



# Golden Oldies

Tales from the Vault of Rowland Chen

*From 2009: “M&A Value Leaky Pipe”*

# Common View of Why Do 60 % to 80 % of Acquisitions Fail\*

- A. The acquirer paid too much.
- B. Not enough due diligence was performed.
- C. Adequate integration planning was missing.
- D. Integration got off track during execution.
- E. Not enough attention was paid to culture integration.
- F. Cost synergies were overstated.
- G. Revenue synergies were never realized.
- H. Customers defected.
- I. Key employees of the target left prematurely.
- J. Any combination of the above

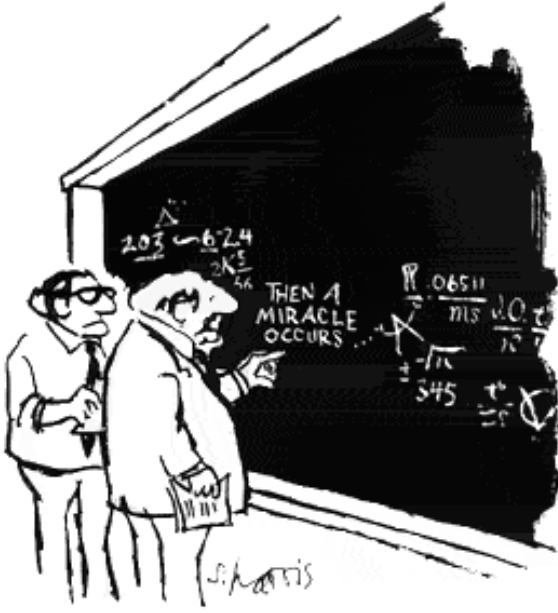
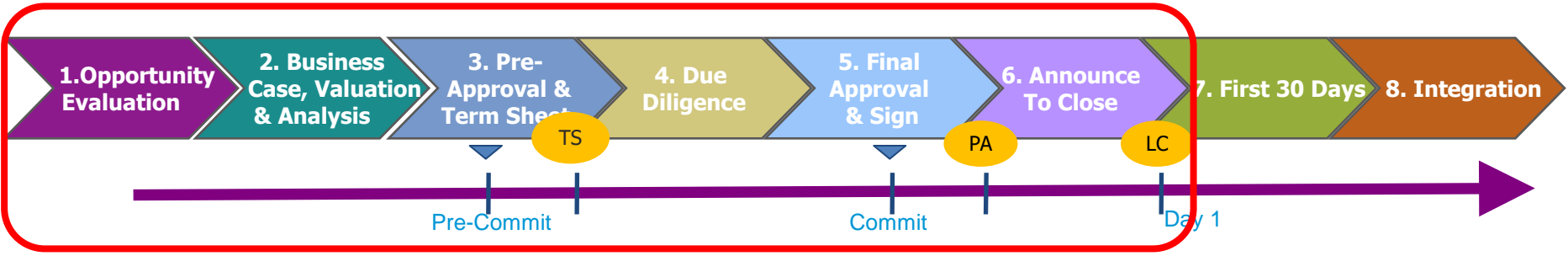
\* Sources: McKinsey, Bain, BCG, Goldman Sachs, Alvarez & Marsal, Deloitte, Accenture, PwC, KPMG, M&A Leadership Council, Harvard Business School

# Observations about M&A Methodologies

- Many documented merger and acquisition “playbooks” over emphasize pre-close activities – preparing to do the deal
- Flawed post-close integration is a major source of M&A failure (destruction of value)
- A need exists for a playbook that balances pre- and post-close guidance

(3)<sup>3</sup>

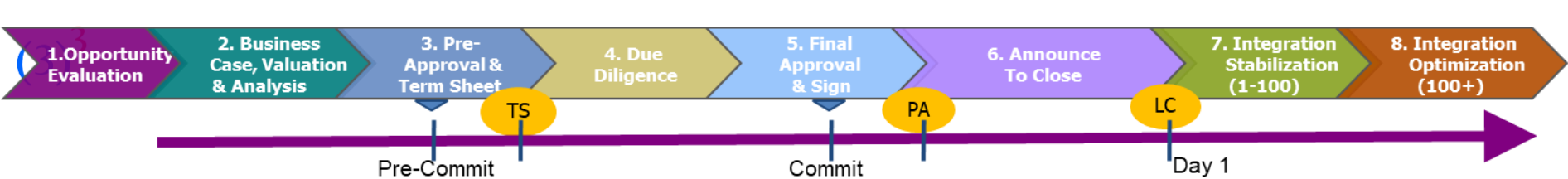
# Example: The Gold Standard in Acquisition Playbooks (Is Integration an Afterthought?)



"I think you should be more explicit here in step two."

Step 8. Integration

- TS = Term Sheet
- PA = Public Announce
- LC = Legal Close



1. Integration Engagement & Early Discovery	2. Pre-Announce Operational Diligence & Commit	3. Integration Analysis & Planning	4. Integration Execution & Close Out
---	--	------------------------------------	--------------------------------------

- Launch Integration Engagement**
1. Provide Deal Overview
  2. Conduct Early Discovery
  3. Initiate Exec Sponsor Engagement
  4. Set Up Project Infrastructure
- Define Preliminary Strategies**
5. Draft Strategies
- Develop Integration Plan of Intent (POI) for Pre-Commit**
6. Define Value Drivers & Measures of Success
  7. Build Preliminary Cost of Integration (COI) Estimate into Financial Model
  8. Prepare Preliminary Plan of Intent (POI)
- Complete Pre-Commit Milestone**
9. Obtain Pre-Commit Approval
  10. Conduct Functional Leader Pre-Brief

- Define Team & Governance**
11. Define Team Structure & Governance Model
  12. Define and Manage Rewards & Recognition
- Perform Pre-Announce Operational Diligence**
13. Prepare for Pre-Announce Operational Diligence
  14. Conduct Pre-Announce Ops Diligence Kick-Off
  15. Submit Ops Diligence Data Requests
  16. Conduct Pre-Announce Ops Diligence Sessions
  17. Conduct Pre-Announce Ops Diligence Readouts
- Revise Strategy Documentation**
18. Update Strategies
- Revise Integration Plan of Intent (POI) for Commit**
19. Identify & Quantify Synergies
  20. Refine Cost of Integration (COI) Estimates & Obtain Budget Approval
  21. Update Plan of Intent (POI)
- Complete Commit Milestone**
22. Obtain Commit Approval

- Launch Integration Team & Governance**
23. Conduct Conditions for Success Review
  24. Conduct Integration Executive Summit
  25. Kick Off Integration
  26. Launch Workstreams
  27. Institute PM Standards & Practices
- Plan for Announce & Close + 30 Days Events**
28. Prepare & Execute Announce Plan(s)
  29. Complete Employee Enrollment Plan of Record
  30. Determine Close + 90 Days Scope
  31. Define Close + 90 Days Plan
  32. Execute Day 1 Close Plan
- Manage Data Requests & Analytics**
33. Manage Detailed Discovery Data Requests
  34. Establish & Execute Clean Room (optional)
- Conduct Integration Analysis**
35. Conduct Detailed Discovery & Analysis Sessions
  36. Finalize and Communicate Strategies
  37. Develop Operational Blueprints
  38. Conduct Operational Blueprint Review
  39. Define Integration Exit Criteria

- Perform Integration Planning**
40. Plan for Business Transition
  41. Define Orderability Readiness Strategy & Approach
  42. Build Workstream Project Plans
  43. Conduct Cross-Workstream Planning
  44. Conduct Walk the Wall Integration Plan Validation Session
  45. Finalize Workstream Project Plans in APEX

- Finalize Plan of Record (POR)**
46. Update Synergies
  47. Prepare Plan of Record
  48. Obtain Plan of Record Approval
  49. Execute POR Change Control

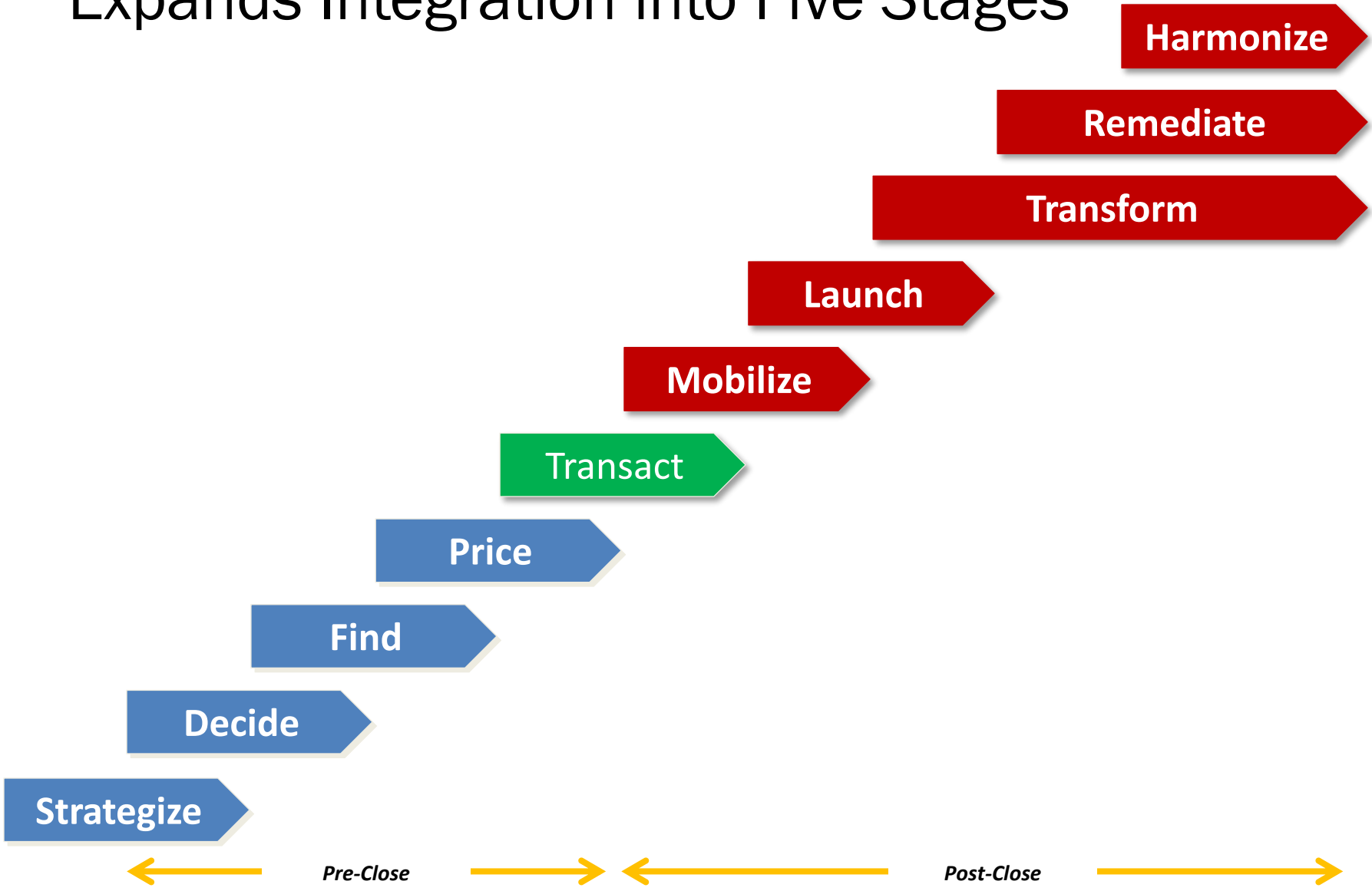
- Execute Close Events**
50. Conduct Day 1 Close Readiness Walkthrough
  51. Conduct Leadership Summit (Briefing)
  52. Execute Activities at Day 1 Close

- Execute Integration Plans**
53. Update Integration Plans
  54. Review and Approve Updates to POR

- Perform Post-Close Governance Activities**
55. Inactive
  56. Conduct Quarterly Integration Reviews (QIRs)
  57. Conduct CFO Integration Plan Review & COI Approval
  58. Conduct Post-Commit Milestone Review
- Close Out Project**
59. Collect and Action Customer, Partner, & Employee Feedback
  60. Conduct Project Close Out

**To be fair, 2 steps (of 60) do describe Execution.**

# (3)<sup>3</sup> Our Balanced Ten-Stage M&A Lifecycle Expands Integration into Five Stages





# Approach

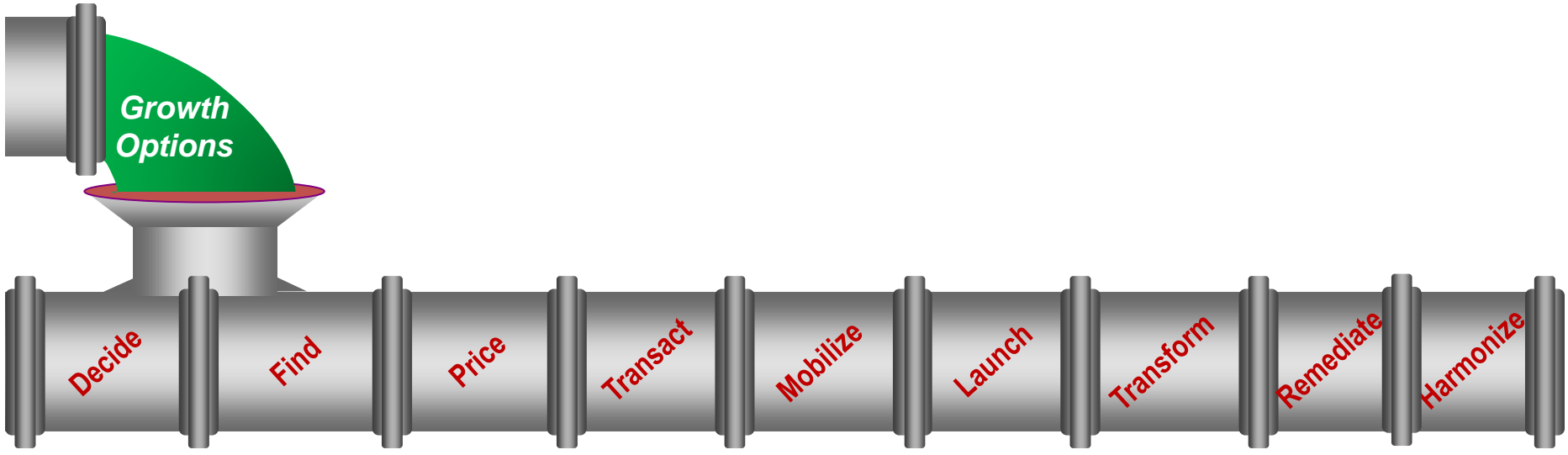
- Socratic conversations during each stage
- Questions to answer drives thinking that benefits you versus box-checking that benefits project managers

Stage	Question #	Guiding Questions	Status
01 Strategize	1	Do you have a clean room (virtual or physical)?	B
01 Strategize	2	Is your executive team aligned with global, industry, customer, market, and product assumptions?	B
01 Strategize	3	What is your goal for increasing shareholder value?	B
01 Strategize	4	What is your 5-year growth pro forma?	G
01 Strategize	5	What are the sources of organic growth?	B
01 Strategize	6	What are your options for growth?	G
01 Strategize	7	What is the role of technology and innovation in your competitive strategy?	Y
01 Strategize	8	What is the state of your own infrastructure?	Y
01 Strategize	9	What is the state of your core business?	R
01 Strategize	10	What is the state of your G&A functions?	Y
01 Strategize	11	What are your highest priority growth options (organic, acquisition, both)?	G
01 Strategize	12	How will you fund an acquisition?	G
01 Strategize	13	Have you reviewed your strategies with the board of directors?	G
02 Decide	14	What are your decision criteria?	Y

(3)<sup>3</sup>

# 10 Stages in Use: The M&A Pipeline

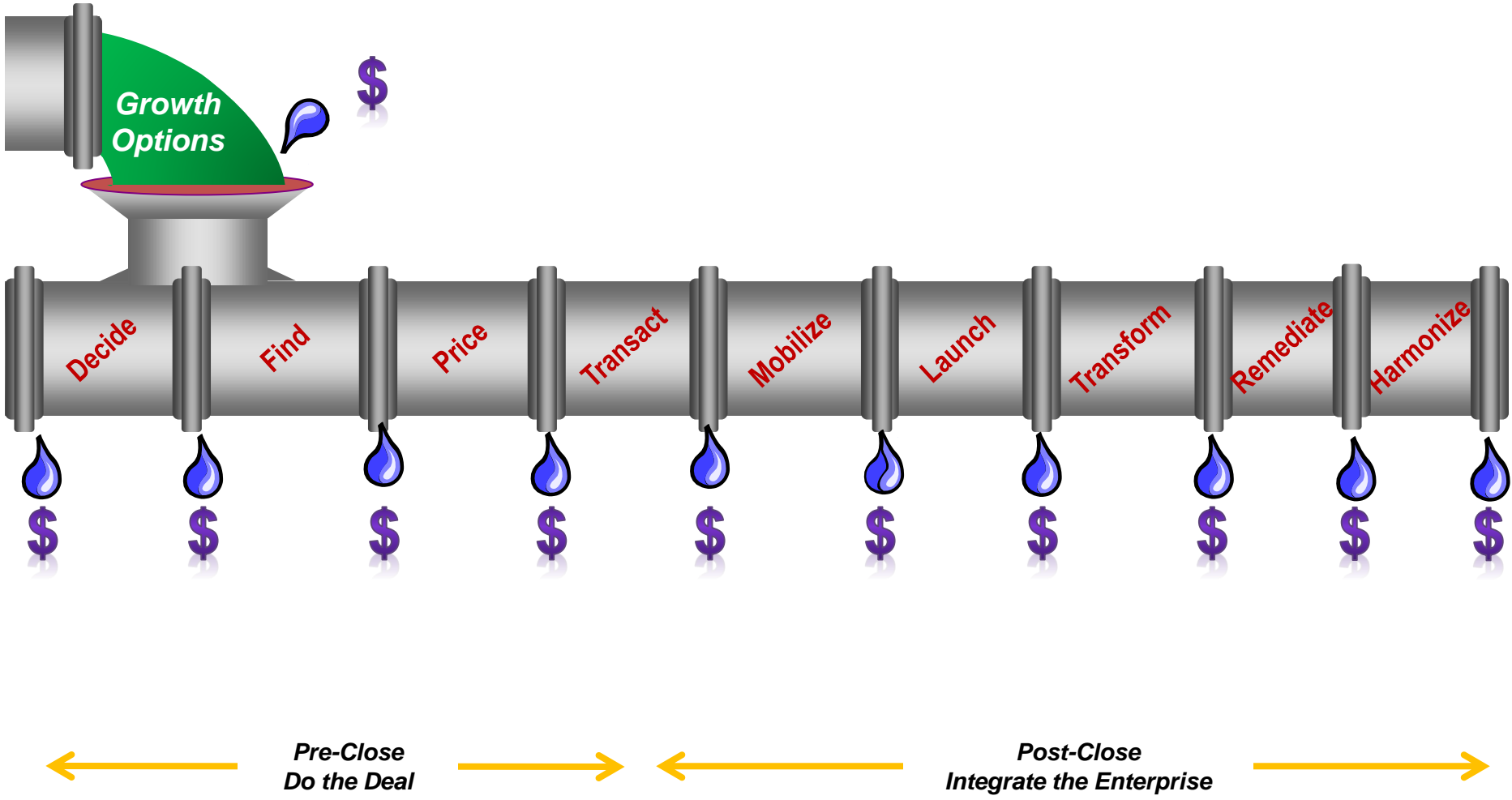
*Caution: Pay Attention to the Joints*





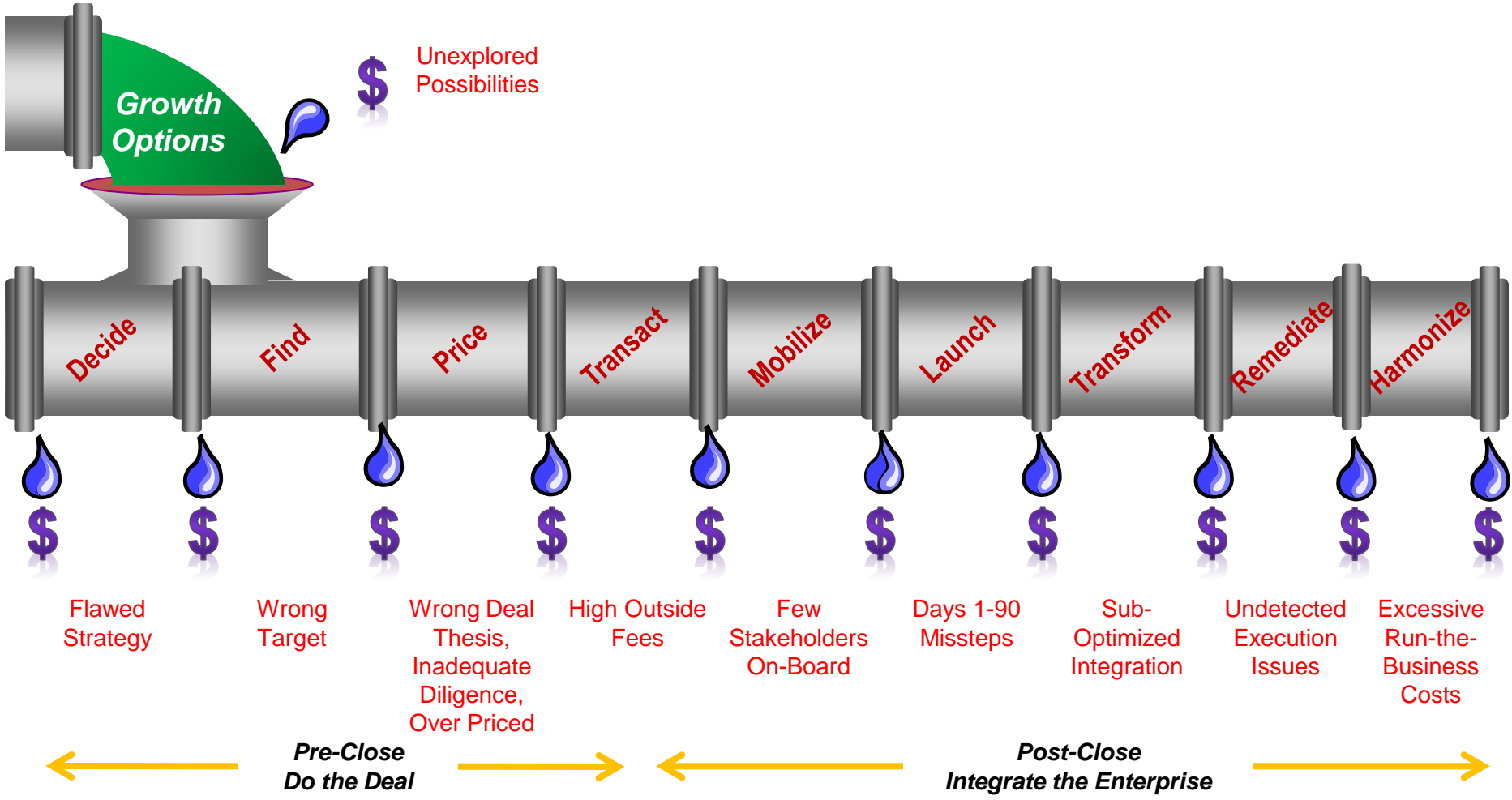
(3)<sup>3</sup>

# Where Does Your Deal Value Leak?



(3)<sup>3</sup>

# Identify Root Causes of the Drips





# Plug the Leaks: Proactively Attack Root Causes

Stage	Value Leak Root Cause	Sample Preventive Measure
Consider	Unexplored possibilities for growth	Divergent, out-of-the-box thinking
Decide	Flawed strategy	Convergent, fact-based thinking
Find	Wrong target	Balance rational and emotional drivers
Price	Inadequate diligence	Hypothesis-driven discovery
Transact	High fees (bankers, lawyers, etc.)	Hardball negotiations with providers
Mobilize	Few stakeholders on-board	Top-down and bottom-up involvement
Launch	Days 1 – 90 missteps	Execute to a tier 3 or 4 project plan
Integrate	Exceed COI budget	Realistic budgeting, accurate accounting
Remediate	Undetected execution issues	Open and honest integration environment
Harmonize	Excessive run-the-business costs	Operations performance improvement

# Questions?

Please Contact:

Rowland Chen

[rchen@rowlandchen.com](mailto:rchen@rowlandchen.com)

Mobile: 1-650-219-5312

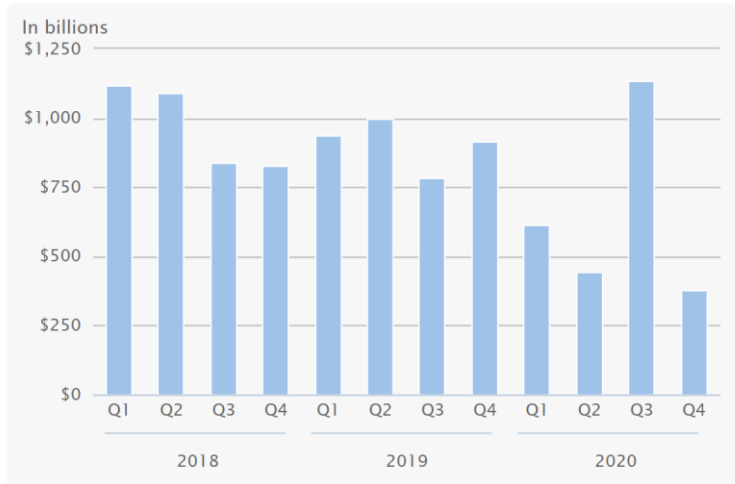
Pacific Time Zone

<https://www.linkedin.com/in/rowlandchen/>

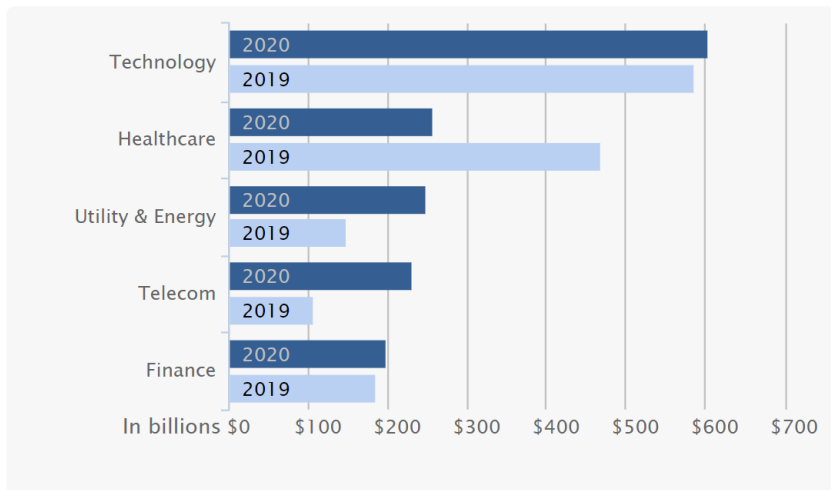
# APPENDIX: STATE OF M&A (Q4 2020)

# M&A Re-Bounded in Q3 2020

Global M&A by Quarter



Top 5 Global Sectors



- M&A activity was hammered in the first half of 2020 primarily due to impact of the pandemic.
- Firms' focused on maintaining, stabilizing, and securing survival versus buying other firms.
- A significant uptick occurred in Q3 as acquisitive firms perceived an economic recovery tied to lower rates of new coronavirus cases per day.
- Q4 looks bleak.
- Still, are there distressed targets with heavily discounted market caps?

\* Source: <http://graphics.wsj.com/investment-banking-scorecard/>