Unlocking the full potential of M&A

What it takes to be a Value Creation Champion

M&A

Introduction

Dear Reader,

This is the second M&A research Deloitte AG Switzerland has jointly conducted with the University of St. Gallen (HSG). Our previous study ("Getting your ducks in a row") focussed on integration and separation capabilities of serial acquirers. This latest study reveals how Swiss dealmakers unlock value from integrations.

Our report is based on data collected from interviews with board members, CFOs, M&A professionals and integration leaders from over 40 Swiss companies from different sectors held over a 5-month period (November 2016 to May 2017). In the interviews with this "Swiss cohort", we discussed historical deals, approaches to value creation, synergy strategies as well as integration management.

It has been absolutely fascinating to hear the participants share their experiences and insights, and we are very grateful for their contributions!

The transactions considered in the study satisfy broadly the following three criteria: the acquirer is a Swiss headquartered business, deals exceed CHF 100 million in value, and transactions were closed within the last five years. To ensure confidentiality of the information shared with us, the findings are presented anonymously and only at aggregate levels.

We have combined the interview results with supporting information from the Deloitte's Global M&A Synergy Database (Synergy Database), which contains synergy data on over 800 global transactions. This has highlighted key themes around how to unlock value creation in integrations.

We hope the content of this study brings clarity around success factors, gives practical insight and inspires you to become a value capture champion. At Deloitte we work with many leading Swiss businesses to strengthen and accelerate their value capture efforts and we would be delighted to meet and discuss our capabilities as well as any aspects of this study that may be specifically relevant to your business.

Finally, a special thanks to the team at University of St. Gallen and our fellow Deloitte colleagues for their hard work. It has been a great collaboration!

We wish you an enjoyable reading experience,

Michael van der Boom
Partner, Financial Advisory,
Value Creation Services

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Unlock the full potential of M&A

What it takes to be a Value Creation Champion

Corporate executives are under pressure from shareholders to continue to deliver solid returns. With low growth in mature markets M&A will remain an important corporate instrument to create value. However, increasing deal multiples, stiff competition from strategic and financial investors could make it more challenging to make deal economics work.

As it stands, Swiss companies have shown strong M&A activity and many executives are openly talking about how M&A will continue to be central to their growth strategies moving forward. While the reasons for their deal making vary, the need for an attractive value creation story is common for many in the game. For this reason, most M&A professionals are in search of the holy grail of how to maximise value on their deals.

With this in mind, and with a focus on integrations, we sought to get into the minds of some of the most active and successful Swiss dealmakers to find out what it takes to become what we call a true "Value Creation Champion". We consider Value Creation Champions to be companies which outperform their peers due to their sharp focus on identifying and delivering exceptional value from their deals, particularly in relation to incremental revenue and cost synergies. This study captures key lessons learned and draws on insights from our Swiss cohort, Deloitte's Synergy Database comparisons and the best practices of champions. This will provide useful tips to improving value creation in areas such as the top line, margins and costs, synergies and cash generation.

While these practical tips are not comprehensive, combining them with Deloitte's clear, robust value creation approach will help integrators to become better value creators and unlock the full potential of their M&A activities. At Deloitte we have an exhaustive approach based on local and global insight, experience and learnings.

1. **For cost synergies, be comprehensive, but prioritise value**: Consider all the cost synergy levers, but pursue the most promising first.

2. **Always consider procurement to unlock value**: Value champions recognise the importance of procurement spending for extracting value. Procurement holds significant value that can be unlocked rapidly.

3. **Go beyond cross-selling to find the total revenue synergy potential**: Cross-selling is an obvious way to achieve revenue synergies, but pricing and new opportunities are often overlooked and under-played.

4. **Quantify the revenue synergies in detail, it will help to make them credible and practical**: Those who do quantify revenue synergies have a decent chance of achieving them.

5. **Set directional targets early but readjust these if required**: Making correct assessments early on is tough. Readjust targets if necessary, but don't make 'change in strategy' or 'poor execution' the excuse.

6. **Plan like a champion**: Good execution starts with solid planning. Granularity in planning, ambition and commitment are essential.

7. **Track to deliver**: A critical challenge but imperative for successful delivery. Organisations deliver on performance indicators that are tracked.

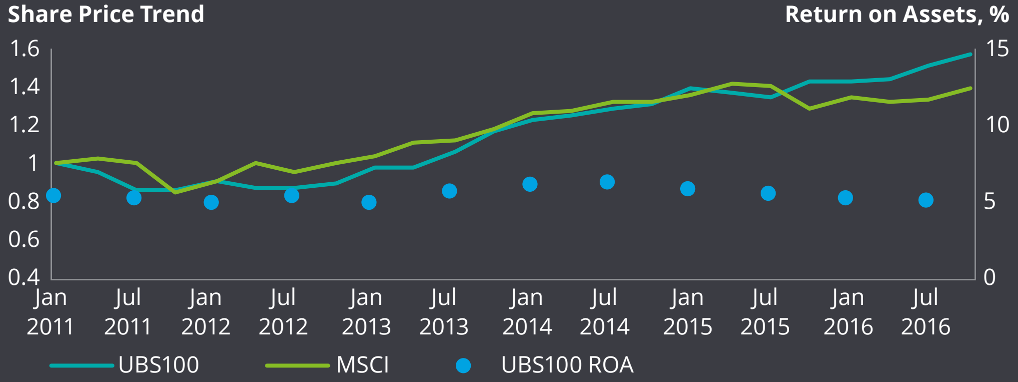
8. **Turn disciplined execution into an advantage**: A disciplined focus on execution to achieve synergy targets makes a big difference.

Creating value from M&A: the backdrop

The challenge to create value

Swiss shareholders have had attractive returns[1]

Valuation of Swiss corporations outpaced those across Europe



Shareholders of Swiss corporations have witnessed superior growth over the last 2 years, compared to those in other major European markets. But that's no reason to get comfortable. Low growth across mature markets and stiff competition will not make it easy for executives to continue to deliver profitable growth and above-average shareholder returns.

In this context, M&A will continue to be an important corporate instrument to unlock value. Over the last few years, M&A activity has been high in Switzerland and this is not expected to slow down. In fact, 2017 is on track to becoming another year for significant deal activity.

Despite the rising costs of deals (price-to-earnings multiples are at nearly twice that of 5 years ago), Swiss corporates can still afford to to carry the costs, which puts them at an advantage. Yet, while their balance sheets are solid with low gearing and steady earnings, the question remains as to whether they can ensure positive economics. If one assumes the deal activity for 2016 and an average control premium of 30%[2] for acquisitions, at least CHF 48bn of value will need to be created in order to generate positive returns.

Doing deals is popular, but without value creation they may not generate high shareholder returns.

Illustration for UBS 100 Index and MSCI Index Corporates to show average change in share price

Source: FactSet 2017

Synergies are not just about cost savings

Synergies are often just thought of as headcount reductions. The reality is much broader.

More and more integrators now consider movements in the top line when developing the deal ambition.

In this study, we focused on the incremental revenue & cost generated through the acquisition.

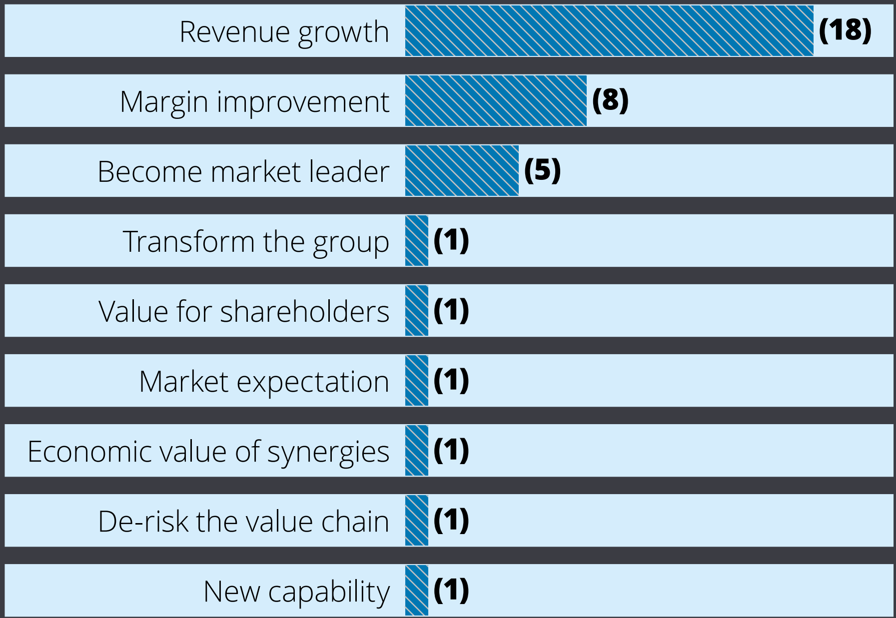
Although further financial synergies exist and are targeted by some our study did not deep dive into this.

Cost Synergies	**Economies of scale, structural advantages, efficiency gains**	• Often pursued • Typically quantified by functional area • Relate to all operating expenses, e.g. cost of goods sold and selling, administration & general costs • Mostly in control of the business	**Examples:** Back office consolidation, indirect procurement spending synergies, sharing of existing best practices
Revenue Synergies	**Cross-selling, pricing benefits and new markets/ customers/ products**	• Increasing in popularity • Typically quantified by growth initiatives • Relate to revenue, pricing and discounting • Often influenced by external factors such as customer and competitor response	**Examples:** Cross-selling to existing customers, product bundling, access to new markets and channels, creation of new products or solutions
Financial Synergies	**Cash, debt, tax**	• Applicability dependent on deal • Quantified by operational lever • Relate to accounts receivables, accounts payables, inventory, cost of capital, corporate tax rates • Varying degree of control of the business	**Examples:** Alignment of payment terms for customers and suppliers, consolidation of safety stocks, leverage tax efficient models

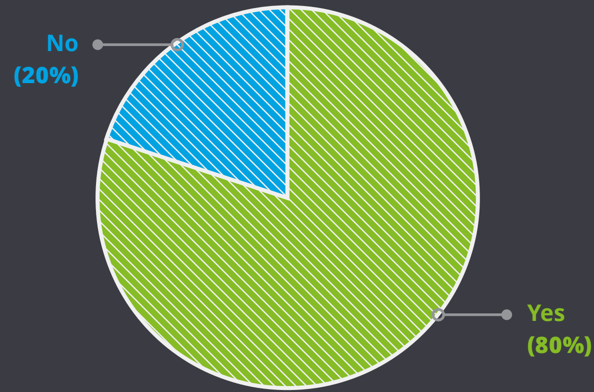
Value creation underpins most deals

Reasons why Swiss serial deal makers do deals

What were the primary objectives?



Did synergies underpin the investment?



When the Swiss cohort was asked why their companies undertook deals, most responded that the primary objective was the long-term impact the transaction would have on revenue growth. Margin improvement was the second most important.

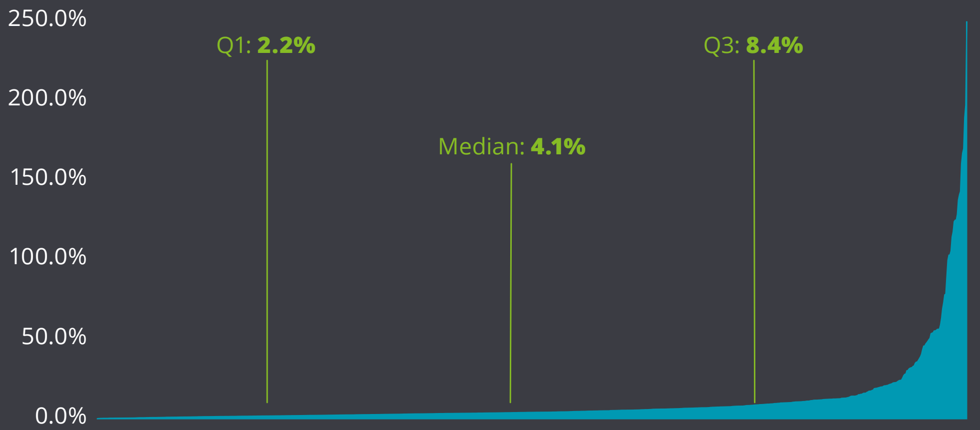
Most executives explained that their objectives were measurable in financial terms. They looked to translate the “value creation” logic into P&L and Balance Sheet impact.

80% of the cohort considered synergies central to the investment case, particularly for assets that are subject to a competitive bidding process. Synergies contributed to the argument to raise the bid to win the deal.

High level of unrealised synergies

Overall announced synergies[2]

(% of synergies compared to deal value)



Data from Deloitte's Synergy database show that synergies vary greatly by company and deal. The top quartile unlocks synergies of more than 8.4% of the deal value, compared to 2.2% of lower quartile.

This variation was apparent in the responses from our Swiss cohort as well. Some set ambitious targets, while others are more prudent.

This study reveals characteristics of Value Creation Champions, which we define as companies that:

» Have a laser-focus on creating value from acquisitions and integrations.

» Identify opportunities to maximise efficiency and minimise costs (i.e. cost synergies).

» Create top line growth and margin improvements (i.e. revenue synergies).

» Have a solid track record of successful execution of synergy initiatives.

» Unlock more and faster value than their peers.

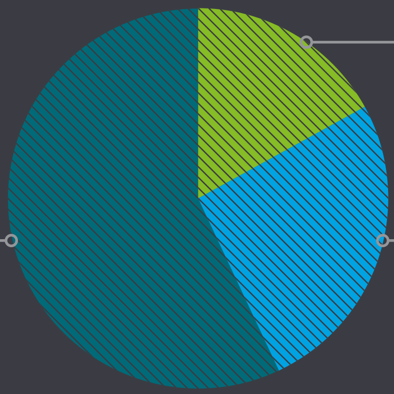
» Understand that operational change needs to be linked to financial results.

» Recognise that organisational change needs to be considered fully as part of value creation.

Cost synergies are often a must

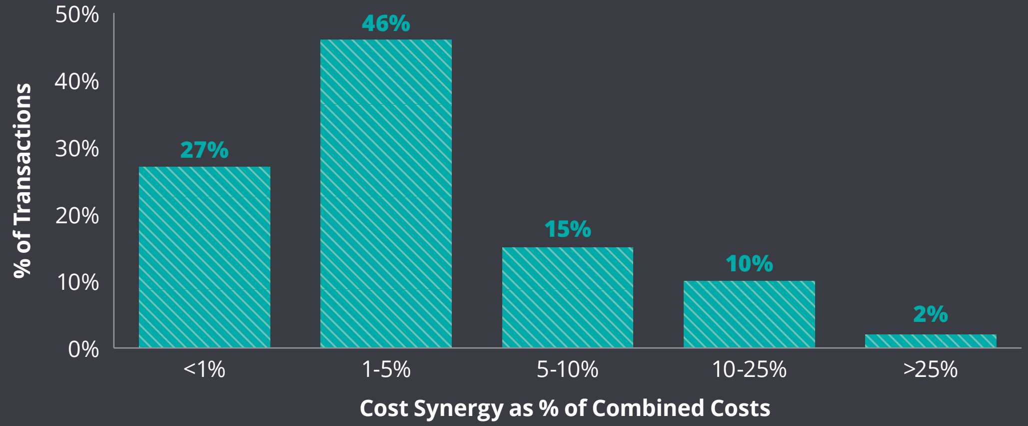
Swiss cohort[3]

How material were cost synergies for the go-ahead decision of the transaction?[4]



Global deal makers

Announced cost synergies as % of combined costs



More than 80% of the Swiss cohort considered cost synergies important or very important. However, anecdotal evidence indicated that there was significant variation in the quantum of synergies achieved.

To contextualise this, we looked at a broad dataset from over 800+ global transactions with benchmarks on cost synergies (Deloitte's Synergy Database). According the data, the announced synergies typically range between 1-5% of total combined costs (SG&A and COGS). But there are those that achieve much more than others.

A quarter of the global executive teams announce less than one percent of synergies; one of ten executives aims for ten percent or more.

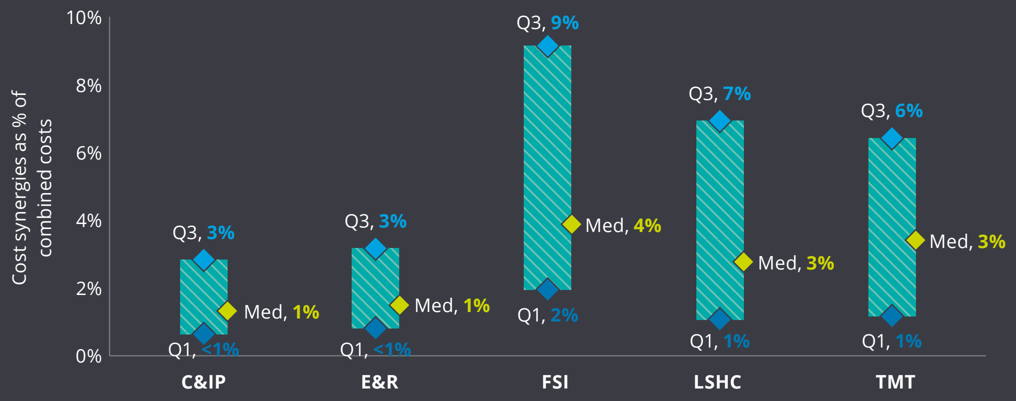
> “Cost synergies can be fully controlled – there are absolutely no excuses.”

Managing Director/Private Equity Industry

Financial Services and Life Science unlock most cost synergies

Global deal makers[5]

Range of cost synergies, by industry



The range of cost synergies narrows considerably when applying an industry specific lens to the announced synergies.

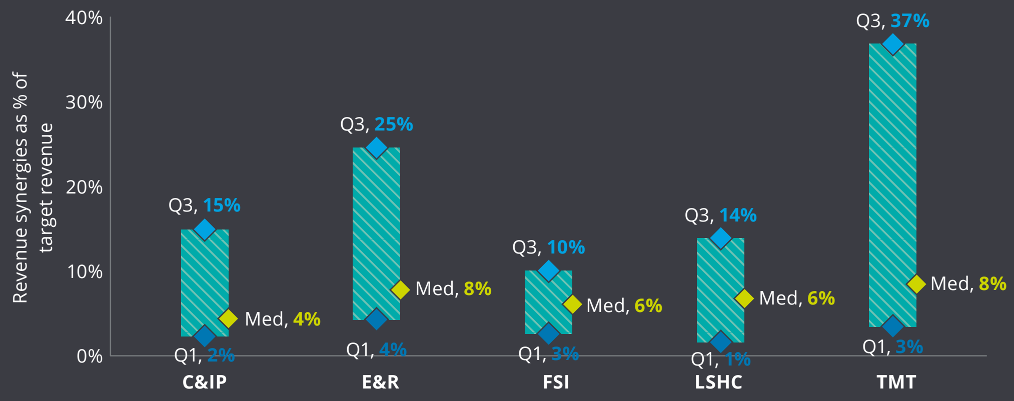
This is driven by a number of reasons. For example, the typical rational of deals in one industry compared to other industries may drive fundamental differences in synergy potentials (e.g. international expansion vs. domestic consolidation have different degrees over infrastructure overlaps).

Another reason may be the historical focus on operational excellence in an industry. Historically, some have had place more emphasis on operational excellence, reducing the synergy opportunities.

The above industry ranges can provide guidance on what the value creation ambition could be – but the specifics of each deal will determine what the opportunity range should really be.

Global deal makers[8]

Range of revenue synergies, by industry



Similar to the cost synergies, the overall ranges of revenue synergies narrows when applying an industry specific lens. However, this effect is less pronounced for revenue synergies.

Even after filtering for industry, we continued to see significant variation, supporting the view that there are those who significantly outperform their peer group.

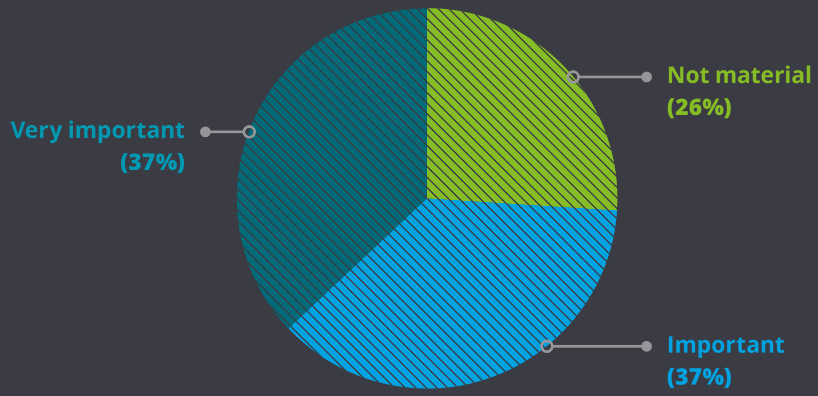
> "It's an illusion to believe that companies can be transformed by the push of a button."

Head of Strategy and M&A/Construction Industry

Revenue synergies: gaining in importance and sophistication

Swiss cohort

How material were revenue synergies for the go-ahead decision of the transaction?[7]



In the survey, 74% of the Swiss cohort considered revenue synergies important or very important. Overall, this is only slightly lower than cost synergies.

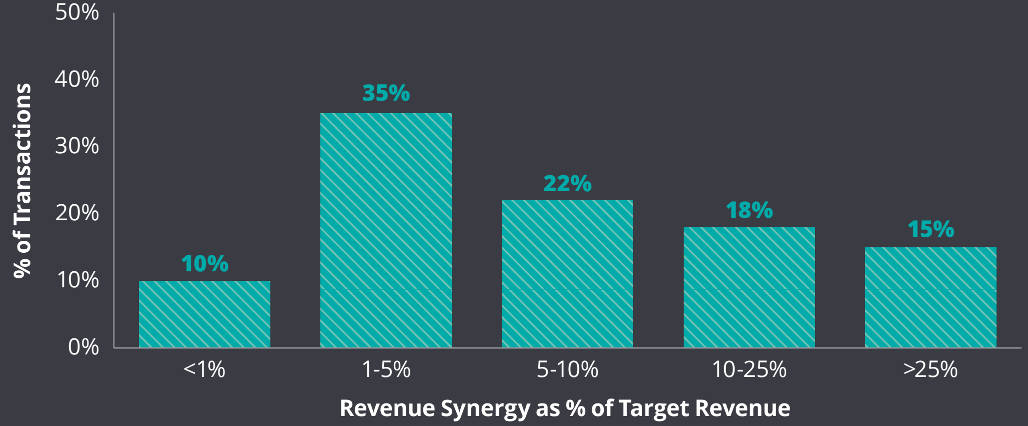
A recent global Deloitte study (M&A trends 2016) found that capturing revenue synergies was the second top concern for new acquisitions.

According to Deloitte's Synergy Database, announced revenue synergies range typically between 2 and 14% of the acquired company's revenue. Champions (the top 15%), however, announce revenue synergies of more than 25%, indicating their confidence in unlocking significant value.

Throughout the interviews with the Swiss cohort we also learned about different levels of ambition and results.

Global deal makers[6]

Announced revenue synergies as % of target revenue



> “Revenue synergies were THE reason for our deal.”
>
> **VP Group M&A/IT Industry**

What Value Creation Champions do

Practical tips from Value Creation Champions

1. **For cost synergies, be comprehensive, but prioritise value**: Consider all the cost synergy levers, but pursue the most promising first.

2. **Always consider procurement to unlock value**: Value champions recognise the importance of procurement spending for extracting value. Procurement holds significant value that can be unlocked rapidly.

3. **Go beyond cross-selling to find the total revenue synergy potential**: Cross-selling is an obvious way to achieve revenue synergies, but pricing and new opportunities are often overlooked and under-played.

4. **Quantify the revenue synergies in detail, it will help to make them credible and practical**: Those who do quantify revenue synergies have a decent chance of achieving them.

5. **Set directional targets early but readjust these if required**: Making correct assessments early on is tough. Readjust targets if necessary, but don't make 'change in strategy' or 'poor execution' the excuse.

6. **Plan like a champion**: Good execution starts with solid planning. Granularity in planning, ambition and commitment are essential.

7. **Track to deliver**: A critical challenge but imperative for successful delivery. Organisations deliver on performance indicators that are tracked.

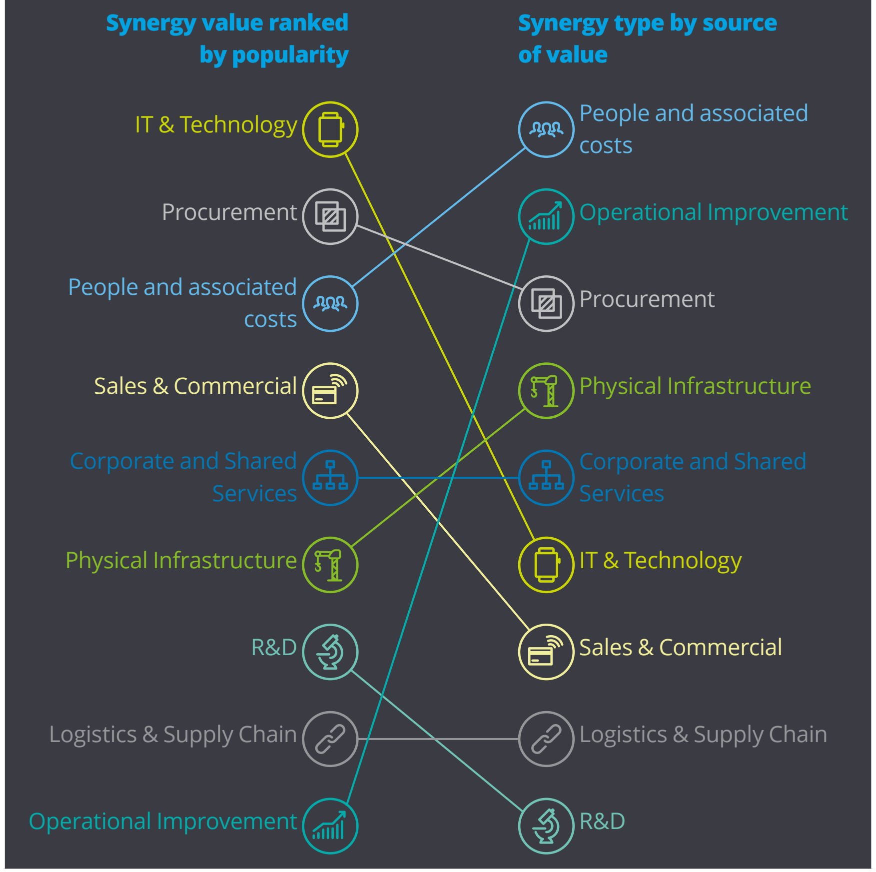
8. **Turn disciplined execution into an advantage**: A disciplined focus on execution to achieve synergy targets makes a big difference.

1. For cost synergies, be comprehensive, but prioritise value

The idea: consider all the cost synergy levers, but pursue the most promising first.

Cohort statistics

What cost synergies did you pursue?[9]



Insights from the cohort

Our Swiss cohort stated that they pursued a wide range of other synergies sources. The most important levers are IT & technology (ranked #1), procurement (ranked #2) and people related synergies (ranked #3).

However, when comparing the responses to the historical synergies in Deloitte's Synergy Database, we learn that the most popular levers (e.g. IT & Technology) are not necessarily the most valuable sources of synergies (ranked only #6).

Valuable synergy sources such as operational improvement (e.g. efficiency gains from leveraging newly acquired best practices, ranked as the #2 most valuable source in the database) and physical infrastructures (ranked #4 in the database) were less popular with our Swiss cohort.

The relevance of each lever depends on the transaction, but it does raise an important question: are the most valuable sources of synergy being sufficiently prioritised?

Tips from Value Creation Champions

Consider all types of synergies
Synergy champions find value in many different places. In the back office, supply chain and commercial front office functions. They pursue all opportunities, particulars those that are valuable.

Consider benefits beyond scale advantage
We often see integrators realising synergy benefits from scale advantages, however, there are other advantages to consider as well. Structural advantages of a target (e.g. presence in a low-cost country) or productivity advantages from best practices could help unlock more synergies if leveraged. Champions consider all three.

Use the deal as a catalyst
Some champions use deals as a catalyst for a bigger step-change and go beyond the release of synergies. They push for a broader performance improvement.

Deliver benefits fast
It is common to hear senior executives instruct the integration team to get the job done asap. Getting early scores on the board is important for setting the deal rationale in stone.

2. Always consider procurement to unlock value

The idea: Value champions recognise the importance of procurement spending for extracting value. Procurement holds significant value that can be unlocked rapidly.

Cohort statistics

49%
chasing procurement benefits

Second
ranking of the highest sources of cost synergies

Three
procurement roles in integrations

Insights from the cohort

Our Swiss cohort talked about procurement more than any other specific function. 49% stated they actively pursue procurement synergies.

Three specific roles were identified:

The Value Creator
Procurement spending was deemed as one of the easiest cost categories to analyse and compare. Many in the cohort combined spending and renegociated commercial arrangements terms to reflect the increased buying power of the newly formed combination. Some integrators went further and used the deal as a catalyst to start a wider procurement transformation project.

The Enabler
Some organisations in the cohort described how procurement helped other functions unlock benefits. For example, procurement helped HR with the integration of payroll providers; in finance, procurement helped with the transition to a third party outsource partner.

The Accelerator
Procurement is seen by certain dealmakers as an attractive way to deliver quick-win benefits. A significant amount of heavy lifting can be conducted prior to day 1 and little organisational restructuring is required to unlock benefits; some of the cohort use Clean Rooms to overcome restrictions.

Tips from Value Creation Champions

Value the role of procurement
Champions acknowledge the importance of procurement and ensure it gets the attention it deserves.

Start before Day 1
Procurement is one of the areas where significant progress can be made before the official deal closure. There are specific restrictions to be respected and requirements to be met, but this lever is perhaps an underestimated creator of value.

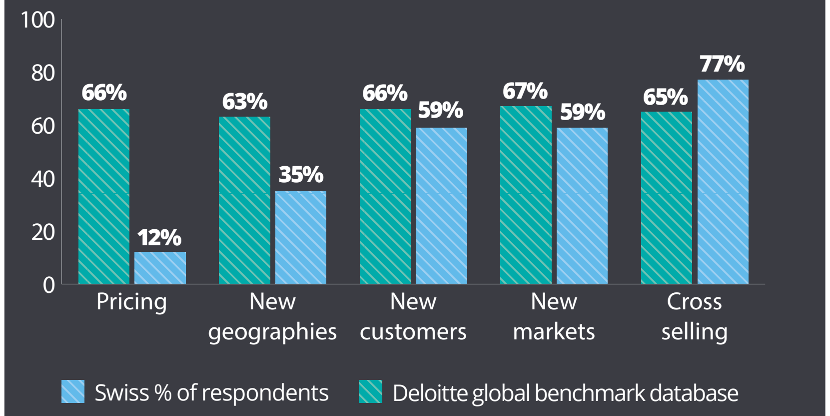
Consider working capital
Integration champions are particularly good at using procurement to unlock working capital benefits, e.g. the harmonisation of payment terms for suppliers and inventory arrangements.

3. Go beyond cross-selling to find the total revenue synergy potential

The idea: Cross-selling is an obvious way to achieve revenue synergies, but pricing and new opportunities are often overlooked and under-played.

Cohort statistics

What sources of are pursued?[10]



Pricing	Improve pricing or discount strategies as a result of the merger (e.g. bundling, pricing power)
New geographies	Sell acquirer's existing products to new geographies (from target)
New customers	Sell acquirer's existing products to new customers (from target)
New markets	Sell acquirer's existing products to new markets (from target)
Cross selling	Sell newly acquired products to acquirer's existing buyers

Insights from the cohort

We compared the sources of revenue synergies pursued by the Swiss cohort to those being chased by global integrators.

Here's what we found:

Pricing is missed as key lever
The biggest difference between Swiss and global companies was seen in the appreciation of pricing as a synergy lever. Our survey results show that only 12% considers this as an important source of revenue synergy versus 66% in the global survey. Opportunities associated with changing pricing strategies, bundling, capturing the impact of pricing power in more concentrated markets is deal dependent, however worth fully exploring and pursuing.

"New" opportunities are underappreciated (e.g. new markets, new customers or new geographies)
The responses from our Swiss cohort demonstrate that local dealmakers may underappreciate the potential of "new" commercial opportunities. Although investment may be required to unlock these opportunities, global integrators pursue new products, customer target groups and market opportunities with more determination.

The Swiss cohort prioritises cross-selling
Our Swiss cohort ranks cross-selling as the most popular revenue synergy initiative. Although this is higher than the global data base, broadly, cross-selling is considered the low-hanging fruit of revenue synergies and a popular lever for quick wins. Broadly, cross-selling is often considered the low-hanging fruit of revenue synergies and a lever for quick wins.

Tips from Value Creation Champions

Cast a wide net
Leaders often pursue multiple synergy initiatives in parallel, enhancing their success rates. As one respondent put it: "we look for many singles and doubles on revenue synergy, instead of a homerun."

Lead with innovation
Long-term innovation leads to sustainable growth. Find ways to combine IP and technology capabilities to create innovative breakthroughs previously not possible.

4. Quantify the revenue synergies in detail, it will help to make them credible and practical

The idea: Those who do quantify revenue synergies have a decent chance of achieving them.

Cohort statistics

39%
did not quantify revenue synergies

... of which ...

36%
deemed quantification too complex

61%
did quantify revenue synergies

... of which ...

65%
delivered their targets or came close to it

Insights from the cohort

The Swiss cohort asserted that revenue synergies are more difficult to estimate than cost synergies.

The reasons given included the fact that revenue synergies have greater dependencies on external variables (e.g. underlying market demand, brand perception). These are only partially controlled by the company. Others mentioned the difficulty to create a distinction between business-as-usual and the synergy effect of the acquisition.

For these and other reasons many companies shy away from quantifying revenue synergies.

In fact, this study shows that 39% of the Swiss cohort did not quantify synergy benefits.

Among the other 61% that did quantified targets, two out of three set targets and achieved them.

Quantifying drives successful execution
This could perhaps be better, but it should provide encouragement to those who currently shy away from quantification. The vast majority of people who crack it, deliver value.

Tips from Value Creation Champions

Separate business-as-usual vs. synergies
If the synergy levers are specific enough, the effect of the deal can be separated for BAU activities.

Involve the divisions to create optimism and ambition
Involve the division to identify and estimate synergies early on. It creates ownership and buy-in, and will most likely improve accuracy of the assumptions. Growth opportunities can contribute to creating a positive sentiment around the deal.

Make the sales force a secret synergy deliverer
The commercial work stream is key to realising revenue synergies. When it comes to cross-selling and customer penetration, the sales organisation and a strong sales force are essential.

Use clean rooms
Clean rooms can be great way to prepare for an accelerated start post day 1 although they are subject to antitrust legislation.

5. Set directional targets early but readjust these if required

The idea: Making correct assessments early on is tough. Readjust targets if necessary, but don't make 'change in strategy' or 'poor execution' the excuse.

Cohort statistics

65%

change targets. Only 25% of champions change targets

57%

changed targets downwards

30%

update targets post deal closure

Insights from the cohort

According to our study, 65% of the Swiss cohort changed revenue synergy targets. The survey suggests this is more about adjusting for incorrect targets then adjusting for challenges in execution or shifts in the strategy of the business.

This is not entirely surprising – our survey highlights a number of reasons why target setting is tough.

Limitations of diligence – updates to targets post deal closure
Most state that it can be tough to get the required visibility of the commercial reality on the ground during diligence processes. This means assumptions are required which may prove to be incorrect later when more transparency is created.

Top down versus bottom up – updates to targets post deal closure
Our cohort described that many targets change when the bottom-up validation is compared to earlier defined top-down targets. Some spoke about how this often triggers a need to adjust the numbers. Others were explicit that this is not an option; these companies end up being forced to find new synergies ideas.

Surprisingly, our cohort stated that "change in strategy" and "challenges in execution" were not key reasons for change in targets. Respondents of another recent Deloitte study ("In search of the Holy Grail[11]) pointed to availability of reliable data as the most important critical success factor for achieving revenue strategies.

Tips from Value Creation Champions

Appoint a synergy task force and owner
Appoint a dedicated synergy work stream with finance know-how as part of your integration management.
This challenges and supports all work streams in synergy identification and quantification. In addition, select a full-time revenue synergy owner with a commercial and financial understanding to drive top line opportunities.

Split synergies into clear, specific operational levers
The key imperative is to identify the distinct synergy levers. Making it as specific as possible will help with the quantification and operationalisation of synergies. Utilising a clean room could speed up this process pre-closing.

Mitigate data limitations
Synergy champions actively mitigate risks associated with data limitations. Some of this can be achieved through smart diligence, while the rest requires experience and informed judgements.

Avoid poor planning or execution
Changing targets is not a problem but champions never justify weak diligence, poor planning or ineffective implementation.

6. Plan like a champion

The idea: Good execution starts with solid planning. Granularity in planning, ambition and commitment are essential.

Cohort statistics

Cost synergies

42%

committed to original targets and plans

58%

chose to change their targets and plans

Revenue synergies

65%

committed to original targets and plans

35%

chose to change their targets and plans

Insights from the cohort

Targets and plans need to be right. All insights points to that. Most of our Swiss cohort have incentives and performance structures in place that reward "on time in full" achievement.

So how good are the targets and plans?

First, we know that there is significant variation in ambition. Some achieve up to three times the results of others. Clearly, the opportunity is somewhat defined by the specifics of each deal but the fact there are leaders and laggers is not disputed.

Then, we know that there is significant variation in granularity. Some define operational plan at initiative levels others just set top-down targets and leave it up to the organisation to do the rest.

Last, we know there is variation in commitment to targets. Around 40% of our Swiss cohort sticks to targets from the diligence phase. They explain that assumptions were solid and achievable.

For this group, some expressed little sympathy for "incorrect" targets. Their view was simple: the business was acquired with certain financial expectations and achieving these were not optional. If the situation required it, their teams went back to the drawing board in search for new value drivers to bridge gaps.

Around 60% of our Swiss cohort did choose to revise targets post closing. Many in this group explained that revisions were often due to initially having underestimated the magnitude of operational change and complexity of implementation.
Better knowledge post-diligence triggered need for updates.

For us, targets and plans need to support the implementation. There are those who nail this and those who don't.

Tips from Value Creation Champions

Use benchmarks to avoid wishful thinking or low-balling
Stretch performance but anchor plans in reality.
Ensure ambition goes beyond top-down wishful thinking.
Many organisations use benchmarks for operational excellence, but what about value creation in deals? Champions set tough targets and leverage benchmarks to ensure the ambition is appropriate.

Build in contingency
Plan for more than your committed targets – value is always lost when you transition from diligence to execution

Make actions granular
Go beyond defining functional targets and break the synergies into the individual component parts. This will enable granular planning and disciplined implementation.

Go back to the drawing board
If the initial assumptions prove to be overly ambitious, instead of revising the targets, problem solve to figure out how to close the gaps.

7. Track to deliver

The idea: A critical challenge but imperative for successful delivery.

Cohort statistics

50%
don't track

36%
stop tracking before implementation is done

63%
ask Finance to track it

55%
ask the business or commercial to track it

Insights from the cohort

Half of the respondents stated that they don't track progress against the identified revenue synergy opportunities. 36% of the respondents do not track synergies until they are realised.

It is clear that without tracking or insufficient tracking, the risk of not delivering full targets is much greater.

Some deemed tracking as being at the heart of ensuring the successful delivery of synergies. To support this, a portion of the cohort introduced a "two-to-track" concept, which promotes effectively sharing the tracking responsibilities between two key functions.

They deemed that the "two-to-track" concept creates a strong equilibrium between accountability for execution and accountability for integrity and traceability of results.

Most often cost synergies were tracked by Finance and the Integration office. For revenue synergies, Finance often shared the responsibility with the business.

Tips from Value Creation Champions

You get what you measure
Not tracking progress, makes it difficult to say with confidence that the results will come in. Organisations deliver on performance indicators that are tracked. So, get the dashboards in place to get the results desired!

Define a proportional response
Knowing that detailed tracking and execution can be a challenge and a time-consuming effort, spending time on it should depend on the identified potentials. If the opportunity is significant be thorough and detailed in tracking progress.

Have a clear owner
Let there be no ambiguity around who is responsible for making sure the results will come in. Allocate responsibility clearly and then hold owners accountable for delivery.

> "Link the positive revenue story to cost synergies as a way to explain to the organisation how one supports the other."

Deloitte

8. Turn disciplined execution into an advantage

The idea: A disciplined focus on execution to achieve synergy targets makes a big difference.

Cohort statistics

1 in 4
Cases where synergy realisation suffered due challenges in execution

Implementation of results

12% fell more than 25% short of targets vs **25%** outperformed final targets with up to 25%

Implementation at pace

44% delivered within 1 year vs **36%** delivered within 2 years

Insights from the cohort

Implementation of results
In total less than 50% of the Swiss cohort delivered between 75% and 125% of their original synergy targets, while almost a quarter underperformed and 25% overperformed on their targets. 12% significantly under delivered (less than 75% target) and 25% significantly outperformed (more than 125% of targets).

Given the strategic importance of the projects such wide spread distribution is inadequate. This should be more positive. Some of the key challenges mentioned included end-to-end ownership of benefit delivery, accountabilities, clarity of operational changes.

Implementation at a set pace
Across our Swiss cohort, 44% realised synergies within the first 12 months; 36% took more than two years (10% more than three years).

Duration of implementation is in part driven by the operational lever pursued (e.g. procurement savings are realised much quicker than the benefits of factory consolidations). But our survey highlighted another important point.

There are those who desire and have the ability to move with speed. Rapid executors explained that they preferred fast implementation even when that meant compromising the design and implementation method.

For them, minimising periods of ambiguity and quickly re-establishing stability and a business-as-usual environment was essential to keeping teams focussed rather than preoccupied or distracted by the process of change.

Tips from Value Creation Champions

Ensure actions are practical
Address the question: "What would physically change as a result of this synergy?" Answering this question will lead to the right level of operational granularity and support the execution.

Balance accuracy vs. speed
This should be a conscious decision based on the specifics of each individual deal. Determine the appropriate implementation timeline by feeling out when to accelerate and when to take more time.

Build a compelling case for change
Getting organisational buy-in is key. It's not just the size of the target that is important, but also the organisation's acceptance and understanding.

How to become a Value Creation Champion

Value Creation Champions in action

Our approach: The synergy approach enables a rapid transition from quantification and validation to accelerate delivery.

The phases

"What synergies ambition do we have?"	"Where are the synergies likely to come from?"	"What will be the levers to deliver the synergies?"	"How can the synergies be realised?"	"How can the business ensure rapid delivery?"
Top down targets	**Bottom-up identification**	**Bottom-up validation**	**Taking control**	**Accelerated delivery and monitoring**
Top down synergies • Assumption based baselines • Strategic judgements on implication of deal rational on P&L and balance sheet • Identification of key top down synergies	**Synergy opportunities** • Robust baselines to model hard economics • Comparator data to push options to real life • Top down synergy targets • Rapid bottom up quantification of overall range of improvements	**Synergy solutions** • Drill down into highest value/ highest priority areas • Bottom up validation and confirmation of the full synergy impact • Specific examples from comparators on alternative models/way of working	**Synergy plans** • Translate synergies into challenging and robust action plans • Work with leadership team to achieve organisational buy-in and ownership • Clear evaluation methodology agreed	**Synergy delivery** • Drive delivery accountability to capture synergies • Training and support to build business capability • Benefits tracking and KPI monitoring
1-3 weeks	2-5 weeks	6-8 weeks	3-4 weeks	TBC

Stage gates between phases: Pre-bid (after Top down targets); Day 1 (after Bottom-up identification); Management Stage Gate (after Bottom-up validation); Management Stage Gate (after Taking control).

At Deloitte, we see big differences in synergy approaches taken by companies. We have designed our synergy capture process around learnings from working with serial dealmakers and our views on best practices. Deloitte's synergy-capture process aims to bring clarity and structure that help teams to robustly move from value identification to value delivery.

What Value Creation Champions advise ...

Define clear baselines

Synergies should be incremental to stand-alone performance. Champions aim for clarity and transparency of the current performance so they can isolate the synergy impact and build it on a clear foundation.

Don't ignore the existing business

All deal promises are build on top of an existing base business. Ensure that any potential negative impact of the deal is minimised. Ensure the base continues to be strong.

Set smart top-down targets

Even top-down synergy targets can be smart. Champions don't apply a "magic 10%" rule, but use practical intelligence to underpin early thinking.

Don't ignore the cash

Cash synergies can be significant and often get little attention. Champions don't lose sight of this potential.

Pursue the low-hanging fruits

The ability to deliver some immediate or rapid successes are important. Enforce efficient decision making on goals and align around cross selling opportunities.

Use outsourcing to accelerate execution

Consider using third-parties solutions to prepare, simplify or accelerate deal execution.

Understand the technology challenge

In many integrations the technology integration is a critical component. Understand the likely complications, work arounds and short and long terms solutions.

Dig into the data details

Analytical capabilities can deliver smarter insights to guide stronger revenue synergy outcomes. Champions use quality data to drive analytics-driven insights.

Ensure end-to-end ownership

Best-in-class transactions happen when diligence, planning and execution are successful. Champions create end-to-end ownership that spans all three phases. They often get integration teams involved in the diligence and keep the deal team tied to the delivery of the deal promise.

Establish joint working

Champions find ways to create practical approaches for companies to start to working together. This helps to improve understanding, accuracy, sense of ownership and speed of execution post "Day 1".

Are you a Value Creation Champion?

- How ambitious are your cost and revenue synergies?
- Have you benchmarked your ambition and considered all the levers?
- To what degree are the deal value drivers or synergies broken down into clear, individual, actionable sub-initiatives?
- How robust is the link between the operational assumptions and the impact to the P&L?
- Do you have an effective process for tracking the synergies?

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If you would like to know in more detail how these approaches could work as part of your M&A strategy, please let us know.

Methodology

Methodology

Study approach

This study was a joint effort by Deloitte Switzerland and the University of St. Gallen (HSG). The report is based on a series of structured interviews of both open and closed questions with board members, CFOs, M&A managers, business development and integration professionals from over 40 Swiss companies from November 2016 through to May 2017.

The transactions considered in this report broadly satisfy the following three criteria: (1). the acquirer is a Swiss headquartered business, (2). most deals exceed CHF 100 million in value and (3). transactions were closed and announced within the last five years. Companies included in the survey are from a wide range of industries.

To ensure confidentiality of the information provided during the interviews, the findings of the survey were collected anonymously and reported only in aggregate data sets.

Additionally, market and M&A data from public data sources were used to provide an overview of the Swiss M&A market. In some cases, the survey zooms in on companies belonging to the UBS 100 index only. Data from the Deloitte Global Synergy Database were also used to contextualise and triangulate the findings of this survey. The Synergy Database contains synergy data from over 800 proprietary and public deals.

We would like to extend our grateful thanks to all the participants for taking part in the study, for investing their valuable time and providing profound business insights.

Glossary

Glossary

Acronym	Definition
TSR	Total Shareholder Return
CFO	Chief Financial Officer
M&A	Mergers and Acquisitions
HSG	University of St. Gallen
USB100	The UBS 100 Index represents the 100 largest Swiss stocks in the Swiss Performance Index SPI® measured by market capitalization
MSCI	The MSCI World Index, which is part of The Modern Index Strategy, is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
ROA	Return on Assets
CHF	Swiss Francs
Bn	Billion
Q1	Lower Quartile
Q3	Upper Quartile
SG&A	Selling, General & Administration expenses
COGS	Cost of Goods Sold
C&IP	Consumer & Industrial Products
E&R	Energy & Resources
FSI	Financial Services Industry
LSHC	Life Science and Health Care
TMT	Telco, Media and Technology
BAU	Business as Usual
Day 1	Official date of completion of a transaction
P&L	Profit & Loss statement

Endnotes

Footnotes		Page reference
1	Illustration for UBS 100 Index and MSCI Index Corporates to show average change in share price Source: FactSet 2017	Page 8
2	Deloitte Global M&A Synergy Database	Page 10
3	Deloitte Global M&A Synergy Database	Page 11
4	(*Very important = fundamental deal driver; important = significant factor for the deal)	Page 11
5	Deloitte Global M&A Synergy Database	Page 12
6	Deloitte Global M&A Synergy Database	Page 13
7	(*Very important = fundamental deal driver; important = significant factor for the deal)	Page 13
8	Deloitte Global M&A Synergy Database	Page 14
9	Deloitte Global M&A Synergy Database	Page 17
10	Deloitte Global M&A Synergy Database	Page 19
11	(*Revenue synergies in acquisitions, In search of the Holy Grail, was published by Deloitte's M&A institute in 2017)	Page 21
12	This leverages from "Due diligence for synergy capture" and "Revenue synergies in acquisitions", published by Deloitte	Page 26

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