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Martin Goddard
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Grant Thornton House
Melton Street
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T +44 (0)870 324 2770
E martin.a.goddard@gtuk.com

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If you had the opportunity to race a Formula One car with over 900bhp capable of more than 220mph, you would probably want the best technical crew checking every aspect of the car, the weather conditions and the track before you got behind the wheel. You would want the experts to do everything possible not only to maximise the performance of the vehicle, but also to reduce the dangers involved.

To stretch an analogy to its limits, executives face substantial risks when looking to buy a company. After all, if a mistake is made, angry shareholders are only slightly less dangerous than a concrete wall. M&A risks are undoubtedly greater today than they were 10 years ago, and before proceeding with a strategic purchase, acquirers are learning to surround themselves with a comprehensive team of advisers to evaluate how a potential target might be made to perform, or whether it is safer to walk away.

More likely to fail

It is difficult to pin down exactly how many acquisitions dissatisfy the companies involved, but consensus strongly suggests that a negative outcome can be expected more than half of the time. Acquisitions are considered failures for all sorts of reasons. It can come down to an inability of the companies to integrate, the fact that too much was paid or the wrong company was bought. Some executives admit to ignoring the potential challenges of a merger, to being blinded by the excitement of a bid or to losing focus on running the core business. Others blame ineffective due diligence findings, the seller dressing up the target, or fundamental changes occurring in the market place which adversely impact the business.

The consistent failure of companies to justify the expense of an acquisition means that shareholders are now watching deals more closely.
Strategic research to inform critical business decisions -

- acquisitions
- market entry
- new product introduction
- competitor intelligence
closely, usually with contempt. The reporting obligations for public companies have made it easier for shareholders to gauge success; financial statements are more readily available and the revenue generated by companies post-merger shows whether the strategic move was in fact a good idea. "Companies and their officers are more responsible for their acquisition decisions than in the past," says Mark Thompson, a partner at King & Spalding LLP. Scandals like Enron, WorldCom, and Parmalat, have raised the stakes for executives buying a company which they do not know inside out, forcing them to assess internal business controls and procedures in the search for holes, weaknesses or potential fraud.

But in today’s M&A market, with more money chasing fewer deals and acquirers having to pay higher purchase prices, due diligence certainly does not stop at the financial side. "Acquirers require a systematic assessment of all aspects of the target business. It is imperative they receive all the necessary ‘intelligence’ to influence price negotiations and ensure value for money," says Ian Paternson, Transaction Services partner at Grant Thornton Corporate Finance. The due diligence menu now comprises a range of specialists focusing on the financial, legal, commercial, HR, management, pensions, tax, environmental, IT, IP, antitrust and insurance aspects of a transaction. "There has been an enormous professionalisation of the whole process," says Geoff Rampton, managing director of CIL.

Race against time

Since the end of 2003, the M&A market has been slowly heating up, with strategic buyers making a return and financial buyers continuing to pursue opportunities. Increased competition means that acquirers are having to move quickly to secure the targets they want and auctions are more and more common. Due diligence time scales have grown shorter, and given the range of factors now open to review during the due diligence phase, are advisers finding themselves short of time enough to do a thorough job?

In fact, the growing demand for due diligence over the last five years has forced to advisers to become more focused and efficient. According to Mr Thompson, a thorough investigation can be done in a couple of weeks, and often can be done concurrently with the negotiation of the purchase agreement. "For most acquirers, a minor delay required to complete the due diligence is well worth the investment when compared to the risk of making a bad acquisition decision," he says.

With only a matter of weeks to uncover the strengths and weaknesses of a business, formulation of a plan early in the process is indispensable if the acquirer is to make an acquisition decision with all the pertinent facts to hand. Vague, sweeping or checklist approaches to due diligence no longer apply. Tailored investigations and strict guidelines are the new standard. At the beginning of an acquisition, the acquirer and its advisers need to sit down and discuss the purpose of the deal so that the goals of the due diligence process can be understood and agreed. If key issues are missed, value can be destroyed. "80 percent of the value derives from looking at 20 percent of the material," says Mr Paternson. Take the case of environmental due diligence in a transaction when the target refuses to provide any indemnities or warranties. It is essential for the acquirer to satisfy itself over the nature and scale of potential environmental liabilities. "Provided that the environmental advisers are instructed early on and a disciplined programme is followed, there is usually sufficient time to carry out a comprehensive assessment of environmental liabilities," says Emma Farthing, a manager at ENVIRON UK Ltd.
Even the best laid plans sometimes go astray, and there are situations when advisers find themselves hindered when gathering information. Data rooms can be a problem, particularly if the bulk of information is presented only on the final day. Advisers may be left with little or no time to conduct off-site research or interviews that might be prudent. In middle market auctions, for example, inadequate management resources can create complications. "Shorter time frames and the extreme pressures placed on management teams can contribute to the difficulty of extracting information. Some management teams are simply not up to providing accurate data in the time required," says Mr Rampton. Rarely is this down to a deliberate attempt to mislead advisers by hiding information. Most companies know that if they are found out there is a good chance the buyer will walk away in disgust. "Ironically, it is often the case that there is no attempt to hide the worst problems because the sellers do not even realise a problem in fact existed," says Mr Thompson.

Despite the necessity to uncover as many potential risks as possible, there is such a thing as too much due diligence. For instance, it is possible for a deal to become paralyzed by the amount of due diligence being conducted on the target company's performance – a vicious cycle can develop if the commercial team is constantly looking to the next month’s revenue reports to track performance. "In theory, the more detailed the due diligence, the greater the degree of certainty that can be provided by the assessment. However, there comes a point when the cost of obtaining the information outweighs the benefit. Any due diligence should be tailored to the appropriate materiality level," says Ms Farthing. Experienced advisers will know when sufficient investigations have been carried out and the acquirer must make a decision. After all, in the corporate world there is no certified guarantee of success. "At the end of the day, the decision to proceed or not is a commercial one and no amount of due diligence can make this a risk-free decision," says Mr Paternson.

**Drawing the process together**

At some point, the various lines of enquiry in the due diligence process, from financial to environmental to intellectual property, will overlap and impact the findings of another. Some are completely entwined and should not be separated. "The biggest challenge in the due diligence exercise is not uncovering potential problems, rather, it is in being sure that the scope of the exercise covers the client’s requirements and allows the team to focus on what the client needs," says Mr Thompson. For this to happen, effective coordination is essential. If all the relevant information is to be processed and delivered to the client in a timely and useful manner, project management and regular communication must be established. The best due diligence providers work in concert. "Individuals with very specific expertise are being bought in to opine on target companies. This is a positive trend, but the danger is that if the parties do not communicate then the relative importance of issues may not be raised as not all parties will be aware of the matter," says Mr Paternson.

Cross-border transactions can exacerbate problems that arise in the due diligence process. Surveys show that cross-border acquisitions are even less likely to be successful than domestic deals. Apart from the obvious difficulties of language, laws and geography, there can be discrepancies in the skill of the advisers involved in the deal and how well they understand the process. "If you are dealing with a company that sells in the United States, Europe and the Far East, measuring and predicting performance..."
can be tough because the market dynamics are very different between the three,” says Mr Rampton. It is important for advisers to take control of the inquiry process in a cross-border transaction by actively asking the right questions, rather than allowing an inexperienced acquirer to make assumptions about what information may or may not be relevant.

When advisers from several countries are engaged in due diligence on the same deal, one of the greatest challenges is ensuring consistency of the review among the various countries. It is critical that the reports generated in each country relay the same data, and in a consistent manner. Again, experience, planning and communication will be the telling indicators of how useful the due diligence findings will be.

Strategic mesh

In order for an acquisition to be successful, the target company must be integrated effectively into the acquirer. Due diligence itself does not ensure success – the quality of integration planning and execution is the differentiator. It is easy for management to get embroiled in the excitement of a deal and, unwittingly, fail to consider the implications of the deal and what should happen post completion.

Analysis of the operational side of the business has become a staple of major acquisitions. Assessing management qualities, the achievability of synergies and methods to overcome a clash of cultures are important when determining whether the price paid for the target – however much of a bargain it may seem upfront – will translate into long-term gain by generating shareholder value.

Advisers argue that the plan for post-deal integration should begin as early as possible in a transaction. That way it can be developed alongside, and in response to, the results of due diligence reports across the spectrum. If a holistic approach is taken, the due diligence phase will provide the necessary intelligence, not only to influence price negotiations, but to plan for post deal integration which ultimately unlocks value. Without a clear vision of how the plan will be implemented, it is unlikely to happen. Also important is having the management team in place to enact it, says Mr Paternson. "Acquirers must ensure that they have the people they need when the mist clears. Deals stand or fall on the strength of the people involved," he says.

Ultimately, the cost of bringing in post-deal integration experts at the start of the transaction pales in comparison to the consequences of falling short of return expectations down the track. The best M&A deals work because executives and their advisers consider the deal as a process that begins with a bid and is followed right through the due diligence and price negotiation stages to the monumental task of making two separate entities operate as a unified, profitable corporation. In other words, the successful transaction does not stop with the signing of the Sale and Purchase Agreement.

Maintained discipline

The trends that we are seeing in due diligence today are not fleeting practices but the standard base from which due diligence in the future will be conducted. "Due diligence is likely to become more specialised, not less," says Mr Rampton. Advisers will continue to break down their areas of focus to maximise the limited time available to an acquirer involved in a bid and increase the reliability of the final analysis. Equally, the levels of due diligence are not likely to fall. One reason for this is that acquirers are relying more heavily on due diligence than on the ability to make indemnity or warranty claims under a purchase agreement, which many advisers believe will continue. Corporate governance practices should make information more transparent and accessible, but they won’t remove the need for thorough due diligence. Nor is a rebound in international markets and an increase in deal levels expected to cause discipline and common sense to slip in place of quick and careless due diligence. The principles of reducing risk and maximising deal value are not about to disappear.”
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Why Good Due Diligence Could Lead to Many More Deals Done

BY MARTIN GODDARD

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during 2003, according to almost 60 percent of mid-market venture capitalists and brokers surveyed by Grant Thornton Corporate Finance, due diligence issues were highlighted as responsible for between 10 percent and 50 percent of collapsed deals.

It is widely accepted that many M&A transactions fail to deliver their potential value because of over optimistic early stage evaluation of synergies, the inadequate resolution of cultural differences and skill gaps in management teams and a failure to achieve effective post deal implementation and integration.

Providers of due diligence are aware of these issues, however, perhaps a greater constraint is the reticence of some of those who instruct due diligence to permit its scope to be extended into these key areas, in which institutions and corporates often presume themselves to be self-sufficient.

The involvement of experts in these key areas cannot happen too early in a deal process and can have a profound impact on both the investment analysis and the critical path which ensues from it.

Whilst due diligence frequently contributes to the shaping of deal structures, sometimes the most powerful message that can be given to a purchaser is an early warning that the deal is flawed and that the most effective course of action is withdrawal.

Effective due diligence can often play a crucial role in achieving deal completion in challenging situations. A recently tough, but ultimately successful, BIMBO involving a fast turnaround saw due diligence as a pivotal component of the deal making process. Pre acquisition, the target group was losing approximately £1m a month, yet the management team believed that they could bring the position back to break even within three months.

Management had prepared a detailed action plan showing how they would achieve this turnaround. The challenge faced by Grant Thornton’s Transaction Services team was to be able to provide sufficient comfort on the assumptions to give the funders confidence in the plan.

Completing the task required very focused financial diligence, completed in parallel with the other advisers as well as the management team itself. Working with the private equity house, the team identified the key risks to the turnaround plan so that the limited time available could be focused in these areas.

Communication and organisation were key to completing this task. In order to meet the timetable, Grant Thornton would hold regular meetings with the private equity house in order to report findings in real time and ensure that the whole team was aware of issues as they arose.

One such issue involved the preparation of a back up plan should the back-to-back sale of two non-core subsidiaries fail to complete. Our client did not want to take the risk of ending up funding these two loss making subsidiaries should the sale not complete. Therefore we devised a contingency plan which would have involved placing these companies into administration on completion. Fortunately plan A worked and the companies were sold on at completion.

The bottom line is that many more deals could be made, whilst others that are destined to failure would not even progress past initial stage, wasting precious time and resources, if only greater attention was paid to diligence issues. Management teams often get too embroiled in the actual deal, taking their eyes off the day to day management of the company, a mistake that can be costly, leading to diligence issues arising where previously there weren’t any. It is imperative for sellers to keep their house in order as a way of attracting potential buyers, many of whom will be deterred by the first signs of diligence problems. As for buyers, it is not always advisable to pay handsome prices to secure exclusivity as often this could set them up for a prolonged and tortuous deal process.

A growing number of deals in the US are adopting a different approach. Buyers will already factor into their offers possible diligence issues as a way of ensuring greater certainty to all involved in the deal. This approach is particularly welcome at times when business confidence is not high and is a strategy that is beginning to bear fruit with some encouraging signs of more done deals as a result of less uncertainty.

Martin Goddard is Head of Transaction Services at Grant Thornton Corporate Finance.
A Guide for Successful Due Diligence

BY JOHN KEFFER AND MARK E. THOMPSON

Conducting a thorough due diligence investigation in the context of an acquisition is more important now than ever. In an era of shareholder activism, heightened scrutiny of boards of directors, and ever increasing disclosure obligations, companies cannot afford to make a mistake in an acquisition and take on unexpected liabilities. At the same time, acquisitive companies do not want to lose out on promising acquisitions by overburdening a potential target with diligence requests that run the risk of souring the deal. Executives, bankers, and lawyers must carefully balance these considerations in order to close a deal successfully. In order to accomplish this goal, a due diligence investigation must be carefully planned and executed so that it is conducted efficiently with the least amount of unnecessary intrusion.

While extremely thorough, in-depth due diligence investigations have been commonplace in the US for quite some time, they have become increasingly more common in Europe over the last several years as well. American companies have been forced to conduct thorough diligence investigations due, in large part, to potentially massive litigation, tort, and environmental liabilities. Not surprisingly, the recent corporate scandals in the US have resulted in the process becoming even more intensified. It is not uncommon in the US for the acquiring company to do its best to know just as much about the target’s liabilities as the target itself. This concept has begun to spread throughout Europe as well. This is the result not only of the proliferation of US investment bankers and lawyers in Europe, but also the recent European corporate scandals as well as shareholders generally holding managers more accountable for their acquisition decisions.

The most critical element when planning a due diligence investigation is for the diligence team to understand the business objectives behind the acquisition. There is no other single factor that is more important in determining whether a due diligence exercise will be a success or a failure. This understanding will help the team prioritise the investigation and determine what information is important to review, when it needs to be reviewed, and, often more importantly, what can be skipped. For example, it is helpful for the diligence team to understand what business relationships are important for the target company’s business so particular attention can be given to contracts relating to that relationship. Similarly, if certain costs of the target are going to be eliminated following the transaction due to synergies and redundancies with the target, any contracts relating to those costs may only need to be reviewed for termination provisions. It may involve additional time and expense at the outset to educate the diligence team as to the goals and objectives of the transaction, but it will invariably pay off over the course of the transaction.

In connection with understanding the objectives of the transaction, the diligence team also needs to work with the business team running the transaction to reach a common understanding as to the work product they expect the diligence effort to produce. The final work product produced at the conclusion of a due diligence exercise can vary widely, and no two are ever identical. On one end of the spectrum, the diligence team may be asked not to produce a long, detailed report, but rather only highlight problems that have been discovered either with the target company itself or that may be faced during the integration process. Ironically, this can sometimes be the most difficult type of diligence assignment as it may result in outside counsel making almost all the decisions as to materiality independently from their client. On the other end of the spectrum, some companies prefer to receive a very detailed report, often hundreds of pages, that summarises in detail each and every contract. Most investigations end up somewhere in the middle. Frequently, a summary memorandum is produced highlighting the significant issues, while a more detailed backup memorandum is prepared in case the business people want to drill down on to any particular issue. Regardless of what kind of report is being produced, however, understanding the goals and objectives of the transaction, will not only aid the diligence team in providing a useful work product, but also allow the team to gather other information during the investigation that may be asked of them during the transaction even though it was not part of the scope of the original exercise.

In some acquisitions, the acquiring company not only needs to conduct a due diligence investigation on the target, but it also may need to conduct a similar review of itself. This type of self examination is often overlooked, but can be exceedingly important not only with respect to synergies, but also potential damages to the company’s existing operations that may result from the transaction. For example, in businesses where there are exclusion
The focus of due diligence changes with each transaction and by industry, but there are a number of hot topics that receive a great deal of attention. Not surprisingly, these are areas where the largest potential liabilities are often found. These areas typically include: environmental; labour; pensions and benefits; export control matters; and restrictions on operations/non-competition agreements.

The question is frequently asked whether purchasing representation and warranty insurance can take the place of conducting a thorough diligence investigation. There are some excellent insurance products available, and they can be extremely useful in bridging gaps in indemnities contained in purchase agreements. However, insurance is not a replacement for due diligence. Broad insurance can often be prohibitively expensive for a number of transactions. Our experience has been that insurance is the most cost effective and best used for targeted areas in certain specified limited circumstances. In addition, although policies vary, many insurance policies will not insure unknown risks or only insure certain types unknown risks targeted in particular categories. For example, often environmental insurance policies will only insure against losses arising out of matters identified in an environmental audit, but will not insure against unidentified liabilities.

As a final matter, it is important to understand what the purchase agreement says about due diligence findings and how these finding affect indemnities and closing conditions. There are a variety of ways diligence investigations can be handled in a purchase agreement. On one extreme, the agreement can state that all information learned during due diligence is held against the purchaser. In other words, anything the purchaser knows about the target prior to signing can not be used as the subject of a claim or to prevent the closing. This is often referred to as an "anti-sandbagging" provision. A recent High Court decision in England has held that pre-signing knowledge by a buyer’s accountants, even though such knowledge was not passed on to the buyer, acted to preclude a breach of warranty claim in the context of a purchase agreement that contained anti-sandbagging language. On the other end of the spectrum, some agreements include provisions that state that the only knowledge that the purchaser is deemed to have about the target is included in the purchase agreement and its schedules. To complicate the matter further, in transactions where the signing of the purchase agreement is prior to the actual completion of the acquisition, information learned prior to signing is often treated differently than information learned between signing and completion. In addition to the agreement in the contract, in certain jurisdictions, the law can override or supplement these provisions. For example, many US attorneys take the position that, based on certain relatively recent court decisions, the safer approach is always to assume that pre-signing knowledge may potentially void a breach of warranty claim despite any language in the contract to the contrary. Consequently, it is important for the diligence team to be in contact with the negotiating team to be sure that everyone understands the consequences of the diligence investigation and how it relates to the overall agreement.

Often overlooked or put aside, diligence is an excellent way to impress a client, but, conversely, a poor result is one of the best ways to disappoint them. If something is missed, consequences can be devastating, but if done correctly, it can result in a smooth transition of ownership and help ensure a successful transaction.
A list of attributes of the perfect deal would include most of the following:

• An excellent, well motivated and incentivised management team which has been held back by the current owners of the business
• A target company operating in a rapidly growing market, with significant technology and/or customer service advantages over the competition
• A geographically diverse customer base which regards your target company as the number one or two in the market
• Sales and cost synergies with operations already part of your portfolio
• A seller which has treated the target company with benign neglect, and now wants to sell quickly
• A reasonable price

Rarely, if ever do these factors coincide – and if they do the seller’s definition of a reasonable price may be different to yours. The job of commercial due diligence is to throw as much light as possible on the issues listed above, in order to assess the chances of the target company meeting its sales revenue projections. All of the work carried out by the CDD specialist should be directed to this key question.

This article sets out some of the recent developments in commercial due diligence work and identifies some of the ways in which the users of these services can best exploit the talents of their CDD provider.

"Not just customer referencing"

At the heart of a well defined commercial due diligence exercise is an interview programme with the target company’s customers. However, there are many other sources of information which can throw light on the prospects for Targetco. To some extent, the use which can realistically be made of these sources depends on the timeframe of the exercise – CDD projects which used to take five weeks are now taking three. But the job of the CDD firm is to mobilise as many of these techniques as possible in the time available.

• Targetco’s own revenue history. Traditionally, an examination of the target’s numbers was left to the accountants carrying out financial due diligence. On many occasions we find that a close look at the sources of revenue, the length of product lifecycles and the degree of customer concentration brings out information which can otherwise get overlooked.

CIL recently looked at a company supplying major food manufacturers for a private equity client. Simply identifying the degree to which the target’s prospects were tied up with their major customer sounds a simple enough task, but one that had not been carried out well in the vendor due diligence.

• Identifying those with "inside information". We are often asked to provide information about the target company before it knows it’s a target. Quickly tracing and making contact with those who know the company well is often the only real source of information available at a pre bid stage. These contacts have to be made sensitively and with regard to commercial confidentiality considerations, but they can often yield background colour invaluable in interpreting publicly available information.

• Pulling in a real industry expert. It is often possible to identify people with deep knowledge of (for instance) a particular technology who can contribute their insight into current trends and developments to a CDD project. Whilst the industry expert may not have the background or experience necessary to meet the full CDD requirements of a private equity or bank credit committee or corporate acquirer, they can often provide short cuts to knowledge for the rest of the CDD team.

• Talking to representatives from all over Targetco’s market, not just their customers. Often competitors and, more importantly, their customers are the best source of information about the target. Suppliers are often ideally placed to compare and contrast Targetco and its competitors. Trade associations and have been known to be slightly indiscreet about participants in their marketplace.

• "At the end of the project, know what you think". Our clients are some of the smartest and well motivated people in business. The last thing they want at the end of a CDD project is for us to prevaricate about the prospects for their target. They may not agree with our view, but a lively debate is always more productive than no debate at all.

• Crunch some numbers. For example, if Targetco is particularly proud of their advertising effort and maintain that
increasing expenditure significantly will be driving the sales line for the next two years we will look very carefully at the correlation between ad spend and sales performance, with a suitable time lag. In the most recent example we looked at, the correlation was negative! If Targetco’s sales are linked to the housing market, run some scenarios on a good/medium/bad prognosis for the number of housing transactions to generate sensitivities that mean something.

The modern commercial due diligence project is a major project management exercise, pulling together information from many different sources and distilling it into a reasoned view of a company’s future. But in the best exercises, the CDD firm’s involvement will not end with completion of the deal.

The first year, post deal

In the course of the CDD project, strengths and weaknesses in the target company will have been identified. Dealing with the weaknesses (which will have largely been identified by the company’s own customers) can enhance its prospects significantly. More and more, CIL is being asked to follow up presentations to the credit committee or board of the acquirer with a separate visit to operating management in the target company (once the dust of the acquisition has settled).

This can often take the form of a workshop session for sales, marketing and other operating managers to present a warts and all picture of the company’s performance. Out of the best of these sessions come some targets and actions to deal with areas where the company is not performing well. Ways of further exploiting the strengths of the company, particularly in pricing policy, have also come out in recent exercises carried out by CIL.

The original commercial due diligence work can then act as a benchmark for a follow up survey after an appropriate time has been allowed for the remedial actions to take effect. This yields a measure of the effectiveness of these actions.

Finally…

Readers will expect a commercial due diligence practitioner to argue for the excellent value for money provided by the best CDD specialists – it is common for our work to provide evidence which leads directly to a significant downward price renegotiation, for instance. In rare cases, information we have identified has been of sufficient concern to stop a deal in its tracks, and avoid the risk of our client going ahead with an unwise transaction. Given these possibilities, the additional fees associated with CDD work are relatively modest.

Geoff Rampton is a partner at CIL.
Learning About the Management Team During Due Diligence

BY PETER WALLUM

In planning his potential bid for Marks and Spencer, Philip Green seemed to have a very clear idea about the existing management team and their ability to turn around the retail giant. It was also evident that the City had a strong view about the performance of the previous M&S Chairman and the Chief Executive – both of whom were asked to leave so that Stuart Rose, another outsider, could take over as CEO. Rose had sold Arcadia to Green two years earlier and, with years of experience of working at M&S, was believed to be the right person for the job by non-executive directors and major institutional investors.

The existing management team was ‘assessed’ by a very public process. Reputations were known and most of the decision makers or City influencers had met the protagonists and studied the performance of their businesses through investor briefings and research based on publicly available reports and accounts.

Most of us working in corporate mergers and acquisitions have far less evidence on which to base our decisions but, nonetheless, will have to form views about the management team of a target company to decide who to retain, promote or lose from the new business. In the private equity field it is often the management team that we are really backing in a buyout or buy-in. When an IPO is announced, a major sales point to the investing public and institutions is the quality of the management.

So how can we assess the management team in the more conventional situations that normally apply in mergers and acquisition?

Friendly (recommended) bids

In a friendly bid there is often an expectation that, whilst reductions in top and senior management posts will form part of the deal synergies, the ‘best’ executives and managers will be appointed. Occasionally this is complicated by an agreement that the board will be made up of similar, or even equal, numbers from the two merging businesses.

There may well be access to employees in both parties at the due diligence stage and almost always before deal closure. Mercer’s research conclusively shows that when leadership issues are resolved quickly, the anticipated benefits of a merger are achieved much earlier.

Even in a friendly bid there may be resistance to due diligence from executives in the target company, while those in the acquiring business often question why they should not expect to fulfil similar roles in the new business. The point needs to be made that the merged business may take a new direction due to its greater scope, and it is against the new, enlarged executive roles that candidates need to be considered.

Basic information about directors’ pay and benefits will be available at the due diligence stage through reports and accounts (particularly in plc although, of course, these will be out of date). Information on base pay, short and long-term incentives, stock-related incentives and benefits is needed. Access is usually given to individual contracts and these will include, for instance, contract notice periods, non-compete and termination provisions. The latter can be financially onerous following a change of control. Other provisions, such as transaction success payments, unfunded pensions and unfunded deferred compensation or phantom stock plan liabilities might be covered in side letters instead, and care is often needed to ensure all liabilities are uncovered.

Much can now also be learned from publicly available information – press reports, professional articles and the Internet, for example.

In deal situations, retention payments are often promised to a target company’s key leaders to ensure that management change does not derail a transaction. Equally, the acquirer might want to introduce short-term incentives following the deal announcement to help retain key employees through the initial changes.
particularly the case where there might be uncertainty, for instance due to competition authority referrals.

In friendly bids there is an opportunity for the acquirer to meet and interview the target company’s management team to determine who should be retained and what roles they should be considered for. Consultants can also be engaged to work with the acquirer to design new management structures and to assess candidates. This assessment can include individual psychological evaluation as well as consideration of team dynamics to ensure that the new management team can work together effectively.

A typical approach to this kind of assessment is to identify the competencies required for each role and for the management team as a whole, and to profile individuals against requirements using information in CVs and appraisals as well as bonus history etc.

This more thorough approach to selecting the management team may not be possible at due diligence stage, for example, because the deal is subject to regulatory approval and companies are unable to exchange information. This is very similar to a hostile bid situation although it should be noted that independent firms are sometimes asked to undertake data gathering from the merging organisations and to hold the confidential information in escrow and only to release it if the deal is approved.

**Hostile bids**

In hostile bids the acquirer has no ready access to information about employees. Many acquirers will simply review what is available through annual reports etc. However, headhunting firms will undertake ‘referencing’ studies and conduct search assignments, asking knowledgeable people in the sector for views on particular ‘candidates’ and researching all the information they can find.

It has even been known for potential acquirers to take this activity further and to undertake almost covert intelligence gathering on the individuals at the top of the target company.

In many hostile bids the acquirer relies on published information and very limited commercial due diligence to make decisions on price, and assesses the management team at a later stage.

**Why leadership issues are so important**

Mercer’s research into people issues in M&A confirmed four basic leadership requirements for merger success:

- Timeliness and speed of top appointments
- The appointment of honest, straightforward leaders
- The ability of the leadership to prioritise in a complex and changing environment
- Clarity of purpose with effective and quick decisions

We also found that the ability of the team to work together was as important as the individual talent of selected team members.

A culture audit questionnaire can be completed by managers of the merging organisations to identify their historical business cultures, and help assess the potential for ‘culture clash’. This can be followed up with facilitated discussions about the desired culture and values that will drive the new organisation. Classic gap analysis and identifying an action plan follow. It is sometimes possible to identify the issues at due diligence, even if access to the target’s management is limited.

**Psychological assessment**

The benefits of assessing management team members by sophisticated interviewing, assessment centre and psychometric tests is now widely recognised. They are invaluable as tools to support individual coaching or team building. There is still some reluctance to use them in merger situations, where emotional issues can get in the way of objective assessment.

However, these approaches are generally more effective than relying on reputation or hastily conducted interviews.

There are a range of aptitude tests to assess numerical, verbal and other abilities, but these skills are usually assumed to be adequate in successful managers. Emotional intelligence and the ability to work effectively as a top team member are now recognised as the differentiators of effective top management performance. A range of tools exist to support assessments of ‘occupational personality’. These tools, when used by suitably qualified consultants, can greatly support decision makers and help individuals recognise how they can contribute best to the management team.

Increasingly, deals are being questioned on the ‘soft’ issues, even where the numbers seem to work. This is because deal makers now understand that most mergers fail to deliver the expected value, and this is usually due to a failure to address cultural issues.

The risks and costs of losing key leaders, managers or teams far outweigh the short-term costs of identifying and retaining those people who will ensure the overall success of a merger. Careful due diligence and appreciation of the softer issues in M&As will help to make sure the deal creates value for both the organisation and shareholders.

Peter Wallum is Head of UK Mergers and Acquisitions at Mercer Human Resource Consulting.
Environmental Due Diligence – Development and Process

Environmental due diligence (EDD) is a relatively new discipline. Prior to the 1980s it was virtually unheard of; whereas today it is an integral part of the transaction process undertaken predominantly by purchasers, but increasingly by vendors. In the early days, EDD was predominantly land focused, used to evaluate actual and potential soil and groundwater liabilities pertaining to a business or a property. The process has evolved over the past 20 years and can now include evaluation of health & safety (H&S), employees’ exposure to toxic materials, product liability, the list goes on. This article explores the background to international EDD and examines the emerging future trends in process and practice.

History
It is often the case that new legislation and corporate practices are initiated in response to a major incident (e.g. the Seveso Directive in Europe). In the case of EDD, several drivers came to the fore in the late 1970s and early 1980s, which influenced the practice of conducting EDD. The first appearance of EDD audits came in response to companies taking out Environmental Impairment Liability Insurance in 1980. Concurrently, a well publicised incident occurred that raised the awareness of the public to contamination issues. In 1978 residents of the Love Canal community in Niagara NY, USA discovered their houses were sited upon 20,000 tons of toxic material (PCBs, dioxins, halogenated compounds and so forth) which had been disposed of between 1940s and 1950s in a so called ‘landfill’. The toxic compounds were migrating into nearby water courses, and were creating harmful residues and odours. 950 families had to be relocated under the declared State of Emergency and the site became one of the first Comprehensive Environmental Response, Compensation, and Liability Act (1980) (CERCLA) sites, otherwise known as Superfund sites. Twenty years and more than $130 million later in clean-up costs alone, the residents are back. In response to these experiences and awareness of other instances of toxic chemical migration and the harmful effects, the first EDDs were completed in the USA in the 1980s on behalf of purchasers anxious to limit their exposure to soil and groundwater liabilities associated with historic and current operations, and off-site third party disposal.

As US corporations began actively investing in Europe in the late 1980s, so the practice of conducting EDD was introduced. But EDD was still somewhat of a rarity at that time, being undertaken mainly by multi-nationals. After a few years, the process became more widespread, and soon a wide variety of investors and funders became interested in completing EDD not only to check out their investments but also as part of the price negotiation. The UK property sector became involved in the early 1990s. The early 1990s also saw the implementation of environmental protection acts in a variety of guises across Europe. Broadly, these provided the framework for authorities to identify contaminated land, and require remedial action under certain circumstances. To mitigate the liabilities which might be acquired as a result of caveat emptor, or buyer beware, by 1994 property and corporate due diligence was common place, with legal practices generally leading the transaction teams.

The scope of EDD further increased with the realisation in the 1990s that exposure of employees’ in the 1950s, 1960s and 1970s to toxic materials such as asbestos could have huge cost implications for the ‘descendents’ of the original employers’. Isolating acquired companies from the main company was insufficient to protect the new owner from inheriting these liabilities and, in some cases this has caused formerly robust companies to become bankrupt.

Thus, in response to a variety of drivers including, but not limited to, increased awareness of risks to human health and environmental receptors presented by particular chemicals and their breakdown products, changing legislation and case history, EDD has evolved to its current form.
Current Process

Although the EDD element of a transaction follows a relatively common methodology, each deal is different. The acquisition process will often comprise a data room review and management meetings prior to further due diligence. Further information retrieval can include review of publicly available data bases, maps (historic and current) and discrete enquiries of local regulatory authorities prior to or in tandem with the data room documentary review. Data from these sources can be evaluated and a ‘first cut’ of the likely key issues and range of costs associated may be made. If the opportunity is available in the bid process then selected site visits may be appropriate with a view to validating the information obtained thus far, and to determine a more precise assessment of the site, or portfolio. Only rarely does time or the vendor permit intrusive investigation.

On the vendor side, sufficient lead in and preparation with the support of environmental specialists has proven to be invaluable. The vendor EDD report can be presented as part of the sale documents and may be completed in a variety of ways so as not to disturb current operations. The advantage is that the vendor retains control of the process and hence confidentiality and the acquirer’s due diligence is facilitated more easily through anticipation of the key questions likely to be asked by the potential purchaser. In addition, the vendor will be aware of the potential liabilities and assets and will be able to incorporate these in the negotiating position. Of course it is always prudent as an acquirer to validate and verify, to the extent possible, the information presented by the vendor, and vendor EDD reports are no exception.

Current Scope

EDD is conducted to identify and quantify ‘material’ (in the context of the individual transaction) liabilities or assets associated with the target. The materiality threshold, agreed prior to the start of EDD, will reflect not only the value of the target but also the risk averse nature of the client. It may be that prior investments by a client have had significant liabilities associated with a particular substance or activity e.g. polychlorinated biphenyls (PCBs) or brake lining servicing (asbestos exposure). As a result, the client may direct the scope to more closely evaluate their main aspects of concern.

In the USA, the American Society of Testing and Materials (ASTM) has developed a Phase I scope which if completed gives the purchaser ‘innocent purchaser status’. However this scope relates only to land condition and is therefore often supplemented with a compliance assessment. The internationally accepted basic EDD scope includes evaluation of potentially contaminated land, the compliance status of the target, capital expenditure upgrades required to meet compliance or foreseeable future legislation requirements, ozone depleting substances and asbestos containing materials.

Depending upon the nature of the target the scope may be tailored to further include assessment of the presence of mould (an issue in the USA), the presence of lead-based paint; an overview of H&S issues; the potential for employee or third party claims as a result of chemical exposure; product liability relating to recycling obligations or the restricted use of hazardous substances under EU legislation (WEEE and RoHS Directives) or Federal / State legislation (some States have banned the use of mercury for example); greenhouse gas and carbon issues as well as off-site third party issues.

For property portfolio investments, planning considerations, third party activities and location specific factors such as the susceptibility to flooding or the presence of electrical transmission cables may be considered.

Future Trends

Future trends in the scope of EDD are dependent upon future legislation and case law events. However, we are increasingly seeing the requirement for occupational health and safety (OHS) assessments. OHS assessments require specialist consultants for completion and are very often separate pieces of work to the common EDD audit. In addition, there is a trend towards socially responsible investment by the larger funds, driven by the stakeholders. While demonstration of corporate social responsibility and good industry reputation may not be a consideration in the short term, it may be an attractive factor to subsequent purchasers.

As a result of recent changes in accounting practice both in the US (Sarbanes-Oxley) and in Europe (e.g. FRS 12) there is also a trend towards increased disclosure and common reporting methods. Therefore the potential for known environmental liabilities to be hidden from the purchaser is decreasing.

Investors are also becoming increasingly aware of the merits of implementing a management plan based on the EDD for the duration of the investment. The plan may include the use of environmental insurance, company captives and other financial options to transfer or smooth the retained environmental risks or liabilities. To this end, the numerical results of the EDD may be modelled to evaluate the maximum financial liability that may occur within the duration of the investment period, and compare that with the liability that may be associated with the portfolio on exit.

If the EDD is conducted properly and as part of an integrated DD process then not only will the reduction of technical, financial, legal and contractual risk be achieved at the time of acquisition, but throughout the period of ownership the environmental liabilities and balance sheet exposure may be controlled. This adds to the protection of all stakeholders against long and short term liabilities while defending the company’s financial strength and reputation. The advantage will be clear on exit when the value of the asset has been uplifted with relatively little effort. In addition, because there is a record of environmental management then the sale may be completed on advantageous terms with a reduce potential for retaining liabilities.

Ian Bailey is President UK & Europe at ENVIRON and Emma Farthing is a Manager at ENVIRON UK.
Traditionally the preserve of "taking out" competition and increasing market share, M&A activity is increasingly motivated by objectives of incorporating intangible assets. Although the goodwill or reputation of the entities combining may be critical in the success of the deal, it is the knowledge-based assets such as intellectual property (IP) that are the new economic drivers.

IP is renowned for its considerable upside risk (a position of exclusivity over a brand, innovation or concept) rather than the practical and negative impact of all its downside risks. Although due diligence has attempted to utilise tools and methodologies for identifying risks and opportunities this area can be considered further.

In its purest form, IP due diligence is a systematic attempt to expose, document, evaluate and perhaps value the relevant portfolio exchange in the deal process. With this information the acquirer should have a better understanding of the target's business, untapped potential revenue exploitation, and of course those significant downside risks such as potential liabilities or weaknesses in the IP portfolio. With this information the deal may face considerable re-negotiation depending on the motives for the exchange.

IP rights are not always worth the paper they're written on, and the more diligence with which they are examined the better the chance of discovering any issues which might eventually prove that the ownership of the IP assets are actually transferred or burdened by third party interests and litigation.

Even with a detailed structure of IP due diligence, risk can still be inherent in the transfer. IP rights are strange animals whereby it is often not until a court judgment that the exact parameters of the "exclusive" rights are known. There are numerous skeletons in the cupboard, such as "prior art", other preceding rights and jurisdictional issues that are not easily discoverable. These down-side risks can be risk-transferred to a third-party in the form of insurance, so that no additional costs or liabilities are acquired, nor a severe diminishment of anticipated revenue streams experienced.

A practical example might prove helpful. A large pharmaceutical company might be interested in the acquisition of a smaller start-up company because of the patent portfolio it holds. The patents in question may bolster an existing portfolio, or simply allow the pharma company to obtain a potential market share in a certain drug field.

Through investigation the acquirer should examine all patents including the inventors, dates of application and grant, prior owners, any assignments, countries of registration and the drafting of the patent itself. This is a basis on which to determine that all maintenance fees are paid, that searches on competing patents have been made and any "blocking patents" or third party assertions of rights have been analysed. This level of diligence may also be required for all other IP rights such as any associated trademarks, domain names and copyrights. Certain accounting provisions will then need to be met in valuing the IP and it may also be desirable to bear in mind the potential earning capabilities of the portfolio.

As a result of the due diligence certain IP risks will be deemed acceptable and some possibly unacceptable, reflecting as a cost against the deal. Many of the risks will be capable of transfer via insurance. It may be considerably more cost-efficient to transfer any risk to a third party than to bear the potential financial impact.

Historically the insurance available was limited to legal expense costs for defence or enforcement of IP rights. For additional premium, damage award liabilities could be added. The latest insurance products in the market, provide bottom-line security by providing financial cover for any depreciation of IP value. This could prove to be the "holy grail" for M&A deals to ensure the expectations of the IP exchange are met. Depreciation may arise from a typical third party challenge in court resulting in an assignment of rights, "trimming" of rights or patent invalidity. Alternatively there may be significant other risks to the patent value such as government regulation in that field. This whole area is set for successful development in the future. ■

Matthew R. Hogg is in the risk solutions team at R J Kiln & Co Ltd.
One of the increasingly well known and respected disciplines in the acquirer’s toolkit is insurance due diligence. Where previous transactions have fallen foul of major hidden exposures, vendors and purchasers alike are ever more sensitive to the potential black holes that may develop where inadequate (or even non-existent) insurance is unearthed after completion of the transaction.

So, the ultimate purpose of risk and insurance due diligence is to identify any potential deal-breakers including the significant cost implications for the deal structure. In turn this should assist the purchaser to:

- Identify any hidden or underinsured liabilities or exposures which should / could be addressed by insurance
- Minimise the parties reliance on contractual warranties
- Provide comfort to the finance providers
- Identify pre-emptive risk management measures that could ease future negotiations and preserve deal value

However, as with all insurance due diligence, a key objective is not only to identify gaps in protection provided by insurance, but to develop solutions to fit such gaps. Like an iceberg, insurance due diligence is more about what you can’t see, rather than what you can. It is these hidden liabilities that create the headaches for purchasers who are now heavily reliant on such due diligence as a result of the increasing awareness of lenders to aggregations of exposure in certain types of loss.

Take for example, asbestos claims. It is well documented that the UK insurance industry is having difficulty digesting the United States’ exposure to asbestos claims, an exposure which is also very much in evidence throughout Europe. The exposure to claims for potential lenders has led to the demand for a full analysis of loss activity where the potential exists for a material aggregation of asbestos claims.

Compounding the issue in the UK is the insolvency of certain historical insurers impacting on the Financial Services Compensation Scheme (previously the Policyholders Protection Board) and a business model called into question as a result of events which occurred in the 1950s and 1960s. At this time, insurance protection for employees was not a compulsory requirement. As a result, insurance due diligence often discovers significant gaps in liability coverage for those periods for a variety of reasons which include:

- Insurance coverage was not purchased, or existed with low limits
- Insurers are not traceable for these periods
- Insurers providing the coverage at the time are now insolvent

With the tail of liability estimated for at least another twenty years this is a specific, and real, exposure to equity and debt providers alike.

Whilst asbestos is a well known and reported concern of the manufacturing sector, the advancement of specialist insurance advisers has created the opportunity for new products to be developed to meet previously uninsurable risk. Historically, Intellectual Property (IP) has been a notoriously difficult area in which to conduct due diligence and define risk profile. In conjunction with the legal profession, the insurance market is now actively examining the intangible assets of business. Just as in environmental insurance products, most enquiries are a direct result of due diligence work being undertaken during a change of ownership when scrutiny of the insurance arrangements takes place.

But the most interesting insurance due diligence exercises (and yes there are plenty of them!) involve a potential hole in the insurance arrangements that require a solution. Such solutions can provide the bidder with a significant commercial advantage when making the bid.

**Case Study**

The Iceberg: Business acquired via share purchase, with cursory due diligence undertaken by corporate management. Whilst insurance policies were reviewed, including a review of claims reported to insurers, no investigation was undertaken into the...
treatment of claims received which fell below the deductible. As a consequence, there was no understanding of whether the losses were being accrued and what the total annual cost had been. As the claims were not being accrued by the business, no reserving process had been adopted. It was subsequently established that premiums had increased and management had decided to increase the deductibles to keep annual premiums low. The impact was to treble the total cost of protecting the business. The impact was all too clear as the balance sheet was gradually eroded.

From an insurance perspective, targets fit into two broad categories, namely "asset strong" or "people strong". The drivers for due diligence are fundamentally different depending on this categorisation. Asset strong businesses will demand more detailed analysis of not only the property damage elements of coverage but also the more complex business interruption. Business interruption, in its own right, involves complex aspects of insurance due diligence. Failure to adequately address business interruption exposure, which flows from property damage loss, will lead to a shortfall in insurable recovery, leading to pressure on the servicers of debt. This is key to the debt providers in asset dependent businesses who are reliant on insurance arrangements to underpin their loan agreement.

Conversely, targets that are people strong (and arguably the most valuable "asset" to any deal) create differing priorities for insurance due diligence. Asbestos has been highlighted to demonstrate the catastrophic impact that a single identified cause can have on industry as a whole. However, more minor employee-related incidents may range from "slip and trips" to repetitive strain injuries. Common casual effect of certain sectors will often lead to insureds opting for non-traditional insurance market solutions and retaining the risk internally. This is achieved either informally through simple funding arrangements or through the use of more formalised arrangements such as captive insurance companies. In some instances this can potentially lead to an unaggregated exposure to the balance sheet if appropriate reinsurance is not in place.

But let’s not forget risk management. Whilst most organisations are populated by honest workforces, certain pockets of industry have been identified which, through poor risk management, actively capitalise on the employers’ liability with regard to industrial injury. These are small, attritional "claims" directly linked to fraudulent activity, in some cases being responsible for up to two-thirds of annual losses to businesses and insurers alike. Through risk management due diligence, working practices are investigated, trends uncovered and rogue claims exposed. The impact of such due diligence results in a tightening of management practices, a reduction in attritional losses and an improvement in insurance premiums.

Like most due diligence, the focus of insurance due diligence also shifts dependency on the structure of the deal. Often the most challenging aspect of this is during the sale of a subsidiary which has historically benefited from the parent’s group services. Establishing the appropriateness of the vendor’s current group insurance arrangement becomes secondary to designing a new insurance programme and estimating the likely separation cost for placing a stand-alone insurance programme with effect from the completion of the transaction. It is unwise to rely on the vendor’s internal allocation of insurance costs which invariably differ significantly from the premiums that insurers will seek to charge Newco on a stand-alone basis (not to mention the additional costs associated with administration of the new insurance programmes and handing of claims).

Building these additional potential costs into financial models at the due diligence stage should hopefully eliminate any nasty surprises when seeking to place the insurance coverage between exchange and completion.

In conclusion, there are many areas where risk due diligence could (and should) be applied and, for most, the process has evolved from a "necessary evil" to a key decision-making tool.

Simon Dodsworth is Project Director at Willis Mergers and Acquisition Practice.
The merger of two or more corporations is the culmination of a vast amount of detailed preparation and complex negotiations prior to deal closure. However, early planning, clear communication and the effective use of due diligence will ensure that the correct mechanisms are in place to ease the burden of post-deal integration. In the flurry of activity prior to the ink drying on the legal documents, it is hard to find the time to be forward thinking or consider how both the run up to the merger and the post merger integration could have been handled better to secure the future stability of the company.

It is very easy to fall into the trap of being short-sighted when planning or implementing a merger or acquisition. Key players within a company often feel they have ticked all their boxes; they have acquired a company that is a perfect strategic fit with significant overlaps in suppliers and services for example. However, planning for the unexpected and preparing detailed forecasting models are essential to the longevity of any organisation, and can easily be overlooked in favour of short-term goals.

The post merger phase presents many common problems, which may weigh very heavily on the board, but can be mitigated with careful planning. For example, staff morale may be low and key personnel may have left the organisation. Furthermore, management may not have visibility of the detailed operating performance of the target organisation. The integration of new systems is also likely to prove troublesome or lack co-ordination.

A spin-off effect of these problems may be a sense of unease or uncertainty, resulting in a marked drop in productivity.

From our experience, it is never too early to start planning for a merger. Detailed integration planning should be carried out as far as possible prior to completion, to avoid overlooking crucial details or missing out on post-merger opportunities. It is imperative that management teams determine the style of integration they want to adopt from day one. i.e. should they use a top down approach, a bottom up approach or a mélange of the two? Each style has its benefits, but also its issues (speed of delivery vs. sustainability for example). Lack of clarity around the style of integration may lead to disastrous post-merger consequences.

The advantage of engaging a specialist team, is that they can deliver a broad range of tailored services designed to plan and implement deals in a more timely, efficient and coordinated manner. One of the first and most important strategic services to carry out prior to a merger is operational due diligence, which will identify and address potential problems that may be encountered following the integration of two companies. It is also necessary to evaluate synergies and prepare a detailed synergy plan prior to completion.

Synergies need to be considered in a holistic manner. Management teams need to identify not only cost reduction and productivity improvement opportunities, but also revenue increasing opportunities, which are perceived by staff as optimistic growth signals, with positive implications for morale. Synergy opportunities overlooked in the early stages, will prove significantly more difficult to realise later down the post merger line.

The focus on the financial benefits of a merger and financial due diligence is understandable, but before the consolidation of offices it is wise to build up an environment of trust within the target organisation. This trust must emanate from the management, and be backed up by a specialist integration team, which should be set in place from day one, to aid the coordination of new and existing personnel. However, perhaps the most vital component towards achieving a successful integration of companies and services is communication; continuous, targeted and precise communication to all stakeholders, at each stage of the process.

Increasingly, companies face delays to transactions for a number of reasons. A key challenge is to use that time to best effect whilst not having the certainty the deal will go ahead. The most successful businesses are those who invest this time well and plan their integration strategy during these quieter periods.

Hindsight is a wonderful thing. Post merger, companies which find themselves in a chaotic situation should be reassured that it is not too late to evaluate what has gone wrong or to remedy the situation. Independent, objective advice, even if it is just a case of bouncing ideas to a third party, is a good starting point. The most important point to remember if you are experiencing debilitating problems is that you will need to work in partnership with your new organisation, and the inclusion of several of their key personnel on your integration team will prove invaluable.

Secondly, it may be necessary to refocus integration objectives with a view to ‘taking’ control of the combined corporation and preserving existing values.

Looking forward it is essential for any newly-merged company to establish a process which monitors the operational performance of the acquired business and track the progress of the integration programme.

Remember that more planning and less action, combined with clear channels of communication, is the smart way to prepare for a merger. In short, aim to consider what should be integrated, how and a timeline of when. If you do decide to procure the advice of an external post-integration specialist, remember that their aim should essentially be your aim; to bolster the bottom line – maximising the return on the deal.

David Axon is a partner and Head of Grant Thornton’s operations and post deal services team.
CIL is one of the world’s leading commercial due diligence firms, with offices in London, Paris and Boston. Between them, the four partners of the firm have carried out over 500 CDD and strategic research projects in the last decade, for major corporates, private equity firms and banks. CIL is a subsidiary of Ernst & Young – for the firm’s sector involvement and credentials see www.ciluk.com.

Contact:
London Geoff Rampton grampton@ciluk.com +44 (0)13 7383 9910

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Contact:
London Emma Farthing efarthing@uk.environcorp.com +44 (0)207 495 0576
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Contact:
London  John L. Keffer  jkeffer@kslaw.com  +44 (0)20 7551 7515
London  Mark E. Thompson  mthompson@kslaw.com  +44 (0)20 7551 7525
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