M&A Advisory Front

Perspective & Services

Update 2020

M&A Advisory Front

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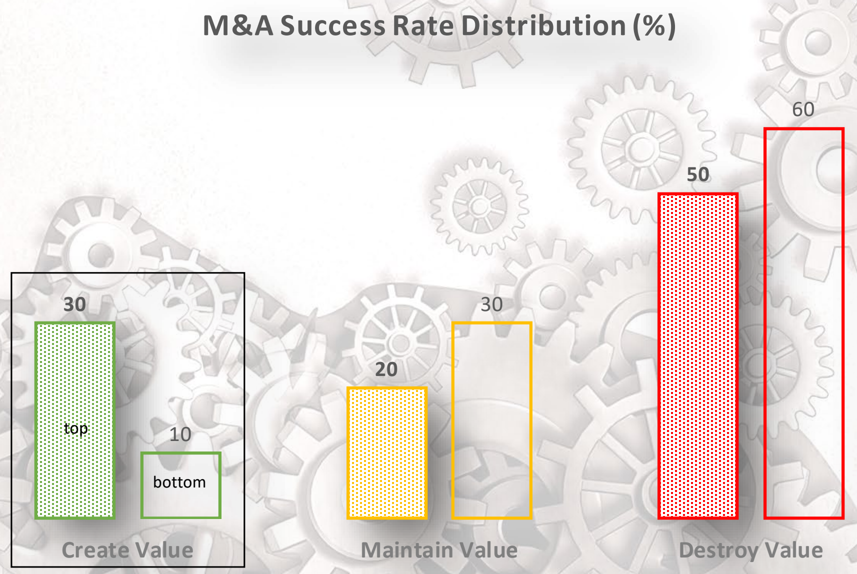
Why most of M&A fails in creating value

Value creation in M&A is rare.

M&A statistics of recent years vary per industry, geography, and period but consistently point to 70 to 90% of the transaction resulting in no value creation for the acquiring[1] company, with 20-30% neutral and 50-60% destruction. It is not uncommon that acquirers realize write-offs of part of the deal value in a couple of years from the closing.

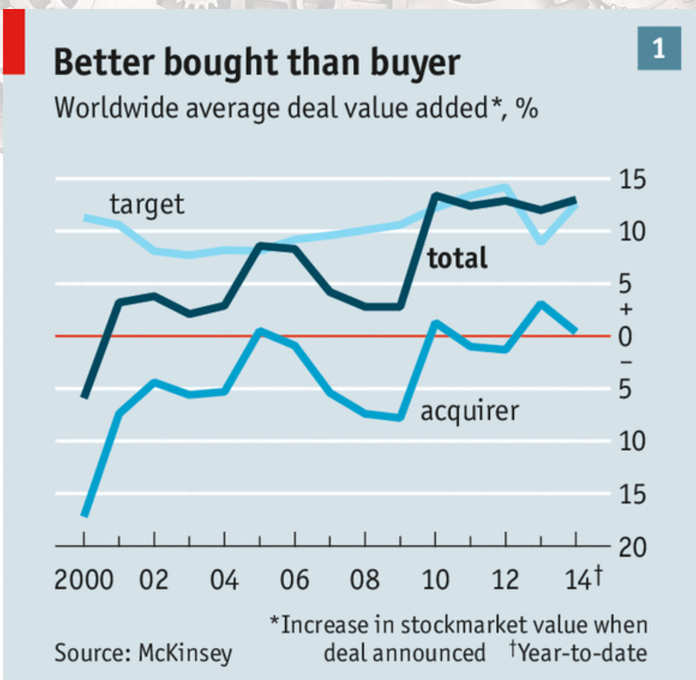
(1) refers to the buyer in a full acquisition or a majority stake in a merge



Source:
https://hbr.org/2016/06/ma-the-one-thing-you-need-to-get-right
https://gpmip.com/success-and-failure-in-ma-execution-an-empirical-study/

That high unsuccessful rate for acquirers does not mean that M&A deals are not creating value; indeed, they have been creating total value driven by the acquired[2] company. In the following chart - a McKinsey study from 2000 to 2014 published in The Economist – we can see a compilation of stocks variance when the deal is announced, showing the immediate upside, mostly at the seller side.

(2) refers to the seller in a full divestiture or a minority stake in a merge



To have a better picture of that reality, the company that wants to engage in an M&A process must access the external and the internal perspective.

From the external perspective, under market control, one of the critical factors is the consistent excess of capital at historic low-interest rates contributing to the increasing of tolerance for premiums paid for the targets.

Another factor grounds in that some traditional corporations have not been able to reinvent their business to foster accretive profitable growth and search for industry concentration or new technology assets acquisition to solve the issue. Based on that emerging demand, the street learned that some target assets were underpriced and is correcting their valuation since.

Of course, other external factors are influencing the market behavior in general and even more in industry specifics. Still, the above mentioned are the most relevant permeating across the market at a global level.

From an internal perspective, there are hundreds, if not thousands, of case studies on why an M&A deal is successful or unsuccessful, from the banking to academy sources. Amongst the main factors are listed Sharp Strategy, Owners Involvement, Management Stewardship, External Environment, Planning Acuteness, Cultural Fit, Resources Quality & Dedication, Process & Discipline, Adaptable & Agile Execution. Below a list of a few top articles on the matter for an enhanced perspective.

https://www.bcg.com/pt-br/publications/2018/lessons-from-eight-successful-mergers-acquisitions-turnarounds.aspx

https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/done-deal-why-many-large-transactions-fail-to-cross-the-finish-line

https://www.imd.org/research-knowledge/articles/MAOversightFramework/

https://knowledge.wharton.upenn.edu/article/can-help-make-merger-acquisition-succeed/

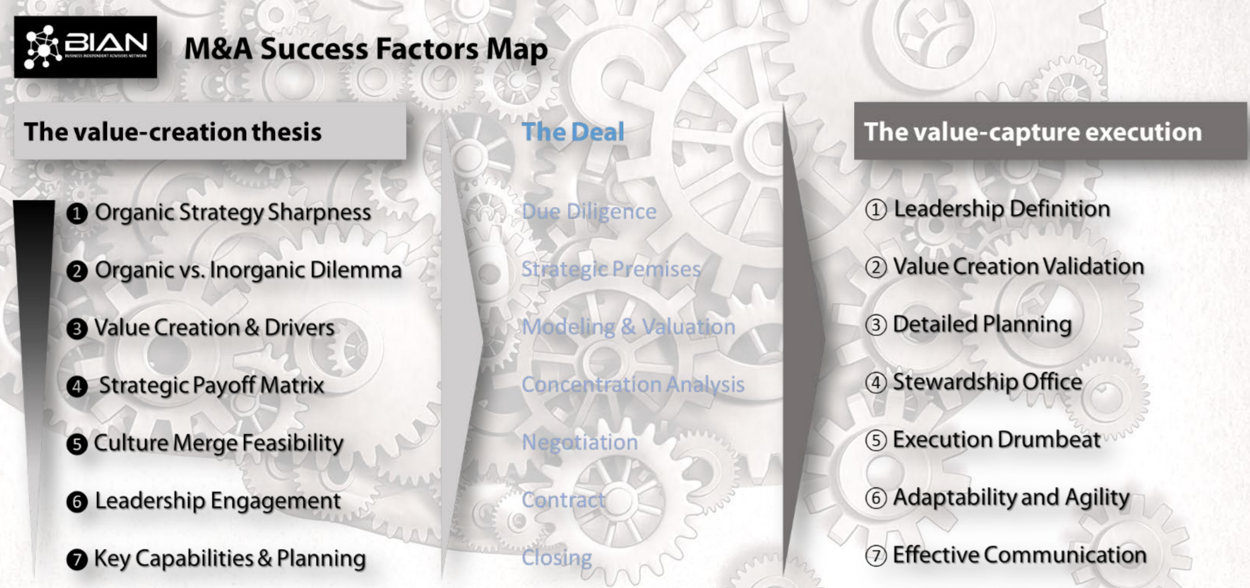
https://www.pwc.in/assets/pdfs/services/delivering-deal-value/making-mna-successful/making-mna-successful.pdf

As an obvious conclusion, an M&A process is regularly more complicated than managing the regular company business. Leaders have to learn and deal with all facets of a new business in a short time, diverting the attention of the current business demands; consequently, the risks of the core value destruction are high.

Our perspective and how we serve clients to create value in M&A

After executing and advising M&A transactions in multiple industries for years, **BIAN** distilled the leading factors of excel (or not) the expected performance in creating value from M&A initiatives.

The following **BIAN** M&A Success Factors Map (7:7:7) translates that refining with focus on our areas of expertise: (i) The value-creation thesis, and (ii) The value-capture execution. We are not experts in The Deal phase, and regularly we assume a support role to the company's Investment Bankers in that effort.



The value-creation thesis

The construction of the value creation thesis is the essence of the company's strategic thinking, and, consequently, the origin of success or failure in the following phases.

In that phase, our advisory network serves the clients to guarantee that they had enough depth of analysis and discussion to be confident in answering the critical questions behind each one of the success factors in the map.

1 Organic Strategy Sharpness	Do we have an optimal organic strategy for value creation?
2 Organic vs. Inorganic Dilemma	Do the returns on M&A investment overcome the organic strategy?
3 Value Creation & Drivers	What are the extra value in play and its main drivers?
4 Strategic Payoff Matrix	Do we understand the best value for buyer x seller alternative strategies?
5 Culture Merge Feasibility	Will we be able to address the companies' cultural clash?
6 Leadership Engagement	Will we be able to retain and engage the best leaders from both companies?
7 Key Capabilities & Planning	Do we have the capabilities to design a comprehensive plan and deliver?

Based on our experience, most of the companies underestimate the importance of the value thesis jumping too early in The Deal Phase. It is a natural outcome considering that most of the M&A is advised by investment banks that have robust expertise in financial modeling, but unfortunately, are not as good in market dynamics and strategic mapping.

The systemic issue is that managers use to enter too early (and overvalue) the financial modeling, always pushing hard on targets to justify the deal and, unfortunately, overlooking the exploration of the strategic possibilities, implications, and risks – which are the sole relevant premises to be modeled.

That is a fact turned more evident in cases that the value creation is not so dependent on straightforward cost synergies and depends more on sophisticated customer serving overlaps, tiering brand strategies, and organization and talent engagement.

Conclusion: the company management has to base relevant deal premises and derivate valuation exclusively in their knowledge without counting on business and strategy advisory to challenge and refine their assumptions, and ultimately to enhance the thesis.

The value-capture execution

It is a widespread business belief that the devil is in the details, and nothing more real when it comes to execution in delivering M&A value creation expectations. Undoubtfully the more robust the thesis, the lower the risk of failure, but even counting on that, the lack of ability to: communicate effectively, keep the drumbeat discipline, retain the right talent, have adaptability, and agility to correct action course may destroy any thesis.

In that phase, our advisory network serves the clients in validating the execution planning, supporting the leaders at the stewardship office, evaluating implementation course correction alternatives amongst others.

The systemic issue in this phase resides in overlooking the critical details of the execution, embedding a "natural" overestimation of the company combined capabilities to face the complexity of the challenges in capturing the synergies.

**The use of the "natural" word above means that it is reasonably logical that if both companies (acquiring and acquired – or merged) can serve the market separately, they will do it jointly, even capturing serving synergies. Counterintuitively, it does not translate the reality in most of the M&A cases related to industry consolidation. In contrast, in the case of the adjacent industry, intuition is usually correct.*

About BIAN (www.globalbian.com)

BIAN was founded in 2015 with the purpose of serving clients in their journey to the sustainable elevation of their business value by leveraging the accumulated knowledge and leadership of our network.

Our network comprises former C-Level executives with decades of experience in global corporations as well as regional and local relevant players to serve the clients in fronts like Strategy, M&A, Board Development, and Functional Excellence.

"a unique opportunity to disrupt with traditional consulting getting access to advice from former senior executives that made things happen multiple times, not only idealizing strategies but profoundly knowing the implementation missteps and success paths within high ethical standards." - Eduardo Campos - **BIAN** founder

In **BIAN**, we are relentless in achieving the simplest possible solution to our clients' challenges in elevating their business. To do so, we develop a four-layer advisory model based on our values, beliefs, network, and, method; all intrinsically guided by our passion for transferring priceless knowledge - https://www.globalbian.com/our-model.

During its tenure, **BIAN** has been consistently serving several companies from start and scale-ups to global corporations. To better know our advisory cases, look at https://www.globalbian.com/our-cases.

Eduardo Campos, the **BIAN** founder

An extensive international career as Board Member, CEO, and Strategic Advisor.

Distinguished by his entrepreneurship and leadership driving strategy, people development, business turnaround, integrations and, M&A, consistently delivering superior results at the highest ethical standards. Executive career developed in Bunge, Schweppes, Lojas Americanas, Nabisco, Kraft, and Mondelez.

BA degree with advanced studies in business by IMD, INSEAD, Wharton, and Kellogg Northwestern University.