

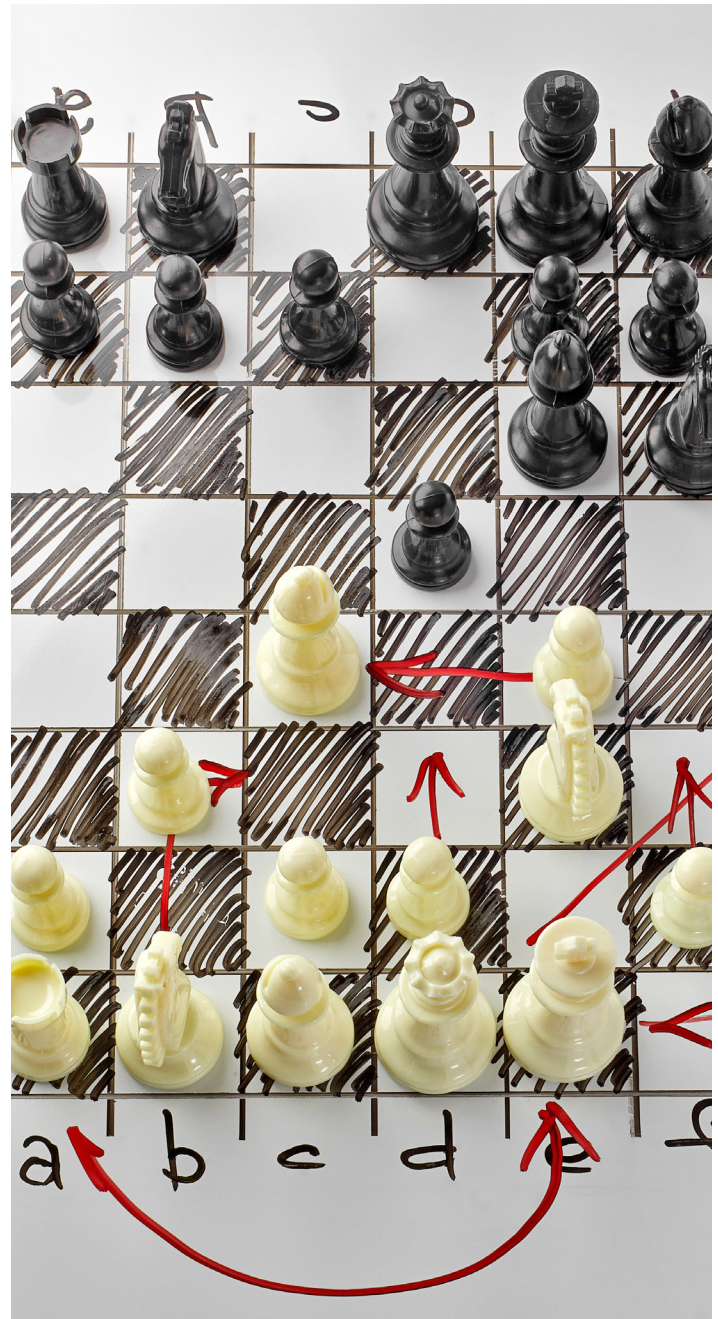
Seize synergies

Managing country-specific integration complexities to help preserve and grow shareholder value

A large consumer packaged goods company closed on an acquisition that considerably expanded its European footprint. The CFO, tasked with squeezing significant costs out of the combined entity, developed a plan to quickly assess and capture projected synergies. Almost immediately the CFO realized her plan should be scrapped: it did not account for country-specific labor, regulatory, and investor hurdles that would substantially impact synergy. Her new plan included a global team to execute a complicated sequence of country integrations.

Cross-border deals compound the complexity of any integration. If executed ineffectively, companies can unnecessarily prolong integration efforts and leave synergies on the table.

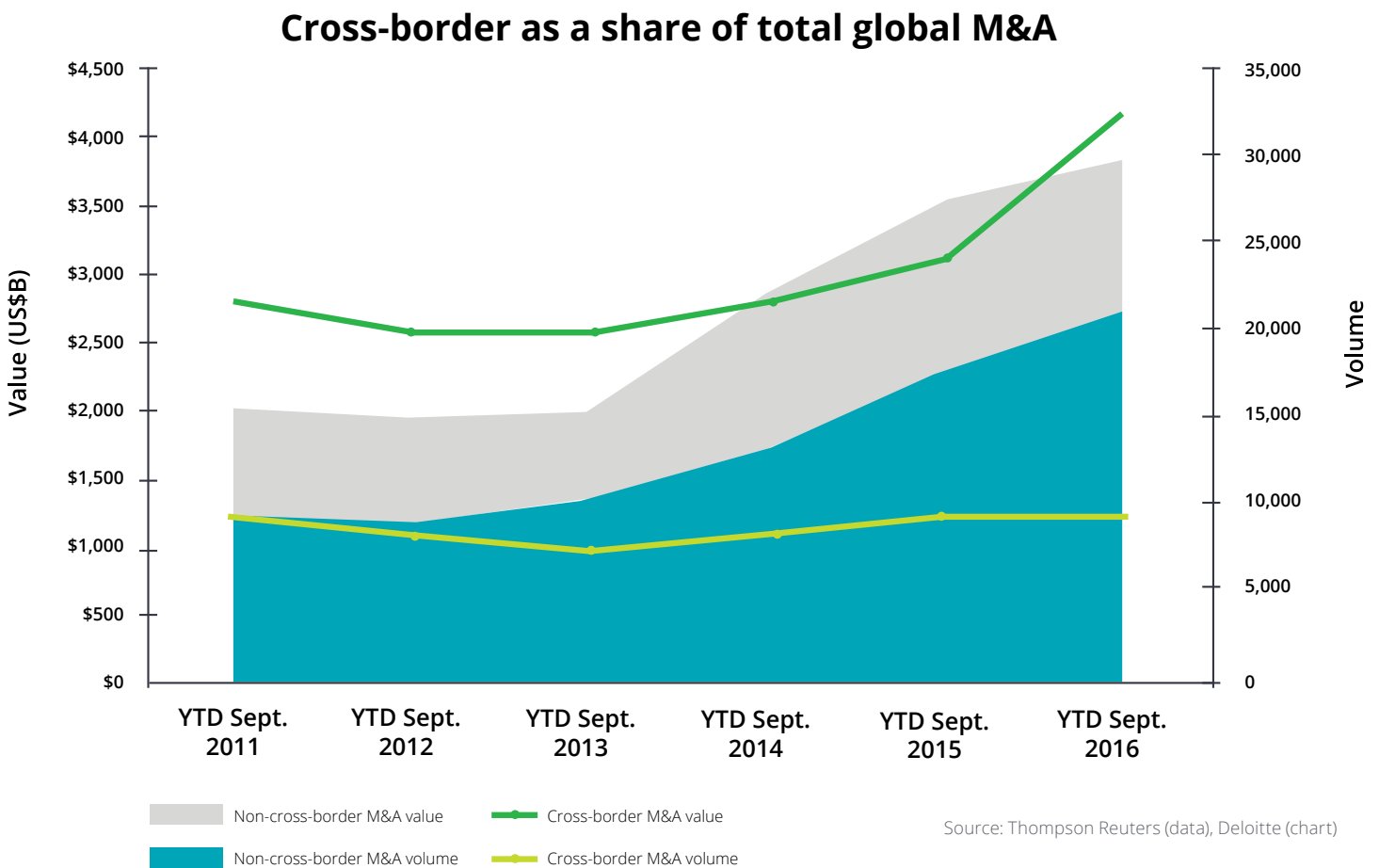
For centuries, composers have included a series of four chords in popular music of all genres. While each of the chords in the Andalusian Cadence on its own is unremarkable, when played in a particular order, they are one of the most common musical sequences in the world. Being sequenced in that way amplifies their musical beauty. As the Canadian poet George Murray wrote, “A sequence works in a way a collection never can.” The order of things dictates their effectiveness. As in music, the same is true in business. Properly sequencing a company’s activities can position the company for success; properly sequencing integration activities can position a deal for success.



Cross-border deals on the rise

Companies are increasingly using cross-border mergers and acquisitions (M&A) to reach new customers and expand into new markets. Along the way, these global deals can create significant shareholder value. In fact, cross-border M&A represents about one-third of all M&A transactions by value and by volume. There are several thousand cross-border deals annually, representing about \$1 trillion in deal value (figure 1).

Figure 1. Cross-border as a share of total global M&A



Cross-border M&A is expected to become more prevalent in the years to come, raising the stakes for C-suite executives at the helm of large global acquisitions—particularly those in highly regulated industries such as life sciences, transportation, financial services, and technology—to make sure that all deals preserve shareholder value and deliver anticipated post-deal synergies. However, given their greater level of complexity, cross-border deals have the

potential to be value destructive if they lack a strong deal strategy, comprehensive due diligence process, and effective integration management.

Fortunately, executives can avoid leaving post-deal synergies on the table by carefully considering country-specific integration complexities and implementing a strategy driven by enhanced country sequencing. Devoting time early in integration

planning to develop a thorough and thoughtful understanding of the unique integration issues that may arise in key countries can help avoid costly delays or integration disruptions later in the process. Understanding the following challenges will help companies better prepare for managing through their own unique country integration complexities.

Common international integration issues

Global integration activities are complex and may result in delays arising from three sources:

- Corporate legal and regulatory issues
- Product registration and industry-specific regulations
- Legal entity rationalization challenges

Delays from failing to thoughtfully plan the global integration strategy and country-specific integration sequencing could lead to unrealized deal synergies, disruptions to operations, legal challenges and—in extreme cases—abandonment of the integration. All of these outcomes threaten the shareholder value typically driving integration in the first place.

Corporate legal and regulatory considerations.

Enterprise-level, country-specific legal and regulatory issues involve specific expertise and often mandate long lead times. Three types of issues are common:

Labor issues—In some countries, especially European Union (EU) members, works councils (groups representing workers to management or company leadership) must be consulted prior to integration. Consultation requirements vary by country and deal complexity, with timelines measured in months. In Germany, for example, works councils may obtain a legal injunction to prohibit integration when a company has not fulfilled consultation requirements.¹ When

acquiring an entity in Latin America, companies must have a thorough due diligence effort to understand the scope of that entity's obligations to its employees. As detailed in Deloitte's recent publication *Human capital considerations in cross-border deals in Latin America*, Latin American target companies may have unconventional benefits arrangements with their employees or may even maintain unwritten agreements on matters such as long-term incentive plans (including stock options). The due diligence effort for these countries should seek to understand these complexities by engaging local teams to help avoid additional costs or delays post-transaction.²

Minority investors issues—The ability of majority shareholders to “squeeze out” minority interests as part of a deal is regulated differently across countries. Thresholds for majority ownership necessary to compel minority owners to sell their shares vary but are often 90 percent. In India, ambiguity in the law about whether minority interests are compelled to accept a buyout can result in a protracted legal appeals process.³ Also, determination of “fair value” of the minority shares varies by jurisdiction. Minority shareholders in Canada, for example, have the right to have “fair value” decided by a court, potentially delaying integration.⁴

Anti-trust and tax issues—Deal close may be delayed for several months due to country anti-trust reviews or changes in jurisdictional tax laws or regulations. Review by China's Ministry of Commerce, for instance, can last several months and often comes with new conditions, including divestiture of business units. Changing tax landscapes, such as recent US rules limiting corporate inversions, also can undermine deal strategy and synergies.

Case study: Managing country-specific regulatory requirements

- **Situation:** A technology company's acquisition of another technology company was delayed by several months due to regulatory scrutiny by the Chinese Ministry of Commerce.
- **Complication:** Because the Chinese business units could not integrate without regulatory approval, realization of revenue synergies was delayed. Furthermore, approval was conditional upon several changes to the new company's branding and sales plans, causing the integration team to adjust operational plans on a tight timeline.
- **Solution:** By conducting strong due diligence around country-specific regulatory requirements, companies can build appropriate lead time into their integration strategy and adjust country integration sequencing to realize synergies as quickly as possible. Additionally, by using an integration management team to engage regional and in-country teams early and often through the process, companies can be well positioned to anticipate and nimbly adapt to changing regulatory requirements.



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Product registration and industry-specific regulations

Extensive due diligence is essential to understanding industry-relevant product registration, certification, and labeling requirements in highly regulated industries including life sciences and health care, chemical and consumer goods, and financial services.

Life sciences and health care—In addition to efficacy and safety standards, registration requirements for pharmaceutical, medical device, and health products differ by jurisdiction. Case in point: a change of manufacturer will invalidate European Conformity (CE) marking, which certifies compliance with all relevant EU regulations, of medical devices unless the quality system is audited.⁵ Meanwhile, changes to parent or subsidiary legal entities will likely not affect product registration, as long as the legal entity registrant does not change; however, product branding changes may necessitate corresponding registration changes.

Chemical and consumer goods—Most countries require registration of chemicals and products with chemical components; these registrations must be updated when the legal entity holding the registration changes. Without registration changes, companies may not be able to rebrand products. Further, customers in certain countries may have to re-register products if their components' registrations change, necessitating outreach and support. Additionally, in some jurisdictions, such as China and the EU, foreign companies may not apply for or hold chemical registrations, and must engage a local representative to do so.

Financial services—Reporting, data sensitivity, and risk management regulations govern banks, financial institutions, and other companies that facilitate financial transactions. If a merger results in new business-facilitating transactions or money-movement decisions, it may need to develop new compliance capabilities. M&A deals also may require changes to customer consent agreements. Regulations in the EU mandate high levels of customer consent before sharing financial and personal information outside of a legal entity, meaning companies may have to obtain additional consent upon deal close.

Case study: Managing product registrations and licenses

- **Situation:** A chemical and pharmaceutical company, when acquiring another pharmaceutical company, had to manage changes to registrations and licenses for thousands of products in dozens of countries.
- **Complication:** Changes in registrations and licenses impacted plant and distribution center consolidations, country sales operations integration, and the legal entity consolidation schedule.
- **Solution:** The integration management team created a global map of registration requirements and timelines by country, enabling development of a comprehensive plan to sequence registration and licensing events for each region and country to help ensure consistent product manufacturing, distribution, and sales.



Legal entity (LE) rationalization

Large integrations often result in overly complex LE structures that are misaligned to corporate strategy and drive up administrative costs. Three common areas of concern are structure simplification, registration and licensing, and local engagement.

Structure simplification—While implementing a new LE structure could result in long-term cost savings, it typically presents significant challenges. The selected LE type is important and can determine the in-country operating model. Jurisdictions may take months to review and approve a new operating structure. Regulators in India tend to be disparate, exercise broad authority over operating models, and act slowly, which could delay LE changes. Conducting extensive due diligence to identify banking, licensing, and staffing requirements is essential to help avoid integration delays. It is important to know, for example, that wholly foreign-owned enterprises in China can perform a broad scope of services but have up-front capital requirements.⁶

Registration and licensing considerations—Tax benefits and cost savings are key drivers of LE rationalization but companies should also consider product registrations and operating licenses. The costs of registration or licensing changes may reduce or outweigh consolidation savings, for instance. Also, companies should consider preserving LEs or phasing rationalization to help preserve distribution and operating rights. Such is the case for pharmaceutical products in Brazil, where lengthy registration timelines, requirements for local representatives, and complexities in the registration process could merit leaving LEs in place in order to avoid reregistration.⁷

Local engagement—When implementing LE rationalization, it is important to engage country and regional teams early and frequently to help avoid surprises and verify that the deal structure and implementation match what's going on in-country. Key functional groups include legal, finance, tax, treasury, human resources (HR), and real estate. Regulations on stock/asset transfers and works council review can vary by jurisdiction. For example, due to France's regulations around consultation upon an LE change, deal close could be delayed while a works council drafts its required (but nonbinding) opinion of the change.⁸ It is important, therefore, to verify that the new LE structure and rollout plan reflect local realities.

Case study: Managing local integration realities

- **Situation:** A global transportation and logistics company acquired a competitor, creating an organization with hundreds of different legal entities in dozens of countries.
- **Complication:** While the headquarters integration management team did extensive analysis and planning for rationalizing the legal entity structure, the integration process was delayed because the strategy did not reflect local realities. Because the strategy was drafted without significant feedback from regional and in-country teams, factors unique to each country were overlooked, delaying realization of operational synergies.
- **Solution:** By engaging regional representatives early and often in the integration process, an integration team can capture local realities and design an integration strategy that takes into account in-country complexities, helping to reduce or eliminate costs due to delays.



The importance of a country sequencing plan

Whether a company is a serial acquirer or engaging in cross-border M&A for the first time, each deal and its subsequent integration issues will be unique. To be able to attain the full operational and financial synergies of an international integration, a company should conduct robust country-

specific integration analysis, resulting in a comprehensive execution and country sequencing plan.

This plan should allow the company to facilitate operations throughout the integration, forestall legal challenges, keep the integration on schedule and, ultimately, realize every dollar of potential synergies. A common pitfall in executing cross-border deals is assuming that global considerations can be addressed after the fact. However, to help avoid the potential complications listed earlier, companies should begin their country sequencing

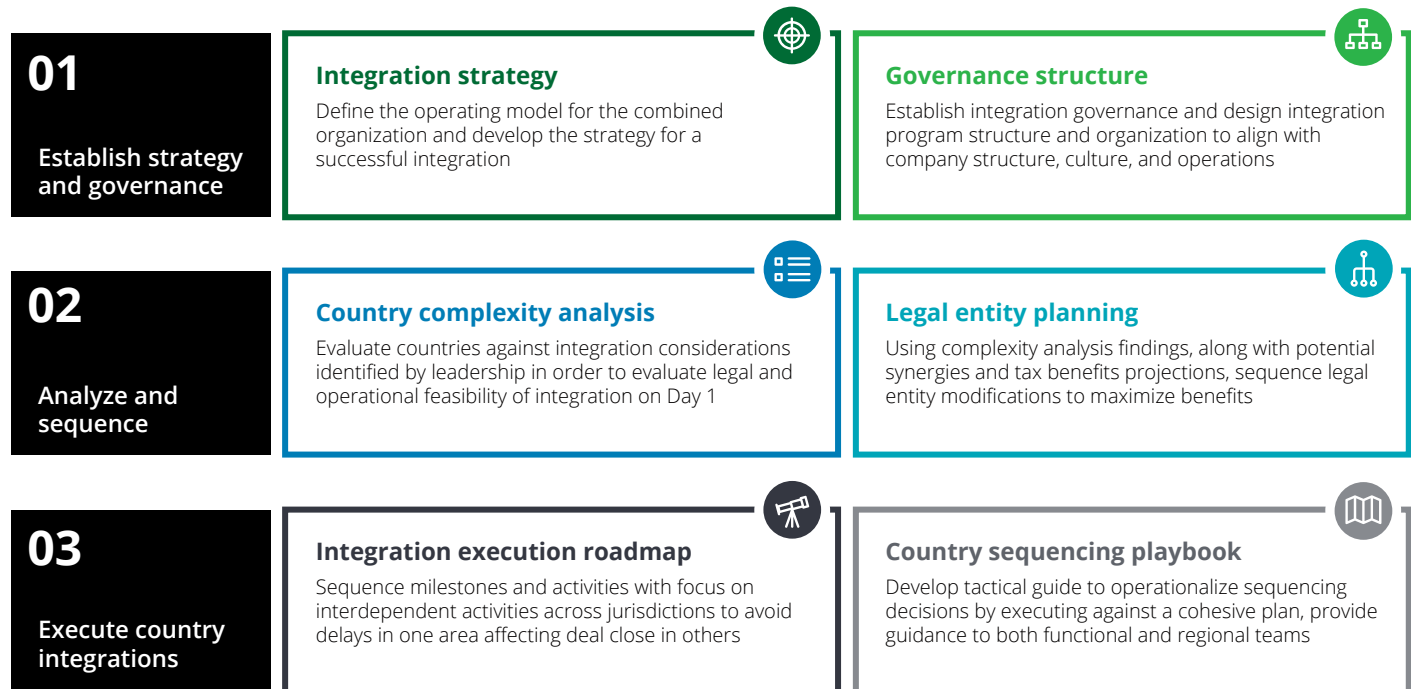
analysis early to allow for appropriate follow-on planning. This analysis should include involvement by integration leadership, cross-functional business units, and in-country representatives.

Deloitte suggests that executives consider a data-driven approach to country-specific integration planning that incorporates three steps:

01. Establish strategy and governance
02. Analyze and sequence
03. Execute country integrations (figure 2).

Figure 2: Planning for country-specific integration complexities

Deloitte's data-driven approach to country sequencing is comprised of three steps:



Focus on diligence, planning, and execution

International M&A transactions can be time- and resource-intensive and fraught with challenges that are often exacerbated by geographical distance. To be able to fully realize post-deal synergies and shareholder value, executives should focus on due diligence, planning, and execution when developing and implementing their country integration and sequencing plans.

Due diligence

Know your countries: Collect all company data and regulatory requirements to inform country sequencing decisions.

Focus on what matters: Apply the 80/20 rule to help identify high-impact (in value and complexity) countries and those with high integration complexity.

Planning

Start early: Stand up local and regional teams early in the integration process (and begin planning before deal close) so that Day 1 processes can run smoothly.

Emphasize speed to value: Develop a plan for efficient integration that emphasizes targeting synergies (financial, sales, employee) that can be realized quickly.

Execution

Manage centrally, implement locally: Develop a cohesive central governance structure but engage in-country teams to execute.

Expect roadblocks: Consider mitigation steps early and move quickly to help overcome hurdles when they are encountered.

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Endnotes

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