ANNUAL M&A SUCCESS SURVEY

2023 PUBLICATION

Sponsored by:

Global PMI Partners

University of Oxford Saïd Business School

STERLING A great deal. Better.

Foreword

We are pleased to present the 2023 Annual M&A Success Survey sponsored by Global PMI Partners, Oxford University Said 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.

The 2023 M&A environment has been muted compared to years past, and a decline in M&A deal activity was evident across all regions, both in year-on-year and quarter-on-quarter basis through 3Q23. This reflects the prevailing corporate wariness towards M&A endeavors due to the elevated debt financing expenses and a muted economic outlook in the majority of regions.

Environmental, Social and corporate Governance (ESG) was a prominent theme driving the M&A activity during 2023. It was followed by themes like emerging economies, artificial intelligence (AI), supply chain disruption, and big data. Other key highlights include technology-related acquisitions on the rise, with companies looking to enhance their digital capabilities, expand their customer base, or access innovative technologies.

Companies were increasingly looking beyond their home markets for cross-border acquisition opportunities for access to new customer bases, different talent pools, and global markets.

Post-Merger Integration: A greater emphasis was placed on post-merger integration, as companies recognized the need to efficiently combine operations, cultures, and technologies to realize the full potential of their acquisitions.We would like to thank all survey respondents, contributors and the team that has produced the report.

Scott Whitaker
Managing Partner,
US & Canada

Stefan Hofmeyer
Managing Partner,
US & Canada

Michael Holm
Managing Partner,
DACH & Nordics

Mikael Kruhsberg
Managing Partner,
DACH & Nordics

Christophe van Gampelaere
Managing Partner,
DACH, Benelux & France

Mark Bevan
Managing Partner,
UK, SE Asia, S Europe & ME

Chris Charlton
Managing Partner,
UK, SE Asia, S Europe & ME

Executive Summary

2023 Survey results: more focus on achieving M&A success vs. just getting deals done

- **This year's top deal rationale was enhancing value, replacing last year's which was focused on growth.**
- Selling a non-core business remains the most common driver of carve-outs.
- **Almost 20% of respondents 'do not know' if their last transaction was successful.**
- 72% of acquirers who validate, manage, and track their synergies have a high deal success score.
- **61% of respondents leveraged or hired internal resources, or had existing expertise in place.**
- Single-country deals decreased by 13% from 2022.
- Respondents marked planning, execution, and implementation as dominant areas requiring improvement for future M&A.
- **Compared to 2022, there was a decrease in culture and legal due diligence.**
- It was found that nearly 70% of respondents used a playbook for both M&A integrations and carve-outs

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

- Companies investing in internal integration and carve-out skills development expect better results for M&A activities
- The focus is on gaining market share and geographic expansion also figured prominently. For smaller players, acquiring skills and expertise comes first.
- By far the most common technology solution used during M&A is a virtual data room (VDR).

Global PMI Partners
www.gpmip.com

Contents

Survey

Insights

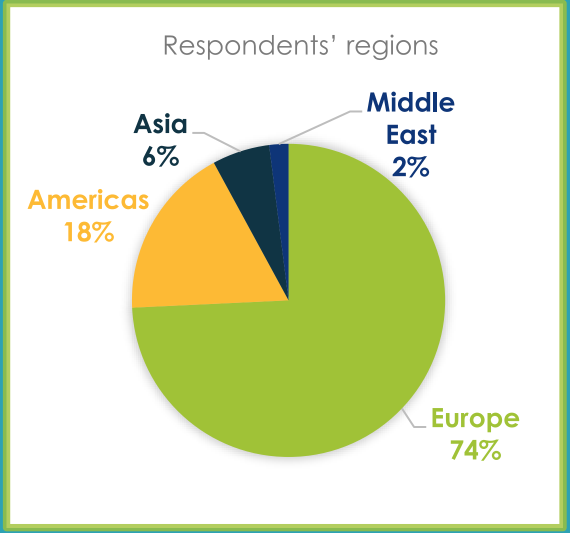
Global PMI Partners
www.gpmip.com

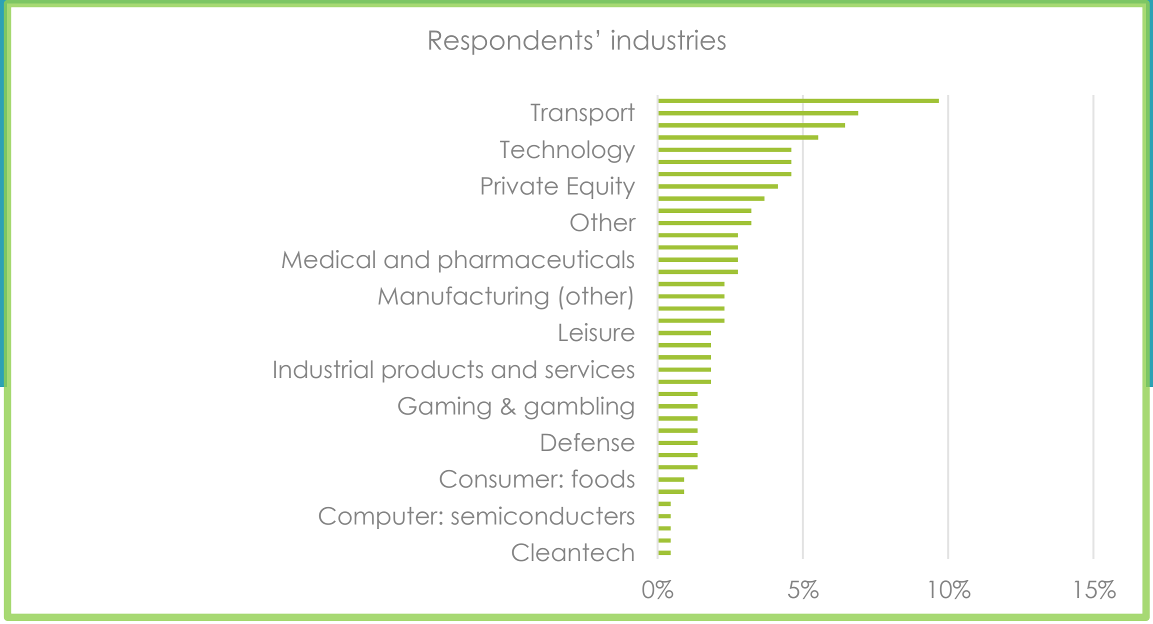
Survey Demographics at a Glance

Europe was well represented in this survey, with almost 75% respondents.

Respondents' industry experience covered diverse sectors, with a large % in transportation, telecommunications, private equity, and professional services.

The participants' expertise is primarily in M&A strategy & transactions, integration, carve-outs and corporate development.





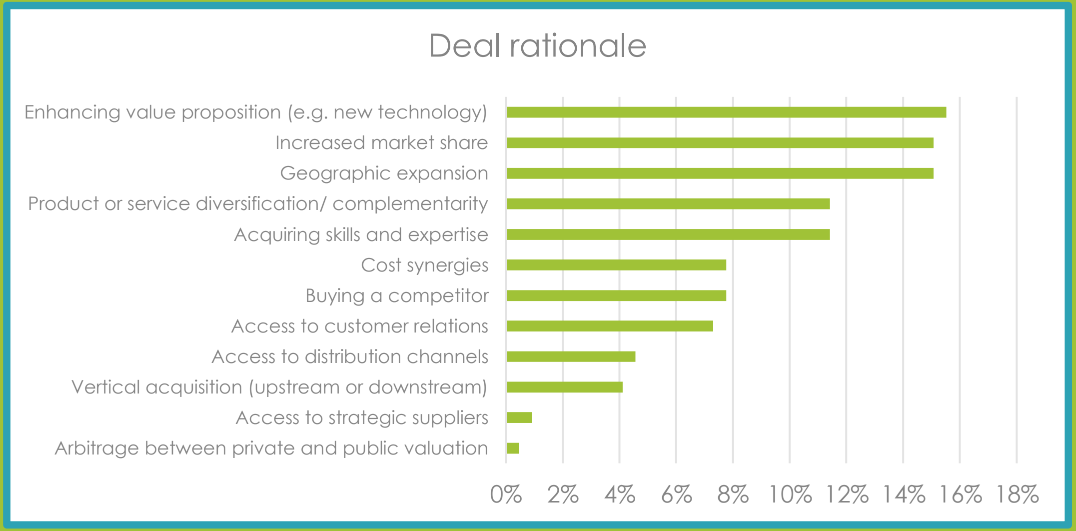
Global PMI Partners
www.gpmip.com

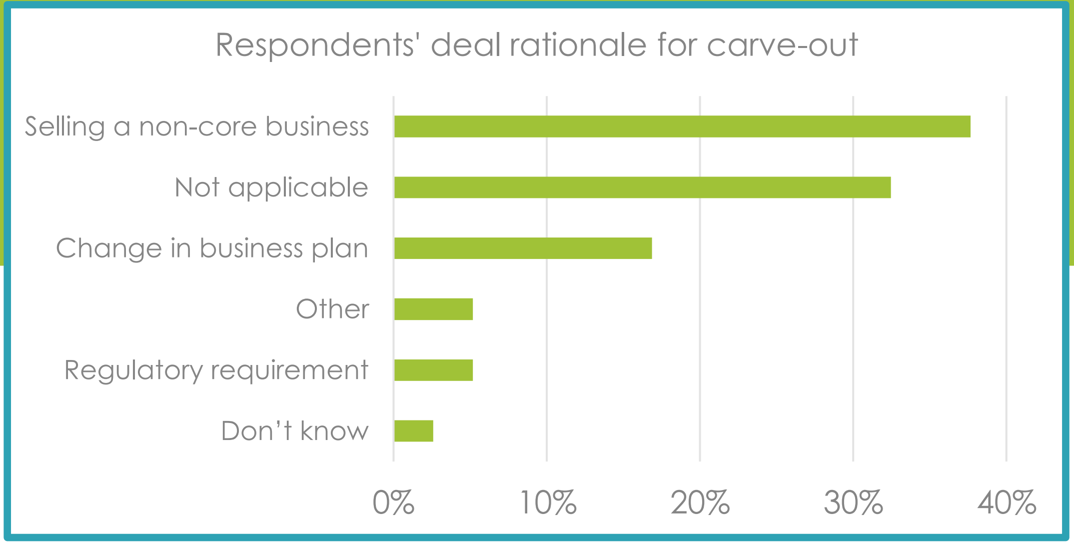
Deal Rationale

This year's top deal rationale was enhancing value, replacing last year's which was focused on growth. The focus is on gaining market share and geographic expansion. For smaller players, acquiring skills and expertise comes first.

Other top deal rationale is increased market share and geographic expansion.

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





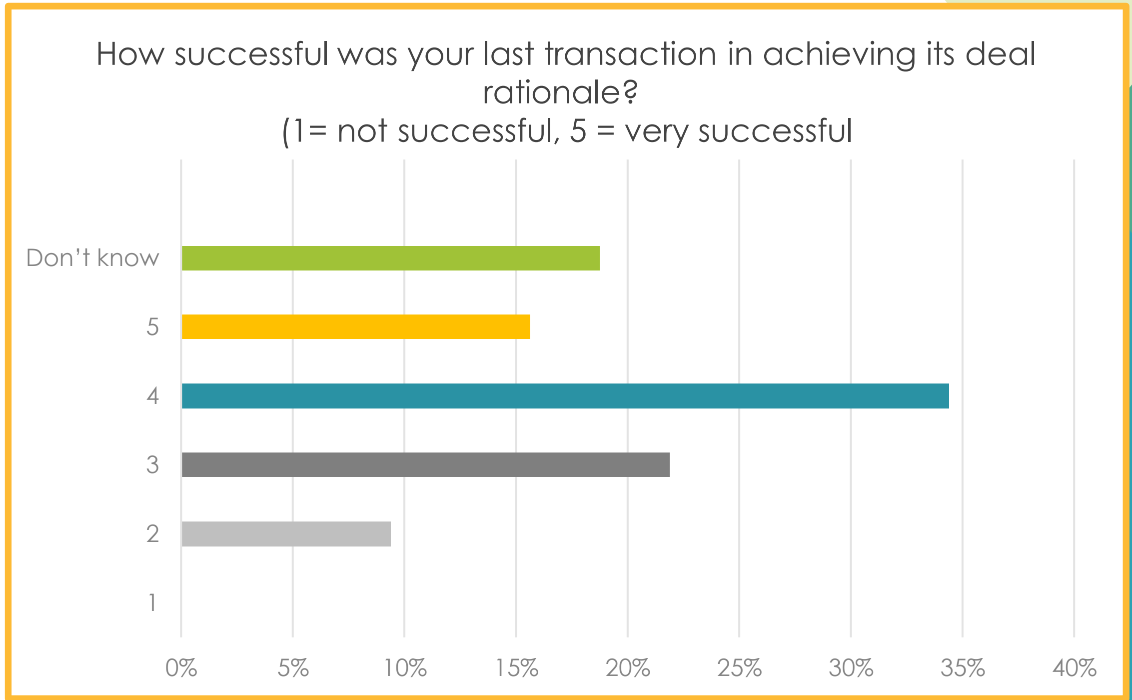
Global PMI Partners
www.gpmip.com

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
- Robust communication covering pre and post close phases
- 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.



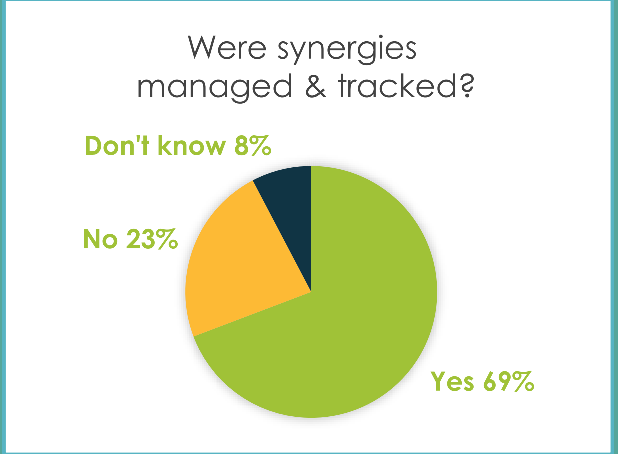
The survey results show that:

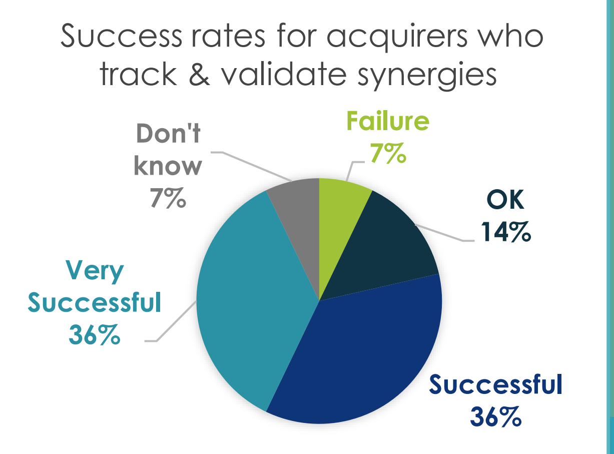
- Some15% of respondents scored their last transaction as very successful; almost 35% scored it as successful
- No respondents designate the deal to have been not successful
- **Key takeaway:** Almost 20% of respondents 'do not know' if their last transaction was successful.

Global PMI Partners
www.gpmip.com

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.





72%

Of acquirers who validate, manage and track their synergies have a high deal success score

Key Takeaway:

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

- 86% validated their synergies
- 69% managed and tracked synergies
- 72% tracked successfully

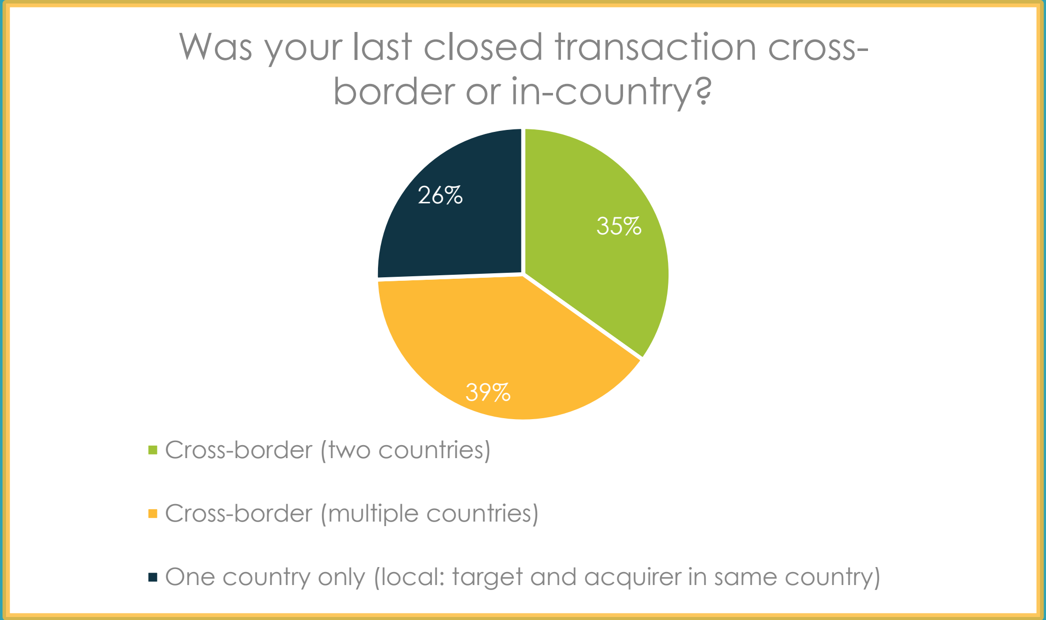
Global PMI Partners
www.gpmip.com

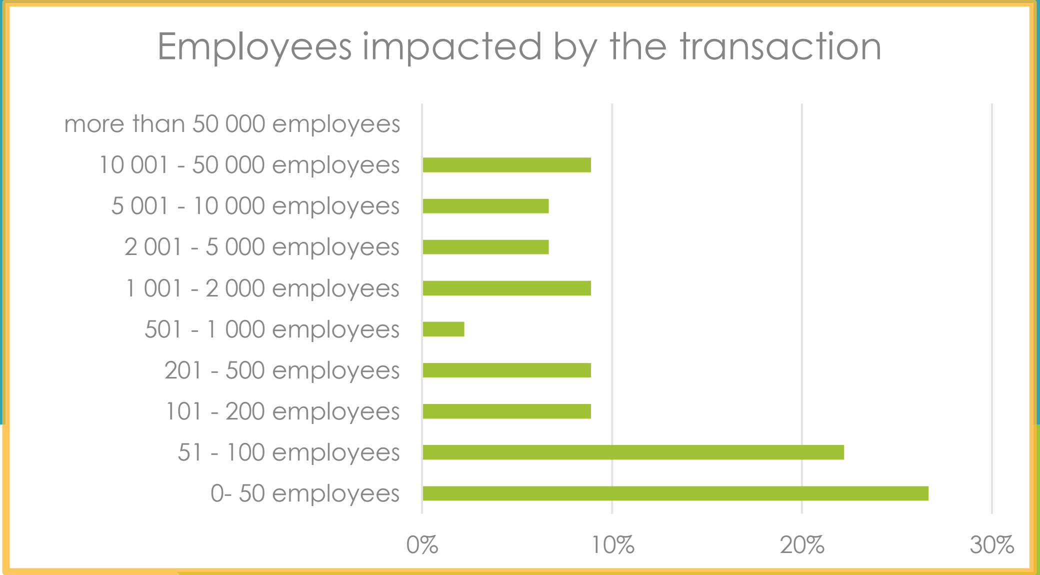
Transaction Dynamics

Key takeaways:

Cross-border transactions in 1 or more countries dominated with almost 75% (likely influenced by overrepresentation of Europe among survey respondents)

- Dominant employee sizes were organizations with below 100 employees
- The majority of deals signed closed within 1-4 months
- Single-country deals decreased by 13% from 2022





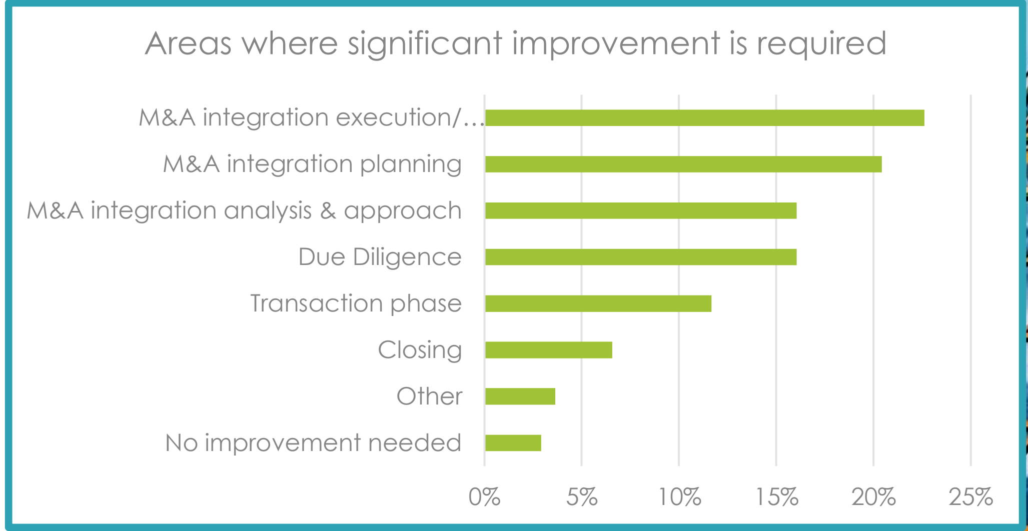
Global PMI Partners
www.gpmip.com

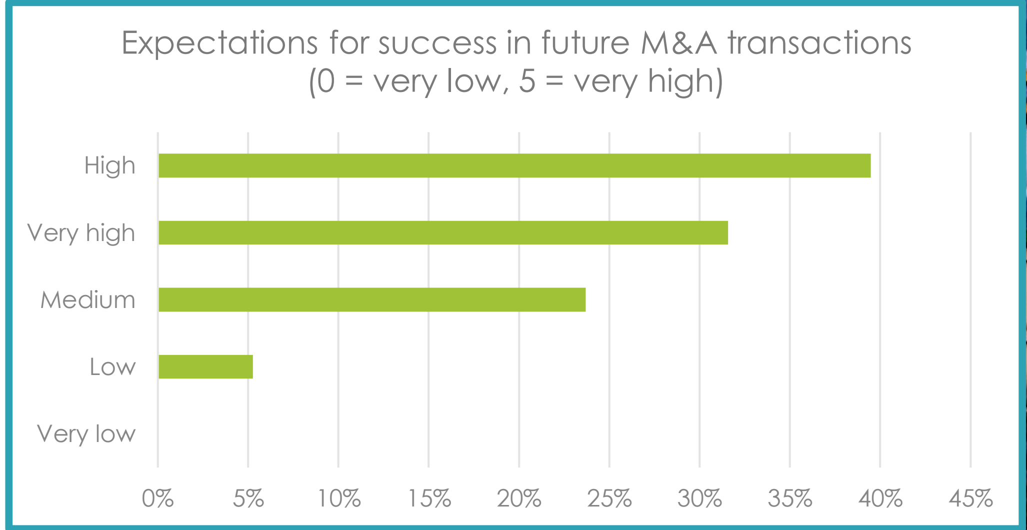
Success: Skill & Resource Development

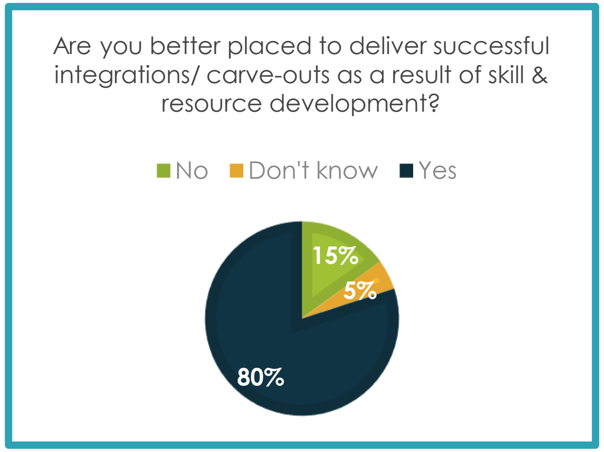
Companies investing in internal integration and carve-out skills development expect better results for M&A activities

Respondents marked planning, execution and implementation as dominant areas requiring improvement for future M&A

Although 80% of respondents are confident in their ability to deliver successful deals in the future, it's evident that they feel implementation and integration planning need significant improvement for delivering future transactions.







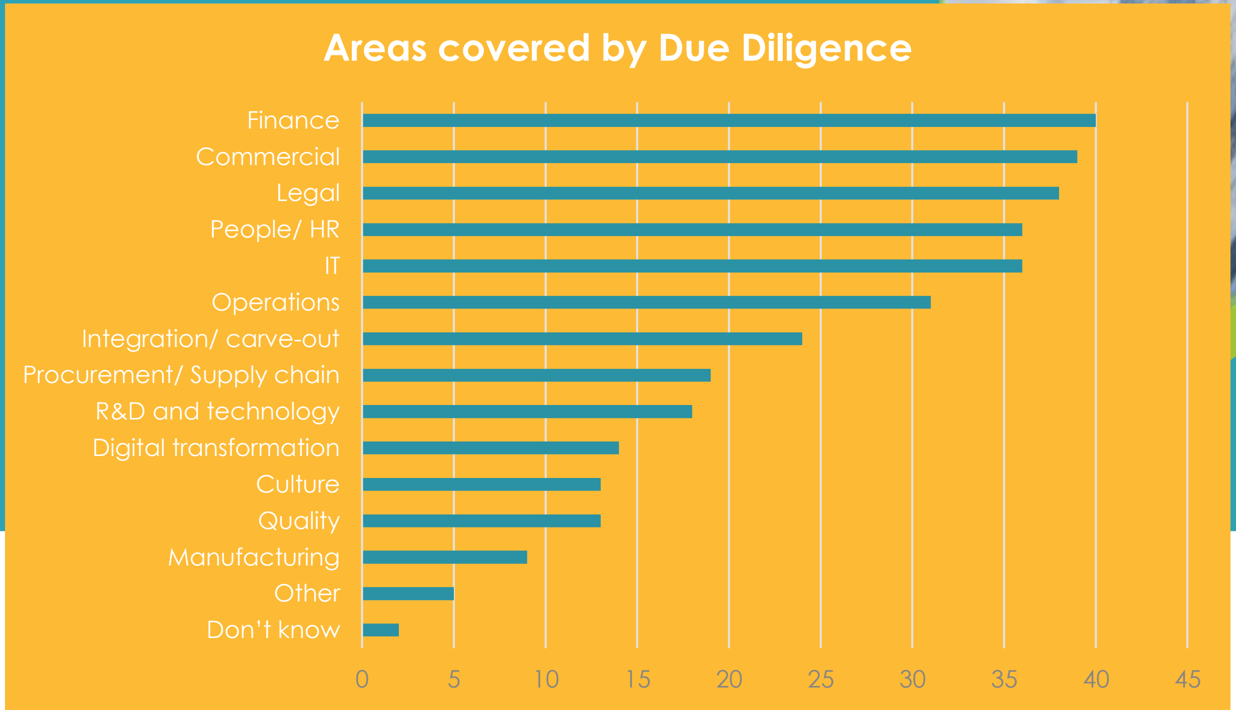
Global PMI Partners

www.gpmip.com

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 30% of respondents identify the following areas relevant for due diligence with finance being the area most covered:

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

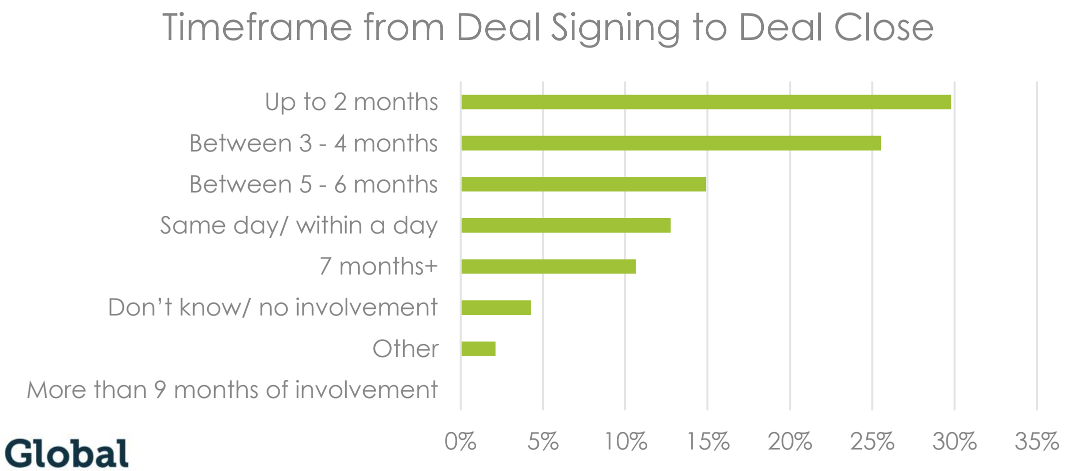
Compared to 2022, there was a decrease in due diligence on culture and legal and an increase in commercial.

Global PMI Partners
www.gpmip.com

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.



- During the regulatory approval process, there may be restrictions related to competition compliance. However, it's often possible to make more progress than initially expected during this period
- 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).

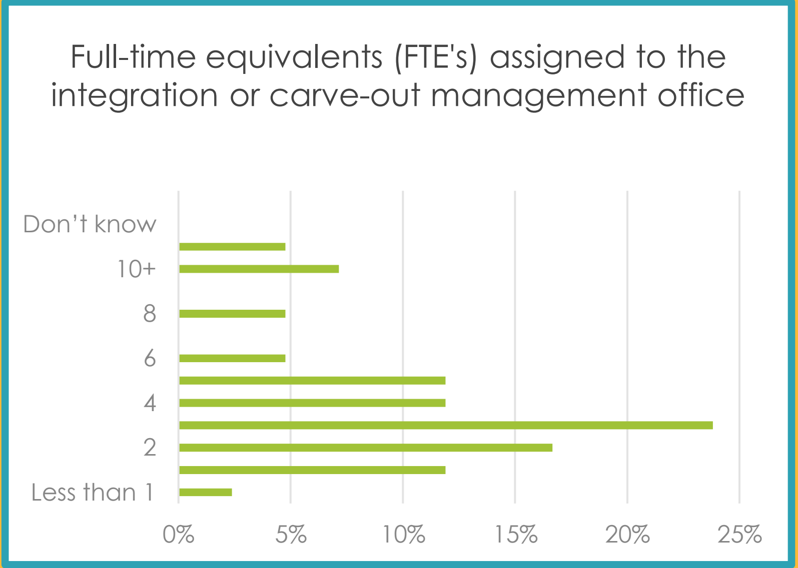
Global PMI Partners
www.gpmip.com

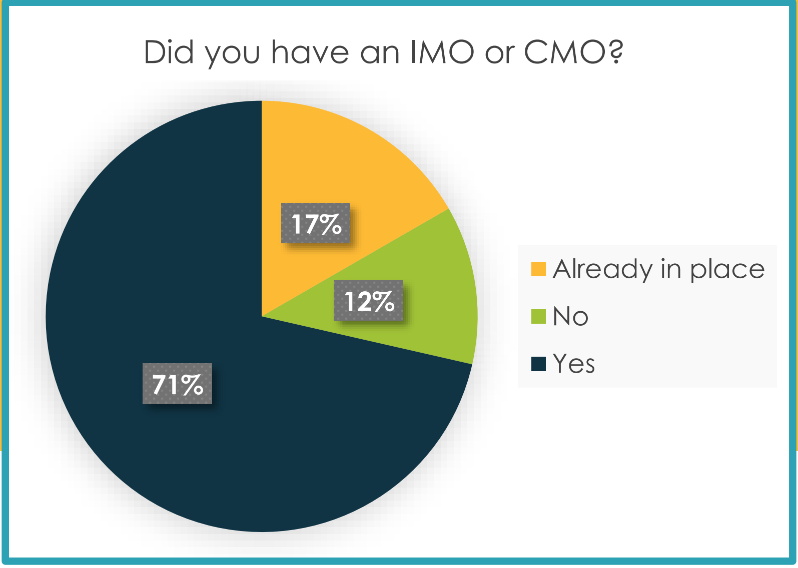
Integration Planning: Integration Management Office

Almost three quarters 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
- creating a mobilizing construct to ensure sound project management and collaboration among AcquireCo and TargetCo

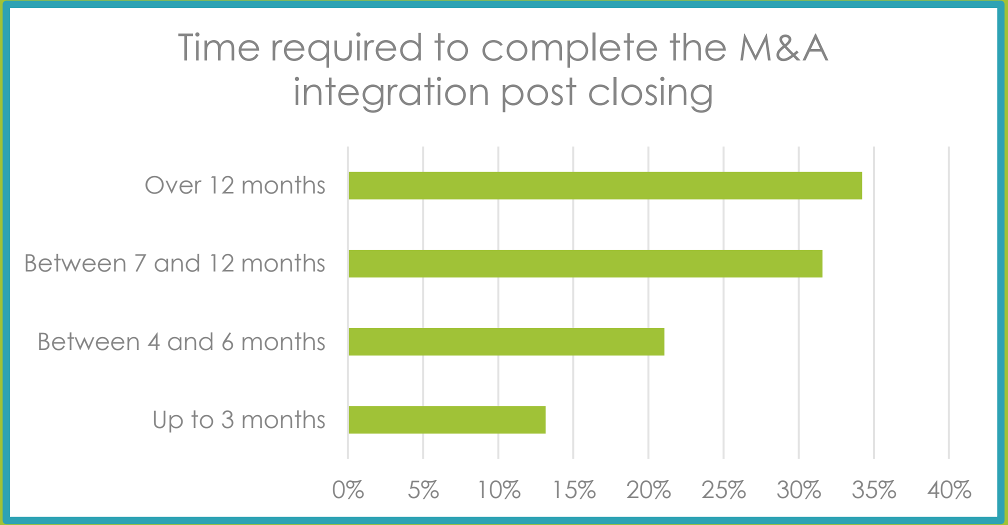
Resources assigned to IMOs cluster in two areas: around 2-5 FTEs or above 10 FTEs. We expect this is due to the size and complexity of the deal, with smaller, more rapid tuck-ins needing less resources and larger, more complex "merger of equal" deals requiring significantly more resources.





Global PMI Partners
www.gpmip.com

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.

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

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. Smaller mid-market acquisitions can be managed in 6 months or less.

Insights: 5 Keys to Integration Success – Best Practices & Common Pitfalls

IMO Mobilization planning & execution process & deliverables ensure transactions deliver the deal thesis

Global PMI Partners
www.gpmip.com

1. Strategy & Objectives

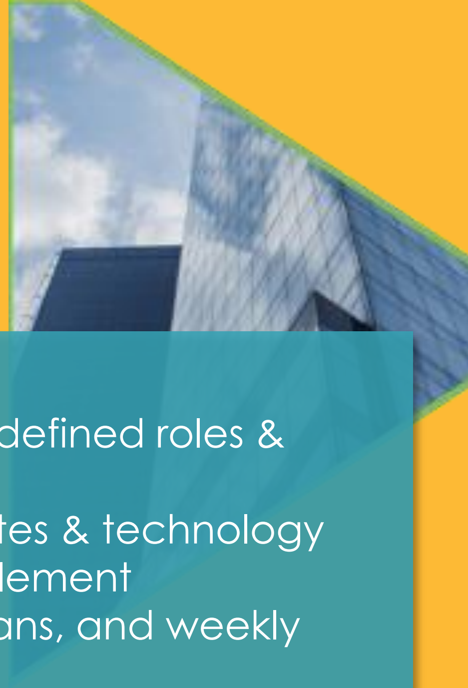
Best Practices

- Value drivers and objectives defined and agreed upon at Steerco level
- Specific integration objectives defined at functional level
- Measurable success metrics and integration KPIs defined and can be monitored/tracked

Common Pitfalls

- Strategy and objectives defined "as we go"
- Unresolved direction for strategic workstreams (e.g. Target operating model, go-to-market, product roadmap, synergy targets)
- Inability to measure success metrics & KPIs

2. Integration Program Management



Best Practices

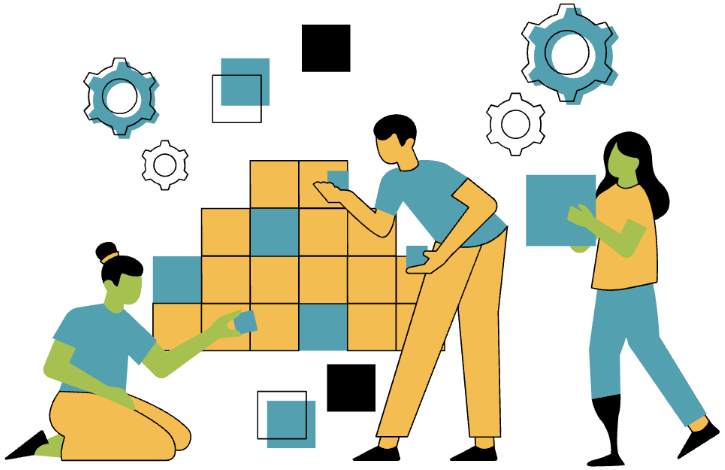
- Formal governance framework with defined roles & responsibilities
- Defined methodology, tools, templates & technology platforms, and status reporting enablement
- Defined program milestones, workplans, and weekly process

Common Pitfalls

- Informal governance
- Limited and disorganized target involvement in process
- Inconsistent and/or ad hoc IMO process

Global PMI Partners
www.gpmip.com

3. Day 1 and First 100 Days Planning



Best Practices

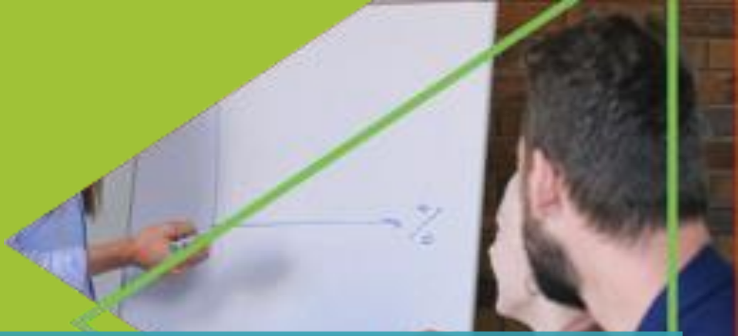
- Day 1 mandatories identified
- First 100-day functional integration initiatives prioritized and detailed in functional workplans
- Tracking in place to ensure completion and issue management

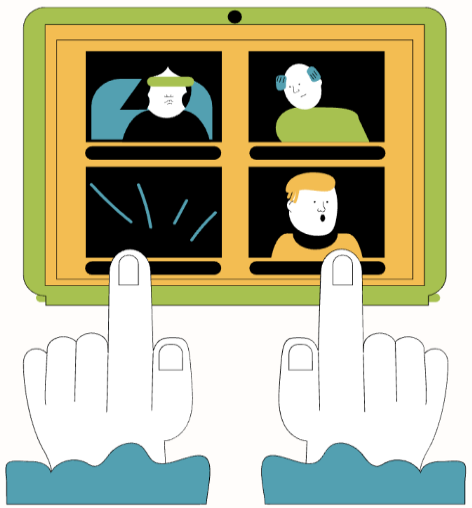
Common Pitfalls

- Starting detailed Day 1-100 planning too late
- Lack of prioritization or tracking at program and functional level
- Lack of urgency overall

Global PMI Partners
www.gpmip.com

4.Communications, Culture & Change Management





Best Practices

- Materials prepared for sign, announce, & close across all stakeholder audiences
- Assessment of culture and change management requirements completed by Day 30
- Consistent post-close communications to maintain stakeholder engagement

Common Pitfalls

- Assigning marketing or investor relations people to manage integration communication programs
- Dismissive approach to cultural integration obstacles and/or change management needs
- No formal communications after Day 1

Global PMI Partners
www.gpmip.com

5. Post-Close Execution

Best Practices

- IMO process in place until 80% of initiatives complete
- Plan optimization to finalize plan of record (POR)
- Orderly transition to business as usual (BAU)

Common Pitfalls

- No plan optimization to ensure final POR delivers value drivers & objectives
- IMO process disintegrates post-close

GPMI Partners
www.gpmip.com

Insights: Integration Readiness Essentials

- Establishing an Integration Management Office (IMO) equipped with well-defined timelines, reporting formats, and meeting schedules (integration actions) stands as a pivotal component for ensuring a successful integration. The other five equally critical elements encompass vision, incentivization, culture, resources, and skills. Any inadequacy in readiness within any of these facets poses a risk of derailing the entire integration endeavor or, at the very least, diminishing the potential for value creation.
- Integration readiness surveys are conducted initially with the acquirer team prior to signing, and subsequently, with broader teams, including the target, as the integration progresses.

Six dimensions of integration success

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

Integration readiness

Evaluating the readiness of both the Target and Acquirer's teams across these six dimensions:

- Offers comprehensive insights
- Enables the formulation of recommendations
- Results in actionable corrective measures

Global PMI Partners
www.gpmip.com

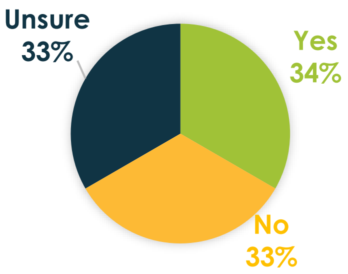
Use of M&A Playbooks

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.

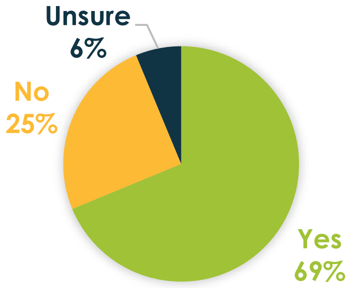
It was found that nearly 70% of respondents used a playbook for both M&A integrations and carve-outs. It is likely that a carve-out playbook was used less, given the fewer number of carve-outs completed by our respondents. Especially for serial acquirers, playbooks are advisable for a number of reasons. 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.

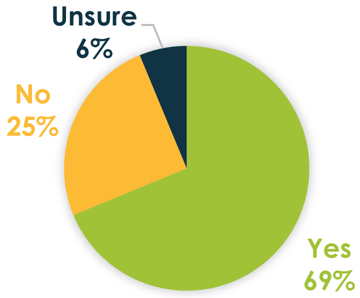
Do you use an M&A transaction playbook?



Do you use an M&A integration playbook?



Do you use a carve-out playbook?



Global PMI Partners
www.gpmip.com

Insights: 4-Tier Governance Model

Typical governance established by Global PMI Partners

The development of the IMO structure and governance typically commences prior to the signing phase, often beginning with the letter of intent. This proactive approach enhances ownership and accountability clarity while facilitating rapid and efficient decision-making throughout the integration process.

Robust governance plays a pivotal role in aligning integration tasks with the deal thesis. The Integration team provides regular reports on integration progress, cost analysis, and synergy tracking to the board through a dedicated Steering Committee. This Steering Committee is responsible for defining the overarching direction and guiding principles that steer the integration efforts.

Board
Deal thesis | Strategy

Steering Committee
Key decisions | Escalations

The Integration Management Office (IMO) serves as the central hub of the integration team, playing a crucial role in setting the integration's tempo, orchestrating and prioritizing collaborative efforts, and managing interdependencies among various workstreams. It operates as an air traffic controller, offering situational awareness to keep the steering committee informed and ready to escalate matters when necessary.

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

Global PMI Partners
www.gpmip.com

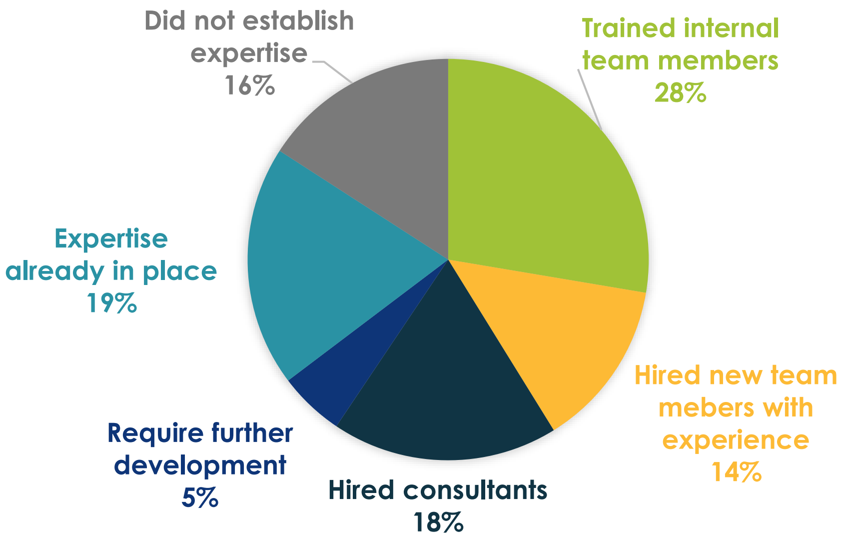
Integration Capability and Capacity

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.

According to our survey, 61% of respondents leveraged or hired internal resources, or had existing expertise in place

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.

How did you build M&A integration skills?

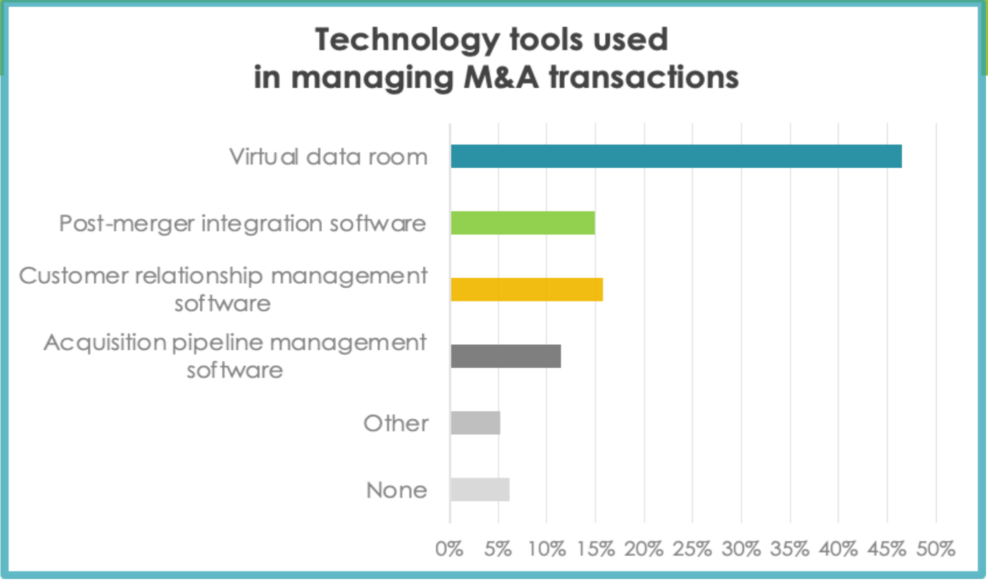


Global PMI Partners
www.gpmip.com

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, premium VDR solutions, such as Sterling Technology, incorporate productivity tools such as flexible Q&A workflows, redaction, built-in translation, advanced Information Rights Management, and secure online viewers for Microsoft Excel®, video 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 distributed teams.

Other M&A software, such as Midaxo® and DealCloud®, may be used for acquisition pipeline management and deal sourcing, and/or general productivity tools such as Microsoft Excel® and Smartsheet® are often used during the PMI process for task management.



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.

Survey Sponsors

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.

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.

Sterling Technology is the premium provider of virtual data room (VDR) solutions for secure sharing of content, business process automation, and collaboration for the M&A, corporate development, real estate, capital markets, private capital, banking, and legal communities. Sterling Technology has been supporting the M&A and capital markets for over 30 years, initially with financial printing services. Since opening our first VDR in 2010 we have helped customers from 187 countries and 90 industries successfully complete thousands of deals. With offices in all major financial centres, Sterling Technology is trusted by its users to deliver exceptional levels of service on their most critical transactions.

www.gpmip.com