Capgemini Consulting

Post-Merger Integration for Life Sciences

Realizing Synergies and Maximizing Value through Post-Merger Integration

Another wave of industry consolidation is hitting Life Sciences. In 2009, a combination of mega-mergers, diversification plays and tuck-in acquisitions have characterized the M&A landscape in the pharmaceutical sector. The trend is expected to continue as CEOs respond to industry pressures and opportunities to create value through M&A and divestitures. However, the jury is still out on whether these transactions ever fulfill the value they promise.

As transactions in the sector continue to unfold, executives are under pressure to realize integration synergies quickly and navigate through complex deals that bring together diverse, global business models. Commitments to shareholders, employees, payers, providers and patients need to be maintained during integration, which requires careful planning and execution. A Capgemini Consulting survey on 835 operations shows that 55 percent of mergers fail to deliver their intended value when looking at stock price performance two years after integration. Moving quickly with a dedicated integration team is crucial to capturing value and transitioning the organization.

Making Mergers Work to Capture Value: Challenges and Opportunities

Setting strategic priorities and closing the deal are only the beginnings of a hard and bumpy road. Merger integration opens a window of opportunities when change is generally expected and more easily accepted. At the same time, managing merged companies bears a numbers of challenges and priorities:

- Integration activities must be completed in an aggressive timeframe
- Synergies committed to shareholders must be achieved
- Integration costs must stay within budget
- Daily operations must continue without disruptions despite the ongoing integration
- In some cases, former competitors need to become one enterprise with a common set of shared values.

A well-orchestrated integration plan and implementation helps manage the risks and loss of strategic value typical of much M&A activity. Some of the key risks often occurring in the first days of integration include:

- Delays in decision-making that increase costs and impact commitments
- Loss of key personnel
- Loss of customers and business to competitors
- Increased operational risks for inefficiency due to new, unfamiliar processes and redundant efforts
- Unrealized synergies due to business operations and IT not properly integrated
- Damaged image and loss of confidence due to lack of communication (employees, customers, capital markets)

A well-executed post-merger integration looks holistically across core functional areas of the business to reduce risks and manage a smooth transition. Typically, this involves a thorough plan to provide:

- Organizational alignment and ongoing employee communication
- Integration of product portfolios and coordination of sales and marketing operations
- Protecting business continuity with proactive communication with customers
- Alignment of business processes and back-office functions
- Integration of information technology systems
- Evaluation of synergies in procurement and supply chain
- Management and tracking of synergies through a business case

A well-managed integration creates value through a stronger competitive position that leverages the joint strength of the combined companies, improves cost/income ratio, and increases the talent pool for future capability building.

Given our experience in advising major pharmaceutical, medical device and agrochemical companies, Capgemini believes integration managers should look at three critical steps to guide their integration programs on the path to synergy realization.

1. Setting the Focus of the Integration Strategy and Preparation

Early pre-planning should begin before the deal is closed during due diligence, helping to sketch out the initial integration strategy. During this stage, integration priorities are developed at a high-level, identifying potential synergies, resources and estimated costs for integration programs. Similarly, it is at this time that integration managers begin working with company executives to craft the type of integration strategy to pursue. This could range from enterprise-wide consolidation to discreet bolt-on acquisitions where little integration will take place. From the onset, the integration will require:

- Sustained top management commitment and involvement
- A clear set of goals and priorities
- Transparent and rapid communication
- Buy-in for synergies created by the integration
- Identification of experienced project managers and partners

Following initial planning, integration managers should translate identified priorities into key activities for a Day 1 launch of the new organization. Typically, these activities involve a Day 1 plan to kick off integration, promote a shared understanding of objectives among integration team members, introduce leading integration management processes and tools and train the project team to apply these tools. It is during this time that the vision for integration and the new organization is developed and an Integration Management Office is launched to manage the program, align the organization and facilitate timely decision-making from the start. By setting plans for critical Day 1 operations of the merger journey, integration managers can help transition the new organization smoothly and in a stabilized way.

2. The First 100 Days: Planning the Future Organization

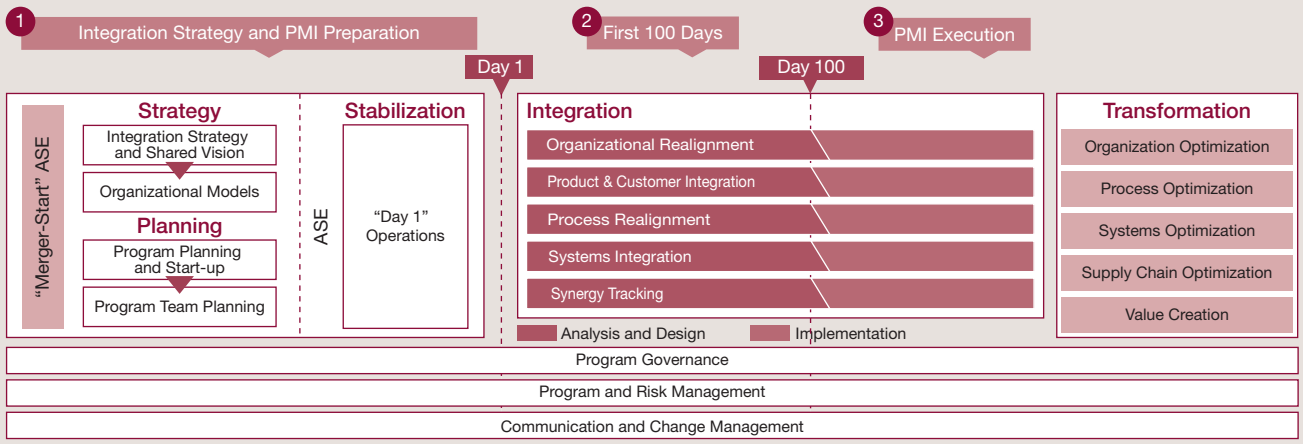
The first 100 Days planning is a critical step to organizing integration efforts and keeping the company on a timely schedule. Through the Integration Management Office, integration managers should work with selected cross-functional teams to develop integration initiatives and gain support from operational teams.

At this stage, an analysis of the organizations' current competitive positions, business strategies and operating models should be undertaken. This analysis is an opportunity for both organizations to create a joint understanding of their present situations—a prerequisite for designing a picture of their common future enterprise. As a by-product, major process weaknesses, especially if they lead to high operational risks, are identified and addressed, helping to recognize early, quick wins. A focused review should establish a clear picture of the position from which the organizations start off on their way to becoming a joint enterprise.

It is during this phase that a joint business strategy and operating model for the future organization is designed. The current states of the merging companies need to be considered as well as acquisition synergies identified early in the deal phase, thus transforming the vision into a "livable" strategy.

A future vision and strategy commonly embraced by top management is the very basic prerequisite of a successful integration. If done well, it can turn a challenging project into a success story. To bring out the most of this critical phase, executives need to take on complex decision-making and reach consensus on questions around the business strategy and operating model. A summary of interdependencies, full

Post-Merger Integration Program Components



Capgemini Consulting

project staffing and a project budget complete the picture.

In our experience, the integration management team should be a fully dedicated group to oversee the overall effort. By freeing up operational managers to focus on daily business operations, a dedicated integration team can focus on merger priorities and bring value with planning methodology, success stories and experiences from similar projects, and contribute relevant industry and technical know-how.

3. Post-Merger Integration Execution

Implementing an integration plan begins with nominated teams starting work on execution by regularly reporting on progress, budget utilization, synergy achievement and/or issues that need resolution. Keeping the momentum and focus of the integration over an extended period of time—and a large workload and a changing organization—is the key challenge in the implementation phase. Integration managers need to keep the integration program on track and communicate progress across appropriate levels of the organization.

Driving Change

Change management is an ongoing theme and priority required through all phases of integration. The frequent transition of people and potential discontent of staff are intrinsic to mergers. If not properly addressed, they can quickly spiral to major issues that impact the performance of the integration and achieving strategic goals. Careful planning for retention measures, internal communication and teambuilding are a necessity for integration projects.

Company-wide information fairs, regular employee surveys and focus interviews, Q&A sessions for staff and facilitation of teambuilding sessions are some of the typical tools that integration managers can use to understand the pulse of the organization and address important people issues with strategic change management programs.

A Global Practice

Capgemini Consulting has a dedicated global Mergers and Acquisitions practice focusing on helping Life Sciences companies through their post-merger integration programs. With over 300 M&A/PMI assignments in the last 5 years, our M&A team possesses the functional and industry- specific capabilities to be your service provider of choice through the merger process.

About Capgemini

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in more than 30 countries, Capgemini reported 2009 global revenues of EUR 8.4 billion (approximately USD $11.6 billion) and employs 90,000 people worldwide.

Capgemini Consulting is the Global Strategy and Transformation Consulting brand of the Capgemini Group, specializing in advising and supporting organizations in transforming their business, from the development of innovative strategy through to execution, with a consistent focus on sustainable results. Capgemini Consulting proposes to leading companies and governments a fresh approach which uses innovative methods, technology and the talents of over 4,000 consultants worldwide.

For more information:
www.us.capgemini.com/consulting

Jean-Marc Neimetz
North America Life Science Leader
Capgemini Consulting
jeanmarc.neimetz@capgemini.com

Cesare Ruggiero
Global M&A Practice Head
Capgemini Consulting
cesare.ruggiero@capgemini.com

Thomas Forissier
Life Sciences Strategy Practice
Capgemini Consulting
thomas.forissier@capgemini.com

004_LS_PSMGPOV_010310