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WILLIAM FRY

Technology M&A

The Importance of Pre-deal Planning

M&A

As the pace of technological innovation quickens, mergers and acquisitions (M&A) can provide a good solution for accelerating product roadmaps, gaining access to new technologies and markets, and fending off competitors from both inside and outside one's industry. This strategy is especially evident in the technology, media, and telecommunications (TMT) sector which in 2017 recorded an all-time high of 3,389 M&A transactions globally, worth a total of $498.2 billion. [1]Closer to home, Ireland's TMT sector continues to attract global interest, and has become the global technology hub of choice when it comes to attracting the strategic business activities of ICT companies. Ireland has the second highest concentration of ICT multinationals in the world, second only to Silicon Valley. This is according to William Fry's Mid-year M&A Review 2018, which found that Irish TMT saw a clear increase in its share in overall Irish M&A volume year-on-year, now accounting for 20% of overall activity.

Two broad types of transaction are common across the TMT sector:

- The acquisition of larger, established firms who have become significant players in their own right; and
- Smaller deals focussed on growing or start-up firms who remain sub-scale from an international viewpoint but bring a specialism or IP which is unique.

From an acquirer's perspective, deals involving acquisitions of large, well-funded established companies can yield big dividends, but they present unique challenges when it comes to integration. Success depends on selecting the right strategy for allowing the target to continue its development post acquisition. The acquired company may find it difficult to continue to drive the factors which resulted in its high valuation (potentially growth and innovation), under the business model and processes of the new owner. Addressing how the target is to be integrated within the company at an early stage in the deal (and from the seller's viewpoint, ensuring that this is known and acceptable) will help with potential 'deal issues' later on.

Ireland has the second highest concentration of ICT multinationals in the world

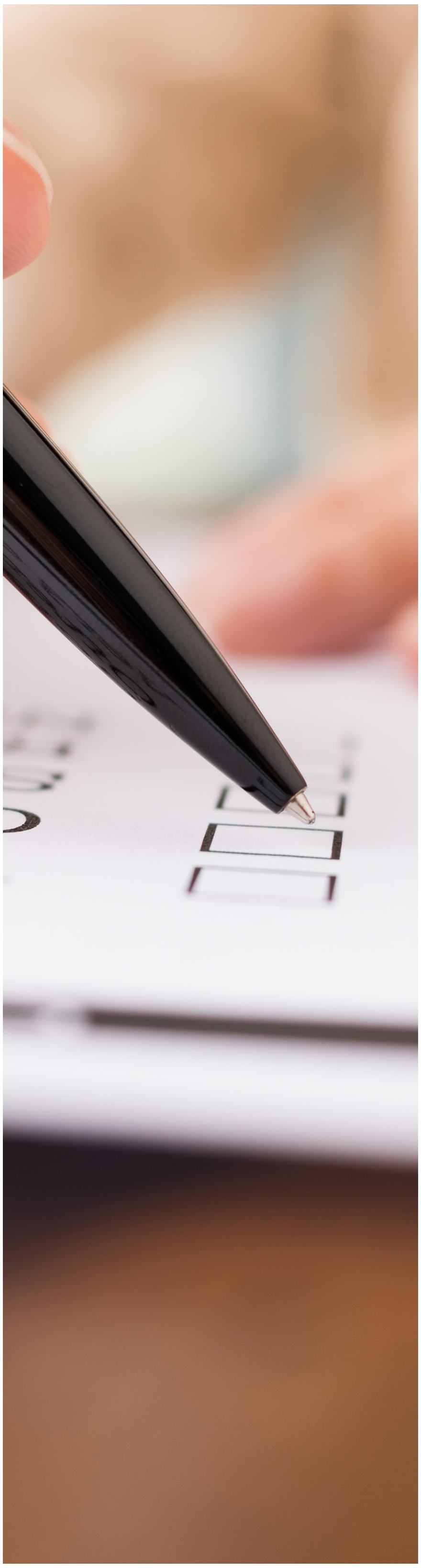
In most "IP and talent" deals, a smaller business / start-up is targeted to acquire its technology, its people (usually engineering), or both. The acquirer assimilates those assets and the start-up often subsequently ceases to exist. Commonly, IP and talent deals are driven by the need to move quickly, either to get ahead of rivals or to catch up with them. The current gold rush around cognitive computing is a perfect example. Globally, companies spent $21 billion to acquire cognitive computing firms in 2017. However, IP-and-talent acquisitions present two major challenges to the acquirer, and as a result to the owner / shareholder of the to-be-acquired business in ensuring that his / her company will represent an attractive target:

01. Ensuring that the acquired assets become—and remain—relevant and a priority across the acquirer's business; and
02. Retaining key talent who may initially take a negative view of their new company's processes and leadership.

Too often, IP-and-talent acquisitions suffer from inadequate merger integration planning and execution. In these cases, critical details aren't effectively communicated up front to all of the teams required to make the deal a success. When these organisations aren't incentivised to pay attention to the acquired assets, or the acquired company fails to land its key USPs with business unit leaders, those assets can "wither on the vine." For IP-and-talent acquisitions to maximize value, company leadership must ensure that the acquired assets remain a priority, and that key stakeholders are held accountable—for up to two to three years, if necessary. Then there is the additional challenge of retaining talented employees (usually engineers) who now find themselves in a larger company that may differ significantly from their previous firm. Complicating matters is the fact that the acquired start-up's leadership team may no longer be part of the new organisation—or may find themselves in "lesser" roles.

How can acquiring companies continue to fuel the passion of their new employees? Effective communication is typically the answer, from both the acquirer management and the target's CEO; leading employees and inspiring them with the new vision and career path that the acquisition can present and articulating how the target is going to facilitate in meeting the acquirer's strategic goals. This should be built into the acquisition / disposal process and effected at the right time to maximise the chances of deal success.

1 The Technology, Media & Telecom 2017 M&A Deal Update, Telecom Tech News 2017



Checklist for M&A success

You can improve your chances of success by using the following checklist:

Up-front strategy/Due diligence

- Identify end goal: what's the purpose?
- Define the company's integrated solutions strategy
- Formulate a high-level, required capability profile for the new organisation
- Identify value drivers for the acquisition
  - To support post-deal business strategy
  - To reinforce unique competitive advantages
  - To establish a way to provide value to customers as an integrated company
  - To suit a time horizon for realising benefits of the deal
- Align stakeholders on various acquisition and integration options
- If necessary, rethink target screening and due diligence processes
- Focus on specific levers that drive about 80 percent of anticipated value capture
  - Involve functional teams early
  - Conduct commercial and operational diligence iteratively
  - Review revenue and cost synergy potential
  - Consider strategic operating model redesign before closing

Integration

- Retain innovative practices of acquired company
- Assimilate all capabilities or leave some to stand alone
- Consider modular integration—function by function rather than all at once
- How to measure and manage a different business model if acquirer's business practices are incompatible
- How to retain execs from incoming business and incentivise key members of staff

Preparing/Grooming on the sell side

- Successful M&A transactions require careful planning – need to prepare the company for sale
- Organise key due diligence items early to prevent delays
- Most companies who have traded for any reasonable period of time will have certain accounting, tax and legal issues to be addressed
- Identify and deal with issues early in the process – if in doubt raise the issue with advisors
  - E.g. Shareholder/Key Customer/Manufacturing/Intellectual Property Disputes

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