



Creating value beyond the deal

What if you took a different perspective
to your M&A?

#BeyondTheDeal



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About this report:

To help our clients unlock long-term value from the deals they are doing, we surveyed 600 corporate senior executives from a range of industries and geographies and asked about their experiences creating value through M&A. All participants in our survey had made at least one significant acquisition and one significant divestment in the past 36 months.

In addition, a large-scale global study was conducted on the performance of companies around the world, following acquisitions and divestments.

In this report, we will outline the key findings, discuss their implications and share our insights on how value creation can be planned for and achieved.

Foreword

We need to rethink value creation in deals

Dealmakers are under increasing pressure to deliver more value from each deal they do. To make the task harder, turbulence in global stock markets is creating uncertainty around valuations, while companies are wrestling with challenges such as keeping up with technological change or moving at speed into new and untested markets.

Amid these macro-shifts in the deals environment, creating lasting value in deals has never been more important. Many executives that we surveyed admitted that there is work to be done in overhauling their approach to value creation in both acquisitions and divestments.

Our conversations with corporate executives show that companies that genuinely prioritise value creation early on – rather than assume it will happen as a natural consequence of the actions they take as the transaction proceeds – have a better track record of maximising value in a deal.

Our ***Creating value beyond the deal*** report has also reinforced my strong belief that a modern, effective approach to value creation must be built around three core areas:

- 1** Stay true to the strategic intent: The organisation needs to approach deals as part of a clear strategic vision and align deal activity to the long-term objectives for the business. Opportunistic deal-making can create value, but not as often.
- 2** Be clear on all the elements of a comprehensive value creation plan – it should be a blueprint, not a checklist: Ensure a thorough and effective process for conducting the deal with the necessary diligence and rigour in the value creation planning process across all areas of the business. Consider how each of these support the business model, synergy delivery, operating model and technology plans.
- 3** Put culture at the heart of the deal: Keeping people and cultural aspects upfront in planning is fundamental. Wide engagement and communication of the value creation plan will help retain and build buy-in from key personnel. Failing to plan for cultural change will significantly undermine the value created.

In the face of disruption across all industries, it is important to ensure these three core elements are all working in harmony to ensure maximum returns, effective integration, and long-term value creation.

In this report we will share detailed insights around these areas, along with the findings of our research. We will also share the first-hand experiences of executives on both sides of the deal, as we explore how to maximise value.

We would be delighted to discuss the insights of our report with you and how they may help you to further advance and refine the way you approach value creation within your own organisation.



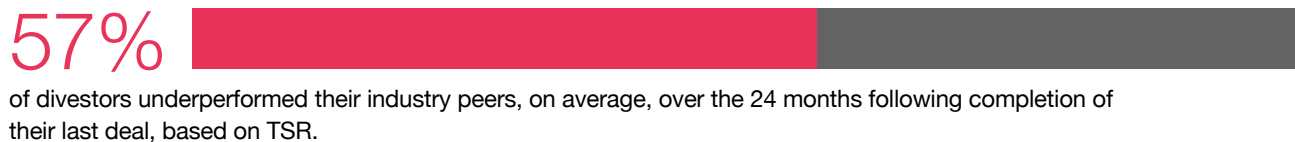
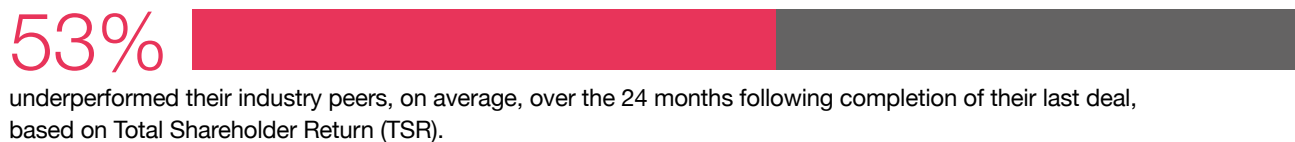
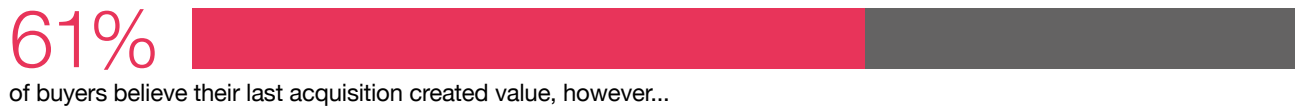
Malcolm Lloyd
Global Deals Leader, PwC
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One of the findings that really stood out for me is that only 34% of acquirers surveyed say value creation was a priority on Day One (deal closing) in their latest deal, though 66% believe it should have been a priority.

Key findings

Many acquisitions and divestments don't maximise value – even when some dealmakers think they do.



Those who prioritise value creation outperform peers by as much as 14%.

14%

Acquirers that prioritise value creation outperform their industry benchmark by 14% on average 24 months after completion.

6%

Divestors that prioritise value creation outperform industry peers by 6% on average 24 months after completion.

A significant number of dealmakers say that value creation should have been a priority right from the start.

34%

of acquirers surveyed say value creation was a priority on Day One (deal closing) in their latest deal.

66%

of acquirers say value creation should have been a priority on Day One in their latest deal.

Stay true to the strategic intent.

86%

of buyers surveyed who say their latest acquisition created significant value also say it was part of a broader portfolio strategy rather than opportunistic.

93%

of organisations who reported significant value creation invested 6% or more of their total deal value in integration.

Be clear on all the elements of a comprehensive value creation plan – it should be a blueprint, not a checklist.

63%

of buyers whose deal lost value didn't have a technology plan in place at signing.

70%

of buyers whose deal lost value didn't have a synergy plan in place at signing.

79%

of buyers whose deal lost value didn't have an integration plan in place at signing.

83%

of sellers say there is room for improvement on extracting working capital.

89%

of sellers say there is room for improvement on optimising the tax and legal structure.

Put culture at the heart of the deal.

89%

of divestors surveyed believe they could drive more value from a sale by engaging with the management team more closely.

82%

of companies who say significant value was destroyed in their latest acquisition lost more than 10% of key employees following the transaction – which is a problem when a growing number of deals are 'asset light' or made up of predominantly 'people-centric' intangibles.

Overview

A fresh approach to value creation planning

Our analysis shows traditional value creation planning is no longer enough to guarantee success. While 92% of acquirers in our survey say they had a value creation plan in place for their last deal, only 61% of respondents say their last acquisition created value, including just 21% who say it created significant value.

Furthermore, research shows that 53% of acquirers underperformed their industry peers, on average, over the 24 months following the completion of their last deal, based on Total Shareholder Return (TSR).

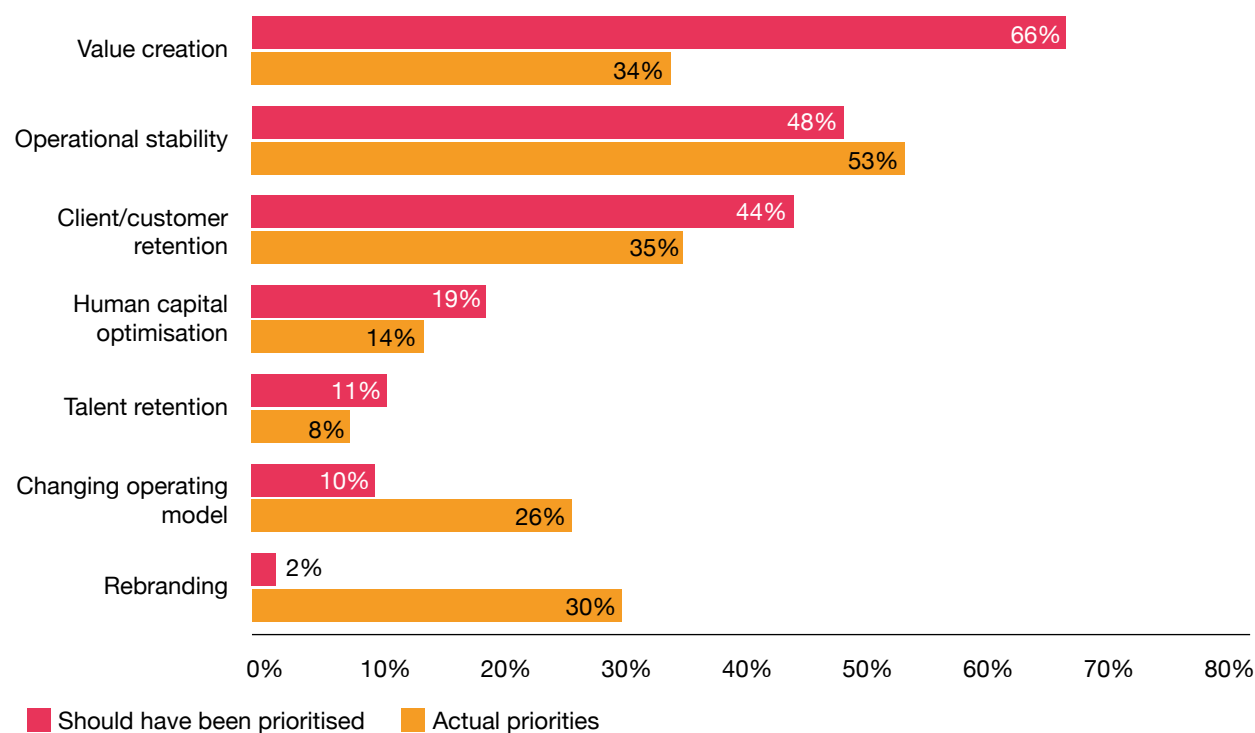
The story is similar for disposals: 42% of sellers say their last deal created value relative to what the business would have been worth had it not been sold. But research shows that 57% of divestors underperformed their industry benchmark in terms of TSR over the 24 months following their most recent deal.

What explains these results? Crucially, only 34% of acquirers in our survey say value creation was a priority on Day One (deal closing) in their latest deal, though 66% believe it should have been a priority (see Exhibit 1). In other words, the most successful acquirers are those with the most extensive and far-reaching pre-deal activity. Indeed, more than two-thirds of companies whose deals subsequently created significant value relative to the purchase price, say they had an integration strategy in place at signing.

This tells us that genuinely accretive deals lock in a value creation approach much earlier than is currently the case for most. The same applies to sellers: companies that enter into a possible transaction that have already applied a strategic lens to divestment planning and portfolio review – as opposed to engaging opportunistically – are more likely to create value.

EXHIBIT 1

What were your priorities on Day One and what should they have been?



Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives

Malcolm Lloyd, Global Deals Leader, PwC, says: “More companies are getting better at creating value through mergers and acquisitions, but there is still more that needs to be achieved and the key is to think about this in greater depth much earlier on in the deal.”

The most successful dealmakers ensure their M&A strategy sits at the heart of their business strategy. This creates clarity around the strategic hallmarks of any potential deal they consider.

Increasingly, companies are needing to challenge the relevance of both its business model as well as its operating model to ensure these are futureproofed, given the pace of disruption. Our findings highlight the significant need for improvement in due diligence across many areas which underpin the operating model. For example the technology and IP plan, tax operating model, and core operations of the target.

Another area ripe for improvement is around prioritisation. Our survey reveals that 30% of organisations say they prioritised rebranding on Day One – something that all but 2% later admit should not have been a priority.

Of course, branding is important, but it is more important that the business behind the brand is built on a sound, strategic plan.

Organisations that prioritised factors such as value creation early on, over factors such as branding, fared far better. Among those that prioritised rebranding, almost half turned out to be value-destructive deals.

The buyer's perspective

The need for a clear M&A strategy

In light of these results, it is perhaps unsurprising that 83% of respondents say they need to improve their value creation plans. Doing so should begin with a robust strategy, thorough assessment of whether the deal is the right one to pursue, and a clear methodology.

- 98% of companies that say their last acquisition created significant value also say they have a formal value creation methodology.
- 86% of companies who say their last acquisition created significant value also say it was part of a broader portfolio strategy rather than opportunistic.
- 68% believe they can improve their target selection to better meet strategic needs.

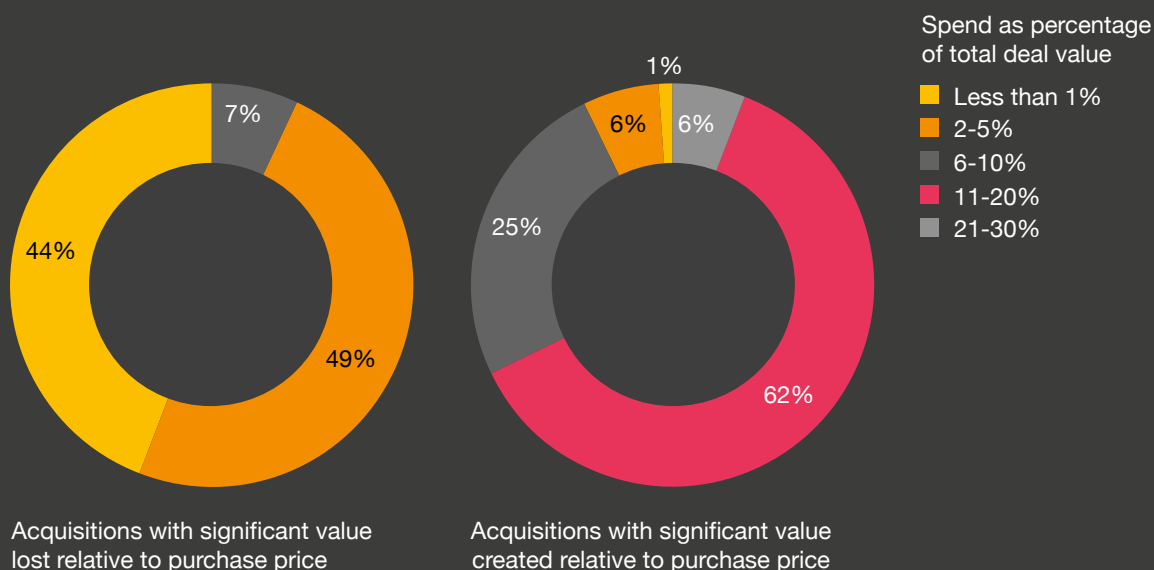
Investing in integration

Our research also highlights a clear correlation between the investment that organisations make in integration and their ability to create value:

- 93% of organisations who report significant value creation in their last deal say they invested 6% or more of their total deal value in integration (see Exhibit 2).

EXHIBIT 2

As a percentage of the total deal value, how much did you spend on integration?



Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives

Putting people at the heart of the deal

Respondents recognise that they should have prioritised people and culture during their last deal. A significant percentage also say that value creation was adversely affected by cultural issues (see Exhibit 3).

- 92% believe they could have handled communication and culture management more effectively during their last deal.
- 82% who say significant value was destroyed lost more than 10% of key employees post-deal (see Exhibit 4).
- 65% of acquirers say cultural issues hampered the creation of value.

Tellingly, for acquisitions with significant value lost relative to purchase price, all respondents say that cultural issues hampered the realisation of value.

The seller's perspective

Our survey and research also look at deals from the perspective of sellers and identifies similar issues on that side of the transaction, from the need for a robust strategy, to ensuring the smooth running of the deal mechanics and a culture primed for value creation.

While 42% of divestors say their last sale generated value, relative to the value that business would have created had it not been sold, just 13% say their last divestment generated significant value, and 35% say their last deal actually lost value. Furthermore, research shows that 57% of divestors underperformed their industry peers, on average, over the 24 months following the completion of their last deal, based on TSR (see Exhibit 5).

However, these results should not discourage sellers, but they should certainly focus their minds on getting the deal right.

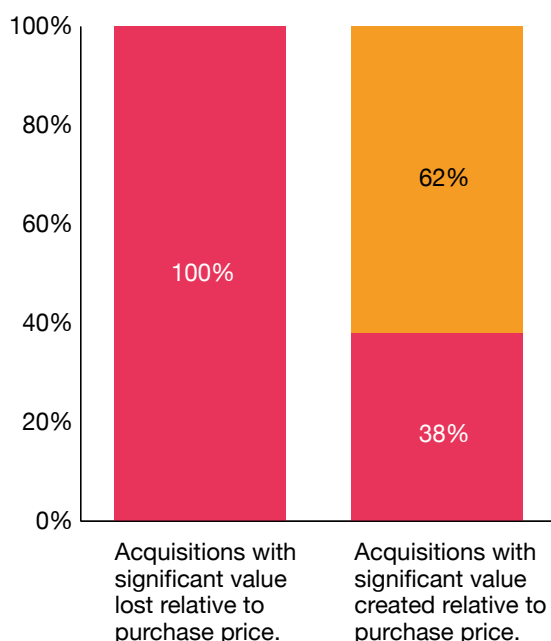


An assessment of the people running the organisation was important as we wouldn't want to consider a deal whose management was unsupportive of the deal. The integration strategy was the second most important as we wanted to create a bridge that would bring both the organisations in line and for production and supply to flow through easily.

Senior Director of Corporate Development in a retail, consumer and leisure company based in the US

EXHIBIT 3

Did cultural issues hamper the realisation of value in this deal?

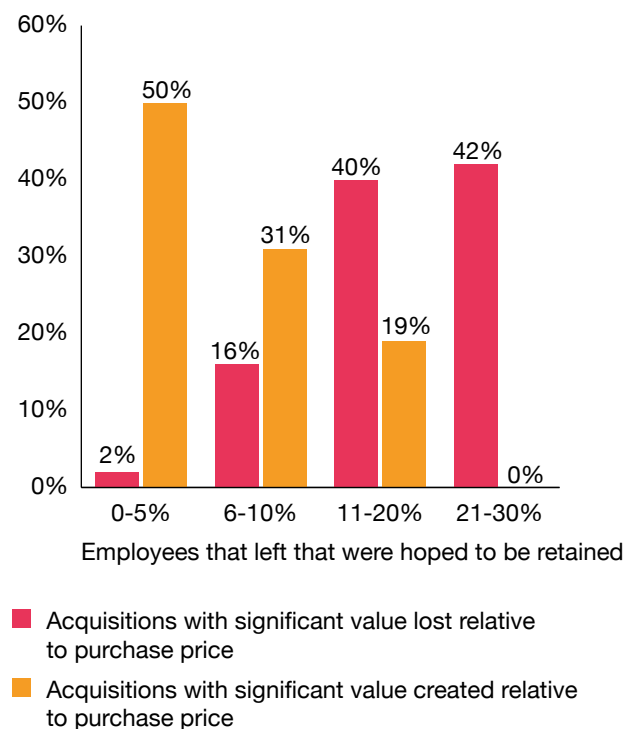


■ Yes ■ No

Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives

EXHIBIT 4

What percentage of target employees left that you had hoped to retain?

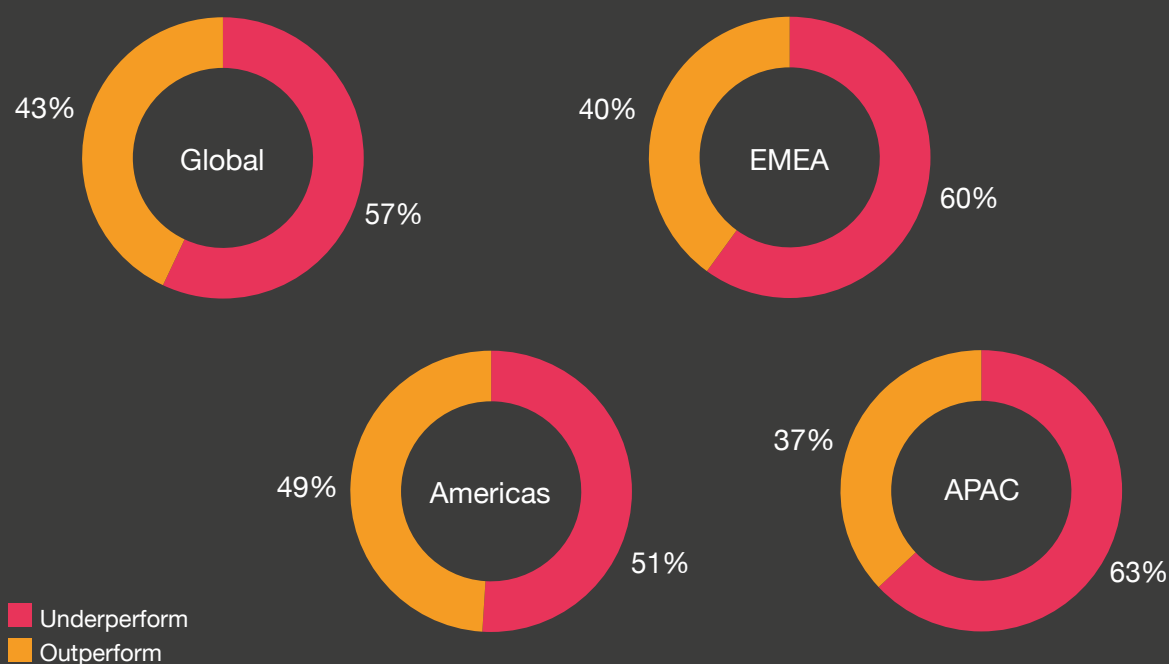


■ Acquisitions with significant value lost relative to purchase price
■ Acquisitions with significant value created relative to purchase price

Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives

EXHIBIT 5

Performance of divestors relative to industry benchmark 24 months after completion



Source: *Creating value beyond the deal report*, Cass Business School

Base: Company performance is measured using TSR on divestments (fully divests a division or subsidiary) between 1 January 2008 and 31 December 2016. The latest date TSR measured was 30 June 2018.

Preparing the asset for sale

Our survey reveals that divestors recognise there is more they can do to prepare assets for sale and make them more attractive to buyers.

- 84% believe there is room for improvement when presenting upside opportunities to buyers.
- 89% believe they could do more to optimise the asset from a tax and legal structure perspective.
- 39% agree there is also significant room for improvement in optimising the asset's financials.

The value of sell-side due diligence

There is also a clearer focus on planning, due diligence and adherence to methodology among those businesses reporting divestments that created value. Conducting sell-side due diligence provides the opportunity to present the full potential of the business and a vision for the future. It also allows the seller to anticipate any buyer concerns and mitigate these in a timely manner to avoid surprises, and ensure no loss of momentum or competitive tension during the sale process.

- 92% of those who say their last divestment created significant value also carried out sell-side due diligence.
- 99% of those whose last divestment created significant value have a formal value creation methodology.

Culture is not just a buyer's concern


As with acquisitions, respondents also recognise the critical role that culture and their people play in ensuring the divestment creates as much value as possible. While colleagues in the business being sold may be unsettled or concerned, keeping value-creating talent informed and engaged in the business is critical.

- 93% of divestors surveyed believe there is room for improvement in the way they engaged with and incentivised the management team of the asset being sold.

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We were keen on incentivising the management during the deal process so that they maintained their level of quality and didn't get distracted by the deal-making procedure. The management team functioned well and followed our instructions to allow the business to continue as usual.

Head of Treasury and M&A, retail, consumer and leisure business in the Nordics



The buyer's guide to value creation

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Deals that deliver value don't happen by accident. Transactions should be an extension of your corporate strategy instead of a sudden opportunity. Companies that invest time in strategy, follow that course, and avoid chasing a shiny object just because it's available will have a much better path to success.

Bob Saada, Deals Leader, PwC US

Acquisitions allow companies to expand and diversify but our research confirms something buyers won't want to hear: many deals don't create value.

TSR of just over half of the acquirers examined underperformed their industry benchmark in the two years following completion of their last deal.

To win deals and extract maximum value, companies need to consider all aspects of their value creation plan and embed this in a long-term strategy, underpinned by experience in the art of deal-making and careful cultural considerations.

1. Start with a clear M&A strategy

Bringing a more strategic lens to M&A planning and execution means understanding where the business needs to strengthen or expand in order to deliver on its ambitions. It also means regularly reviewing the market for relevant opportunities.

Over three-quarters of respondents say their latest deal was driven by a strategic portfolio review. Just under a quarter were considered opportunistic. Significantly, the former were far more likely to result in value being created.

Of those corporates where acquisitions went on to create significant value, 86% say their deal was part of a strategic portfolio review, while only 14% describe it as opportunistic.

2. Focus on value creation from the start

In deals that respondents say subsequently created significant value, over half of acquirers prioritised value creation from Day One. But only a third say value creation was a priority from Day One of their latest deal. Most acknowledge this was a mistake and, given the chance to do the deal over again, two-thirds of respondents admit that, more than anything else, value creation would be a priority right from the start.

At the same time, prioritising the wrong things can damage value. For example, while 30% of respondents say rebranding was a priority in their last deal, only 2% say this was the right approach, with the benefit of hindsight.

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All companies have different cultures and it's just not possible for every company to fit perfectly in a puzzle. Finding a target that can be easily integrated is the most challenging element in the early stages of every transaction.

Group Director of Finance at a financial services firm in the UK

3. Do comprehensive due diligence

The majority (80%) of respondents say their last transaction taught them they need to do a better job of due diligence to validate their pre-deal hypothesis (see Exhibit 6) and assess whether a potential acquisition will help them pursue strategic priorities.

Marissa Thomas, Deals Leader, PwC UK, says: “Smart buyers are doing more sophisticated diligence and examining value creation opportunities more deeply than those simply conducting financial and tax due diligence.”

Technology due diligence has become a central focus given the significant pace of change across all industries. New technology-led commercial opportunities, such as monetising data, the creation of new services and driving cost efficiencies, will only continue to increase in importance.

4. Be a ready buyer

Our survey and market research show buyers need to work harder than ever in the lead up to a transaction.

Hein Marais, EMEA Value Creation in Deals Leader, PwC UK says: “Traditional 100-day planning is no longer enough. Acquirers need to be ready with a comprehensive value creation plan 30 days before deal signing so that key assumptions can be tested and validated through diligence, and so the plan can be implemented straight away.”



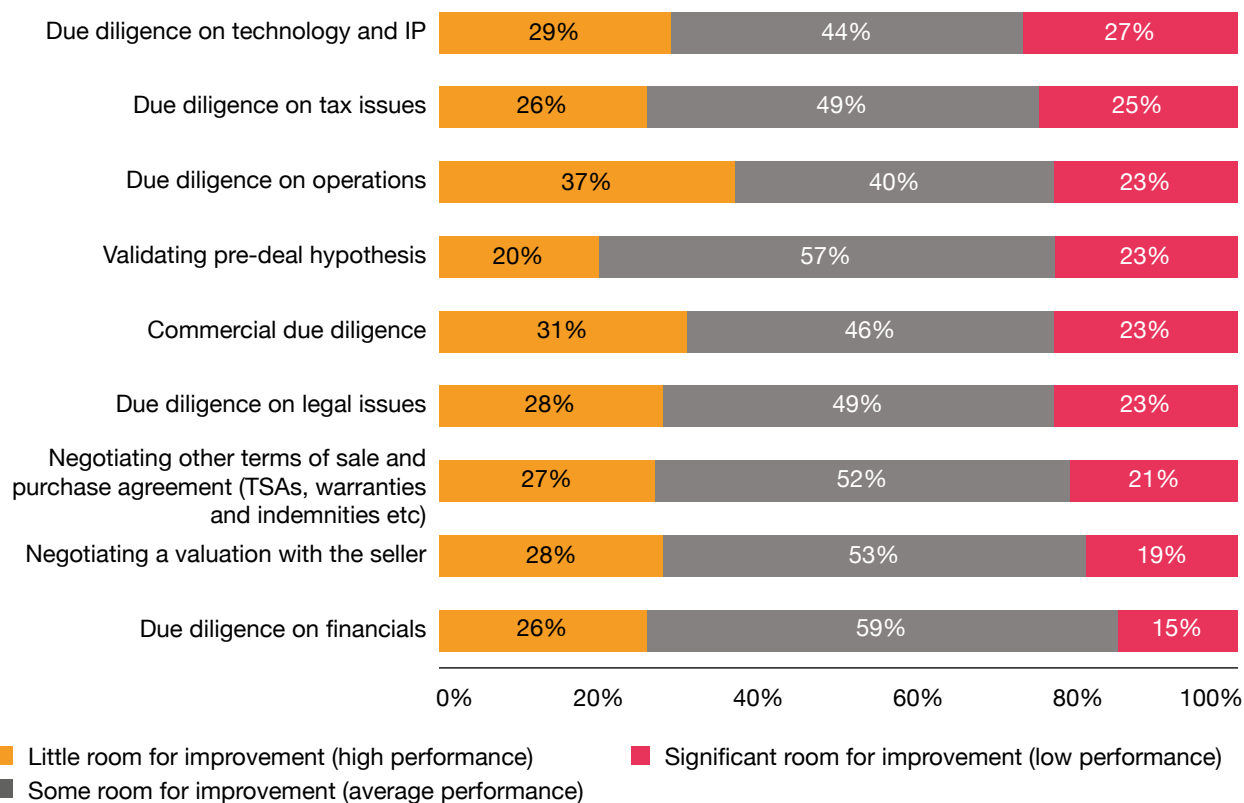
We decided last year that we needed to be a more dynamic organisation with more advanced technology. The business we bought not only provided us an immediate technology upgrade, but also a pipeline of advances for the next five years at the least.

Director of M&A at a Canadian energy business

EXHIBIT 6

How would you rate your focus on each of the following areas of the acquisition process?

Ranked in order of percentage of respondents stating there was “Significant room for improvement”



Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives

5. Devote more resource to integration

Businesses that commit resource to ensuring the successful integration of a deal are more likely to create significant value. This may sound obvious, but the survey findings suggest many organisations are not adopting such an approach.

For example, almost three-quarters of respondents say they spent 10% or less of the total value of the deal on integration. Almost half of those organisations spent 5% or less. Almost all organisations who say they spent 5% or less on integration also say their deals lost value. By contrast, over two-thirds of organisations who say they spent between 11% and 30% of the total deal value on integration say the deal subsequently created value.

Marissa Thomas, Deals Leader, PwC UK, says: “One of the misconceptions in the market is that deal fundamentals such as integration are post-deal issues – they absolutely are not. Successful acquirers and investors work on integration and other core value creation levers at the same time as they conduct their diligence.”

Many companies build large teams focused on transactions, but these people often also have day-to-day responsibilities and work on a deal on the side, making it difficult to give it the focus it needs. Businesses must invest time and resource in the process to succeed. For example, over two-thirds of companies who say their latest deal subsequently created significant value relative to the purchase price also had an integration strategy in place at signing (see Exhibit 7).

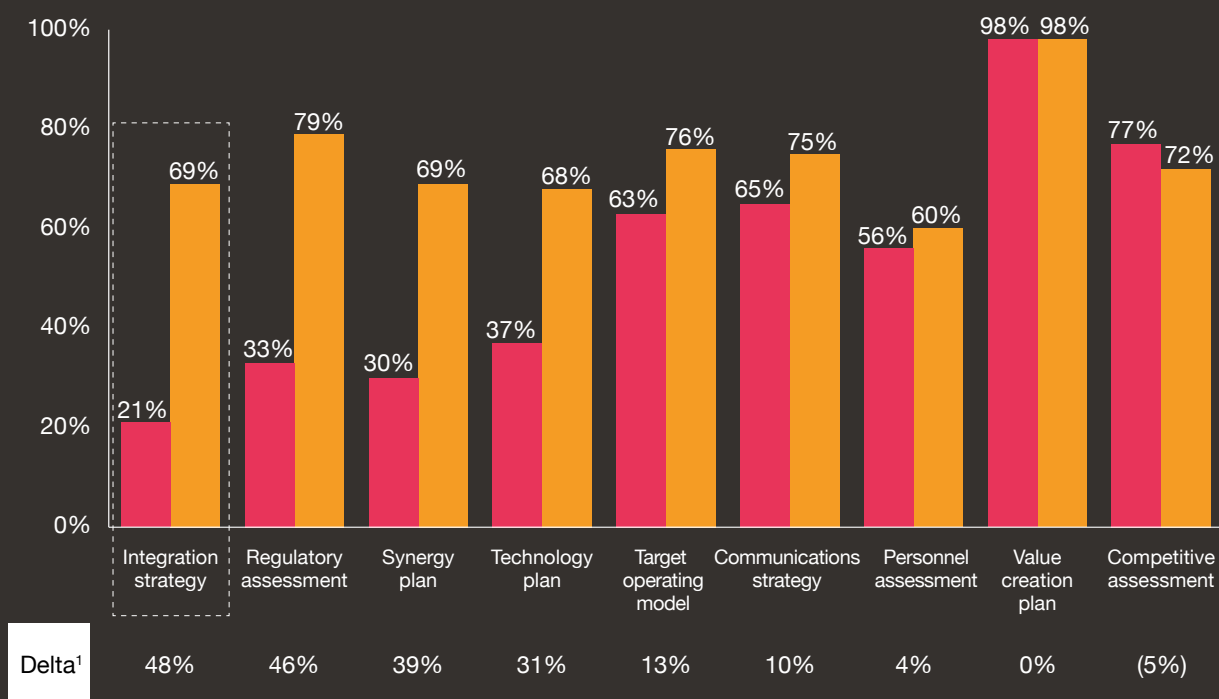
6. Focus on people

The ability to bring cultures together should be a key factor in deciding whether or not you do the deal.

Savvy dealmakers identify crucial employees before an acquisition and ensure they are incentivised to remain. However, nearly half of respondents say they lost more than 10% of the staff they hoped to retain following their most recent acquisition. Tellingly, among acquirers who say their latest deal lost significant value, this figure rises to 82%.

EXHIBIT 7

Which elements did you have in place at signing (split by percentage of deals that lost/gained significant value)?



Note 1: Delta = % deals with significant value gained minus % deals with significant value lost

- Acquisitions with significant value lost relative to purchase price
- Acquisitions with significant value created relative to purchase price

Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives

Talent is increasingly at the forefront of deals, often tied to intellectual property and specific skills, as the technology sector has already discovered. It's important to understand these 'softer' elements in the diligence phase and develop a plan to address them once the deal is done.

Maarten van de Pol, Deals Leader, PwC Europe, says: "Culture takes a long time to develop, a great deal of effort to maintain, but relatively little time to undermine. As such, communication is critical."

Even before a transaction completes, smart organisations know their public statements will be scrutinised. Messages that reassure the target's talent, during those early stages, offer a head-start on dealing with cultural issues. And once the deal is signed, direct communication with employees should be a top priority. Understanding their motivations and giving them an incentive to stay is vital.

Our survey underlines this point with 92% of respondents saying they should have communicated more effectively during the deal and 78% after the deal.

7. Keep tax and legal engaged in planning

Managing the financial implications of a deal remain critical to success, but issues such as tax and legal are just as important. Buyers need the right tax strategy and doing a deal is a one-off opportunity to revisit tax structures completely. The buyer can re-examine the way it operates and create new platforms and policies. However, the deal process tends to be commercially driven, and not tax driven. Organisations can miss out on this opportunity – and the value that can be created – if they are too busy doing the deal.

Similarly, not properly addressing legal issues can hinder value creation. For example, buying a business from its long-term owner involves buying its corporate structure. There may be a chain of holding companies or operations split across different jurisdictions. Once you've bought the business, you may want to transfer operations in or out of those subsidiaries and shut some down. There may be dividend blocks within the structure that prevent capital from being extracted or moved around the group.

All of these may require significant and careful consideration to realise whatever gains a buyer hopes to make.



It's challenging to acquire a technology company that has a sophisticated technical work culture and merge it into a group that is building its technology from scratch. This was the issue in our last acquisition, but we are working closely with both sets of employees and they have taken a professional approach to the situation.

Director of Strategy at a Russian technology, media and telecommunications business

A global view on value creation: APAC powers ahead while Europe lags

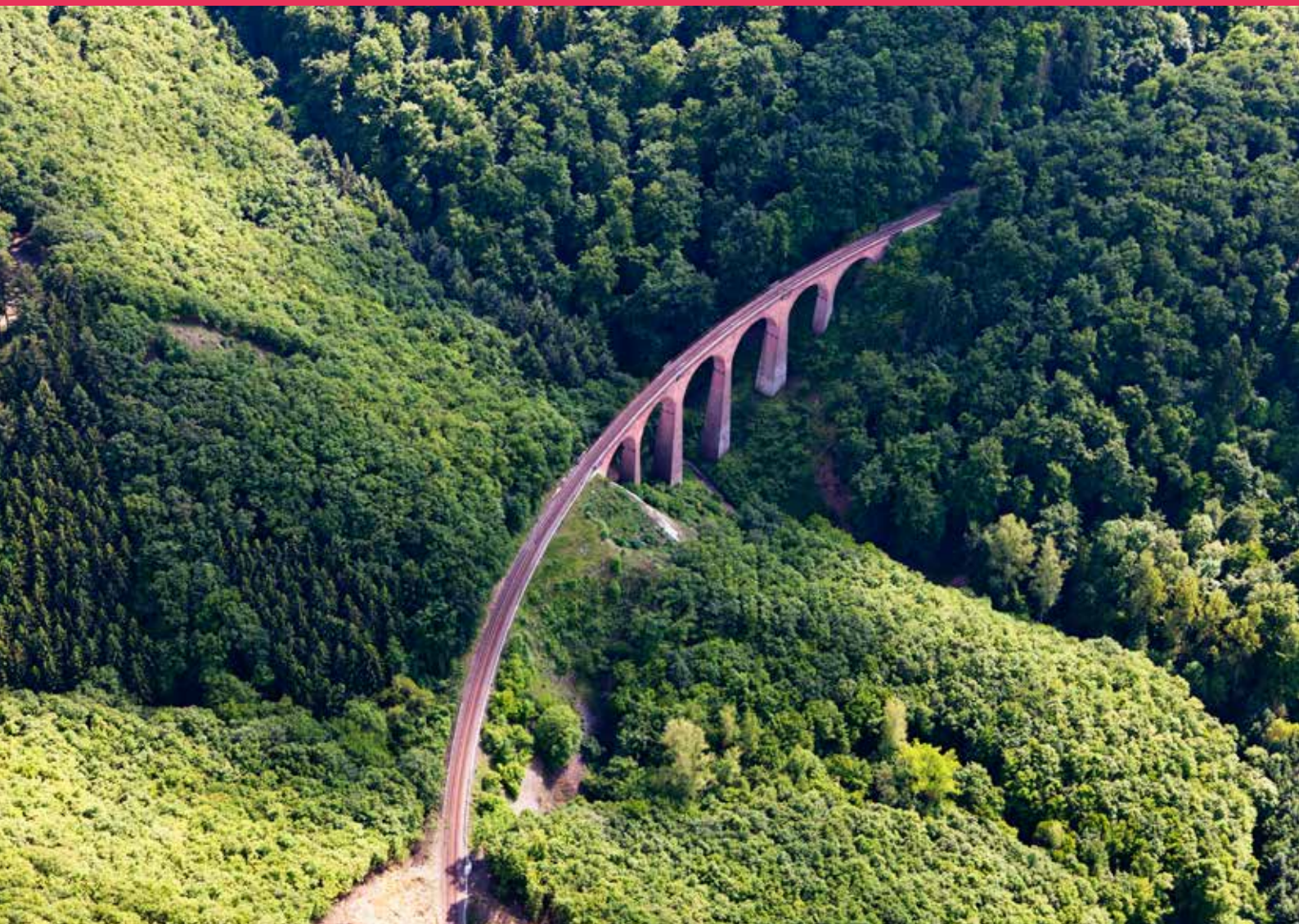
Our research shows that value creation in M&A reflects recent regional economics. For example, the average acquirer in Asia-Pacific (APAC) outperformed those in the Americas significantly in terms of average TSR in the 24 months following their last acquisition.

Wai Kay Eik, Deals Leader, PwC Mainland China and Hong Kong, says: “GDP growth in Asia has been around two to three times that of Europe and the US, and that’s a big factor. The value creation lever in much of Asia is to buy a company and let it get on with things because the markets are growing underneath it.”

Trends over time also vary greatly. Less TSR value was created by deals in APAC in the immediate aftermath of the 2008 financial crisis, but the region rebounded

quickly while the Americas and Europe struggled for longer. Between 2008 and 2011, the TSR of APAC-based acquirers underperformed by an average of 2% in the 24 months after completing a deal, while those in the Americas outperformed by 6%. But deals done between 2012 and 2016 show the tables turned: in APAC, they outperformed industry benchmarks by an average of 50%, while this stood at just 2% in the Americas.

“Much of this comes down to sophistication. More sophisticated buyers in the region know exactly what they want to buy, strategically, and ensure it fits into their larger plans. However, most businesses in Asia do not pursue acquisitions often – they may be involved in one or two in their lifetimes,” says Wai Kay Eik, Deals Leader, PwC Mainland China and Hong Kong.





The seller's guide to value creation

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The centre of gravity in divestments has shifted earlier in the deal process. Sellers need to prepare a simple and compelling value story that buyers can grasp quickly. Outline the basic story, show them where value has been built and how they can continue to create value in the business in future.

Hein Marais, EMEA Value Creation in Deals Leader,
PwC UK

Any portfolio reorganisation or rationalisation should add value. Yet, fewer than half the executives in our survey say their last divestment generated value relative to the value the business would have created had it not been sold.

In fact, almost a quarter admit little or no value was created and more than a third report their divestment destroyed value, leaving many to reflect on a range of areas within their planning and preparation that could have been significantly improved (see Exhibit 8).

While it is true divestments may occur more often in businesses already operating in challenging conditions, these results are nonetheless concerning. Whether it is releasing an underperforming business unit or shedding a non-core unit, divestments, like acquisitions, still have the potential to create value, with the right strategy, planning and investment.

1. Develop a 'divestment playbook'

Sellers need to develop consistent value focused messages based on thorough preparation and portfolio review with potential buyers in mind. This demands a solid methodology and a divestment playbook that includes a plan for addressing the most awkward questions a potential buyer could ask.

The importance of developing a divestment playbook to cope with the unexpected, even for one-off transactions, is underlined by the significant correlation between businesses that do have one and those that are successfully driving value.

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We use a formal method to complete our divestments. This involves formal considerations with specifics that change according to the nature of the negotiations.

Director of M&A at a retail, consumer and leisure company in the UK

Some companies may not believe they pursue enough divestments to justify the work involved, but the value on offer should be a compelling incentive. Almost every respondent who says their most recent disposal created value also confirms they had a formal divestment methodology in place (see Exhibit 9).

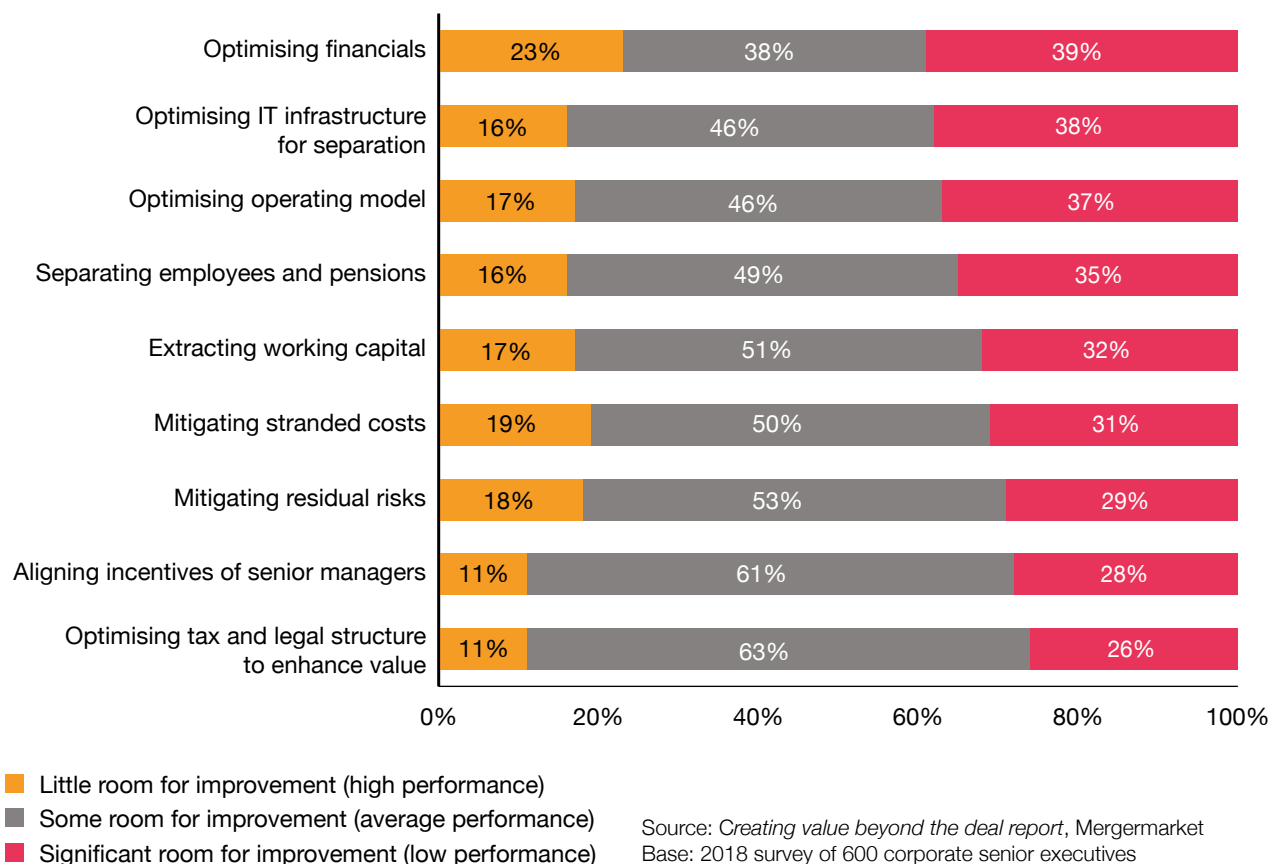
Does this mean businesses should take a one-size-fits-all approach to divestments? Absolutely not.

However, while no two divestments will ever be the same, many companies believe it is possible to put in place a methodology for managing the deal that enshrines key principles and practices, while still providing agility to adjust to different circumstances.

EXHIBIT 8

How would you rate your approach to your last divestment in the following areas?

Ranked in order of percentage of respondents stating that there was “Significant room for improvement”



We found it difficult to find the right set of buyers for the assets despite the company’s efforts. We were struggling to project the upside of the deal to businesses in Europe. It was imperative to have the right advisers to help us find the right buyer.

Director of Strategy at a Japanese natural resources business

2. Don’t leave due diligence to the buyers

Despite its potential to create value, almost half of divestors we surveyed say they carry out no sell-side due diligence at all. Almost all of those who say their last divestment created value conducted sell-side due diligence; by contrast, less than a tenth of those who say they lost value had done so.

Successful divestors are heading off difficulties at an early stage, with their sell-side due diligence efforts reflecting a more disciplined approach overall to divestments.

3. Explore the art of the possible

Divestment plans should involve more than just the allocation of existing capital. They should consider and map out the art of the possible. What could the asset being sold achieve with unconstrained capital, bringing in much-needed new skills and bolt-on acquisitions?

This kind of approach will not only attract a wider pool of potential buyers, but it will also hold on to value through the deal.

Helen Mallovy Hicks, Global Valuations Leader, PwC Canada, says: “People can often overlook the impact that value creation can have on a divestment. For example, a founder may run a very tight ship with controls over expenditure, and may therefore be highly reluctant to spend something that is not part of the normal course of business. But any uptick in earnings – even just a small percentage – can represent many multiples of value in a sale.”

4. There is no substitute for experience

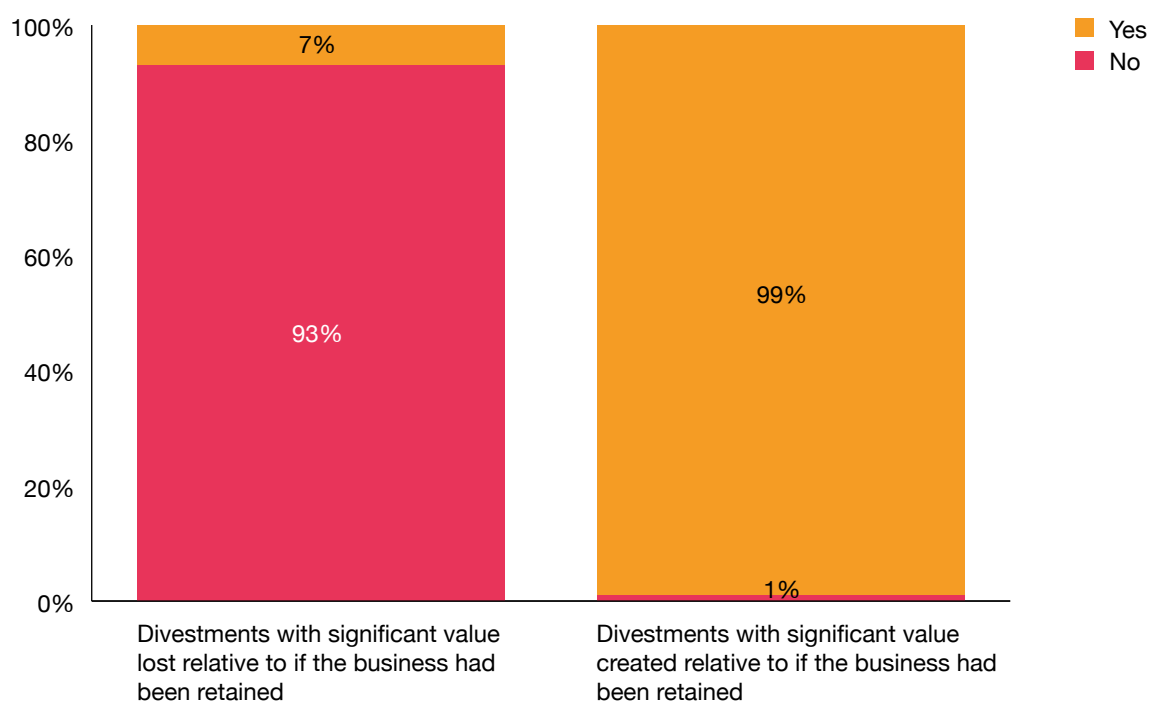
Almost half of respondents may not make any divestments in a typical year. Only a small percentage say they typically make three or more divestments annually (see Exhibit 10). And this lack of experience can affect value even when the team involved thinks everything is running well.

“People who haven’t seen a divestment in action don’t appreciate the stresses involved,” says Bob Saada, Deals Leader, PwC US. “The best sellers have done it many times and they are more practised.”

Divestors – especially those with minimal experience in this area – should take advantage of an array of third-party advisers. The goal should be to use these advisers as early as possible in the process, to help investors understand the opportunity, in a measured way, and to build their confidence over time.

EXHIBIT 9

Do you have a formalised methodology and/or blueprint for creating value through divestments?



Source: *Creating value beyond the deal report*, Mergermarket
Base: 2018 survey of 600 corporate senior executives



We do possess a formalised exit plan that has been developed internally. With negotiations being of higher importance we prefer using the plan in every exit to gain solidarity and comfort in exiting from a company.

Director of M&A at a financial services company in Germany

5. Make the most of your people

Focusing your best people on maximising the value of a unit you are planning to sell may seem counterintuitive, but it will ensure value is not lost and prevent buyers from dropping out. Furthermore, your ability to motivate those people who are in the business being sold and transitioning them successfully to the buyer has a crucial role to play.

Sarah Moore, People in Deals Lead, PwC UK, says: “The challenge is getting your best people to focus on the divestment – those who understand its key stakeholders as well as all aspects of the unit’s operations. Make sure they’re fully incentivised and those incentives will produce the highest possible returns.”

While managers in the business being sold may be uncomfortable with the process, their experience will likely be coveted by potential purchasers, while their departure could jeopardise deal valuations. Engaging them in the process will be important.

“When buying a business, one of the first things an investor is going to consider is the quality of the management and who is delivering value,” says Malcolm Lloyd, Global Deals Leader, PwC. “Management must be incentivised. Bring people with experience into the room to discuss options. Learn from what has worked and what has not to achieve the right balance of ensuring the value creation plan is challenging, yet credible.”

6. Address legal complexity

On the divestment side, much of the legal complexity stems from separating out the entity being sold and making sure it is done early enough so it’s ready to go when it comes to market.

There are a few key legal issues in divestments that can influence value creation. First, define what you’re selling and examine the legal structure holding that business within the group. For example, in a carve-out, you need to determine what assets are being sold, who owns them within the group, and how to get them to a position where a buyer can pick them up as a standalone from the core business.

If the business being sold is part of a wider group, most buyers will question what specific value it creates. Sellers need their legal team to ring-fence those assets as a standalone entity.

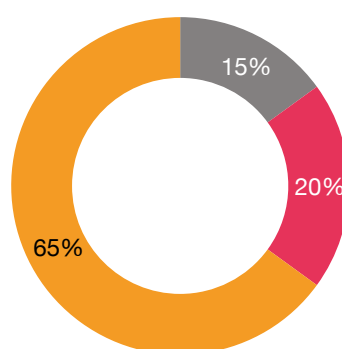
The legal team also needs to assess the legacy of prior ownership and operations of the business, from its real estate to its workforce or even its potential environmental legacy. Buyers will want coverage for

any potential liabilities and to define who will be responsible for any issues that may arise due to those liabilities after the deal is done.

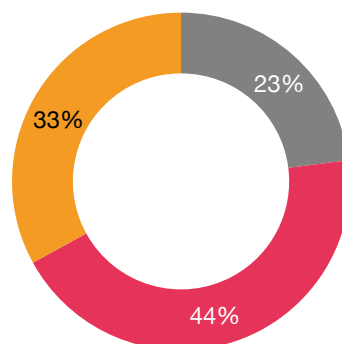
This can often fall to the buyer, but a competitive sale may complicate things, requiring a legal buffer between buyer and seller to deal with any potential post-close liabilities. A seller may have to put money into escrow in anticipation of these liabilities, which cuts into the value of the sale. Addressing any potential legacy issues before a business is put up for sale can mitigate value loss.

EXHIBIT 10

How many divestments do you typically make per year?



Divestments with significant value lost relative to if the business had been retained



Divestments with significant value created relative to if the business had been retained

0 1 or 2 3 or 4

Source: *Creating value beyond the deal report*, Mergersmarket
Base: 2018 survey of 600 corporate senior executives

Conclusion

Three steps to creating value beyond the deal

1. Stay true to the strategic intent

As our research and survey reveal, many companies have been disappointed by the results of their latest transactions and, in the worst cases, their deals have destroyed shareholder value.

But it is also evident that organisations who properly commit to success, put in place a clear strategy, and back themselves to succeed can create significant value.

It is crucial to develop a strategy that prioritises value at every stage of the deal: from identifying the right target, to planning rigorous due diligence, ensuring key talent remain engaged and investing appropriately in value creation planning and integration.

2. Be clear on all the elements of a comprehensive value creation plan – it should be a blueprint, not a checklist

Ensure a thorough and effective process for conducting the deal with the necessary diligence and rigour in the value creation planning process across all areas of the business. Consider how each of these support the business model, synergy delivery, operating model and technology plans.

Whether buying or selling, have a comprehensive value creation plan. Start early, be thorough and take every opportunity to validate the key assumptions in the plan through advanced analytics and diligence. Value creation plans should cover all aspects, including strategic repositioning, improving business performance, optimising operating model, the balance sheet and considering the right tax structure.

3. Put culture at the heart

Many organisations now rank their people as their most important asset. Whether buying or selling, recognising key skills, clear communication and incentivising core talent to stay engaged throughout the value creation process, is essential. Buying a brand but losing the people who made it so desirable, or preparing an asset for sale, but losing the vital people within, can both destroy the value of a deal.

Our analysis confirms the importance of seasoned, experienced people to generating maximum value from a deal. Where organisations lack that experience in-house they should seek it out.



Thank you for reading through our report, we hope it has provided you with useful insights. We would be delighted to discuss its content with you and how it may help you to further advance and refine the way you approach value creation within your own organisation.

Whether you are considering acquiring or divesting, we can help you create exceptional shareholder returns through a relentless focus on value creation across your M&A lifecycle.

Malcolm Lloyd,
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Methodology

This report presents analysis from a large-scale global study on the performance of companies following acquisitions and divestments, conducted by Cass Business School on behalf of PwC. Company performance is measured using Total Shareholder Return (TSR). The percentage change in TSR has been calculated over a window starting one month prior to announcement of the deal and ending 12 and 24 months after deal completion (that is, two different time windows for each transaction).

Performance is measured against industry level benchmarks. The TSR is defined as the growth in value of a shareholding over the specified period, assuming dividends are re-invested to purchase additional shares.

The report includes transactions announced between 1 January 2008 and 31 December 2016. The latest date TSR measured was 30 June 2018. Acquisitions are defined as a change-of-control transaction where the company buys control of another company. Divestments are defined as a change-of-control transaction where the company fully divests a division or subsidiary.

The analysis includes only companies with a minimum market value of €100m as of the month prior to deal announcement. In addition, transactions valued at less than €50 million or less than 10% of the buyer's or seller's market capitalisation have been excluded. The final sample also excludes companies that operate in the Real Estate sector.

Survey research

To understand the factors influencing performance we surveyed 600 corporate senior-level executives from a range of industries and geographies about their experiences creating value through M&A. All participants in the survey had made at least one significant acquisition and one significant divestment in the past 36 months. The survey included a combination of qualitative and quantitative questions and all interviews were conducted by telephone. All responses are anonymised and presented in aggregate.

Who we spoke to as part of our survey

	Americas	EMEA	APAC	Total
Energy, Utilities, Mining and Infrastructure	40	40	20	100
Financial Services	40	40	20	100
Healthcare (including Pharmaceuticals)	40	40	20	100
Industrial Products and Business Services	40	40	20	100
Retail, Consumer and Leisure	40	40	20	100
Technology, Media and Telecommunications	40	40	20	100
Total	240	240	120	600

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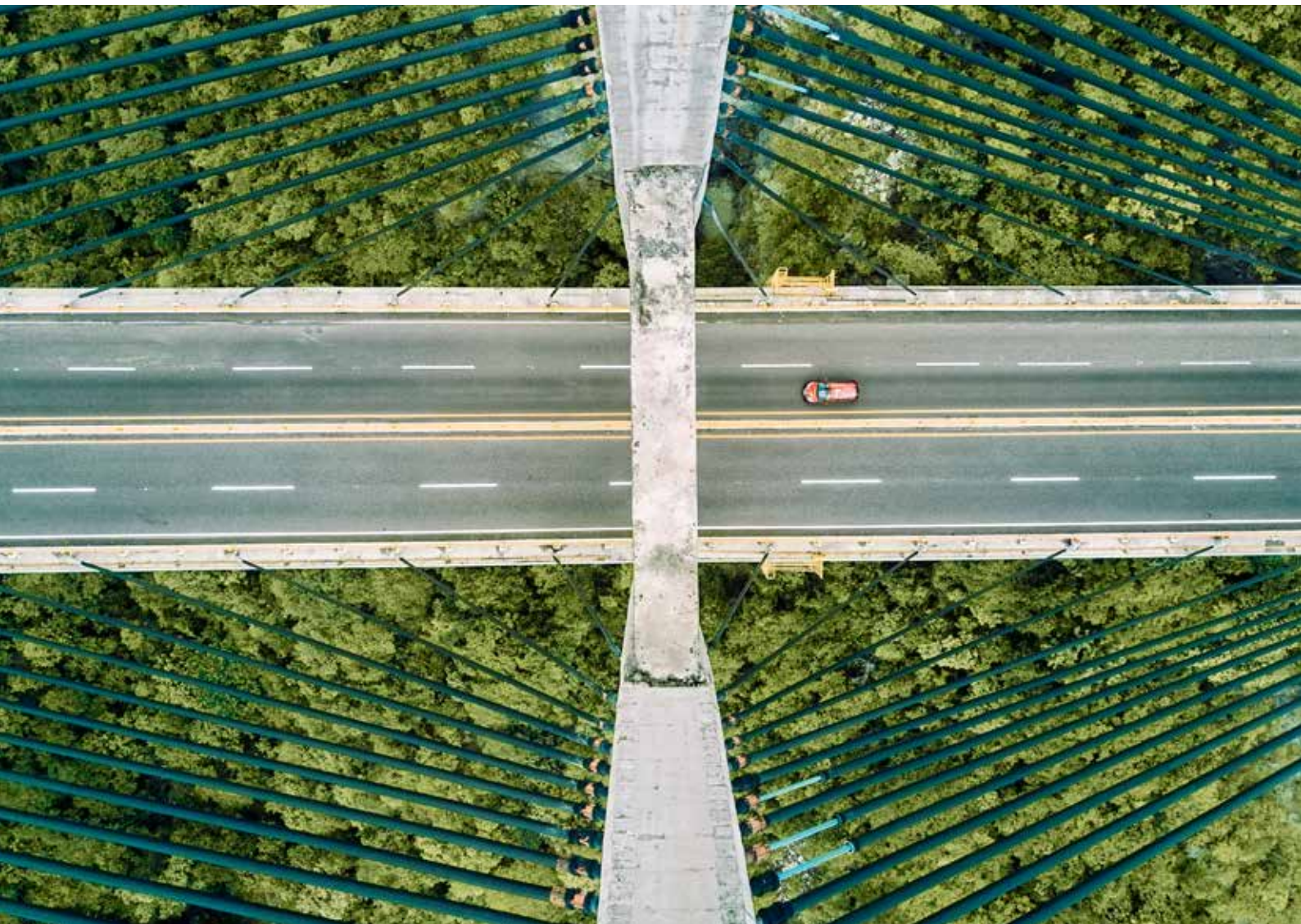
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