Viewpoints

Reflections on M&A in 2019: What was new (and what was not)

By Steve Allan

Heading into the end of 2019, Steve Allan, global leader — M&A, takes a moment to look back and ask how dealmakers are holding up in what has been a challenging year. And, looking even further back over the period of more than a decade since the financial crisis, drawing on work with corporate dealmakers from around the world, he asks: what new patterns and issues have we seen emerge? What "home truths" continue to apply that now form the benchmark for aspiring acquirers?

Steve Allan
Global leader — M&A

The year to date has proved to be challenging for companies looking to complete deals. **Our research,** the Quarterly Deal Performance Monitor (QDPM), which we conduct in partnership with the Cass Business School, shows that while deals continue to happen:

- There have been fewer material deals that have made it through to completion
- Cross-border and cross-regional deals have been hit
- We have seen deals stopped because of regulatory concerns
- Some of the largest deals have struggled

Compounding this story of deal volumes, performance has on average also been lacklustre, with the QDPM finding that deal makers have on average underperformed the broader market.

However, against these strong headwinds, deals continue to take place; shareholders and boards continue to approve mergers, acquisitions and divestitures; and many acquirers do achieve value.

Against such a backdrop it becomes crucial to try and pinpoint how best to attain this value; what do successful dealmakers do to minimise their risk of a deal going wrong? Our experience shows that, while companies conduct M&A transactions for a wide range of reasons, and every deal is different, for most deals implementation is the most important deal stage. Until a deal is implemented, and in many cases the businesses are integrated, many transactions are simply an opportunity to spend money. Implementing, and integrating well, remains the hallmark of successful dealmakers.

Home truths

People costs

It's always been true and it will remain true for the foreseeable future: **Financial due diligence and deal pricing** is essential.

For many organisations, people, their employment costs and the costs of long-term commitments such as pension promises are some of the largest numbers in the financial statements. Buyers need to dig deep at understanding these – what's the impact of the transaction on the cost base going to be? What's the economic impact of both retention and restructuring efforts? These are difficult questions to answer, particularly as the process is typically complicated by the lack of data, lack of time and multi-country complexity of many deals. Getting to the root of these will be the core skills of any deal team.

In order to do so, having HR at the table early can be crucial. Deals often happen at pace, and HR is often bought in comparatively late in the day. HR functions need to be able to move fast to be able to stand-up an acquired business; whilst a deal team can focus on materiality, the HR team needs to ensure that details are in place and ready for Day One. Details such as setting up payroll, continuity of medical coverage, and so on, are simply not optional and matter deeply to individual employees.

Research and experience continue to validate the lesson that deals are more successful the earlier HR is bought to the table. When deals are focussed on the employees to be acquired, HR is essential, but even in deals where the bulk of the value may be in physical assets, IP or other means, HR's earlier involvement is a leading indicator of success.

Leadership and communication

We continue to see a focus on **leadership and communication.** By the time a deal is announced and closes, many leaders have been aware of it and working on it for months, if not years, and are deeply familiar with the business logic for the deal. For many employees (and customers), however, this can be news – and in some cases jarring news at that. Successful leaders are able to step back, appreciate the perspective of the workforce, demonstrate empathy, and bring people through the narrative of the deal.

The answer to the question "Why are we doing the deal?" should lie at the centre of how HR approaches the deal implementation, and provide the "guiding light" for decisions. It can be surprising how frequently deal teams assume that this logic is apparent to all, whereas local decision makers are left to build their own understanding as they looking to align employee populations and engage with key talent groups.

Culture

"Culture" remains an oft-cited challenge. Whilst publicly, mergers are presented as straightforward ("We have the same values, and the same customer focus"), in practice how decisions are made and by whom, what behaviours are rewarded and how internal networks operate can vary significantly between companies even within the same industry.

These details of how business actually gets done are the reality of organisational culture. Successful dealmakers focus on understanding these issues and being clear what they will protect and what they need to change.

Emerging trends

I&D

Inclusion and diversity (I&D) is now a core focus for many deal makers. What this means for each varies from understanding the mix of leadership teams, deep analysis of issues such a pay equity within a target organisation, or an explicit review of diversity statistics and inclusion policies as part of due diligence.

Deal makers are looking to understand not just how a deal may impact I&D statistics for a division, but more fundamentally, how can an approach to this specific issue be read as a reflection of broader cultural alignment between a target and a buyer.

Innovation

Buying innovation is now an M&A driver in almost every industry, from pharma and technology to FMCG and extractive industries. Beyond the immediate question of talent identification, engagement and retention buyers are asking themselves how best to structure their organisation to maintain this innovation, particularly when the acquired business is much smaller than the buyer. "What is it about the target that works, and how do we not squash it with our processes and corporate mindset?"

The desire to acquire and nurture can clash with a deal logic built on synergies and integration.

Acquiring talent

Digitalisation and talent is another common refrain, with the phrase "aqui-hire" particularly common in this context to describe a deal completed with the express purpose of buying a talent pool that the purchaser would never otherwise be able to hire.

Talent retention and engagement has long been a challenge in M&A, and this issue is often accentuated in the digital space where the talent pool in many organisations can include a diverse mix of employees, temps, contractors and contingent workers. Our research and surveys suggest that higher financial incentives are not the key driver to long term retention – so acquirers are having to determine non-financial incentives, which are personally valuable to the employee being retained.

Private equity

We are increasing seeing private equity (PE) and other "alternative" investment vehicles engaging in larger transactions. Whilst many corporations find these hard to work with, others are partnering with them in transactions. Despite their different business models and deal objectives, many PE houses are populated by professional deal teams who may look at many more potential transactions in a year than all but the most acquisitive serial corporate acquirers. This can present a learning opportunity, and a very interesting perspective, for those in corporate roles.

For more information

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Protectionism

Global corporates have long been familiar with the more protectionist attitudes in some countries towards ensuring that employees with a country are sheltered from some of the restructuring and job losses than can follow a deal. Over the last few years, we have seen the spread of these attitudes globally. This can be challenging to global dealmakers and place more focus on realistic implementation planning ahead of agreeing to a deal.

AI

AI is the most recent addition to the deal team's toolkit. We are starting to see some activity in using AI to help in due diligence and implementation planning activities, particularly in the area of navigating large volumes of data at pace. At this point, however, for many AI remains something that is anticipated but not yet a reality.

Continue to learn, but focus on the basics

Many emerging trends in M&A activity – around talent acquisition and digitalisation, for example – serve to reinforce the value that an M&A-literate HR expert brings to a corporate deal team.

Where a business plan is built upon bringing in skill sets and behaviours that a company has not been able to nurture sufficiently internally, then the role of the HR expert is fundamental, and corporate strategy teams welcome the contribution.

HR practitioners who can demonstrate their understanding of M&A, their appreciation of the reality of deals and willingness to engage early are crucial to successful deals and will only become more important as the nature and pace of transactions continues to evolve.

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