

M&A Integration Considerations & Keys To Success

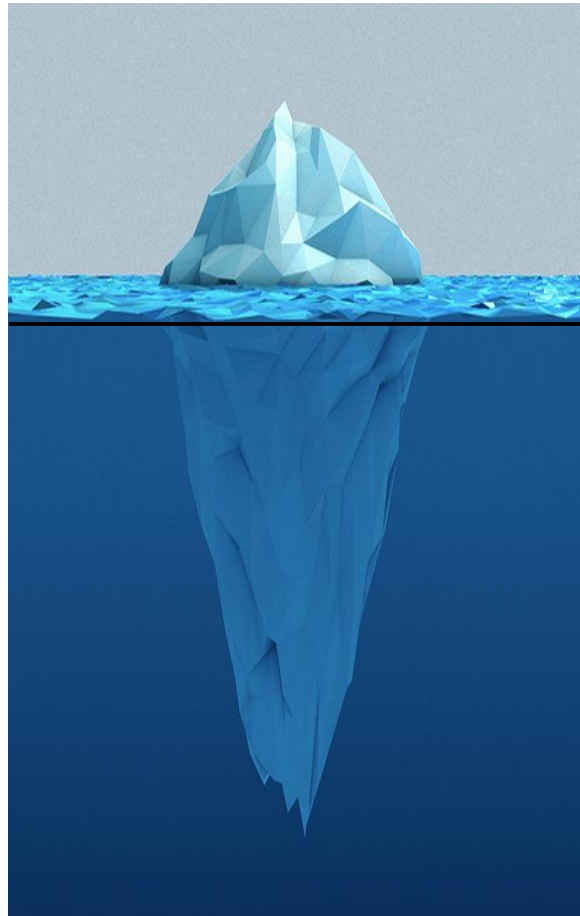


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Myth vs. Reality

Never underestimate the complexity of your M&A integration...



Myth



Once the deal is closed, the hard part is over

Reality



A detailed Integration plan and execution is KEY to deliver synergies and secure the success of the transaction

Many organizations fail to deliver the expected value from their M&A efforts...

Research indicates that M&A activity has an overall success rate of about 50%*

Why? *Management fails to take a pro-active, comprehensive approach towards integration*

Causes:

- ▶ Left to their own discretion, the management ranks of both organizations will resist many of the changes required to make the acquisition successful
- ▶ Failure to articulate a clear picture of the end-state operations of the business
- ▶ Failure to define the specific business results expected
- ▶ Failure to define organization construct
- ▶ Failure to integrate critical business processes/guidelines
- ▶ Attempting consensus
- ▶ Unwanted attention

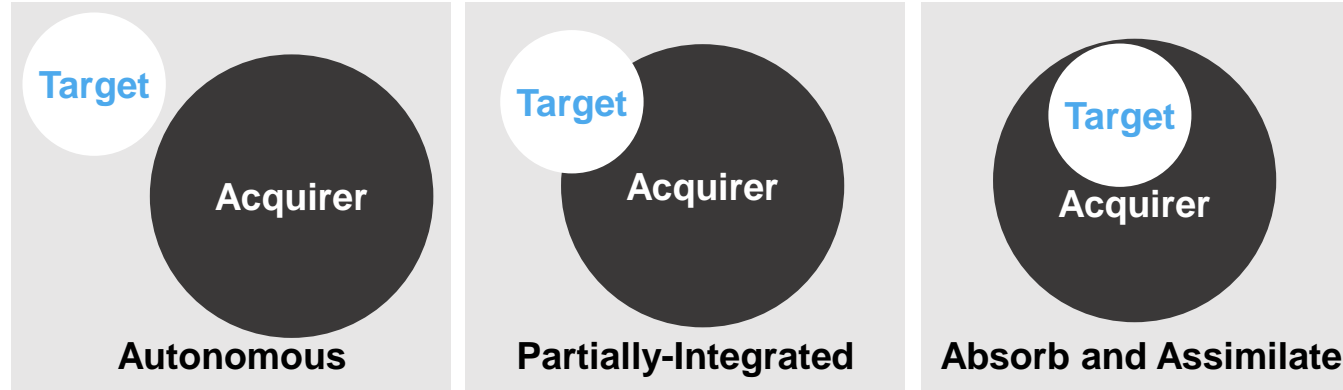
Effects:

- ▶ Operational interruption
- ▶ High turnover
- ▶ Damages to reputation / culture
- ▶ Process inefficiency
- ▶ Unrealized synergies

* Source - Robert Sher, Forbes Leadership Forum

Integration Strategies & Degree of Change

Your M&A strategic goals and vision will dictate the degree of change and effort required for your integration program:



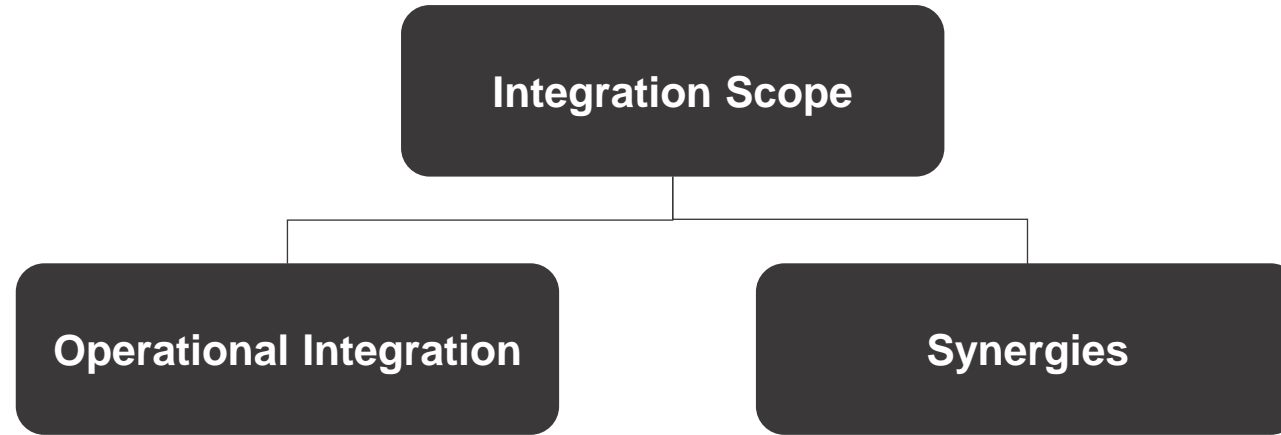
| Organizational Activity | Degree of Change Required | | |
|---|---------------------------|-------------------------|-------------|
| | Minimal | Moderate | Significant |
| Marketing | Minimal | Moderate | Significant |
| Sales | Moderate (branding) | Moderate to Significant | Significant |
| Core Operations (Trading, asset man., etc) | Minimal | Moderate | Significant |
| Admin. Processes | Moderate | Significant | Significant |
| Information Systems | Minimal to Moderate | Moderate to Significant | Significant |
| R&D | Minimal | Moderate to Significant | Significant |

Minimal

Moderate

Significant

There are Two Integration Key Focus Areas...



Focus Area:

Combine As One

- Day 1 planning & communications
- Organizational Design
- Legal Entity rationalization
- Customer and vendor terms
- Financial reporting, budgeting



Activities must be performed regardless of synergies

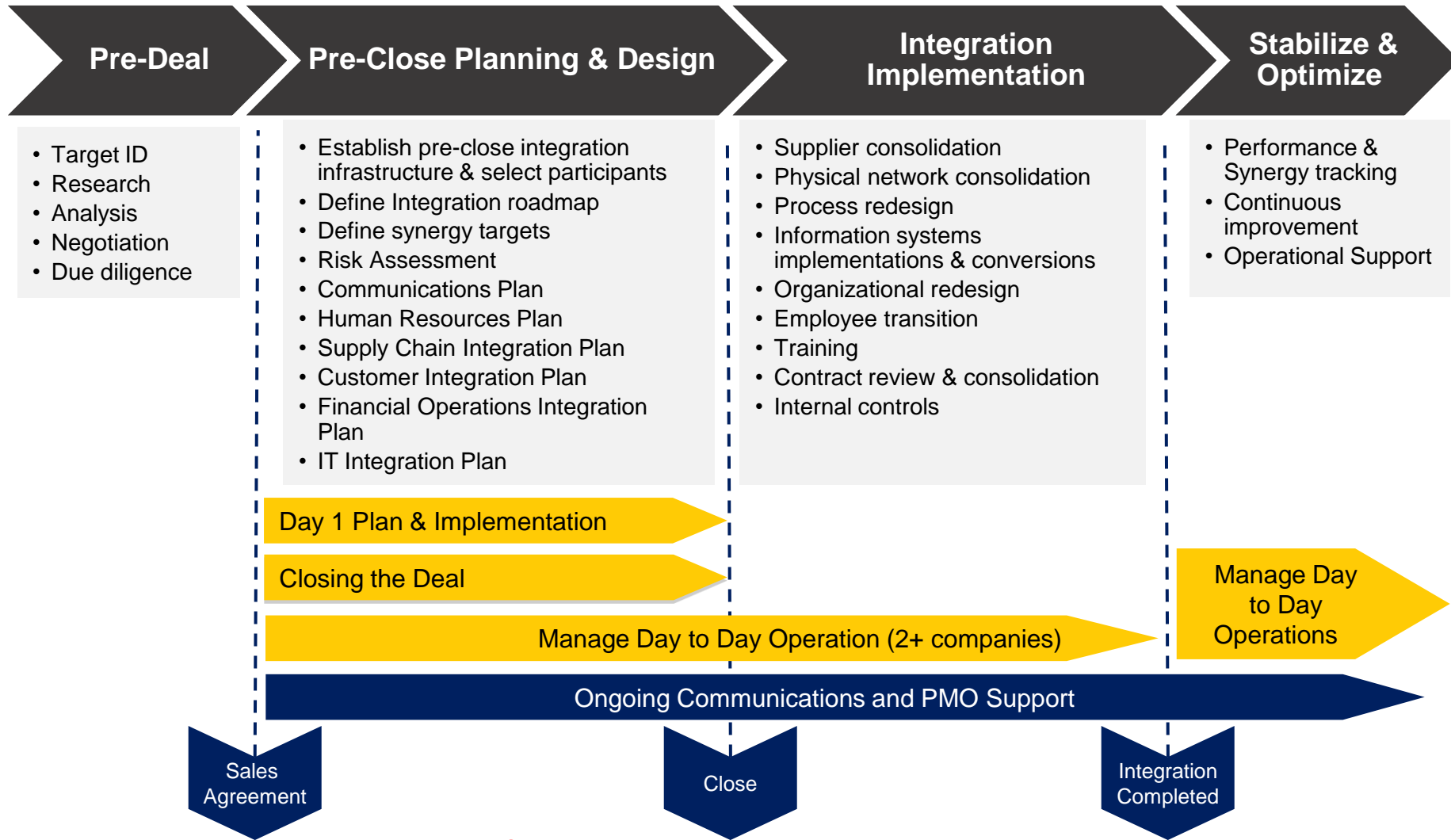
Achieving Synergy Targets

- Synergy identification, timing, planning
- Synergy realization and cost to achieve tracking



Activities only required based on targeted synergies

M&A Cycle Recommended Approach



You are here

Four Keys to Integration Success

1. Structure an Effective Integration Management Office

2. Define a Disciplined Integration Approach

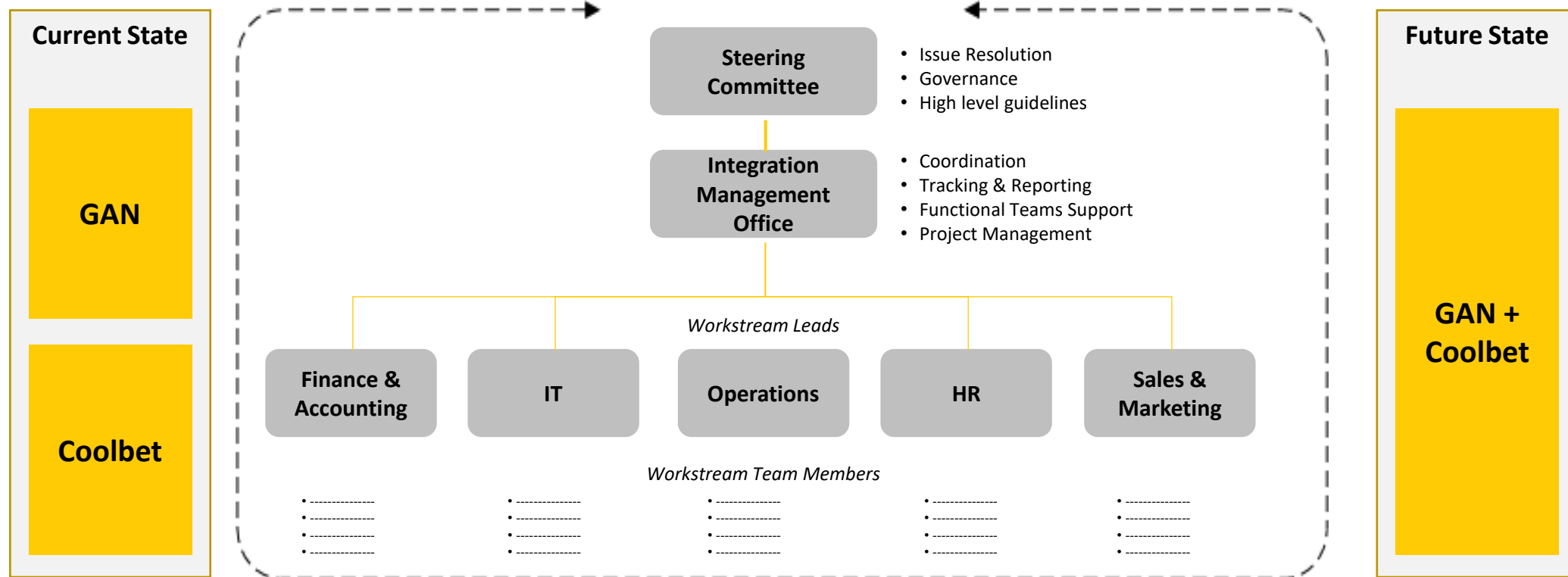
3. Define and Mitigate Risks by Workstream

4. Design, Execute and Track Synergies

Sustain positive momentum and do not disrupt the business!

- ▶ Integration execution may be hard – be ready for the challenge
- ▶ Integrate the two organizations as rapidly as possible
- ▶ Expedite execution with fast-paced multi-disciplinary transition teams
- ▶ Identify and leverage Best Practices for both organizations
- ▶ Communicate early and often to stabilize all stakeholders (employees, suppliers, investors)
- ▶ Ensure people are redeployed to work activities that add real value

Priority #1: Establish an Effective Integration Team



- **Steering Committee** - Establish the Vision, Objectives, and Strategies of the integration process. Make decisions, communicate to stakeholders, support IMO and functional teams
- **Integration Management Office (IMO)** – Create integration plan, project management tools, project leadership status, capture and track synergies, lead change management activities
- **Functional / Workstream Leads** – Ultimately responsible for delivering workstream results on target and on time
- **Functional / Workstream Teams** – Analyze current/future states, design, plan and execute

Integration Management Office (IMO) Responsibilities



Responsibilities:

- ▶ Create the integration plan and process
- ▶ Provide planning and project management tools to IMO Functional Leaders
- ▶ Track overall integration implementation
- ▶ Maintain a high-level project plan to monitor and ensure the major activities of the workstreams
- ▶ Facilitate weekly “rhythm” meetings with Workstream Leads to monitor progress, track results, communicate progress and escalate necessary issues to the Steering Committee
- ▶ Project Status: Provide Executive Steering Committee with regular status reports on the PMI
- ▶ Project Leadership: Facilitate assignment of leaders, tasks, deadlines, priorities; capture Functional Team status reports
- ▶ Capture and track merger synergies as applicable
- ▶ Capture and track cost to integrate

Workstream Leads Responsibilities



Responsibilities:

- ▶ Develop the initial Workstream Charter and Action Plan
- ▶ Deliver workstream integration results on target and on time
- ▶ Where financial synergies are identified, clearly understand the actions necessary to achieve them
- ▶ Assimilate and lead team in crafting and executing the integration action plan
- ▶ Update tracking tools on a weekly basis and submit to IMO
- ▶ Represent workstream in weekly report out meetings, listen in to other teams reporting out in order to bring vital information back to the team and ask relevant questions that impact the workstream implementation plans
- ▶ Call team meeting / conference calls, as needed, to ensure accurate and timely communication, tracking of deliverables and assessment of risks and other issues
- ▶ Monitor detailed Action Plan by updating it weekly along with any other tracking tools
- ▶ Be on call for individual members to clarify Action Plans or address questions

4 Keys to Integration Success

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2. Define a Disciplined Integration Approach

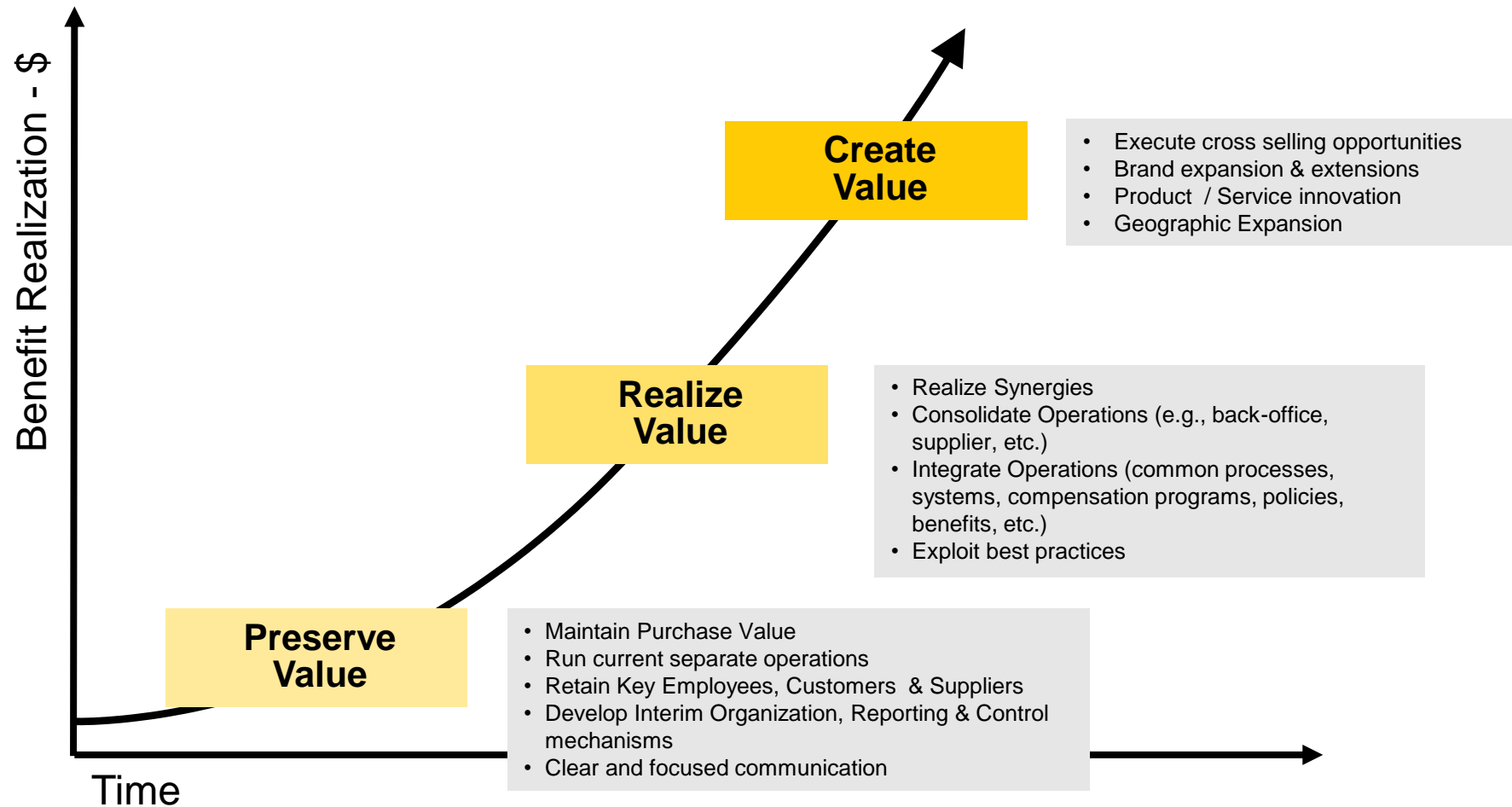
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Integration Stages

From Preserving to Creating Value

Effective Stages in the Integration Life Cycle



Typical Integration Activities by Workstream

| Workstream | - 6 months | 0-6 months |
|---------------------------------|--|--|
| Sales & Marketing | <ul style="list-style-type: none"> • Develop customer communications • Revenue Synergies Workshop • Review rebates / Standardize Sales Incentive Plans • Design Sales Org Structure (e.g. dedicated vs. shared) | <ul style="list-style-type: none"> • Implement new sales structure / incentive plans • Start realization and tracking of cross-selling opportunities (customer introductions, product training) • Sign combined rebate agreements |
| HR | <ul style="list-style-type: none"> • Data Gathering (e.g. employee files, salaries, benefits) • Compensation & Benefits Review Exercise • Prepare communication/retention plan • Design New Organizational Structure • Calculate severance and develop employee agreements • Track headcount synergies and cost to integrate • Identify hiring needs and start recruiting process | <ul style="list-style-type: none"> • Execute Employee Terminations & Migrations • Support Facilities Migration Implementation • Implementation of new Org. structure • Culture training • Continue Hiring Plan as needed • Identify and realize additional headcount synergies |
| Finance & Accounting | <ul style="list-style-type: none"> • Determine consolidated Finance Operating Model • Develop new Financial Consolidation / Reporting Process • Train F&A team on new processes and systems • Review authority limits • Opening of new bank accounts and legal entities • Create Synergy Tracking Templates • Develop functional requirements for system configuration / Support ERP Integration Planning | <ul style="list-style-type: none"> • Implement future F&A organization and processes • Consolidate Bank Accounts • Stabilize back-office operations • Continue Synergy Tracking • ERP System Migration • Implement new financial reporting process for the combined organization |
| Supply Chain | <ul style="list-style-type: none"> • Design combined supply chain operating model, distribution network and processes • Identify synergies opportunities (e.g. 3PL, Warehousing & Distribution, Procurement) | <ul style="list-style-type: none"> • Implement Re-Designed Supply Chain Processes • Start executing identified synergies (E.g. 3PL / Warehouse & Distribution Integration of the 2 businesses by market) |
| IT | <ul style="list-style-type: none"> • Determine IT application and infrastructure architecture strategy and requirements • Identify all existing applications & licenses | <ul style="list-style-type: none"> • Support e-mail migration and system access • Support system integration & training • Build IT infrastructure of new and existing offices |

Example

Typical Integration Activities by Workstream (cont.)

| Workstream | 6-18 months | > 18 months |
|----------------------|---|--|
| Sales & Marketing | <ul style="list-style-type: none"> • Continue implementation of expansion synergies • Look for additional synergies within the Sales & Marketing Organization • New Packaging | <ul style="list-style-type: none"> • Implement Innovations • R&D Facility Building • Leverage GTM (Go to Market) system strength for distribution expansion) |
| HR | <ul style="list-style-type: none"> • Career Growth Model • Union Negotiation • Profit sharing plan assessment • Refine HR service model for the combined organization <ul style="list-style-type: none"> • Evaluate outsourcing opportunities | <ul style="list-style-type: none"> • Compensation harmonization • Execute outsourcing initiatives (e.g. recruiting, payroll, benefits, etc.) • Formal organizational health survey |
| Finance & Accounting | <ul style="list-style-type: none"> • Once the operation is stable, review and optimize back-office processes • Identify additional headcount synergies opportunities • Work together with IT for the integration of remaining systems (e.g. T&E, CRM, etc.) • Review Credit Limits | <ul style="list-style-type: none"> • Continue execution / tracking of identified synergies |
| Supply Chain | <ul style="list-style-type: none"> • Create new warehouses / 3PLs • Optimize supplier / vendor terms and agreements • Standardize S&OP Process for both companies | <ul style="list-style-type: none"> • Continue execution / tracking of identified synergies <ul style="list-style-type: none"> • Optimize global distribution network • Execute Cross-docking initiatives |
| IT | <ul style="list-style-type: none"> • Finalize and Optimize System Integrations | <ul style="list-style-type: none"> • Implement additional automation opportunities (e.g. EDI) |

Example

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Risk Mitigation

A Vital Consideration for Every Effective IMO / Workstream Lead



Key Objectives

- ▶ Ensure Smooth transition and operational effectiveness
 - With minimal disruption to the business
 - With no impact on customer service
 - Maintaining required internal controls
 - Maintaining full compliance with external regulations and reporting requirements
- ▶ Minimize labor and legal risks associated with planning and implementation
- ▶ Minimize / control cost to integrate expenditures
- ▶ Minimize unanticipated turnover and retain high-performing staff

Risk Mitigation Log Example

Example

| # | Risk | Category | L | I | Mitigation Strategy |
|---|--|------------|---|---|--|
| 1 | Transition project distracts resources from operational responsibilities | Transition | H | H | <ul style="list-style-type: none"> • Fully review work level effort prior to onset of workstreams • Communicate prioritization of duties |
| 2 | Insufficient quantity and quality of transition management and resources Current resources may be stretched due to current operational responsibilities | Transition | H | H | <ul style="list-style-type: none"> • Appoint quality program and workstream resources • Appoint professional, experienced external transition managers • Position task team roles as attractive to the resources (i.e. career advancement opportunity, new skill development) |
| 3 | Key business, technical, and country specific resources may leave the company prior to completion of integration | Transition | M | H | <ul style="list-style-type: none"> • Identify key resources and put retention plans in place • Implement strong communication process to reduce speculation • Ensure managers hold retention of key employees as a mandate |
| 4 | Lawsuit filed for wrongful termination, discrimination, disparate treatment | Transition | M | L | <ul style="list-style-type: none"> • Experienced internal HR and legal professionals to identify possible issues and define and implement a precise plan for managing these cases |
| 5 | Executive and local management support may be lost or eroded during the course of the integration | Transition | L | H | <ul style="list-style-type: none"> • Involve executive sponsors throughout the integration and ask them to play a visible sponsorship role • Implement a monitoring structure with regular involvement of management to monitor progress of benefit realization • Include individual performance objectives of key sponsors and managers tied to the success of the integration |

L= Likelihood, I = Impact, L=Low, M=Medium, H=High

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Effective synergy identification, planning, and realization is critical to success

▶ Synergy Identification

- Focus on identification during Current State Operations Review
- General synergistic areas include:
 - Purchasing – Leveraging increased Volume
 - Headcount – Leveraging similar roles and responsibilities
 - Warehousing – Eliminate Redundancy
 - Customer and Vendor Terms / Agreements – Leveraging favorable agreements for similar needs
 - Applications and IT Infrastructure

▶ Synergy Realization

- Develop Project Plan, per Synergy identified
- Execute Plan using assigned resources

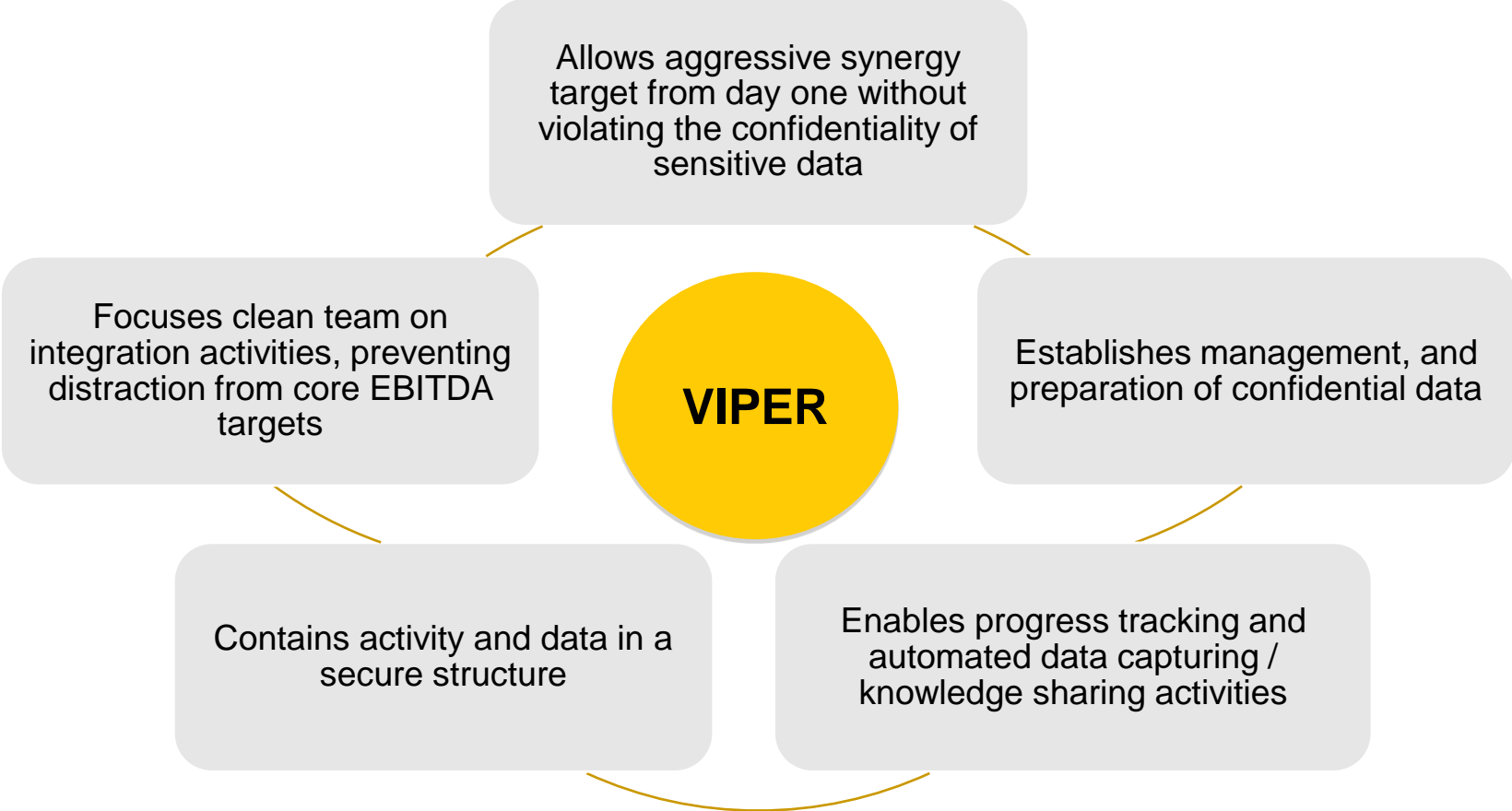
▶ Track Synergy

- Synergy and Cost to Integrate Model
 - A comprehensive model which outlines synergies by:
 - Category
 - Location
 - Cost to Integrate
 - Quantification Methodology by Synergy

Clean Room Approach - VIPER

Virtual Integration Planning & Execution Room

VIPER is a holistic Auxis tool that enables successful integration by streamlining communication and collaboration among all parties





How we can help...

Auxis M&A Team Roles

From project leadership to tactical support, the following chart details the various ways we can help you have a successful M&A integration while continuing to run your business



25-Year Track Record of M&A Integration Success



Client: Global manufacturer and distributor of leading brands (appliances, batteries, home improvement, pet supplies & auto care)

- Successfully managed the overall detachment and integration of the Stanley Black & Decker Hardware and Home Improvement Group (HHI) in Latin America.
- Served as a strategic partner and link between Spectrum's leaders and HHI leaders
- Completed the separation and integration of 14 LatAm countries in 11 months
- Avoided \$2M of Temporary Services Agreement (TSA) fees as a result of early exits, representing 45% of the original TSA estimate
- Identified and quantified annual revenue synergies of \$4.5M
- Reduced headcount by over 35%



Client: Global cosmetic leader

- Conducted a baseline assessment of Revlon and Elizabeth Arden North America Shared Services Operations
- Developed a future SSC Operating Vision to integrate 3 business units (Elizabeth Arden and two Revlon business units that were operating independently) and both companies' Canadian operations
- Recommended a hybrid operating model, including a US-Based Center of Excellence with a Nearshore BPO transaction processing center in Costa Rica
- Identified projected cost savings of \$4.4M (33%) and a headcount reduction greater than 50%
- Strong business case that included an IRR of 90% and a payback period of less than 1.5 years



Client: Global food, snack and beverage manufacturer and distributor

- Led the business formation of the largest unified bottling entity (+\$2B) in Mexico by merging and forming a three-way Joint Venture between PepsiCo Beverages Company Mexico, GEUSA (bottler in the western and southern territories) and the Gatorade manufacturing infrastructure
- Strengthened overall competitive position and drove growth by creating a well-rounded product portfolio, revamping Go-to-Market capabilities and leveraging the power of a unified beverage organization
- Identified approx. \$100M in operating profit synergies in a three-year period and +500 basis points improvement in overall EBITDA margins

What our clients say...

“This was the largest project Applica had ever tackled and failure was not an option. We were replacing 15 years of processes, legacy system development and integration in a span of two years. Auxis’ project leadership, structured approach, partner mentality, and advocacy on behalf of Applica during this entire process were extremely valuable to us.”

-Terry Polistina
CEO, Applica Consumer Products

“Auxis is more constructive, proactive, and flexible than other firms I’ve worked with. Hats off to the Auxis team for your excellent support of Spectrum Brands HHI Latin America integration. 6 concurrent SAP implementations, 3 distribution center moves, workforce transitions in 10 months....Wow! We couldn’t have done it without you. Nice Work.”

– Dave Albert
VP International, HHI Division - Spectrum Brands

Auxis’ commitment, accountability and personal, hands-on approach was refreshing. It was very clear that their team was concerned about OUR success. Auxis completely earned our trust and respect.”

-Barbara Gomez
CFO, Latin America Beverages, Pepsico

About Auxis

25 Years Helping Organizations Achieve Peak Performance in their Back Office and IT Operations

- Founded by **PepsiCo executives** in 1997 after successfully standing up the first international Shared Services for PepsiCo Latin America in the early 90s.
- Two primary service lines:
 - **Management Consulting**
 - **Nearshore Outsourcing**
- Headquartered in South Florida, US, with two main outsourcing delivery hubs:
 - **Costa Rica** (since 2010)
 - **Colombia** (significant expansion in 2021)
- Experts in bringing together operational strategy, process transformation and information technology – **200+ Successful Transformation Programs**
- Recognized within the **Top 100 Global Outsourcing Providers** by IAOP for the last 6 years



Trusted by Leading Organizations in 10+ Different Industries



Our Focus: The Modern Back Office

Key Principles



Get Out of Being a Transaction Processing Shop

- Maintain Quality
- Free up Time
- Reduce cost

Become an Analytics Powerhouse

- Real-time Analytics
- Predictive Insights



Develop a Commercial Mindset

- True understanding of business drivers
- Market Knowledge

Build a Collaborative Ecosystem

- Internal and External
- Core and Flex Model
- Expanded access to talent



Powered By:



PROCESS EXCELLENCE



DATA



RE-SKILLED WORKFORCE



DIGITAL TRANSFORMATION



INNOVATION MINDSET



TRUSTED PARTNERSHIPS

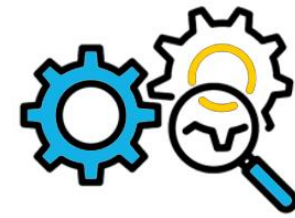
Key Service Lines

Areas of Focus



Finance & Accounting

- Shared Services Consulting
- Finance Transformation
- Finance Nearshore Outsourcing
 - Order to Cash (AR)
 - Purchase to Pay (AP)
 - Record to Report (Accounting)
 - Decision Support
- M&A Integration & Project Management



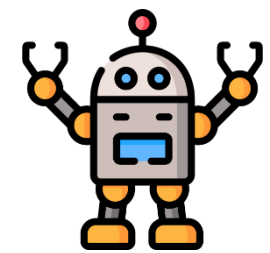
Business Support

- Process Improvement
- BPO Nearshore Outsourcing
 - Back Office Services
 - Customer Service
 - Human Resources
 - Supply Chain
 - Operational Audits



Information Technology

- IT Ops & Cloud Consulting
- ITO Nearshore Outsourcing
 - Service Desk
 - NOC & Network Ops
 - Data Center & Cloud
 - Security
 - Application Development



Digital Transformation

- Intelligent Automation & RPA
- Business Intelligence
- Operational Analytics
- Machine Learning & Artificial Intelligence



**Looking forward to
serving you!**

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