Annual M&A Success Survey

2022 Publication

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UNIVERSITY OF OXFORD Saïd Business School

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October 24th, 2022

Foreword

We are pleased to present the 2022 Annual M&A Success Survey sponsored by Global PMI Partners, Saïd Business School, and Sterling Technology. This survey provides Insights into the key elements that are essential for acquirers to achieve their deal rationales, along with guidance on how to respond to new M&A challenges in these economic times.

Over the past year, companies have confronted several new challenges in an already highly complex deal environment. The relaxation of pandemic containment measures in much of the world, in conjunction with substantial monetary and fiscal policy stimulus, has resulted in a rapid growth rebound. At the same time, geopolitical tensions are forcing companies to reassess their global supply chain and distribution models, as well as responses to the energy crisis.

Bottlenecks up and down the value chain, the war in Ukraine, China's continued zero Covid policy, and inflationary pressures mutually reinforce each other and exacerbate uncertainty in strategic decision-making.

In 2022 acquirers who continued to look forward, undaunted by the uncertainty ahead, have fared well. This survey report reflects how acquirers have addressed M&A integration challenges at each stage of the deal lifecycle during the year.

We would like to thank all survey respondents, contributors and the team that has produced the report.

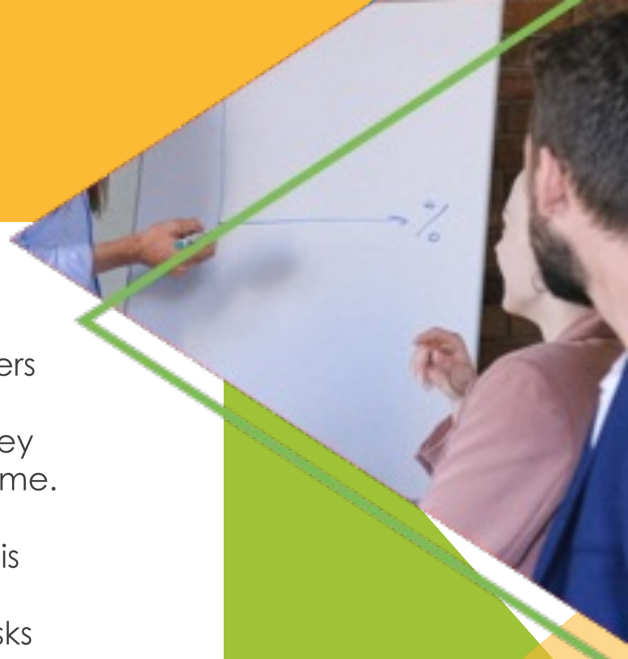
Stefan Hofmeyer

Founding Partner
Global PMI Partners

Christophe Van Gampelaere

Founding Partner
Global PMI Partners

Executive Summary



2022 Survey results: there is room to grow M&A integration maturity

- Large acquirers focused on building market share.
- Smaller acquirers focused on building skills and expertise.
- Both large and small acquirers focused on enhancing value propositions such as acquiring technology.
- Almost a quarter of respondents did not know if their last transaction was successful.
- 66% of respondents validated synergies and 71% of synergies were tracked or managed.
- Although task plans and charters are used the most of any integration documentation, they are used less than 50% of the time.
- Based on results captured in this survey, there is opportunity to increase expertise to reduce risks and to optimize synergies in the M&A process.

Related insights: 6 considerations for M&A, regional differences, and technology

- Setting up an Integration Management Offices (IMO) is an essential element for integration success.
- Other considerations for successful M&A are to address company vision, incentives, culture, actions, resources and skills.
- As one might expect, the UK and EU regions perform more cross-border transactions than the US.
- In cross-border situations, acquirers may abort a potential target, based on the outcome of a pre-signing cultural due diligence (CDD) process. This appears to be more of an attention point in the UK and the EU than the US.
- The primary use of technology tools focuses on virtual data rooms.
- Deal pipeline management and integration management software is rarely used (< 20%) during the M&A lifecycle. This is likely due to adoption issues for team members who are stretched thin – It is important to make technology easy to use.

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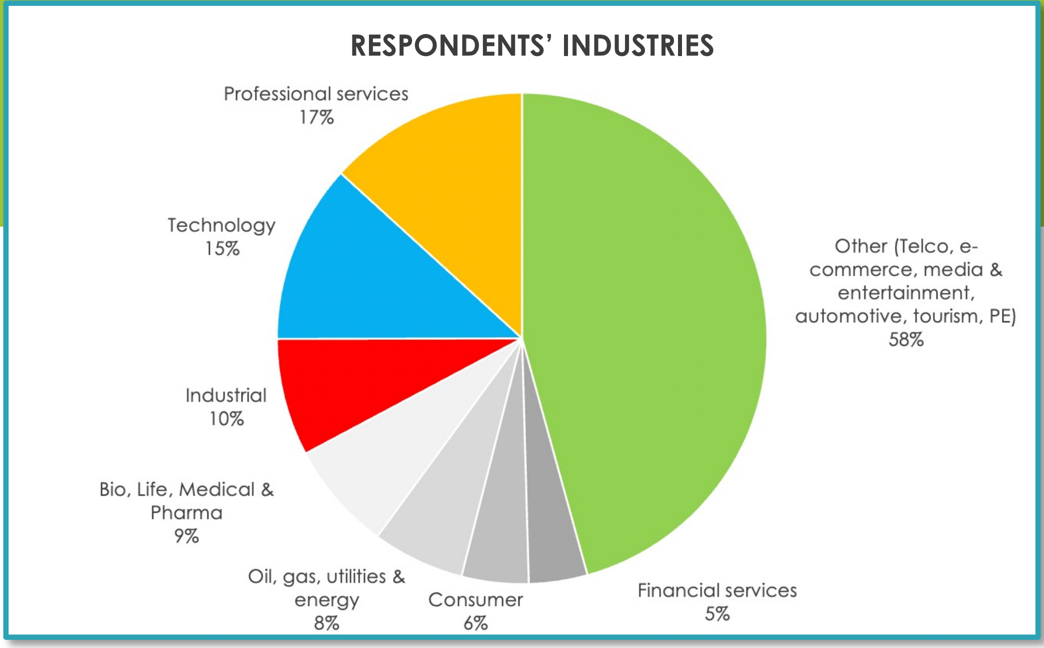
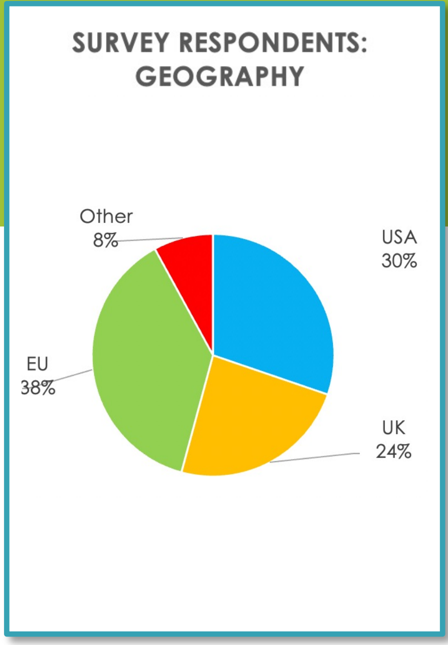
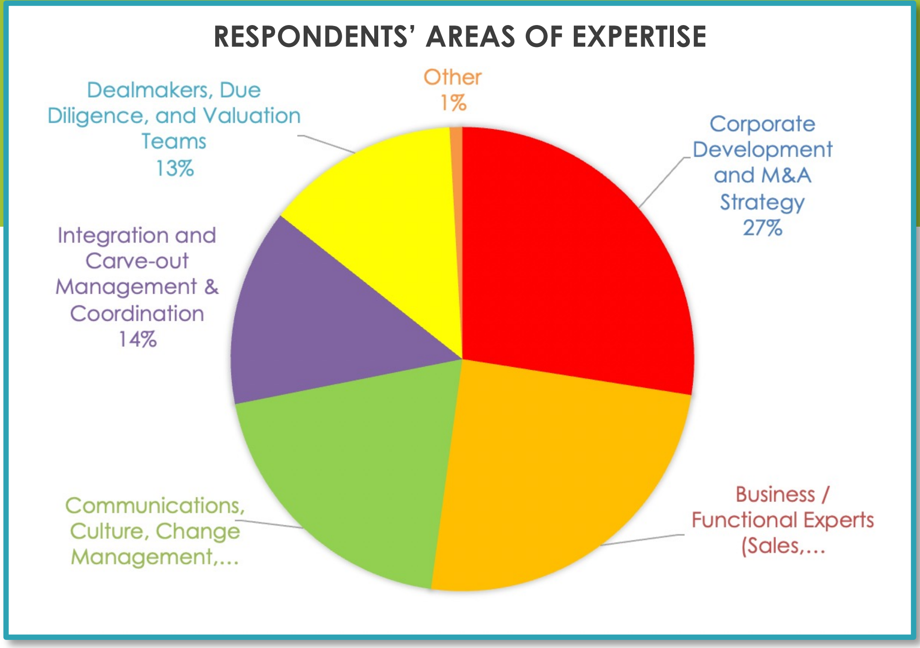
Survey Demographics at a Glance

The United States, UK and EU were well represented in this survey, with more than half of respondents from sectors such as professional services, technology, industrial, life sciences, FMCG and energy.

The participants' expertise is primarily in mergers and acquisitions and business functional areas.







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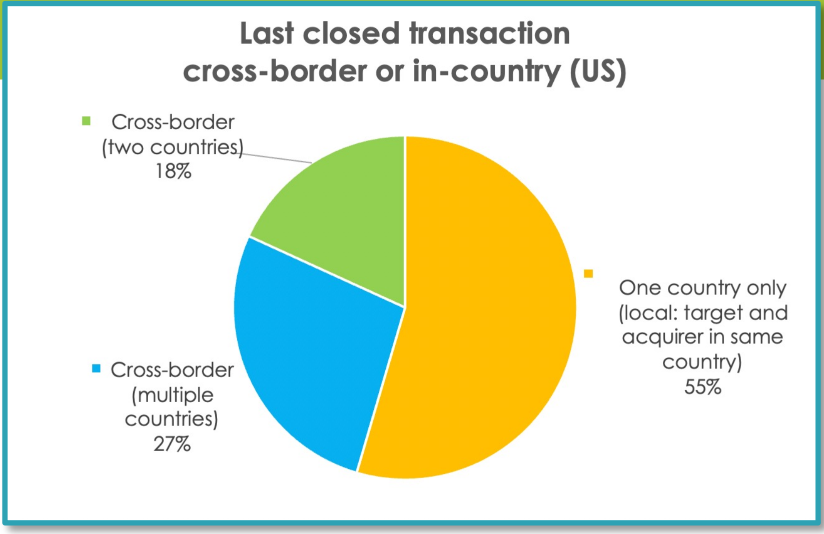
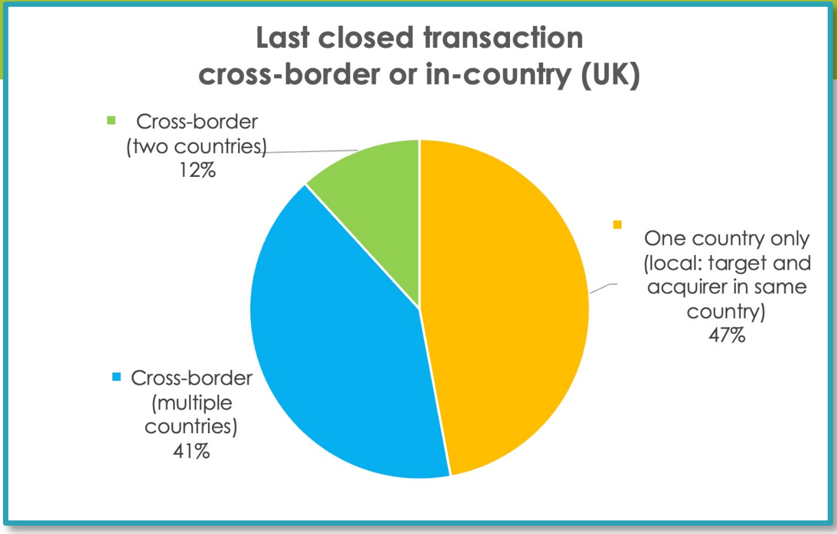
Survey Demographics: Cross-border vs In-country

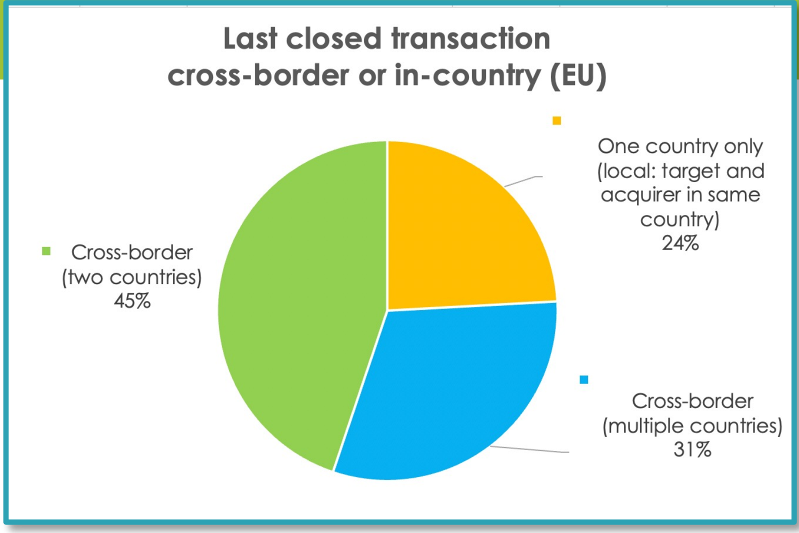
Deals involving multiple geographies and industry sectors introduce a significant level of risk that requires analysis, mitigation, and support. The further away from "home market", the higher the risk. Risk is related to 'distance', e.g.:

- *geographic* (or spatial) distance
- *economic* distance
- *administrative* (or institutional) distance
- *cultural* distance

Below are graphs for the US, EU and UK, showing that more than half US transactions are in-country only, exposing these acquirers to unfamiliar risks if ever they should venture across borders. Given the necessity for cross-border transactions, over half of the UK's deals and over three quarters of EU sourced deals were international.







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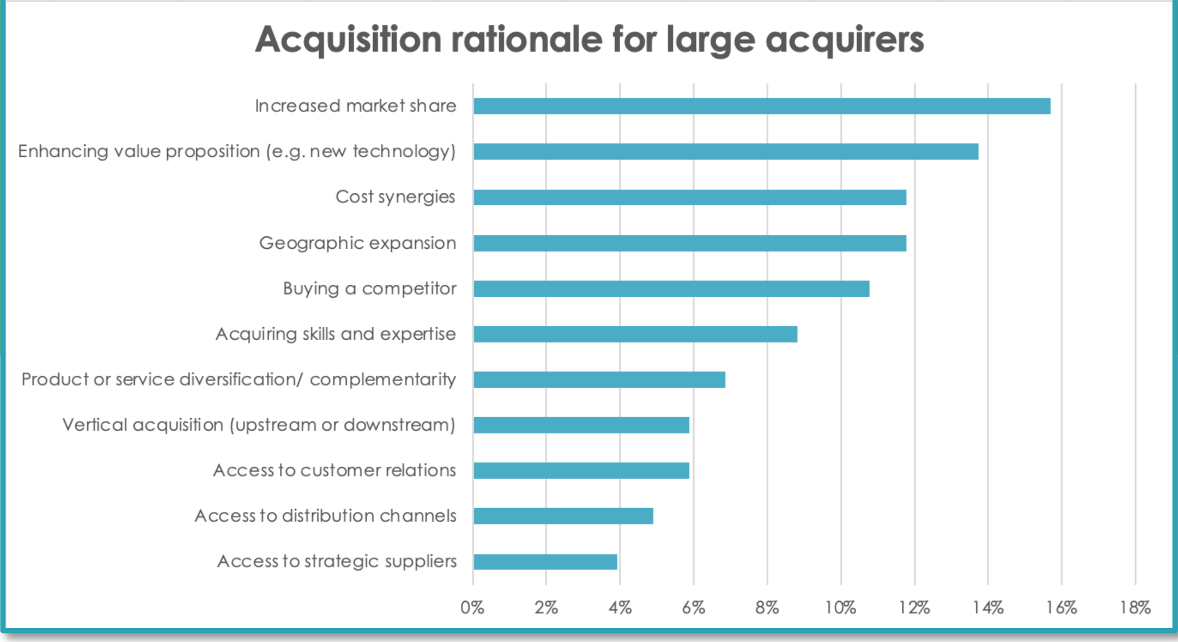
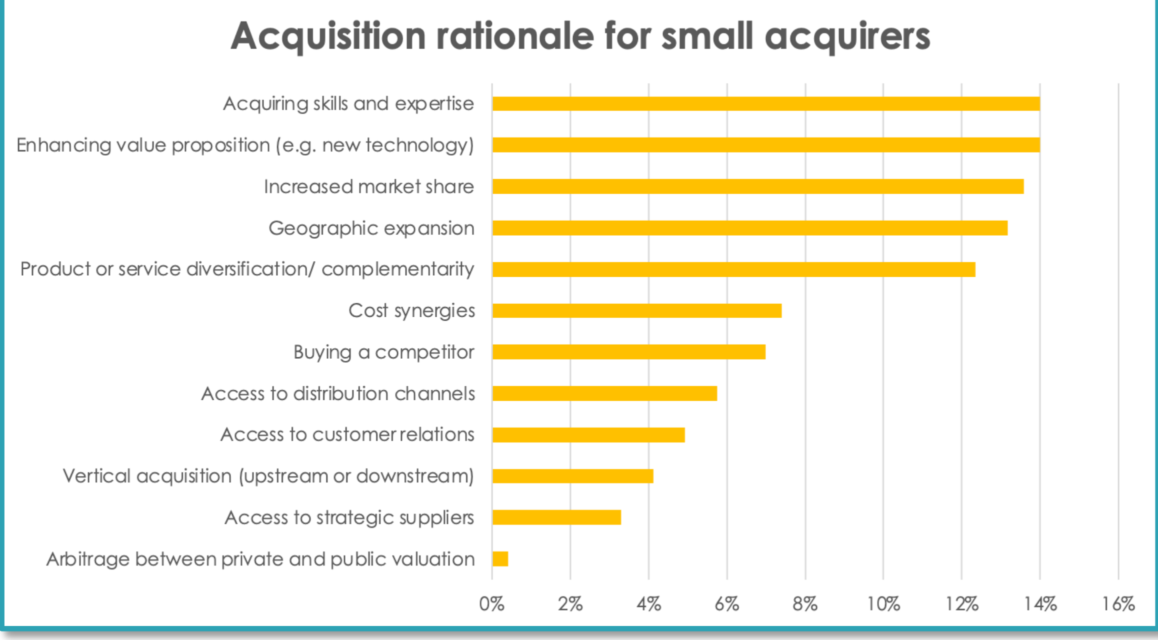
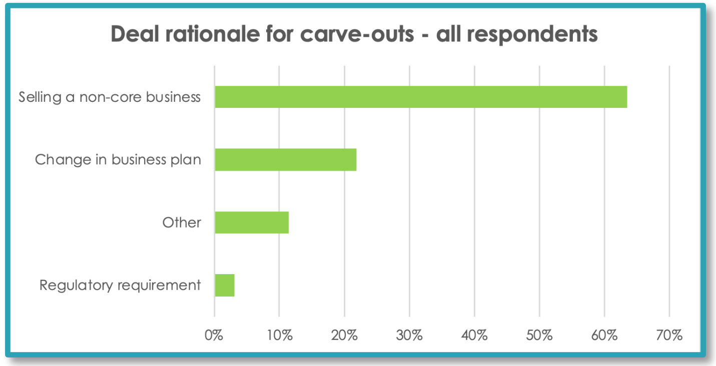
Deal Rationale

Acquisition rationale is mostly growth-oriented. For large acquirers, the focus is on gaining market share and making their companies' value proposition more attractive. For smaller players, acquiring skills and expertise comes first.

Given the more turbulent macroeconomic environment, we will be monitoring if deal rationale becomes more defensive in 2023.







Selling a non-core business remains the most common driver of carve-outs.

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Insights: Accurately Valuing Targets

Tim Galpin, Senior Lecturer and Director Diploma in Strategy and Innovation, Saïd Business School, University of Oxford

There are several best practices when conducting M&A valuation that can help prevent buyers from overpaying:

- **Use multiple valuation methods, such as:**
  - public comparables, discounted cash flow analysis, M&A comparables, leveraged buyout/"ability to pay" analysis
- **Apply realistic assumptions:**
  - set realistic potential cost or revenue deal synergies
- **Involve operators:**
  - engage those who will be responsible for running the business after the acquisition
- **Assign a devil's advocate:**
  - avoid the tendency for "group think" by assigning someone on the valuation team to identify potentially unrealistic assumptions and to make the case for realistic expectations
- **Incorporate "extreme shock":**
  - build alternate valuation models that account for extreme variations of the base case model, identifying the impacts and projected probabilities of economic downturns or black swan events

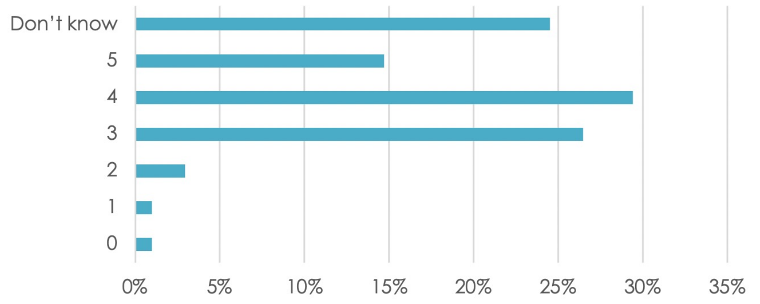
Success: Last Transaction

Perceptions about transaction success varies significantly over time. We know that not all deals deliver the anticipated value that investors and management teams had hoped for.

Investments in M&A capabilities and resources, both during the deal phase and during planning and execution significantly increase likelihood of deal success. Critical focus areas include:

- operational, financial, commercial, and culture diligence
- effective planning and risk management
- clarity of future state target operating model
- high-performance project delivery teams
- sufficient bandwidth and change management capability to execute plans without disrupting business as usual

How successful was your last transaction in achieving its deal rationale?
(0 = not successful, 5 = very successful)



The survey results show that:

+ fewer than 15% of respondents scored their last transaction as (very) successful
+ very few designate the deal to have been a failure
+ **key takeaway:** almost a quarter of respondents 'do not know' if their last transaction was successful.

In our experience, tracking progress, cost, and revenue synergies serves multiple purposes:

1. **motivating**: communication on deal progress and success is a strong motivator
2. **steering**: it allows for the ability to make adjustments while integration is underway
3. **learning**: management can objectively judge if a merger or acquisition was a success or failure.

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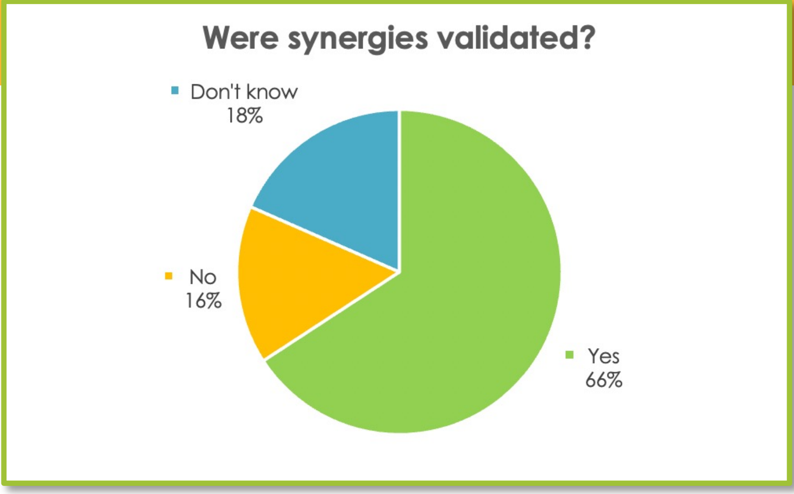
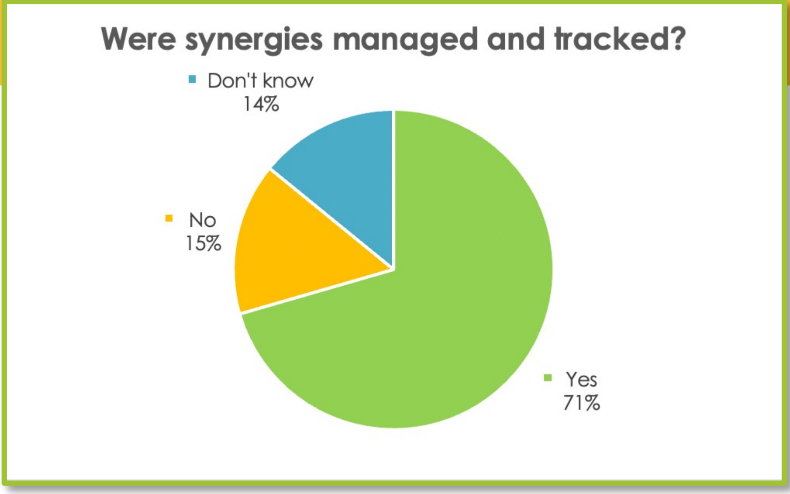
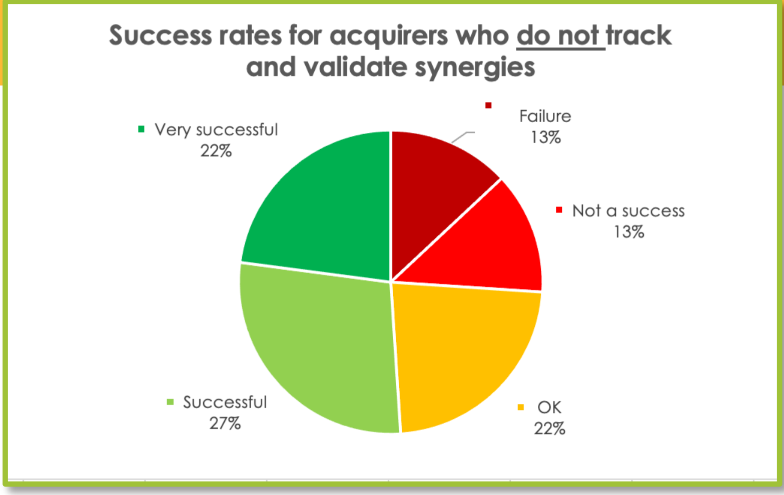
Success: Synergy Management & Tracking

Tracking and managing synergy initiatives is integrally tied to managing integration initiatives and follows the same process. Synergies are composed of revenue generating opportunities, cost savings (opex & capex) and cashflow enhancements, as defined in the deal thesis. The deal thesis and synergies are defined in integration charters and work plans. Integration work plans are then executed to realize synergies that are then tracked.







Key Takeaway:

We looked at the success rates of the respondents who validated and who tracked synergies.

Acquirers who validate, manage and track their synergies have a higher deal success score:

- 61% successful or very successful, and 4% not successful.

Acquirers who do not manage and track their synergies have lower success score, and a high failure rate

- 49% successful or very successful, and 26% not successful or failure.

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Insights: Changing Corporate Value as a Result of M&A

Pre-close

Target value

Potential acquirers assign a unique value to a target, in part, depending on synergies that can be gained.

This unique value is driven by characteristics of the acquiring company that may either increase or decrease synergy potential.

Close

Destruction of value from an M&A event

M&A incurs transaction cost, integration cost, potential employee and customer attrition. There is typically a decrease in company performance.

However, during M&A integration planning and execution, these costs can be minimized.

Post-close

Increased value from synergy attainment

Even though there is destruction of value, the integration plan is to achieve a greater net value.

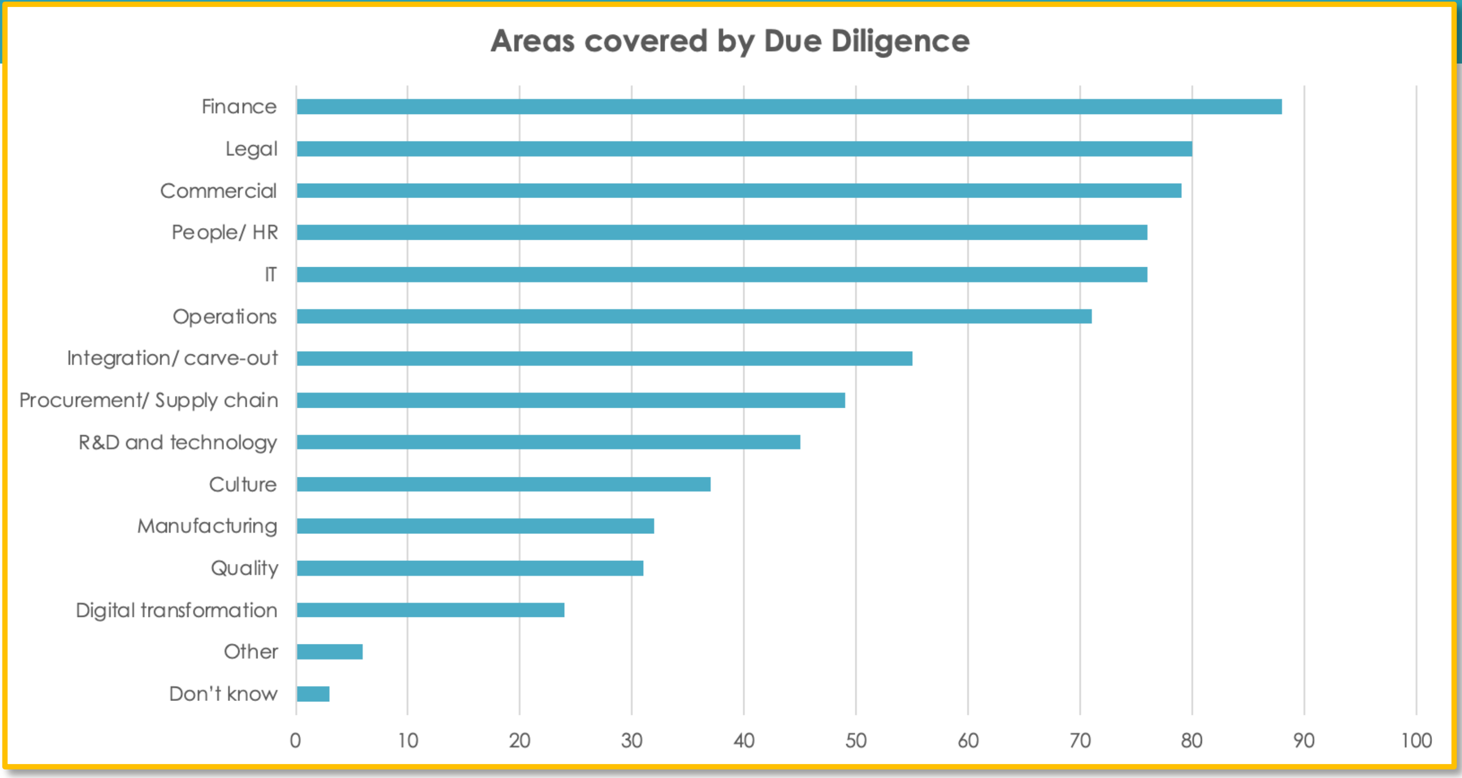
This is completed by implementing integration activity to achieve cost and revenue synergies.

Line-of-sight synergy management supports achieving the deal thesis. This is accomplished by documenting the deal thesis and addressing synergies in integration charters, tasks plans, and related integration performance tracking.

Integration Planning: Due Diligence Focus Areas

Due diligence helps mitigate risks and translates to a better outcome in delivering the deal thesis, as well as optimising the offer price. A broad scope that engages most business functions leads to an early understanding of the deal parameters.

Acquirers now have access to advanced technologies and select their advisors from a range of specialized diligence teams. Enhanced virtual data room functionality is enabling the engagement of these wider teams but may require dedicated project management to coordinate between the various advisors, utilising a diligence management office.



Over 50% of respondents identify the following areas relevant for due diligence:

+ finance
+ legal
+ commercial
+ people/HR
+ IT
+ operations
+ integration/carve-out

Compared to last year, there is more focus on integration/carve-out and on culture in 2022.

From what we see in the market, we expect digital transformation diligence to become increasingly important.

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Integration Planning: Sign-to-Close Timeline

Inevitably, the timeframe from signing to close is driven by financing requirements, regulatory approval and conditions of close in the Share Purchase Agreement (SPA), with 59% of deals achieving this within 4 months.

This timeframe creates a fixed timeline to help ensure effective Day 1 readiness planning and preparation, while making as much progress with integration planning as possible pre-close to provide a fast start to execution post Day 1. This means the integration team most often needs to be mobilized before signing, working alongside the deal team to be fully prepared for Close.

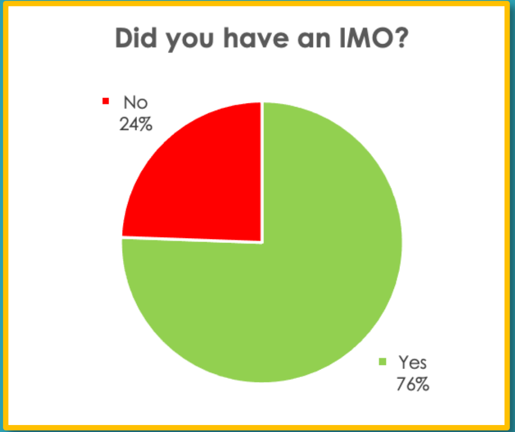
- While there may be competition compliance restrictions in place during any regulatory approval proceedings in this period, there is usually much more progress that can be made than is often anticipated.
- Day 1 and integration planning can achieve significant progress through providing clear guidelines and establishing gun-jumping rules, clean teams, legal oversight and related processes.
- This preparation allows for alignment between acquirer and target before Day 1. Simultaneous sign-and-close scenarios require more intense preparation regimen starting at Letter of Intent (LOI).

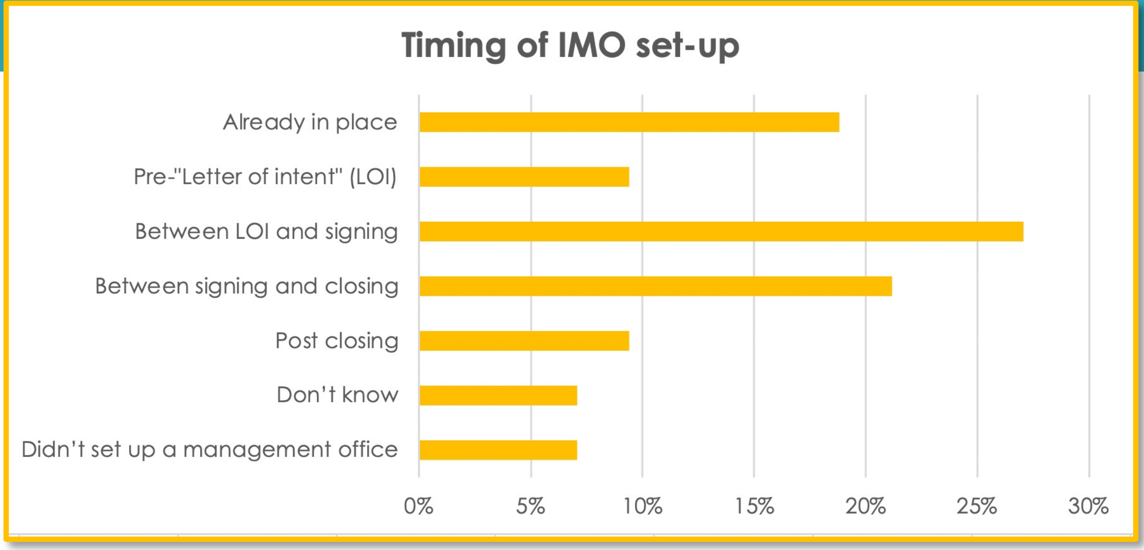
Integration Planning: Integration Management Office

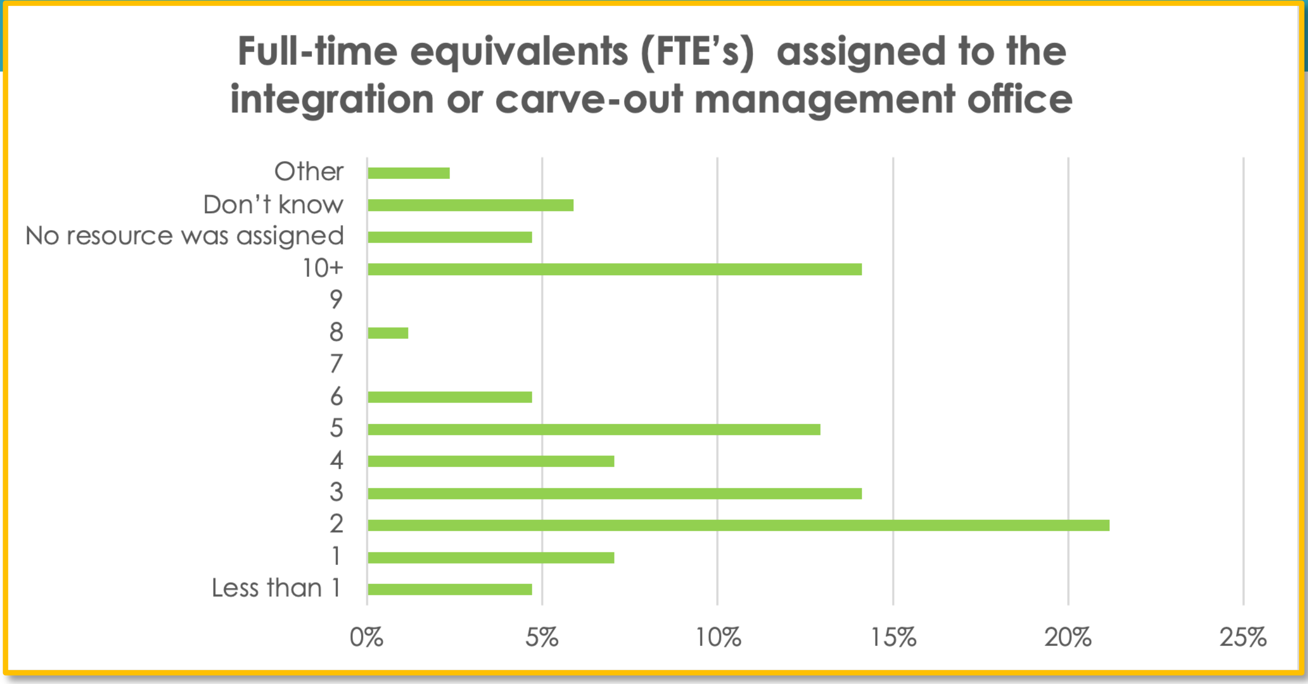
Over half of respondents set up integration management offices (IMOs) prior to signing. Advantages of doing this include:

- ensuring the strategic input and buy-in from the business functions
- checking the teams' integration readiness

76% of respondents indicated that they consistently use IMOs. Resources assigned to IMOs cluster in two areas: around 2-5 FTEs or above 10 FTEs. We expect this is due to the size and complexity of the deal, with smaller, more rapid tuck-ins needing less resource and larger, more complex "merger of equal" deals requiring significantly more resources. This will be an area of research in our 2023 survey.







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Insights: Integration Readiness Essentials

Standing up an integration management office with clear timelines, reporting formats and meeting cadence (integration actions) is one of the essential element of integration success. The other five are *vision*, *incentivisation*, *culture*, *resources* and *skills*. Not being ready on any one of these will risk de-railing the complete integration effort or will at least lead to reduced value creation.

Integration readiness surveys are held pre-signing with the acquirer team, and later with the wider the teams, including the target.

Six dimensions of integration success

Vision	*without which:*	***confusion***
Incentives	"	***resistance***
Culture	"	***failure***
Actions	"	***a false start***
Resources	"	***frustration***
Skills	"	***anxiety***

Integration readiness

Assessing both the Target and Acquirer's teams' readiness along these six dimensions:

- provides detailed **insights**
- allows to make **recommendations**
- translates into **corrective actions**

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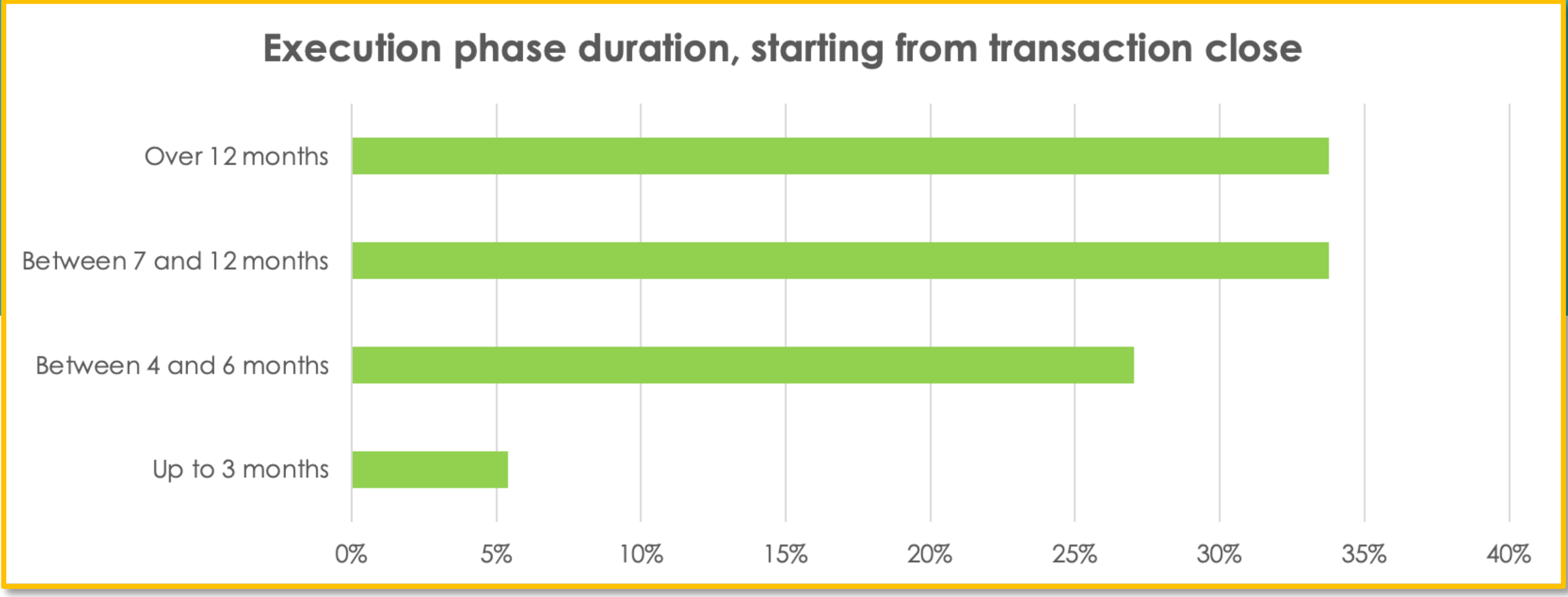
Integration Planning: Integration Execution Timeline

Full integration execution starts at Closing, following combined execution of a successful Day 1 and integration planning. Day 1 is followed by detailed actions for the first 30 to 120 Days for a typical lower mid-market tuck-in deal. Integration execution durations can significantly increase in length for larger, more complex deals, for example where the integration strategy demands complex integration across all business functions.

According to our survey, more than 70% of integrations takes 7 months or more to complete.



A key question to ask is: "When is integration complete?" The common answer is "as quickly as possible", when the combined company can proceed to normal "Newco" operations.

For larger enterprise efforts that may last up to a year, such as integrating ERP systems, GPMIP has found that it is often best to transition these types of initiatives to Business as Usual (BAU) and manage them with other enterprise initiatives. This enables the close-out of the integration management office earlier. GPMIP would always advocate a simple BAU transition process to ensure it is clear where accountability resides for delivery, beyond the de-mobilization of the IMO.

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Insights: 4-Tier Governance Model

Typical governance established by Global PMI Partners

The IMO structure and governance should be developed prior to Signing, and most often starts around letter of intent.
This drives clarity of ownership and accountability and ensure fast and effective decision-making throughout the integration.

Effective governance helps ensure the deal thesis is reflected in integration tasks.

The integration status and cost & synergy tracking are reported to the board through a dedicated Steering Committee. The steerco sets the general direction and guiding principles of the integration.

Board
Deal thesis | Strategy

Steering Committee
Key decisions | Escalations

The IMO is the heartbeat of the integration Team. It drives the pace of integration, coordinates and prioritizes the efforts and interdependencies across all workstreams. It provides air traffic control and situational awareness to inform the steerco an escalate if needed.

Integration Management Office (IMO)
Cadence | Planning | Execution | Monitoring | Control | Synergies | Costs | Communications

- Strategy & Operating Model
- HR, People & Culture
- Marketing
- Sales
- Product
- Manufacturing Supply Chain
- Operations
- Technology
- Finance Tax
- Business services
- Legal & Compliance

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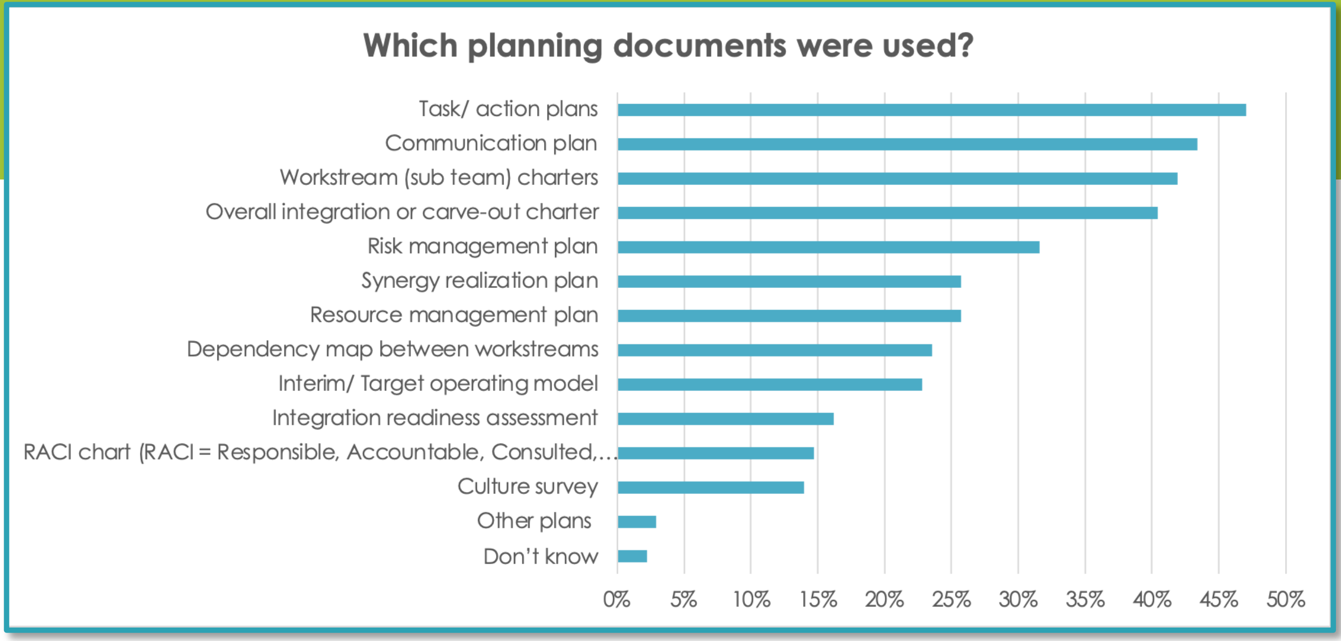
Resources: Documents Used in a Transaction

It is a busy time when an organization is acquisitive. Internal teams are already at capacity and executing their normal, day-to-day work. Now they have to take on integration activities.

Given the nature of a merger or acquisition integration, selecting and implementing the right tools and documentation is critical. It is surprising that under 50% of respondents indicated that they developed task plans or communication plans for an integration. We will follow this result up with further survey questions in 2023 as to why this is the case.



Considerations for documents used in a transaction

+ A document's primary purpose is to drive clarity of action and to assess areas that are unclear. Determine what documents or deliverables can be established to drive clarity.
+ Every document should have a recipient. For instance, if no one reviews or maintains a M&A related work document, then it should not be created. However, before making this conclusion, it is important to ask if someone should be recipient of a document. It may not be a document worthiness issue. It may be a lack of resources issue.
+ It is OK to streamline and consolidate. For instance, although you may not have an intensive resource management plan, determine how you are efficiently managing resources, and establish an approach to includes the appropriate level of documentation for your business.

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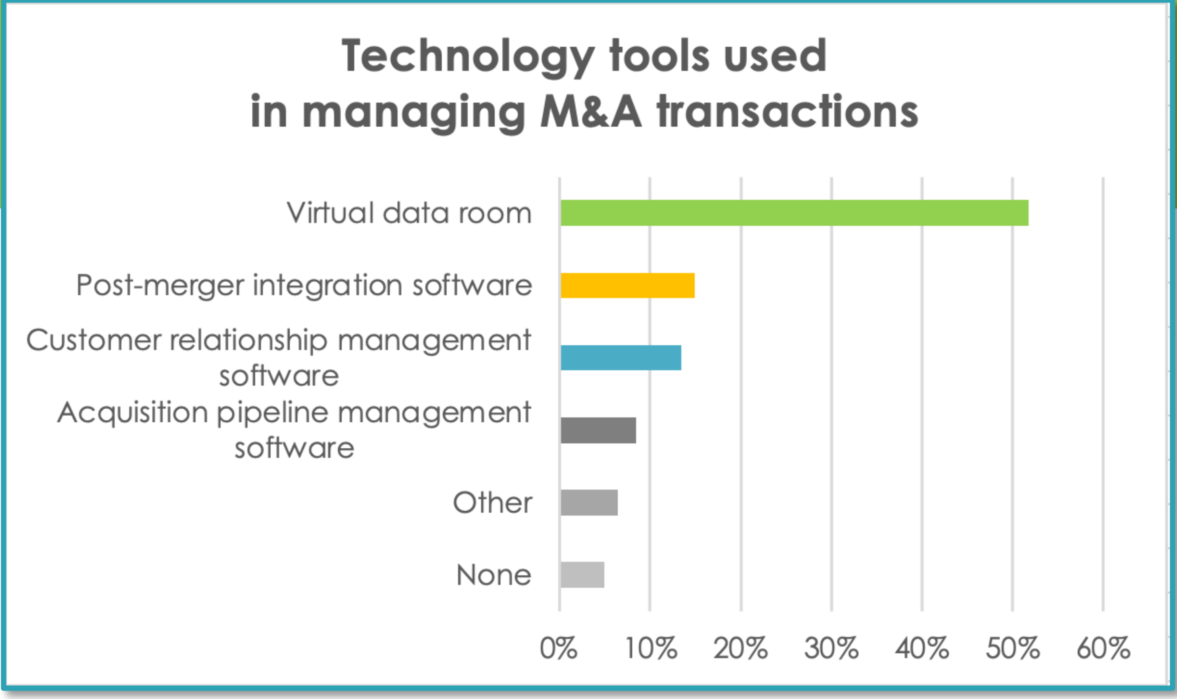
Use of Technology Tools

By far the most common technology solution used during M&A is a virtual data room (VDR). As well as being used for securely sharing confidential target information with acquirors during due diligence, the most sophisticated VDRs now incorporate productivity tools such as flexible Q&A workflows, redaction, built-in translation, advanced Information Rights Management, and secure online viewers for Microsoft Excel® and CAD files. VDRs are also increasingly being used to support PMI processes, as they are an ideal solution to the challenges of securely sharing large volumes of sensitive information among a distributed PMI team.

Other full lifecycle M&A tools such as Midaxo® and EKNOW® may be used, and/or the specialized configurations of general productivity tools such as Microsoft Excel® and smartsheet® that can be effective and easily adopted.



VDR uses

Deal preparation

- Collaborate, share documents with your advisors and prepare information for sharing with buyers.

Attracting buyers

- Invite local and foreign buyers.
- Securely share and update information in real-time.
- More competition for your asset = a higher price.

Due diligence

- Everybody can work at the same time, no matter where they are.
- Productivity tools such as redaction, flexible Q&A workflows and built-in translation = faster deal completion.
- You always keep control of your information with advanced rights management.
- You can see what buyers are searching for and looking at in the VDR.

After the deal is completed

- Full audit record of the deal process, Q&A and documents disclosed.
- Protection in case of legal disputes.
- A secure, online collaboration workspace for post-merger integration.

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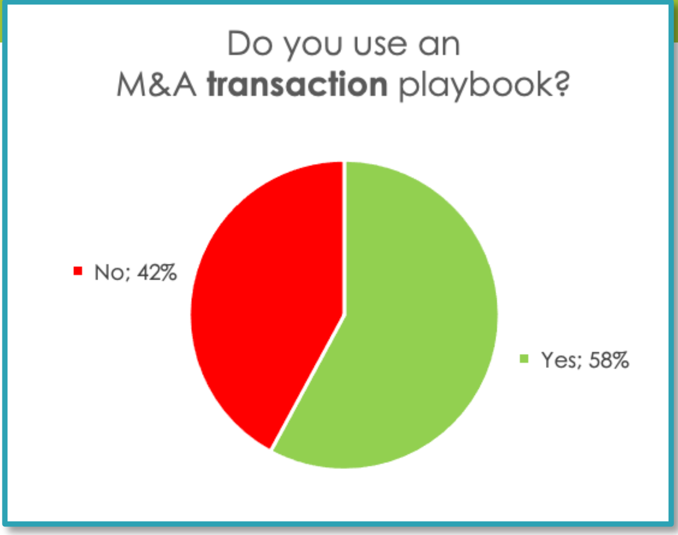
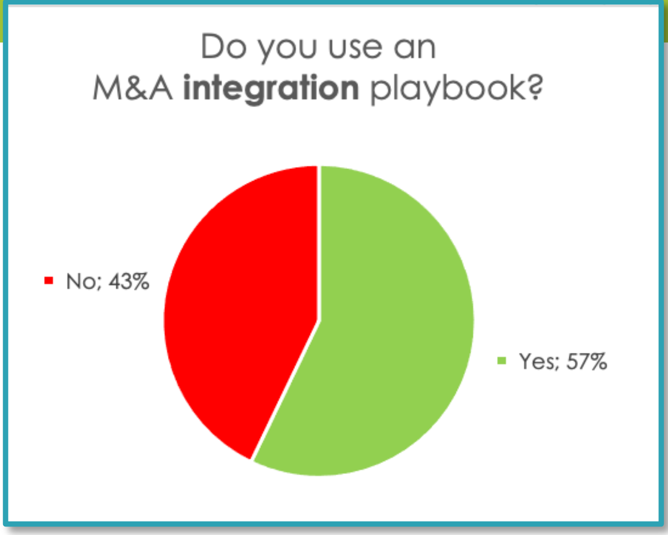
Use of M&A Playbooks

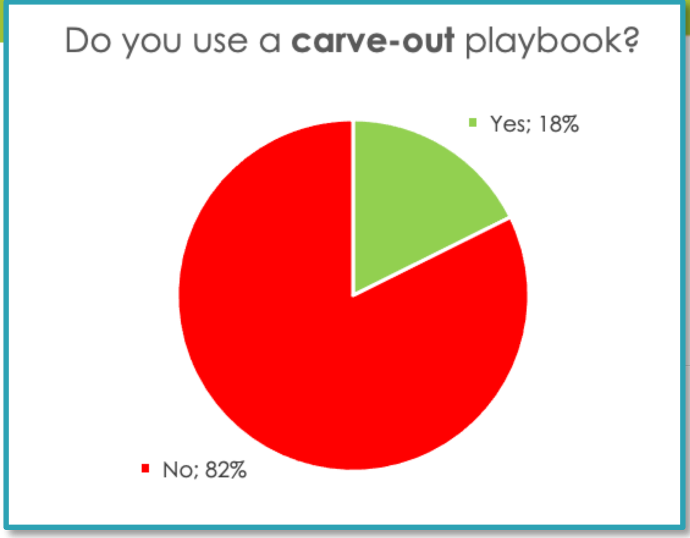
An M&A playbook is an end-to-end approach to complete the deal lifecycle. In our survey, we broke this out into the areas of an M&A Transaction Playbook (deal playbook), M&A integration playbook, and in a separation scenario, a carve-out playbook.

It was found that over half of the respondents used a playbook for both M&A transactions and integrations. It is likely that a carve-out playbook was used less, given the fewer number carve-outs completed by our respondents. Especially for serial acquirers, playbooks are advisable for a number or reasons. They:

- Reduce risks through repeatability and only requiring limited customization.
- Capture lessons learned and establish more consistency in achieving synergies.
- Drive efficiency reducing time to mobilize, organize, plan and execute projects.
- Establish ever-growing familiarity with pre-populated materials that drive reliable outputs.







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Insights: Culture in Cross-border Transactions

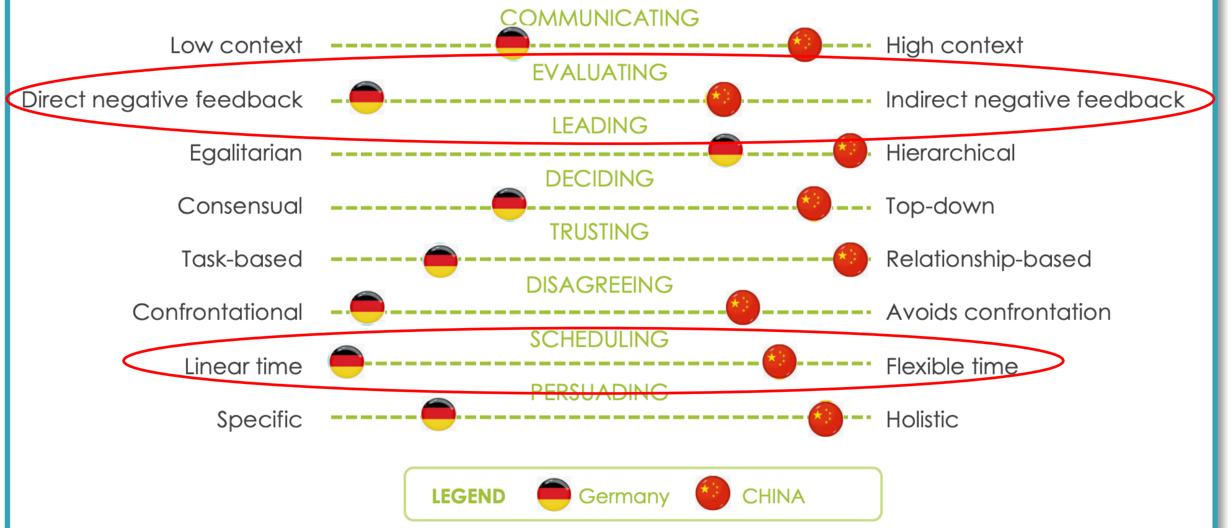
We define 'culture' in an M&A environment as "*A combination of shared local and corporate norms, behaviours, symbols, values, systems, and laws.*"

Erin Meyer, author of "*The Culture Map*", organizes cultural differences across 8 dimensions. At GPMIP, we advocate a pre-signing cultural due diligence (CDD). Culture surveys help prepare the teams for the coming integration challenges.

Erin Meyer's eight culture dimensions:

1. **Communicating** – low vs high context
2. **Evaluating** – direct or indirect negative feedback
3. **Leading** – hierarchical or egalitarian
4. **Deciding** – consensual or top-down
5. **Trusting** – task-based vs relationship-based
6. **Disagreeing** – confrontational/avoiding confrontation
7. **Scheduling** – linear time vs flexible time
8. **Persuading** – specific or holistic

Example: cultural maps of Germany and China



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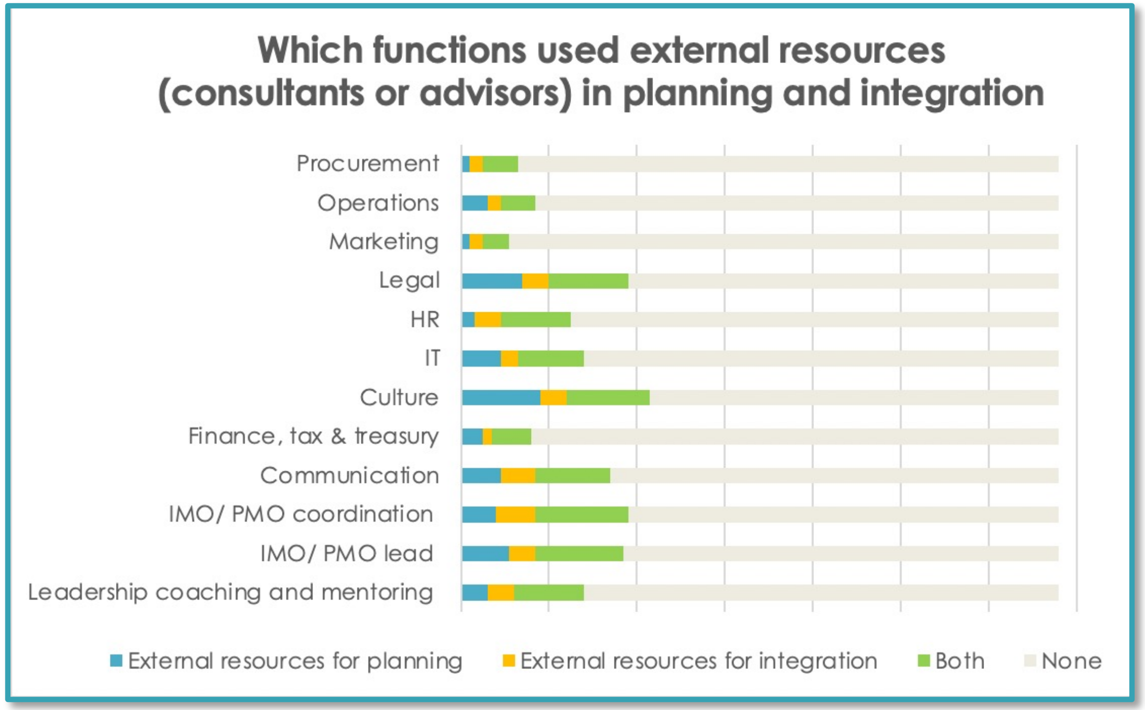
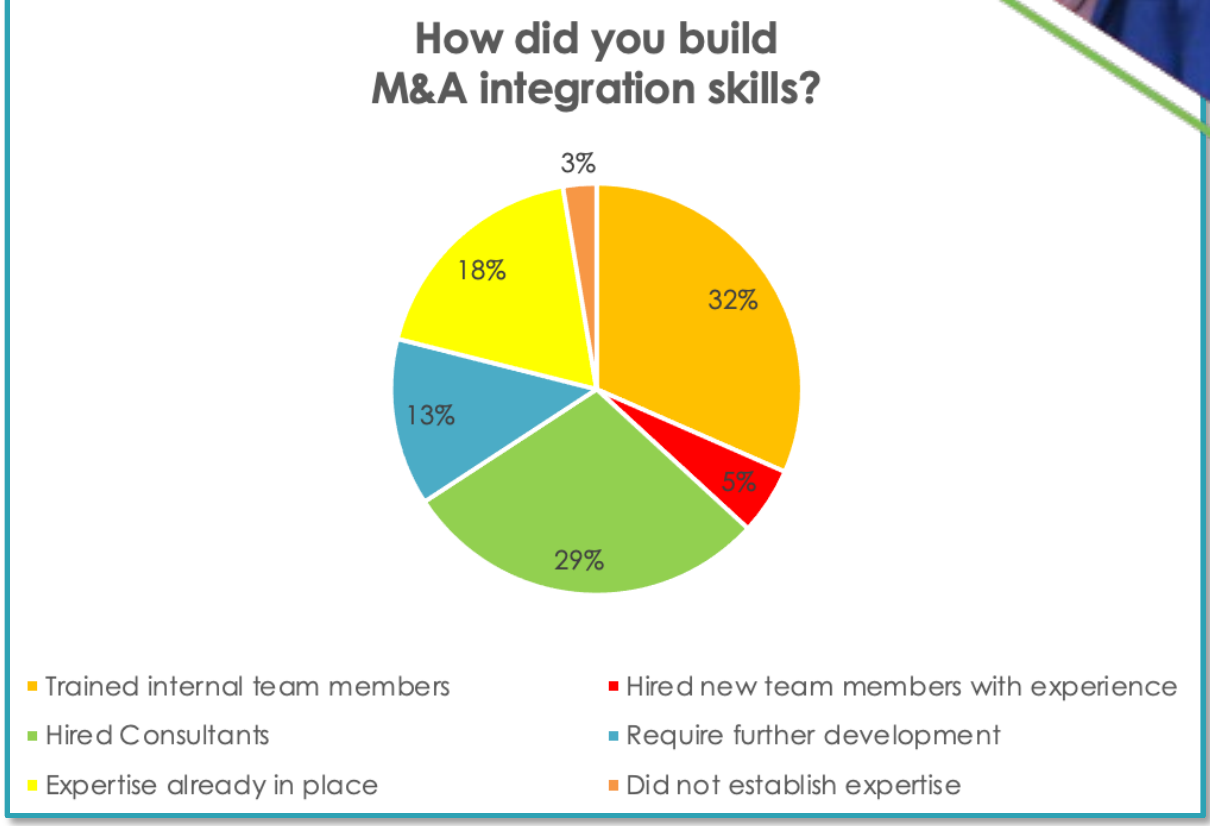
Integration Capability and Capacity

As we at Global PMI Partners see in practice, a primary choice for companies is to train internal teams and/or bring in consultants to support M&A integration. Areas where consultants are typically deployed include culture development, Integration or Project Management Office coordination, IT, HR, finance, legal, and communications.

The optimum solution for most business functional workstreams is to combine internal team members with intimate knowledge of the acquiring and target businesses, supplemented by external functional M&A specialists for both capacity and capability reasons, to ensure there is no disruption to business as usual, whilst delivery integration effectively.





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At Global PMI Partners, our focus is to help our clients realize their deal objectives with confidence.

Specializing in M&A integration and carve-outs, we have an international team of integration, carve-out and functional experts across 35 countries.

We provide an optimal blend of skills, localization, and industry experience to meet the needs of our clients, increasing synergies and reducing deal risks and costs.

University of Oxford Saïd Business School

At Saïd Business School we believe in creating business leaders who lead with purpose. As part of Oxford University, we have a unique perspective on some of the most significant challenges facing business and the world today.

Our focus on the role of purpose in business ensures those who learn here are well placed to tackle world-scale problems. To achieve this, we deliver world-class research, teaching and coaching.

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