Merger integration
ASEAN hub
Our point of view

Too many companies across the world find themselves tinkering with change by focusing on organic growth and operational improvements. However, organic growth and cost cutting has its limitations. Companies should invest more effort in structural actions like acquisitions or divestments if they desire to achieve breakthrough growth. Companies in Asia are focusing on building scale in its core market through acquisitions and shedding non-core part to fund the ambition.

But are we prepared?

“M&A rebounds strongly to drive corporate growth in Southeast Asia.”

EY Capital Confidence Barometer Survey 2014

“Think Big and Act Bold.”

Vikram Chakravarty
The Business Times
17 March 2015

66% of all merger failures can be attributed to failure in integration

<table>
<thead>
<tr>
<th>Reason for loss of deal value</th>
<th>Failure in strategy</th>
<th>Failure in M&amp;A deal</th>
<th>Failure in integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>Lack of deal strategy or low strategic fit</td>
<td>Synergies not achieved</td>
<td>Lack of integration plan or philosophy</td>
</tr>
<tr>
<td>14%</td>
<td></td>
<td></td>
<td>Failure to de-risk the asset</td>
</tr>
<tr>
<td>66%</td>
<td></td>
<td></td>
<td>Lack of communication</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Organization misalignment</td>
</tr>
</tbody>
</table>

Source: EY analysis

EY Merger Integration Lead, Asia-Pacific
a. Integration vision: Strategy and control

Integration philosophy and guiding principles

Due to the complexity associated with Asian mergers, it is imperative to define the integration vision and strategy early in the deal process. Define integration guiding principles and non-negotiables before the launch of the integration process.

**Complete autonomy**
- E.g., Replace the CFO, COO

**Replace target management**
- E.g., Full integration of back-office

**Run as a standalone entity**
- E.g., Reduce headcount

**Fully integrate**
- E.g., New supply chain model

**Soft approach on people side**
- E.g., No headcount reduction

**Large synergies planned through lay-offs**
- E.g., Replace the CFO, COO

**No change in business model**
- E.g., Full integration of back-office

**Optimize business model of the target**
- E.g., Reduce headcount

Typical Asian non-negotiables

1. Control over people, brands, IP etc.
2. Establish control over cash and treasury operations to de-risk the investment
3. Establish governance, compliance and controls to comply with company policies e.g., FCPA
4. Establish financial and executive reporting requirements
5. Early announcement to key stakeholders
6. Adapt a softer approach in integration. E.g., no headcount reduction

“**The lack of clear integration philosophy and plan leads to destruction of value.**”

Vikram Chakravarty
EY Merger Integration Lead, Asia-Pacific

“**Planning for integration should begin once you identify the target and continue throughout the deal process.**”

Yew-Poh Mak
EY Merger Integration Lead, Greater China and Hong Kong
b. Generate value: Synergies

Shareholders have rewarded successful acquirers in the past for realizing synergies from the deal. Acquirers should identify synergies and value drivers well in advance and validate it during the due diligence process.

Considering the complex business landscape in Asia, identified synergies should be tied to executable plans and should be tracked and reported on a regular basis.

Average announced cost synergies as a percentage of target’s revenue

The average per industry realized cost synergies range from 4% - 18% of target’s revenue.

**Typical Asian synergy opportunities**

<table>
<thead>
<tr>
<th>Back office</th>
<th>Procurement and suppliers</th>
<th>Manufacturing and supply chain</th>
<th>Sales and marketing</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPEX</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Shareholders have rewarded successful acquirers in the past for realizing synergies from the deal. Acquirers should identify synergies and value drivers well in advance and validate it during the due diligence process.**

**Considering the complex business landscape in Asia, identified synergies should be tied to executable plans and should be tracked and reported on a regular basis.**

**At EY we have detailed understanding of where the synergy can be found by deal and industry type.”**

Karambir Anand
EY Merger Integration Partner

**Seasoned acquirers prioritize on key value drivers and allocate adequate resources to ensure success.”**

Konstantinos Dimitriou
EY Merger Integration Specialist
c. Fitting it together: De-risking

There is a need to de-risk the merger event due to many instances of value leakage in Asia. Detailed functional integration planning and proactive risk mitigation ensures taking control of the target and business continuity post-close.

EY tools: Springboard and Merger Integration Playbook

1. **Tools and templates (by phase)**
   - Operational analysis and diligence
   - Integration readiness and mobilization
   - Integration planning and analysis
   - Integration execution

2. **Tools and templates (functional areas)**
   - Cross teams
     - Value realization
     - Customer experience
     - Employee experience

Illustrative

**Organization culture analysis tool**

<table>
<thead>
<tr>
<th>Parent company</th>
<th>N = 166</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Flexible</td>
</tr>
<tr>
<td></td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Acquired company</th>
<th>N = 121</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Flexible</td>
</tr>
<tr>
<td></td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>80</td>
</tr>
</tbody>
</table>

**Company comparison report**

<table>
<thead>
<tr>
<th>Involvement</th>
<th>1st</th>
<th>25th</th>
<th>50th</th>
<th>75th</th>
<th>100th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empowerment</td>
<td>12</td>
<td>13</td>
<td>15</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Team orientation</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Capability development</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

"We have helped clients de-risking the investments and prevent value loss."

Abhay Bangi
EY Merger Integration Specialist

"Managing cultural difference proactively is critical for deal success in ASEAN."

Ashutosh Deshmukh
EY Merger Integration Specialist
Why EY

1. Leaders in M&A integration
   Involved in top 30/50 deals in Asia

2. End-to-end approach

3. Merger specialists – ASEAN hub
   Experienced 30+ merger integration specialists in Southeast Asia (SEA), 100+ in Asia-Pacific and 900+ globally

4. Industry focus (Merger integrations)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Global</th>
<th>SEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>100+</td>
<td>10+</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>70+</td>
<td>15+</td>
</tr>
<tr>
<td>Consumer Products and Resources</td>
<td>80+</td>
<td>20+</td>
</tr>
</tbody>
</table>

Select experience

<table>
<thead>
<tr>
<th>Experience</th>
<th>M&amp;A strategy</th>
<th>Due diligence</th>
<th>Integration management office</th>
<th>Synergy</th>
<th>Functional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration of two top banks in Philippines</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Integration of European bank and local bank</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Integration of an Oil Field Services (OFS) player by European major</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Asset integration of utility company</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integration of Thai LPG company by Korean Player</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR due diligence and integration planning for refinery in Vietnam</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Integration by a US Oral Care company in Myanmar</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Palm plantation integration</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Dairy business post-merger integration</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Key contacts

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Led 15+ merger integrations and is a well-known strategy expert in industry. Extensive experience in consumer goods, retail, commodities, oil and gas and financial services sector.

Karambir Anand
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Led 10+ merger integrations. Synergy and value capture champion for M&A initiatives. Extensive experience in oil and gas, resources and commodities sector.

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