

## **Discussion Guide**

### **M&A and Divestitures: Integration and Disintegration**

February 5, 2008

We have just been through another round of mergers and acquisition activity, the second strong run of M&A in the last ten years. From huge companies “merging as equals” to smaller companies being swallowed to provide R&D, a product line extension, or regional consolidation, and many forms in between, there has been plenty of activity. Inevitably, these events challenge a company in many different ways including cultural, process, and system integration. The same is true of divestitures, though obviously in a slightly different.

While the fundamental question of merging, acquiring, or divesting is an important and strategic decision for most firms, the devil is often in the integration (or separation), the thought and due diligence that was given to it in advance, and the investment in it during execution. Discussion in this roundtable will thus incorporate all aspects of mergers, acquisitions, and divestitures, but largely through the lens of, or with emphasis on, integration. Thus, while we will discuss the rationale for and choice between affecting a merger or acquiring a company, examine negotiation and the various phases of execution and management, as well as look at divestitures, it will be with focus on integration/disintegration and associated issues. We will especially include the role of IT and IT integration or separation. We have divided the day into four sessions, and provided some questions below to consider for each.

**Session 1: *Strategic Landscape and the Drivers of Merging, Acquiring, or Divesting*** (please come prepared to share your company’s approach to M&A and divestitures and recent activities and overall lessons). This session will set the stage for the rest of the day. We will discuss the strategic rationale for mergers, acquisitions, and divestitures, and the key drivers for these activities. We will explore what each firm around the table is doing in these areas, what has changed in the past couple years, and what the general experience of the people/companies in the room has been.

- What are the key drivers of M&A or divestiture activity in your company and how have they changed over the years? Product line extension, regional consolidation, talent acquisition, IP, customers/distribution, insight into processes, R&D capabilities, preemptive defensive move, etc.? How do JVs fit in the range of consideration of strategic options?
- How do corporations compete with private equity in the M&A space today? Are we entering a period of slower M&A/divestiture activity or will companies fill the gap left by private equity?
- Are you proactive or reactive in your approach? Is M&A (or divestiture) a strategy in and of itself for your company, or are these simply tools to implement a wider corporate strategy?
- How do you approach M&A and divestitures in terms of metrics and processes? Do you have a process for evaluating deals and M&A or D journeys and results in hindsight?
- What are key stumbling blocks in acquisitions/mergers hitting their synergy plans that you’ve experienced? How have you mitigated those in future deals? Was IT ever the key issue?
- What are the special issues in considering international mergers, acquisitions or divestitures?

**Session 2: M&A Deal-Making, Due Diligence, and Planning** (*please come prepared to share a best practice your company has developed or a key lesson you've learned about deal-making, due diligence or planning*). This session will focus on the deal-making and due diligence phases and on the planning for integration, including especially to what degree and how the plans for integration are / should be included in the deal-making and due diligence phases.

### *Deal-Making and Due Diligence*

- What is your approach to deal-making, due diligence and planning? How do you “organize” for mergers and/or acquisitions? Who runs them, who is involved, what processes are deployed, what do you do to prepare in advance?
- How does a merger differ from an acquisition? What are the consequences for planning and integration? Is there inherently less ability to drive for fast integration in a merger of equals?
- Should you be thinking about integration already in how you fashion the deal? How important a factor is it? How do you make sure the right questions get asked in due diligence?
- How important are shared values between the entities? Processes? Systems? Are they equally important in every type of deal? What is the impact on planning and integration?
- Considering the human talent and culture of the organization is not only important in the acquisition decision, but often critical to integration. What are the keys to evaluating and executing these areas successfully? How important is it to understand the target culture of the combined company (i.e., who is the “cultural acquirer”)? How do you decide?
- How do you appropriately plan for and integrate compensation models? How do you avoid making promises during the deal-making phase that undermine integration?
- How soon should IT be engaged? Should they be part of the deal team? The due diligence team (if not, is there another way to be part of discovery?)? Only the integration team? How is IT engaged and how should IT balance the new workload with existing projects/priorities?

### *Planning*

- What can advance due diligence tell you about integration? What areas is this most important in? Is access a key determinant in being able to plan for integration? If so, has your firm discovered best practices for gaining the needed access if the acquired party is not welcoming?
- Are different approaches to planning integration required depending on the type of acquisition? What influence does the strategic goal of the merger or acquisition (or type of M&A) have on the nature, goals, processes, systems, and pace/timing of integration?
- How soon is the integration team established? What is its charter and who determines it? Does anyone use the practice of creating “integration clean teams” that plan for integration?
- What are the factors that should determine the planned speed of integration? Some firms move through phases, others aim directly for the end state—is one or the other almost always preferable? What are the top things that have to happen quickly?
- What processes and metrics do you establish for integration?

**Session 3: Executing Integration** (*please come prepared to share/discuss an integration that went well, one that did not and what the key difference was*). This session will focus on the execution of integration, its best practices and its pitfalls. We will look at the structure, culture, processes and systems of integration.

- What are the keys for a successful handoff from the M&A/deal/due diligence team(s) to a successful start to integration? Should a designated integration team be formed or is this a task all must be engage in and need to “live”?
- How do you most effectively link integration plans of different functional areas or business units and ensure they stay coupled during integration?
- How long should integration be allowed to last? What are acceptable reasons for delays? what not?
- How do you prevent the focus of the newly combined company during integration from becoming too inward focusing? How can you bring real focus to the difficult task of integration without growing an “integration” culture? Is this a danger? Whose job is this?
- How do you ensure you keep an appropriate focus on the people and cultural issues amidst a procedure that can feel like it is much more about systems and process integration?
- What is the role of senior management during integration? Where should their focus be?
- How closely are IT integration decisions normally tied to the rest of integration? Should they be more tightly linked?

**Session 4: The Dynamics of Divestitures** (*please come prepared to discuss what you consider the key issue or two is in executing a divestiture*). This session will focus on the planning for and execution of divestitures and what makes them successful or not.

- What are the key considerations for disentanglement in a divestiture?
- What are the key factors in determining the speed of disintegration? What elements do you want to move quickly on and which more slowly?
- How do you diagnose key dependencies and ensure stand-alone operations?
- How do you ensure that only the right types of processes, systems, etc. leave the company in a divestiture?
- What are the right ways to anticipate and deal with intellectual property issues?
- What are the general experiences with providing transitional services (IT and other) to the acquirer? What are the best practices, the dos and don'ts?
- What are the keys for IT in a divestiture?