush of activity before, during and after a transaction, it is very easy for companies to become distracted and lose sight of this goal.

At the end of the day, the market will reward or punish shareholders of the combined company depending on how well its management succeeds at achieving stated deal objectives. So it is imperative that synergies get realized, deal value captured, and the resulting performance communicated to all those with a stake in the outcome.

In a 2008 survey conducted by PricewaterhouseCoopers, 64% of executive respondents characterized the most recent deals completed at their companies as a strategic success. However, only 44% of those same executives said their deals were a financial success, and even fewer, just 38%, considered them an operational success.¹

Doing deals is tough, but capturing deal value is even tougher. In some ways, deciding whether or not to go forward with a merger or acquisition is the easy part. It's the act of "owning" after the transaction gets done that is the real challenge.

The value realized in a merger or acquisition depends in large part on how well the newly combined company identifies, manages, and executes on value creation and value capture opportunities. In our experience, having a well defined, disciplined, and transparent approach to driving value and tracking synergies both shortens the time required to capture value and increases the overall size of the value actually realized.

1 PricewaterhouseCoopers 2008 US Capturing Deal Value Study

The Issues Our Clients Face, The Actions We Help Them Take

At PwC, we understand the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. We support our clients by rapidly launching integration efforts to capture deal value across the integration continuum, from initial synergy analysis during pre-announcement due diligence to tracking synergy achievements long after the deal closes. Please refer to Figure 1 for the PwC Value Driver Lifecycle.

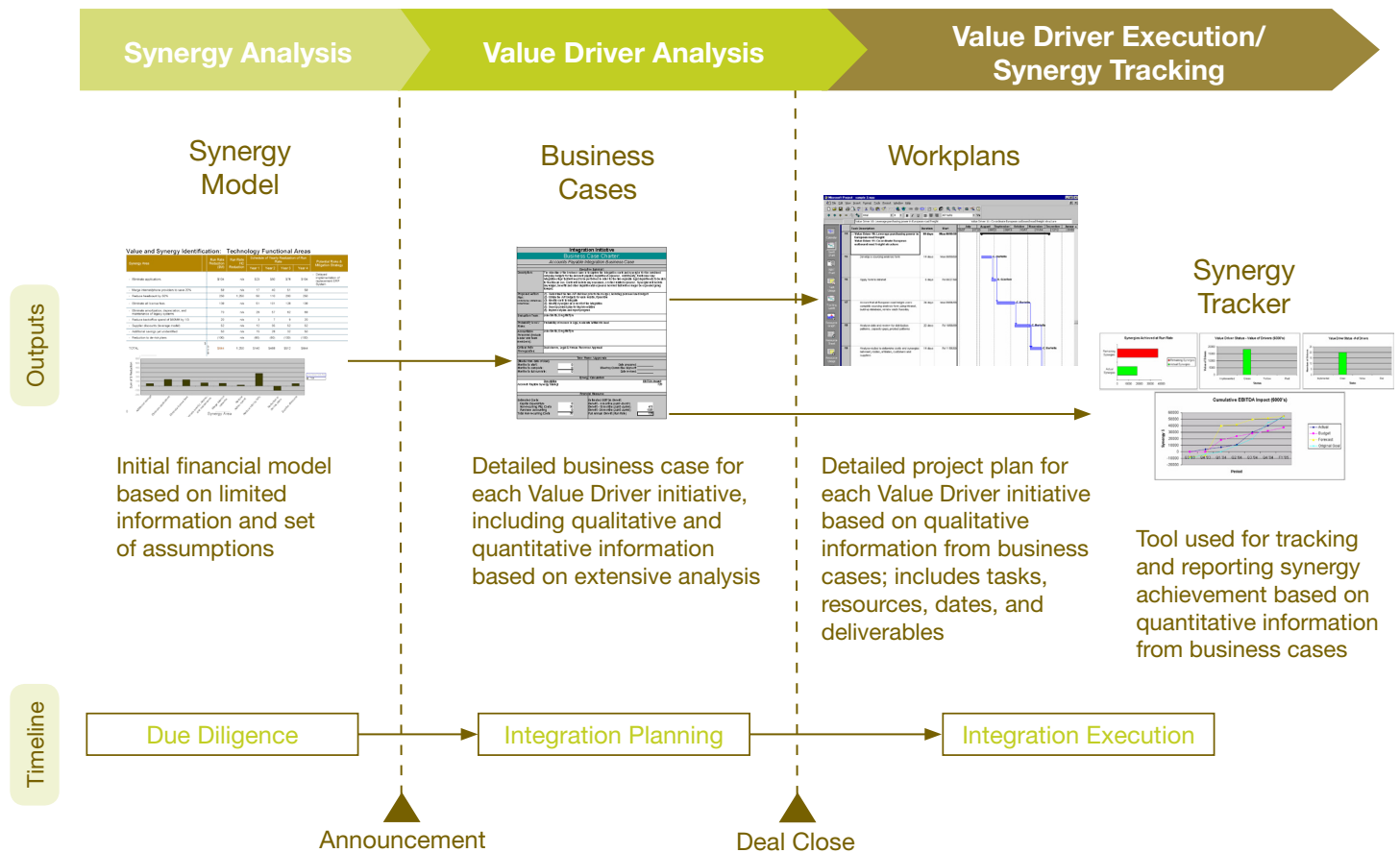


Figure 1—The PwC Value Driver Lifecycle follows a sequence of coordinated steps to identify, prioritize, execute and track the drivers of value across the integration continuum.

Step 1: Synergy Analysis

An initial synergy analysis is generally performed as part of the financial modelling that accompanies most mergers and acquisitions during the early stages of target company assessment, long before the deal is announced. This initial synergy analysis is often based on limited publicly available information and a set of very early performance assumptions. This initial analysis is typically prepared with assistance from either the investment bankers or strategy consultants to the deal.

As the deal gets closer to becoming a reality, however, and additional information is gathered as part of the due diligence process—either from public sources or provided by the target company—assumptions are refined and the synergy analysis continues to evolve. Staff from the acquirer organization typically begin to take ownership of the model at this stage, very often with continued support from financial consultants. The model remains a best-efforts document at this point since it is still based in large part on assumptions due to incomplete or insufficient information and limited access to target company personnel. The model is still just that—a model. It is not yet a planning document that is strong enough to take action upon.

The synergies identified in the model are typically categorized into three common areas; revenue and market growth, cost reduction and efficiency leverage, and capital optimization.

Revenue and Market Growth. The deal strategy may anticipate synergies from entering into new markets, expanding to new geographies, or accessing new distribution channels. Other synergies may be realized by leveraging an expanded sales force to reach new customers. Still more could result from product innovation by combining each company's research and development efforts and leveraging existing production platforms to deliver new products or services.

Cost Reduction and Efficiency Leverage. Typically, opportunities for cost reduction can be found in the income statement, particularly in “back-office” functional areas like procurement, payroll, finance, human resources and information technology. These synergies can result from permanent reductions in departmental operating costs (e.g., headcount reductions), better management of combined spend (e.g., policy alignment), or increased productivity from consolidated operations (e.g., economies of scale, better use of technology, etc.), among others.

Capital Optimization. A company's balance sheet may also be the source of synergy opportunities. For example, “hard” assets like property, plant and equipment can be rationalized through combination or closure. “Soft” asset synergies may be realized through better management of working capital, cost of capital, accounts receivable (e.g., collection periods, A/R turnover, etc.), and optimizing debt-to-equity levels.

Step 2: Value Driver Analysis

For the acquiring company, deal announcement often coincides with greater access to target company personnel and the disclosure of information that was previously unavailable. Announcement also marks the point at which the acquirer should begin to take its synergy analysis to a whole new level of detail and action.

At PwC, we call this next phase the Value Driver Analysis process. Value drivers are distinct initiatives for which individual business cases can be built and implemented to deliver quantifiable results.

A typical revenue generating value driver may involve cross-selling one company's product or service into the other company's established customer base within a particular business unit or geography. A typical cost-saving value driver may involve consolidating two facilities within the same city, or leveraging the new organization's combined purchasing power to renegotiate a vendor contract. Whatever the initiative, it must be focused and concrete enough to support a business case sufficient to produce real, quantifiable results.

Once all the sources of value are identified, it is critically important to prioritize the value drivers and set the stage for execution. Experience shows that it is just not possible to realize every synergy in a merger or acquisition. There are simply too many competing priorities with too little time and resources available to execute. The key is to focus on those value drivers that promise to deliver the most shareholder value—in short, the 20% of actions that deliver 80% of the economic value. These are the initiatives that are best aligned with the strategic rationale, present the highest probability of success over the desired timeline, and can be accurately quantified and tracked. Please see Figure 2.

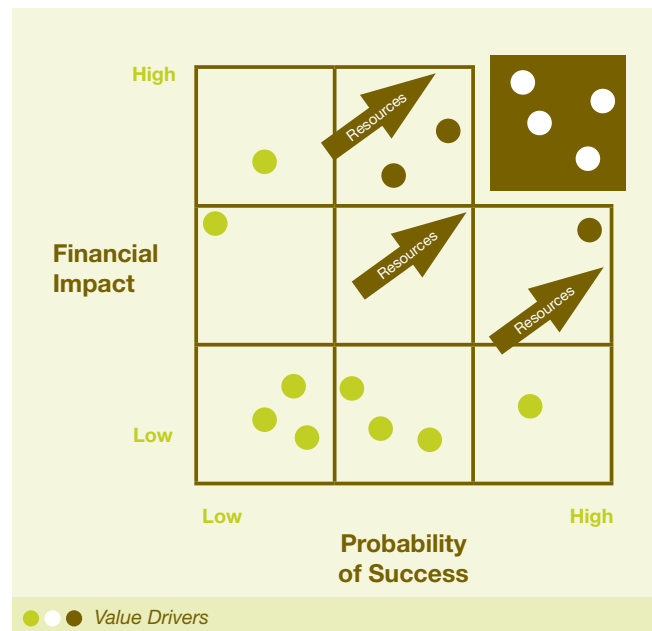


Figure 2—Value Drivers are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.

A company should plan its value driver priorities around those actions that fall in—or closest to—the upper right hand quadrant—those activities with the highest financial impact that have the greatest probability of success.

The success of each value driver often requires the implementation of many tasks across functions and geographies. Once a company has identified and prioritized its value drivers, the next step is to develop business cases for each initiative based on their purpose, benefits and qualitative and quantitative attributes. From there, detailed project plans are developed to execute the value drivers.

Developing business cases. The starting point for value driver business case development is the high-level synergy targets that were based on financial analysis performed at the corporate level. This is essentially a “top-down” set of synergy targets often allocated by corporate to each functional area.

Building value driver business cases, however, is a “bottom-up” approach to value driver planning and execution that breaks down the synergies into their component parts, significantly expands upon the financial analysis, and includes a detailed set of supporting operations-related information that communicates specifically how each discrete value driver will be accomplished. The supporting qualitative information included in the business case is then used as the basis for developing detailed project plans for execution. The quantitative information in the business case forms the basis for metrics performance tracking.

Developing project plans. The qualitative information included in the value driver business cases serves as the starting point for the value driver project plans. Each project plan must sufficiently detail task level activity for each value driver. Task-level detail should include the resource assigned, date required for completion, critical path prerequisites, and dependencies on other tasks or functions.

What makes up a value driver business case?

The components of a value driver business case include:

A qualitative description of the the core elements of a value driver, including:

- Detailed description
- Key action steps
- Operating assumptions and interdependencies
- Impediments and risks
- Functional departments impacted

A quantitative assessment of the value driver’s financial benefits, including:

- Financial analysis and impact
- Measurement metrics
- Timeframe

Step 3: Value Driver Execution and Synergy Tracking

If project plans are developed with sufficient detail, then value driver execution can be all about allocating the resources with the necessary skills to deliver against tasks in accordance with the timelines established. Since most value drivers are cross-functional in nature, a program management framework should be set up to coordinate dependencies, resolve issues, and monitor and track progress. In addition, senior management should take a visible role in championing these goals to help promote consensus, commitment and accountability.

Key Success Factors in Value Driver Execution

Value Focus

- Resources focused on priority initiatives that drive shareholder value
- Measurable synergy targets, including growth, efficiency and capital
- Clear ownership and accountability for targets fostering a performance culture

Clear Vision and Strong Leadership

- Strategy that is actionable, measurable and effectively communicated
- The commitment and active involvement of leadership
- Dedicated resources with the bandwidth to execute

Attention to Stakeholders

- Top priority given to customer facing processes
- Early organizational realignment and training with a focus on retaining critical talent
- Frequent two-way communication

Detailed Planning

- Creation of detailed plans to drive task ownership and execution
- Involvement of resources with the expertise to implement
- Balancing synergy capture with ongoing operations

Disciplined Program Management

- Coordinating dependencies across the organization
- Early identification and resolution of issues and risks
- Ongoing tracking and reporting of value captured

Again, the market will reward or punish shareholders of the combined company depending on how well its management succeeds at achieving stated deal objectives. So it is imperative that synergies get realized, deal value captured, and the resulting performance communicated to all those with a stake in the outcome.

To effectively communicate, the company must adequately track progress against synergy goals. If there is no tracking, there can be no reporting. It is as simple (and as complex) as that. It's like the old adage: If it doesn't get measured, it won't get managed.

Keeping track of synergy progress over the course of an integration helps keep employees focused on the right things at the right times. While responsibility for delivering certain synergies may rest with specific business units and functions, a centralized process and set of tools for monitoring, tracking, and reporting synergies is essential to keep the combined company on task and delivering measurable results.

The basis for metrics performance tracking is developed in the value driver business cases. The information found there is used to set milestones and gauge progress over the course of the effort. Since company financial systems are often insufficient for this purpose, a separate tracking tool is usually needed. In a smaller transaction, the use of a simple tracking tool (such as Excel) may be all that is required. However, in a larger scale transaction with large synergies and significant shareholder value at stake, a more rigorous process and set of tracking mechanisms may be deployed.

Creating value as a result of a merger or acquisition is just the start of an ongoing quest for value. Not only should every identified value driver and its related initiatives mesh with the company's overall business strategy, companies must remain vigilant to ensure that future actions and activities do not erode or cannibalize hard-won value.

The PwC Synergy Tracking Tool

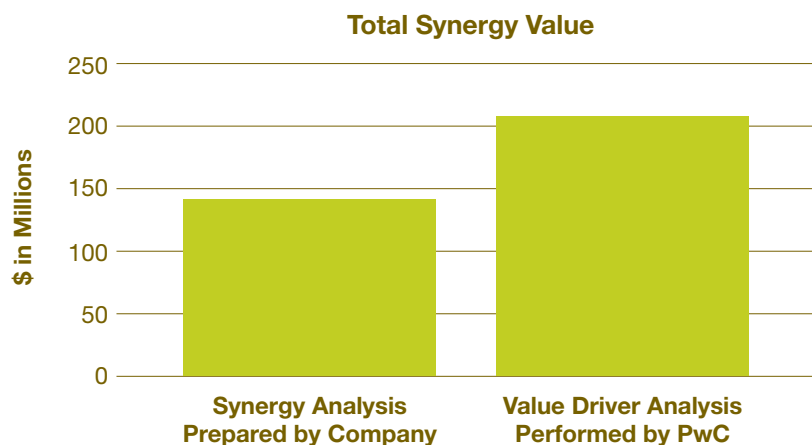
PwC has developed an internet-based synergy tracking database that can be used to monitor the progress of each function, business unit, or team against its established synergy targets. The interactive tool is used to keep the teams aware of the costs associated with executing each task and the resulting performance on established targets. Progress is tracked against targets on a periodic basis, generally either monthly or quarterly.

The tool can produce reports that provide management visibility at different levels of granularity. The tool also has the functionality to produce reports detailing the income statement impact of each task down to the line item or cost center.

PwC Delivering Results—Case Example

PwC was engaged to assist a \$3 billion company after announcing its intent to acquire a major competitor in a \$2 billion transaction. The acquiring company needed to accelerate transaction close and quickly take action to capture desired synergies. PwC provided a “turn-key” solution for transaction closing, synergy analysis, and integration planning and management across multiple functional disciplines and geographies. Teams were assigned to specific value driver initiatives prior to close, developing detailed, measurable integration plans with budget accountabilities. Upon close, integration teams immediately began executing approved plans, and the target company was quickly integrated into the buyer’s organization.

As a result, deal closing was accelerated by 78 days and actual synergy outcomes exceeded initial estimates by over 40%. An effective reporting structure allowed senior leaders to remain engaged in the integration process without being distracted from ongoing business issues. The company’s stock price rose by 35% in the year following the deal.



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