Key challenges in cross-border M&As

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As Indian companies search and compete for the best deals around the world, they are facing new challenges, such as:

- Making deals in unfamiliar jurisdictions
- Operating in different economical, political, business and legal environments
- Complying with different regulations that have severe consequences if violated
- Coping with an unstable global economic environment that can make predictions almost impossible, even in the short term

Source: Grant Thornton Annual Deal Tracker 2014, EY Confidence Spurs M&A: Transactions 2015
## Key reasons for cross-border M&As

<table>
<thead>
<tr>
<th>Reason</th>
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<tbody>
<tr>
<td>Search for new markets</td>
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<tr>
<td>Need for new technologies</td>
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<tr>
<td>Access to natural resources</td>
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<tr>
<td>Product &amp; market diversification</td>
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<tr>
<td>Rise of global finance enabling flow of information</td>
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<tr>
<td>Attractive assets available for cheap</td>
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<tr>
<td>Vertical integration</td>
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<tr>
<td>Effect of globalization making it smooth</td>
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<tr>
<td>Readymade certifications, clearances, facilities available</td>
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</table>
Challenging zones for cross-border M&A

Map above indicates level of challenges perceived by respondents during their most recent cross-border acquisitions.

*The darker the colour, more challenging the market from a cross-border M&A point of view.*

Source: Mergermarket Report – Asia on the Buyside: The Key to Success, Aug 2010
Key issues: Related to target country (1/2)

- **Political/social unrest** causing uncertainty in the transaction and subsequently in the operations

- **Heavy government intervention** through protectionism and other political pressures

- **Greater scrutiny by shareholders**, who are playing an increased role in M&A in current environment – both as key drivers of M&A strategy and in some cases, as obstacles to getting the deal done

- **Financial market/economic instability**; primarily found in emerging markets

- **Differences in cultural compatibility** if not evaluated and addressed might offend the government, management

- Issues relating to **intellectual property regime** in the target country

- **Trade union risk**, which might result in labor unrest
Key issues: Related to target country (2/2)

- **Complexity of legal system** where lack of information about a legal system could lead to deal deadlock and a partial understanding of all parameters poses a risk of failure.

- **Constantly changing regulatory environment** causing difficulty in completing deals

- **Anti-trust issues** making obtaining anti-trust approvals a key part of the overall transaction process for many M&A transactions

- **Bribery and corruption** among government authorities hinders deal execution

- **Reliability of information** provided at the time of due diligence, which would directly impact deal valuation and the value derived from the transaction

- **Currency fluctuations** keep changing the valuation for the acquirer in the home country

- **Tax policy** if not stable and listed out clearly will scare away overseas acquirer
Key issues: Hard issues relating to target

- Financial reporting integration
- IT/ systems integration issues
- **Compliance issues** leading to weakness in controls
- **Loss of customers** due to reactive management
- Adjustment of **valuation metrics** to account for tax, accounting and risk differences among jurisdictions
- **Undisclosed liabilities** including unfunded pension plans
- **Key debt considerations** including currency of funding, location of borrowing debt (parent/ target) and size of debt
- **Tax considerations**, specific to target country and company, including transaction-related taxes and post transactional organizational structure
- **Currency hedging issues**, relating to both transactional and post transaction

**Take action**

Consider the question of future tax liabilities when weighing up the business case for a deal.
Key issues: Soft issues relating to target

- **Variance in business culture**, if not understood can cause integration issues

- **Lack of trust among employees** of target company leading to low engagement post acquisition. On an average 50% of managers leave a year after M&A, making it imperative to engage, inspire and motivate the newly integrated workforce

- **Lack of proper channels of communication** not only with employees, but also with customers and other stakeholders in the new markets

- **Disparity in attitudes** to issues such as corporate governance, social responsibility, ethics, litigation and intellectual property rights

- **Building trust between the managers and the new employees**

- **Slow counterparty decision making** jeopardizing the transaction timelines and its successful closing

**Take action**

Approach staff retention in a structured way. Start by identifying which staff are the most crucial for the ongoing success of the business.
Culture – A Lifeblood

- **Continuity**
  - Early & full involvement

- **Championing**
  - Project Leader

- **Integration Plan**
  - How? What? When?

- **What does integration cover**

- **Softer aspects of integration**
  - Conquer vs Partner approach

- **Sponsors & Commitment**

- **Growth Drivers & Health Drivers**
Negotiation strategy for cross-border M&A

Equal

- **Satisfaction of customers**: maintain quality of products and services
- **Satisfaction of target company**: respect the values of the target company
- **Satisfaction of target company’s employees**: proactive “people-oriented” approach
- **Satisfaction of government**: tax payment, employment and the social responsibility
- **Satisfaction of investors**: focus on predetermined strategy and execute accordingly to ensure results

Mutually beneficial

Respect
Key learnings from past cross-border deals

1. Inorganic strategy should incorporate country specific factors: develop win-win strategy

2. Due diligence must be comprehensive, often involving even an investigative and HR due diligence

3. Pay close attention to target’s culture and encourage HR teams to focus on employee retention and communication issues

4. Understand where key and operational decision making in the target lies, whether at promoter level or management level

5. Be prepared for a long process, where there is a complex tax and legal system

6. Strong communication/ town hall meetings is/ are fundamental to success

7. Flexible organisational structures are essential to ensure the ability to adopt cultural, social and other factors that vary across markets
Wrap-up

“If you do what you’ve always done, you’ll get what you’ve always gotten.”

-Tony Robbins, Motivational Speaker

“The secret of change is to focus all of your energy, not on fighting the old, but on building the new.”

-Socrates, Greek Philosopher

“Take time to deliberate, but when the time for action has arrived, stop thinking and go in.”

-Napoleon Bonaparte, Military Leader

“Behind every adversity is an opportunity. If you lament over the adversity, you will miss the opportunity.”

-Ajaero Tony Martins, Entrepreneur and Investor

“Even a correct decision is wrong when it was taken too late.”

-Lee Iacocca, Former CEO of Chrysler
Thank you
Annexure: Survey by Mergermarket, 2010

What constitutes a successful cross-border deal?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Paying the right price</td>
<td>42%</td>
</tr>
<tr>
<td>Retention of customers</td>
<td>30%</td>
</tr>
<tr>
<td>Detailed understanding of the target entity</td>
<td>27%</td>
</tr>
<tr>
<td>Leadership retention and transition</td>
<td>23%</td>
</tr>
<tr>
<td>Fit with current operations</td>
<td>22%</td>
</tr>
<tr>
<td>Rapid integration of operations</td>
<td>16%</td>
</tr>
</tbody>
</table>

Relevance of HR issues in following areas

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Selection &amp; Planning</td>
<td>38%</td>
</tr>
<tr>
<td>Strategy</td>
<td>54%</td>
</tr>
<tr>
<td>Financial model/Valuation</td>
<td>2%</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>29%</td>
</tr>
<tr>
<td>Sale &amp; Purchase Agreement Negotiation</td>
<td>42%</td>
</tr>
<tr>
<td>Announcement</td>
<td>43%</td>
</tr>
<tr>
<td>Do-by-close/Integration Planning</td>
<td>35%</td>
</tr>
<tr>
<td>Post-merger Integration</td>
<td>30%</td>
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Source: Mergermarket Report – Asia on the Buyside: The Key to Success, Aug 2010