

Mergers & Acquisitions: Integration is the Key

June 2010



Speakers

Panelists

Marwan Jomha



Eric D'Amours



Moderator

Howard Johnson



Session Overview

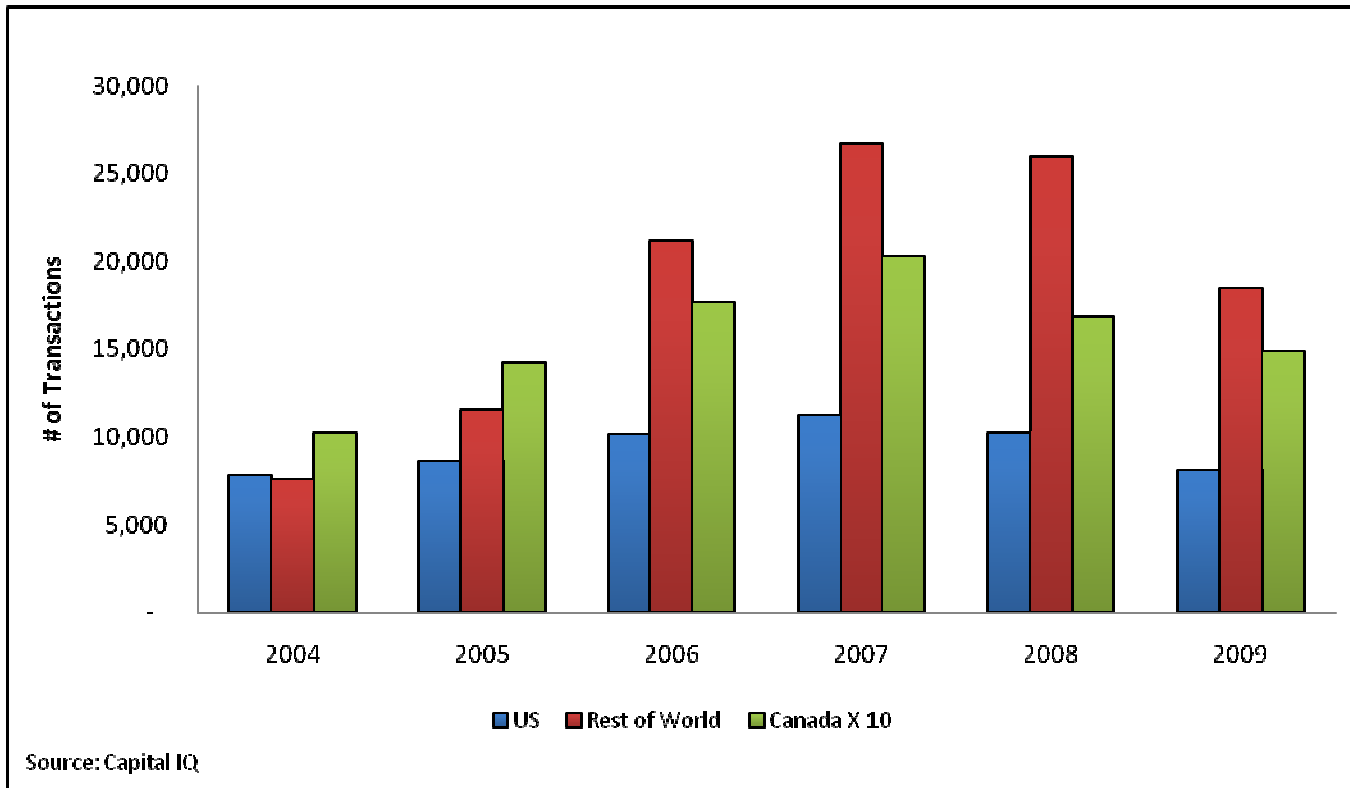
- Introductions
- The Current M&A Market
- People Risks in M&A
- Integration Issues
- Panel Discussion

The Current M&A Market

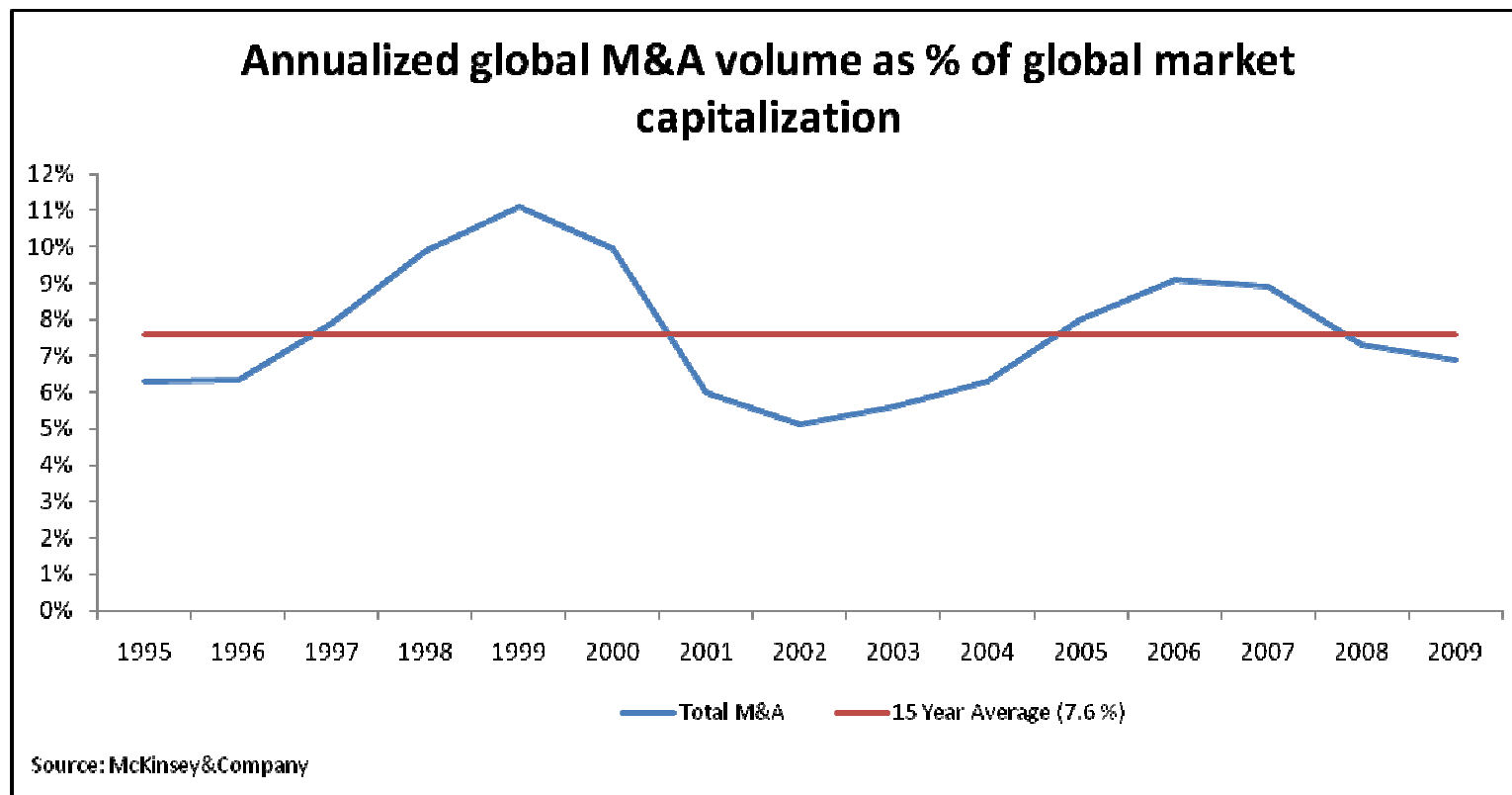
Howard Johnson



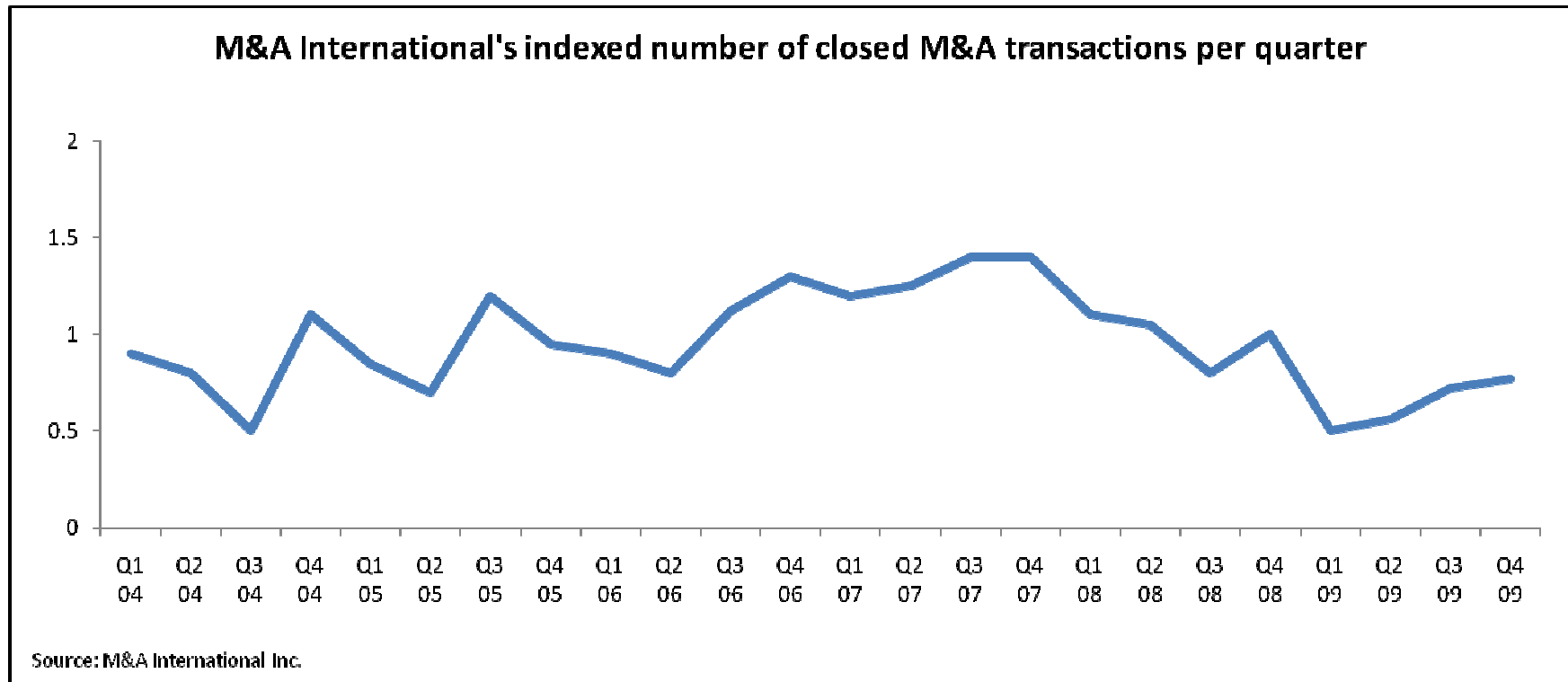
Transactions by Location of Target



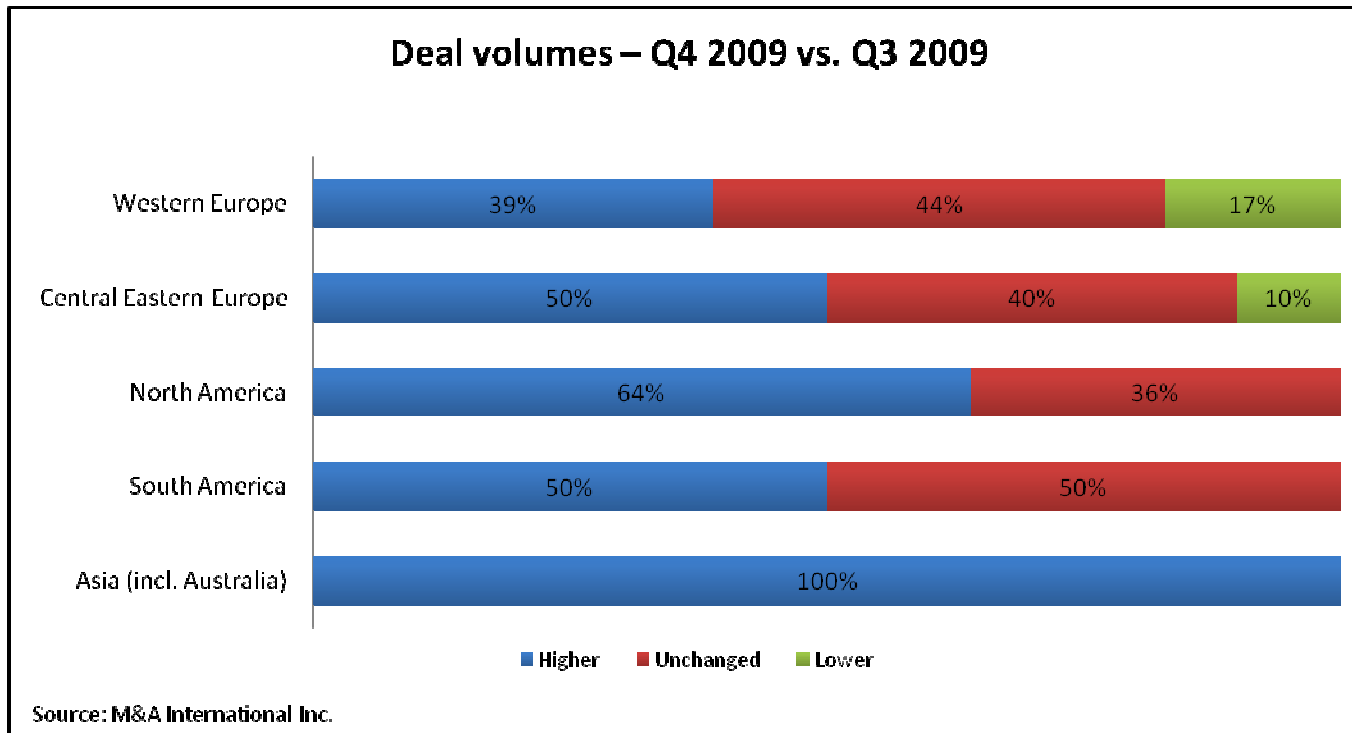
M&A Activity Near Normal Levels



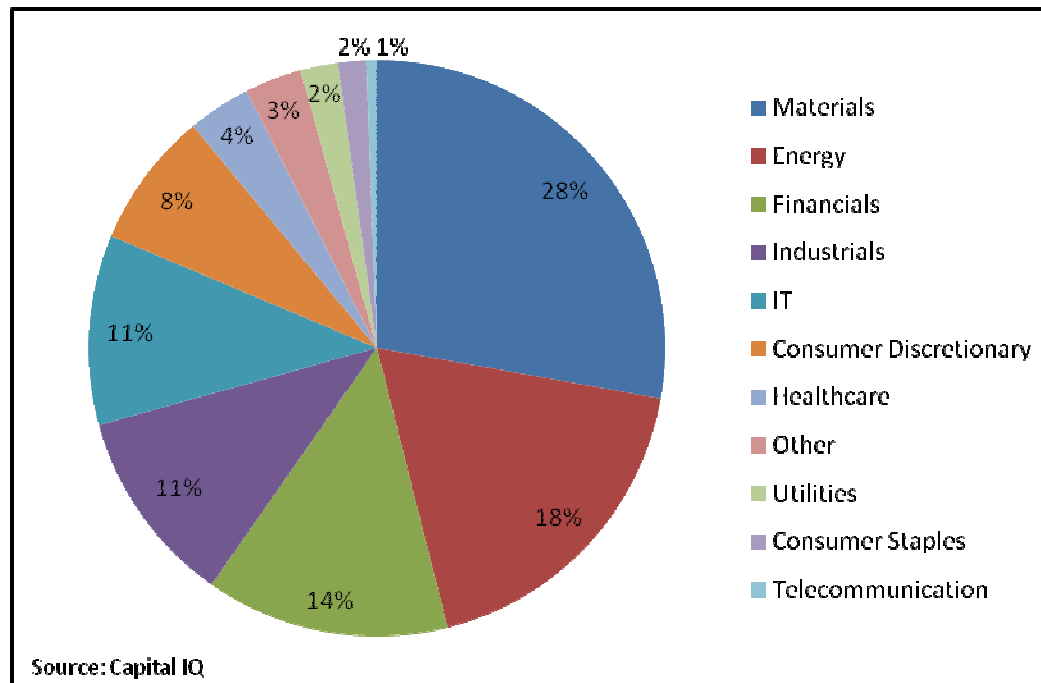
Transaction Activity Stabilizing



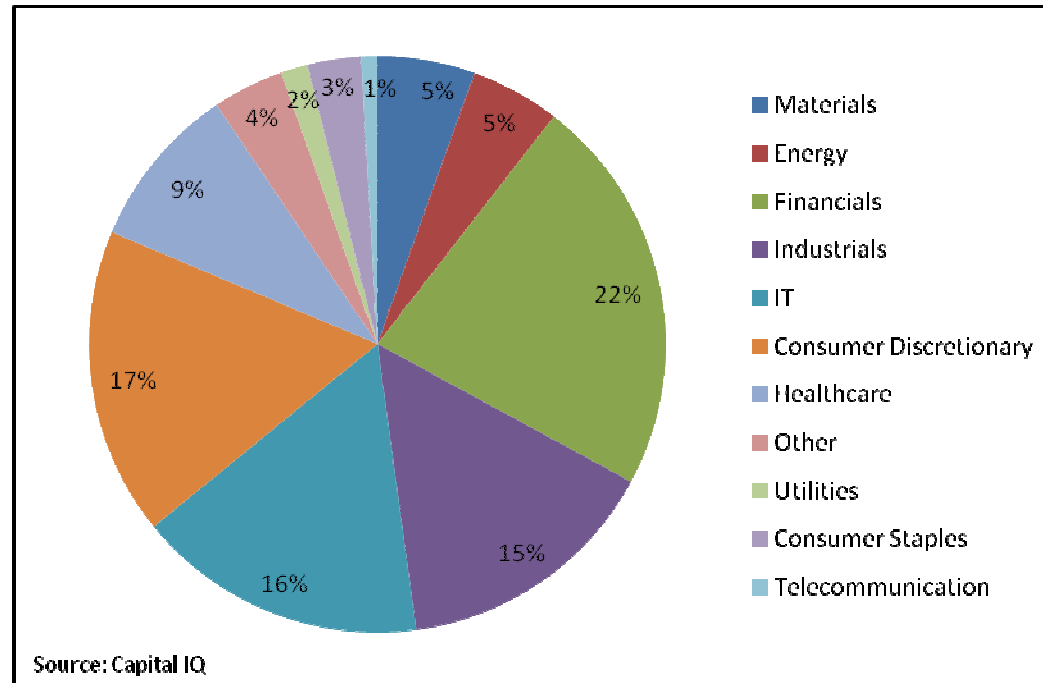
Deal Activity Increasing Worldwide



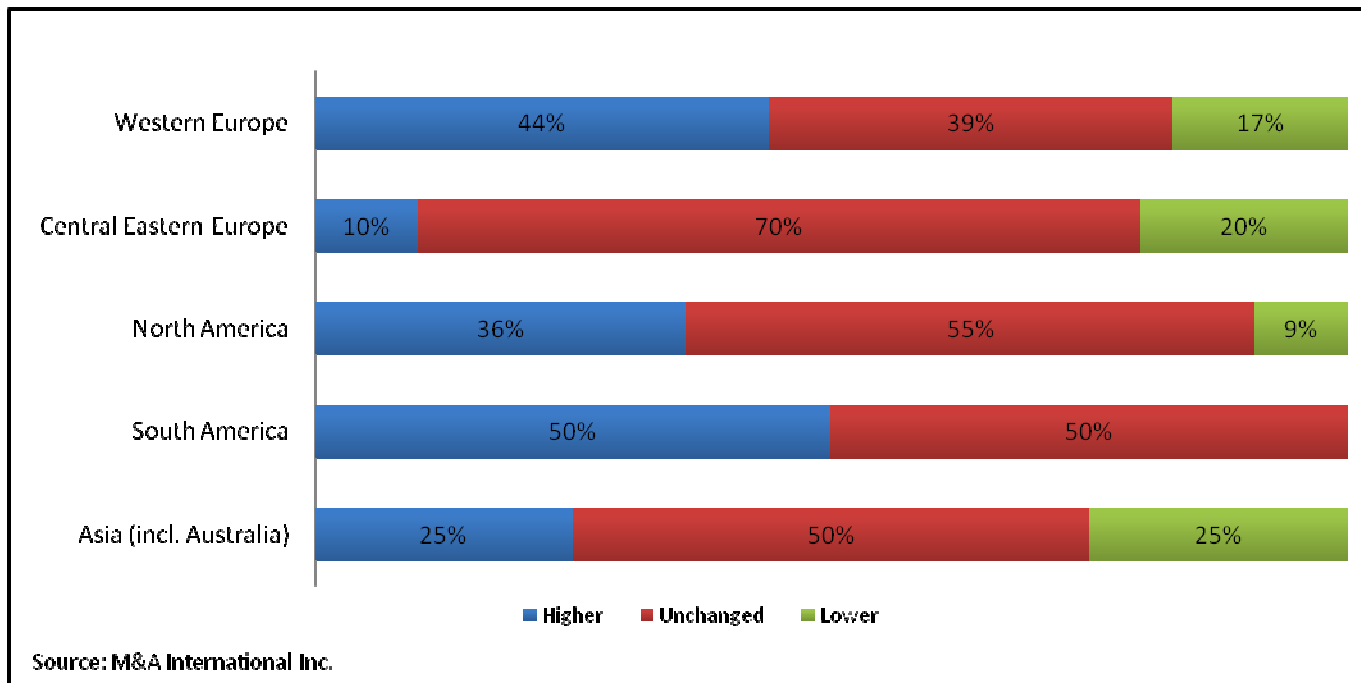
Deal Sectors – Canada 2009



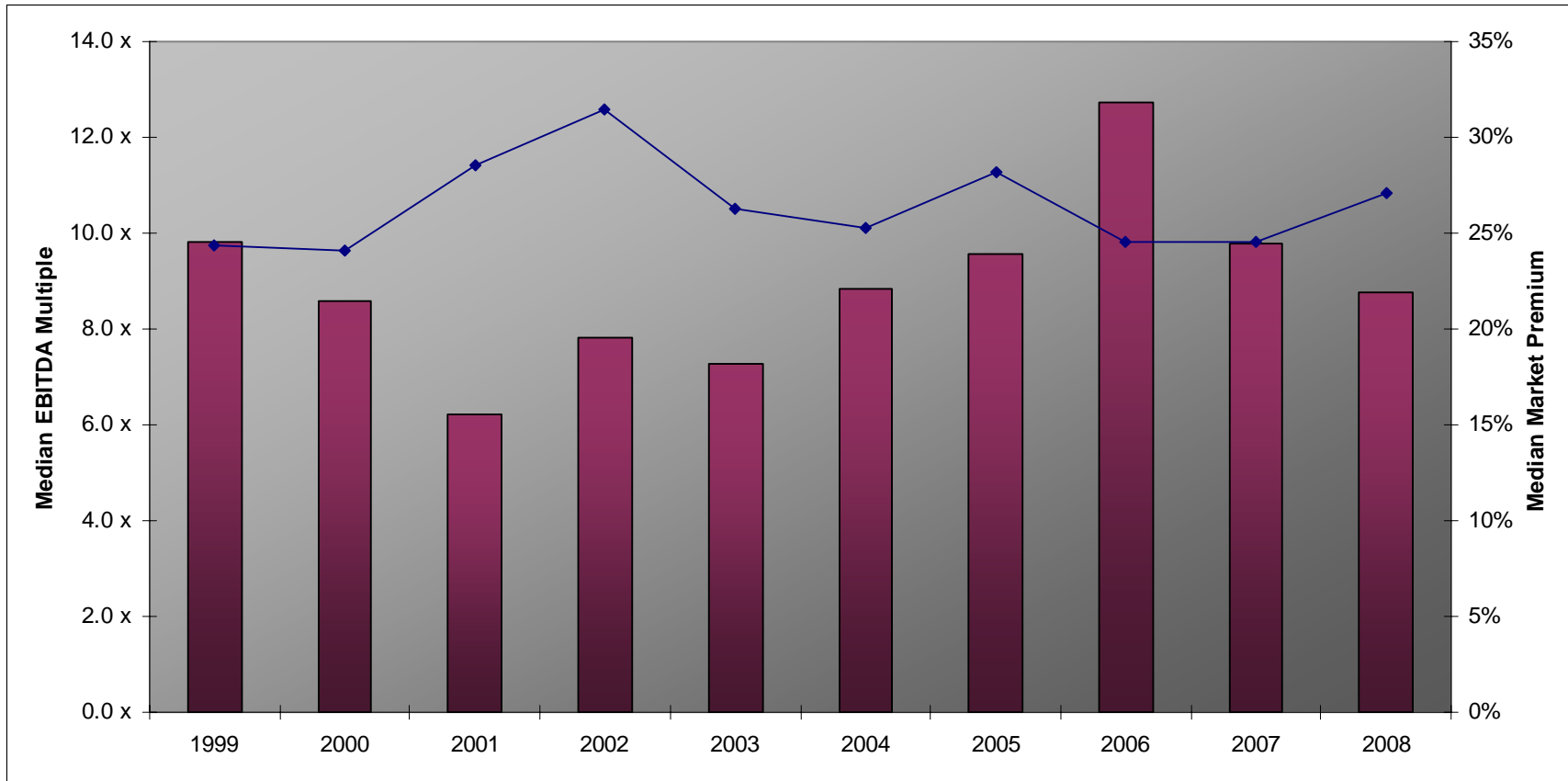
Deal Sectors – USA 2009



Trends in Valuation Levels



EBITDA Multiples and Market Premiums



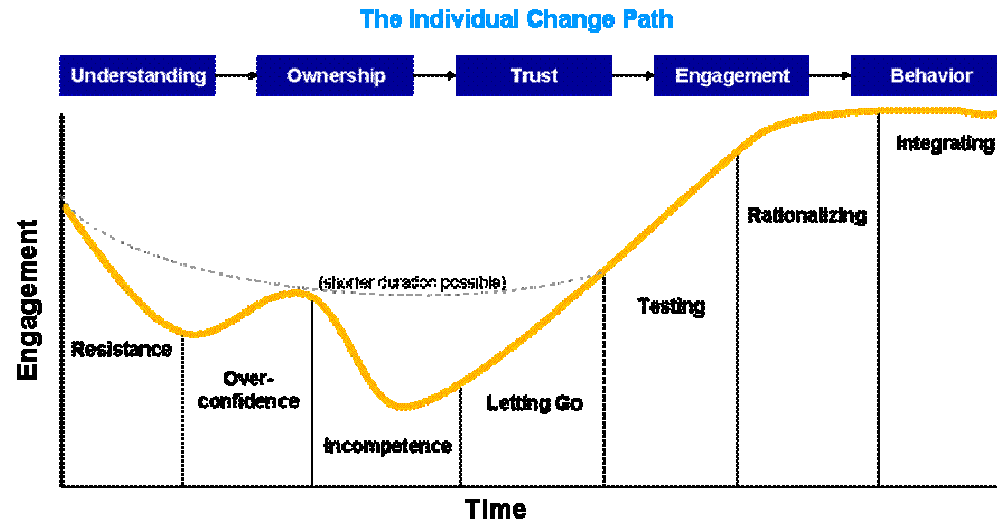
People Risks in M&A

Research on the link between People and Success

Eric D'Amours

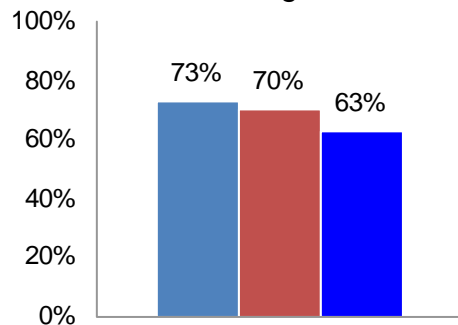
TOWERS WATSON The logo for Towers Watson, featuring the letters 'TW' in a stylized, red, handwritten font.

The “People Risk”



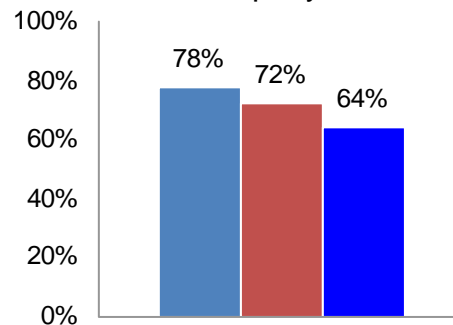
RATIONAL ENGAGEMENT

% Understand how to help company achieve its goals



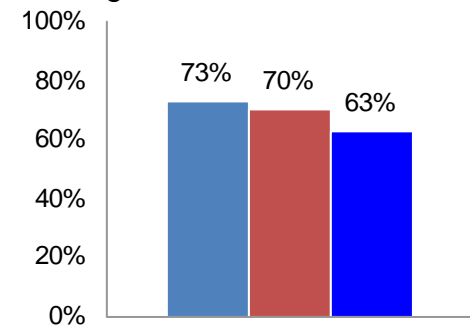
EMOTIONAL ENGAGEMENT

% Care about the future of the company



MOTIVATIONAL ENGAGEMENT

% Personally motivated to help organization be successful

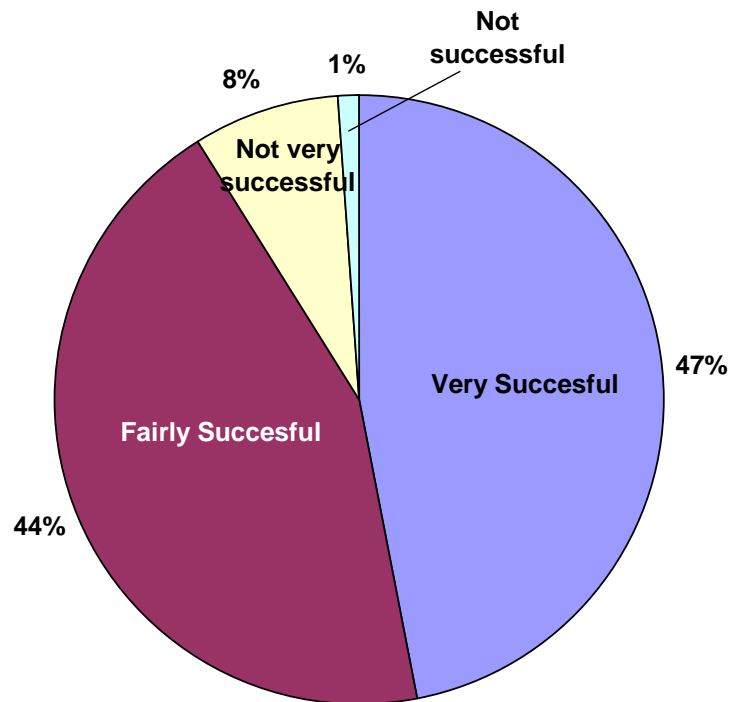


■ No M&A Activity
 ■ Company made an acquisition — Substantial impact on employees
 ■ Company was acquired — Substantial impact on employees

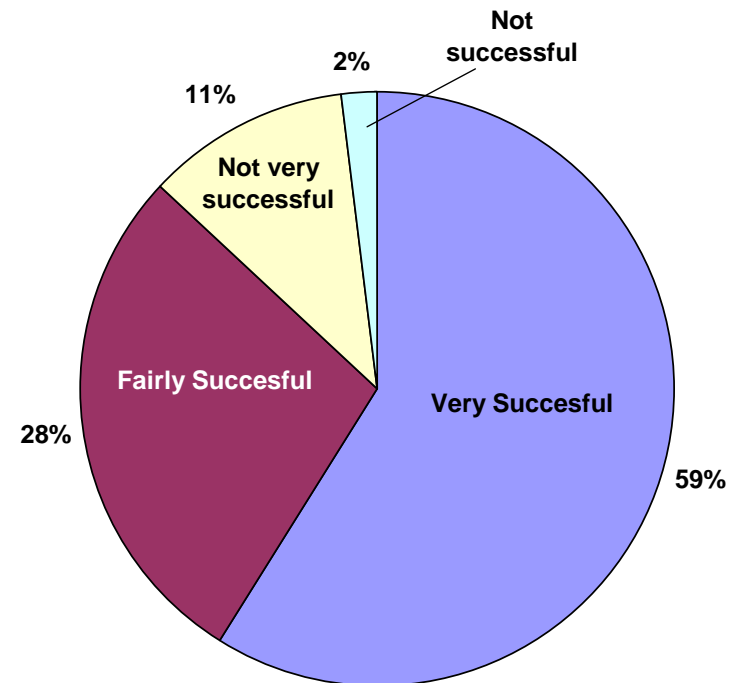
Source: Towers Watson Global Workforce Study

Two surveys about success factor and challenges in M&A

FEI Canada Survey
(108 Respondents)

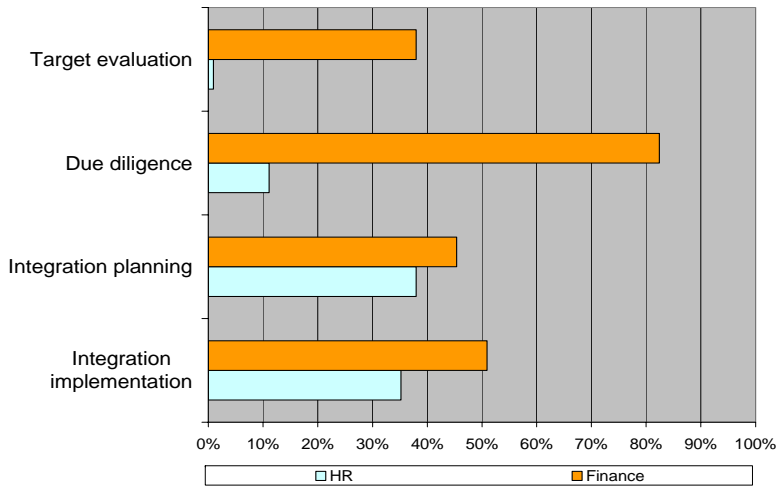


Global HR Survey
(404 Respondents globally including
118 Respondents in Canada)

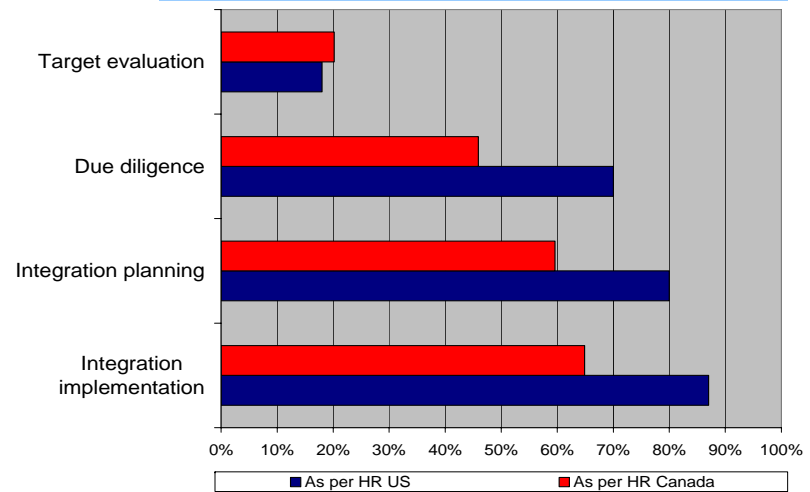


HR and Finance Role at Each Stage

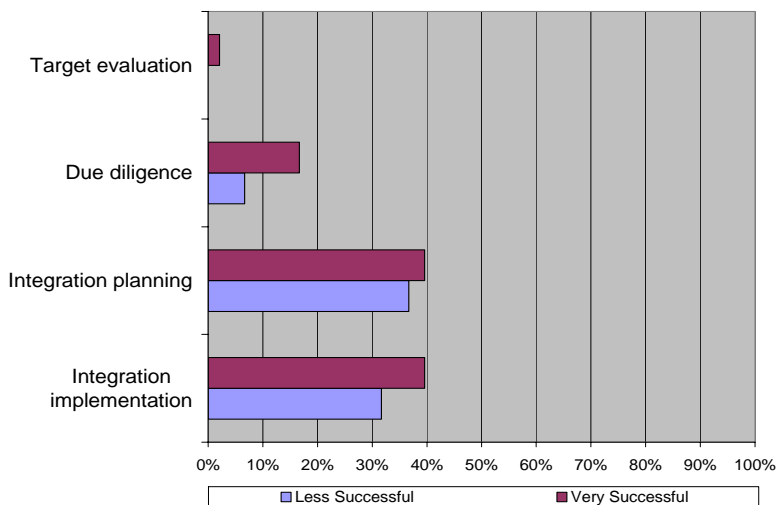
Role of HR and Finance – As per Finance



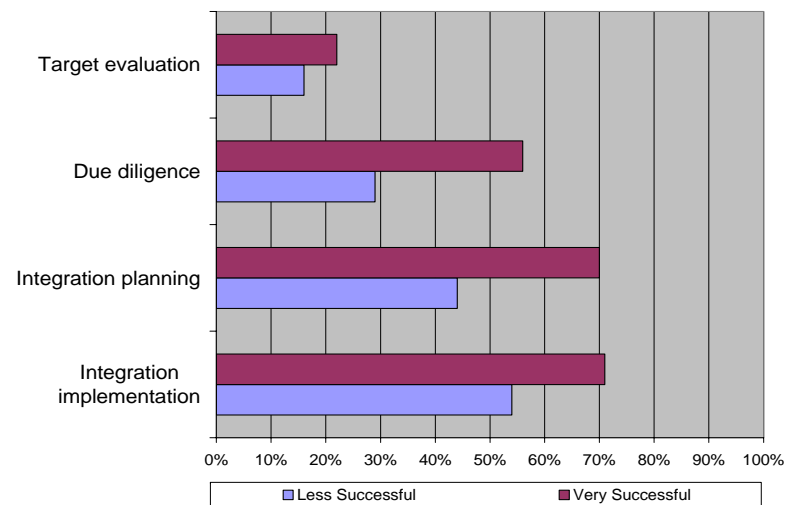
Role of HR in Canada and the US – As per HR



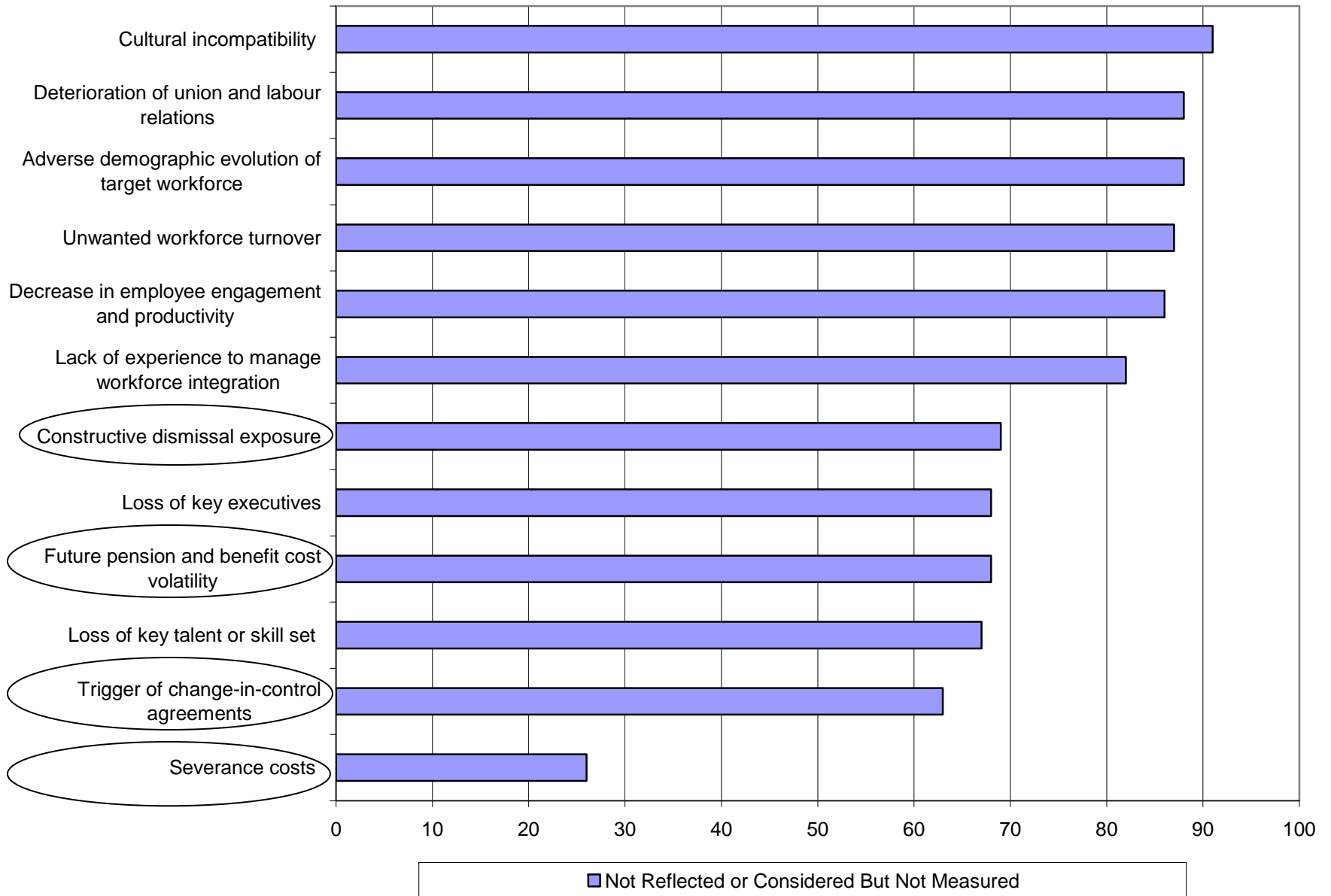
HR Role for Successful Deals – As per Finance



HR Role for Successful Deals – As per HR



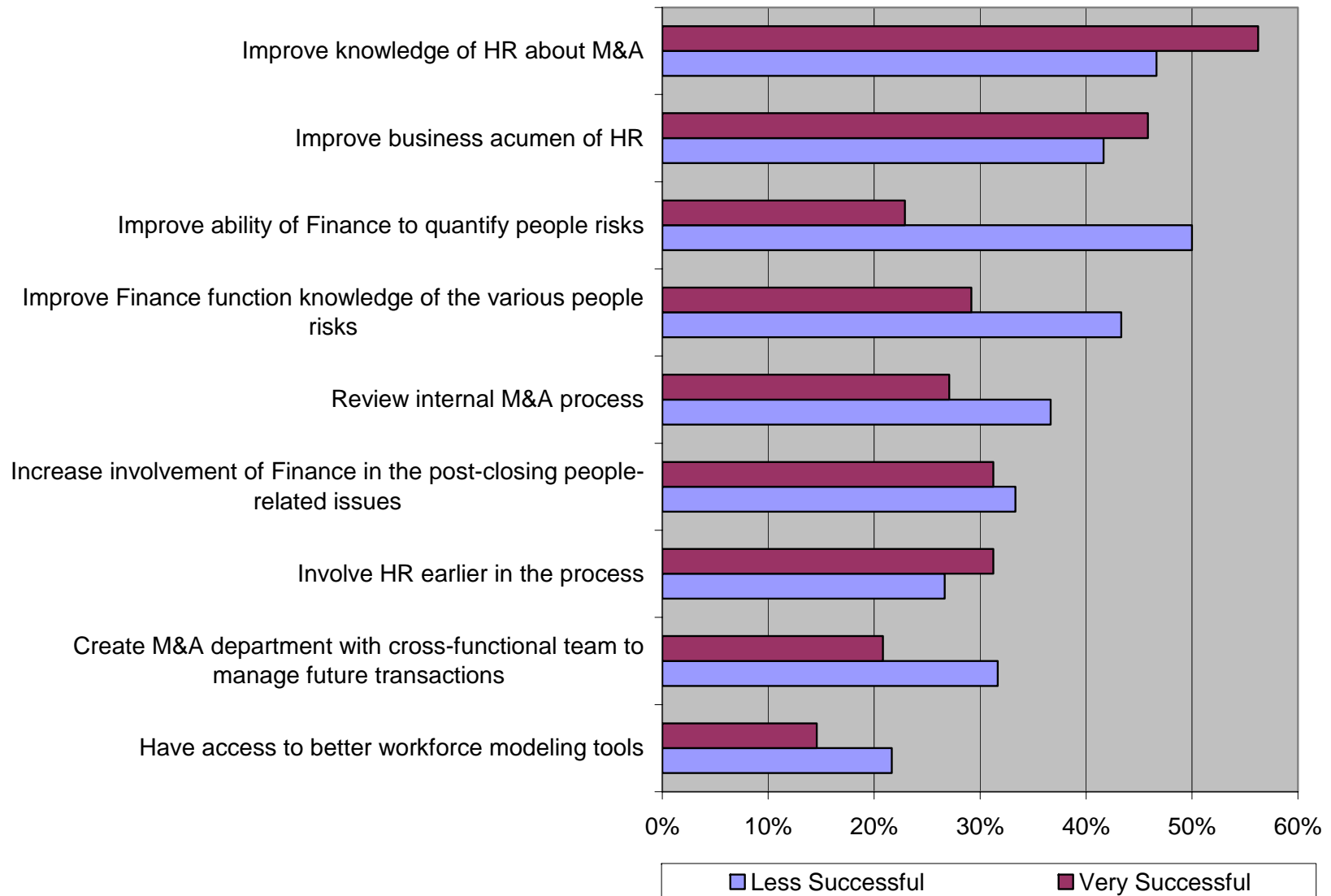
Treatment of People Risks at Due Diligence



Misalignment of Priorities and Capabilities with Success Factors

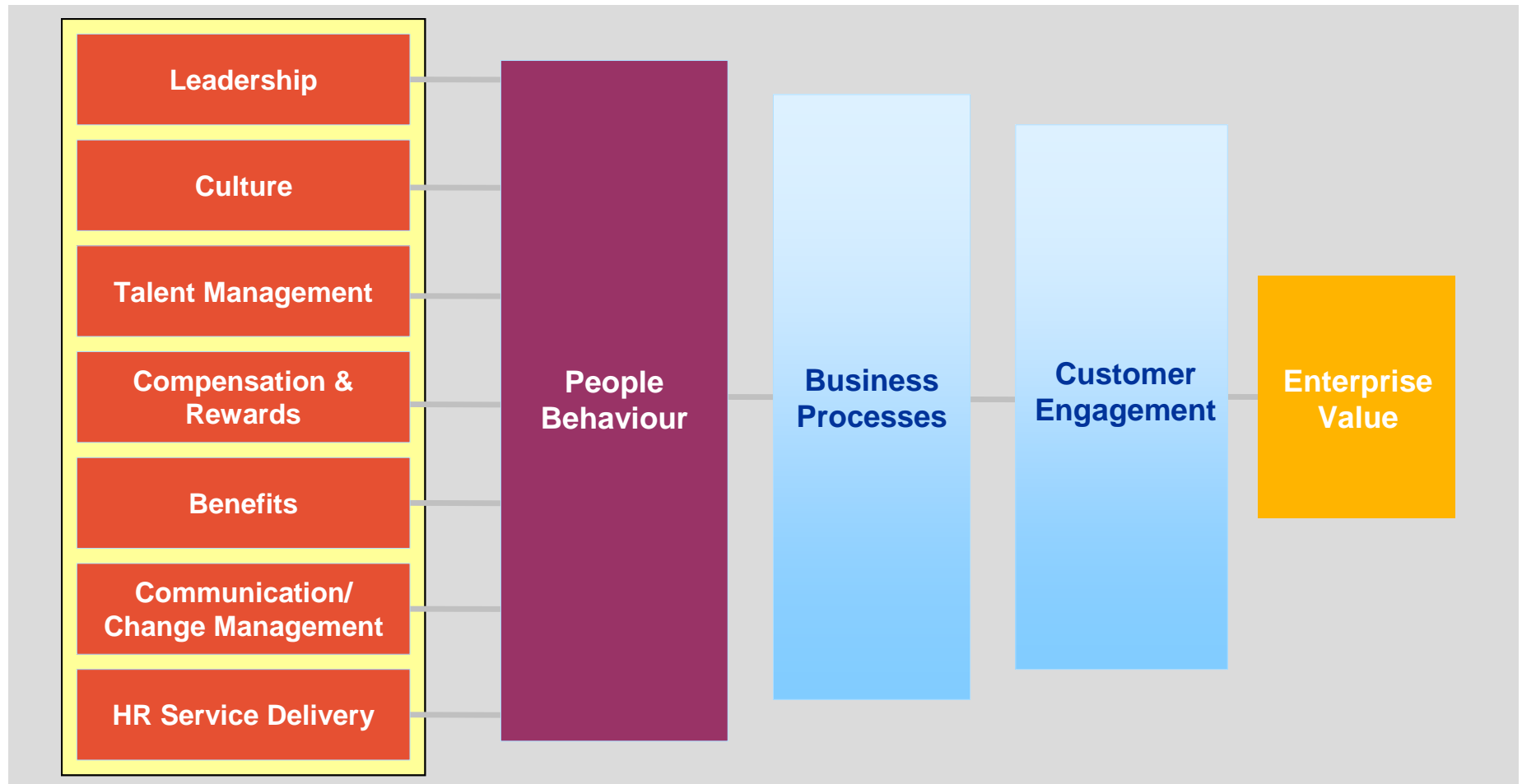
Integration Activities	Organization Priority	Organization Effectiveness		Success Differentiator
		As per Finance	As per HR	
Key talent retention	Significant	High	High	Yes
Communication and change management	Significant	Medium	High	Yes
Compensation and benefit programs	Significant	Medium	High	No
Culture alignment	Significant	Low	Low	Yes
Employee Engagement and Productivity	Significant	Medium	Low	No
HR Due Diligence and Project Planning	Moderate	Medium	Medium	No
Workforce/Skill Set Deployment and Staffing	Moderate	Medium	High	Yes
Leadership Alignment	Moderate	Medium	Medium	Yes
Estimating People-Related Synergies	Moderate	Low	Low	Yes
HR Service Delivery Structure	Less Significant	Medium	Medium	No

Improvement Actions Before the Next Deal



Deal Value = Cost Synergies + Growth Synergies

Growth synergies are long term and tend to be driven more by human talent and less by physical assets, process reengineering or technology infusion



Integration Issues

Marwan Jomha



Too often, M&A transactions do not live up to the “hype.”

“Less than half of all mergers and acquisitions ever reach their promised strategic and financial goals.”

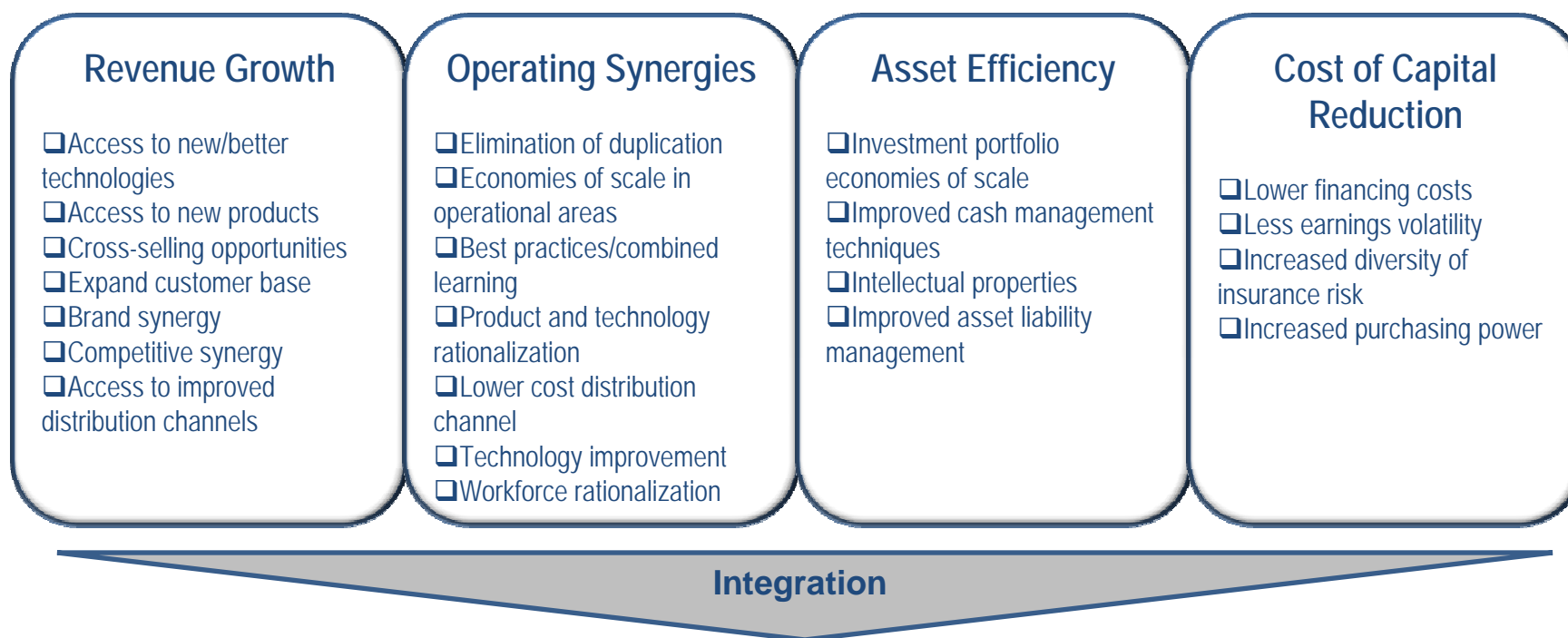
-- *Harvard Business Review*

Top Reasons for M&A “Failure”

- Not performing adequate due diligence to uncover hidden risks and/or associated costs required to maintain or grow the business
- Failure to prioritize and focus attention on the highest value-producing areas
- Inadequate attention to retaining key people – the wrong people stay and the wrong people leave
- Not addressing the challenges of integrating distinct cultures
- Poor communication up, down, and across the organization, as well as outward to customers, suppliers, and other stakeholders
- Lack of up-front integration planning and poor project management over execution of integration plans/tasks
- Not anticipating and managing personnel bandwidth needs and challenges

Why are you doing the deal?

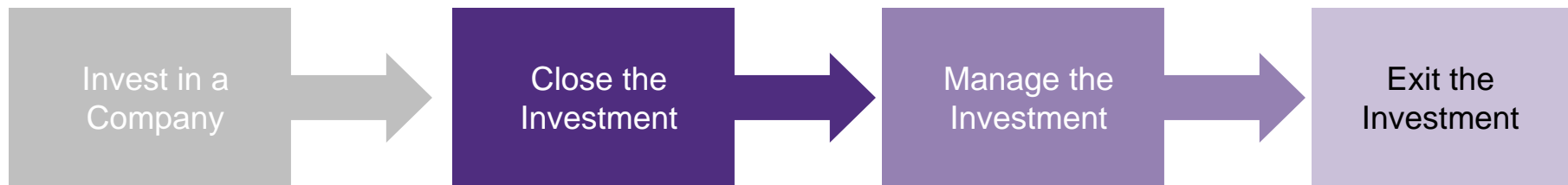
Typical M&A “value drivers” include:



The reasons for the deal should be the primary factors determining integration priorities. Shareholders expect a correlation between the expected value and the premium paid to acquire the business.

There are **specific activities associated with merger integration** that contribute to realizing deal value if the activities **begin early enough** in the transaction lifecycle.

M&A Transaction Lifecycle



1. Target evaluation

- Screen candidate companies
- Assess risks
- Confirm strategic fit

2. Synergy identification

- Understand high level value drivers
- Identify potential synergies

3. Exploratory due diligence

- Develop preliminary integration model
- Identify potential integration costs

3. Confirmatory due diligence

- Perform financial, IT, & operational analysis
- Understand potential integration challenges
- Identify purchase agreement considerations

4. Synergy analysis

- Confirm value proposition
- Quantify cost savings and revenue potential
- Create integration strategy map

5. Integration planning

- Establish program structure and launch PMO
- Develop integration blueprint, including Day 1 tasks and functional project plans

6. Day One stabilization

- Rapidly address immediate business priorities of combined company
- Address employee retention needs
- Carry out communication strategy

7. Integration plan execution

- Integrate operations
- Integrate back-office processes
- Integrate IT infrastructure

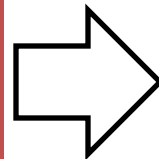
8. Maximize value of the deal

- Monitor integration progress
- Measure whether synergies realized
- Identify & address ongoing performance improvement opportunities

Integration planning should begin during due diligence, with consideration given to all key integration areas.

Primary Integration “Functional” Areas

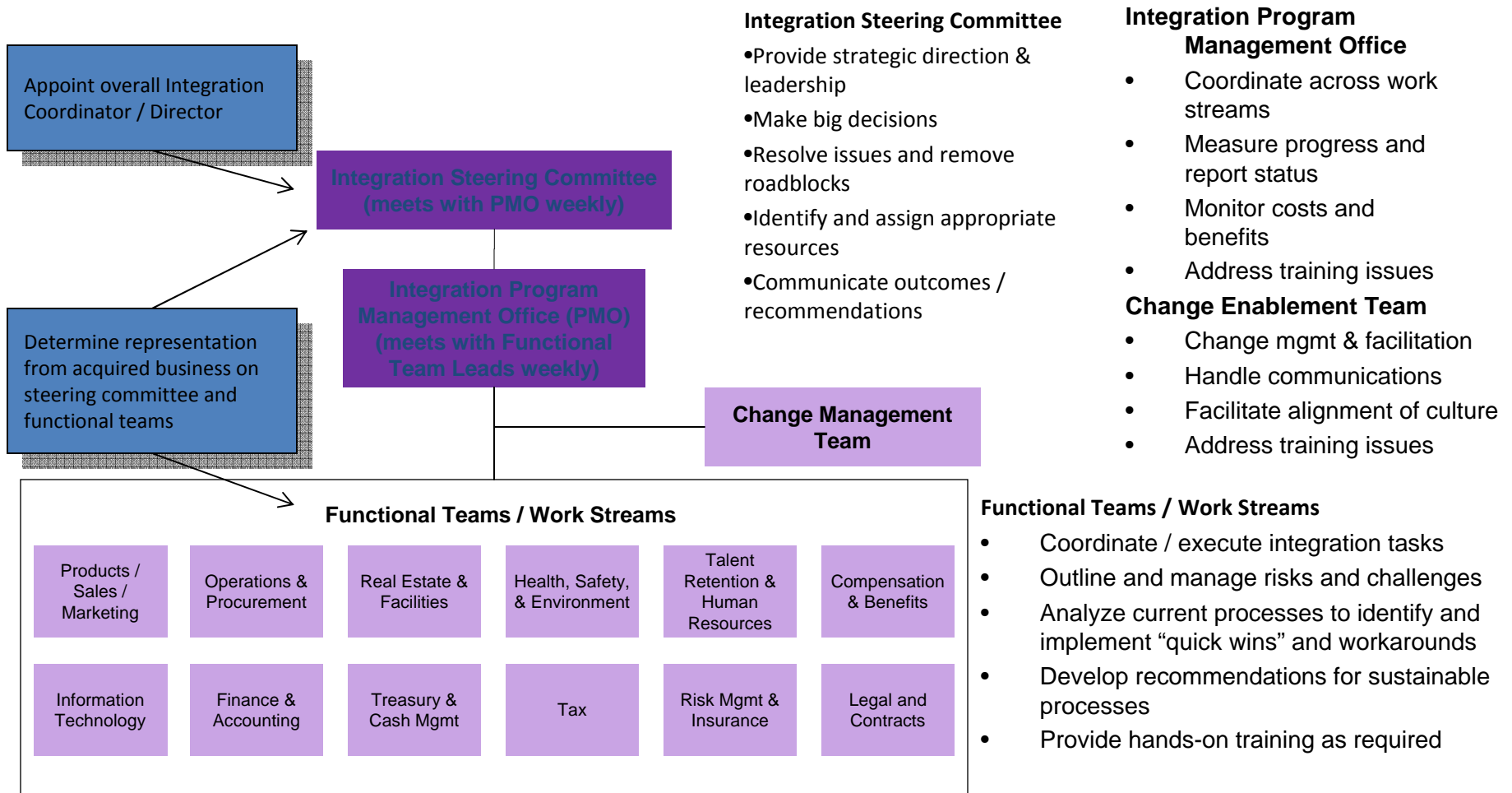
- ✓ Product/Service Line
- ✓ Brand/Marketing/Sales
- ✓ Operations
- ✓ Procurement
- ✓ Real Estate & Facilities
- ✓ Health, Safety, & Environment
- ✓ Human Resources
- ✓ Talent Retention
- ✓ Compensation & Benefits
- ✓ Information Technology
- ✓ Finance & Accounting
- ✓ Treasury & Cash Management
- ✓ Risk Management & Insurance
- ✓ Tax
- ✓ Legal



Key Planning Activities

- Identify potential integration challenges and develop mitigation strategies
- Identify critical path activities and deliverables
- Identify individual work streams for each area
 - Work streams may have cross-functional dependencies
 - Some areas will have multiple work streams
- Customize Day 1 checklists for each area
- Develop project plans and timelines
- Identify all resource needs and constraints
- Set measures and milestones to track progress
- Ensure communication plans are in place

A well-defined **team structure** with dedicated and experienced resources must be in place prior to integration.



The integration timeline should establish key milestones for each work stream in the integration process.

Theme	No. code	Activity	Description	Responsible	Liase	How to deliver	Prio.	Initiated	Deadline	Status	Comments
MG	2.1	Key people to Purchaser location	Manufacturing focus (include CFO)	KM	JWP	Schedule visit and follow	M	6-Nov-09	30-Jun-10	Complete	ON HOLD - Arrange with John at Purchaser (Joe now busy converting to new product lines). This item is considered UNNECESSARY and will be considered complete
BA	2.2	Establish Monthly Report	Use template	RB	KM	Submit report	M		12-Feb-10	Complete	Data from Hyperion system, must begin in 2010. Need a budget for 2010 by month. RB had promised to deliver budget by end of 2009, postponed until mid Feb. 2010. First President's Report in March
CF	4	Target's cash needs in 2009 and 2010.	Establish credit facility at Purchaser	RB	AQC	Submit budget to CFO of Purchaser	H	6-Nov-09	12-Feb-10	Complete	Cash level at end December higher than expected. RB satisfied that cash-flow to-date is also strong. \$5 Mil. Approved line w/Treas., CFO still to sign. Discussed at March board meeting, CFO promised to deliver.
	7.3	Is ERP system integrated with banks?	Investigate	RB	KM	Inform Parent Company CFO	L		15-Jun-10		Call Lasse if need help with this. Look at when implement new ERP
	10	Follow-up on Parent Co. Policies to ensure understanding		LRO	RB	Meeting and report	L		22-Mar-10	Complete	All policy manuals received. Will discuss at Board Meeting to ensure understanding. Policy understanding will be a topic of board meetings ongoing.
CA	6	Review agreements/contracts	Supplier, lease, etc.	RB	KM	Report	M	6-Nov-09	30-Jun-10	Complete	Agenda item for June Board Meeting
	11	First Escrow payment day (2.5 MCdn if no claims have been asserted) JeD/NiG/Lasse		AQC	RB	Execute payment	L		31-Jul-10		
	12	End of general warranty period		RB		Date	M		30-Apr-11		
	13	Establish Tax value of fixed assets as of closing (shall be no less than 7.4 MCdn)		RB	AQC	Year-end Inventory - report	H		15-Apr-10	Complete	Discuss w/AQC 12/15/09. Between RB and Target auditor to assure fair value of May '09
	14	Move place of incorporation from Ontario to Alberta		NIG	KM	Document change	M		3/12/2010 5/31/2010	In progress	Must appoint a Canadian resident board member to meet 25% reqt. Alberta will save money. Potential board member will be interviewed in April.
added	23	Audited accounts to be submitted	To be submitted to Purchaser	RB	AQC		H	16-Dec-09	2/22/2010 3/15/2010	Incomplete	No information provided thus far.

LEGEND:	H =	By end of 2009	BLUE TEXT - Added since last update	Green	Completed
	M =	By end March 2010		Yellow	In progress
	L =	By end of 2010		Red	In danger

Panel Discussion

