

NACD NJ September 14, 2017
Sheraton Parsippany Hotel
M&A STRATEGY – THE MERITS AND CHALLENGES

An M&A transaction may be among the most important actions that a Board takes. Yet many boards do not understand or take an active role in decisions about transactions, overseeing the deal process or performing a post-transaction assessment. Our panel on September 14 addressed all of these issues and more. Glenn Hunzinger, leader of PwC’s deal practice in New Jersey, PJ Patel, Co-CEO and Senior Managing Director, Valuation Research Corporation and Frank Gatti, NACD-NJ Board member and a Director of H.S. Grace & Co. engaged in a lively and interactive dialogue with the attendees.

The discussion covered topics ranging from valuation, the current deal environment, structuring the purchase price, the pros and cons of contingent payments and earn-outs, closing conditions that can be traps for the unwary, break-up fees, due diligence, the board’s oversight duties and addressing human capital and cultural issues.

What some of the panelists have seen in the marketplace in the last five years is enhanced process and structure, more work being done up front, and the people side of the equation getting more focus. Recently, multiples are high and there have been a lot more earnouts in the transactions.

Frank Gatti provided a set of guidelines to assist Boards of Directors as their company moves through the lifecycle of an M&A transaction:

INTEGRATED COMPONENTS OF EFFECTIVE BOARD OVERSIGHT OF M&A

1	Multi-dimensional strategy to: diversify revenues, reduce risk profile, increase cash flow, enhance operating margins, improve value/supply chain, enable scaling up, and support capital allocation
2	An edge-to -edge process to identify potential “targets” that will accelerate your business objectives for, e.g., organic/non-organic growth, diversification by product line, market segment, customer base or region and technology acquisition
3	Regular updates that clearly articulate responsibilities, timelines, deliverables and communications plans for current and new: employees, customers, suppliers, communities, investors, lenders, strategic partners, etc.
4	Ensure that there is an appropriate talent mix and resources – internal and external – that comprise the negotiating and due diligence team
5	Understand the roles that assumptions, synergies, purchase price adjustments, contingencies and structure play in the valuation models
6	Ensure that the approved business case will lead to long-term growth and sustainability for all

	stakeholders
7	Due diligence team must have strong project management and leadership skills, along with an array of subject matter experts and, be integrated into management development programs
8	Understand all the components of the integration/non-integration plans - who will be responsible, the timeline and the metrics associated with each phase
9	Annually require a post M&A analysis be performed to compare each transaction's actual with projected performance
10	At the completion of each transaction compile "lessons learned" to inform future processes, analysis, outcomes and decisions
11	Importance and implications of an array of exogenous factors – Social, Technological, Environmental and Political
12	Consider the role that endogenous factors will play – Tone at the Top, Ethics, Culture and Compliance