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Maryland BAR JOURNAL

MSBA. HOME OF THE LEGAL PROFESSION. | VOLUME 3 ISSUE 1

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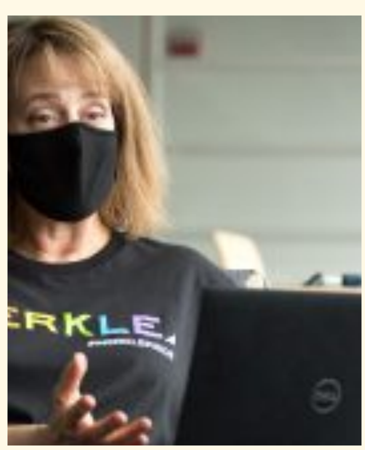

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Help Your Clients Achieve Greater M&A Success, Starting with a Winning Playbook

BY FRED HENCKE

A football team that comes to a game without a playbook or with one that is built on last season's game is not likely to win. The same is true for companies contemplating a merger or acquisition: without an up-to-date, comprehensive playbook that reflects the realities and challenges found in today's post-2020 business environment, the chance for a deal that meets all goals and produces sustainable value is greatly diminished.

AS AN ATTORNEY representing a client embarking on an M&A deal, you concentrate on looking out for the best interests of your client. Traditionally, that means making sure the contracts offer the best terms possible, all major risks are identified, and determining what must go really well for the deal to be successful. Doing these things well establishes trust and forges a stronger relationship with that client – if everything goes according to plan and if you are consulted early enough in the process.

What if you were to offer a set of best practices that start well before the contract – in fact, well before a potential buyer or seller is ready to move forward with a potential deal – and extends well after the deal closes to provide a roadmap for a successful integration? In our experience, you will have just exponentially increased your value to the client.

The Advantages for a Law Firm

Many aspects of a winning M&A playbook generally fall outside the scope of legal counsel. So what is the upside of introducing the idea of considering your client's M&A playbook and perhaps an appropriate partner to a client to fill the gaps?

In some instances, legal issues arise during the post-deal integration phase. Understanding aspects of the integration helps you to identify where legal counsel may be needed. Then, your firm is in a stronger position to assist as well as extend your role.

You can also reduce two risks to your firm by having a hand in improving the outcome of the deal: the risk of losing the client if the deal does not meet expectations, and the risk of sharing some of the blame, even if only in your client's mind.

The frameworks and techniques that follow can augment the value of an acquisition in progress, improve readiness for future acquisitions, and help you and your client critically evaluate the effectiveness of the current M&A playbook.

A Dynamic Process Rather than a Static Model

What defines a winning M&A playbook? "Winning" in this context means that the acquired company is a good fit in terms of your client's motivations, culture, and expected outcomes, and that the synergy targets are achievable and are sustainable. The primary attribute that enables this to happen is that the playbook is full lifecycle, starting with business strategy and ending with optimization. The secondary attribute is that it is dynamic: it includes a set of parameters that allow for a certain amount of adaptation and contingencies as the company moves through the process and learns more about the intended suitor or target.

Aligning business strategies with M&A motivations is an important activity. Many acquisitions fall short of expectations because leaders incorrectly look for candidate companies

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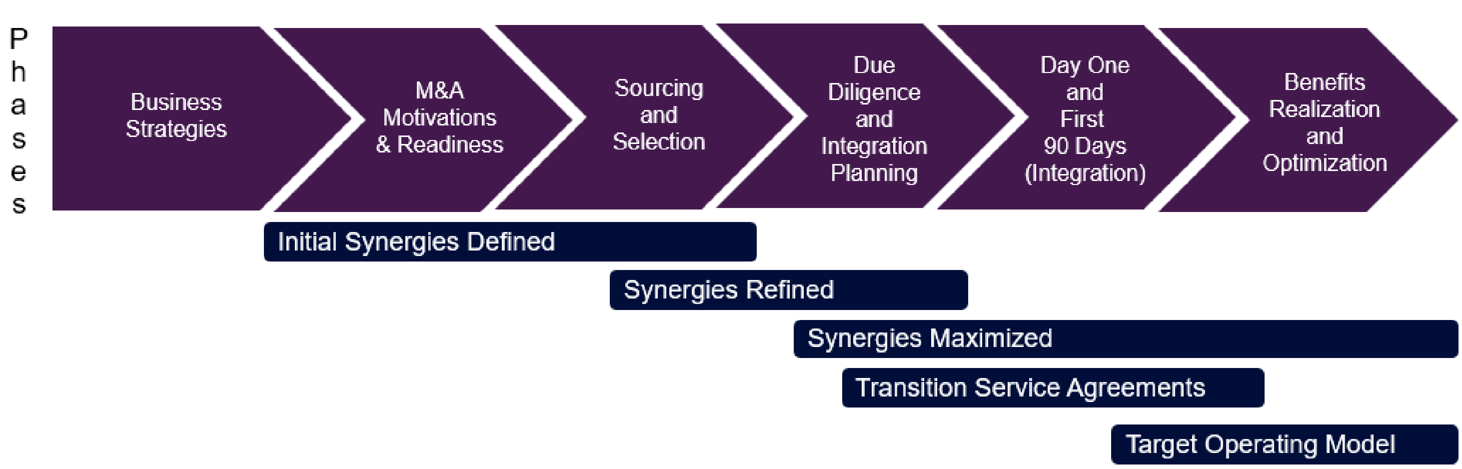
without fully considering the strategic purpose of the deal or by losing focus once the deal process begins. There are seven common motivations for an M&A deal:

1. Increase market share
2. Gain access to new regions
3. Gain access to new capabilities, talent, and/or capital
4. Acquire the ability to offer whole product solutions
5. Lower operating costs through economies of scale and consolidation
6. Eliminate a competitor
7. Improve customer service/quality



THE STEPS IN A FULL LIFECYCLE PLAYBOOK

A comprehensive, full lifecycle M&A playbook includes:

- An objective, pre-deal self-assessment focusing on motivations for the deal and readiness to address aspects of the current state
- Identification and vetting of potential targets
- Due diligence regarding objective assessments of the potential fit between the two organizations in terms of financials (including customers and supply chain) as well as people, culture and leadership
- Post-deal integration planning, including detailed timelines of short-term (first 90 days) and longer-term implementation
- Execution of integration plans after deal close
- Optimization planning for the first one to two years

These motivations lead to deals loosely grouped in two strategic categories: those that might improve current operations and those that could dramatically transform the company's growth prospects. Without drilling down to understand the true motivation behind the desire for the deal before selecting an acquisition candidate or suitor, companies too often pay the wrong price (or receive a lower valuation) and integrate the acquisition in suboptimal ways, negatively impacting long-term sustainable value.

Additional attributes of a winning M&A playbook include:

- **Balancing "Deal Making" with "Creating Something"** – which helps avoid getting caught up in the financials and losing sight of what your client wanted to accomplish
- **Translating M&A motivations into focused buy or sell search profiles** – which help clarify the go/no-go decision process
- **Fostering sound decision making** – based on easy-to-identify answers to key questions
- **Focusing on more than the financials** – so that people, culture and leadership issues are not lost in the process
- **Recognizing synergies that can be more than additive** – to find veins of value below the surface
- **Enabling due diligence to be both efficient and effective** – with focused templates and best practices powered by technology to maximize the time and energy invested and provide a path for developing the integration strategies
- **Starting integration planning early with ongoing adjustments** – with a focus on what really must go well in the deal to produce value
- **Elevating the importance of the day-one employee experience and the first 90 days post close** – because it becomes exponentially harder to fix the longer employees feel in limbo
- **Accounting for all blocking and tackling needed during the first 90 days** – involving all aspects of how the organization operates by providing roadmaps developed for each functional area to achieve basic integration initially but also to plan for the desired future state
- **Personalizing change management and communications using stop, start, and continue** – so that employees know and understand their places and roles in the new combined entity

People, culture and leadership challenges underlie most of the internal factors limiting success.

A winning M&A playbook outlines the sequencing of phases, activities, and steps, along with a set of standards and templates applied to facilitate the selection and integrations associated with any acquisition or merger. This includes six primary phases:

While having a comprehensive winning M&A playbook cannot prevent external factors from impacting the success of the deal, it can help minimize the effect of negative internal factors such as:

- Not achieving expected revenue or cost synergies
- Losing customers and critical employees
- Gaps in execution and integration plans
- Talent issues at the target company
- Not achieving cultural alignment
- Slowing down innovation and product/services development

People, culture and leadership challenges underlie most of the internal factors limiting success. Challenges in these three areas too often are overlooked or downplayed in many M&A deals. The target operating model should include the business operational components, but it should also include putting people in the right roles, which is critical to retaining talent, productivity, enabling the most appropriate cultural integration strategy, and aligning leadership responsibilities to inform and streamline decision making and course corrections, especially during the critical months following deal closure.

As the employees acclimate to the changes, their needs should be considered. The first 30 or so days often requires very specific instructions on what employees need to stop doing, start doing and continue doing within their specific roles. Then, during the next 60 days, focus should be on increasing productivity through well-paced training and development, highly focused communications, increasing access to information, and providing rapid response from support organizations within the company such as HR and IT. Rapid response is especially important given the number of people now working remotely or partially remote.

The target operating model also provides clarity around accountabilities needed to enable the desired end state, and it establishes a common vision and strategic plan. In doing so, it identifies and prioritizes core strategic areas of focus, which reduces operational risk, while balancing cost, quality, scalability, processing (cycle) times, and employee experience.

It's Not Over When the Ink is Dry

If the target operating model is the goal, the integration plan and its execution form the detailed roadmap that gets your client to that goal. For most organizations, much of the heavy lifting begins once the contract is signed. However, at that point, it is too late to begin figuring out how to integrate the two organizations.

Before the pens come out, we recommend that each of the following steps are planned, documented and ready to execute:

- **Develop a timeline** – including organization of an integration team
- **Define priorities and synergy targets** – including identifying top criteria needed for value and measuring the best factors of each organization
- **Build a budget** –including the complete costs for implementing the deal and a list of financial obligations and filings required
- **Outline the foundation for integration** – including integration leaders within the organization as well as what are the success factors (key performance indicators or KPIs)
- **Devise a communication plan to keep all parties including stakeholders informed** – and be ready to announce a clear motivation and strategy for the deal and to provide frequent updates
- **Establish a day-one plan** – which can be the most impactful day. This should include announcements that answer questions about the revised organizational structure and roles, policy and practice changes as well as where to go for additional information and support.

> Your clients depend on you and your firm to steer them away from trouble.

Information about customer and supplier interactions and changes should also be conveyed

Your clients depend on you and your firm to steer them away from trouble. The distance between a good and a bad M&A deal can be a very wide ocean with many waves that can dilute potential, disrupt goals, diminish value, and dull the enthusiasm for the deal. Without a full lifecycle winning playbook to guide them, your clients may not have the time or the opportunity to course correct a deal in progress or they may start a journey that will not get them where they want to go.

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WEB EXTRA

"Create a Winning M&A Playbook" is also available in the MSBA CLE Catalog as a OnDemand program.

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