Midagon Point of View

Building bridges in M&A transactions

An M&A transaction journey can take several years, from strategy to the final touches of an implementation project. During that journey, there are several transitions or ”bridging” moments where the ownership and nature of the work change.

These are the critical moments of truth where the original logic, direction and purpose of the transaction are either carried forward, maintained and realised, or diluted or even lost. At the end of a long implementation program, the journey often feels a little questionable - did we achieve the targets? Or can anyone even remember exactly what they were? Would we still choose this transaction if we knew what we know now?

In this Point of View, we focus on 3 potential ”bridge moments”:

1. From strategy to target selection – draft the roadmap
2. From due diligence to the transaction – understand the context and align the roadmap
3. From deal sign to implementation and benefit realisation – execute the roadmap

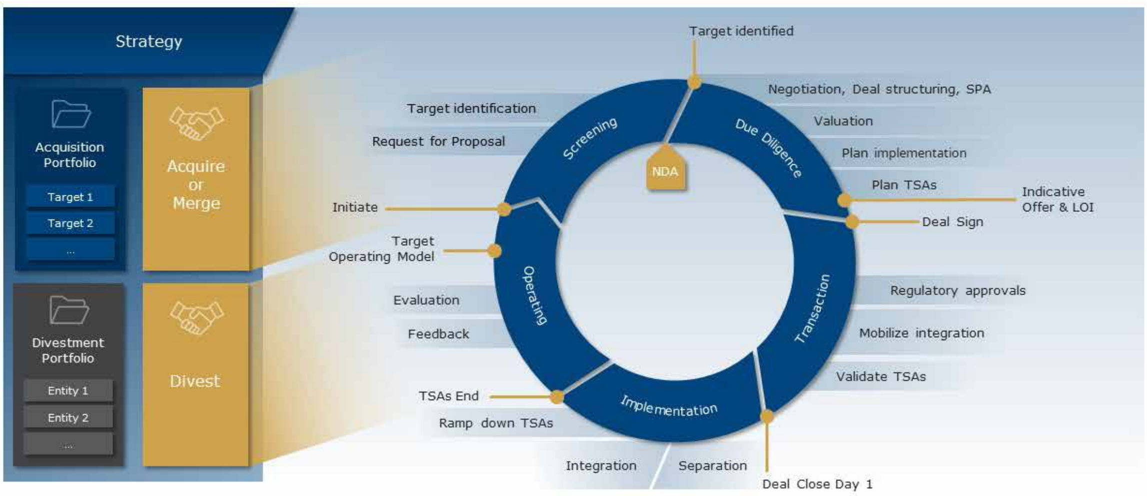
From strategy to target selection

Acquisition strategy

Most acquirers aim to grow their companies through acquisitions based on strategic intent that each potential target needs to fulfil. The strategy can be, for instance, to extend geographical reach by acquiring similar companies in different locations or, on the other hand, to acquire companies with products that fit into the acquirer’s offering. This strategic direction guides the selection of targets. *Clarity and specificity of the strategic intent* will have a significant impact on how easy it will be to identify the potential targets that fit.

Preparing to support the strategic direction in implementation is also important at the very early stages. In practice, this means that, for instance, the IT team has committed the resources and bandwidth to integrate new acquisitions and has at least a rough plan on how a new entity will be implemented. Preparing by communicating the strategy and its practical implementation opens the bridge from strategy all the way to implementation. However, there are steps in between that can become obstacles.

M&A Cycle



Assuming that the target organisation is selected from a portfolio of candidates, it makes sense to agree a way or a template to prioritise all candidates. Already at this point, the evaluation criteria should include information, process, IT solution and security architectures at high level.

Divestment strategy

It is sometimes argued that M&A creates value, but all that value goes to the seller. In that spirit, divestment strategy can bring financial benefits as well as strategic clarify and focus. Separating entities either into standalone companies or to be acquired and integrated requires a different but no less complex strategic direction than the acquisition strategy. Practical preparations to set up a *divestment template* should be started well in advance of separating entities, so that standalone entities can operate smoothly with right-sized offerings, personnel, processes and solutions.

From due diligence to transaction

Buyer perspective

During due diligence, buyer assumptions about the target and its strategic fit are tested. The buyer needs to understand the target's current capabilities and to create a plan to realise the future capabilities that realise the transaction value.

It's normal to discover new and even surprising facts about the target. The challenge is to be able to formulate a holistic picture and to understand whether we are still *within the bounds of the original deal intent*. It is easy to get excited by something that looks better and more valuable than what was originally expected, but it requires calm and analytical thinking to understand whether the new information supports the strategic intent.

In case of an opportunistic acquisition, all previous assumptions can be challenged, and the deal transacted based on simply its own merits. However, these cases are in a minority, and most acquirers have a strategic direction for their acquisitions.

At this point, it is equally easy to underplay information that doesn't look as promising as expected, and to underestimate the effort and cost of implementation. Asking the right questions from an implementation point of view requires in-depth knowledge of the existing technology and solution architecture, and it can be difficult to include everyone with important knowledge to contribute into the small team involved in due diligence. One effective way to prepare for due diligence is to create a *due diligence template.* Analyse with each critical team - especially IT - what information is needed, what information indicates a good strategic fit, and what information is a ”red flag” indicating challenges. Especially for serial acquirers, the IT team needs to plan a *standard approach to integrate new acquisitions*, and to consider how to carry out the migration from different starting points that the target may have in place.

Target perspective

While the continuity of strategy is not as critical from a target perspective, due diligence will give an indication of how future integration will play out. This information is valuable if the target is already in the process of splitting from a group and becoming its own independent entity. Any information about future business, process and solution architectures can have a significant impact on the effort and cost involved. It's important to *understand if the separating entity will stay stand-alone for the foreseeable future, as it's an absolute waste to put together a support organisation and infrastructure for a separate entity only to* find out soon afterwards that an acquiring company wants to replace all of it with their setup. Therefore, if there is any expectation that the entity that we're separating will eventually be acquired and integrated, it makes sense to set up long TSA's that enable the new entity to operate separately and use the existing processes and solutions but with minimum additional investment until the acquirer is found and the target operating model is clearer.

A critical bridge at this point is an agreed transition plan overview between the buyer and the target. Both parties, including the suppliers, are impacted immediately after the deal sign and early preparation for the first implementation steps should be completed before the deal is signed. This overview plan is to be a part of the deal, and it frames the IT-related target setting for the implementation phase.

From deal sign to implementation and benefit realisation

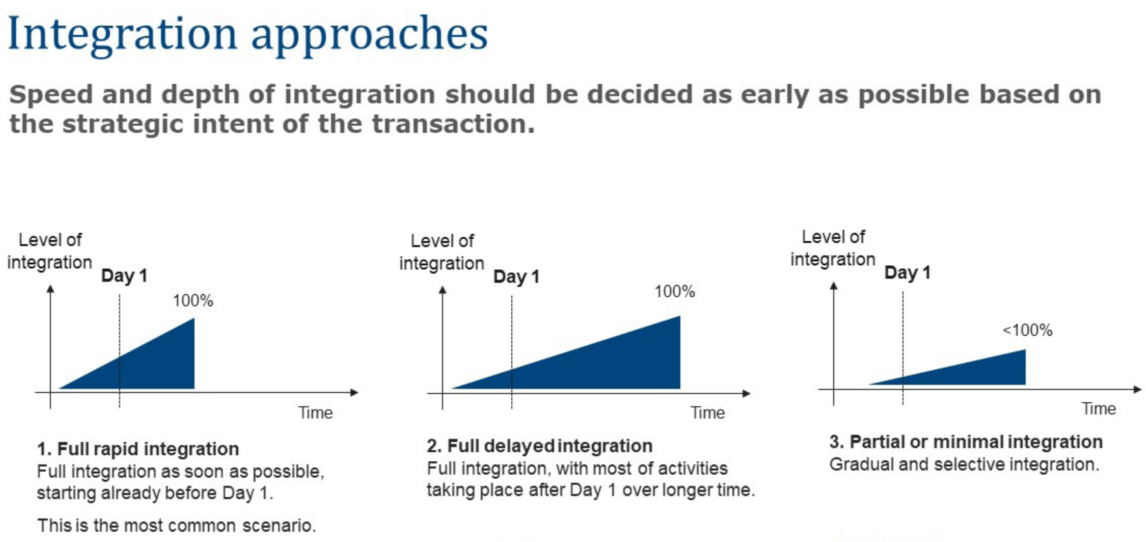
The most obvious ”bridge moment” in a transaction is when the deal team hands over to implementation. At this point the focus of activities changes, and the teams that carry out implementation projects have usually not been involved in the transaction. *Communicating and maintaining the original strategic intent* is important for realising the benefits of the transaction. When implementation gathers speed, it is not unusual for different interested parties to start driving the implementation to different directions. If the original strategic intent is not clear and strongly enforced, the implementation results may be very different from the original purpose.

Depth and speed of implementation

Irrespective of the deal's exact intent, the implementation's depth and speed should support it. If we want to acquire geographical spread but don't need to increase operational efficiency immediately, we will probably prefer a partial and gradual integration. However, if we acquire companies whose product offering we aim to leverage rapidly on a global scale, then a deep and fast integration is preferred, while if we acquire promising technologies that we want to grow but not interfere with, we probably want minimal integration. Understanding the original strategic intent helps significantly in integration planning. Preparing the template to support implementation helps to carry out the strategic intent.

Understanding organisation and culture and managing related capabilities as diligently and precisely as more technical integration tasks helps to anticipate and avoid conflicts and disruptions during execution. Generally, unnecessary and disruptive integration should be avoided. The more sensitive the organisational and cultural setting, the more sensitive an acquirer needs to push for speed and depth in integration.

The technical core solution implementation projects are the point where implementation projects most often get complicated and expected benefits compromised. The scope and complexity of implementing new core solutions like ERP systems are often underestimated. These projects are usually required to realise business benefits, as changes to business processes are closely tied to technical solution capabilities. Core solutions are, therefore, key business benefit enablers. At the same time, the cost of implementing new core solutions is often the highest single cost element in the whole implementation program.



Feedback to strategy

Evaluation and feedback on strategy should happen continuously during the whole transaction and implementation. Expected business benefits are calculated in the early stages of the transaction. One practical way to follow up benefit realisation is to set expectations on progress over a rough timeline. *Checking against the expectations and supporting KPIs* at regular and previously agreed intervals can help confirm that the original strategic intent remains clear and that implementation actions are leading in the right direction.

At Midagon, we support our clients in their M&A implementation projects. Midagon's consultants have deep expertise in solution implementation and M&A transactions and can support your organisation through each bridging moment of a transaction. Contact us for an opportunity to discuss your situation in detail.

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