



CONFIDENTIAL

# Successful M&A strategies

**McKinsey & Company**

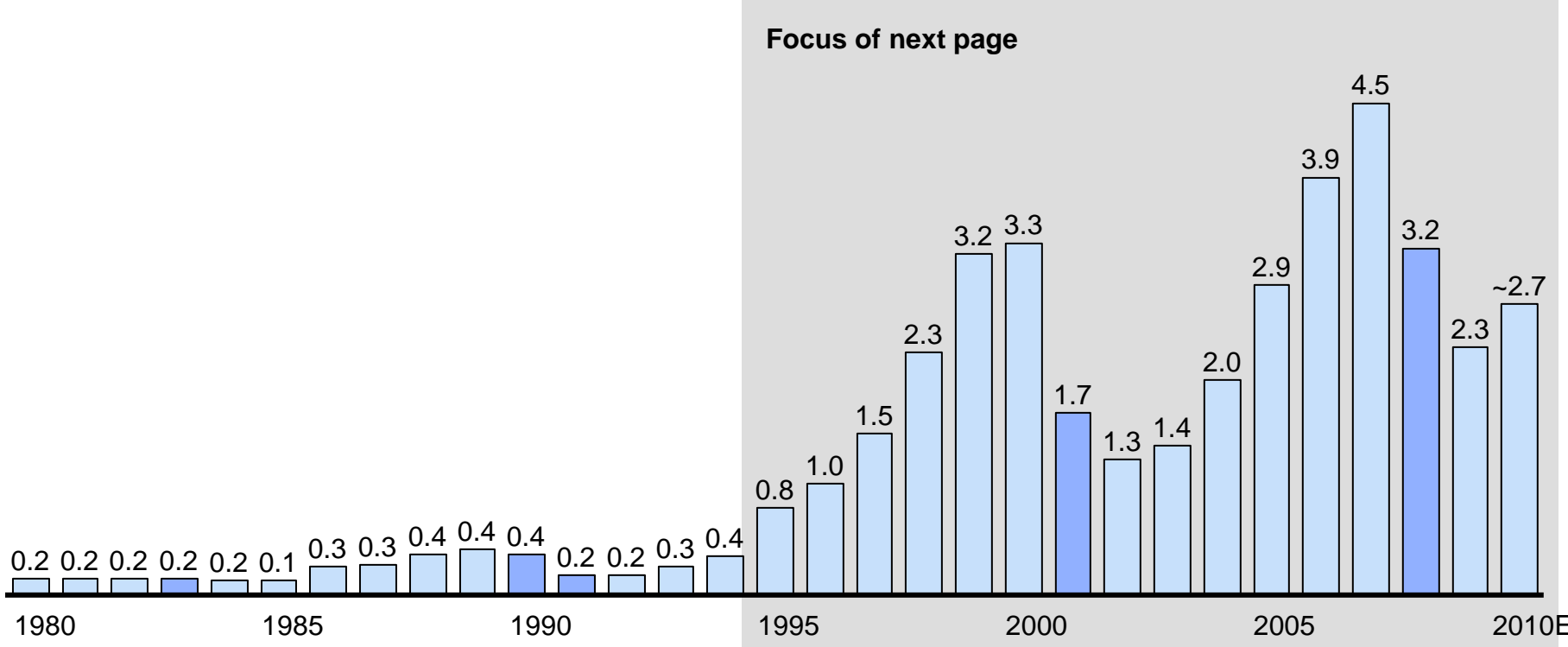
October 26, 2010

Carsten Buch Sivertsen

# M&A activity is cyclical, we are around a trough currently

Global M&A volumes; USD trillions

■ First year of recession



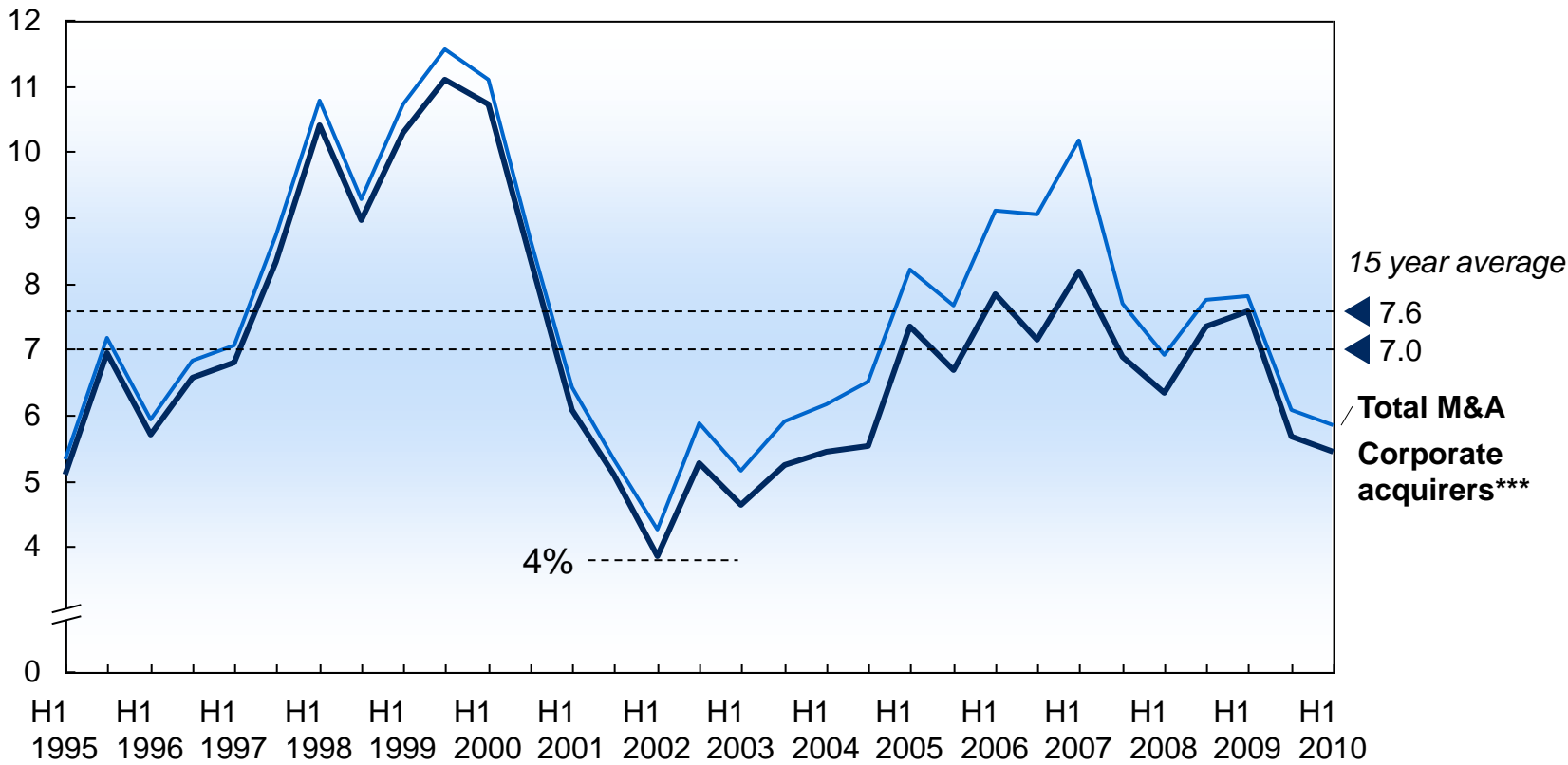
\* Announced deals (not withdrawn)

\*\* Year average / Year average

Source: Thomson Financials, Analyst reports, Dealogic, Merger Market, Reuters, McKinsey analysis

# Adjusting for the change in global market cap, M&A volumes remain cyclical, but less so

Annualized Global M&A Volume\* as % of global market cap\*\*

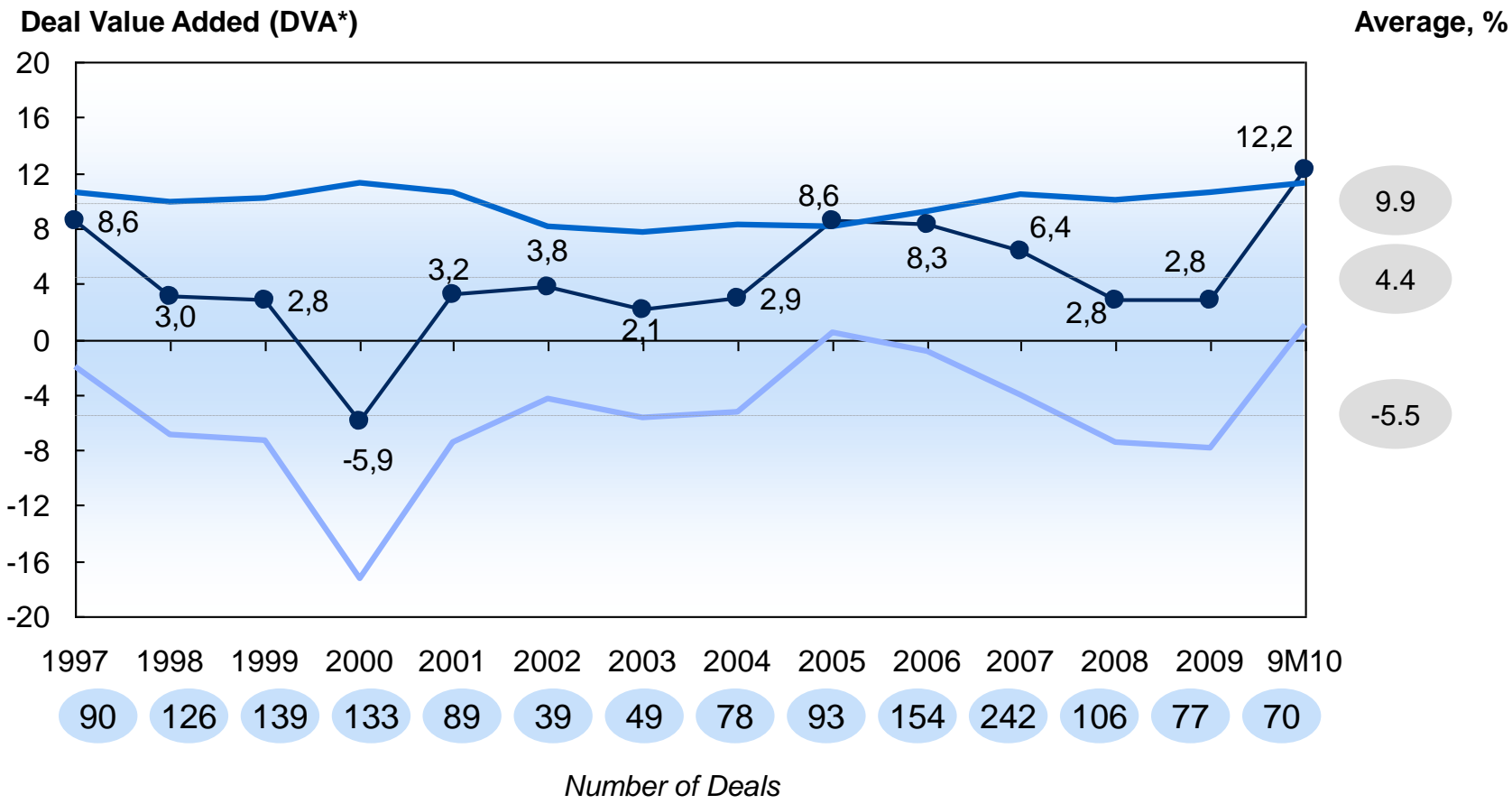


\* Announced deals (not withdrawn), includes deals above \$25 million only  
 \*\* Market cap of World-DS Market Index defined by Datastream  
 \*\*\* Excludes Private Equity, Sovereign Wealth Funds, other investment funds

# Market reactions to M&A is in sum positive; however all/most of the value is on average transferred to the target owners

Average DVA index 1997-2010 9M, percent

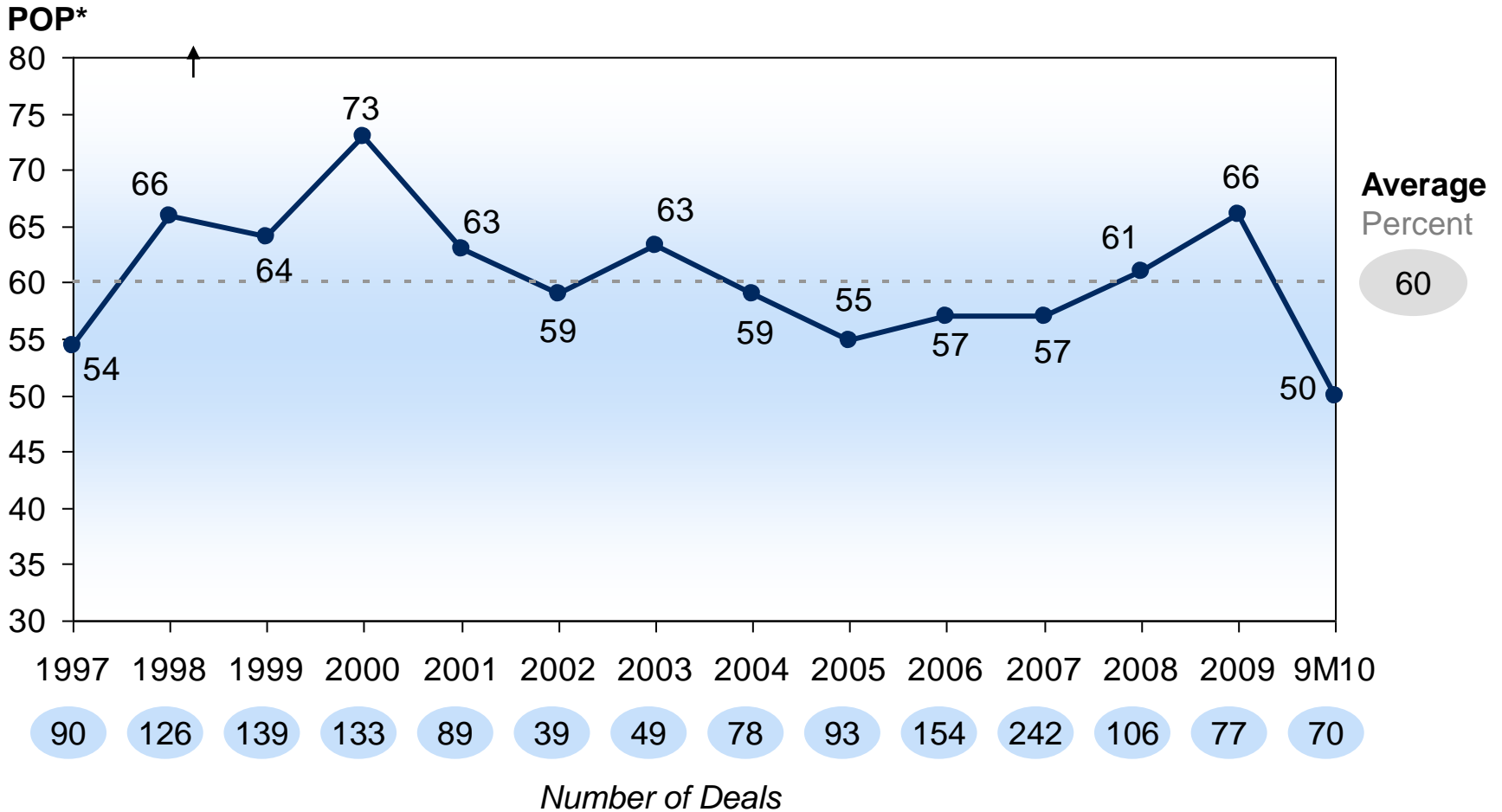
- DVA Total
- DVA Target
- DVA Acquiror



\* For M&A involving publicly traded companies; defined as combined (acquirer and target) change in market capitalization, adjusted for market movements, from 2 days prior to 2 days after announcement, as of transaction value

# The share of acquirers with negative initial market reaction is therefore significant

Percentage of deals with negative abnormal acquirer share price impact



\* Proportion of Over Payers

# McKinsey's "Excellence in M&A"-initiative focuses on identifying the building blocks for successful M&A

## Tailored M&A approach

### II Governance

- Clear responsibilities
- Transparent decision procedures and criteria
- Controlling of targets

### I Strategy

- Link to corporate strategy
- Focus on a few themes
- Deep understanding of value drivers

### IV Processes

- Proactive sourcing
- Formalized continuous improvement

### V Tools/Supporting mechanisms

- Tools to drive efficiency of the M&A process (e.g., negotiation guidelines)
- Right incentives

### VI Integration

Early-on, synchronized integration planning with business owner and predefined integration team

### III M&A organization

- Both corporate center heavy and lean approaches can be successful depending on M&A strategy
- Winners organize to collaborate between corporate center, BUs and strategy teams
- Significant case load experience of core M&A team

## III Significant case load experience of core M&A team



- Invest time and talent to get integration right
  - Functional rotation of star PMM talent
  - Deal-review feedback into overall process
- PMM part of career path to attract talent



- Clearly identified roles throughout M&A process
  - 8-10 people in corporate for sourcing/negotiation
  - Dedicated groups in each division (sales, R&D, IT) to incorporate targets and ensure integration success
  - Ability to pull experts for all technologies

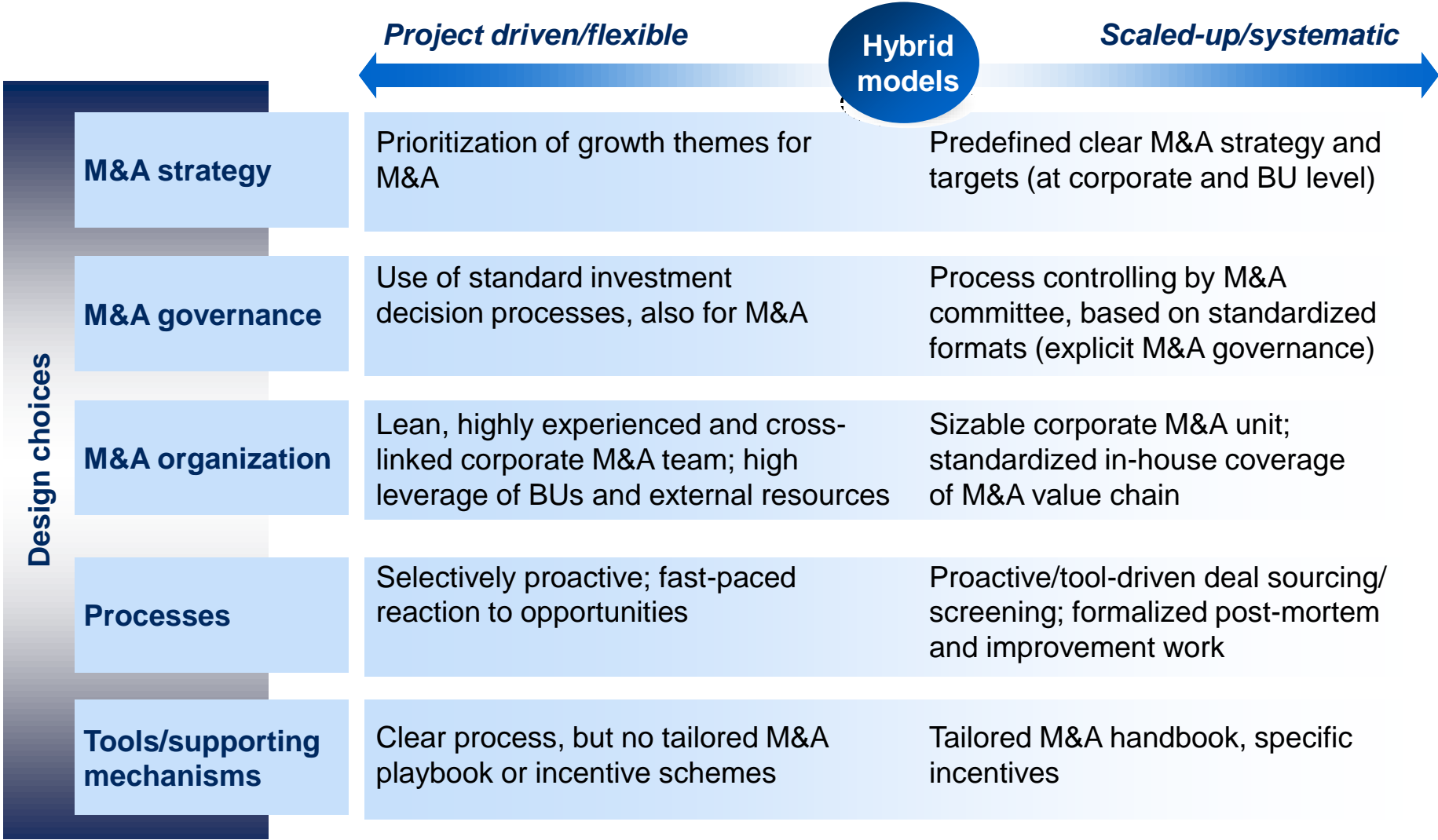


- Star project managers rotate through acquisitions
- Integration manager is a coveted career step
- Senior leadership formally committed to integration



- In-house capabilities enable improved risk management and expediency
- Integration-management unit headed by CC; M&A specialist coordinates and monitors progress

# The "Excellence in M&A"-initiative revealed 2 successful models emerging at both ends of the spectrum



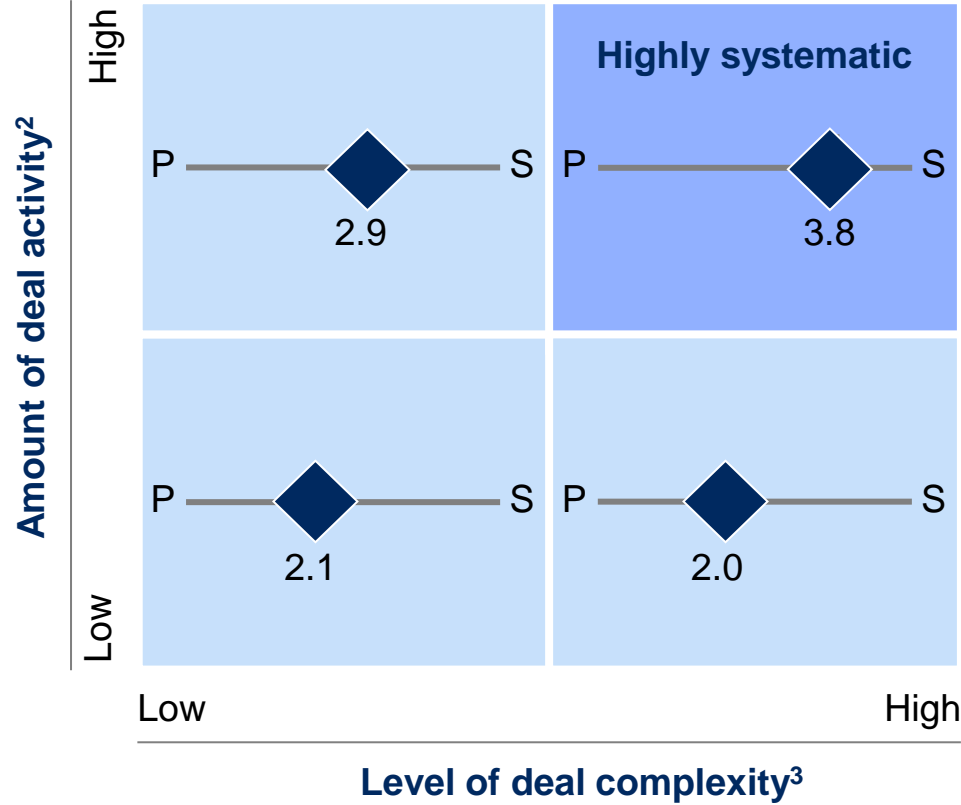
# Deal activity and deal complexity determine choice of M&A model

OUR OBSERVATIONS

P Project-driven/flexible  
S Scaled-up/systematic

### M&A function choice

Average quantified score (1 - 5)<sup>1</sup>



**High deal activity** leads to a more **systematic** M&A approach

**Deal complexity** influences **M&A organization** only if combined with high activity

**Active** companies with **complex deals** implement the most **systematic** approach

1 Project-driven/flexible (1) – scaled-up/systematic (5)  
 2 Based on absolute number of deals over last 5 years, relative to total sample  
 3 Qualitative assessment based on diversity of acquired geographies, businesses/industries, value chains, and the relative size of targets

# Archetypes for value-creating M&A

## Comments

---

### 1. Improve the performance of the target company

- Improve target company based on superior methods/processes at acquirer or better managerial capacity (e.g. private equity)
- Typically improvements achievable on cost, pricing, growth, capital efficiency

### 2. Consolidate to remove excess capacity from an industry

- Mergers and acquisitions used as a catalyst to capacity reduction, avoiding anyone “shrinking their operation” – typically seen in mature industries (e.g. Petrochemicals, refineries)

### 3. Create market access for the target’s (or the buyer’s) products

- Spreading a strong market access on multiple products/brands (e.g. IBM and P&G)

### 4. Acquire skills or technologies instead of building in-house

- Complete a company’s technology portfolio or skill set either faster or at lower cost (e.g. Cisco, Pharma)

### 5. Pick winners early and help them develop their businesses

- Acquire new companies/technologies at “early” stage and/or with immature market (e.g. J&J, venture capital)

# More difficult strategies for creating value in M&A

## Comments

---

### 1. Roll-up strategy

- Consolidate highly fragmented markets to achieve economies of scale
- Often difficult as low numbers of attractive targets and high risk of competition for targets as “copy-cats” exploit same strategy

### 2. Consolidate to improve competitive behavior

- Reduce number of players to avoid destructive competition
- Often difficult as very low number of players in end-state is required and barriers towards new entrants

### 3. Enter into a transformational merger

- Transform the buyer into a “new company” due to the merger (e.g. Novartis)
- Often difficult to both identify and execute a truly transformation merger

### 4. Buy cheap

- Though mispricing in the market can be observed (especially in cyclical industries), very difficult to get control of a target in that situation


## In summary...

- M&A should in many cases be an important part of a company's strategy and a source for value creation to shareholders
- It is possible to identify characteristics among companies that consistently succeed with their M&A
- Be very specific on the sources of value creation from the deal and plan the integration early on
- Avoid being carried away in the heat of the moment, resulting in overpaying and value destruction for own shareholders

# Further questions and to request the “Excellence in M&A” article

McKinsey&Company

Corporate Finance



Excellence in M&A

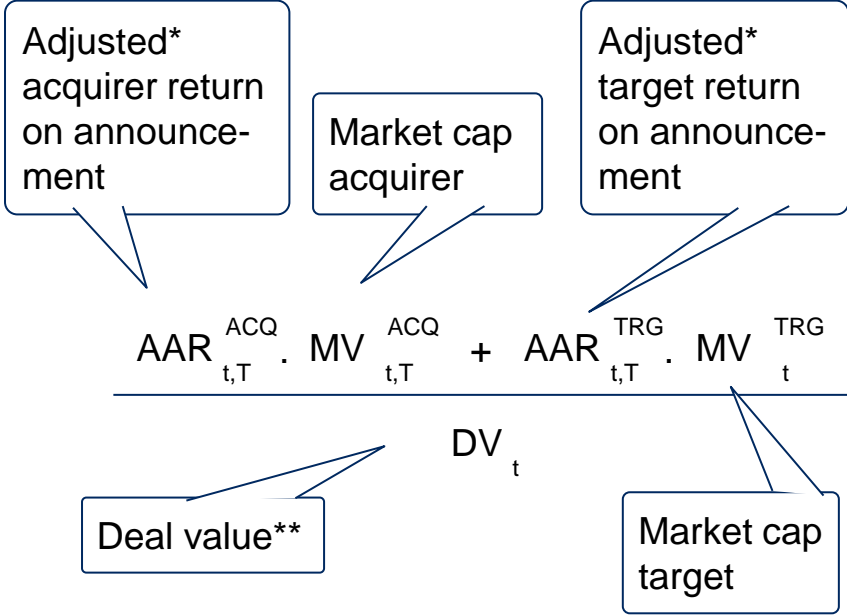
Spotlight on the Corporate M&A Function

**Email:** [carsten\\_buch\\_sivertsen@mckinsey.com](mailto:carsten_buch_sivertsen@mckinsey.com)  
**Phone:** +47 970 25 245

# Appendix

# McKinsey has developed the Deal Value Added (DVA) Index and the Proportion of Over Payers (POP) Index to monitor merger activity

$$\text{DVA} = \frac{\text{Change in combined market cap}}{\text{Deal Value}}$$



$$\text{POP} = \frac{\% \text{ of Acquirers with negative share price impact in a given time period}}{\text{Total number of deals}}$$

$$\frac{\text{Number of deals with negative share price impact for acquirer}}{\text{Total number of deals}}$$

\* Change in share price from t-2 to t+2 adjusted for return of MSCI World Index in USD and applied on market cap in USD for t-2

\*\* Deal value is defined as “the value of target’s equity post announcement (i.e. including full bid premium) plus net debt of target”

# Project-driven/flexible and scaled-up/systematic M&A function models clearly differentiated along design choices

Design choice elements	% of respondents <sup>1</sup>			
	Project driven/ flexible	Scaled-up/ systematic	Δ Delta	
<b>M&amp;A strategy</b>	• Explicit acquisition strategy	58	86	28 pp
	• Explicit divestment strategy	42	57	15 pp
	• Quantifiable targets (acquisitions)	9	56	47 pp
<b>M&amp;A governance</b>	• Financial hurdle rates	36	64	28 pp
<b>Structure of corporate M&amp;A team</b>	• No. of FTEs at corp. M&A unit	3 FTE	10 FTE	7 FTE
	• Standardized deal team setup (acquisitions)	55	77	22 pp
<b>In-house coverage of M&amp;A value chain</b>	• Perform majority of deal steps in-house (small deals)	58	69	11 pp
<b>Deal sourcing</b>	• Number of targets screened	50 targets	100 targets	50 tar.
<b>Enablers and incentive schemes</b>	• Use of an M&A playbook (acquisitions)	25	86	61 pp
	• Assessment of performance of people involved in M&A process	22	83	61 pp

<sup>1</sup> Except FTE and deal sourcing information