KPMG

M&A Integration & Separation Advisory

Maximizing value from M&A, divestitures and joint ventures

August 2021

How can we preserve and maximize value from M&A transactions?

In acquisitions, nearly two-thirds of acquirers fail to realize optimum synergies due to ineffective pre-deal planning and post-deal execution.

In divestitures, many sellers do not achieve their target price or lose value due to ineffective estimation of carve-out cost, effort and impact on business financials.

In this rapidly changing and disrupted business environment, Mergers and Acquisitions (M&A) and divestitures are levers to rapidly transform a business, gain a technological edge or reallocate capital. However, early planning and effective execution of integration and separation is critical to unlocking the full value of a deal.

Integration and separation execution requires a combination of financial, operational, technological, program and cultural change management skillsets. These, in addition to a relentless focus on value and alignment with the deal rationale. It also necessitates a focused effort, often under strict timelines and alongside running the day-to-day business.

To preserve value from an acquisition or divestiture, focus on the following is crucial:

- Deal vision and strategy alignment
- Financial value alignment
- People, change and culture considerations
- Strong governance and cross-functional coordination
- Minimizing disruption to business as usual

Key considerations for maximizing value in an integration

The following key five areas have become increasingly important. Without managing these, almost two-thirds of acquirers fail to realize synergy targets in today's increasingly competitive M&A market

1.

Conduct pre-deal integration diligence

—Early view of integration approach, key risks and synergy opportunity

—Ability to include synergy opportunity or integration risk into the offer price

—Ability to negotiate acquirer and seller accountabilities/liabilities and financial impact

2.

Align integration approach with deal rationale

—A clear strategic rationale for the deal

—Clarity on the integration approach (best of both, tuck-in, standalone)

—A clear view of the target operating model (TOM)

—Clarity on the integration team structure, resourcing, and governance

—Executive management buy-in of integration approach and plan

3.

Focus on value

—Clarity and focus on value creation

—Use integration as a catalyst for wider change/transformation

—Detailed 'bottom up' synergy analysis, cost to achieve estimation and prioritization based on cost/benefit

—A robust approach for synergy tracking

4.

Take effective control early

—Ring-fence the core business and resources to protect day-to-day performance

—Take immediate financial control (cash, reporting, authorities, month 1 audit)

—Develop detailed day 1 action list that includes all key activities required within month 1 for all functions

5.

Establish strong leadership and management of change, culture and communications

—Appointment of a senior leader with decision making authority

—Strong and experienced integration management office (IMO) to keep all workstreams coordinated

—Clear cultural vision for the combined organization, address talent retention, alignment of performance management and rewards to protect deal value

Key considerations for maximizing value in a separation

A successful separation requires a balance between maximizing value while mitigating risks, and quickly divesting while maintaining control of the process and protecting business as usual operations

1.

Conduct pre-deal separation planning and design

- Clear view of the operational perimeter including impact on people, process, assets, contracts, systems and data
- Articulation of dependencies and engagements with wider group
- Approach to disengagement and separation of business while minimizing BAU disruption
- Proposed definition of day 1 and carved-out operating model
- Clear articulation of TSA/LSA scope and proposed fees

2.

Control cost narrative by robust articulation of separation impact on financials

- Identify how separation impacts business financials including adjustments to P&L, Balance sheet and cash flow
- Robust calculation of replacement costs for group services
- Clear articulation of simplification and potential efficiencies
- Calculation of one-off costs to achieve separation and clear articulation of buyer responsibilities

3.

Effective day 1/completion planning and execution

- Have a clear focus on the critical path for completion
- Get the right external expertise to prepare the business for sale
- Keep the right balance between pre-completion and post-completion separation activities
- Negotiate early transfer / separation / novation of business contracts to avoid
- Conduct clear and early communication

4.

Aim to reduce stranded costs for the remaining business

- Calculate fair TSA service fee to compensate seller for services provided
- Design TSA extension, exit clauses and notice durations to minimize stranded costs
- Conduct early negotiation with suppliers to adjust the contracted spend based on consumption of the remaining business
- Leverage divestiture as a catalyst for wider transformation

Conclusion

M&A is a key enabler for rapid and strategic change. However, it is easy to lose deal value due to misalignment of operational and commercial value levers to deal rationale, lack of planning or ineffective execution.

A clear and effective articulation of the integration and separation approach and plan, which maximizes financial value, combined with robust value led execution, will enable a successful outcome.

KPMG service offering

KPMG Integration & Separation services can maximize deal value

KPMG's Integrations & Separation (I&S) Advisory team helps clients unlock long-term value and reduce risk from M&A, divestitures and joint ventures. This is accomplished through robust operational planning and execution, encompassing the entire deal lifecycle and business value chain.

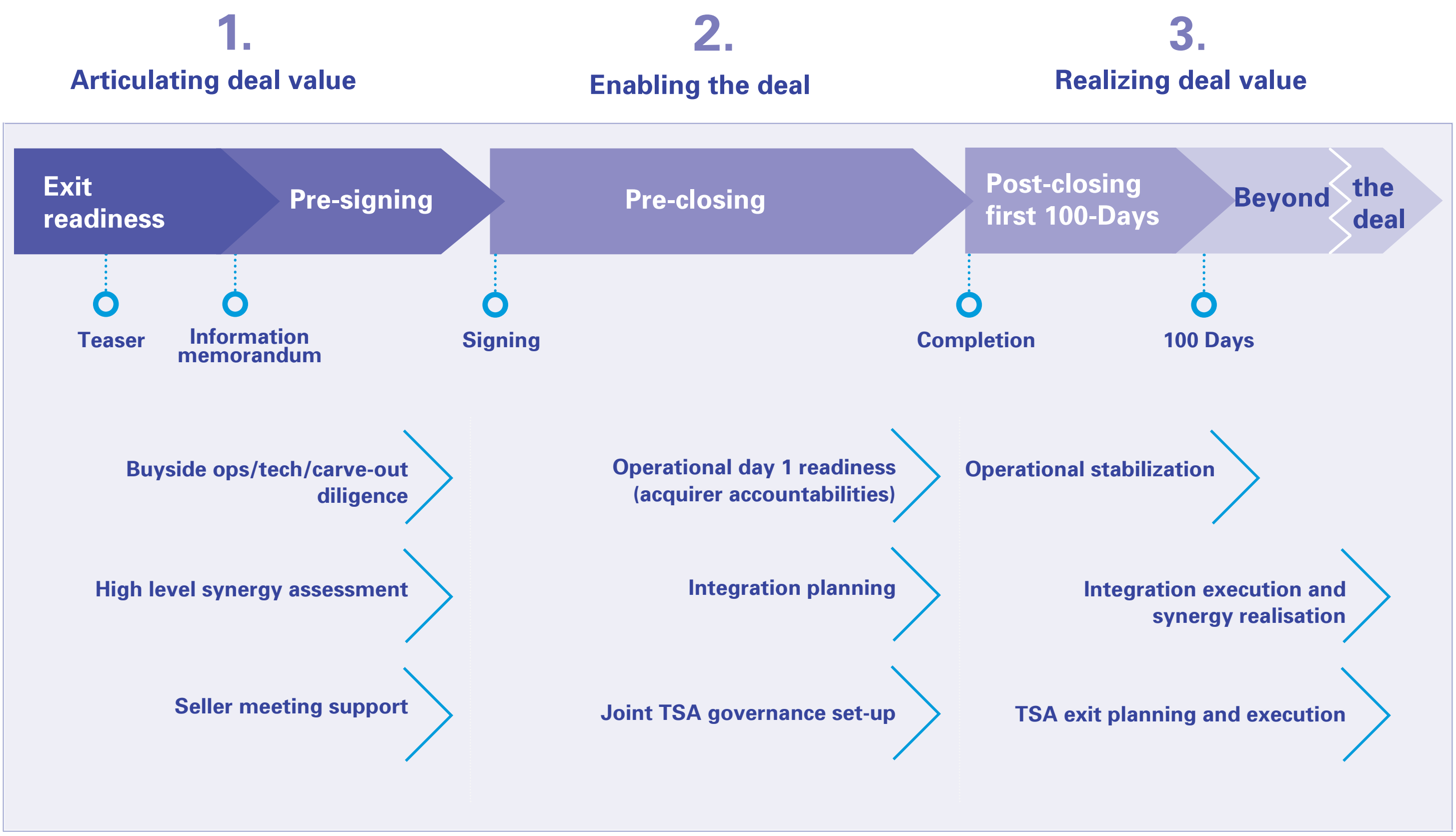
KPMG Deal Advisory professionals bring together M&A, financial, operational, technology, and people and change expertise to realize value at a rapid pace.

Services include:

- M&A integration/carve-out due diligence
- Operational integration and carve-out execution
- Synergy and cost to achieve assessments and realizations
- TSA development and management
- Day 1/day 100 planning and deal execution
- Post-close implementation, TSA exit and value creation
- Change management and performance tracking

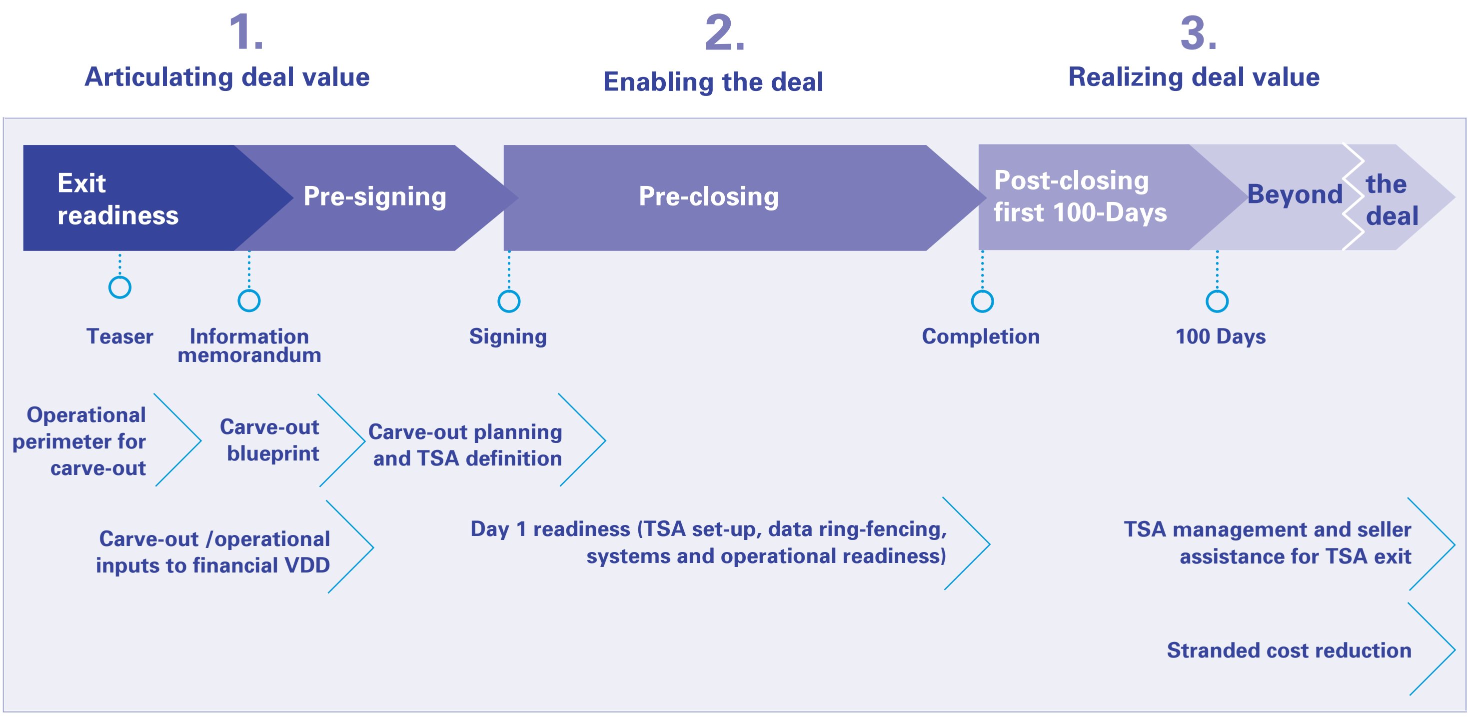
Buyside - Integration Support

Integration support focuses on identifying synergy/value creation opportunity while minimizing deal completion and integration risks, through robust operational/financial planning and effective execution



Sellside - Carve-out Support

Carve-out support focuses on maximizing the sale price for the seller through a clear articulation of financial adjustments and minimizing carve-out risk through an effective planning and execution of carve-out



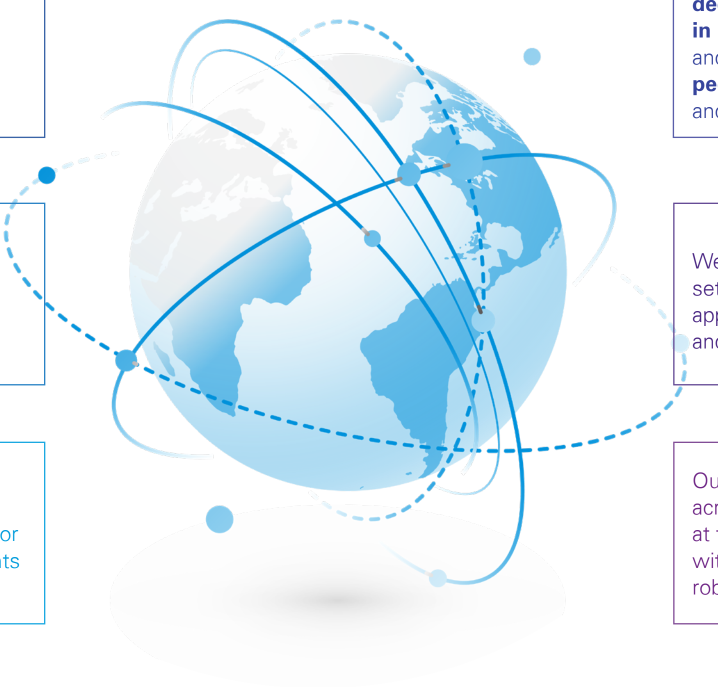
Our Lower Gulf team is part of a global network of experts

Our local capability, backed by a Global Centre of Excellence (CoE), means that we are able to rapidly mobilize to support your deal. KPMG offers specialists where you need them, working consistently toward your goals

We have more than 1**000 Integration & Separation** specialists across **30 markets**, with major CoE hubs in the USA, UK, Germany and China

Our Global CoE is a tangible operating structure designed to bring the **best of KPMG global network to the deal**

Our approach is focused on **identifying, delivering and maximizing deal value**. We tailor our support to client requirements because every deal is different



Our network is made up of **dedicated subject matter experts in integration**, synergies, separation and joint ventures. We are ‘**deal people**’ who move at deal speed and with deal pragmatism

We have a **globally consistent** set of methodologies and approach, ensuring consistency and quality

Our **values** are also common across our global teams and are at the heart of the ‘way we work’ with our clients – fast, direct, robust but human

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