

CC Corporate Development

Roland Berger

Post-Merger Integration

Making post-merger
integration work and safe-
guarding value growth



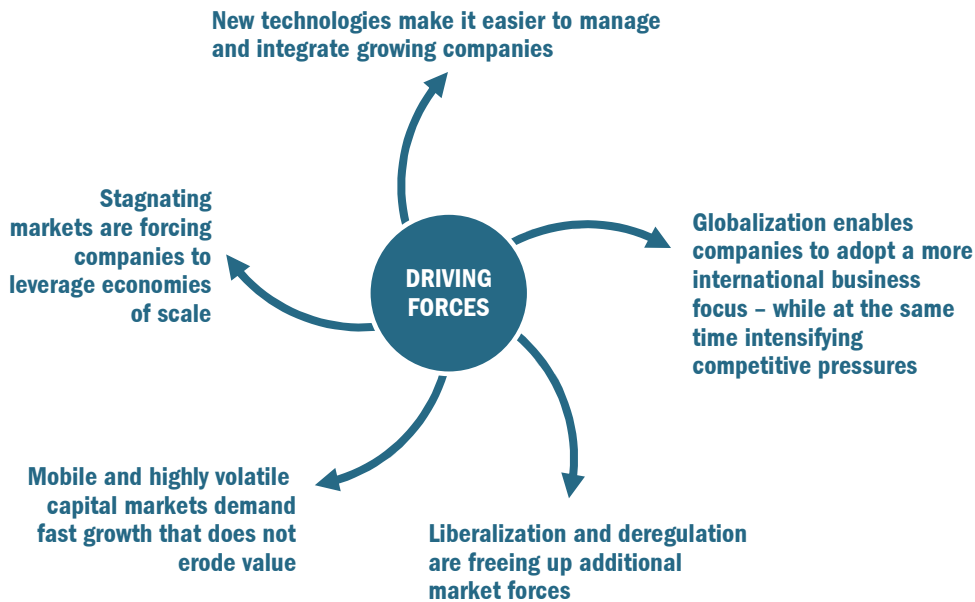
Mergers and acquisitions as an attractive growth lever

A brief glance at the business press is enough to confirm that companies are once again turning to mergers and acquisitions as a way to grow and add value. New M&As are announced every day, it seems; and every day, the preface to a new growth story is written.

This surge in merger activity is a sign that the corporate sector is again setting its sights on fast and successful growth. While consolidation issues took precedence during the downturn, companies now have rather more leeway – and are using it to expand. Company valuations are at present still moderate. Forward-looking mergers and corporate acquisitions are therefore a popular way for firms to strengthen their market position and move toward ambitious growth targets.

The logic of mergers remains as convincing as ever. Many companies operate in global, deregulated markets that are fiercely competitive. They are therefore under severe pressure to grow quickly in a way that does not erode their value. At the same time, new technologies allow the benefits of economies of scale and synergies to be reaped at every link in the value chain even in larger corporate units. Corporate integration thus opens the door to the rapid growth that companies see as necessary.

Figure 1: The driving forces behind corporate integration



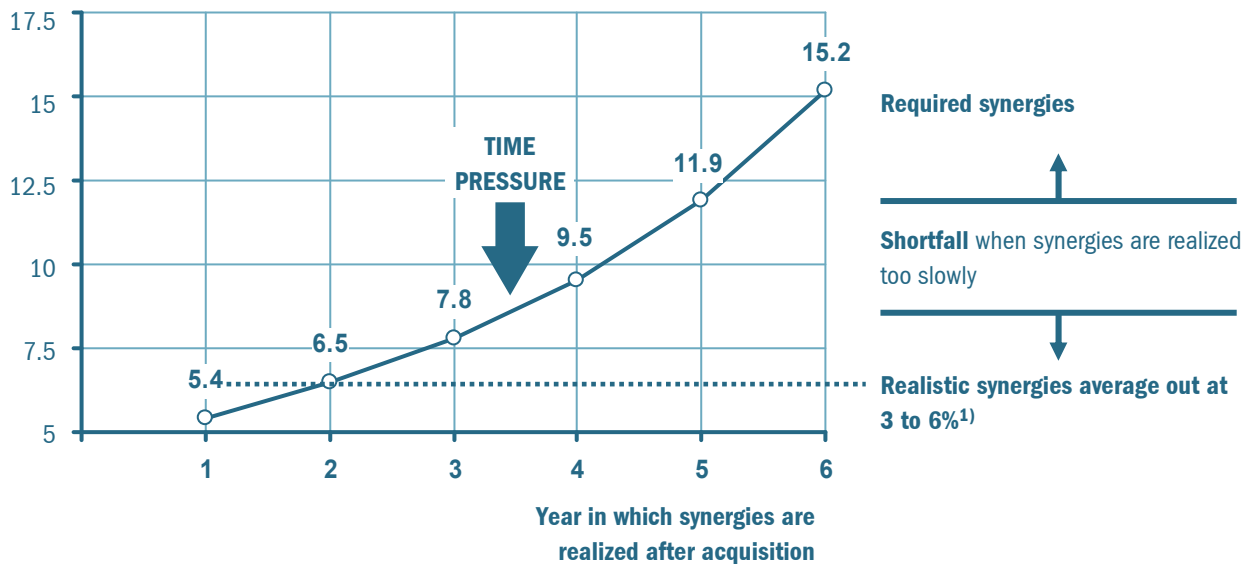
Time is money: companies add value by swiftly tapping synergies

Grow quickly, yes. But maintain the value of the company! This, in a nutshell, outlines the motive for mergers and acquisitions. But what exactly does it mean? The answer is relatively simple: Growth through M&As will only add value to the newly merged corporate entities if planned synergies are realized in short order. Discounted positive annual cash flows must be higher than the acquisition premium and the startup costs as the merged companies grow together. The chart below shows that, in this context, time is money in a very literal sense.

Let us assume an acquisition premium of 30 percent of the stand-alone value and a discount rate of 12.5 percent. On this basis, synergies equivalent to just 5.4 percent of the stand-alone value are enough to more than cover these costs in the first year after the merger. The figure rises to 6.8 percent as early as the second year, however, and climbs to as much as 15.2 percent in the years that follow. Experience shows that synergies of between three and six percent can realistically be tapped in the context of mergers. In other words, the window of time within which growth can genuinely add value closes very quickly.

Figure 2: Levels of synergy needed as a function of the speed of implementation (assuming an acquisition premium of 30% and a discount rate of 12.5%)

Per-annum synergies as a percentage of the stand-alone value



1) E.g. synergies of EUR 30-60 million given a deal worth EUR 1 billion

Too many mergers still fail – for reasons that could be avoided!

Although decision-makers are aware of the obstacles inherent in corporate mergers, more than half of integration projects still fail to achieve their targets. Again and again we find that the same mistakes are responsible for such failures.

Mistake 1: In the pre-merger phase, synergies are over-estimated, with the result that too much money is paid for the acquisition. The amount by which the merged company must increase its value is therefore too high and cannot be realized.

Mistake 2: In the post-merger phase, synergies are tapped inadequately or too slowly. There can be a number of reasons for this:

- > Shrinkage losses (owing to lost customers or the cost of necessary compromises) are underestimated or not factored into the synergy calculations
- > Actions needed to realize synergies are not prioritized properly. Many companies shy away from taking actions that are necessary but unpopular (such as personnel adjustments)
- > Synergy planning ignores stand-alone optimization programs that are already in progress – or counts stand-alone effects that are already planned twice
- > The organization does not give its backing to the necessary changes. Top managers and employees alike are (at best) half-hearted in their approach to implementation
- > The critical speed of implementation is not achieved because integration is badly organized and issues are not coordinated
- > Internal experience and/or capacity is insufficient to cope with the countless issues that must be dealt with during a merger. Getting individual activities off the ground thus takes far too much time

To prevent mergers from getting stuck in a rut, the management must perform a delicate balancing act between crafting a visionary future and restructuring systematically in order to tap synergies. The management must keep close control on a large number of functional issues – from designing the new organization through appointing future management teams to hammering out the details of personnel transfers – all at the same time. A continual flow of internal and external communication is especially important.

One distinctive feature of successful merger managers is that, from the day the merger is announced, they never lose sight of the principal goal of integration. In exceptionally successful mergers, they manage to schedule and process preparatory issues so early and so intensively that these are concluded in full before the deal is closed. That saves the new company valuable time!

We quickly get your integration projects up to speed – and help you maintain a constant momentum

Roland Berger Strategy Consultants provides you with experienced experts and proven methods to guide your merger safely to success and sustainably increase the value of your company.

We advise you on developing the strategic logic of your merger

Only a plan that is tailored clearly and specifically to your individual requirements will let you identify the best mix of industry-specific and cross-industry synergies. Only then will your merger be a success – financially, operationally and culturally.

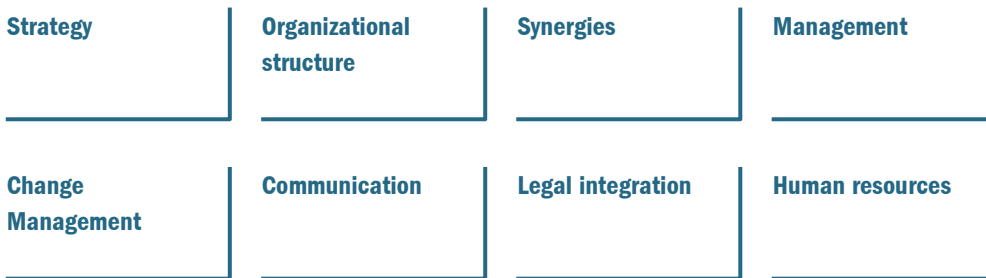
We help you to realize integration

We order your integration issues in a clear structure and draw up a master plan to guide you and your executives through all the many things that have to be done in parallel. The master plan covers all key issues that every corporate integration must resolve, irrespective of the peculiarities of your particular situation. By optimizing the timing of individual actions, we help you to realize integration fast – without overtaxing your people or endangering your day-to-day business.

We help you plant the seeds of change in people's minds

We apply comprehensive change management and transformation strategies to mobilize your people – and to make your merger succeed. We prepare clear messages to internal staff and external stakeholders, involving your people step by step in the preparations for integration. This helps you quickly gain – and sustain – the momentum you need to get your new company off to a flying start!

Figure 3: Key issues in corporate integration



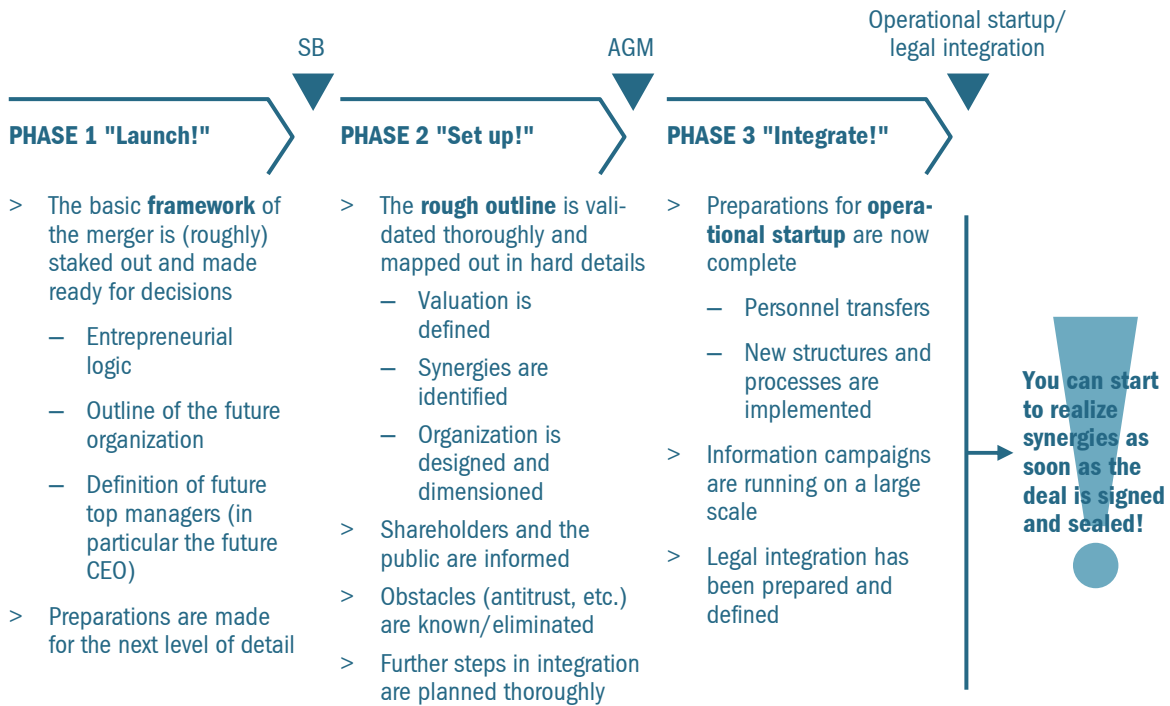
We manage actions and track benefits systematically

"RB-Point", our proven project controlling tool, enables you and us to monitor the current status of synergies and stand-alone potential as discrete items at any time. Right from day one, you therefore maintain a clear overview and can be sure that identified synergies do not run aground.

We walk you through a successful new beginning!

Mergers confront you with all kinds of different tasks. We supply you with tools that will help you master the challenges of integration swiftly and efficiently: valuation tools for the due diligence; online databases in which to enter and track stand-alone and synergy-related actions; structured management audits to help you fill future management positions; and special-purpose communication tools.

Figure 4: The phases of a corporate integration project



Our approach has proven itself in practice many times over. We have used it to help numerous companies of differing sizes and in different industries to complete mergers and realize their targeted value growth.

We helped birth one of Europe's largest power utilities and accompanied it through its transformation to a multi-utility provider, for example. In the banking sector, we have assisted many mergers that were aimed at consolidation. We helped create the German market leader for IT and telecoms outsourcing business. And we helped a European tourism group to round off its value chain by means of selective acquisitions.

We would be more than happy to talk to you about the opportunities and challenges ahead of you in a merger/integration that is planned or already underway. We look forward to hearing from you.

Roland Berger Strategy Consultants – Competence Center Corporate Development

Roland Berger Strategy Consultants advises industrial and service companies and public institutions of international rank in all areas of corporate management – from strategic orientation to the introduction of new business processes and organizational structures.

"Creative strategies that work" are our core strength. We do not just develop innovative concepts: we also provide active, hands-on support as our customers implement them. Such close teamwork delivers sustainable value for our customers. We are convinced that any strategy that doesn't pay off is not a valid strategy at all. Accordingly, we use systematic methodologies to quantify every one of our recommendations from start to finish. Quantitative analytical procedures and tools are applied from the outset to help us achieve this goal.

Who to contact about corporate integration

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