ACE PRESENTATION
Post Merger Integration
Realising the Corporate Objectives
27th January 2016

Presented by

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Dr Nelson Ogunshakin OBE

Agenda

1. Welcome and Introduction
2. Background
3. Programme
   - ✓ 3.1 Growth strategy & Buying - 18 November 2015
   - ✓ 3.2 Selling the business – 9 December 2015
   - ➢ 3.3 Post Merger Integration (PMI) – 27 January 2016
4. Benefits
   - ➢ Strategic
   - ➢ Financial
   - ➢ Legal
5. Closing Remarks

Post Merger Integration (PMI)

Presented by

- Dr Nelson Ogunshakin OBE, Chief Executive, ACE
- Dan Nixon, Partner, Head of Transaction Support, WK Corporate Finance
- James Hutchinson, Partner, Beale & Company Solicitors
- Dwight Patten, Group Legal & Compliance Director, ACE

Corporate Responding to Market Drivers – Key points for Effective Post Merger Integration

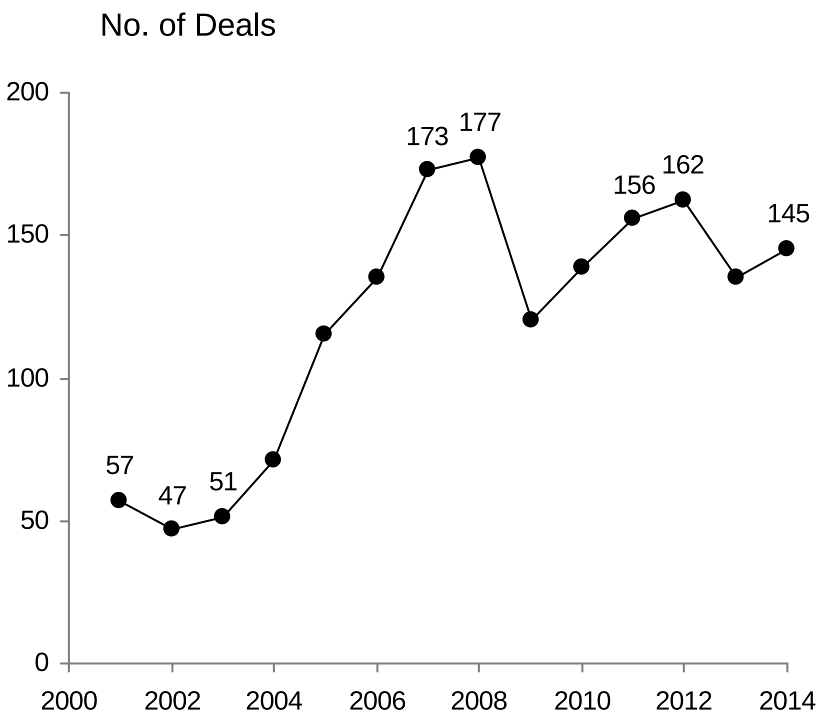
- **Good Post Merger Integrations realize both the financial and strategic goals: success is a choice, not a matter of luck**
- **Transaction Completion:** Regulatory process, Agreements etc
- **Change Management:** champion to own and drive the agenda
- **Communication**: Stakeholders engagments throughpout the process
  - Internal - Corporate, Management and operating staff existing and new staff
  - External - Clients, suppliers, stakeholders, regulators and influencers
- **Convert Synergey**: Operational structure, management system, financial process, compliance and governance, client relationship etc.
- **Create Culture** – vision, objectives, shared values and comany norm
- **Value Proposition**: Deliver shareholders' or stakeholders' expectations

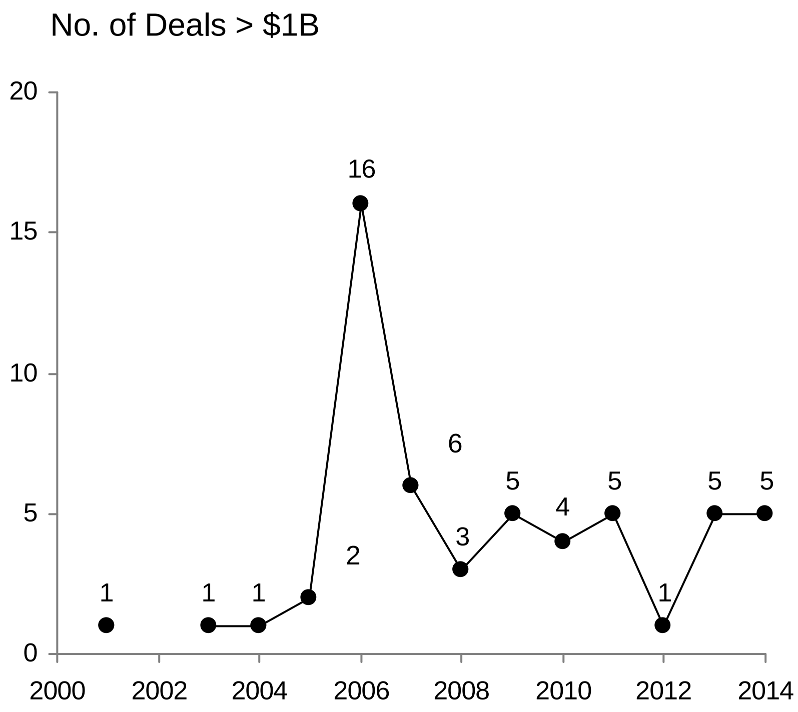
Corporate Responding to Market Drivers – Post Merger Integration

Five Key messages on PMI

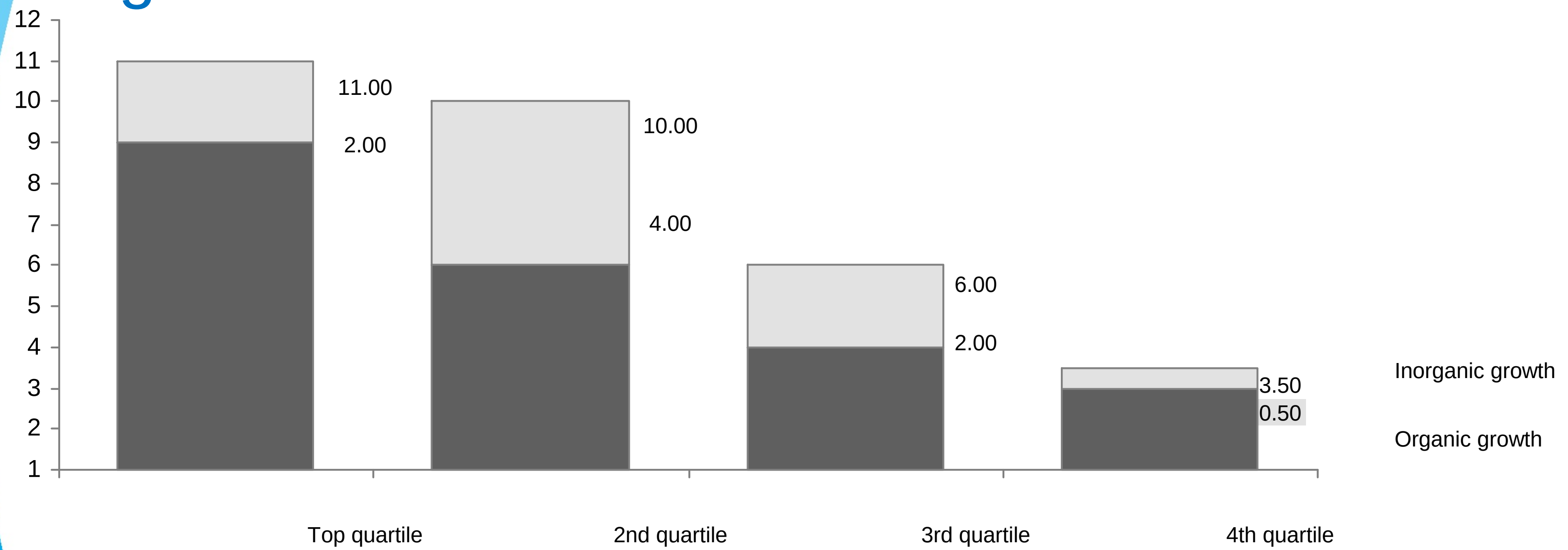
- The industry is consolidating: growth is an imperative and PMI is critical
- Top performers in the industry combine organic and inorganic growth: you need to master both
- Good deals have both a strategic and financial rationale: apply both lenses in planning and execution of the PMI
- Good Post Merger Integrations realize both the financial and strategic goals: success is a choice, not a matter of luck
- High growth companies will be hard to beat: the gap with Tier 2 companies will only increase

1. The industry is consolidating: growth is an imperative





2. Top performers in the industry combine organic and inorganic growth

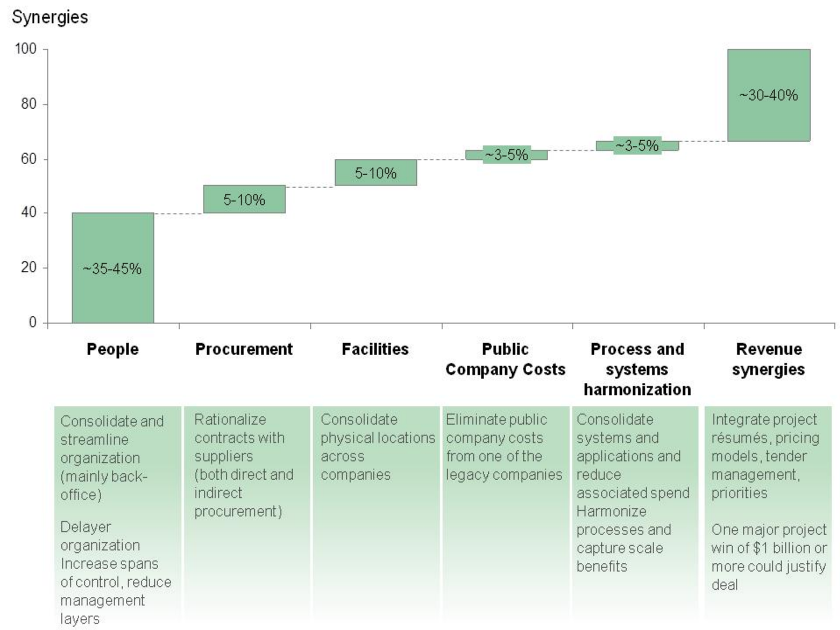


3. Good deals have both a strategic and financial rationale: apply both lenses

Strategic lens: How will this deal strengthen my competitive advantage?

- Strengthening a leadership position in a certain market segment
- Creating access to a new market segment
- Strengthening a specific expertise domain
- Strengthening a certain capability
- Etc

Financial lens: How will this deal create value?



4. Good Post Merger Integrations realize the goals: success is a choice (I/II)

1. Summarize strategy, governance and organization in an integral charcoal sketch as soon as possible
   - This creates a *shared, deep understanding* of both businesses

2. Retain customers; they expect 'business as usual'
   - Monitor client *retention* and satisfaction continuously, communicate with clients frequently

3. Select, retain and develop the best people
   - Focus on a *select group of key people* in both organizations

4. Set explicit merger targets and manage these
   - Maximize *cost synergies* but plan for *revenue synergies* as well. Revisit these targets continually throughout the PMI

5. Set-up separate merger program
   - with clear *phasing, deliverables and short timelines*

4. Good Post Merger Integrations realize the goals: success is a choice (II/II)

6 Manage merger as a separate program, but close to the line

- With a *clear project structure*, mirroring future line organization

7 'Activist PMO' is key in a merger

- Creating overview, *driving progress*, seeking feedback and preparing decision making

8 Deploy enough resources for integration

- especially in *Finance and HR*

9 Define explicit communications program

- Use all instruments and *communicate about the process* when content is insecure

10 Manage culture and human side of change as integral part of overall PMI program

- with *same attention and rigor* as e.g. financial and hierarchical integration

5. High growth companies will be hard to beat: the gap will only increase

Outgrowing your competitors

- Organic growth
- Inorganic growth

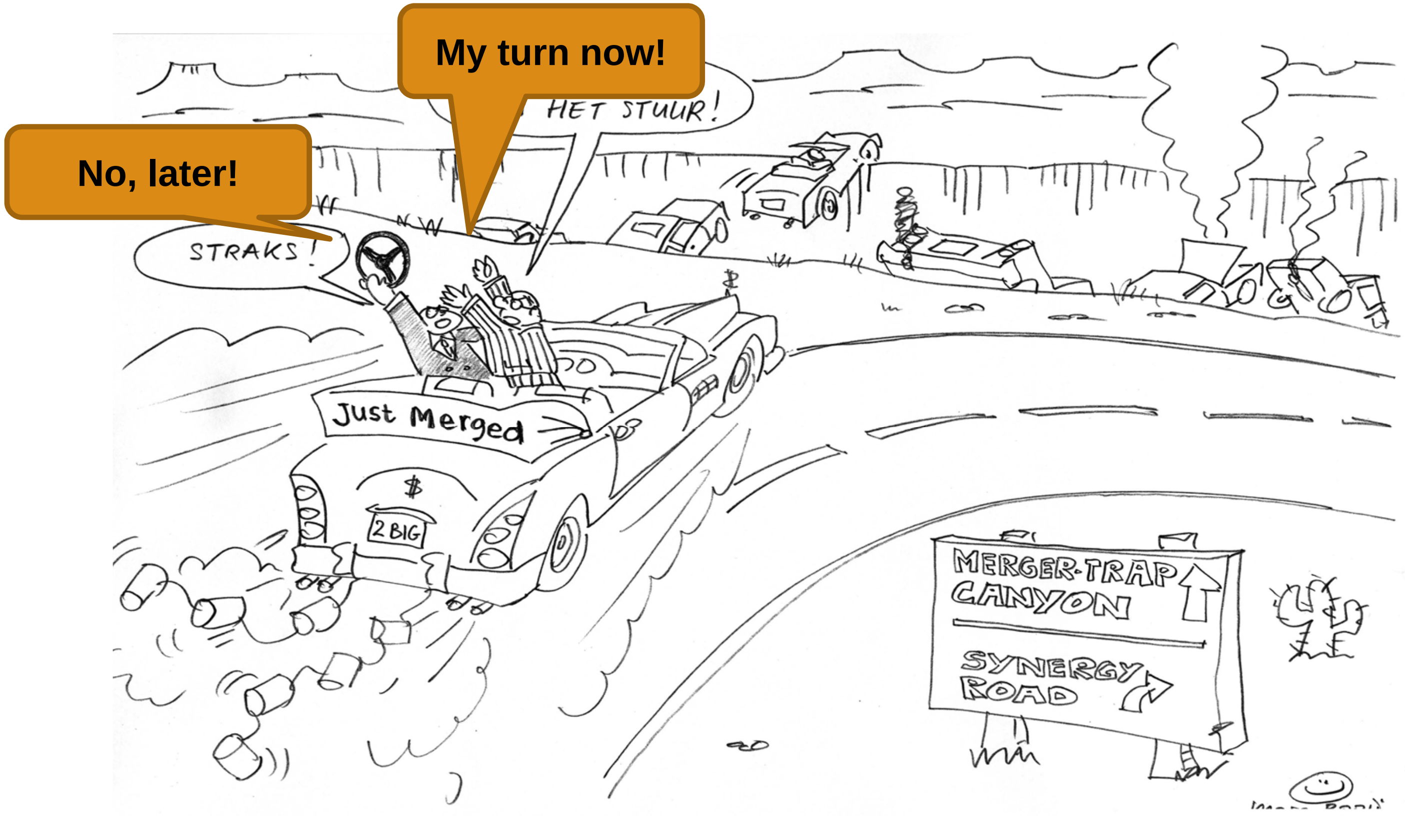
More growth opportunities

- Higher valuation creates 'currency' for inorganic growth
- Visible success in growth and valuation attracts talent

Higher valuation

- Higher expectation from stock market, reflected in higher EBITDA multiple

ace
consultancy engineering business environment



Summary: Five key messages

1. The industry is consolidating: growth is an imperative

2. Top performers in the industry combine organic and inorganic growth: you need to master both

3. Good deals have both a strategic and financial rationale: apply both lenses

4. Good Post Merger Integrations realize both the financial and strategic goals: success is a choice, not a matter of luck

5. High growth companies will be hard to beat: the gap with Tier 2 companies will only increase

Thank You

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Post Merger Integration

Presented by: Dan Nixon

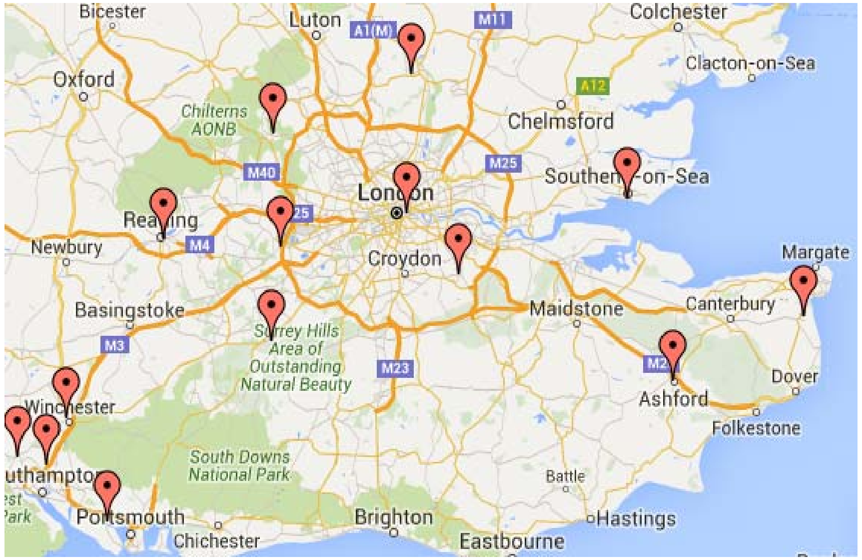
WK Corporate Finance

Corporate Finance Advisers

Introduction to WK Corporate Finance

About us

Locations



Post Merger Integration

Financial Due Diligence pre-merger

How to manage and monitor post merger

- Merger or Acquisition?

  - ✓ Merger definition
  - ✓ Acquisition definition
  - ✓ Perception – merger *good*, acquisition *bad*
  - ✓ So which is it?
  - ✓ Reality – mergers are uncommon & acquisitions can be viewed in a negative light → result in the two terms becoming increasingly used together

- Transaction Related Items
  - ✓ Funding structure & working capital
  - ✓ Deal structure i.e. shares or assets
  - ✓ Synergies
  - ✓ Incentivising the vendors

- Reporting Requirements
  - ✓ Financial reporting system
  - ✓ Year end
  - ✓ VAT group

- Accounting treatment
  - ✓ New UK GAAP
  - ✓ Business Combinations – FRS 102, Section 19
  - ✓ The Purchase Method
    - ❖ Identifying the acquirer
    - ❖ Measuring the cost of the business combination
    - ❖ Allocating the cost of the business combination
  - ✓ But what about merger accounting?
  - ✓ Goodwill – what's the difference?

Manage and Monitor Post Merger

- Transaction Related
  - ✓ Synergies
  - ✓ Earnout period

- 'Admin'
  - ✓ 100 day plan

Contact details

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Post merger integration

James Hutchinson, Partner

27 January 2016

Introduction

- Points of friction
- Mitigating risk
- Post merger legal tasks

Points of friction

- Three main points of friction
  - Information technology
  - Financial management
  - Employee terms/buy-in

- IT
  - Conflicting business needs:
    - Combined business wants to cross sell services
    - IT team will usually take a longer term view
  - Both goals critical

Points of friction - continued

- Financial management
  - Differences in calculation of financial KPIs e.g. work in progress, collection of bad debts
  - Resolve prior to completion in the acquisition document

- Employee terms/buy-in
  - Fear of change natural
  - Open communication
  - Resolve as soon as possible

Case study

- Parabis Law LLP went into administration in November 2015
- People business, with similar issues to a consulting engineer
- 2,500 unsecured creditors expected to lose almost £50m
- Administrators' report cites:
  - "*A significant volume of mergers and acquisitions*"
  - "[Parabis] *failed to fully integrate its business acquisitions, with separate case management and accounting systems in use across the business. Multiple systems created inefficiency and increased costs.*"

Mitigating risk

- Deal structure
  - Involvement of sellers post merger
  - Restrictions on the sellers
  - Agree pre-merger how claims will be resolved
  - Alternatives to claims e.g. set-off and warranty and indemnity insurance
- Due diligence as an integration tool
- Post merger audit

Post merger legal tasks

- Completion not conclusion of legal tasks
- Administrative tasks e.g. filings at Companies House, payment of stamp duty
- Review of group structure
- Changes to employee terms and conditions

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Closing Remarks

Webinar Series Programme

18 November 2015

Growth Strategy & Buying

9 December 2015

Selling the business

27 January 2016

Post Merger Integration (PMI)

Corporate Responding to Market Drivers
- Strategic Growth Options - M&A Execution Process

- ✓ Internal capability analysis – gap analysis is critical
- ✓ Strategic objectives – clear focus on needs / wants
- ✓ Identification of targets – Region, country, sector or clients
- ✓ Due Diligence process – critical to establish strategic fits
- ✓ Valuation of Enterprise – market value plus synergy
- ✓ Deal negotiation – avoid auction bidding if possible
- ✓ Transaction Management – very expensive but critical
- ✓ Stakeholders engagement – staff and clients expectations
- ✓ Post Merger Integration (PMI)* - convert synergy / savings

Conclusion

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