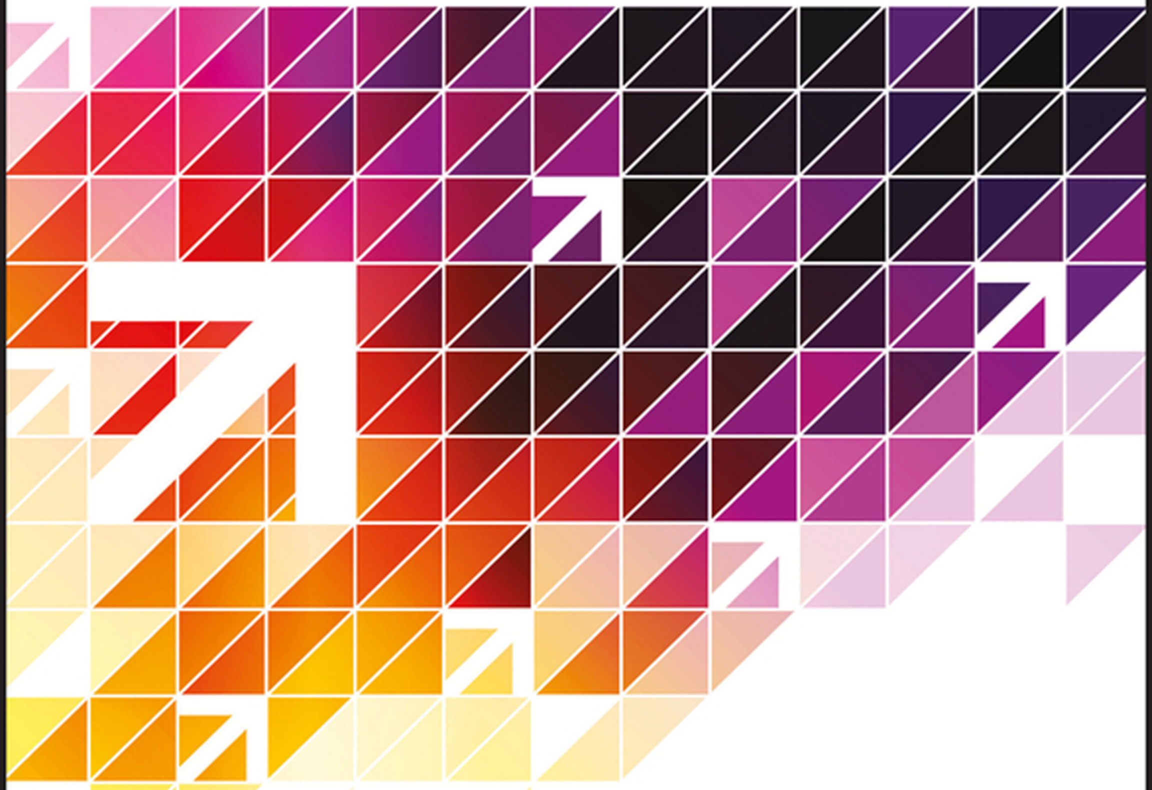
THE M&A FORMULA

PROVEN TACTICS AND TOOLS TO ACCELERATE YOUR BUSINESS GROWTH



PETER ZINK SECHER

IAN HORLEY

WILEY

“A down-to-earth description of how to run efficient and successful M&A and how to avoid failures.”

Johan Molin, CEO, AssaAbloy

“The basic idea of *The M&A Formula* is very interesting. Learning from successful investors in corporate M&A, the patterns and processes the authors use in applying them to their own acquisition plans is a fascinating concept. If a successful investor would not invest in an acquisition, it is probably a good idea for a corporation not to follow such a plan and vice versa.”

Günther N. Fuhry, Executive Vice President, Swarovski

“*The M&A formula,* from my experience, hits the nail on the head: simple principles with easy-to-use toolkits reflected against the theory. A must-read for all M&A professionals.”

Stefan Schneider, M&A Integration Expert, Editor in Chief M&A Review

“*The M&A formula* provides a useful, hands-on framework for successful M&A with numerous real life examples. A must-read for all those fascinated by M&A.”

Daniel Couvreur, Conference Board Director, M&A Council

“The authors present a comprehensive framework for achieving M&A success, and illustrate its value through a detailed and very insightful analysis of how the best and the brightest achieve sustainable success with M&A.”

Niels Bjorn Andersen, Professor Emeritus, Copenhagen Business School

“The headline ‘the opportunity, the pain and the promise’ describes the content at its best. The 50% failure rate of M&A deals must encourage any person in charge to wake up. This book woke me up, and made me change my views on M&A deals.”

Roland Wilcke, Officer with procuration, Günzburger Steigtechnik GmbH

“M&A is a combination of art and science. Advice on getting it right pays huge dividends in achieving the intended outcome of the deal, and *The M&A Formula* gets it right - it’s a good book.”

Jacqueline D. Reses, Capital Lead and People Lead (CHRO), Square

“*The M&A Formula* provides a uniquely insightful and compelling analysis of a longstanding conundrum in mergers and acquisitions. In the M&A domain, the persistent popularity of the transactions counterbalanced against the often devastating destruction of shareholder value has puzzled investors for decades. Based on their extensive experience, the authors provide, for the first time, a formula drawing on large-scale bundled data analysis.”

"Proposing the innovative concept of TRA (total return analysis), *The M&A Formula* assesses the impact of a bundled set of M&A interrelated activities on corporate performance. Secher and Horley break through the logjam of analyzing individual acquisitions within short-term time horizons, to instead take a crucial longer term and programmatic perspective. Their findings, observations and recommendations are key, as M&A transactions are not isolated occurrences but rather systemic phenomena. With a fresh perspective, *The M&A Formula* provides a way forward for scholars and practitioners alike—highly recommended."

Professor Kathleen Marshall Park, MIT Sloan School of Management

"A contemporary approach to the classic challenge of creating value from mergers and acquisitions."

Professor, Dean Annette L. Ranft, North Carolina State University

"*The M&A Formula* has a singular purpose: to help managers improve their odds of better acquisition outcomes. The authors detail a sensible and experience-based three-step formula for M&A success. Systematic tools are explained for evaluating targets, managing the process, and dealing with external advisors and building internal M&A competencies. These tools are then carefully explained with case applications. I found their claims that every firm has an M&A reputation that can be used as a tool particularly insightful. And their frank and honest treatment of the role of financial advisors in M&A was refreshing. This book is a must-read for executives interested in improving their firms' M&A outcomes."

Professor Bruce Lamont, Florida State University

"For me as a business student, *The M&A Formula* sheds light on a continuously growing sector and provides a very practical point of view on tactics that are successful in the real world."

Wolfgang Höck, Student, Strategic Management & Law, MCI Management Center Innsbruck

"A must-read for anyone who is looking for a new model for successful M&A based on an outstanding combination of research and practical applications."

Lena Scholz, Student, Strategic Management & Law, MCI Management Center Innsbruck

The M&A Formula

Proven Tactics and Tools to Accelerate Your Business Growth

Peter Zink Secher
Ian Horley

WILEY

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For everyone who believes that there is a better way to do Corporate M&A

CONTENTS

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Thank you everyone!

ABOUT THE AUTHORS

Ian Horley is an author, entrepreneur, and marketing strategy consultant for many SMEs. Ian's focus is on designing 'product market fit' programs to help merging companies grow better, faster, and cheaper.

Ian Horley

Ian is a public speaker and a mentor to entrepreneurs, students, non-profit organizations, and educational institutions in Europe and North America. Ian's aim is to develop the M&A Formula into a movement targeted at transforming the careers and fortunes of the individuals involved in M&A, and is currently preparing the companion course at www.themandaformula.com to expand the mission's reach.

Peter Zink Secher is a former banker and corporate finance specialist with 25 years of experience on M&A sell-side. Peter moved to M&A buy-side as he started working for a former M&A client some 5 years ago. He has been involved in M&A projects in most parts of the world and is now running his own company; Peter's business motto is "half of your M&A success are all the deals you don't do."

Peter Zink Secher

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One of Peter's most important decisions in life was to take about 18 months out to devote time to his father and brother, who both tragically died of cancer in 2014. Spending time in a hospice made him understand that terminally ill people do not talk about work. They speak about the things that matter: family, hobbies, special occasions, and achievements. Make sure you achieve something in life—make a difference. Peter has published an article, and given speeches, about the terminal cancer stage.

INTRODUCTION: THE OPPORTUNITY, THE PAIN, AND THE PROMISE

The normal failure rate of at least 50% in corporate M&A is unacceptable. Trillions of dollars are wasted every year in failed M&A deals that should never have been considered in the first place. This high failure rate destroys small and medium businesses, devalues big corporates, and ruins careers.

So why do so many highly educated, bright, and well-paid people spend so much time on corporate M&A when the outcome would be the same if they just flipped a coin? Why do so many students spend years at university, only to end up in a career where there is at most a 50% chance of success?[1]

This question has been bothering us for many years, as we struggled to understand how any CEO or any owner of a small or medium-sized enterprise (SME) could allow these high failure rates to stand. During Peter's corporate tenure at FrieslandCampina, there was not one single failed M&A transaction; no acquisition was ever regretted and every deal was reasonable in line with synergies set at the binding offer stage.

By this point, Peter had more than 25 years' experience working in corporate M&A (both buy-side and sell-side), and he realized that a pattern was starting to emerge. He began to interview M&A peers in companies which had a history of making close to 500 successful acquisitions, asking each one the same three questions:

- What are your business model drivers in M&A?
- What are your main processes?
- How have you managed to avoid the normal failure rate of at least 50%?

Their responses were illuminating, and confirmed his suspicion that there must be a formula for M&A success. A formula that will make the at least 50% failure rate a myth.

That M&A success was not just a matter of luck. It was down to the implementation of a formula that focused on the individual targets of each potential deal, involved the whole organization, and put in place a number of processes which could be carried out in-house to speed up each transaction.

This is the M&A Formula. It has been based on an exhaustive study, backed up with the academic research and real-world examples that you'll see in this book. This is the M&A Formula for success, which has been created, tested, and shared with you.

The M&A Formula

1. Follow business model-driven M&A.
2. Strong leadership and communication.
3. Take ownership.

The implementation of this formula is laid out in Figure I.1.

Knowingly or unknowingly, this formula has been used by some of the most successful names in corporate M&A, creating their M&A success, and increasing value for their shareholders.

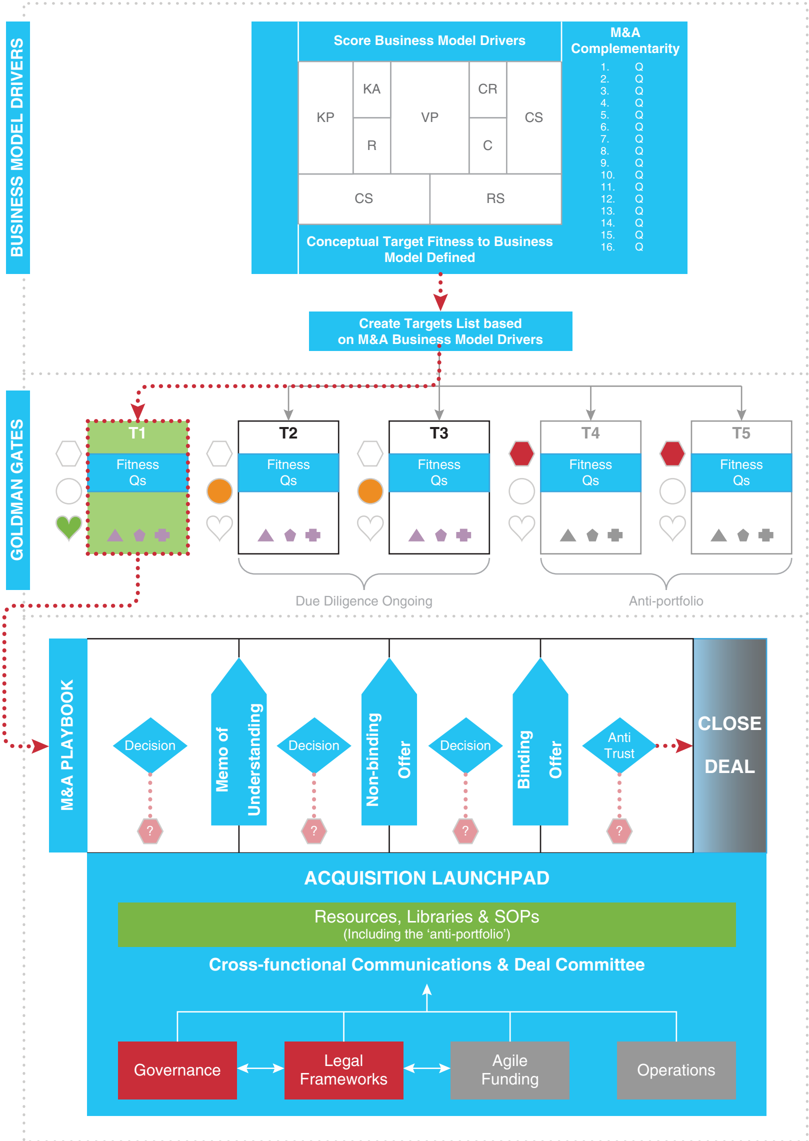

Figure I.1 The M&A Formula (see more on www.fixcorp.co)

Through our research, we were able to find countless examples where deals have progressed thanks to the M&A Formula, and many more examples of deals that failed because they didn't take these three rules into the equation.

The three steps of the M&A Formula may not make sense to you right now, but this book will explain exactly what is involved at every stage, and what to do once you have run the formula and started making deals.

We will do this by using real-world examples and academic research, as well as anecdotes from Peter's own career. We hope that by sharing this formula, we can help to reduce the global M&A failure rates, and empower more businesses to use M&A to their advantage.

Here's why the formula presented in this book is so exciting. Whilst we reference large blue-chip corporates, the formula has been proven to work for businesses of all sizes, especially SMEs. So now you can skip the expensive trial-and-error process that has dashed so many M&A aspirations in the past, and embark on the growing of your business or career, armed with the know-how and tools that were only available to those with global wallets.

Why Do M&A?

Whether you are a CEO, an SME owner, an ambitious employee, or a hard-working student, you will know that if you aren't growing, you are falling behind, and the rate at which your universe is growing is accelerating. When deciding how to accelerate your corporate growth, you are faced with a choice to build or buy, and like never before, the choice is more often to buy because we will show you how to be successful in corporate M&A.

And it is a lot simpler than you think.

When Peter became Head of Corporate M&A at FrieslandCampina in 2011, he already had 25 years of corporate and investment banking experience. Yet he had never heard anyone explain in one short sentence why FrieslandCampina was actually doing M&A. He challenged the organization to come up with a simple statement in answer to the question: "Why do we do M&A?"

Peter himself grew up on a farm, in a farming family, and clearly understood what a high milk price meant to a farmer.

In this case, the milk price was just another way to define the return to shareholders—it could be return on equity (earnings per share according to Peter), but for the farmers who held the majority of shares in FrieslandCampina, the milk price was paramount.

When people make statements like "we could build a stronghold in South-East Africa" as a way of justifying a deal, this is not a business model driver. In other words, it's not going to increase the 'milk price' (aka your shareholder value).

Before any deal, you have to be able to stand up and state what's in it for the owner. Why do we do M&A? If you don't have a clear reason—a reason that will increase your 'milk price'—then you have probably just figured out why your M&A failure rate is so high.

High failure rates are likely to be an issue in global M&A for the foreseeable future, and it is these rates which will separate the great from the average. There is no international ranking for corporate M&A, but we do have industry data which clearly shows which companies are creating value for their shareholders in corporate M&A, and which ones may as well be flipping a coin.

In corporate M&A there is a lot of room for mediocre performance; after all, who will know? Meanwhile the external advisors will pocket some more money and by the time a deal starts to fail, it's too late to do anything about it, and the C-suite pays no matter how involved they were in the deal. This is why every business should take a hands-on approach to M&A developments, and you should treat every single deal as if your career (or your wallet) depends on it—because it just might!

This book will prove the importance of understanding and planning for M&A, regardless of whether you are the CEO or an intern. When everyone understands why they are doing M&A, all the pieces of the puzzle will start to fall into place and success will follow.

What Will You Learn From This Book?

In this book, we wish to share and explain the M&A Formula. The formula offers a route to M&A success, for any organization of any size.

First, an organization must clearly identify why M&A should be part of its business—this will involve identifying clear business model drivers. We call this 'Business Model-Driven M&A.' In this book, we will share Case Insights, which are relevant to each of the most common business model drivers in corporate M&A, and we will present global companies who were able to use these drivers to create M&A success. We will also show you Research Insights from some of the world's leading academics who evaluated these companies. These insights cover both global corporates and SMEs, and we were able to compare the firms and conclude that the formula for M&A success is the same.

Next, we will reveal how corporates of all sizes can further increase their chances of M&A success by creating a 'sense of belonging' in the organization—the importance of leadership and communication based on a clear mission: business model-driven M&A.

Finally, we will show you that the way to M&A success has to come from within the organization—by taking ownership of your own transaction instead of relying solely on external M&A advisors.

The first thing you have to do is to stop doing the wrong M&A deals. If there's one thing that is clear from our research and experience, it's that half of M&A success lies in the deals you don't do.

But you will never hear this from your closest M&A advisors. Just imagine what would happen to the total M&A fees earned by investment banks, legal advisors, and transaction service providers (e.g. accountants) if all companies stopped doing the wrong M&A deals.

External advisors cannot possibly solve the problem of high M&A failure rates, because they simply don't have a vested interest in saying no.

That doesn't mean that there's no place for external advisors in M&A—quite the contrary. But when it comes to lowering failure rates, the change needs to come from within.

You have to have that moment of transformation, where you decide to use M&A for success.

After all, it is your company at stake here. What CEO would want to make any M&A-related decisions if the expected outcome was worse than a 50/50 bet? M&A-savvy corporates know why they do M&A, and how each deal fits into their business model from end to end. They know how to optimize their intake of external resources, but they also know when to step away from a deal that is destined to fail.

We will take a closer look at the relationship between corporates and external advisors later in this book, but for now let us go back to the high failure rates and why they prevail.

Let's compare direct investments such as corporate M&A with traditional fund management, which is just another type of (indirect) investment.

As in corporate M&A, all fund managers will tell you they are the best, but the truth is that very few of them are actually any good, and the rest are simply relying on luck. A truly great investment manager will be easy to identify: they will probably be ranked on the famous 'Citywire 1000' list (which identifies the top 1000 fund managers in the world); they will have fund fact sheets showing their average return on a 1-year, 3-year, or 5-year basis; or maybe they will simply be recommended by a trusted associate.

Unfortunately, there is no like-for-like chart when it comes to direct investments in M&A, but we wondered what it took to rank as one of the world's top fund managers, and whether the M&A world could learn anything from the equally competitive world of investment management. One of the best-known global rankings for fund managers is the Citywire 1000 'World's Top Fund Managers' list.[2] We took a deep dive into the investment processes of the world's top 10 investors and even had an interview with one of them. In fact, this wasn't much of a challenge, as Peter is married to Rikke—one of the top 10 world-ranked investors. We asked her: "What does it take to become top in your field?"

She said: "I'm not sure … I just do the same stuff every day. I invest the money. Look for value."

Can it really be that simple?

'Value' is at the core of every single sector in the business world, but it can be difficult to master. It is not just about finding the best deal; it is about understanding the risk so that you can avoid failure.

This is just as important in corporate M&A as it is in fund management, but it is often overlooked in favor of closing the deal.

That doesn't mean that you can eliminate risk altogether—after all, risk is often unpredictable. But you can eliminate those risks which are obvious. For instance, Peter's wife (Rikke) revealed that one of her tried and tested investment strategies is to selectively buy corporate bonds right after an announced M&A transaction. This is because the capital markets are acutely aware of the risky nature of M&A transactions and the high failure rates, so it is possible to pick up a bargain while the market is cautious. This was a strong indication that some companies apparently have a formula for M&A success. After all, she would not have become No. 7 globally (and No. 1 in Europe) by buying assets from M&A-savvy corporates if they often failed in M&A, would she?

This will not be news to seasoned M&A professionals. McKinsey has published an article about this phenomenon entitled 'Managing the market's reaction to M&A deals,' in which the authors (Werner Rehm and Andy West) claim that announcement effects are a good instant measure of market sentiment but a poor indicator of longer-term value creation. According to Rikke, she will be 'RISK ON' when others get fearsome and the majority turns to 'RISK OFF,' but only with companies who have a string of successful M&A activities behind them. "I want the same CEO and team to do it again," she added.

A strong history of M&A success will always catch the eye of top investors, gradually strengthening your company over time and creating new opportunities for investment.

We studied the other top 10 fund managers in the Citywire 1000, and found that most of them shared the same recipe for success: dedicated research, strict and formal investment process, long-term focus, sticking to your strategy, knowing when to get out, avoiding shockers, taking a structured approach, studying competitor behavior, global diversification, bottom-up approach, and analytically driven processes.

Successful investing in corporate M&A is not entirely dissimilar. It is about following certain procedures, your 'dos and don'ts,' and sticking with your plan. We call this the 'M&A Formula,' and used correctly it will form the foundation of your company's M&A approach, allowing you to repeat your successes again and again.

After learning more about Rikke's investment strategies, we decided to observe the winning behavior of another woman in her field of expertise: Serena Williams. As one of the most successful female athletes in the world, she certainly knows a thing or two about minimizing failure and repeating her successes over and over again.

What interested us about Williams was not necessarily how she played the game (although, of course, her games are phenomenal to watch), but how she behaved before she started playing. Before the deal negotiations even start.

What we saw was a top sports person entering the battleground with her headphones on. Although she greeted the audience, she was focused on the loud music in her ears which was setting her up for battle. She warms up in the same way every time, always doing the same thing over and over again. This is a professional support system which she has built up with her coach, so that she can run through her pre-match preparation with minimal distractions, and minimal risk.

This is what it takes to become a winner, and to keep on winning time and time again.

The best people in M&A have their own 'pre-match' routines. And just like the top 10 investment managers, and the world-famous sports stars, these routines are all about reducing uncertainty on an M&A deal. The top M&A professionals can take out your bad shots and institutionalize M&A processes so that your failure rates stay low.

Unfortunately, there is no global scoring board or Grand Slam equivalent for successful M&A professionals, which makes it harder to find the right people for the right jobs. That is one of the reasons why high failure rates will prevail in corporate M&A globally.

The M&A panel behind this book are all seasoned practitioners and even though they do not have a global ranking, their results speak for themselves. We hope to inspire you with our own tales of success and failure, and advice on how to get ahead in this complex world.

Who Is This Book For?

Are you an executive with a winning mindset, a passionate SME owner, or an ambitious employee who wants to take control of your