

Insights into Mining

Issue 8: Post-merger integration

Champagne anyone?

Walking out of their legal team’s office, Jason high fives Alex and exclaims “Well, I’m glad that’s over. Great work! Call the office, gather the troops, and let’s get some champagne going. We should celebrate!”

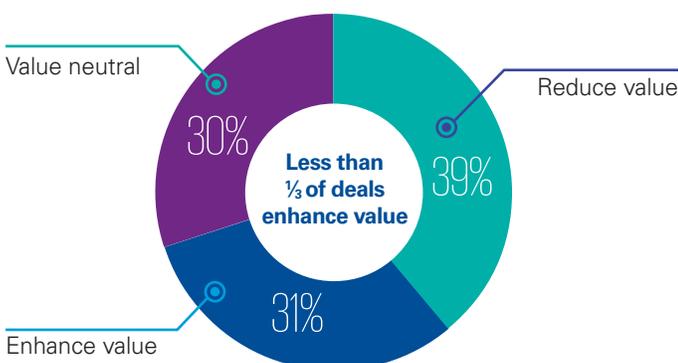
The deal they have been working on for the last six months has closed. They can announce to the market that with this acquisition, they have doubled their annual production, and increased proven and probable reserves by 60 percent. The months have been filled with due diligence, negotiations, drafting legal documents, obtaining all of the regulatory approvals, and preparing for and closing the deal. All that is left is to plan the closing dinner, right? Alex isn’t so sure. As CFO, something is nagging at him. It’s something his Controller had said a few weeks ago - something about integrating the new operation and tracking costs and synergies.

All too often, the scene above is played out in boardrooms, although, perhaps not as dramatically as depicted here. Just when you think the heavy lifting in the deal process is done, you realize it has barely even begun.

The purpose of this article is to challenge you, as mining leaders, to think about the end-to-end deal process, give you a flavour of the challenges you can expect post-deal, and give you an indication of some of the necessary elements that can set you up for success.

Why should I care about integration?

According to KPMG Research, more than two thirds of North American M&A deals fail to deliver value to the acquirer. In fact an astounding 39 percent reduced value.

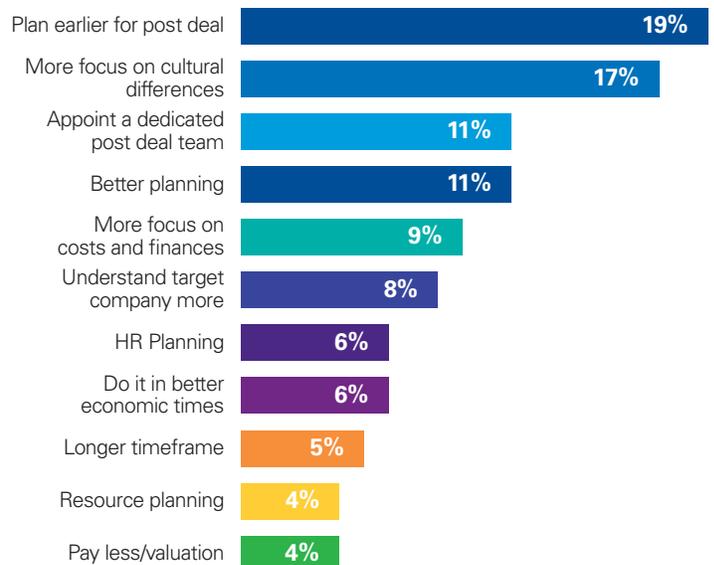


In a typical transaction, value erosion can occur throughout the process, however KPMG Research indicates that 70 percent of such erosion is found to occur during the final integration phase. This is due to integration errors, including inadequate integration planning, a lack of program focus and leadership, no formal decision-making processes, a lack of alignment on merger rationale, too much time spent on organizational politics, a loss of focus on everyday operations, and merger synergies not driven through quickly enough.

Employee turnover in the acquired company is often higher post-transaction than pre-transaction. Non-executive turnover can be 30-50 percent in the first year. This turnover can have very negative impacts on knowledge transfer and integration.

The approach or attitude towards the merger/acquisition is found to correlate with its chances of success. The most successful mergers, as measured by the two year percentage variance of stock value, are those that are “friendly” (i.e. adopt the best from both the buyer and the seller) or those that are “hostile” (i.e. everything is to be done the buyer’s way). Only 26 percent of such mergers reduced value of the combined enterprise, while for even “lukewarm” deals (i.e. those that are neither hostile nor friendly), the number jumps to 86 percent.

When asked what they would do differently next time, executives noted the following:



Four tips for increasing your chances of success

Govern thyself accordingly

Depending on the size of the deal and the profile of the target acquisition, a typical mining acquisition should have a structure that resembles the following:

1	Steering Committee	Finance/Ops/HR/IT/Other
2	Integration Lead	
3	Project Management Office	PMO Support
Workstreams		
Production		Finance/Treasury
Procurement		Investor Relations
Planning & Engineering		HR & Communications
Marketing		Legal & Regulatory
Health & Safety		IT
Environment		Social & Community
Functional support		

This structure will be part of the overall transaction structure, with the top three layers being the same. Clearly articulating roles and responsibilities, identifying a dedicated Integration Lead, and establishing a reporting cadence will serve the team well in the long run and set you up for success.

Be like Goldilocks

The old adage of “failing to plan is planning to fail” holds as true in integrations as it does anywhere else in life. Decisions to acquire or merge are not made lightly. These endeavors are often part of a larger strategic objective, they usually come with a premium price tag attached, and almost always have the attention of investors and shareholders. Yet time and again organizations invest far less in the planning of an integration than they would for any other transformative project. Signing and closing are often only a month or two apart, leaving virtually no time to implement standard project management methodologies. The good news is that you can be light on process and methodology but still be successful as long as you have a plan in writing to track against. In fact, the standard Project Management tools and methodologies can be a hindrance and may over complicate what should be a lean and agile process. In this case, the Goldilocks approach will serve you well; not over-engineered to the point of being bogged down in paperwork, but not too open ended so that there is no line of site or control over tasks. The middle ground is where you want to be with some basic standardized templates and tools that are easy to understand and use.

Timing is everything

So when does the deal making end and integration planning start? The short answer is that “it depends”. Best practice is to have the integration team involved at later stages of the deal process, and certainly by the time the deal team enters the due diligence phase.

We find that it is often the case that a Corporate Development team, after signing the deal, will then throw it over the wall for the operations team to integrate. The ideal approach is to give the people eating the meal a say in how it is prepared. As the

deal is being negotiated, the operations team can ask the practical questions that will inform post-integration processes:

- Do you have a full understanding of the labour force?
- Are wages and benefits comparable?
- Do you understand the systems and how they work?
- Are there supplier and/or contractual redundancies?
- Are there software licenses used by the target that you do not have? Do you have the ability, as the acquirer, to take on assignment of those software licenses or will there be a fee for doing so?
- How will you maintain focus on everyday operations and production while at the same time integrating?
- Has the team considered the integration costs and how those will be tracked?
- What about financial reporting?

Understand the softer side of integrations

At KPMG, our audit roots program us to think quantitatively. However, human behavior is often less than rational, and must be taken into consideration. The “softer” side of integrations cannot be ignored, and paying attention to the human aspects is imperative.

It is a mistake to assume that just because you are in the same sector and geography, you share the same values and workplace culture as the organization you are merging with.

Understanding cultural differences early will help prepare you for the challenges ahead. Even though there may be little you can do to bridge the gaps in the near term (most research shows that it takes anywhere from two to five years to shift a culture), just being aware of where the gaps are will serve you well as you engage with the new team. It will help you avoid stepping on cultural land mines when dealing with a new workforce. One CFO learned this lesson the hard way when he discontinued the annual tool allowance for electricians (as was the norm in his organization). This led to a mass exodus of the more senior electricians during a time when there was hyper competition for skilled trades in the vicinity of the acquired mining and milling operations.

Beer anyone?

Let’s travel back in time and join Jason and Alex as they walk out of their legal team’s office.

“Well, I’m glad that’s over. Great work! Call the office, gather the troops, and let’s get some beers going. This is a huge milestone, but the real work is about to start!” Jason exclaims as he high fives Alex.

“I’m glad we got the HR and Ops teams involved during due diligence”, responds Alex. “They knew the right questions to ask and are in good shape for Day 1. We already have project lists and communications plans drafted!”

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