

IT in M&A: The way we see it

Manage IT to successfully secure your deals



Executive Summary

Mergers & Acquisitions were for a long time the sole prerogative of strategists and financial analysts

Companies realized that up to 40% of synergy savings are enabled by IT

Therefore, involving IT right from the Due Diligence step is key to ensuring that the deal will deliver the expected benefits

Companies that plan acquisitions should make special investments upfront to build an IT platform agile and robust enough to support future M&A operations

Best-in-class companies successfully integrate acquisitions in a 6 to 12 month timeframe (as opposed to cases where both IT systems remain unchanged for several years which slows down the delivery of synergies)

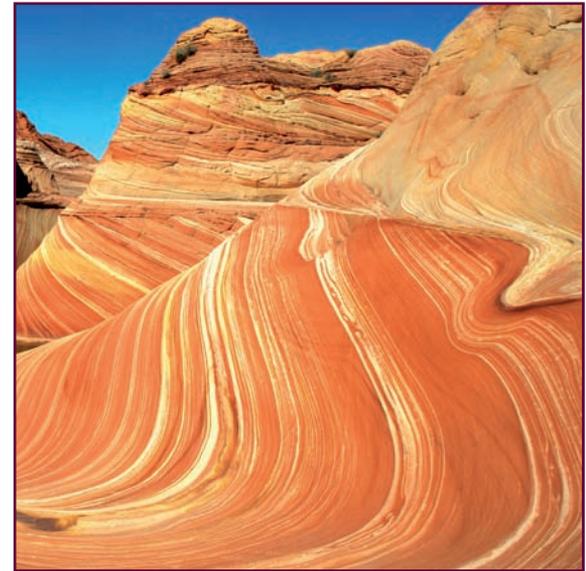
Be respectful with the resources from the acquired company: behave as if it is a “wedding rather than just an acquisition”. Securing the best of the best in term of IT managers and experts is clearly part of the value creation of the deal



“It is not the strongest of the species that survives, nor the most intelligent, but rather the one most adaptable to change”, said English naturalist Charles Darwin

Manage IT to successfully secure your deals: Our 5 convictions

- 1 Involve IT early in M&A operations
- 2 Secure the short term before dreaming of the end destination
- 3 Time is of the essence
- 4 Make your IT integration-ready
- 5 People matter





Our first conviction

Involve IT early
in M&A operations

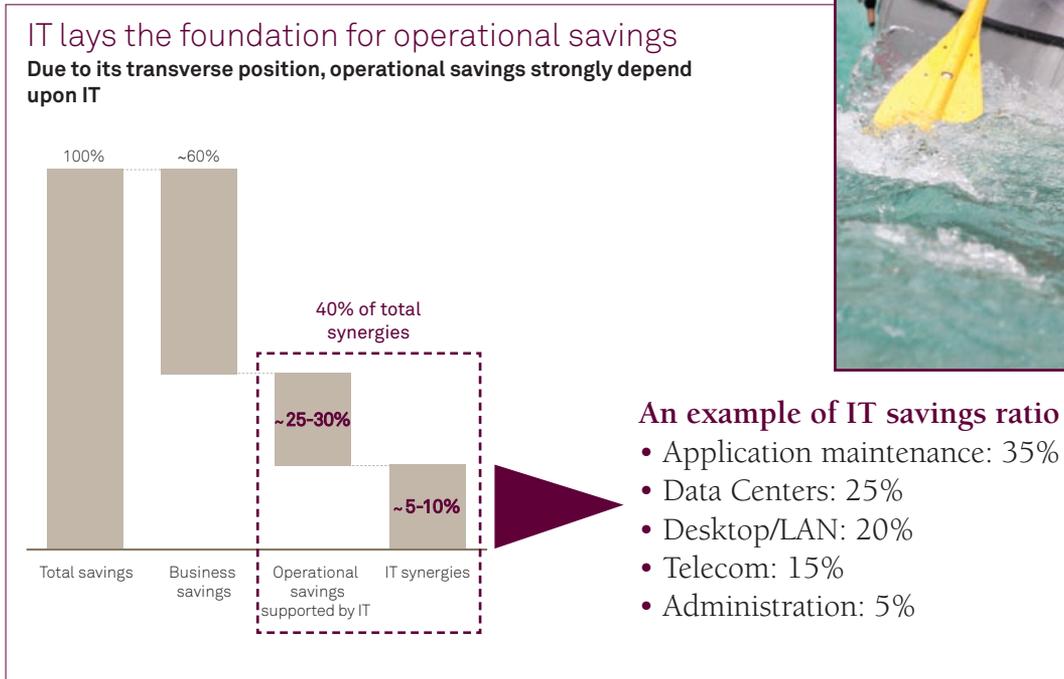
Early involvement of IT is crucial to ensure you deliver the expected benefits



- Although CIOs are more and more influential at the Executive level, they are still not always involved early enough in M&A projects
- Once the deal is signed, top management expectations and pressure are so high that it is too late to build a thorough action plan: Preparation makes the difference
- As up to 40% of total synergies are enabled by IT, involving IT from the “Pre-deal evaluation” phase is necessary to ensure that Day 1 activities proceed smoothly
- Due to its transversal position in the company, IT needs to liaise early with all departments in order to tackle possible issues and secure business continuity

It is key for IT managers to have an early understanding of the strategic goals and drivers of the M&A operation. Why? To anticipate and be prepared to successfully manage the changes that will drastically affect their IT organization

In Post-Merger Integration, IT is a strong lever for savings, accounting for 40% of total synergies



In a Post-Merger Integration, Operations and IT must build together an IT synergy plan consistent enough to deliver expected savings

Zoom on IT Due Diligence

Data sources

- Generally, data room only provides aggregated and high-level data; very often detailed data is required to assess whether synergies are realistic
- Later-stage data room and also vendor due diligence often provide more detailed data but limit the scope to fragments of the whole (e.g. top 10 products, key countries only)
- Internal IT material can bridge data gaps (organization and governance, budget, applications, infrastructure, projects, contracts, etc.). Leverage additional external data sources to fill missing information (e.g. national Telecom benchmark)

Data quality

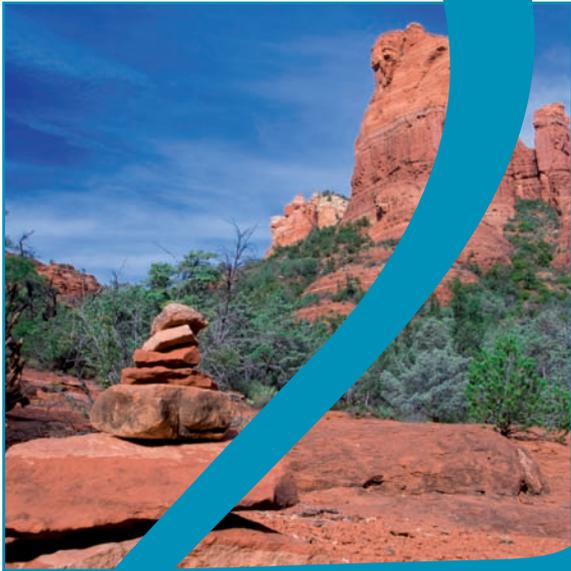
- Build educated assumptions to extrapolate missing data and rebuild the required data set; adjust for risk of false estimates and assumptions (e.g. are telecom costs included in IT budget or not?)
- Usually only pro forma financials are available having been artificially composed from figures concerning the scope of the transaction vehicle
- Exploit in-house competitive intelligence to challenge given assumptions and forecasts

Data accessibility

- Crucial data is very often obscured or “not disclosed at this stage” due to competitive intelligence confidentiality
- Set up an assessment framework before data room access is granted to ensure the most effective use. Focus on crucial data, build your own data capture check list
- Be prepared to make extensive use of Q&A sessions. Put your questions down as precisely as possible



Despite the fact that IT Due Diligence is based on limited available information, it creates a real opportunity to evaluate risks and assess costs; it also provides a strong input to be used as foundation for decision-making and further negotiations



Our second conviction

Secure the short
term before
dreaming of the
end destination

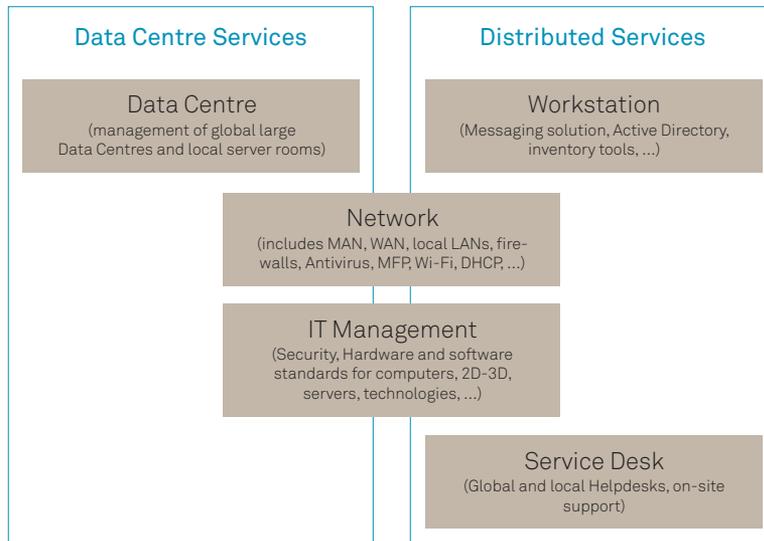
Secure IT operations just after closing the deal before devising an IT strategy



Don't rush into a new IT strategy just after Day 1, you first have to ensure Business Continuity and deliver synergies

Zoom on IT activities to be delivered to sustain Business Continuity

- Example of IT Infrastructures layer to be carefully managed at Day 1:



- Main steps to follow when acquiring a company:

- **Security Rules**
 - Define a working baseline between both companies
- **Inter-connection**
 - Get basic communication services
- **Access Management**
 - Permit authentication, define access rules and provide limited access
- **Mailbox**
 - Set up gateways, SMTP and mailing system
 - Prepare and execute mailbox migration
- **Network**
 - Adapt naming convention and plan, re-number IP addresses
 - Study the opportunity of WAN migration according to suppliers / contracts assessment

The Data Center services are the most difficult to merge or carve-out since they are closely linked to the myriad of hosted applications

When buying or selling an entity, Transitional Service Agreements (TSAs) are critical to ensure business continuity for all parties from Day 1

- Plan and anticipate two phases while building a TSA:
 - A time to collect information (in-scope services, prices, start & termination conditions, licenses, ...)
 - A time to write the TSA and validate it by Finance and Legal departments
- Define the financial structure of the TSA early (fixed costs only, variable costs only, mix of both)
- Ensure that the TSA template is validated by the Legal Department early enough in the process to avoid late rework. Do not underestimate time and energy to write this document
- Remember the TSA is used to assume real costs and not to make profit/revenue
- Keep in mind that the TSA is supposed to be short and temporary
- Define carefully the exit rules:
 - Exit rules (and scenarios if possible) must be assessed as soon as possible
 - Build exit rules according to the Day 2 strategy (end of phase 4)
- Identify, with operational entities, the risks that could affect the TSA



What is a TSA?

Transitional Service Agreement is a contract signed for services provided to the transferred business entity during the transition period (fixed period starting at closing). These services will be provided from the seller to the buyer



Our third conviction

Time is of
the essence



Our fourth conviction

Make your IT
integration-
ready

With the rising complexity of M&A operations, preparation is vital for success

■ IT Organization and Skills:

- As companies must react and act quickly to manage more and more complex M&A operations, IT needs to own the right skills
- Some IT organizations are working on M&A process industrialization to master the forthcoming operations. Capitalizing on former experiences is also key to enhancing their capabilities
- Don't underestimate the workload associated to IT. Freeze part or all of the projects portfolio to free up the required IT resources to manage the integration

■ IT systems:

- When an M&A operation is in the pipeline, it is already too late to transform your IT. Companies that envisage acquisitions should make special investments upfront to build a robust IT platform
- Best-in-class organizations integrate new operations in a 6 to 12 month window
- You should foster and deploy service-oriented architectures to provide flexibility and sustainability



It is key to think ahead and prepare your IT to be agile and flexible. Keep in mind that well prepared IT organizations manage to successfully integrate systems in a 6 month timeframe

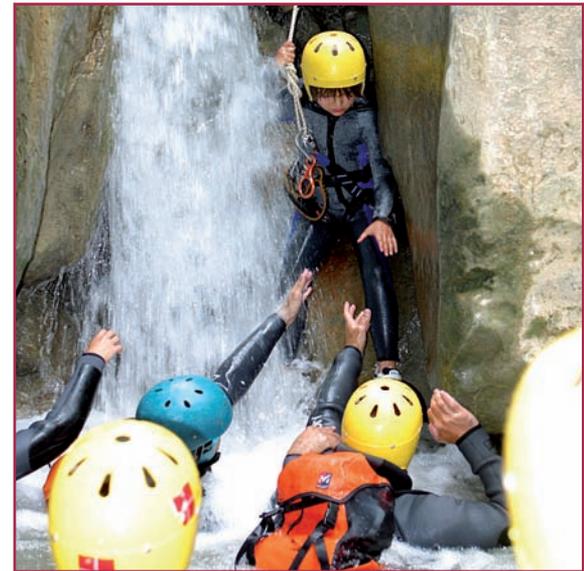


Our fifth conviction

People matter

M&A is not only a matter of Finance, but also a question of People and Culture

- Appoint an IT leader from Day 1, even if it has to be a temporary organization. The IT leader appointed should both drive the M&A project but also lead IT operations on both sides to arbitrate priorities between integration and operations
- During this “uncertain time”, you can expect a turnover of executive managers and experts significantly higher than normal, and therefore it’s crucial to secure the critical resources to ensure IT operations continuity
- Beyond the continuity milestone, being respectful with the resources from the acquired company and securing “the best of the best” is part of the value creation of the deal
- Having IT mid-managers experienced in managing M&A projects as an integrated process is key to mitigate risks and secure business synergies
- Communication is not that difficult but very often misses its goal. When the confidentiality period is over, ensure that the deal objectives and the company strategy are shared; it is time to communicate and lead the change



**Be respectful with the resources from the acquired company;
Behave as if it is a “ wedding rather than just an acquisition ”**

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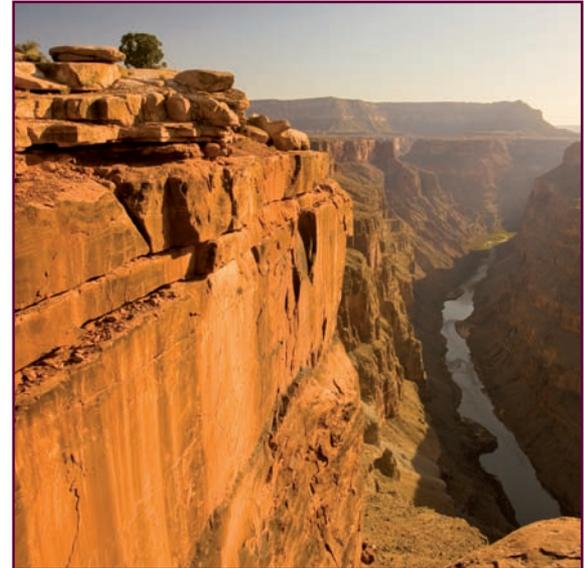
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