

## Post-Merger Integration Ensuring M&A delivers full value



# Agenda

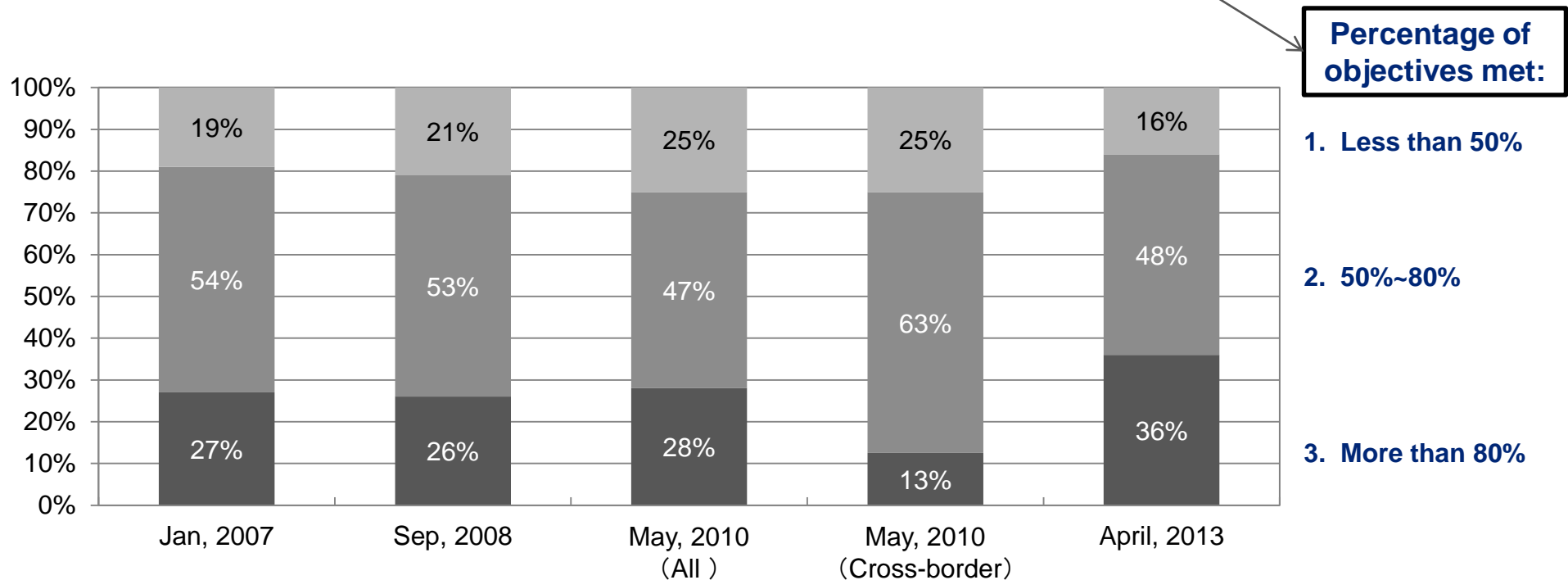
- Introduction
- Pace of Integration
- Integration Management Office (IMO)
- Day1 Readiness
- Synergy Planning
- Conclusion
- Session Summary
- Contacts

# Introduction

# Success Rate of Post Merger Integration

The Japan CFO may not have executed the M&A transaction, but the Japan CFO more than likely will be responsible for its successful integration

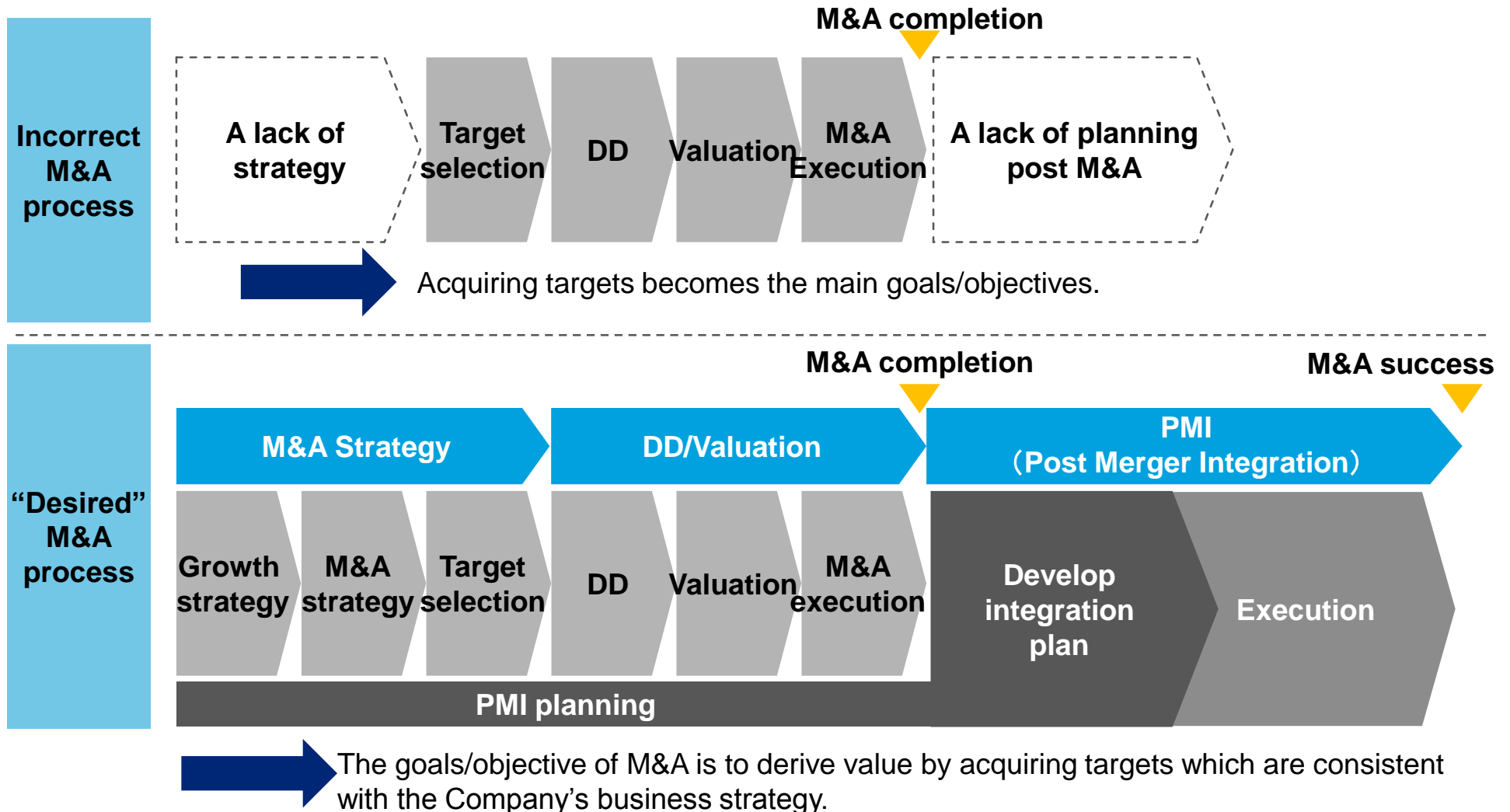
Q. What percentages of the targeted objectives/goals has the Company accomplished post-transaction?



■ **Takeaway: A typical success rate for M&A is approximately 30%. For cross-border deals, that success rate drops to around 13%.** (Successful M&A is defined as achieving more than 80% of targeted objectives/goals post-transaction )

# Post Merger Integration – Methodology for Success

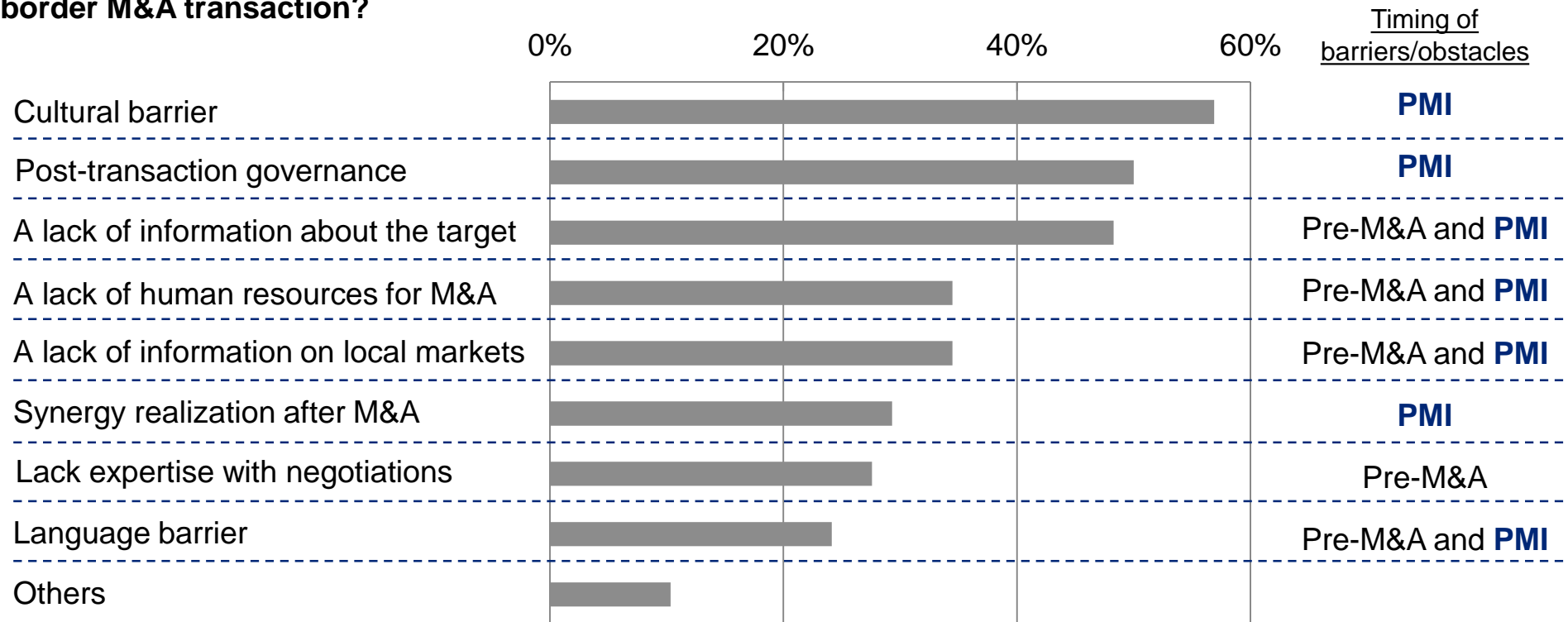
PMI, from early consideration to integration execution, is required for a successful integration



# Post Merger Integration – Common Challenges

PMI (Post Merger Integration) is typical issues preventing a successful integration for a cross-border M&A deal

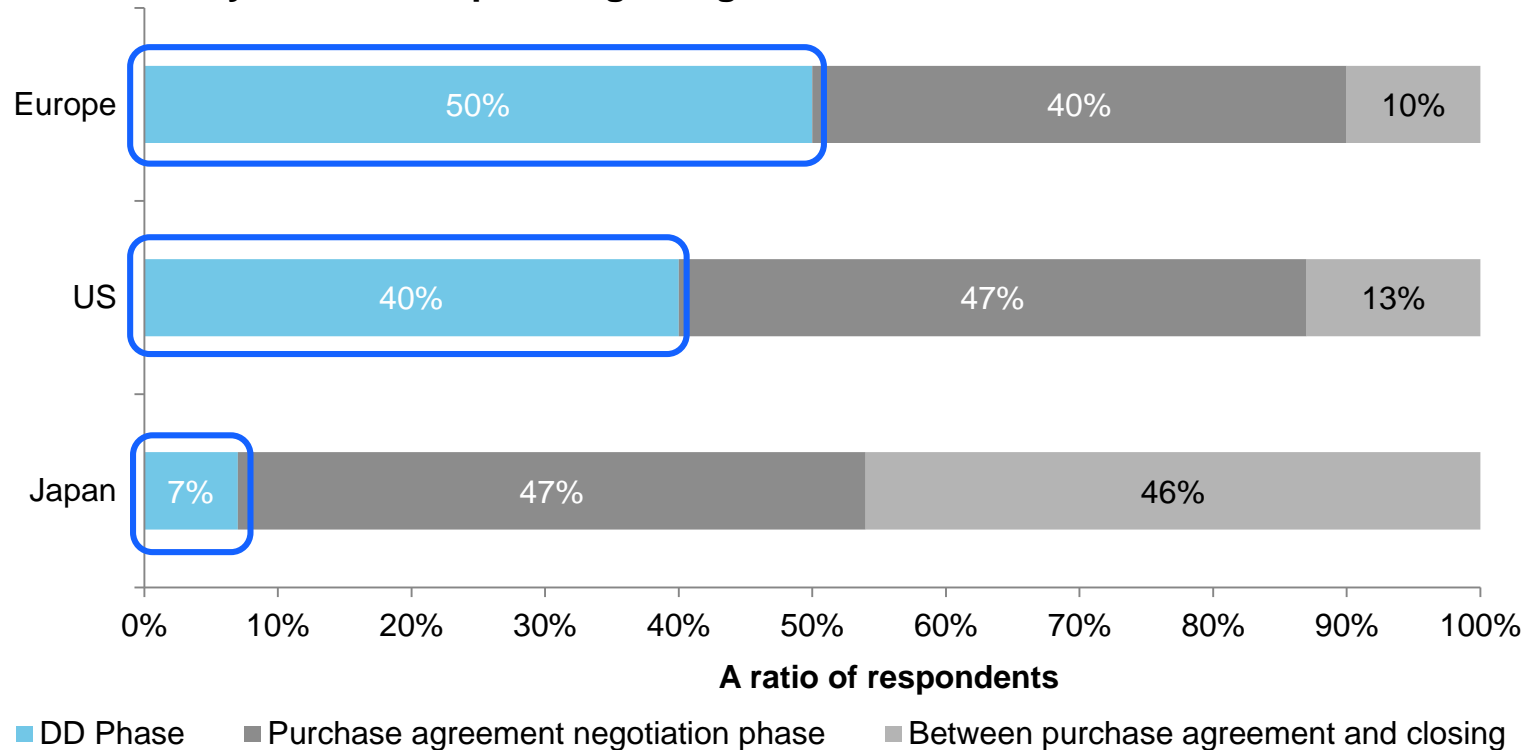
Q. What were the barriers / obstacles experienced during the planning and execution phases of a cross-border M&A transaction?



# Post Merger Integration – Started Planning for PMI

Less than half corporations start PMI planning at DD phase

Q. When did you start PMI planning in regards to the recent M&A deals?



# Key Success Factors for Japan Inbound PMI

- Define and share appropriate pace of integration
- Establish strong Integration Management Office (IMO)
- Ensure issue-free Day1 with well-prepared plans
- Identify concrete actions and benefits for synergy realization
- Take a customized approach for PMI capabilities building



# Pace of Integration

# Integration Blueprint

## Typical Contents of Integration Blueprint

- Scope of transaction
  - People, Location, Products, Revenues and profit
- Deal Rationale
  - Why is the deal being done
  - High level explanation of how the business will fit into the acquirer's business
  - Deal value driver
- Timeline
  - What deliverables are required from the integration team, when
  - Any external dates which need to be factored in
- Synergies
  - What are they? Where and when will they be achieved?
- Key integration principles to be applied
- What will success look like
  - What MUST happen on Day 1
  - What will customers see
  - What will happen for staff
  - What must happen in the first 3 months, first year?
- What are the key questions to be answered
- Integration program governance

## Integration Blueprint Example

The image displays a collage of nine pages from an integration blueprint document. The pages are arranged in a grid-like fashion, with some overlapping. The pages are titled as follows:

- Key Management Message:** Features a 'oneculture' logo and discusses the integration of Dairy Crest and Unigate's Dairy & Processed Business.
- Integration Approach:** Discusses the synergy between the two companies and the integration process.
- Synergy Opportunities:** Includes a bar chart showing synergy benefits available in 2002/3.
- Product Overview:** Focuses on Dairy Crest's leading positions in all sectors.
- Integration Team Structure:** Shows a hierarchical organizational chart for the integration team.
- Functional Workstreams:** Details the various functional areas involved in the integration.
- Overall Schedule:** Provides a timeline for the integration process, including key milestones.

# Integration Management Office (IMO)

# Rationale of IMO

## Why do we need IMO?

### Integration Design

- Define pace of integration
- Resolve conflict of interests
- Stick to deal value driver

### Cross-Functional Alignment

- Ensure consistency across a wide range of functions (e.g. sales, HR, IT)

### Escalation to Top Management

- Escalate issues and decision-making requirements in a timely manner

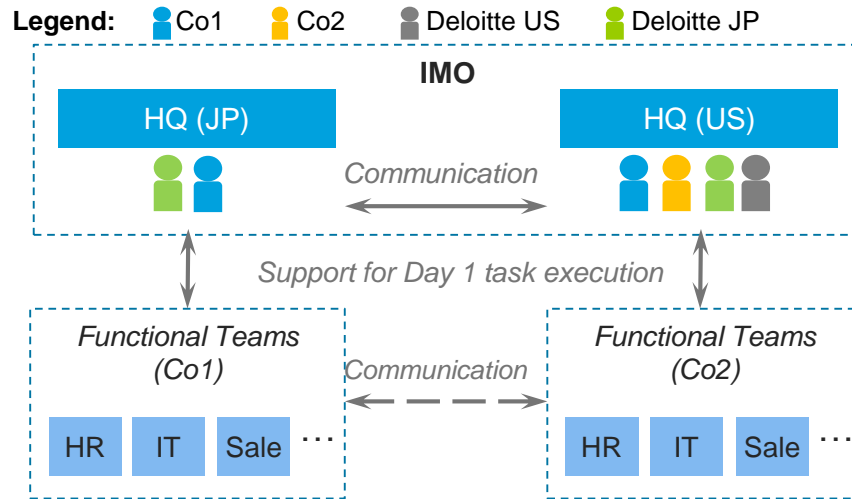
### Change Management

- Drive not only acquirer's own organization but also target organization
- Need additional efforts for Japan inbound PMI as degree of change is larger

# Cross-border IMO

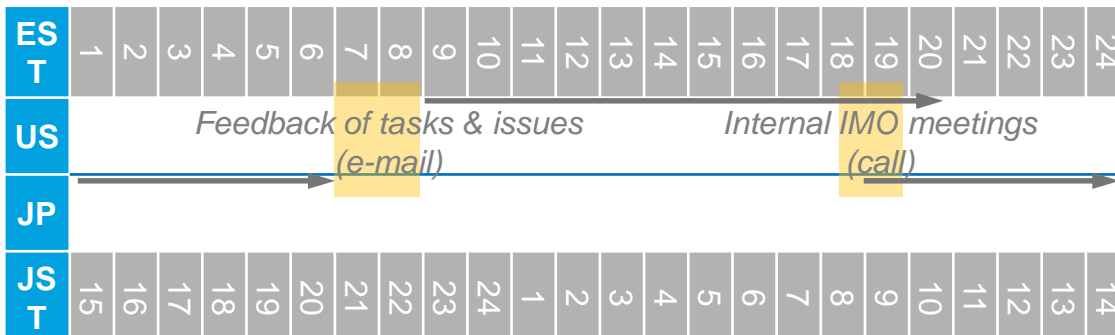
Frequent communication between the two IMOs was an important factor to drive an efficient cross border PMI and secure a successful Day 1

## Team Structure



## Project Approach

- With the time difference between Japan and the US we could deliver tasks and resolve issues around the clock



## Key Challenges

- Facilitating two IMO locations with different members and roles
  - IMO US: Monitor Co2 (US) functional teams
  - IMO JP: Monitor Co1 (JP) functional teams
- Day 1 Readiness on a global scale was required
  - Cross border PMI of a carve out deal. There were many separation issues

## How the Challenges were addressed

- Internal IMO meetings were held everyday and 2 Deloitte JP members with Co1 member went to the US to align understanding of integration policies
  - Align tasks with integration blueprint
- Day 1 readiness was secured by frequent communication between IMO and functional teams

# Day1 Readiness

# Overview of Day1 Readiness

- To ensure the business is fully prepared for the day of legal control of the acquisition, a Day 1 process has been implemented at the start of the program
- The overall objective is to ensure statutory, contractual and commercially **critical requirements have been met** and **financial controls are in place**, so that the business can function successfully on Day 1 which limits **adverse impact on customers, suppliers and staff**
- The main objective is to **identify, agree, resource, implement and monitor** the large number of statutory, contractual and commercially **critical tasks** that will need to be in place on Day 1
- Clearly **understand and plan the sequence of events before and on Day 1** (including internal and external communications to all stakeholders)

## Key Approach to Day1 Readiness

- A. Walk the Wall
- B. Day1 Readiness Stress Test and Day1 Simulation Workshop
- C. Command Center
- D. Addressing Standalone Issues

# Case Study A

## “Walk the Wall” Overview

### Walk the Walls Objectives

- Create cross functional alignment on Day 1 vision, milestones and requirements
- Create a cross functional roadmap of the key milestones through Day 1
- Identify key dependencies and planning timeline issues that require resolution

### Walk the Walls Overview

- Each functional team prepares Day1 milestones as pre-requisite for the WTW activity
- All functional teams together conduct WTW Activity
- Output, e.g. cross functional roadmap is published

**All functional teams put their milestones “on the wall” to identify major dependencies and ensure consistency**





# Case Study B

## Day1 Readiness Stress Test

IMO poses multiple validating questions to relevant functional teams to identify missing parts in Day 1 integration plans

	Topic	Functional Attendees	Time
1.	Deliver “one face to the customer”	Sales, Aftermarket, Legal, Finance	60 min
2.	Record to report and Day 1 compliance requirements	Finance, Tax, Legal	60 min
3.	Finance planning and forecasting	Finance, Sales, IT, HR	45 min
4.	Employee enablement	Facilities, IT, HR	30 min
5.	Employee hire-to-retain lifecycle	HR, IT, Finance	45 min
6.	Execute order-to-cash process	Finance, Supply Chain, Sales, Aftermarket, IT, Mfg.	45 min
7.	Execute procure-to-pay process	Supply Chain, Mfg, Logistics, Finance, IT	30 min

# Case Study B

## Day1 Simulation Workshop

Multiple functional teams simulate what they need to do from Day 1 by following new operational flow

### Objectives

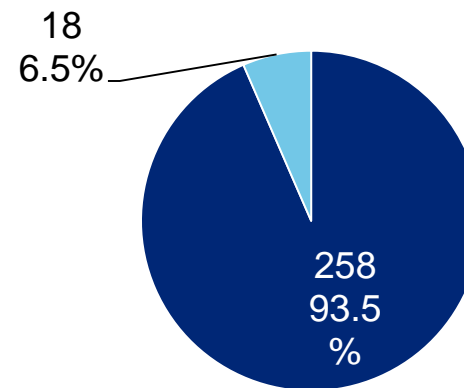
- Confirm if all the integration preparations are fixed for Day 1 with the point of view from Sales fields
  - Sales fields:  
Clarify assumed concerns or questions regarding sales activity under new organization
  - HQ:  
Review whether solutions to concerns / questions from Sales field have already been prepared or not

### Attendees

- 20 from Sales (e.g. Branch)
- 26 from Sales Integration Project Team
- 30 from HQ

### Results

- Over 90% of concerns / questions had been already considered
  - On the other hand , less than 10% of concerns / questions were not considered
- Need to consider the solution and explain to sales fields



■ Considered ■ Not Considered

### Workshop Scene



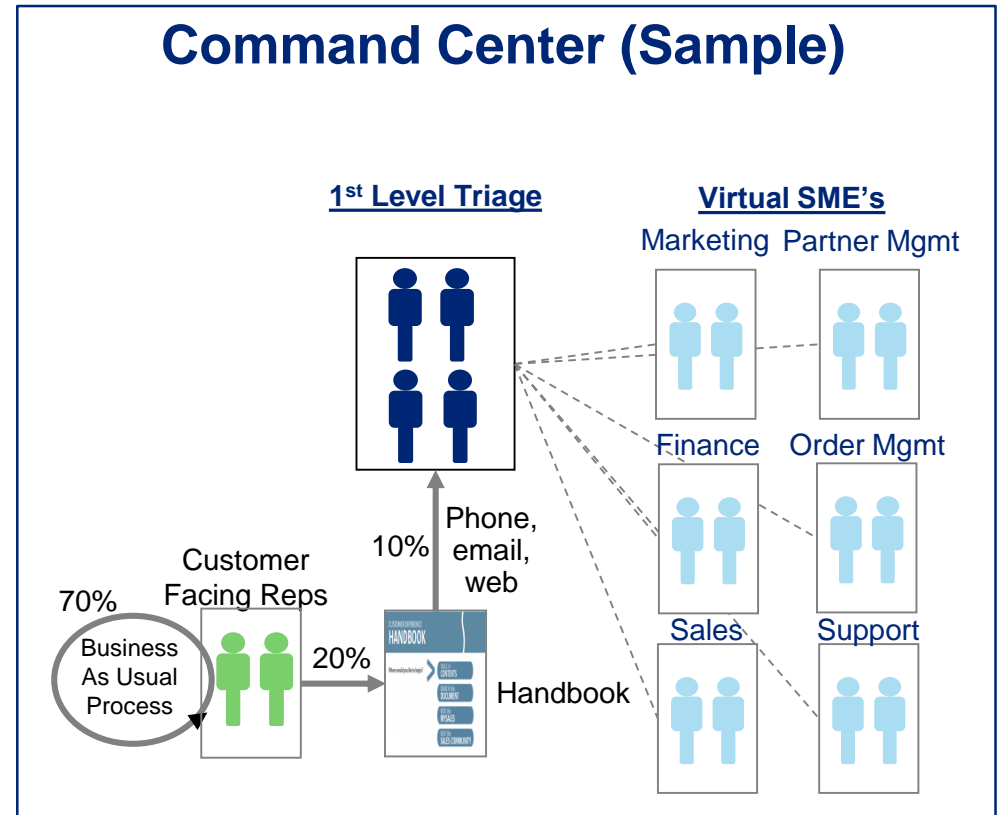
# Case Study C

## Command Center

Command center serves as a single point of contact from all the employees to resolve issues with high impact to business

### Objectives of Command Center

- Provide centralized point for expedient tracking, facilitation and resolution of issues
- Provide ultra-rapid escalation, decision making and communication in support of workstream teams to ensure an issue-free Day 1
- Manage and report on overall Day 1 execution progress
- Knit together the work of all the teams, not duplicate work the workstream teams are already doing

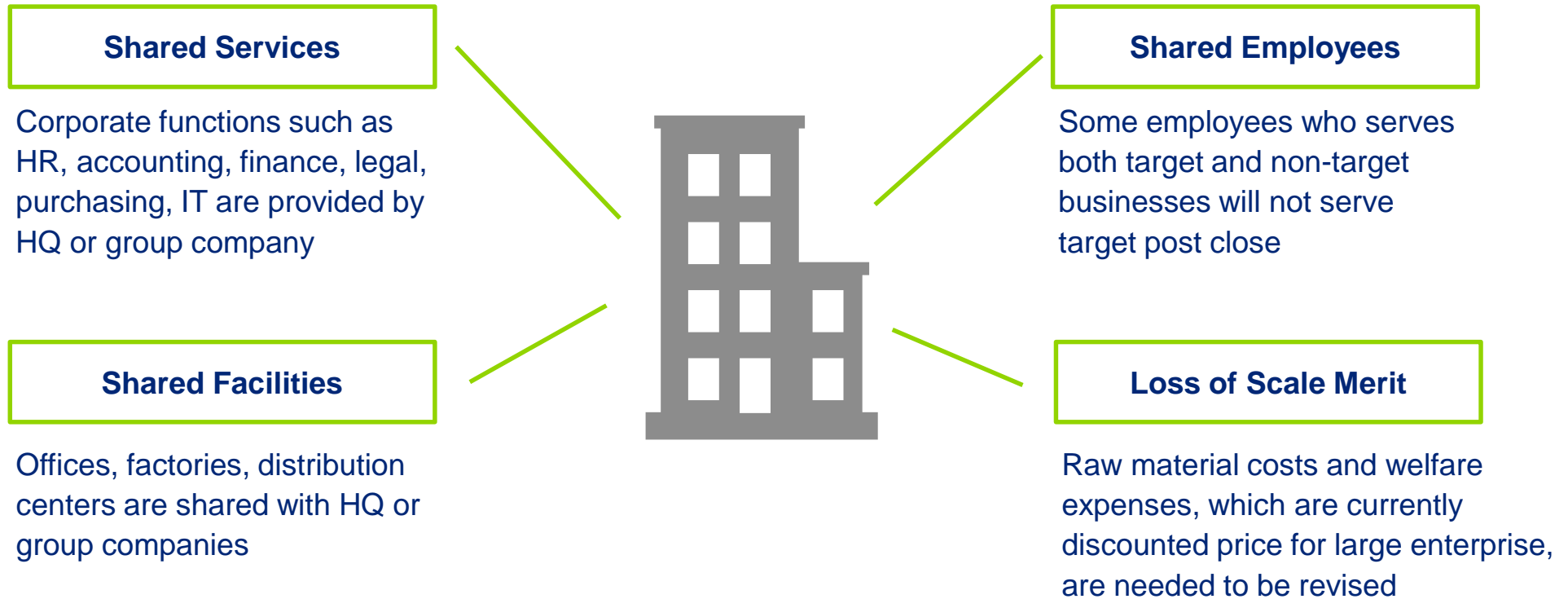


# Case Study D

## Standalone Issue

**Standalone Issue: To handle with the lack of functions as a result of merger of business unit or issues to be dealt for separation of business division**

### Framework of Standalone Issue



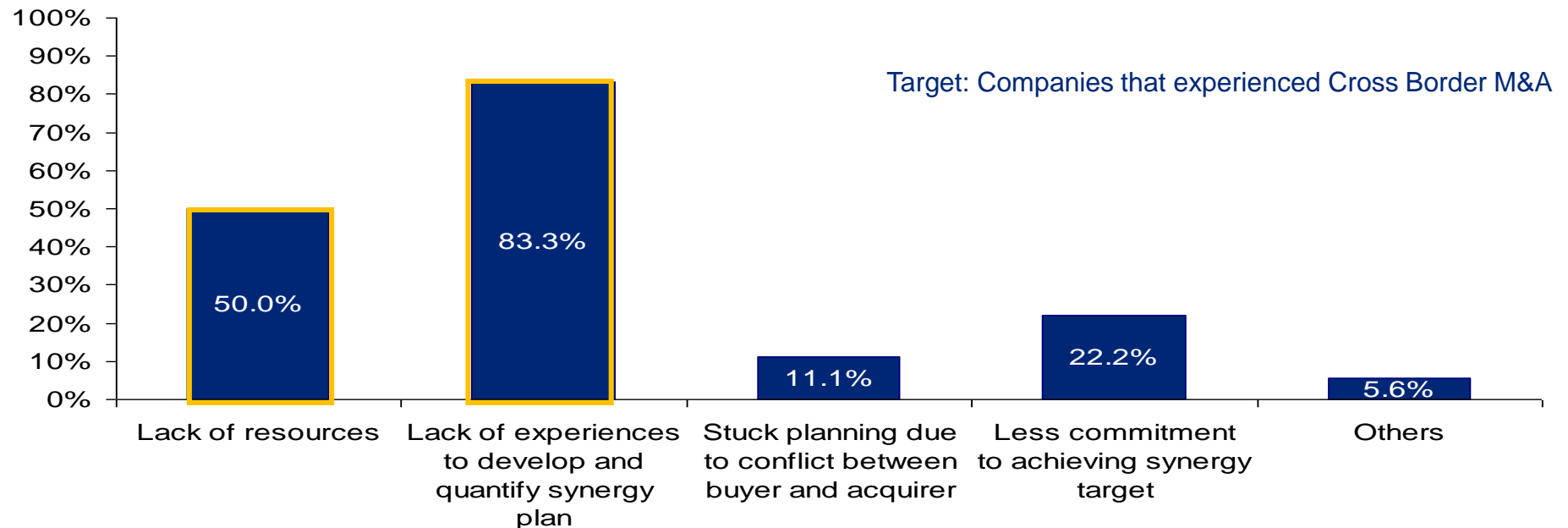
**To address these issues, TSA (Transition Service Agreement) and migration plan are required**

# Synergy Planning

# Synergy Planning Obstacles

Many companies faced with “Lack of experiences to develop synergy plan” and “Lack of resources” in their cross-border integration

Q. What were the barriers/obstacles experienced during the synergy planning?



# Conclusion

# Key Success Factors for Japan Inbound PMI

1. **Define and share appropriate pace of integration**
2. **Establish strong Integration Management Office (IMO)**
3. **Ensure issue-free Day1 with well-prepared plans**
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# Pre-Integration Planning

## CFOs commented:

(abridged and edited for clarity)

“The steps that companies should take to plan for the **integration depends on the purpose** of the acquisition. An integration driven by **synergy capture** will have a drastically different approach than an integration with the objective of **market entry acquisition.**”

“The key point in careful planning is to **decrease the public effects.** In Wal-Mart and Seiyu case, keeping the Seiyu brand-name allowed the M&A to have less effect on the consumer behavior.”

# Pace of Integration – difficulties in the integration of the target company

## CFOs commented:

(abridged and edited for clarity)

“Thinking about **cost efficiency** becomes a key during the integration. It might be **easy to replace or integrate staff, but it takes time to train them.**”

“There are issues with software differences, and being able to **plan out the steps in implementing those technical changes heavily shift the cost and timeframe of the integration.**”

“**Quality issues can be managed in short term,** but financial issues need to be looked over for a longer period of time, and this could cause the plan to be **skewed.**”

# Cross-border acquisitions face strong cultural differences

## CFOs commented:

(abridged and edited for clarity)

“Especially with cases of Japanese companies acquiring foreign companies, **policies and values** established within those entities need to be changed, and that is **very challenging.**”

“When we acquired a same size Japanese company, we realized that **successful integration comes from understanding and agreeing on the policies and values of both the acquiring and the target company.**”

“Making sure that the **message is received and understood** by the other company is important.”

# Building stronger relationship and trust with the target company is essential

## CFOs commented:

(abridged and edited for clarity)

“Sometimes **compromise has to be made**, and the acquiring company needs to **think from the viewpoint of the other company.**”

“**After-business hour drinking sessions, or something that allows people from both sides to interact is very important to work together going forward.**”

“**Stronger trust cannot be achieved by being in the same room, or reserving time to discuss something. There has to be a offsite session or a workshops where both sides are forced to work together. Combining strengths to achieve things rather than just sharing ideas is the key.**”

# Contacts

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