



***MERGER INTEGRATION
A RARE OPPORTUNITY
TO CREATE VALUE***

MERGER WORLD

Issue 14, Article 3

Merger Integration—A Rare Opportunity to Create Value

By Brian Sommers

An interview with Jim Jeffries, Chairman and CEO of M&A Partners in Dallas, Texas.

Q—Your company focuses on the integration process after a merger. Why is that such an important niche?

A—Actually Brian, we focus our clients on delivering as much value from their transactions as possible. You're correct that the integration happens after the money changes hands, but what companies do during the critical period between announcement and when it closes is the most important time. Contrary to typical approaches to the integration of merging companies, the most important decisions and activities in the transaction lifecycle occur during the 4 to 6 month period while everyone is raising capital, waiting for final regulatory approval and the final transfer of ownership.

Q—How so?

A—No matter the number of case studies one researches or the number of consultants one talks with, the statistics are all about the same. The vast majority of well-intentioned mergers fail to achieve the expectations set by management at the announcement. The statistics are that straightforward. Interestingly enough, the reason for such dismal results is that all the emphasis and energy is placed on analysis and negotiation of the deal and seldom on how to actually deliver the value. As a matter of fact most companies go through the entire effort of strategy, pricing, negotiations and due diligence without much consideration for how they will drive value in the transaction after the close.

Q—So you believe that post-merger integration is the most important phase in a merger?

A—Brian, I think whoever coined the phrase “Post-Merger Integration” did the corporate world an injustice. There will be little or no “Post-Merger Integration” if the process of integration does not begin well ahead of the merger closing. Post-Merger has given companies and their consultants the false impression that everything starts after the merger (close). What we believe and have proven is what companies do after the announcement, and leading up to the close, makes all the difference. As a general statement, the primary reason for merger failure is the lack of structure, detailed planning and preparation before the close.

Q—But isn't it difficult to organize and plan the integration before the deal is final?

A—Difficult? Yes. Essential? Yes, again.

Our clients approach the integration phase of a merger not as a “necessary evil”, but as an unusual opportunity to create extraordinary value. By creating the appropriate integration structure and by pre-planning all details of the integration well in advance of close, companies can quickly capture synergies and stabilize the organization, vendors and customers for value. Proper team structure with financial alignment combined with the execution of detailed plans

and decision protocols prior to close can cut the integration time in half and generate a considerable impact to cash flow and thus exceed expectations. Take a \$500M transaction with say \$50M in announced synergies. In actuality, the average acquiring company would set expectations to integrate the companies in about 18 to 24 months. However, typical mergers also end up capturing only half the synergies in that timeframe before discontinuing the effort. But, what if you could capture all the synergies in less than 12 months while maintaining the top line? That impact to cash flow would probably be greater than any other single initiative in the company and could completely change the complexion of the transaction. Yet, most companies do not view the integration for its potential contribution to value.

	Typical Company	M&A Partners
Target Annualized Synergies (\$)	\$50,000,000	\$50,000,000
Percent of Synergies Captured (%)	50	100
Project Duration (Months)	24	12
Revised Annualized Synergies (\$)	\$25,000,000	\$50,000,000
Monthly Synergies at Project Completion (\$)	\$2,083,333	\$4,166,667
Linear Synergy growth during Project (\$) / month	\$86,806	\$347,222
Cash Savings - First 12 months (\$)	\$6,770,833	\$27,083,333
M&AP Year 1 Value Creation - Cash Flow Impact		\$20,312,500
M&AP Year 2 Value Creation - Cash Flow Impact		\$43,229,167
Total Cash Flow Impact		\$63,541,667
Net Integration Enhancement		\$88,541,667

Q—What do you mean by the integration structure?

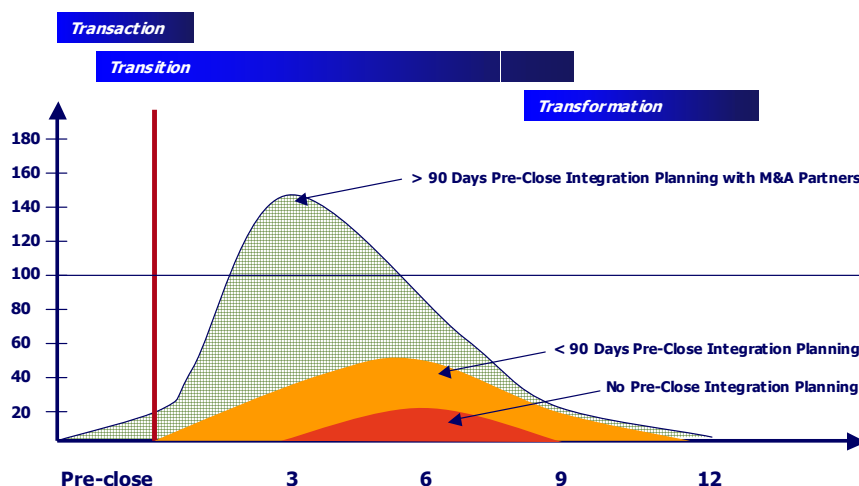
A—Good question. Most companies don't give much consideration to the structure of the organization that will do the integration (leader and team members). You see, our studies and subsequent interactions with clients have proven that merger integration is often "Counterintuitive" to normal business practices and tenets. The intuitive approach by the vast majority of companies is to assign the integration to the business unit heads that will be responsible for running the combined business after close. After all, most believe it's important that "they eat their own cooking". I heard one CEO say, "If we shoot it for them, they need to eat it!" Intuitively this makes sense. But, in reality, running the business while at the same time, trying to integrate the companies are not complementary efforts. It's inefficient, ineffective, takes too long and seldom works. Companies also seem to discount all the great talent that will not survive the merger and is subsequently let go. These resources represent a huge amount of Knowledge Capital that is released to the competition and other venues during a merger and much of it might be more valuable than the surviving counterparts. Why not utilize this talent pool for the integration before it departs?

Q—Wouldn't these people be angry and possibly counterproductive to integration success if they are being let go?

A—Not with counterintuitive incentives and measures that can align them with the desired outcomes. Given the right structure and incentives, it might actually be more desirable to be an integration team member than a survivor. In reality, the construction of our integration teams end up being a combination of surviving and non-surviving employees and managers. But, the key is that they are all full-time and complementary to the employees and managers stabilizing and running the business.

Q—So how much of the integration plan can be actually completed before the close?

A—All of it. Mergers that meet or exceed expectations have approved plans with detail behind every action well ahead of close. To do this management has to move on team member decisions, validation of synergies and organization structure much faster than they would intuitively have planned. But, if they do so, the integration can be accomplished in a much shorter period of time and will greatly improve cash flow, and assure the retention of talent, customers and revenue. A company should set the objective to achieve 50% or more of synergies within the first 90 days of close.



Q—That is an unusual approach. So who is M&A Partners?

A—M&A Partners is a select group of Senior Executives who have come together with the single purpose of solving the merger dilemma. Over 2 years have been invested to create the s3 model and methodology for effective merger integration that drives value from cash flow. Additionally, the entire capability is now tracked and managed by the s3 Cockpit Integration Management System developed in conjunction with Microsoft. This one-of-a-kind software utilizes all the components developed by M&A Partners to allow acquisitive companies to manage and execute their own mergers and acquisitions after gaining assistance during the planning phase. The s3 cockpit has been recognized for its excellence by 2 of the big 4 accounting firms and many of the world's largest consultancies.

Welcome, mapartners

Powered by Ascendant TSG

Integration - ABC

3 Console - ABC

Synergies \$90MM of \$112MM

Speed 80%

Stability 94%

ABC Corporation XYZ

Synergy Updates Due Friday By Noon [Breaking News](#)

Status Console

Phase: 1 Requirements Assessment 2 Management Charter 3 Architecture 4 Day 1 Planning 5 Implementation 6 Reviews

Status: 10/30/2002 10/17/2002 On Track 10/17/2002 On Track Not Started

Value Drivers

- Clean Room
- Library
- M A Partners
- Steering Committee
- Sales
- Operations
- Human Resources
- Finance
- Marketing
- Engineering
- Communications
- Corporate MA Group

TeamSpace Company Name: ABC Workgroup: Steering Committee

ACTIONS ISSUES DOCUMENTS DISCUSSION CALENDAR TEAM

New Action

Actions: 56

Phase	Initiatives	Actions	Status	Owner	DueDate
1	M A Partners	Concurrent Initiatives/Pressures	Completed	Ken Kracko	10/4/2002
1	M A Partners	Corporate Value Drivers	Completed	MA Partners	10/10/2002
1	M A Partners	Decision Making	Completed	MA Partners	10/4/2002
1	M A Partners	Desired Level of Integration	Completed	MA Partners	10/10/2002
1	M A Partners	Historical Competition	Completed	MA Partners	10/15/2002
1	M A Partners	Hostility Quotient	Completed	MA Partners	9/6/2002
1	M A Partners	Identification and Assessment of Integration Risks	Completed	MA Partners	10/11/2002
1	M A Partners	Identify Key Customer Concerns	Completed	MA Partners	10/4/2002
1	M A Partners	Integration Team Gap Analysis	Completed	MA Partners	10/11/2002

Q—In conclusion, where do you see the merger and acquisition world going over the next couple of years?

A—First, we see M&A activity significantly increasing over the next couple of years barring unforeseen circumstances like 9/11. Growth in excess of 10% year on year is still a required component of corporate value, so companies will therefore be required to acquire and consolidate for growth. Secondly, with the undeniable drive for accountability, post Enron, post Sarbanes-Oxley, we see more stakeholders simply not accepting the dismal results that mergers have historically demonstrated. That's why I believe our expertise, tools, and methodologies are so sought after in today's merger world.

(M&A Partners can be reached at (214) 689-3800 or by accessing their website at www.mapartners.net)