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# *PwC M&A Integration*

## *Seven Fundamental Tenets of Successful Integration*

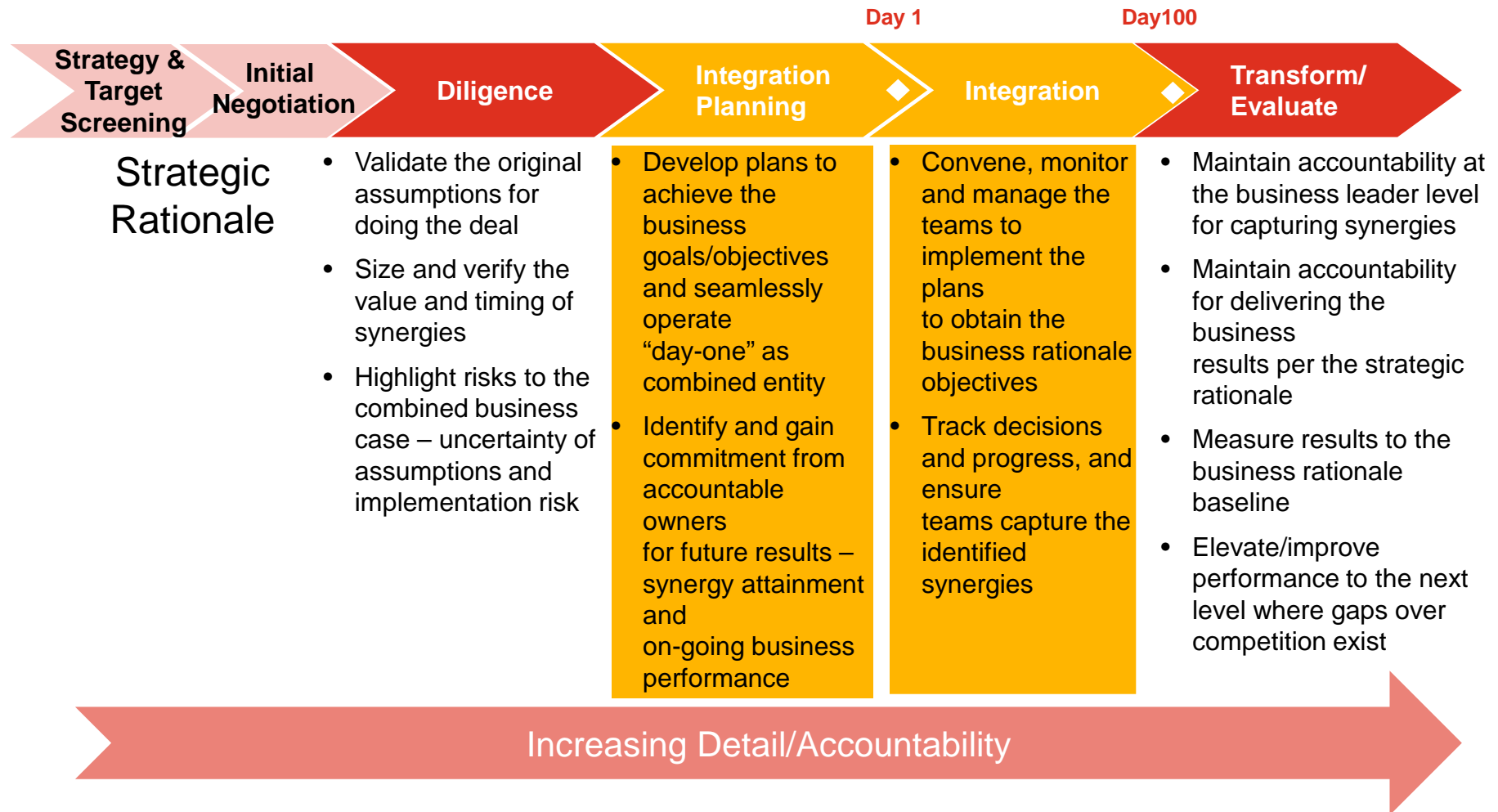
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## ***This Morning's Agenda***

1. PwC and the Deal Lifecycle
2. Presenter Introduction
3. Seven Tenets of a Successful Integration
4. Recent PwC Survey Findings
5. Common Integration Questions and Considerations across Functions

# PwC and the deal lifecycle

*PwC advised clients throughout the phases of the deal lifecycle; We work on the buyer and seller side of the deal, maximizing the value of the deal activity.*



## Presenting – Lori Bistis, PwC Deals Director



- 14 years of technology and consulting experience specializing in post deal integration, separation activities, transition services agreements, project management, process definition, and pre-deal IT /Operational due diligence.
- Brings a range of industry experience particularly within media & entertainment, technology, communications, and manufacturing / supply chain.
- Has managed extensive vendor partnerships and led teams through significant periods of change.

### Selected Project Experience

- Led the post-deal merger integration and customer conversion efforts for a large telecommunications acquisition, focused on support of the complex IT conversion requirements across billing, customer, and network inventory systems.
- Led the post-deal merger integration effort at a leading digital media advertising client(s), responsible for supporting integration efforts across all functional groups, with particular focus to product, technology, sales, and operations.
- Developed a carve-out implementation plan and detailed process review to establish a target operating model, focusing on IT and finance/accounting operations for a large Financial Services client.
- Led the post-deal merger integration effort for multiple technology acquisitions while working in the media industry, focused on intellectual property assessment and patent harvesting, IT, product operations, organization design, cost avoidance reporting and justification, knowledge transfer, and the Integration Management Office.
- Led the divesting of a large business unit , carving out an event management service and digital media property from a major media company and developing supporting TSA schedules to ensure a smooth transition for separation.
- Managed numerous pre-deal due diligence efforts working with private equity clients, focusing on IT and back office operations across various sectors including life sciences, consumer and industrial products, technology, and retail.

### Before PwC

- 8 years in the media industry and held the position of Director of Content Systems Integration (PMO and QA) at ESPN.
- Began her career with Accenture as a process and technology consultant (5 years)
- Graduated with honors from Syracuse University.

#### Key Solution Delivery Areas:

- Post-Deal Integration (IMO, IT)
- Carve-Out Activities
- TSA Development
- IT/Operations Due Diligence
- Process Analysis and Development

#### Selected Technology Clients and/or Partnerships:

- EMC
- Lockheed Martin
- Covidien
- Extreme Reach
- Barnes&Noble
- Google
- Toshiba
- Frontier / AT&T

#### Selected Media Clients and/or Partnerships:

- Disney / ABC
- ESPN
- Millennial Media
- EA Sports

#### Selected Private Equity Clients:

- Clayton, Dubilier & Rice
- The Carlyle Group
- Altamont Capital Partners
- Centerbridge Partners

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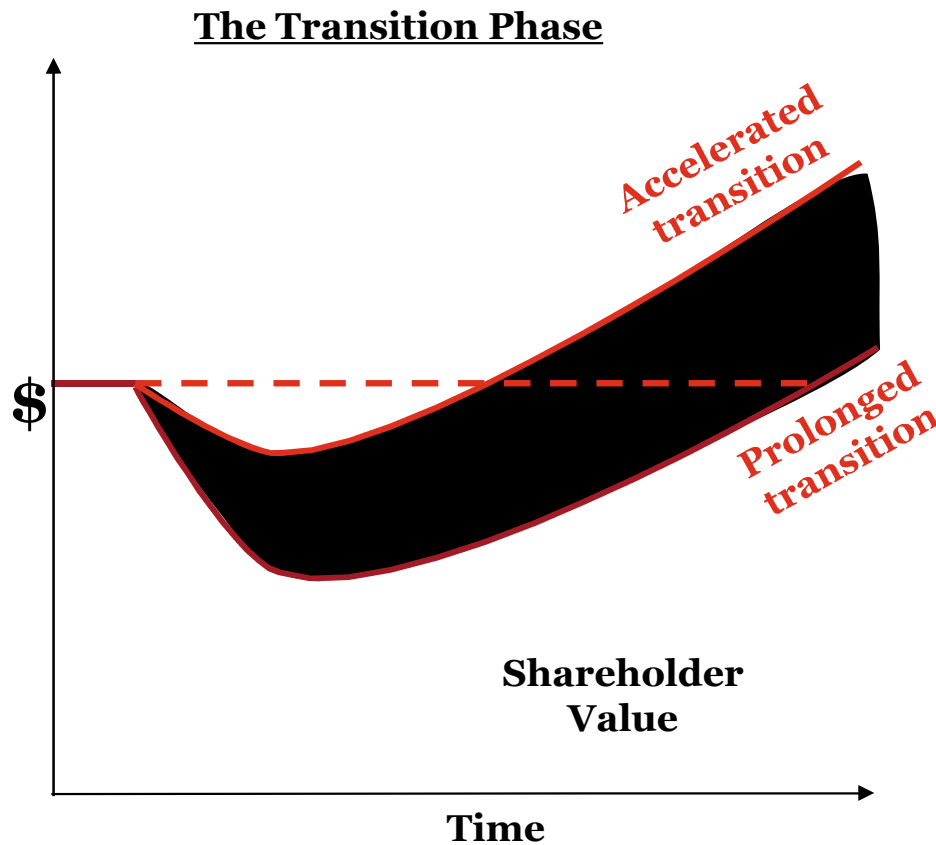
## ***PwC Seven Fundamental Tenets of Successful Integration***

***Capturing sustained economic value in a merger or acquisition is a significant challenge. Regardless of deal size, complexity, or geographic reach, some fundamental tenets are key to success for realizing deal objectives.***

1. Accelerate the transition <sup>TM</sup>
2. Define the integration strategy
3. Focus on priority initiatives
4. Prepare for “Day One”
5. Communicate with all stakeholders
6. Establish leadership at all levels
7. Manage the integration as a business process

## **Tenet #1. Accelerate the transition <sup>TM</sup>**

***There is no value in delay. A focus on obtaining bottom-line results as quickly as possible to maximize shareholder value is critical.***



### **Value of an Accelerated Transition <sup>TM</sup>**

- Faster capture of return on deal investment
- Exploitation of post-deal opportunities
- Reduced organizational uncertainty

### **Impact of a Prolonged Transition**

- Slower than market growth
- Diminished profits
- Decline in morale and productivity
- Missed opportunities
- Loss of market share

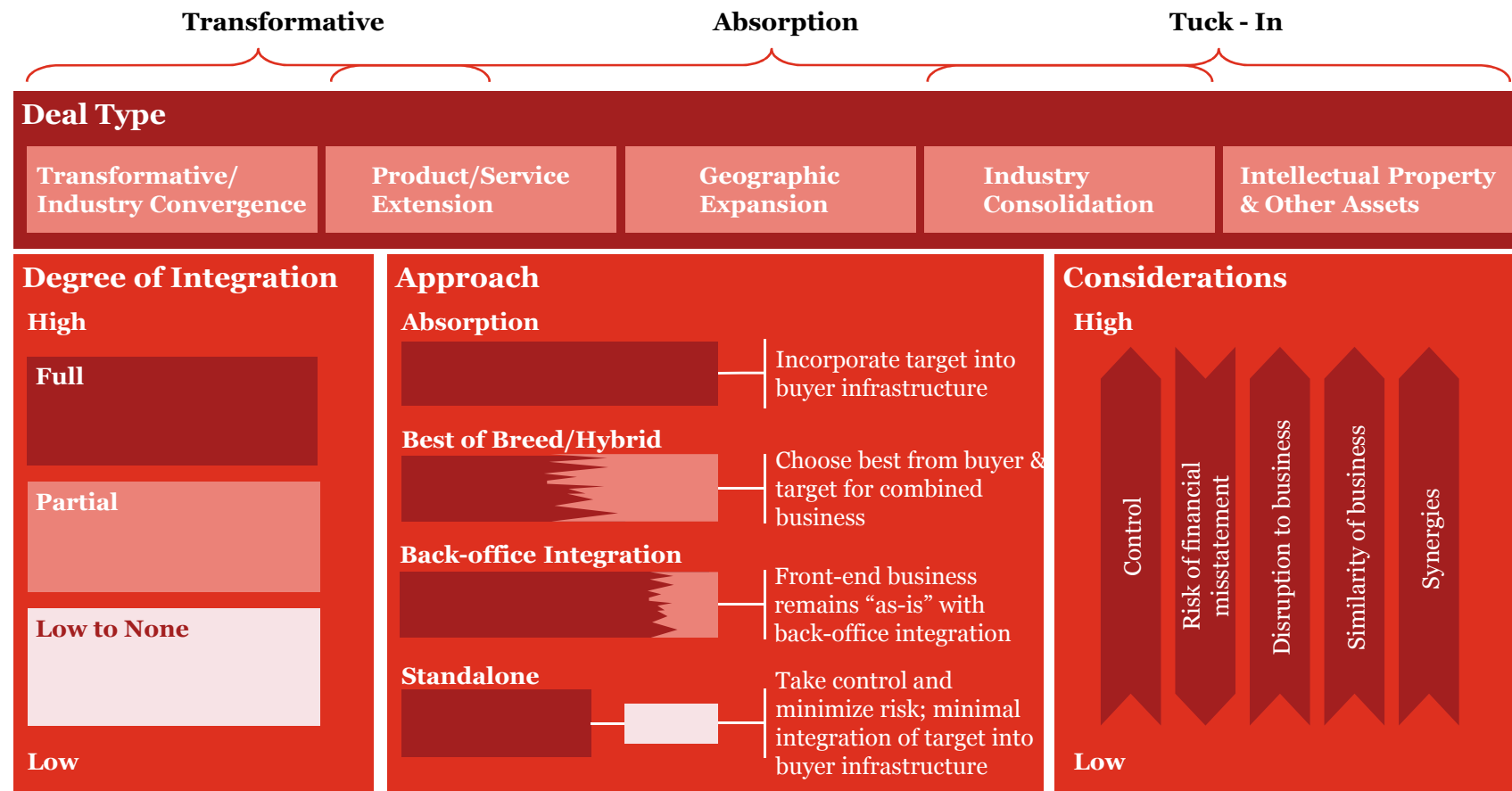
## Tenet #2. Define the integration strategy

*Integration priorities are easier to identify when a clear integration strategy is defined and communicated.*

Acquisition Strategy		Integration Strategy
Acquire new products and services	➔	Define product roadmap; develop marketing plan; align sales and partner channels; train sales force; align compensation systems
Open new markets and distribution channels	➔	Negotiate distribution agreements; consolidate supply chain operations; align sales and partner channels
Acquire key talent (people)	➔	Assign staffing roles; define retention plans; integrate compensation, health, and welfare
Obtain key assets and capabilities	➔	Align operating policies, procedures, and processes; secure asset custody
Consolidate businesses	➔	Rationalize facilities and headcount; merge financial systems; drive procurement synergies
Acquire new business model	➔	Define and communicate new direction

## Tenet #2 (continued). Define the integration strategy

*Planning the degree of integration across functions and geographies is critical to translating acquisition strategy into integration strategy.*





# Tenet #3. Focus on priority initiatives

**Limited management time and the need for speed requires prioritization of integration initiatives. Shareholder value must drive resource allocation.**

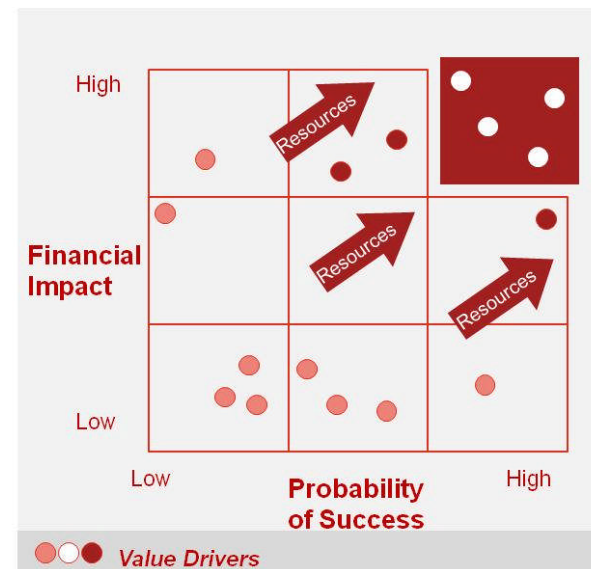
## Define the Sources of Value Capture and Value Creation

### Business Case Development

- Build financial impact for initiatives
- Perform risk assessment for initiatives
- Rank initiatives on a risk/reward basis
- Validate assumptions

*Detailed business case for each Value Driver initiative, including qualitative and quantitative information based on extensive analysis*

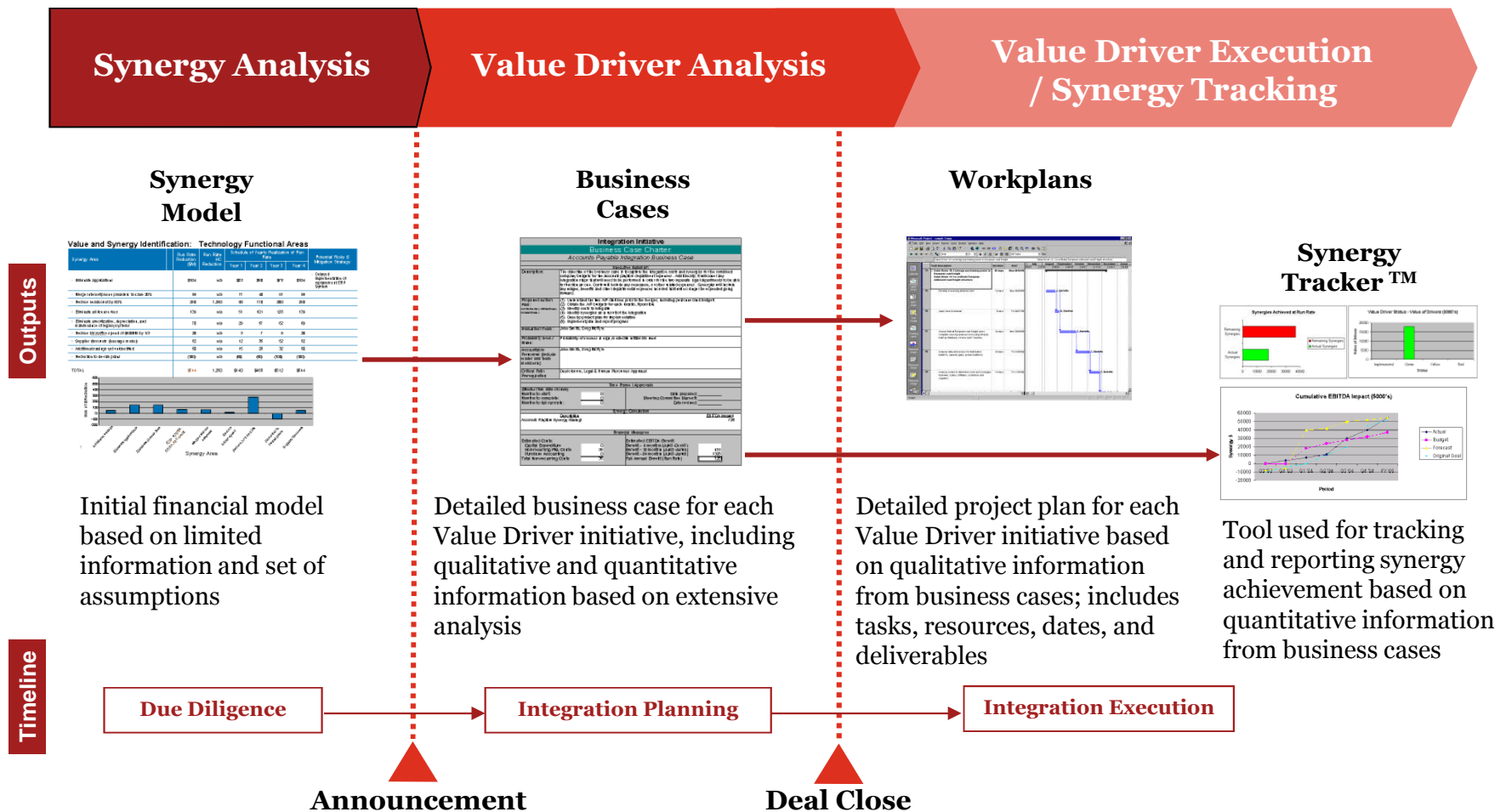
## Allocate Resources based on Financial Impact and Timeline



*Initiatives are ranked with respect to financial impact and probability of success. Those with high financial impact and high probability of success receive resource priority.*

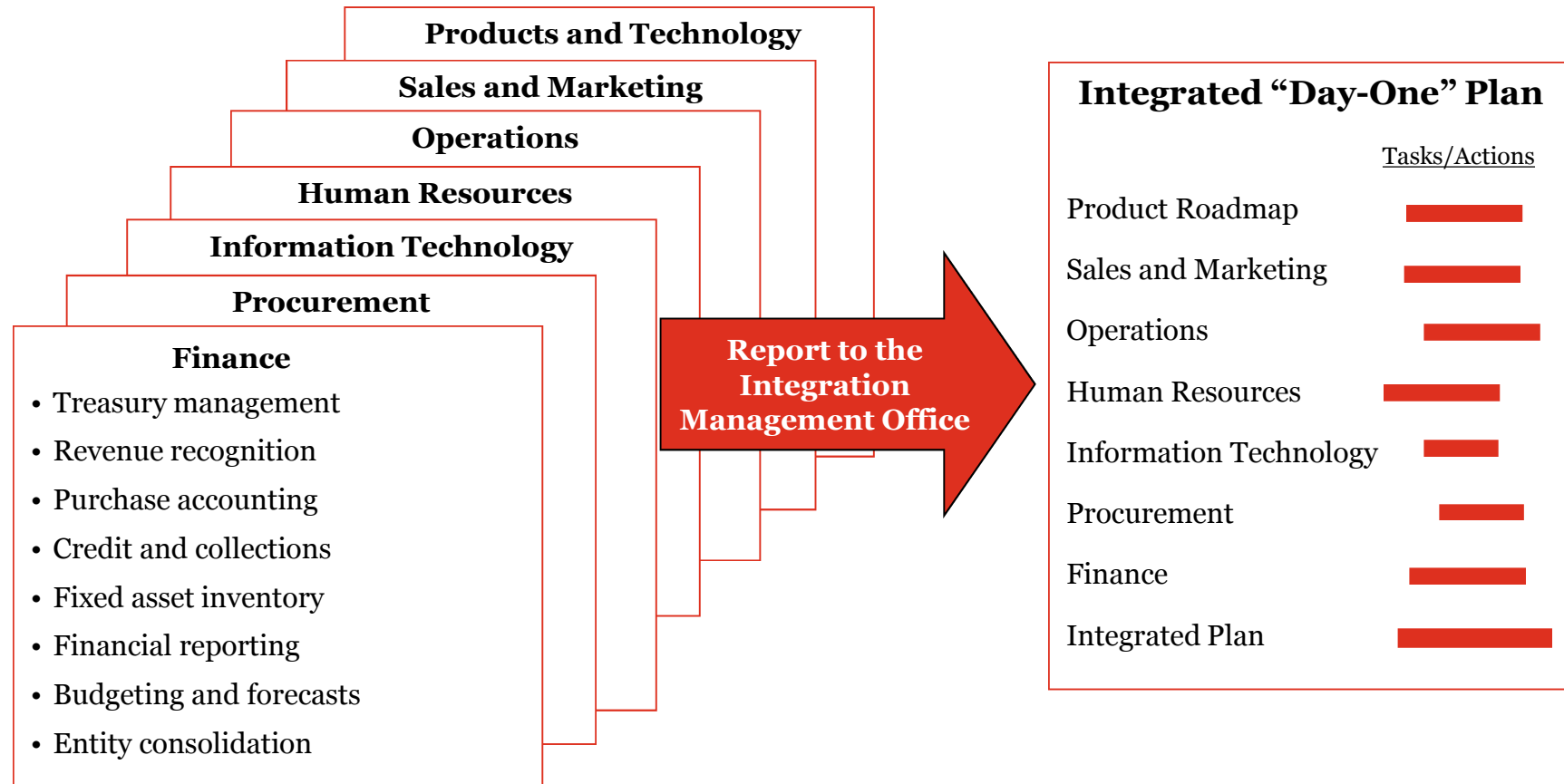
# Tenet #3 (continued). Focus on priority initiatives

The PwC Value Driver Lifecycle follows a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum.



## Tenet #4. Prepare for “Day One”

*Critical “Day-One” tasks are identified early, before detailed planning commences. This allows prompt identification of long lead items before they turn into closing day surprises.*



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## ***Tenet #5. Communicate with all stakeholders***

***Identifying stakeholder issues and building a communications plan to aggressively manage these issues is essential to achieving a smooth integration.***

- **Be Clear:** Communicate what you know and what you don't know
- **Give Direction:** Set expected timing and milestones
- **Describe a Process:** Develop the context for the decision process
- **Keep Management Visible and Credible:** Deliver consistent messages at all levels of the organization
- **Prepare Initial Communication:** Draft key messages that clearly articulate the reasons behind the deal
- **Create a Communication Plan:** Develop a timeline based on key transition milestones, and communicate progress or decisions on each issue
- **Continuously Communicate Decisions and Key Milestones**

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## **Tenet #6. Establish leadership at all levels**

***Swift selection of key management positions early in the transition is critical in clarifying authority, assigning accountability, and mitigating the crippling effects of uncertainty.***

### **Organization**

- Define organization structure and operating model
- Determine personnel requirements, roles, and responsibilities

### **Leadership**

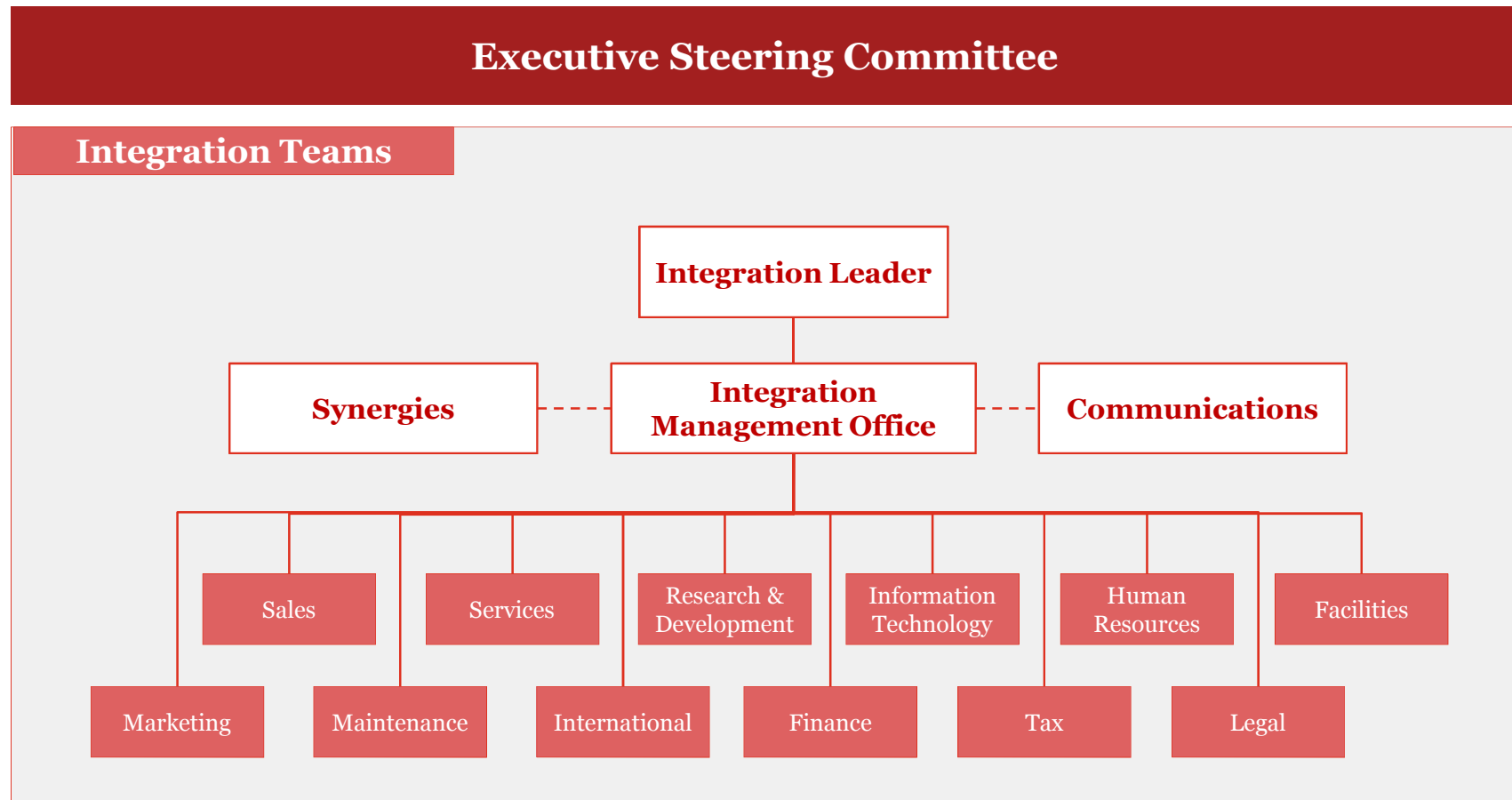
- Select and announce executive and leadership positions
- Develop retention plans and incentives

### **Employees**

- Identify and select employee headcount
  - Termination
  - Transition
  - Retention

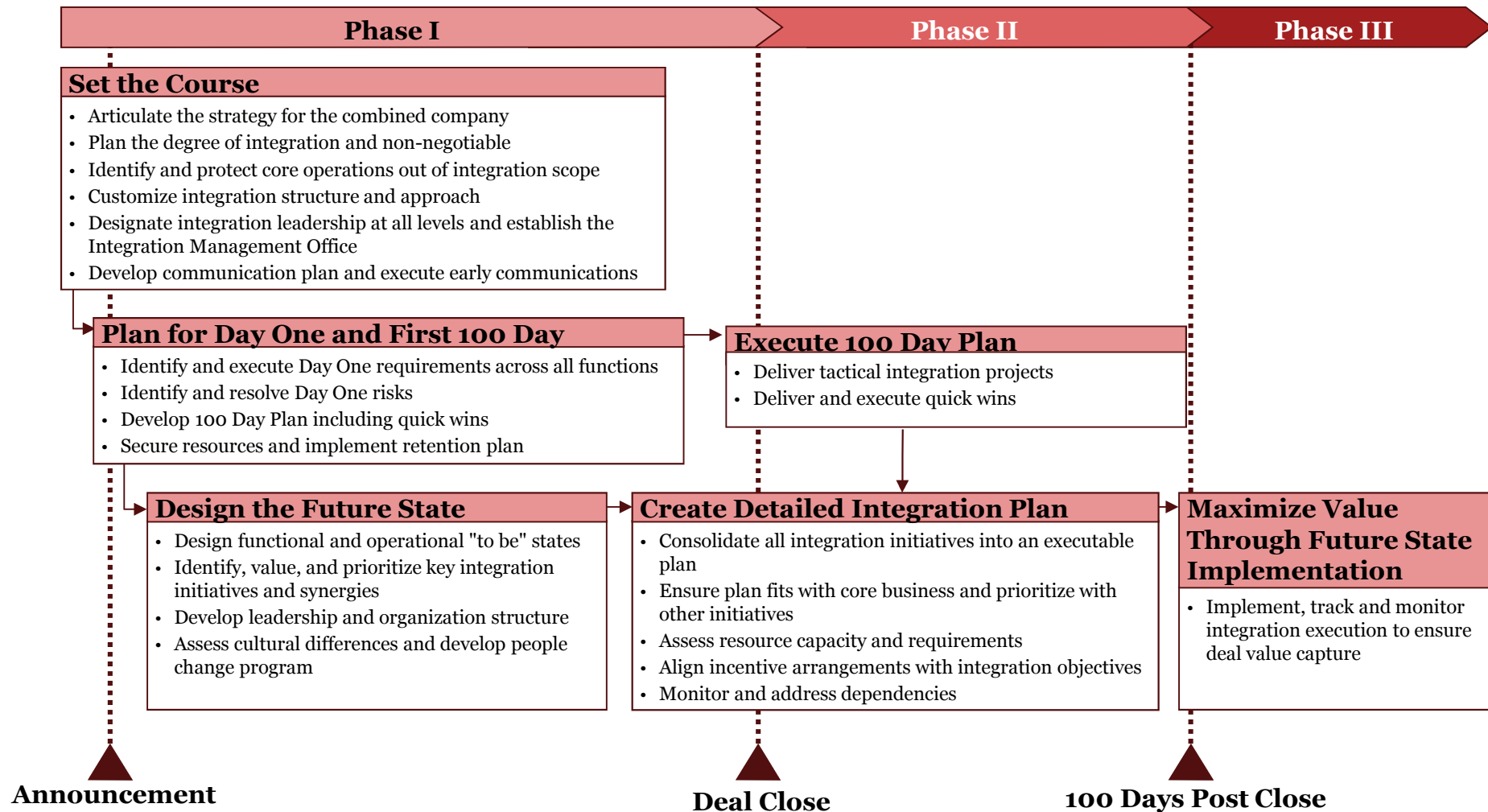
## Tenet #6 (continued). Establish leadership at all levels

*A team based integration structure is important to link strategy and leadership with task level action, and to coordinate activities and dependencies across the organization.*



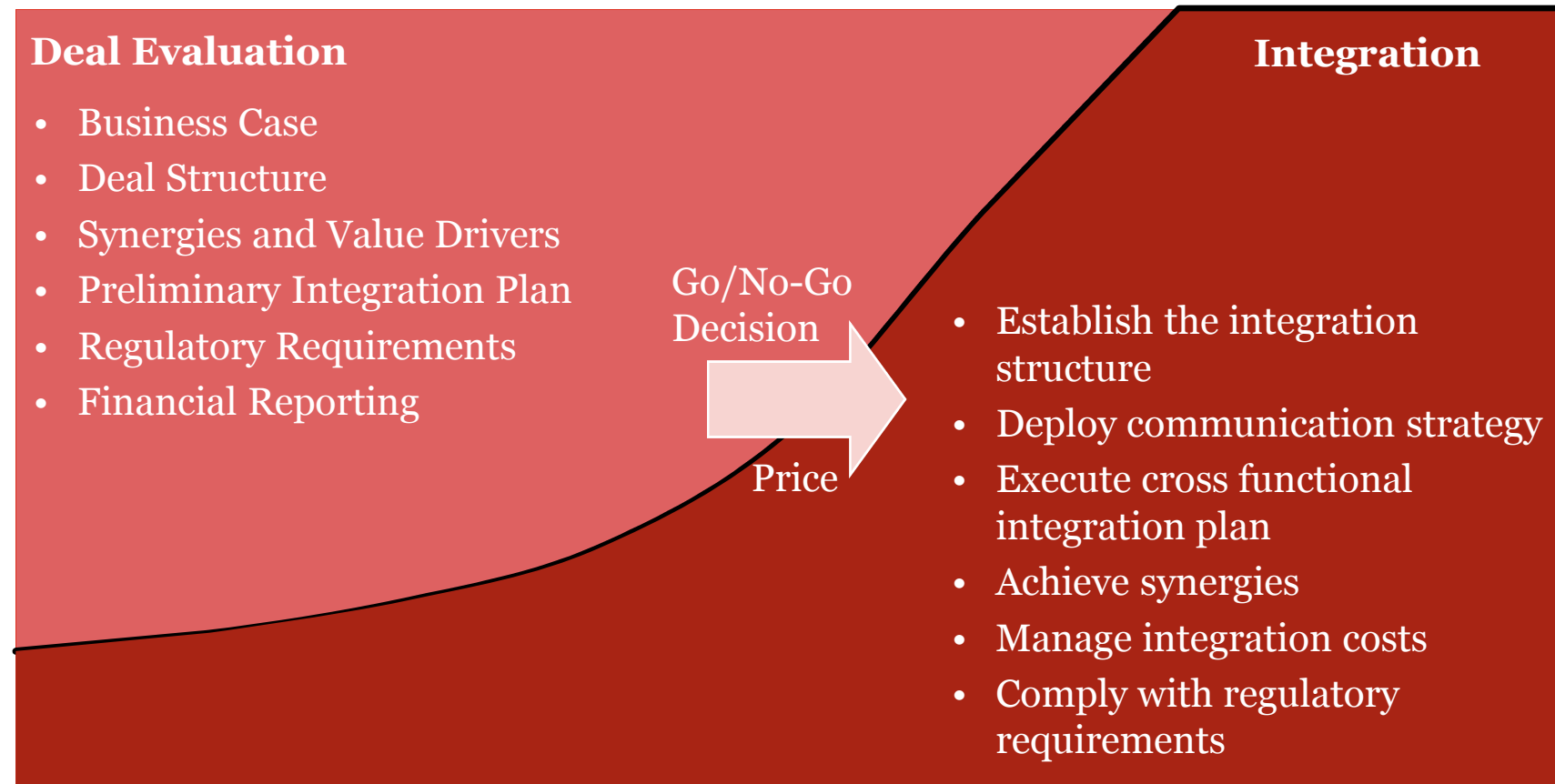
# Tenet #7. Manage the integration as a business process

*The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.*



## **Tenet #7 (cont). Manage integration as a business process**

*Experience shows that coordinated teams working in parallel to drive diligence and integration increases efficiency as activities shift from diligence to integration.*





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# ***PwC Integration Survey***

***PwC recently surveyed management from over 100 US companies that completed a merger or acquisition in the past 3 years. Findings show that early and timely execution of a few fundamental integration activities directly correlate to capturing deal value.***

***Deal success remains a challenge by any measure, but, in particular, a rise in transformational deals has increased the complexity of integration.***

- Finding #1: Strategic and financial goals are easier to reach than operational targets
- Finding #2: Transformational deals are on the rise, representing more complexity and challenge for integration

***Integration risks are plentiful, though some common areas pose the greatest challenges.***

- Finding #3: Integrating information systems, operating procedures, and people represent the biggest post-close challenges
- Finding #4: Integrating the R&D function and developing new products in connection with a deal have proven difficult
- Finding #5: Capturing cost synergies is easier than capturing revenue synergies

***Success factors for establishing integration momentum involve early integration planning and rapid execution of specific activities.***

- Finding #6: Performing integration planning early in the deal process improves deal results
- Finding #7: Speed of integration continues to play an important role in deal success
- Finding #8: Early and timely execution of a few key – but fundamental – integration initiatives are directly related to achieving deal objectives

***Delivering deal value over the long-term requires commitment and focus.***

- Finding #9: Staying involved in integration efforts longer improves deal success
- Finding #10: Achieving full integration requires commitment and focus to delivering synergies, managing talent, and integrating information system

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***Common integration questions  
and considerations across  
functions***

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“What is the typical timeline for a finance/accounting integration?”

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## ***Topic of Interest #1: Financial Control of the Business on Day One***

- Control the cash; Treasury management
- Close the books
- Address any tactical regulatory, tax and compliance-related requirements resulting from a merger in the broadcast environment
- After Day One
  - Understand capital budgeting across major projects (significant costs in broadcast infrastructure)
  - Understand financial systems and business process alignment
  - Facilities and lease accounting
  - Insurance
  - Tax implications; Legal entity structure
  - Identification and tracking of synergy initiatives
  - Policies

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“What are some common pitfalls of an integration?”

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## ***Topic of Interest #2: Common Pitfalls***

- Losing discipline and delaying decision making in an effort to appease multiple stakeholders; “doing nothing”
- Assuming verbal agreements readily translate into operational policies and procedures, and that trust can be maintained after communication miscues
- Failing to identify key assets and defining a plan for value creation (e.g. go to market strategy, sales channel alignment, key personnel on-boarding and training)
- Focusing on back office cost reductions prior to understanding service level requirements
- Failing to acknowledge that business process change and systems integration will occur over the long-term
- Cross boarder deals: Underestimating complexity brought by scale and geographic diversity

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“Where are there opportunities for synergies when managing an integration?”

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## ***Topic of Interest #3 – Operational Impacts and Synergy Opportunities***

- Personnel
- Back Office Operational Workflow (IT in particular)
- Facilities planning
- Vendor implications; Cost reductions and strategic sourcing
- Potential TSA costs to maintain operations



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“How should communications be handled to ensure the right transition for personnel?”

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## ***Topic of Interest #4 - Soft Elements of the Integration***

- Impact of personnel changes
  - One time costs for retention, severance, training
  - Close knit sector / competition; Risk of losing key employees
- Internal and external communications; financial messaging in the market
- Compensation alignment and impact (Sales in particular)
- Variety of employee contracts and arrangements