M&A governance

ACGA Annual Conference, Mumbai 2017

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	• <u>Not knowing what you are buying:</u> unfocused and "tick-box" due diligence, low transparency requirements, disconnected negotiation and post-transaction process • <u>Paying high premiums:</u> 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 • <u>Not capturing value:</u> 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

Strategic risk
- Source: M&A initiative (company, market)
- Treatment: Review & monitoring

Execution risk
- Source: Process from origination to post-deal management
- Treatment: Best practices & monitoring

Target risk
- Source: Target company / deal
- Treatment: Focused & integrated DD

2. Three risk categories to be reviewed during transactions
    1. Critical strategic and execution risks intrinsic to the <u>company</u>
    2. Risks related to the transaction <u>process</u>: process integrity so far & preparedness for next steps
    3. Risks related to the <u>transaction</u>: 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

Deloitte.

デロイト トーマツ

Member of
Deloitte Touche Tohmatsu Limited