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# Accelerating growth with acquisitions

21 July 2015

# Today's moderator

**Kerrie MacPherson**

*Partner, Ernst & Young LLP*

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# Today's agenda

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- ▶ Drivers for growth
- ▶ Acquisition journey: where are you?
- ▶ How successful companies address the transaction lifecycle

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# Today's panelists

## **Ryan Burke**

*Partner, EY Global Middle Market Leader  
Transaction Advisory Services*

## **Kath Carter**

*Partner, EY Global Business Development Leader  
Transaction Advisory Services*

## **David Sreter**

*Partner, EY Global and Americas Tax Leader  
Transaction Advisory Services*

## **Charlie Sweat**

*CEO, Chairman, Founder, Frequentz Inc.*

The information contained herein is a summary in nature, viewers should consult their own professional advisors to address their individual circumstances and concerns.

# Today's agenda

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- ▶ **Drivers for growth**
- ▶ Acquisition journey: where are you?
- ▶ How successful companies address the transaction lifecycle

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# Fact check

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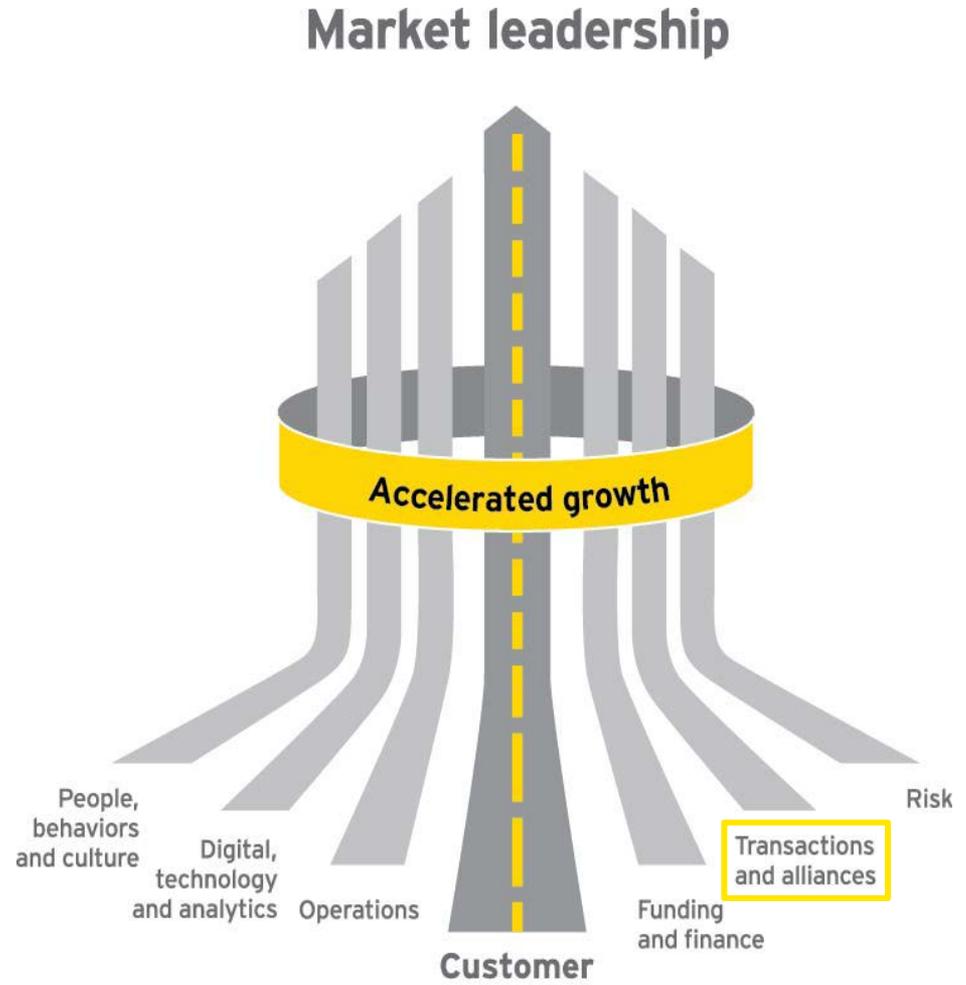
**How many acquisitions do you expect to complete in the next 12 months?**

- A. One
- B. Two
- C. Three
- D. Four
- E. Five or more
- F. Not applicable

# EY's 7 Drivers of Growth

The journey to market leadership

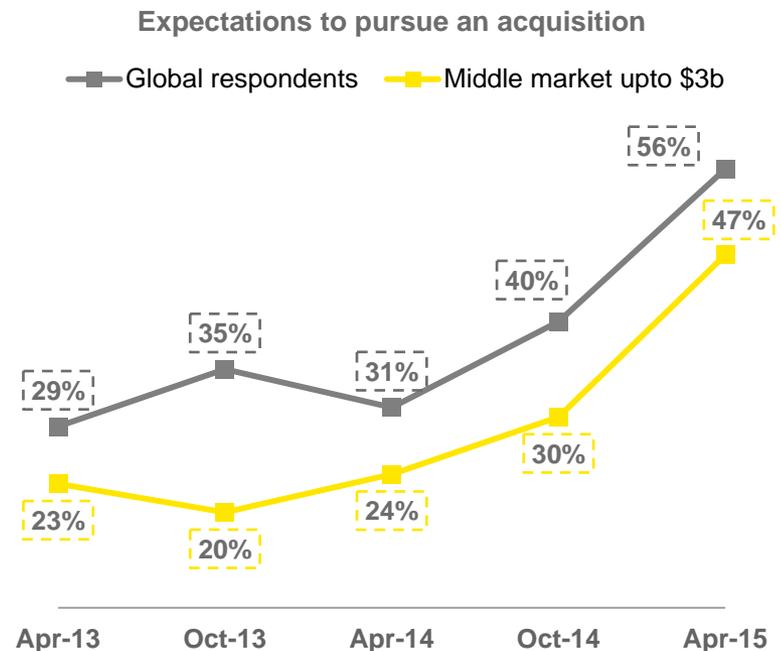
- ▶ Research points to seven critical drivers for accelerated and sustainable growth.
- ▶ One of those key drivers is transactions and alliances, which comprises acquisitions.
- ▶ To rise to a position of market leadership, a company must take a balanced approach across all seven drivers, recognizing the interplay between each one.



# Appetite for acquisitions getting stronger

Key findings from the *12th Global Capital Confidence Barometer* (April 2015):

- ▶ The global M&A market picked up significantly in 2014.
- ▶ There is a strong increase in expectations to pursue an acquisition in 2015.
- ▶ Companies are looking across borders for M&A targets.
- ▶ The majority of acquisition capital will be allocated to developed markets.



*Likelihood of closing deals remains subdued – pointing to a disciplined approach to M&A.*

# Today's agenda

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- ▶ Drivers for growth
- ▶ **Acquisition journey: where are you?**
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# Fact check

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**What are the main drivers impacting your M&A strategy over the next 12 months? Select up to two.**

- A. Leverage regulatory or legislative opportunities
- B. Gain market share in existing geographical markets
- C. Improve structural tax efficiencies
- D. Move into new geographical markets
- E. Acquire talent
- F. Innovate new product or service areas

# Acquisition journey: where are you?

## *Five segments of an acquisition life cycle*

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Like any journey, a successful acquisition requires a clear road map.



Each phase plays a pivotal role in your acquisition success.

# Acquisition journey

Develop strategy • understand objectives • identify targets

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- ▶ Have the right geographic and product markets been targeted?
- ▶ Does the entire value chain need to be considered?
- ▶ Have you determined the investment and return criteria?
- ▶ What is the most effective way to identify attractive targets?
- ▶ How should a balance sheet line up with capital needs?
- ▶ Are there ways to maximize capital structure with a potential acquisition?
- ▶ How do tax considerations affect strategic decisions about markets, operations, or capital?

# Acquisition journey

Determine target • develop pricing strategy • consider capital needs

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- ▶ What are the critical commercial issues of the new market – customers and competition?
- ▶ What should be considered while planning to finance the acquisition?
- ▶ Have multiple acquisition scenarios or models been developed as well as potential range of values?
- ▶ What are the regulatory and tax requirements to be considered?
- ▶ Is the current tax structure optimal for potential transactions?
- ▶ Are there human capital considerations?
- ▶ How do tax and financial risks intersect with these considerations?
- ▶ Have all the key financial risks been identified that impact transaction and long term value?

# Acquisition journey

Perform diligence • structure deal • consider integration



- ▶ How should identified risks be considered when entering new markets?
- ▶ Is the diligence focused on the key risks?
- ▶ What needs to be considered when integrating the acquired business?
- ▶ What are the synergies, dis-synergies and off-balance sheet costs?
- ▶ What human capital items should be considered to retain key people?
- ▶ How should opening balance sheet items be considered?
- ▶ Are the current IT systems compatible with the new business?
- ▶ Are there any fraud issues to be considered?
- ▶ Does the target's tax profile align with existing organizational objectives? Where do opportunities or risks exist?

# Fact check

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**What were the main factors contributing to deals not meeting expectations? (select all that apply)**

- A. Poor operating cost assumptions
- B. Product or sales price and margin deterioration
- C. Failure to achieve synergies
- D. Sales volume declines or loss of customers
- E. Poor execution of integration
- F. Not applicable

# Acquisition journey

Consider financing • Negotiate agreements • Create Day One plan

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- ▶ Is the optimal capital structure in place to fund the acquisitions?
- ▶ Are financial, tax value and risk considerations aligned with transaction structure and contractual commitments?
- ▶ Do the current and future debt covenants reflect projections, working capital swings and model?
- ▶ Have the diligence items been considered in closing documents?
- ▶ Do employment agreements reflect negotiations, key employees and related risks?
- ▶ What working capital peg should be considered?
- ▶ How will purchase accounting impact the opening balance sheet?
- ▶ Is a closing balance sheet audit needed?
- ▶ When is the best time to start integrating the new business?

# Fact check

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## Which steps does your company take to internalize the lessons learned from the integration experience?

- A. Apply rigor in codifying past integration lessons-learned and best practices
- B. Retain and reward experienced integration staff
- C. Conduct integration audits
- D. Re-evaluate integration processes and checklist
- E. Provide knowledge transfer training
- F. Not applicable

# Acquisition journey

Integrate • measure synergies • adapt



- ▶ Has a plan been developed to capture any synergies and avoid dis-synergies to ensure the maximum value from the acquisition?
- ▶ Was the 100 day plan implemented efficiently and effectively?
- ▶ Have barriers to integration such as cultural differences been identified and addressed?
- ▶ How do the capital and tax structures position the company for growth?
- ▶ Did purchase accounting present any surprises?
- ▶ Has the target company aligned their accounting policies and internal control risks?
- ▶ How has tax planning and reporting been implemented?

# Today's agenda

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- ▶ Drivers for growth
- ▶ Acquisition journey: where are you?
- ▶ **How successful companies address the transaction lifecycle**

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# A look at what successful companies are doing

Steps on the journey	Insights into market-leading practices	How are you addressing these?	What's your comfort level?		
			Low	Medium	High
<b>Strategic analysis</b>	<ul style="list-style-type: none"> <li>▶ Define organic and inorganic growth strategies as well as those for new and emerging markets</li> <li>▶ Align investment decisions to overall strategy</li> <li>▶ Understand which targets are most attractive</li> </ul>	<ul style="list-style-type: none"> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> </ul>			
<b>Opportunity analysis</b>	<ul style="list-style-type: none"> <li>▶ Have process for identifying targets and alliance partners</li> <li>▶ Develop multiple scenarios around investment decisions and tailor stakeholders' communications</li> <li>▶ Recognize critical market, competition and customer issues</li> <li>▶ Understand regulatory and HR drivers</li> </ul>	<ul style="list-style-type: none"> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> </ul>			
<b>Acquisition development</b>	<ul style="list-style-type: none"> <li>▶ Accelerate investment decisions as necessary</li> <li>▶ Consider all relevant market risks</li> <li>▶ Align due diligence processes to key business drivers and focus on key risks and opportunities</li> <li>▶ Include analysis of tax implications in investment decisions</li> </ul>	<ul style="list-style-type: none"> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> </ul>			
<b>Negotiation and execution</b>	<ul style="list-style-type: none"> <li>▶ Develop executable purchase price adjustment mechanisms</li> <li>▶ Ensure capital structure can fund strategic acquisitions</li> <li>▶ Use all available options to access capital markets</li> <li>▶ Incorporate well-developed integration and post-acquisition planning</li> <li>▶ Define talent selection process to evaluate key employees</li> </ul>	<ul style="list-style-type: none"> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> </ul>			
<b>Acquisition effectiveness</b>	<ul style="list-style-type: none"> <li>▶ Capture synergies</li> <li>▶ Ensure transaction value is maximized</li> <li>▶ Identify and address barriers to integration</li> <li>▶ Ensure strategic portfolio optimization</li> </ul>	<ul style="list-style-type: none"> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> <li>▶ _____</li> </ul>			

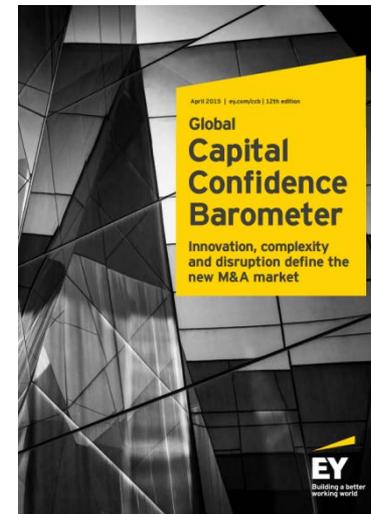
# One minute recap



# Resources

Find out how the EY 7 Drivers of Growth can help you Accelerate Growth.  
[ey.com/acceleratinggrowth](http://ey.com/acceleratinggrowth)

What's fueling the growth of M&A?  
Visit [ey.com/ccb](http://ey.com/ccb)



# Contact us

## **David Sreter**

Transaction Tax

david.sreter@ey.com

+1 212 773 5848

## **Kath Carter**

Transaction Tax

kath.carter@ey.com

+1 312 879 5567

## **Ryan Burke**

Transaction Advisory Services

ryan.burke@ey.com

+1 214 969 8609

# Appendix





Accelerating Growth

# The EY 7 Drivers of Growth

By focusing on a broad set of capabilities, companies can accelerate growth and make it sustainable. The EY 7 Drivers of Growth is EY's framework to help companies align their capabilities to their strategy to accelerate growth. It is the product of extensive research which examined the growth journeys of hundreds of companies around the globe. For more information, visit [ey.com/acceleratinggrowth](http://ey.com/acceleratinggrowth).

## People, behaviors and culture

Any organization is only ever as good as the people working for it. To win the war for talent, leading businesses build an environment that values diversity and attracts and retains the right people to help grow their businesses – not just great people, but people who share the company's vision and fit its culture. Leading businesses provide strong leadership and create an inclusive environment where differences are valued and people can innovate to drive the business forward. On top of this they invest in their employees, nurturing their talent and helping them develop skills to match the demands of the business during each different growth phase.

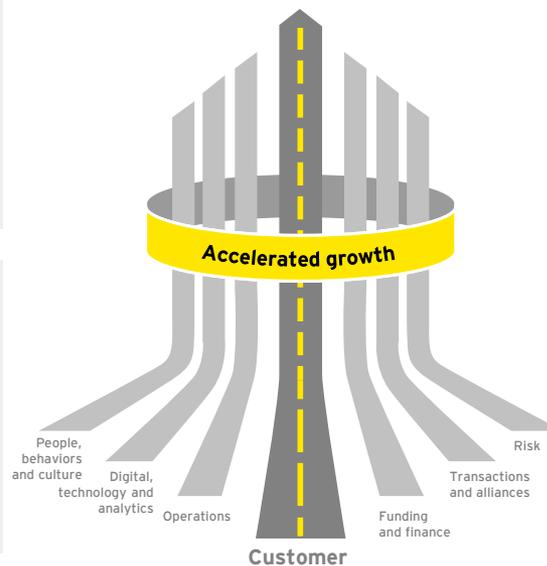
## Digital, technology and analytics

For business leaders, information is power. It can help them make better, quicker, smarter decisions that improve business performance and manage risk. Digital technologies are impacting businesses across all industries, from retailers and banks through to car makers and energy companies. They are fundamentally changing the ways in which consumers interact with these companies, while also opening up new business models. Organizations that harness the power of information technology create a strategic and competitive advantage.

## Operations

Your operating model is the link between strategic intent and the ability of your organization to deliver on that intent. Having a clear approach that aligns your operations with your strategy will increase your ability to achieve success. Leading companies consider all aspects of operations at a macro and micro level. Focused on the details, they understand that every aspect of their business must hold up to scrutiny and be constantly improved to stay ahead of the pack. Leading companies leave nothing to chance but instead take control by analyzing their operations and ensuring that all parts remain at their most effective at all times, making changes as and when needed.

## Market leadership



## Customer

From the outset, leading companies make customers their focal point. They understand that by putting customers' needs and desires first, they can achieve a competitive advantage. They know all about their customers (who they are, what they want, and when they want it) and they know that building customer loyalty goes hand in hand with long-term sustainable growth. These companies are constantly thinking about how to keep delivering value for each and every customer in all the markets in which they operate.

## Risk

All the fundamental challenges a growing company faces, from recruiting the best people to managing finance, have an element of risk. Regardless of a company's stage of growth, the ability to identify and manage risk stands out as a vital element of success. Companies that aspire to market leadership should not fear risk, but approach it intelligently in order to reap rewards. Leading companies educate themselves about the implications of risk and the steps they need to take to control and manage them.

## Transactions and alliances

Leading companies rarely evolve by organic growth alone. They seek successful partnerships and strategic acquisitions capable of enhancing their growth, competitiveness and profitability. Leading businesses, while quick to grasp the value of transactions and alliances in today's dynamic markets, also appreciate that landing the right deal is not about luck. They make concerted effort to remain alert, build profile in their markets and ensure that they are well positioned to seize an opportunity as soon as it arises.

## Funding and finance

All businesses need funds to grow. How a business manages its money, and new investors, will determine its course for the future. Leading companies determine the best financial solution or mix of solutions for their business and derive maximum benefits from their management of available funds. Therefore CFOs and the Finance function have to act more strategically and more commercially, improving performance by delivering insights to decision-makers. Leading companies use the CFO's role as an "economic advisor" which leads to improved financial performance being the primary driver of everything the Finance function does, above and beyond the basics of ensuring statutory, regulatory and fiscal compliance.

# Questions and answers

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**Q. What challenges have you experienced the most during the acquisition lifecycle?**

**A.** Clients [in the Middle Market] generally need help with a link to strategy and growth plans, financial and tax diligence, and assistance with 100-day planning and integration.

**Q. Do you have any suggestions regarding change management during the execution phase?**

**A.** This is a critical piece to the integration and 100-day plan. This generally happens within the Project Management office with both parties working together and receiving input from the business functions. Depending on integration complexity, change management champions can be appointed to lead change within their teams. It is also common to have an independent view to help in this process.

**Q. Can you give an example of a tax consideration if moving into emerging markets?**

**A.** Acquiring a business in an emerging market requires (among other things) a deep understanding of how that jurisdiction will tax the business operations and also how capital flows moving into and out of the country will be affected by local withholding, banking and capital requirements. Duties and customs, social taxes and tax incentive regimes are also considerations that companies need to take into account as they are contemplating a strategic move into an emerging market.

# Questions and answers

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**Q. Can you address limited resources when making an acquisition? That is, trying to do a deal without having enough people on the team since people still have to do their “day job”?**

**A.** It is common in any size organization to have a virtual team. The team can be made up of internal and external resources, with common practice being to include internal resources who are expected to play key roles in the integrated organization. The key to understanding the right team is to prepare a “gap” type analysis (see page 21 of our presentation) to ask the questions around strengths and possible gaps, then to try to address the gaps, which could be bandwidth, expertise, etc., with other or external resources.

**Q. Can you spend a few minutes talking about the consideration of competition and antitrust laws for cross-border acquisitions?**

**A.** This is something that must be considered at the outset and led by the legal team. The other diligence teams will then follow the plan set in place by the legal team.

**Q. Do you believe transparency will drive tax code reforms?**

**A.** Yes, though the pace and location of those reforms will differ by country. There is clearly a convergence developing among regulators, politicians, business leaders and the public around the need for enhanced transparency in tax reporting. That will cause changes in laws and administration over the next several years.

# Questions and answers

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**Q. Given the statistics are not in favor of acquisitions, what is the secret recipe that the deal does more good than bad?**

**A.** Generally that the deal matches your overall strategy, the diligence confirms the valuation being paid is reasonable and accommodates any surprises, and that there is a well-detailed 100-day plan in place that is set from the top of organization and followed. Our methodology uses cross-functional teams that provide specific focus on customer experience, employee experience and value realization.

**Q. How do you manage fraud risk before the deal closes?**

**A.** Having a diligence plan that addresses possible risks. Foreign deals, for example, carry different risks around the Foreign Corrupt Practices Act (FCPA), and certain countries are more prone than others. Having detailed plans limits this risk considerably. Each transaction is different, and the scope must reflect the situation (i.e., audited company vs. unaudited).

**Q. How do you manage risk in unknown (emerging) markets?**

**A.** Working with local professionals that know the market in conjunction with an advisor that knows your business.

# Questions and answers

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**Q. How important is it to have dedicated integration teams? Or, how frequent is it for companies to pull people out of their current role to focus on the integration only?**

**A.** It is common to have a mix of teams (external and internal) to reflect the gaps and complexity of a transaction. Generally, the PMO role would be 50% to full-time with the rest of the functional leads playing a smaller percentage role – but equally important.

**Q. In my experience, most acquisitions underperform due to the M&A team becoming hands off after the deal is made. Can you discuss integration strategy and follow-up?**

**A.** Having a link to strategy and a 100-day plan that is in place *before* the transaction are critical, and that the hand-off is well-thought-out and that the M&A team has some level of responsibility before close. Involving key integration resources early (during diligence) also helps mitigate operational risk during and post the integration.

**Q. What are the leading practice performance metrics to embed in your 100-day plan?**

**A.** Having a PMO set up with leadership from the very top of the organization, then having functional leads set and in place with access and support to fill in any gaps.

# Questions and answers

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**Q. What if the top team is split about the decision as to whether to proceed with a transaction or not? Can an acquisition be successful without full support?**

**A.** Having a robust board/M&A committee is critical. In any organization, approvals for transactions should be in place and followed. Having a deep understanding of the different points of view is important. The ability to solve those points is as well. Capital availability, link to strategy, opportunity analysis and cultural fit are all important. End of the day, management must fully own the transaction.

**Q. What is the best way to communicate within the organization throughout the acquisition journey?**

**A.** Each step requires different layers of communication. The team expands as close nears. Each transaction is different, and company culture plays a part. As such, flexibility in approach is important.

**Q. What are some of the key lessons learned in large acquisitions?**

**A.** Having a detailed integration plan, thorough diligence that links to post-close plans (budget, operational) and flexibility.

# Questions and answers

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**Q.** To what degree should the combination or transition of IT systems be considered during due diligence – and to what degree should difficulty in this space factor into moving forward with M&A activities?

**A.** IT must be considered. Although it rarely drives the overall M&A decision, it is often a very costly post -lose consideration (merging systems, keeping separate, etc.). The key is understanding the current system and the ability to link and the cost associated with the IT system conversion and stand-alone. It must be considered as part of the overall purchase price.