

M&A INTEGRATION BEST PRACTICES**Transcript of George Stein's interview of Philip Panaro on Bloomberg**

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George:

Welcome to Bloomberg Forum, I'm George Stein, I cover Mergers and Acquisitions for Bloomberg out of New York and with me today is Philip Panaro, Global Head of the Mergers and Acquisitions Integration consulting practice of IM2 Consulting¹. Welcome Philip.

George:

Your specialty is in making mergers deliver the promised benefits, although many of them fail to do so. What sort of advice would you give to people who run Credit Suisse if you got that assignment?

Philip:

Well, making the announcement is easy. I think clearly identifying the goals, the business model, and making sure that they put in place a very structured framework, to make sure that they're deliberate. Not only to meet the minimum requirements in terms of legal change of ownership, which is the change of control. But actually making sure that those synergies are delivered far after that. I think that they have to make – they have to put together a very structured framework, define clear responsibility, make sure that it is jointly owned between both firms, and make sure these goals are tracked, monitored and delivered.

George:

You've done some work in the past advising Deutsche Bank in its integration of Bankers Trust. What are the lessons that were learned from that one?

Philip:

Well I just want to make sure that I don't comment on client activity, but I can tell you what's been made very public. I think that Deutsche Bank's success with Bankers Trust as evident in actually the Financial Times, in June, is that the growth in Investment Banking revenue of Deutsche Bank is actually outpaced a lot of the U.S. rivals. And actually outpaced UBS. And they credit that to the smooth integration that was done, in reference to the Deutsche Bank/B.T. merger integration. So I would say the key for that was that Deutsche Bank used a very structured approach. They defined clear responsibility and they aligned businesses right from the start with clear goals. And as a result of that they were able to meet their targets for changing control and their synergy goals.

Philip:

In addition to that, they put in place a structure even after change of control that ensured that those goals were met and continued through. In addition, I think what they also recognized was that the human resource behavioral communication on cross border deals is as important as the mechanics. And as a result they did put a great emphasis on making sure that there was cultural alignment. Because the deal, even though it closes, if you don't maintain and improve the sustain value, it's meaningless. So I think we should give a lot of credit to them. They did a very good job.

George:

Without then referring to particular clients, there have been a number of notable mergers that have failed to happen or failed to deliver in the area of financial services. What went wrong in some of them, in your experience?

Philip:

I think the most important lesson is that synergies don't happen on their own. Just because senior management states what those principles are, doesn't mean they're actually going to happen. So it's very important that a very clear structure is put in place with clear accountability. But more importantly, I think that what's important is that the synergy targets need to be realistic and also what should happen is that – People think that when you have change of control and change of legal ownership the merger is over, it's just beginning. In fact, most of the synergy targets are actually achieved months to years after that. And it's



that recognition by senior management to ensure that happens is what makes a successful merger. Firms in the past, and I would say this is the biggest problem, think that when they have legal ownership change that they're merged. They're not merged, they are a single entity in name only and the merger has just begun. So they need to actually focus even more on the integration. And I think that's why most mergers fail. Because the fact that - people don't realize that you cannot merge in just name only. But the firm has to be truly integrated. But I think firms recognize that now. And I think the best example of that – with the Royal Bank acquisition of Nat-West, where they – Bank of Scotland did put in a bid for them, but Royal Bank went through the trouble of making sure that they really had a very valid integration approach, had tested their synergies, and the public perception of that was very positive by the investors and accepted. So people are beginning to place more of an emphasis in reference to integration management and clear accountability for synergies. It's not just making the announcement.

George:

Some of the things that you recommend people do – they actually typically move their desks, they – how do you get people to work on integrating when they're going to be out of a job after the integration is over? What sorts of things do you recommend for clients?

Philip:

One of the most important things is up front, after senior management sets the principles and goals, and selects the change of control date, what they have to do is create a blueprint. And I think what a blueprint is, it's just like building a house. Essentially what a blueprint is, is how you want to look for change of control, and how you want to look one year and two years out. I think more firms are recognizing that essentially it's important right up front to clearly identify the goals but also clearly identify how they want to look at certain points of time. And as a result of that, that provides them with clear direction with different points of time going forward in reference to the key things that need to be done.

George:

What's the rule of thumb on what firms can expect to pay on the cost of integration, what's the rule of thumb on that?

Philip:

In the past, from what I've seen, based on my experience, the general rule is around 5-10% of the value of the deal. But then that's probably why they didn't get the value of the deal when the deal closed. Because – you really don't get the value of a truly merged entity unless you actually merge it and integrate it. So just because you merge on day one, if you have still have two data centers, two networks, redundant systems, you're not extracting the value. In fact, you're causing confusion with your customers and your market.

What you need to do is that you need to basically ensure within your integration budget, there's enough funding to ensure that those activities happen and in fact those systems get turned off to ensure that you actually move to a single entity. So I've actually seen in the past year or two a mark up of more like 10-20% of the deal value, in terms of the integration budget to execute those activities to ensure in fact there is a full integration. What happens out of that is that it's kind of an annuity. If you actually merge and fully integrate, the savings on that happens continuous. Whereas if you don't put the money to do that up front, what would happen is you would continue to operate separately on higher cost and run rate over time.