



M&A governance

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デロイト トーマツ グループ

The failure to create value through M&A is a global problem

It is however particularly serious for many Asian companies

- Twenty years ago, success rate (value creation for the acquirer) was about 30%
 - Reality is even worse if we take into account deals that failed to close
- Much progress has been made since then: strategy, valuation, due diligence, integration planning
 - All acquirers worldwide have access to such M&A tools
- Yet success rate remains unchanged
 - While serial acquirers have learnt and developed their own M&A governance, many new entrants (e.g. many Asian companies) have not
 - The landscape is littered with impairment losses, rushed exits and damaged reputations
 - M&A tools add most value if in the context of well governed M&A processes

What is failure in M&A transactions?

To close a bad deal or not to close a good deal, that is the question

Process weaknesses destroy value – in China, this is amplified by cultural and structural issues

Failure to originate

- Inadequate M&A strategy or investment criteria leads to long periods of inaction
- Inability to focus consumes resources, hurts reputation and credibility, and generates fruitless chaos

Failure to close

- Lack of well-established and efficient processes results in missed deadlines and unpredictability – a cardinal sin especially in auctions
- Unsecured funding and resulting delays and renegotiations lead to suspicion, dismissal of bids, and high break-up fees
- Cultural clashes, especially in negotiations, can quickly derail deals and hurt reputation

Over-paying

- Not knowing what you are buying: unfocused and “tick-box” due diligence, low transparency requirements, disconnected negotiation and post-transaction process
- Paying high premiums: moral hazard of access to money, political or “long-term strategic” considerations, personal agendas, over optimistic projections, lack of integrated pricing strategy, having to compensate for perceived lack of credibility or risk
- Not capturing value: inadequate integration or involvement of integration team, no specific value targeted, cultural clashes

The path to a solution: M&A governance

Founded on M&A-related risk management

1. Three sources of risk in M&A



2. Three risk categories to be reviewed during transactions

1. Critical strategic and execution risks intrinsic to the company
2. Risks related to the transaction process: process integrity so far & preparedness for next steps
3. Risks related to the transaction: target risk, risk related to the offer (and RAF considerations if applicable)

The path to a solution: M&A governance

Delivering effective oversight

1. Effective oversight requires efficient review and approval processes



2. Key challenges to be addressed

- I. Application of rigorous framework to assess strategic fit
- II. Risk approach to M&A management
- III. Efficient, systematic yet adaptable approval processes
- IV. Adequate competences of boards and committees

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