

Making one plus one equal three

How to realise the value from transaction synergies

As a corporate dealmaker, you have no doubt often invoked cost and revenue synergies as part of the rationale of a merger or acquisition. By identifying and realising these synergies, organisations are able to generate savings for the merged businesses and increase revenues - the principle is that the value of the whole becomes greater than the sum of its parts. In an unforgiving economic environment the need to identify, quantify and realise synergies is critical.

Simon Moore, Transaction Integration Leader and Daryn Saretzki, Associate Director, Transaction Integration, at Ernst & Young, discuss steps to identify, quantify and realise synergy value.

It is not surprising that companies are crafting increasingly detailed and realistic transaction integration plans to realise the value of synergies. In assessing the value of the transaction up front, organisations are also considering comprehensive strategic and operational levers along with more conventional inputs to valuation models. Today more than ever it is vital that when you enter a transaction, you have a clear understanding of its value, and exactly how you are going to realise that value.

Toward a comprehensive view

There are two key dimensions to realising synergy value:

1. A robust approach to defining cost and revenue synergies pre-deal
2. An integration plan to realise synergies post-deal

Defining cost and revenue synergies

Defining the cost and revenue synergies, their projected value to the merged organisations and the costs you will incur in order to extract these synergies are important elements of pre-deal planning. A robust and disciplined approach – with specific steps, rules, key assumptions and benchmarks – creates the foundation for you to track synergy realisation and allows you to demonstrate when synergies result from the deal, rather than operational fixes.

Our five-step approach helps deal teams align the synergies defined pre-deal with the integration plans and benefits-tracking post-deal.





Realising synergies

We see many companies underestimate the involvement, detail and resources necessary to realise the potential value of projected synergies. Common pitfalls are: insufficient information and detail; a lack of understanding of the effort required to effect change in corporate cultures; and a failure to fully incorporate the synergy assessment into early transaction planning. Without comprehensive analysis, data and commitment, the integration is bound to fall short of goals.

An integration plan built on a detailed analysis of synergy value, cost and timing is most likely to succeed. Integration challenges will remain, as always, but expanding traditional due diligence to gain a more complete picture of constraints and opportunities will help guide managers as they make the hard choices around the operational flexibility that may be required. A detailed bottom-up assessment of synergies is critical for defining and eventually realising synergies.

Your integration plan will need to incorporate and align with the pre-deal projected synergies. You should then establish accountability and ownership for realising the synergies, and regularly track the associated savings and costs. This will give transparency and drive consistency with how all areas of the business are being measured.

Successful synergy realisation consistently hinges on these factors:

- ▶ People – It is critical to build clarity on the roles and level of support required. There needs to be clear alignment between what synergy owners want, what the business needs and what the finance department is able to report. Incentives should be implemented which align individuals' motivations with the program goals.
- ▶ A clear and simple structure for governance and decision-making – Integration timeframes are usually tight and speed is critical. It is vital to have a governance structure in place allowing quick decisions and investments to be made to realise benefits.
- ▶ Clear synergy reporting guidelines, established early – Disagreements will arise around what is a benefit and what is an integration cost. It is important to have synergy reporting guidelines in place early to manage this. Don't underestimate the time and effort required to establish the baseline.
- ▶ Invest in consistent tools and processes – Spend time upfront to design consistent tools and templates, then in training and rolling these out across the organisation. This will save time, effort and frustration down the track.

- ▶ Set up ongoing reviews to maintain momentum – The benefits of realising synergies may not end after three or six months; many may only be realised after one or two years. You should therefore continue to hold ongoing reviews and establish mechanisms to maintain momentum.

While synergies are a key component of many transactions, they are seldom given the time and attention warranted prior to the deal. Many leading organisations are increasingly taking a structured, robust approach to defining and realising synergy value, particularly where they represent a large component of the deal value. Ultimately, this approach is crucial to the overall success of the deal.

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