# M&A and Divestitures

## Driving Value Creation in Corporate Transactions

# CONTENTS

# 1. INTRODUCTION

Industry leaders get involved in corporate transactions to create value and increase shareholder returns. With a range of complex strategic options, many transactions fail to deliver their intended value, resulting in penalties that can be damaging to market share, capital market confidence as well as to the company employees involved.

At Capgemini Invent, our global Mergers and Acquisitions practice advises senior management on navigating the transaction cycle. We align M&A activity with corporate strategy by developing sector strategies and identifying attractive acquisition candidates, improving the quality of decision-making in due diligence, and increasing the integration capability.

## Our Expertise and Unique Approach

Our consultants combine their extensive transactional expertise with profound understanding of specific industry sectors. Capgemini Invent offers unique capabilities in strategy, operations, technology and change management to steer the complexity of M&A transactions and leverage our cross-functional and global teams. Moreover, we address the soft factors of an integration challenge. This helps our clients creating and accelerating merger intergration synergies and implementation. Through our expertise and capabilities we support our clients with the planning and execution of the following transactions:

- Mergers and Acquisitions
- Divestitures and Demergers
- Alliances, Joint Ventures and Licensing Partnerships

## Track Record and Value Delivery

Our clients value our ability to deliver tangible benefits and payback realization for their M&A projects. We have helped corporate development executives in over 200 M&A related projects in the last five years. Our experience includes support for large, cross-border transactions as well as middle market deals, with a customized approach to suit our clients' market strategy and transaction focus. Our approach of attributing the same significance to financial objectives as well as to people and cultural integration – where both are required to realize value – is unique in the consulting industry. As a leader in post-merger integration services, our global footprint enables us to support cross-border transactions in mature and emerging markets and in major industries.

# 2. OVERVIEW: OUR M&A SERVICE PORTFOLIO

Given the high rate of failures during M&A, a structured and holistic approach is crucial: Our M&A service offering guides you through the entire M&A process covering the pre-deal as well as post-deal phase (figure 1).

During the pre-deal phase, we support our clients in defining an investment strategy, conducting industry scans and identifying and qualifying potential acquisition targets. Our transaction advisory services offerings consist of M&A transaction support, due diligence (our focus is on commercial, operational and IT due diligence) and data room management. In all pre-deal activities we can provide our clients with the latest industry insights and company information through our global expert network and our extensive global research databases. For more insights into our commercial due diligence and data room – or as we call it “clean room” approaches, please see chapter 3.

The post-deal phase can be separated into post-merger integration and if needed, at a later stage, divestiture planning & execution. Post-merger integration is the key in creating sustainable value in a merger. We support our clients during the whole integration management process and use our functional capability units in order to drive the functional integration. Moreover, depending on the client’s and/or the target’s individual situation, we offer business growth support and restructuring initiatives. Please see chapter 4 for a full picture of our key post-merger integration services: Integration strategy (chapter 4.1), first 100 days planning (chapter 4.2), business continuity planning (chapter 4.3), synergy management (chapter 4.4) and change management (chapter 4.5). Furthermore, we would like to introduce the PMI flash project. The aim of this service is to step into an ongoing integration in order to analyze the current integration status, compare it with the initial integration targets and to derive recommendations to bring the integration process back on track (please refer to chapter 4.6). During the carve-out phase, divestiture planning & execution, we support our clients in defining an exit strategy and managing the data room and due diligence process. Divesting selected assets regularly results in carve-out transformation projects (chapter 4.7) which is another key competence of Capgemini Invent.

**Figure 1: Capgemini Invent M&A Service Portfolio**

Pre-Deal

**Investment Strategy**

**Investment Strategy**
- “Build, buy or ally” analysis and strategy
- Industry sector strategy
- Value chain reshaping

**Industry Scans and Strategies**
- Market scans by sector and geography
- Detailed company analysis for buyout or investment opportunities

**Acquisition Screening & Selection**
- Target identification, qualification and selection
- Candidate assessment

**Transaction Advisory**

**M&A Transaction Support**
- Investment thesis
- Synergy calculation
- Negotiation support
- M&A process management

**Commercial Due Diligence**
- Analysis of attractiveness, risks and sustainability of target’s business model

**Operational Due Diligence**
- Efficiency gains identification
- Key personnel identification
- Major process improvement areas

**IT Due Diligence**
- IT systems and processes

**Data room (The Clean Room)**
- Program Management Office
- Strict confidentiality

Post-Deal

**Post-Merger Integration**

**Integration Management**
- Integration Strategy
- Day 1 preparation
- First 100 Days plan
- Business Continuity Planning
- Integration Mgmt. Office
- Synergy Management
- Change Management

**Functional Integration**
- Marketing and Sales
- Supply Chain and Operations
- Finance and HR
- IT integration

**Business Growth**
- Product and market expansion
- Sales and profit growth

**Restructuring**
- Turnaround Management

**Flash Assessment**
- Status quo assessment in integration process
- Short-term measures execution

**Carve-Out**

**Exit Strategy**
- Portfolio analysis and strategy assessment
- Exit options evaluation
- Sales documents preparation

**Data Room**
- Management and support of building data room

**Vendor Due Diligence**
- Identification and pre-qualification of potential buyers
- ‘Reverse’ due diligence of buyer needs to pre-qualify bidders

**Carve-Out**
- Divesture Strategy
- Separation of entities, functions and data

Deep dives in this document

# 3. PRE-DEAL PHASE

## 3.1 Commercial Due Diligence

During an M&A process, the buyer needs to obtain a thorough assessment of the target's business model and business plan and put them into a market perspective, including projected market developments and the competitive environment. Capgemini Invent follows a holistic approach regarding strategic and operational due diligence. We set our focus not only on validating acquisition assumptions but also on providing greater insights that enable companies to proceed confidently with subsequent integration activities. A thorough and professional due diligence will safeguard our clients' investment by confirming all the material facts relevant to the transaction.

### Context

Acquiring or divesting a business is generally complex and entails numerous challenges. Identifying the potential risks involved is a crucial success factor. In order to make a sound investment decision, it is essential to have a clear understanding of all external (market environment, trends and forecasts, etc.) and internal (organizational structure, product portfolio, etc.) factors as well as dynamics influencing and shaping the business context in which the potential target operates.

Capgemini Invent's commercial due diligence aims at analyzing the attractiveness and sustainability of the target's business model, evaluating future cash flows and financial forecasts and indicating potential risks by reducing the often inherent information asymmetries (figure 2). Thus, we ultimately help our clients to increase the success rate of future merger or integration processes.

### Approach

Capgemini Invent has developed a proven holistic approach. Our global experts review the industrial and commercial capabilities of the potential target in close collaboration with the client team during our commercial due diligence process. The evaluations are based on the pre-defined strategy and performance goals of our clients. Having ready-to-use, state-of-the-art analytical tools and methodologies, we focus on the value enhancing aspect of the potential deal. This results in a better understanding of the additional value that the transaction could deliver, reducing the risk of overpaying for the target or underestimating the effort required post deal. Based on our in-depth project expertise, our consultants know how to address typical challenges like complexity, limited data availability and scarce access to key experts and stakeholders while coping with a tight schedule.

**Figure 2: Components of a Commercial Due Diligence**

**1. Summary: key findings**
- Scope of service and information basis
- Company profile
- Overview balance sheet, P&L, cash flow
- General key findings and open issues
- SWOT analysis (operating model, USP)
- Contract and negotiation findings

**2. Market environment**
- Market size and segments
- Historic market growth
- Projected market growth
- Growth drivers
- Regulatory framework
- Segment specific trends

**3. Competitive landscape**
- Key competitor analysis
- Market share trends
- Products and services (incl. USP)
- Gross profit and gross margin
- Significant sales factors
- Company strategy

**4. Sales and customers**
- Customer analysis
- Order analysis
- Distribution channels
- Debtor management
- Sales force and 3rd party agents

**5. Production, purchasing and suppliers**
- Main production locations
- Production capacity
- Investment plan
- Quality management
- Supplier and creditor analysis
- Main supplier contracts
- Purchasing organisation

**6. Organization and personnel**
- Organizational chart
- Legal framework
- Management quality
- Corporate management incl. shared services
- Succession policy
- Staff development and employee overview
- Employee productivity
- Payment system and motivation
- Pension and other payments

**7. Accounting and controlling**
- Controlling instruments
- Controlling and steering processes
- Risk management and corporate governance
- Internal and external revision
- IT infrastructure

**8. Cash flow analysis**
- Overview
- Working capital

**9. Balance sheet analysis**
- Overview
- Capital assets
- Inventory
- Accounts receivables
- Liabilities
- Accrued liabilities
- Equity capital

**10. Profit & loss analysis**
- Overview
- Sales and margin
- Production costs
- Other operating revenue
- Distribution expenses
- Research and development costs
- Administration costs
- Basic EBITDA
- Financial result

**11. Budgeting and planning**
- Overview of earnings, balance sheet and cash flow forecasts
- Forecasting system
- Forecasting accuracy
- Overview business activity of current year
- Forecasting assumptions
- Sensitivity analysis

Core components | Extended components (shared with Financial Due Diligence)

## Results

Our commercial due diligence results in a compact and structured written report. We assess the projected future cash flows and earnings by understanding and analyzing all underlying internal business and external market factors. Our consultants take a three step approach to deliver the final report: Planning and conceptual design, research and analysis, validation and finalization. The report includes all major areas such as market environment, competitive landscape, sales and customers, production, purchasing and suppliers as well as organization and personnel. In addition, we have the flexibility to cover extended financial components like analysis of accounting and controlling, cash flow, balance sheet, profit & loss as well as budgeting and planning.

## 3.2 The Clean Room

A clean room can maximize deal value by accelerating transaction closure, enabling more accurate valuation of assets, and providing a jump start on implementation as well as realizing synergies. In a clean room, a third party advisor can devise legal arrangements that allow the advisor to have access to information that would normally not be released between the parties. This allows much more in-depth planning for post-merger integration and accelerates the capture of the synergy benefits of the integration once the deal is closed.

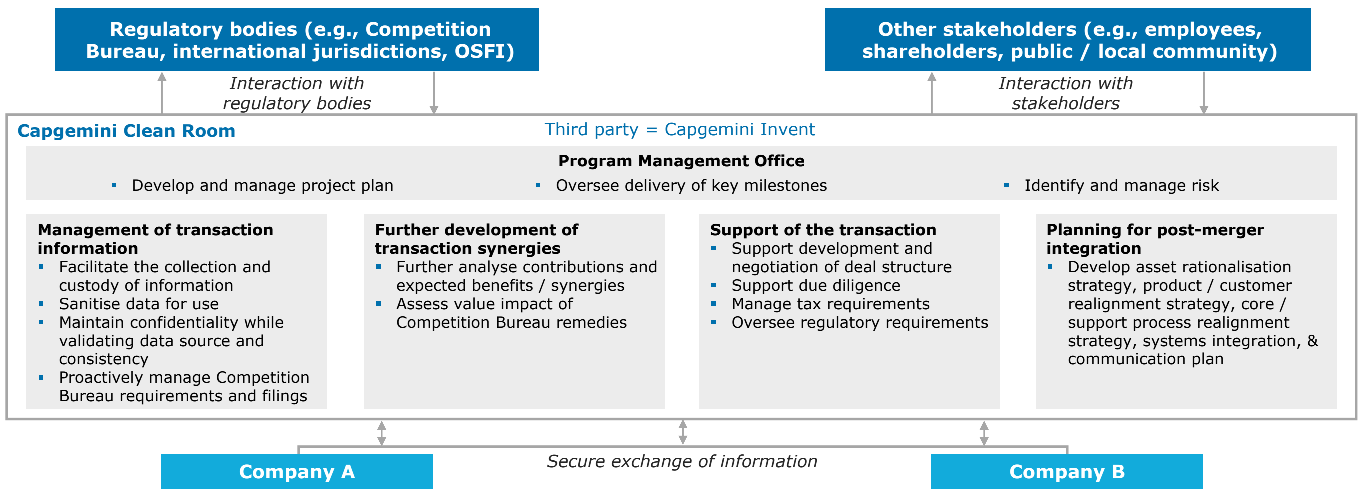
## Context

The success of a post-merger integration depends on the acquirer's ability to analyze target companies in order to gain a valid assessment of their economic situation. Therefore, in M&A transactions – whether acquisitions, auction processes, or mergers – a data room is set up to accomplish the disclosure of documents and to share information between parties in a controlled environment, typically during the due diligence process. Confidentiality is paramount and strict controls for viewing, copying and printing are imposed.

Our clean room is an enhanced version of a data room with a further purpose. In addition to being a tool for due diligence, a clean room is used to advance the release of information needed for integration work or other post-deal activities (figure 3).

For this critical step, Capgemini Invent has proven methodologies and capabilities supporting an in-depth planning of the transaction, thus accelerating the capture of synergy benefits of the integration once the deal is closed.

### Figure 3: Concept and tasks of a Clean Room



## Approach

The clean room ensures the secure exchange of information in the context of an anticipated transaction. Moreover, it functions as an interface between the companies and regulatory bodies as well as further company stakeholders. The key element of Capgemini Invent's clean room is a strong Program Management Office which conceptually develops and manages project plans, oversees the delivery of key milestones and is responsible for risk management. Specific tasks of the Program Management Office include:

- Management of transaction information
- Further development of transaction synergies
- Support of the transaction, as well as planning of post-deal activities

Capgemini Invent's clean room service describes a set of specific activities and deliverables for each task to be achieved by a specific deadline.

## Virtual Clean Room

For reasons of cost, efficiency and security, Virtual Clean Rooms (VCR) have widely replaced the more traditional physical data room. Although similar in many ways to its predecessor, the physical clean room, for example in allowing the buyer/third party involved to conduct an organized assessment, the virtual clean room also represents an enhanced version:

Better organized access to documents:

- 24/7/365 service hotline Q&A function increasing the comprehensibility of documents
- Text recognition enabling a quick and effective searching of documents

More reliable and intelligent administration of documents:

- Audit trail function allowing monitoring of the use of documents and thus tracking of the potential buyer's interest in specific sections of the target's documents
- Dynamic indexing of documents
- Flexible management of access rights
- Watermarking of documents
- Compatibility with a variety of file formats

Platforms for Virtual Clean Rooms are offered by specialized providers and can be adapted to specific needs of the client. This allows Capgemini Invent to leverage its group capabilities in information security and data processing. Setting up a VCR usually takes 1 to 2 weeks, depending on the time needed for selecting and preparing the actual content and documents.

## Results

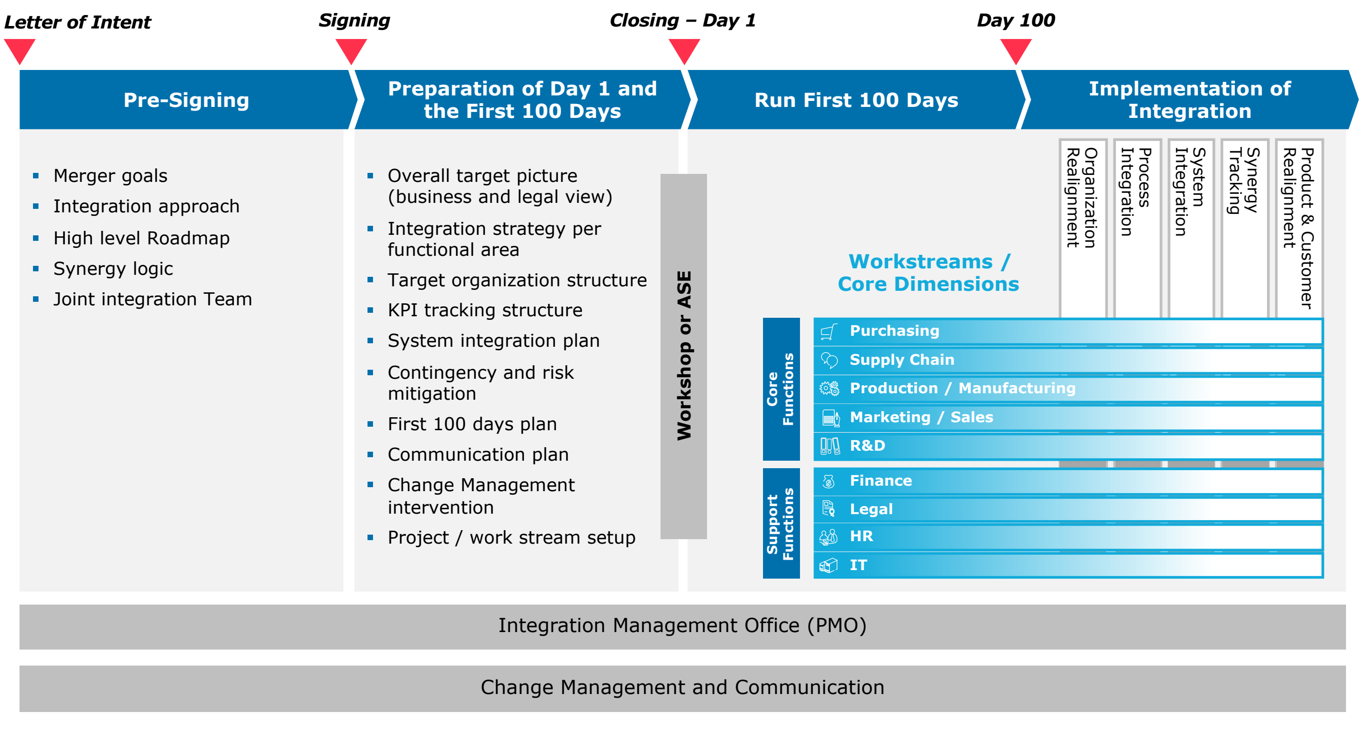
Our experience shows that using a clean room offers a number of benefits and can lead to cost savings and synergies from day 1 after deal closure. Key benefits of a clean room are:

- Compliance with regulations
  Capgemini Invent will ensure that the negotiating parties do not share information about operations, trade secrets, and pricing for customers as prescribed by the Department of Justice, Federal Trade Commission, or European Commission regulations
- Resolving organizational issues of integration planning
  Capgemini Invent will support executive management in integrating an operation by diminishing uncertainty about the deal closure
- Increased likelihood of success in integrating two companies
  Capgemini Invent will provide a plan for how to start the integration of multiple organizations at closing, thereby providing a better understanding of cultural issues and taboos that could hinder cost savings
- Identification of additional opportunities for savings and synergies
  Capgemini Invent has experience in identifying cost savings beyond traditional M&A focuses such as HR, IT, and operations on balance sheets, by deploying focus groups on internal and external relationships
- Accelerated realization of savings and synergies
  Capgemini Invent will plan the new organizational design and implementation in the clean room in a timely manner, renegotiate contracts to be effective on closure day and pre-establish metrics to measure implementation progress as well as trigger cost savings and synergies on day 1
- Confidentiality and security
  Capgemini Invent will ensure data confidentiality by imposing strict controls for the viewing, copying and printing of documents

# 4. POST-DEAL PHASE

Our general post-merger integration approach (figure 4) is split into four phases. Each phase has inherent complex integration issues that our consultants are trained to address with their in-depth knowledge and experience. A letter of intent starts the process of defining an integration approach that sets the scene for upcoming integration activities. After the letter of intent but before signing the contract, an integration strategy should be defined in order to set the stage for the upcoming integration activities. After the contracts have been signed, "Day 1" – meaning the closure of the deal should be prepared. Moreover, a detailed first 100 days plan needs to be developed. During these first 100 days after closing, the focus is on analysis and design regarding organizational realignment, asset allocation, product & customer realignment, core & support process realignment and system integration. Integration execution should start right after that. The whole process should be supported by strong project management, synergy management, business continuity planning and last but not least, suitable communication and change management activities.

**Figure 4: Generic Post-Merger Integration Approach**



## 4.1 Integration Strategy

Integration strategy is an essential part of the post-deal phase (if required, integration strategy starts during end of pre-deal phase) and is the first step to drive post-closure shareholder value. Following a detailed analysis in the clean room, an integration strategy is a comprehensive concept which focuses on real and sustainable sources of value, which shall be quantified and openly communicated.

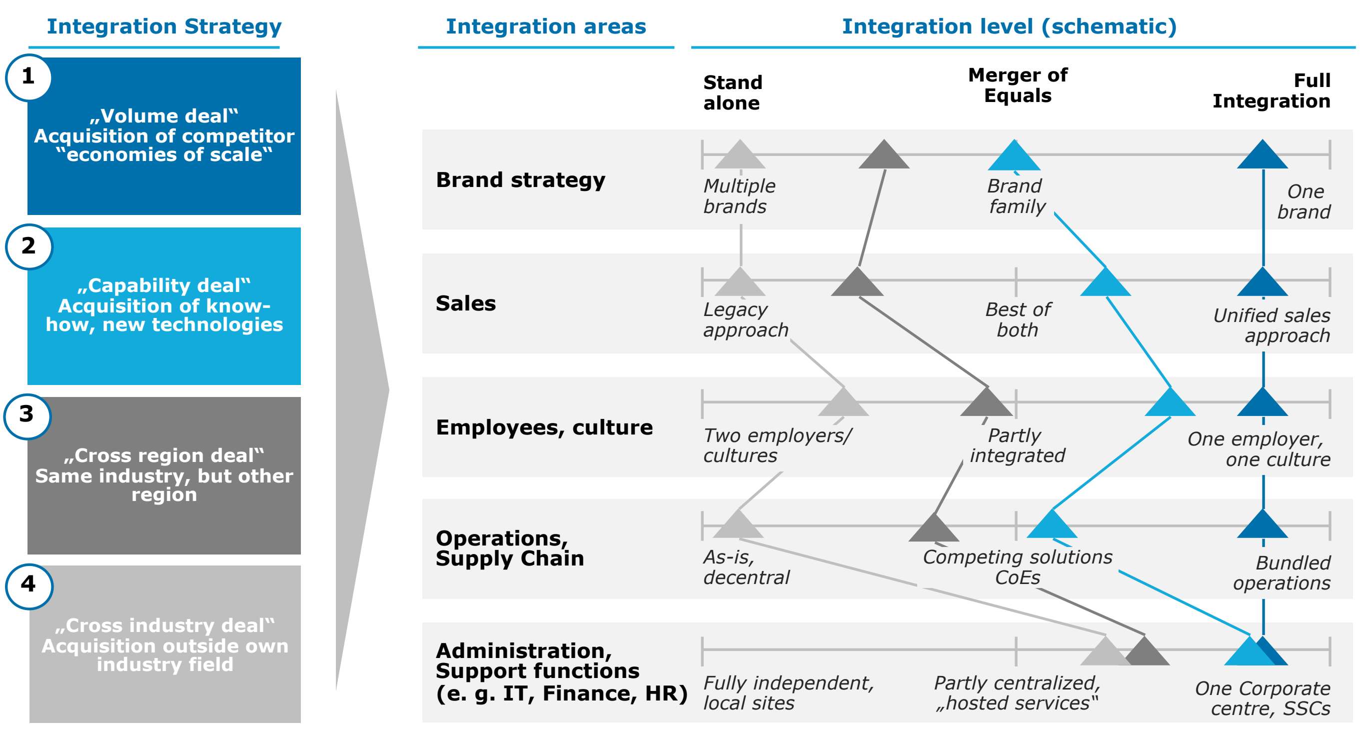
## Context

More than 70% of post-merger integrations fail to deliver the expected results mainly due to the absence of clear post-merger planning. One of the key factors to a merger's success is the definition of the right integration strategy during the pre-signing phase. An integration strategy defines how closely the two independent organizations should be interlinked with each other following the merger, and thereby provides a framework for all integration activities. To help our clients identify the most successful integration strategy, we have developed a workshop-based integration strategy concept consisting of three main components: the merger vision, the integration level setup and the integration master plan. The integration strategy concept is one of the most important modules from our comprehensive post-merger integration approach.

## Approach

We believe that a close collaboration with our clients delivers the best results. We have therefore chosen a workshop-based approach used to develop a comprehensive merger integration strategy. Usually, we conduct a workshop lasting for two to three days at an offsite location and leverage Capgemini Invent's tailored workshop methodologies. The participants should comprise top-management from both companies with the functional expertise to formulate and represent the main strategic intent of the planned business integration.

**Figure 5: Integration Level per Merger Type**



The foundation of an integration strategy is a shared merger vision which explains the strategic intent of the merger and defines the purpose and priorities of the joint company. It is translated into strategic goals and forms the basis for defining the integration levels. Both the vision and strategic goals should be tangible and shared by both companies' senior management, and thus form the baseline for all related communication.

The next step is to set the overall integration frame by defining the integration levels. Therefore, we analyze the different integration areas such as brand strategy, sales, employees etc., of the future merged organization and determine each area's integration level. The setting highly depends on the merger vision, strategic goals and type of merger. In general, four different types of merger can be identified:

- Volume deal: The merger is based on economies of scale.
- Capability deal: The merger is based on the enhancement of the joint capability portfolio.
- Cross-region deal: The merger is based on the joint geographical reach.
- Cross-industry deal: The merger is based on the ability to expand in new business fields.

Each type of merger shows a certain generic integration pattern (figure 5). For example, a volume deal should typically result in a full integration of all areas to leverage all aspects of size, whereas other types of merger vary in their integration level in different areas. The integration level in each integration area offers an initial indication of synergy potentials to be leveraged. In this context, a large integration level represents a significant synergy potential and vice versa.

### Results

Finally, we translate both merger vision and integration level setup into a feasible master plan, a document containing the main aspects of the integration strategy and a tool to translate the vision into action. Typically, the master plan includes high-level journey to a new organization and business model, an activity roadmap and a communication plan.

## 4.2 First 100 days

The success of a merger is usually determined during the first 100 days post-close. Using information from the due diligence phase, an effective 100 day plan can greatly increase the chance of a successful deal while major disruptions during the establishment of the new, joint operating model are avoided.

### Context

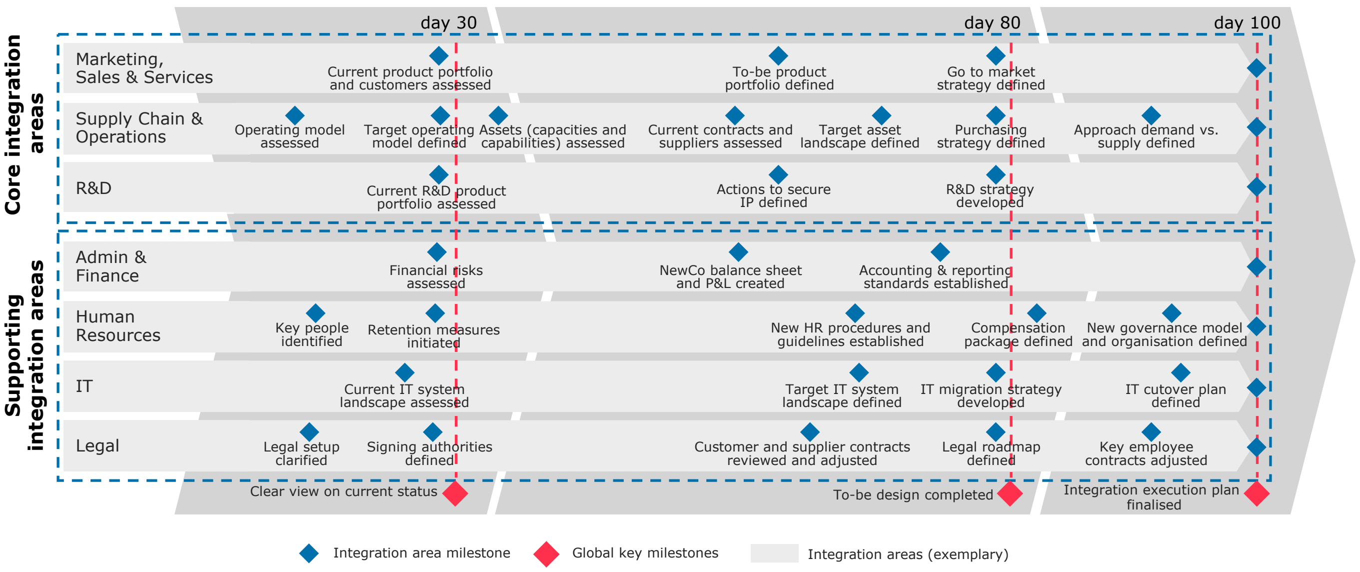
The first 100 days of a merger have a disproportionately high impact on the overall success of the integration. The goal of the first 100 days is to ensure business continuity, confirm synergy targets and define a target operating model, while following a critical path to best mitigate integration risks.

Thus, having a plan for the first 100 days in place is decisive for the success of a post-merger integration. For this critical phase, Capgemini Invent has proven methodologies and capabilities to develop and execute the plan.

### Approach

Applying core components of the first 100 days plan to integrate areas of the new business results in a pre-defined set of key milestones. This high-level plan must then be detailed in action plans for each integration area, specifying activities that are strategically as well as operationally important (figure 6). In addition, critical paths across all integration activities are defined to ensure that the first 100 days of integration proceed rapidly and remain on track at all times. Consequently, a clear and result-driven path to post-merger integration is given at the outset of the project.

## Figure 6: High-level Plan for the First 100 Days






## Results

Our experience shows that the foundation for a successful post-merger integration is laid during the first 100 days. Critical success factors are:

- Strict adherence to the initial merger rationale – do not lose sight of the original strategic intent
- Increased customer focus – the customer is part of the process and must not be neglected
- Early measures to retain key performers – define the future leadership organization and retention measures for key stakeholders early in the process
- Transparent and focused communication – follow clear response patterns in case of conflicts
- Decisive change leadership – top management as change sponsors need to generate and drive the momentum
- Structured integration management – safeguard ongoing operations

Respecting these success factors is necessary to reduce risks, maximize value creation and secure business continuity. Leveraging our broad network of international experts and our tools and checklists, we will ensure an efficient and effective support throughout our clients' integration challenge.

## 4.3 Business Continuity Planning

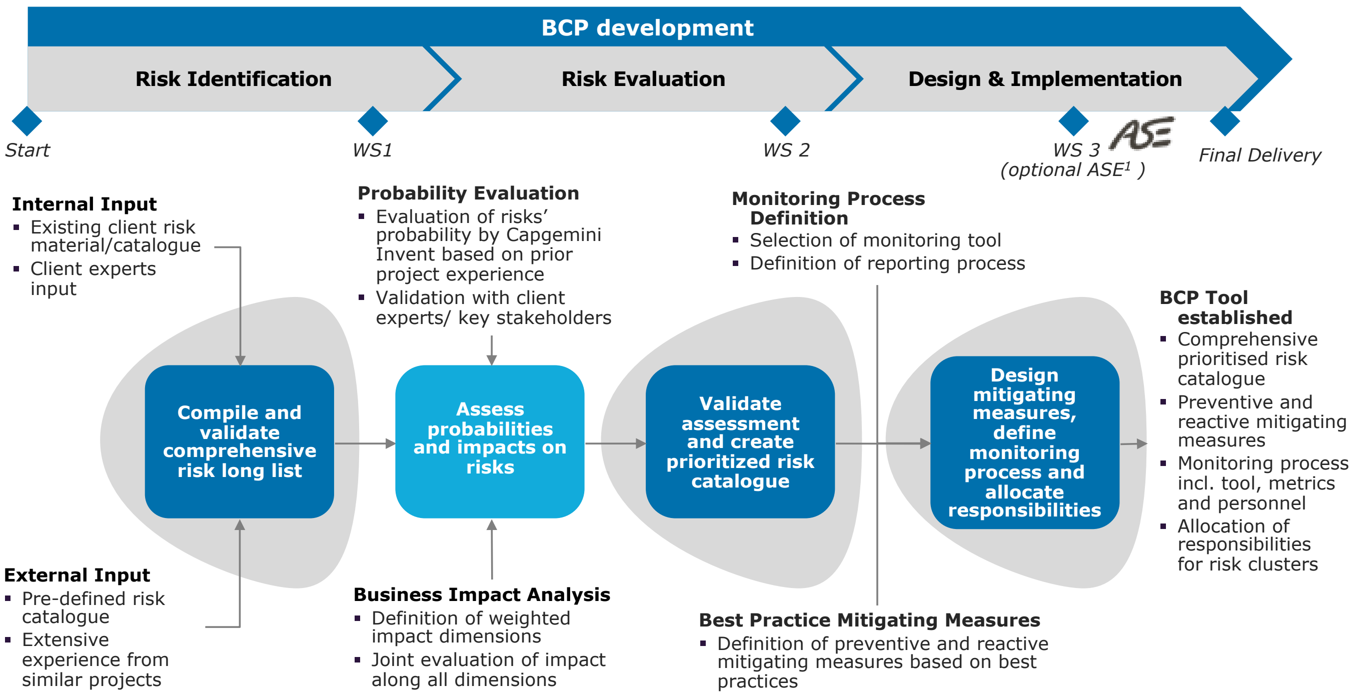
After the deal is closed, business continuity planning is an effective tool to manage risks in a structured way and secure business continuity from day 1 until the end of transformation. The integration of a business continuity planning in PMI projects will reduce impacts on daily business with both preventive and reactive mitigating measures and thus lead to reduced overall cost of the merger.

## Context

During the integration of organizations, the primary focus of attention is often on achieving the targeted synergies and benefits, while disregarding risks for the daily business and the seamless continuation of operations. Neglecting these risks can quickly have a severe negative impact, such as financial and/ or customer losses and a damage in external and internal reputation. As a result, the initial merger expectations may not be met or, in the worst case, the entire integration may fail.

Capgemini Invent has developed a structured Business Continuity Planning (BCP) approach supporting companies in successfully managing business risks along the entire integration process (figure 7). The comprehensive plan is focused on securing and maintaining daily operations. It effectively creates awareness for the potential risks, prepares for their possible occurrence, and provides feasible mitigating measures. Thus, a BCP implementation significantly increases the probability of a successful merger.

**Figure 7: Business Continuity Planning Methodology**




1 We propose to use an ASE (Accelerated Solution Environment) this is a proven workshop concept by Capgemini to increase productivity and achieve a greater alignment among key stakeholders

## Approach

Our methodology is used to jointly set up a customized tool for identifying, assessing, and addressing all major risks during the integration process. It is structured in three collaborative workshops involving all relevant client stakeholders as well as Capgemini Invent industry and post-merger integration experts.

The first workshop delivers a comprehensive and aligned overview of the potential risks for ongoing company operations during the integration process. Leveraging our risk catalogue from previous projects, these risks are adjusted by the project team and validated by key stakeholders of the client.

In the second workshop, the risks are evaluated according to their business impact and probability, helping us to adequately prioritize the allocation of relevant resources. The last workshop results in a detailed business continuity plan, which includes a list of the prioritized risks, defined preventive and reactive mitigating measures, an underlying monitoring and communication process, as well as clear roles and responsibilities.

## Results

Capgemini Invent's business continuity planning approach delivers tangible results:

- A ready-to-use BCP tool, including all required information to prevent and mitigate any potential major risks for day-to-day operations
- An implemented monitoring process determining how to track and monitor the identified risks
- A clear assignment of responsibilities ensuring the right allocation of tasks as well as the commitment of key personnel

Successfully managing risks and their impact on daily business directly contributes to reducing merger costs and increasing the overall probability of merger success. Our collaborative approach creates high awareness and acceptance amongst key stakeholders in the client's organization. In addition, clients benefit from our Capgemini Invent experts, equipped with an in-depth understanding of the typical risks in the respective industries and comprehensive experience in the execution of merger integration projects.

## 4.4 Synergy Management

The incorrect management of synergies is one of the most frequent reasons for the failure of post-merger integrations. Synergy management should be an integral part in the entire merger process – In calculating potential synergies during the pre-deal phase and in realizing the synergies during the post-deal phase. The following paragraph demonstrates how successful synergy realization depends on synergy management, in other words the selection and alignment of the appropriate levers.

## Context

The success of a post-merger integration depends primarily on the realization of the targeted synergy potentials. However, ensuring that the combined enterprise value exceeds the sum of its parts is a complicated and timely process. Spanning the entire M&A cycle, synergy management encompasses the pre-deal estimation of synergy potentials and the subsequent post-deal re-evaluation and realization.

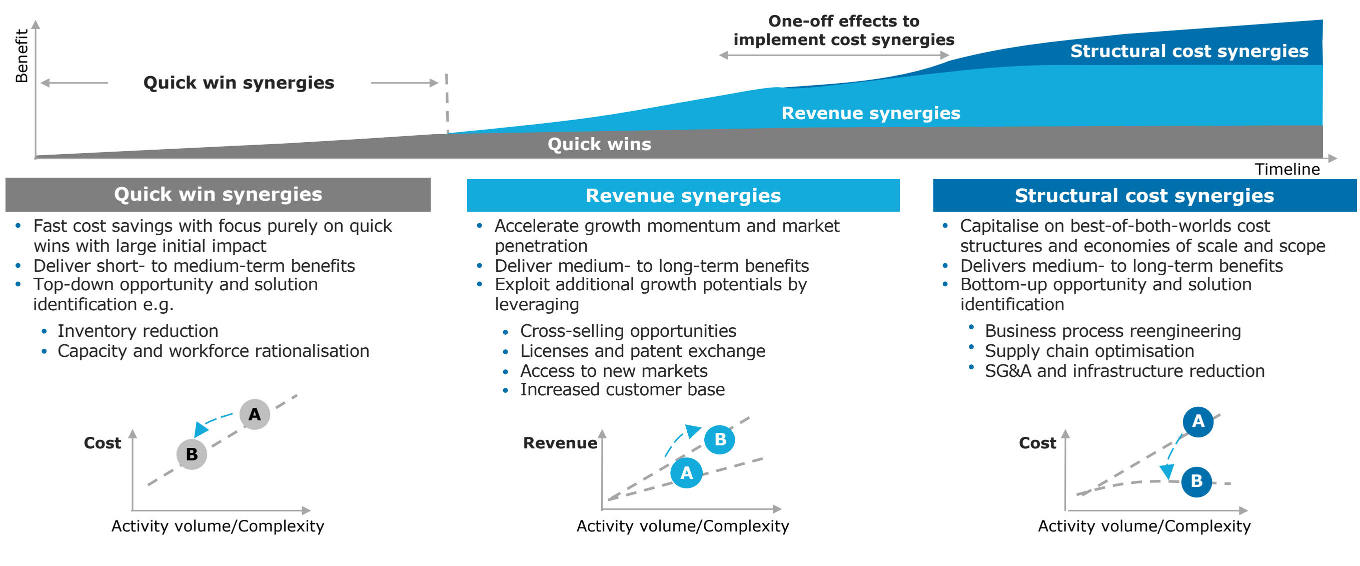
The criticality of synergy management in post-merger integration cannot be overstated. Pre-deal estimations of synergy potentials are a key driver of the transaction value, and their realization determines the success of management in creating shareholder value.

To support our clients in this critical process, Capgemini Invent has proven methodologies and capabilities that ensure an accurate assessment of pre-deal synergies and provide structure, transparency and know-how for the post-deal realization. For the most part, this support is embedded in a broader transaction or integration offering.

## Approach

As an integral part of a post-merger integration, synergy management aims at combining the two merging entities as effectively as possible, thus releasing hitherto untapped value. Effectively realizing these synergies begins with a structured identification of synergy potentials prior to the actual deal. Verifying and leveraging such synergy opportunities after a merger is the job of a PMI synergy manager in close alignment with a business responsible for the actual implementation.

**Figure 8: Synergy Type and Realization Timeframe**



Addressing available integration synergies begins with identifying them in three broad classes (figure 8):

- **Quick win synergies** – Quickly realized cost savings that have a large initial impact
- **Revenue synergies** – Medium-to long-term top-line growth through access to new markets or the leveraging of cross-selling opportunities
- **Structural cost synergies** – Medium- to long-term cost savings stemming from combined resources and structural change

After this initial evaluation of synergy potentials, the team proceeds with its analysis along the critical steps of the value chain. Once synergy potentials such as the bundling of purchasing volumes have been identified, quantified and verified within a larger audience, they are assigned to an employee responsible for their delivery.

Capgemini Invent has developed a 7-step approach to synergy management which helps to avoid common pitfalls and realize synergy potentials faster and more effectively.

As shown in figure 9, our approach is designed to clearly distinguish between the pre-deal and post-deal activities, as these require different methods, tools, and actions.

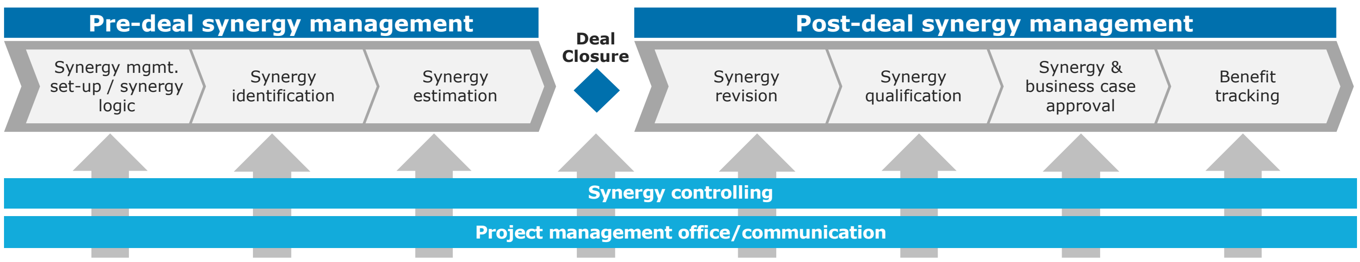
The focus of the pre-deal phase is on developing consistent synergy calculation logic and identifying available synergy potentials. The overall goal is to achieve a top-down estimation of the synergy potentials using specifically designed calculation tools. A set of industry-specific benchmarks helps to identify the right topics. Furthermore, the synergy managment team accesses an international pool of previously identified synergy potentials along different industry value chains. These guide the collaborative workshops of the first few weeks during which the synergy management team qualifies and quantifies synergies that ultimately feed into the overarching business case.

Once the right synergy levers have been identified and the deal is closed, synergy management has to verify and deliver the savings. Using company data that goes beyond the previously provided information, the team verifies the estimated synergy potentials. In addition, during the second in-depth identification and synergy classification, the synergy management team analyzes four criteria that play a key role in prioritizing and realizing the synergy potentials: an initiative's effect, the speed of execution, its sustainability, and how well it fits the corporate culture. The business case is then finalized once the findings have been enriched by benchmark data from Capgemini Invent. The final task completing our 7-step Synergy Management approach is benefit tracking.

## Results

Throughout the pre-deal and post-deal synergy management phases, the synergy management team is supported by the overarching synergy controlling stream. The latter centrally quantifies and tracks the synergy estimation and realization to prevent activities having a negative impact on other activities currently conducted. Furthermore, the synergy controlling team also ensures transparency for top management using a centrally quantified progress tracking.

**Figure 9: Synergy Management Approach**



## 4.5 Change Management

One of the main reasons for mergers failing to deliver the expected results is the absence or lack of clear change management support. Typical reasons for failure are: cultures do not match, inability to implement changes, and clash of leadership styles. Therefore, change management is a critical part of every PMI and an early involvement of change management experts is essential for a successful integration of two organizations.

## Context

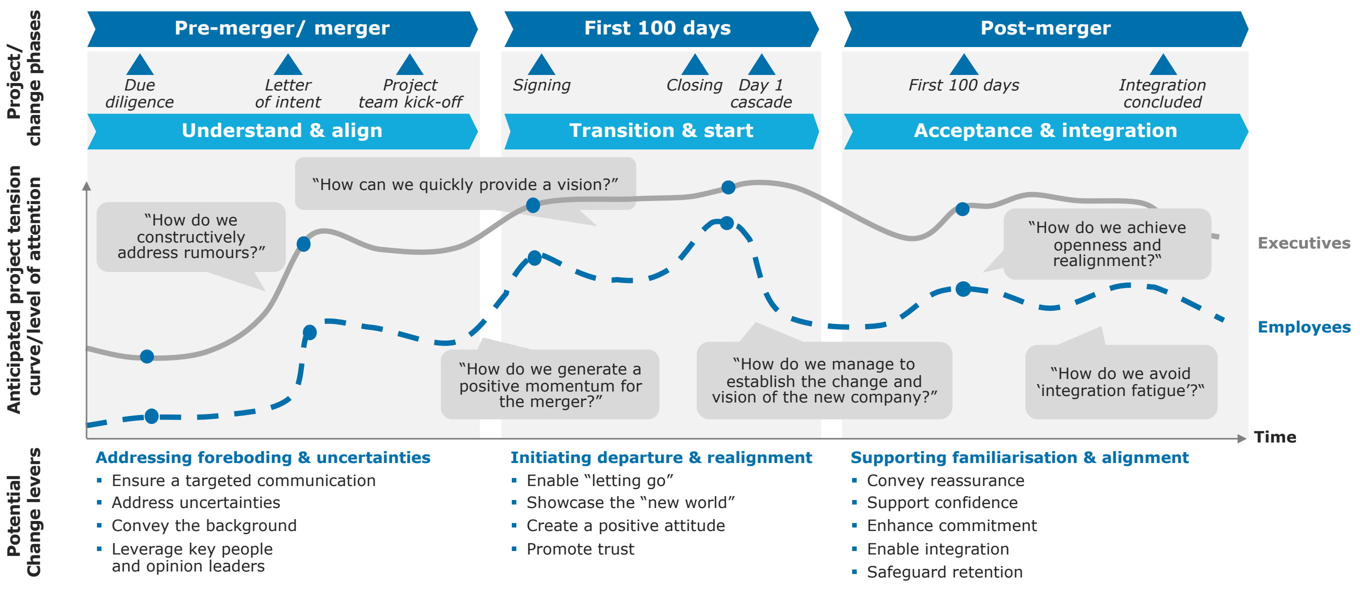
Actively managing change from an early stage on is crucial: The experts should already be involved during the pre-merger phase in order to reduce the overall risk of failure and to support the delivery of the integration goals through a holistic and structured people transformation approach (figure 10).

Each merger has specific challenges that need to be addressed by customized change management. The carefully chosen change management interventions have to be specifically tailored to fit the affected companies' situation. Consequently, a project approach for change management is essential and determined by several major merger factors:

- Significantly different business models of merger partners
- Number of national cultures involved in the merger
- Differing organizational cultures, e.g. strategic large corporation vs. pragmatic SME culture
- Rationale of the merger

These factors strongly influence the project setup, its challenges and the approach towards the merger, which is jointly developed with the client. Capgemini Invent follows a 3-tiered project approach for change management consisting of vision & diagnosis, transformation architecture, and transformation management.

**Figure 10: Change Management Dynamics**



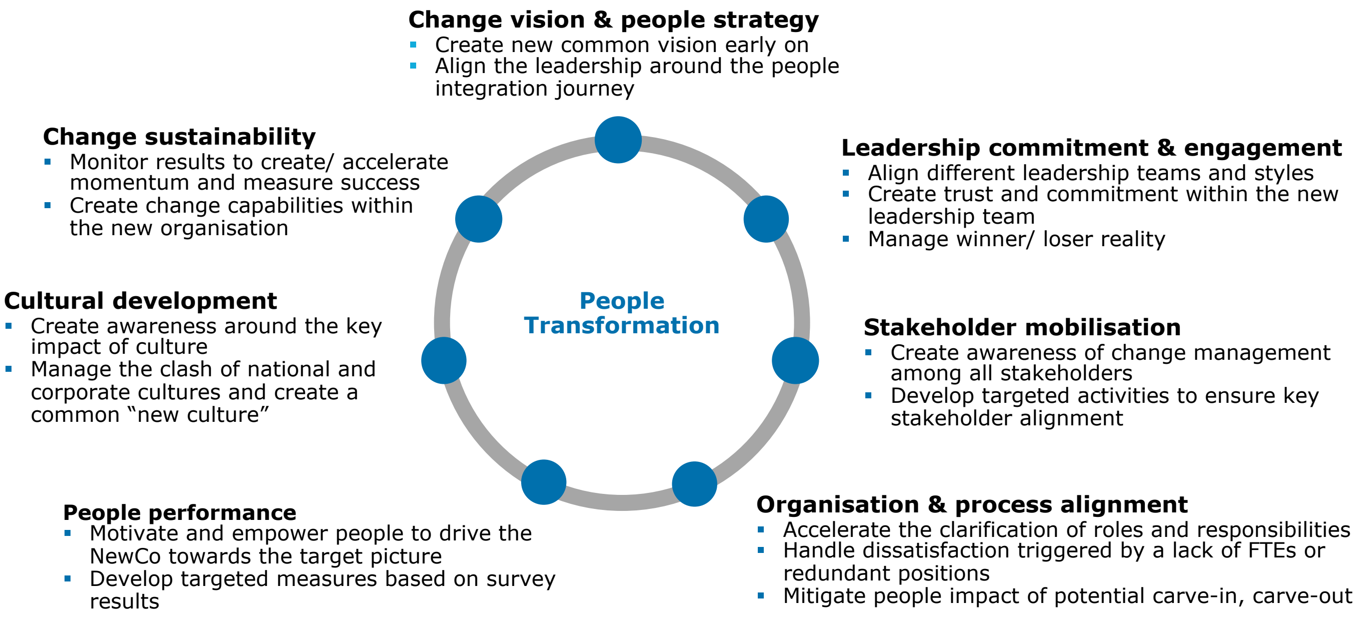
## Approach and Results

Our change management approach addresses and helps to mitigate the three major integration challenges: Smoothen cultural differences, implement changes and align leadership styles.

Building on Capgemini Invent's profound experience of more than 20 years, the approach is built on 7 change levers for a successful people transformation (figure 11). The aim is to focus on key levers in order to achieve the highest possible impact for the client's merger. The respective change management interventions are designed in a collaborative manner together with the client to account for specific challenges.

In the course of a merger the integration of a new vision and people strategy has to be finalized within the first 100 days in order to inspire and direct the new company and its employees. During that stage the leadership team plays a decisive role and needs to be the key driver of integration and acts as role models. Through stakeholder mobilization, awareness for change management among stakeholders is created and provides crucial insights for establishing focused and tailored change architecture. The lever organization & process alignment aims to accelerate the clarification of roles as well as to handle dissatisfaction triggered by a lack of FTEs or redundant positions. In PMIs, people performance is a vital aspect and focuses on the provision of a specific skill set and training for new positions. At the same time, it aims to motivate and empower people in order to drive the new company towards the target picture. During a PMI a clash of national and corporate cultures arises and requires both, awareness around the key impact of the culture and the creation of a common new culture. Furthermore, it is crucial for change sustainability to identify local change agents for ensuring sustainability and knowledge transfer in the later stages of the integration.

**Figure 11: Change Management Levers**



## 4.6 Flash Assessment

The integration of two independent corporate entities is a complex process. Driven by high synergy and new business potential expectations, the integration often fails to deliver the desired outcome. Frequently, in post-merger integrations, the actual development steers off the planned course, producing results considered "below track" and thus leading to significant deviations in key areas such as performance, synergies and costs. Unforeseen cultural barriers – a typical pitfall of integrations – combined with a decreasing willingness among employees to cooperate may widen the opening gap. At this highly critical stage, our proven PMI Flash project offers our clients the necessary support (figure 12).

### Context

A PMI Flash project is an accelerated approach delivering actionable results in a short time (approx. six weeks). It is based on a proven standardized methodology and therefore highly efficient. Unlike conventional projects, the focus is not on comprehensive examination of existing documents but on a standardized, interview based analysis combined with an intensive evaluation of results. This leads to a solution design supported by benchmarks and based on broad industry and PMI expertise, which also reduces the time for onboarding.

Our PMI Flash project approach delivers transparency of the actual status of the merger integration, starting with the initial merger rationale and the derived integration targets. A major outcome is a "100-day action plan" with clear roles and responsibilities, as well as further improvement initiatives to ensure that the process gets back on track.

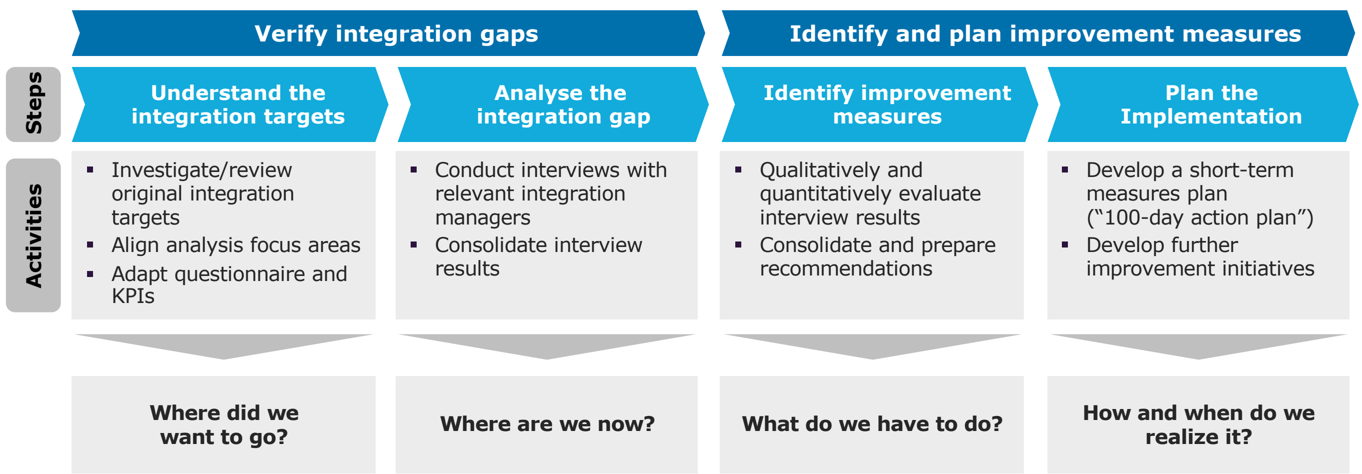
### Approach

A PMI Flash project typically consists of two phases and mainly four steps following a clear and coordinated logic and delivering answers to the following questions:

- Where did we want to go?
- Where are we now?
- What do we have to do?
- How and when do we realize it?

Usually, the first step is to understand the original rationale and strategic goals of the merger. These should be translated into tangible integration targets for each relevant function. For instance, an integration target for the function "product" might be the implementation of a common product catalogue and an effective sales force. However, for the "support processes" (IT, HR, etc.) of the merged companies, the integration target might be to implement efficient best-in-class processes. If in some cases the integration targets are not explicitly defined, our methodology will offer support in formulating them post hoc; whatever may be the respective integration target, the next step in the PMI Flash project approach is to determine and analyze the integration gap.

**Figure 12: Flash Assessment**



This is done by a customized evaluation of KPIs and benchmarks. The objective of this step is to generate a holistic view of the current integration status, and in addition mobilize important managers of both organizations by involving them in the process. Building on the analysis results and addressing the existing gaps, the third step is to identify improvement measures designed to best achieve the defined integration targets. Due to the fact that each company and merger integration process has its own specific characteristics, designing the solution is generally a complex task requiring an extensive industry and PMI expertise. Naturally, due to scarce company resources or interdependencies, not all identified measures can and should be implemented simultaneously. Hence, in the last step of the PMI Flash project, they need to be allocated to work packages prioritized for benefits and effort and planned for implementation along a specific time line.

### Results

The main results of the PMI Flash project are:

- Clearly defined and tangible integration targets for each relevant function derived from the merger rationale and strategic goals
- Holistic picture of the merger integration status and a detailed gap analysis for each function
- Actionable measures that should be implemented to achieve the defined integration targets and ensure the full exploitation of available synergies
- Implementation plan for short-term measures with clearly defined roles and responsibilities ("100-day action plan"), and further improvement initiatives including interdependencies

## 4.7 The Capgemini M&A Toolbox

During our PMI projects, we constantly develop and apply numerous tools and frameworks to achieve the best results for our clients. For that reason, we established the Capgemini M&A Toolbox. The rationale behind the toolbox is to consolidate the existing know-how into one pragmatic merger integration framework and approach. We developed a guide to learn more about the merger integration tools, templates, guidelines and examples.

The toolbox is built along the four merger phases, pre-signing, day 1 preparation, first 100 days and integration execution. In each phase, the relevant groups / functions are supported by specific tools to achieve defined deliverables.

Along the modules, the toolbox provides

- Valuable tools
- Checklists
- Key activities
- Case studies

The M&A Toolbox is constantly updated with latest insights and individually adapted to the client at hand to ensure an up-to-date project approach.

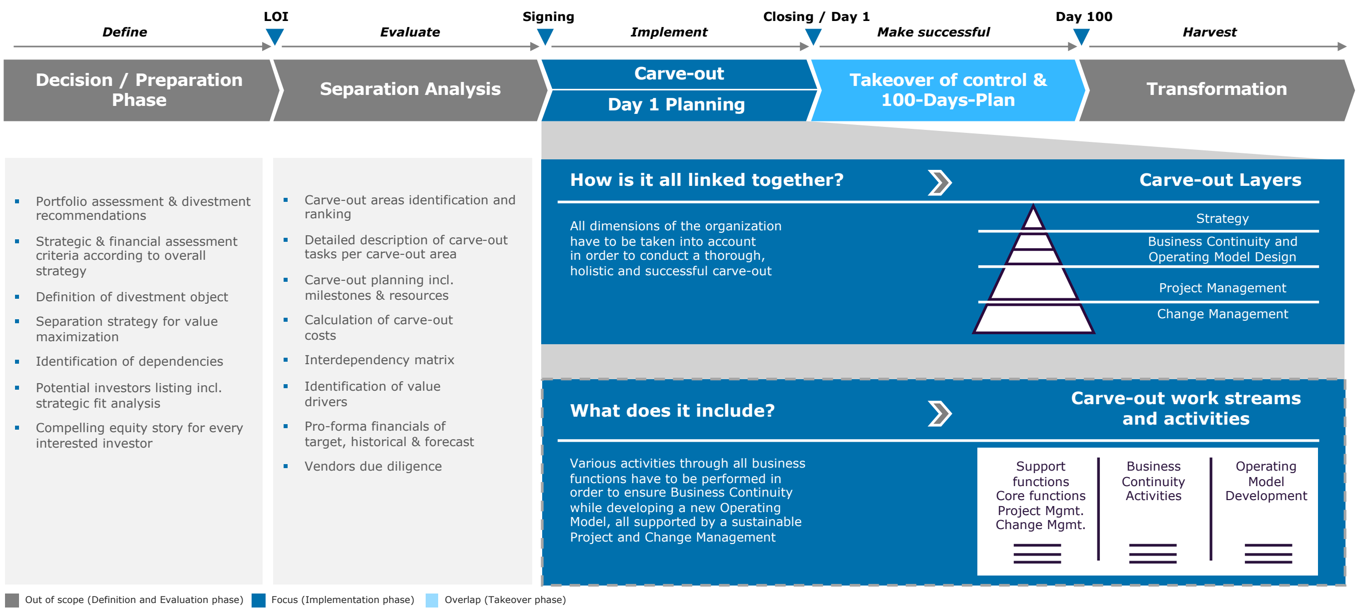
# 5. CARVE-OUT

In recent years divestment activities of companies have increased significantly in the global market. In the course of a divestment, a sizable part of a business is separated from its parent organization in order to transform the divested parts into stand-alone companies. There are many different motives for a company to divest: To (re-)focus on the core business, to strengthen its capital position or even to eliminate an underperforming division. Regardless of the motives for a divestment decision, a fundamental change in a company's composition cannot be avoided and always leads to a complex unbundling process of old structures, while setting up new ones on both sides – the remaining and the divested company.

## Context

In case of a divestment both the remaining and the carved-out company have to develop or amend their own operating model in order to ensure business continuity and to build up two or more stand-alone companies out of one. The operating model delivers a comprehensive, strategic and schematic view on how a certain set of activities and capabilities can be structured and bundled. The dimensions that have to be addressed when developing an appropriate operating model, involve five key areas: Structure, processes, governance & performance, IT systems and people & culture. In an efficient operating model these areas interact seamlessly with each other and thus support the overall strategy of the company. Complex corporate changes are usually associated with a high level of risks and potential errors. Many companies underestimate the complexity of a carve-out, focus only on one aspect of the process (e.g. financial ratios) or fail to retain key knowledge and employees during the change. While divesting, several success factors have to be taken into account such as the establishment of a dedicated and capable divestment team for achieving efficient and significant results. Maintaining business continuity is another key to success within a divestment. Additionally, all links (e.g. cooperation or possible separation) between the remaining and carved-out organization have to be clarified and determined in the context of a Transitional Service Agreement (TSA) or exit plans.

**Figure 13: Carve-Out Approach**



Thus, a divestment project needs a profound and holistic approach in order to overcome all obstacles that may occur during a carve-out and to complete the deal successfully. For that reason, Capgemini Invent has developed a clear and well-structured carve-out framework for the support of companies in divestment activities.

## Approach & Results

A classical carve-out deal contains two upstream phases, namely the decision & preparation and separation analysis before the actual carve-out implementation takes place. Our carve-out framework includes the review of all dimensions of business and ensures a stable and efficient future operating model for both the remaining and the carved-out company (figure 13).

The strategy review evaluates the vision and overall strategy followed by the business model review. It focuses on the consideration of a potentially revised strategy and business model. The organizational design consists of the development of organizational structures at high level. To ensure business continuity, various activities have to be conducted during the carve-out phase in conjunction with the operating model development for the review and development of functional strategies and organizational designs. The two remaining layers, change and project management, aim at developing retention and communication plans as well as conducting project, risk and business continuity management.

For employing the carve-out framework, a range of activities across/throughout all business functions has to be analyzed and performed during the carve-out phase so that business continuity is ensured, while a new operating model is developed. At the same time, all carve-out work streams and activities are involved in the operating model development.

# About
# Capgemini Invent

As the digital innovation, consulting and transformation brand of the Capgemini Group, Capgemini Invent helps CxOs envision and build what's next for their organizations. Located in more than 30 offices and 10 creative studios around the world, its 6,000+ strong team combines strategy, technology, data science and creative design with deep industry expertise and insights, to develop new digital solutions and business models of the future.

Capgemini Invent is an integral part of Capgemini, a global leader in consulting, technology services and digital transformation. The Group is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. Capgemini is driven by the conviction that the business value of technology comes from and through people. It is a multicultural company of 200,000 team members in over 40 countries. The Group reported 2017 global revenues of EUR 12.8 billion.

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