

Business Advisory

Supplement to the Global M&A Intelligence Report 2024

ACHIEVING BETTER M&A OUTCOMES



Executing M&A from the inside

The history of deal-making is littered with examples of failed M&A transactions. Within this context, Robert F Bruner's article "[Does M&A Pay? A Survey of Evidence for the Decision-Maker](#)" provides a warning for decision-makers when considering executing an M&A strategy:

“The mass of research suggests that target shareholders earn sizable positive market-returns, that bidders (with interesting exceptions) earn zero adjusted returns, and that bidders and targets combined earn positive adjusted returns.

On balance, one should conclude that M&A does pay. But the broad dispersion of findings around a zero return to buyers suggests that executives should approach this activity with caution.”

There's a wide range of reasons for these failures, many of which are widely recognised by practitioners. For example, acquirers overpaying for synergies that turn out to be much less than expected. One of the most under-recognised, however, is the essential skill set (and accompanying processes) that corporate development executives require to consistently execute successful M&A deals.

A successful inhouse corporate development executive needs to develop and deploy a varied mix of critical skills, including leadership; developing and delivering strategy; change management; cross-functional technical knowledge; diplomacy and negotiation. Ultimately, practitioners are accountable for delivering an effective inorganic strategy and consistently executing M&A (and other transactions) successfully over time.

There are actions an organization can take to increase the likelihood of successfully executing its M&A strategy. Corporate development teams must retain focus on the fundamentals of realising value from deals, particularly in more challenging economic environments.



Guy Fisher,
Director
Head of Integrated M&A
Australia and New Zealand

Well understood business rationale and clarity of deal thesis are critical

Business rationale and the deal thesis should be an organisation's "north star" when executing M&A. A clear deal thesis must be specific, measurable, and directly tied to the strategic goals of the company. It should also be communicated effectively to all stakeholders involved in the deal. The investment thesis for M&A typically lacks specificity, leading to sub-optimal and ill-disciplined decision making. An organisation must expend appropriate time and effort to define in detail "where" and "how" the transaction will create value. This involves moving beyond generic assumptions to a detailed vision, rigorous due diligence and a robust implementation plan.

The M&A investment thesis should guide deal objectives and execution performance tracking while ensuring alignment across all organisational levels. Initial stakeholder alignment on success metrics is key, and while agility in approach is necessary, the core M&A investment thesis and goals should remain.

The below are important elements to consider when developing an M&A investment thesis:



1. STRATEGIC RATIONALE

Labelling a deal as being “strategic” or “transformational” or “synergistic” is not good enough. This analysis should present a detailed view of how a transaction will create value and augment or accelerate the company’s existing organic strategy. It will detail the sources of value creation and the current capabilities that will be leveraged to create this value.



2. MARKET/COMPETITIVE

The competitive landscape is an important dynamic to consider. How do the identified targets compete in this market? What is their market position and their source of competitive advantage (i.e. potential disruptors)? This proactive approach allows organisations to anticipate challenges, evaluate competitors’ strengths and weaknesses, and position themselves strategically.



3. FINANCIAL ANALYSIS

Be clear on the financial performance and funding or capital profile of the target. Benchmarking key financial and operating KPIs is a good indicator as to relative strengths and weaknesses. Detail the potential synergy pools in as granular form as possible.



4. VALUATION AND FUNDING ANALYSIS

Be clear on your company’s key value benchmarks and thresholds. Conduct an analysis of the target company’s valuation based on various methodologies. Each methodology brings a different perspective:

- EPS accretion/dilution – is a proxy for shorter term value realization that is typically used to “sell” a listed transaction to investors.
- DCF/NPV/EVA analysis (supported by peer group trading and transaction multipliers) – represents longer term value creation and should include a view on synergies and the investment required to realise those synergies – do the net synergies justify the control premium proposed?
- Return on capital versus cost of capital – represents value creation in the context of the cost of funding the transaction.



5. VALUE REALISATION (INTEGRATION)

This is the “how” for value realisation. How will your company integrate the target to realise the synergies you have identified above? Are there any obvious blockers or constraints, like incompatible technology, cultural misalignment, and operational challenges (product, sales, ESG, etc ...)? What is the broad integration thesis to be tested through due diligence?



6. RISK CONSIDERATIONS

Ask yourself, what key assumptions am I making and relying on within my investment thesis that require detailed validation and if found to be untrue, would change the investment thesis? These considerations should be called-out and form the basis of due diligence activities.



7. INVESTOR PITCH

The process of building an investor presentation earlier focuses the team’s attention on the key value drivers and the “ideal” market communication, a red flag appears if you see the merits in this presentation become diluted during due diligence. It also helps early on in a process to anticipate investor requirements and demands. This component would be reserved for an investment thesis that is well supported and progressed.



Preparation and readiness are key drivers of success

From our experience, when started early in a process, preparation and readiness activities enhance M&A outcomes. It's common for organisations to take the "just populate a data room" or "we'll find out in due diligence" approach.

Before launching, it's important to invest resources to undertake the appropriate preparatory activities, acknowledging that, sometimes, this effort will be a sunk cost. Investing in preparation will always deliver value in terms of learnings, irrespective of whether a transaction progresses or not. Allocate time for continuous improvement activities, including spending time to dispassionately review past performance and outcomes.

There are two crucial elements to continuous improvement. Firstly, owning mistakes and constructively critiquing how the mistake occurred and its impact. Secondly, reviewing all processes, even those considered by stakeholders as a success. Sensible investment in resource and time to prepare an organisation for M&A success will result in better M&A outcomes.

Stakeholder awareness, management and leadership are core enablers of successful M&A

A deal team's approach to engaging with both internal and external participants throughout a process is crucial. M&A naturally introduces heightened anxiety levels in participants.

According to a population-based study "research has found that fear, anger, depressive and anxious symptoms among employees are related to M&A in affected companies." In M&A, considering its nature and intensity, anxiety can be a result of introducing more work on top of business-as-usual requirements, creating livelihood uncertainty or even the potential for a process to negatively affect someone's career. While you can't remove the understandable anxiety from M&A, you can influence its impact by how you support participants through the process.

To effectively lead and manage people through an M&A process it is essential to:

- consider personalities and take the time to assess key stakeholders and participants;
- document and communicate clear roles and responsibilities and understand how best to engage each stakeholder;
- become a value driven ambassador and act accordingly. Counterparties and their advisors will be judging you and your organisation based on how you treat them and other people in the process (both internal and external to your organisation);
- build trust with fellow participants. The quickest way to build trust is to do what you say you're going to do, while being honest and as transparent as you can be about your requirements.

It's important to always consider the motivations of all stakeholders and the potential impacts a transaction might have on them.

Effective governance not burdensome bureaucracy

Deal governance should be associated with risk management, oversight, and stewardship, not administrative bureaucracy. A fit-for-purpose governance framework is critical to executing M&A efficiently and effectively.

A best practice governance structure will ensure discipline, stakeholder alignment, and deliver efficient decision-making. When designing governance structures, considering delegated authority limits and ensuring there's clear senior executive sponsorship must be front-of-mind. In-house professionals are increasingly spending time with the transaction sponsor to understand and agree how best to engage boards so they're across the appropriate detail in advance of seeking any approvals.

Forward-looking stakeholder management can be arduous, especially when a transaction is moving quickly, but it is necessary. A common mistake is where the corporate development team "owns" the deal to execution, working in a vacuum, and once executed, "hands over" a suite of documents to another team who lack the context to the negotiated positions. Effective deal governance facilitates cross-functional alignment across key stakeholders throughout the entire process and ensures a consistent understating of the deal objectives.

A well-considered and fit-for-purpose governance framework is highly valuable to a deal team. Following a bureaucratic process blindly will create inefficiencies that lengthen processes and detract from value.

Using dynamic and effective risk management as a tool for success

When applied properly, risk management can add significant value to M&A outcomes. M&A risk management usually involves a deal team compiling a register of generic risks and equally generic mitigating actions, which are not then considered throughout the process. In contrast, effective risk management involves a deliberate mechanism to pull the deal team's focus out of the myriad of models, board and investment papers and force them to look ahead and scenario plan.

Effective risk management considers risks across the entire M&A lifecycle, including post-execution value protection and realisation, not just risks inhibiting contract execution. The risk management process should be a commercial tool and not just a "tick-the-box" process. Forcing deal teams to think outside of the models and hypothesise will only increase the chances of successfully achieving deal objectives.





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