

Lessons Learned in Successful Mergers and Acquisitions

For CASPA

Deloitte Consulting LLP

July 19, 2008

Deloitte.

Agenda

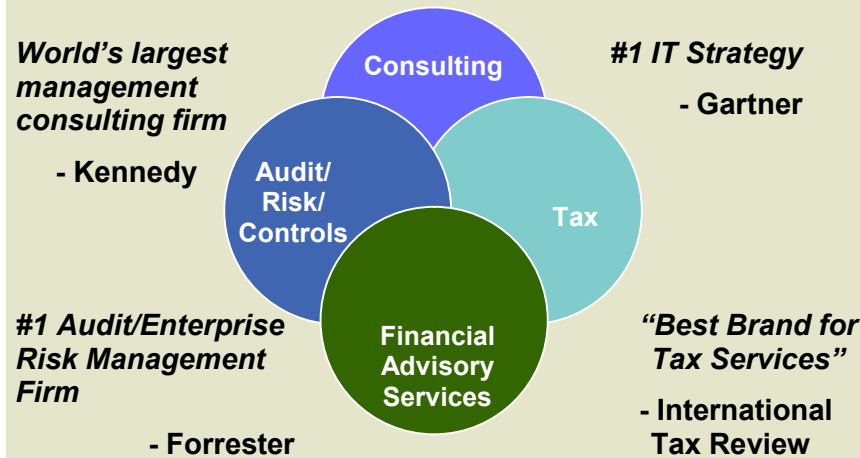
Deloitte Overview

Overview of the M&A Process

Lessons Learned

Deloitte overview

A 360-Degree Business Perspective



... With Uniquely Integrated Service Offerings

"Deloitte is the only Big Four firm to maintain its full portfolio of tax, audit, consulting and advisory practices and emphasizes the benefits of 'delivering the firm' to help its clients 1) create value, 2) mitigate risks and 3) provide clients with a full solution."

Source: © 2006 Kennedy Information, Inc.,
Business Advisory Services: Delivering Financial & Business Consulting Capabilities, April 2006. Printed with permission.

Our Global Organization

- 150,000 people
- 670 offices in nearly 140 countries
- Global revenues of \$23 billion in FY07
- Serving more than 80 percent of the world's largest companies
- Audit, tax, consulting, and financial advisory services



Deloitte's China Firm

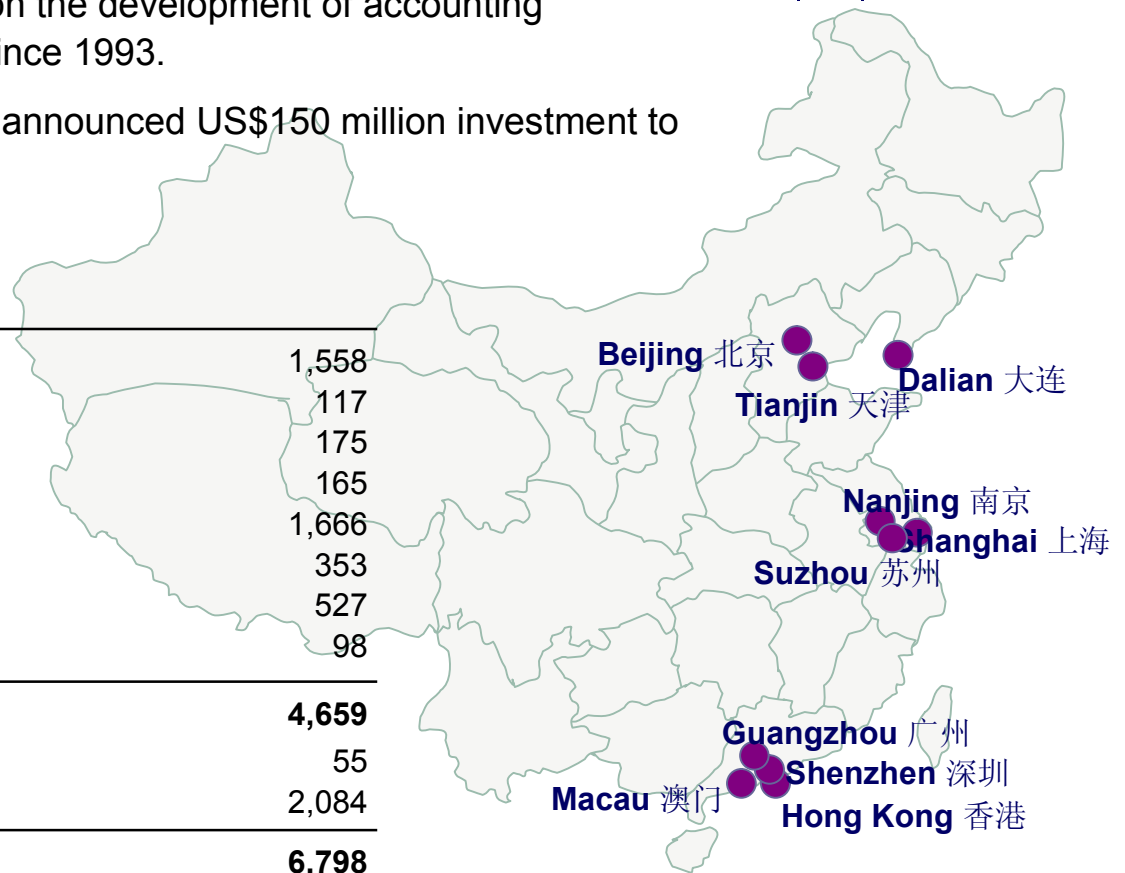
- The first foreign accounting firm to open an office in Shanghai in 1917
- Almost 7,000 professionals in ten Chinese cities
- Serving one-third of all companies listed on the Hong Kong Stock Exchange
- Serving more than 800 MNCs and their affiliated companies in China
- Advising China's Ministry of Finance on the development of accounting standards and tax systems in China since 1993.
- Deloitte's global organization recently announced US\$150 million investment to further strengthen its China presence



Deloitte Touche Tohmatsu (China)

(as of September 30, 2007)

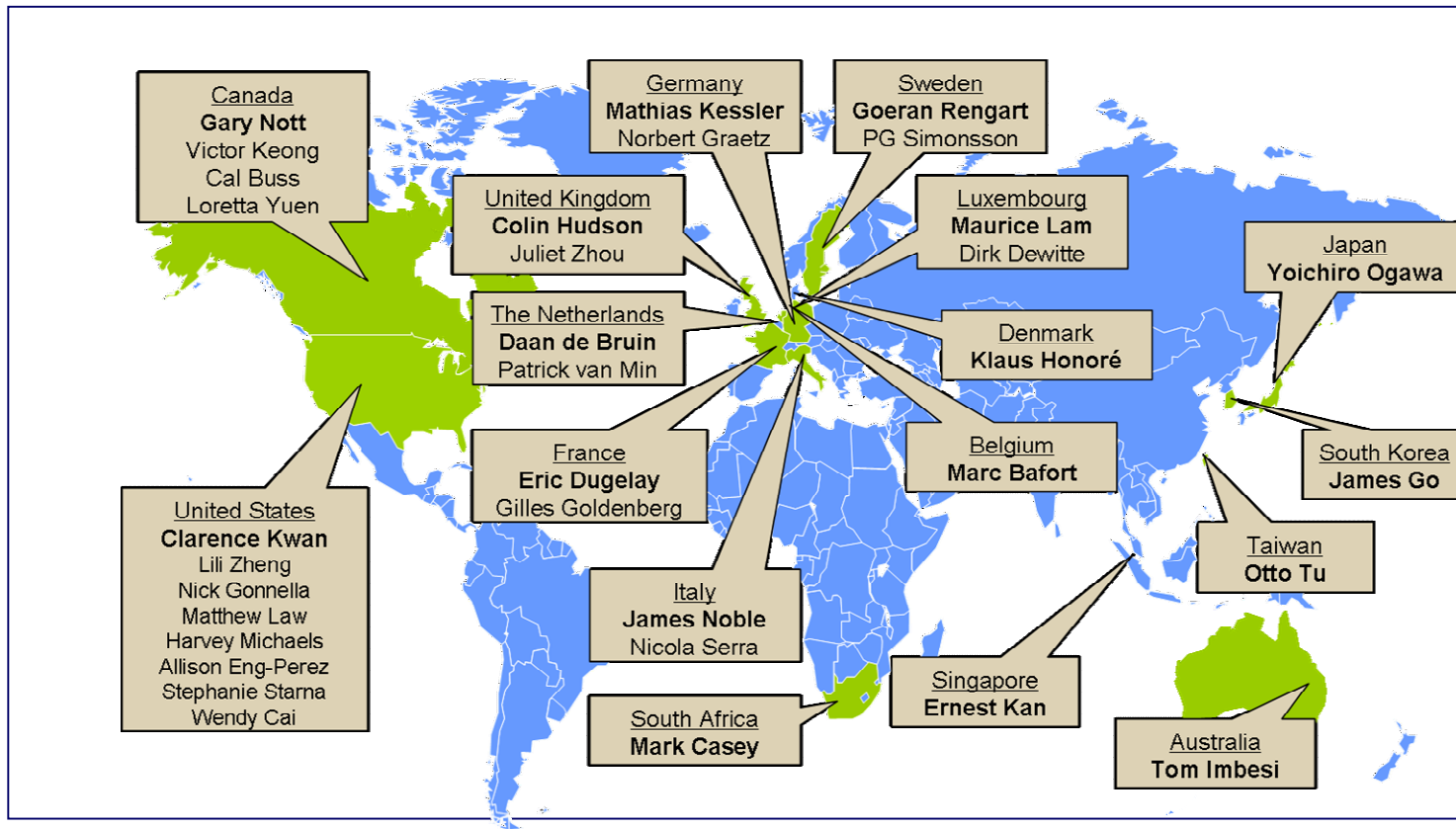
Beijing	1,558
Dalian	117
Tianjin	175
Nanjing	165
Shanghai	1,666
Guangzhou	353
Shenzhen	527
Suzhou	98
Total Mainland	4,659
Macau	55
Hong Kong	2,084
Total China	6,798



Global Chinese Services Groups (GCSG)

The US CSG coordinates with the Deloitte China Firm and Deloitte Touche US LLP to assist Chinese companies seeking to access U.S. markets – expanding operations, raising capital and/or engaging in M&A.

Our national network of bilingual professionals works closely with colleagues in China to deliver seamless service to globalizing Chinese companies.



Deloitte – Technology Media & Telecommunications (TMT) practice

Global Statistics

- More than 6,000 partners, directors, and senior managers supported by thousands of professionals dedicated to serving TMT companies
- Practices in 45 countries
- Centers of Excellence in the Americas, Europe, and Asia-Pacific
- Combined global TMT practices serve more than 90 of the TMT companies in the Fortune Global 500 and nearly 80 percent of the TMT companies in the Fortune Global 1,000
- \$5.3BB in revenue in fiscal year 2007

U.S. Statistics








- More than 2,000 partners, directors, senior managers, and other professionals dedicated to serving TMT companies
- \$1.1 B in revenue fiscal year 2007 - AERS: \$486M; Tax: \$255M; **Consulting: \$306M (dwarfs most competitor strategy consulting firms)**; FAS: \$84M; X-function and other: \$13M

In the US, the Deloitte U.S. Firms provide a range of services to:

- | | |
|--|---|
| ▪ All of the top 10 semiconductor companies | ▪ 9 of the top 10 global wireless companies |
| ▪ All of the top 10 networking equipment companies | ▪ 9 of the top 10 global telecommunications equipment companies |
| ▪ All of the top 10 hardware companies | ▪ At least 80% of the top companies in the U.S. in Technology, Media and Telecommunications |
| ▪ All of the top 10 software companies | |

M&A Practice Overview

Our perspective is the result of more than 600 M&A engagements, including some of the largest, most complex combinations

Sample Clients	Engagement	Highlights
	<ul style="list-style-type: none"> Integrating HP and Compaq 	<ul style="list-style-type: none"> Ensured Day One readiness around the world Developed two-year integration and value capture plan for the global enterprise Trained 10,000 customer-facing employees on handling business on launch day
	<ul style="list-style-type: none"> Divesting Health Care Solutions Group from Agilent and merging into Philips 	<ul style="list-style-type: none"> Day One project to carve out Health Care Solutions Group from IT systems, and cloning financial systems Create Service Level Agreements between Agilent and Phillips for one year term
	<ul style="list-style-type: none"> Integrating Union Carbide into Dow 	<ul style="list-style-type: none"> Defined day one requirements and plan – “issue free” day one Used clean teams to speed savings, resulting in exceeding synergy targets of \$500 million by 120% (on track to achieve \$1.1 billion in synergies)
	<ul style="list-style-type: none"> Integrating Pharmacia and Monsanto 	<ul style="list-style-type: none"> Helped rapidly close the transaction (6th fastest in 5 years of \$5+ billion mergers) Helped teams double the initial synergy target over three years (on track to achieve \$1.2 billion in synergies, versus initial target of \$600 million)
	<ul style="list-style-type: none"> Integrating Allied Signal and Honeywell 	<ul style="list-style-type: none"> Synergy achievement exceeded initial estimates by a minimum of 20% Accelerated merger integration timeframe Well defined implementation plans for every functional area Strong growth platform
	<ul style="list-style-type: none"> Integrating Litton into Northrop Grumman 	<ul style="list-style-type: none"> Identified approximately \$50 million worth of synergies at the corporate level Organizational redesign and synergy identification for the largest sector, Logicon Synergy identification and IT implementation of 28 separate companies merging into four sectors. Approximately \$60 million in synergies
	<ul style="list-style-type: none"> Integrating Honeywell and Pittway 	<ul style="list-style-type: none"> A successful governance and decision making process during the planning phase Successful identification of both cost and revenue synergies Providing structure and framework for the implementation phase

- Other Recent Cases (sample):
- ▶ Applied Materials/Metron
 - ▶ Chevron/Texaco
 - ▶ Allstate/CNA
 - ▶ JP Morgan/Chase
 - ▶ Deutsche Bank/Bankers Trust
 - ▶ Reuters/Bridge Info. Systems
 - ▶ BP/Amoco
 - ▶ Houston Industries/NorAm
 - ▶ AmeriSource/Bergen Brunswig

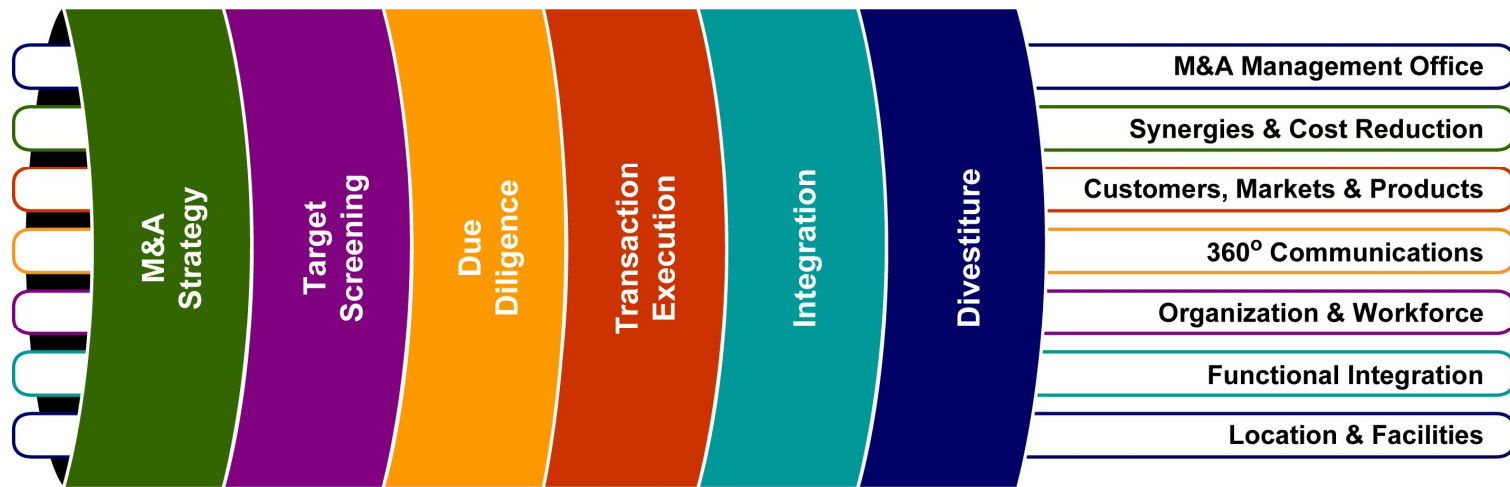
Agenda

Overview

Overview of the M&A Process

Lessons Learned

M&A Lifecycle



Methodology Module Map #1



Agenda

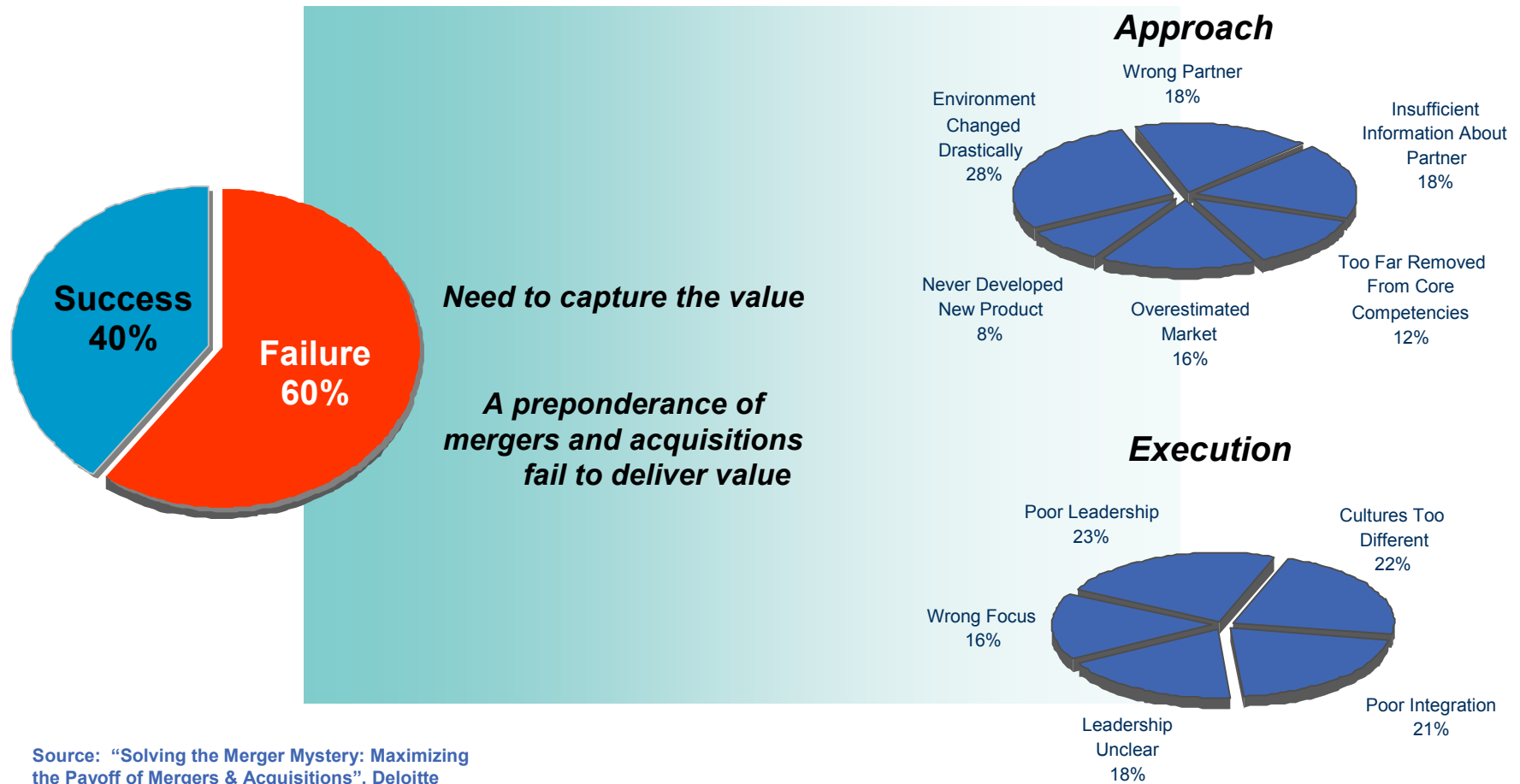
Overview

Overview of the M&A Process

Lessons Learned

Why Mergers Fail?

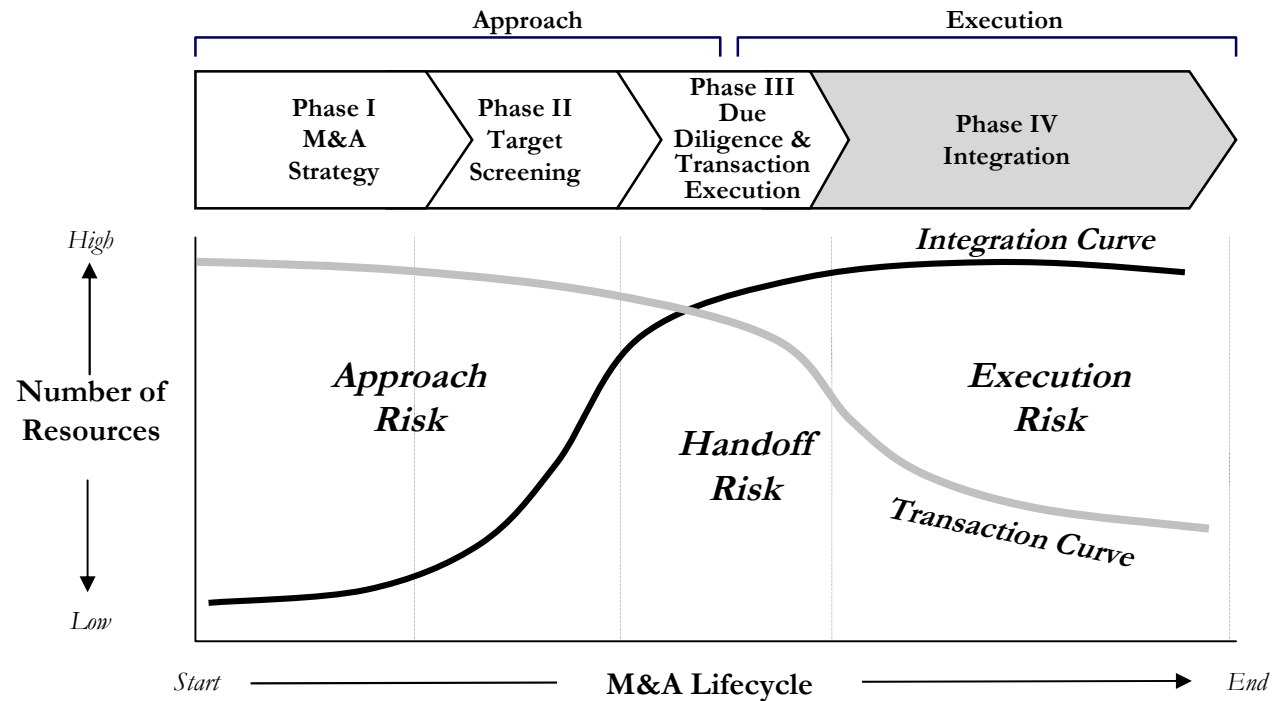
60% of all mergers fail due to errors in the approach and execution of the merger



Source: "Solving the Merger Mystery: Maximizing the Payoff of Mergers & Acquisitions", Deloitte

Challenges and Lessons Learned

A comprehensive integration strategy is the key to execution success.



Approach Risk:

- Resources are focused on the transaction and not integration and its associated costs which could negatively impact the deal
- Failure to go after the right targets

Handoff Risk:

- Resources fail to recognize the unique sources of value
- Ineffective transfer of knowledge from transaction team to integration team

Execution Risk:

- Failure to mobilize and systematically capture value
- Lack of sufficient resources
- Inexplicit accountability for value capture

Lessons Learned – Best Practices in M&A

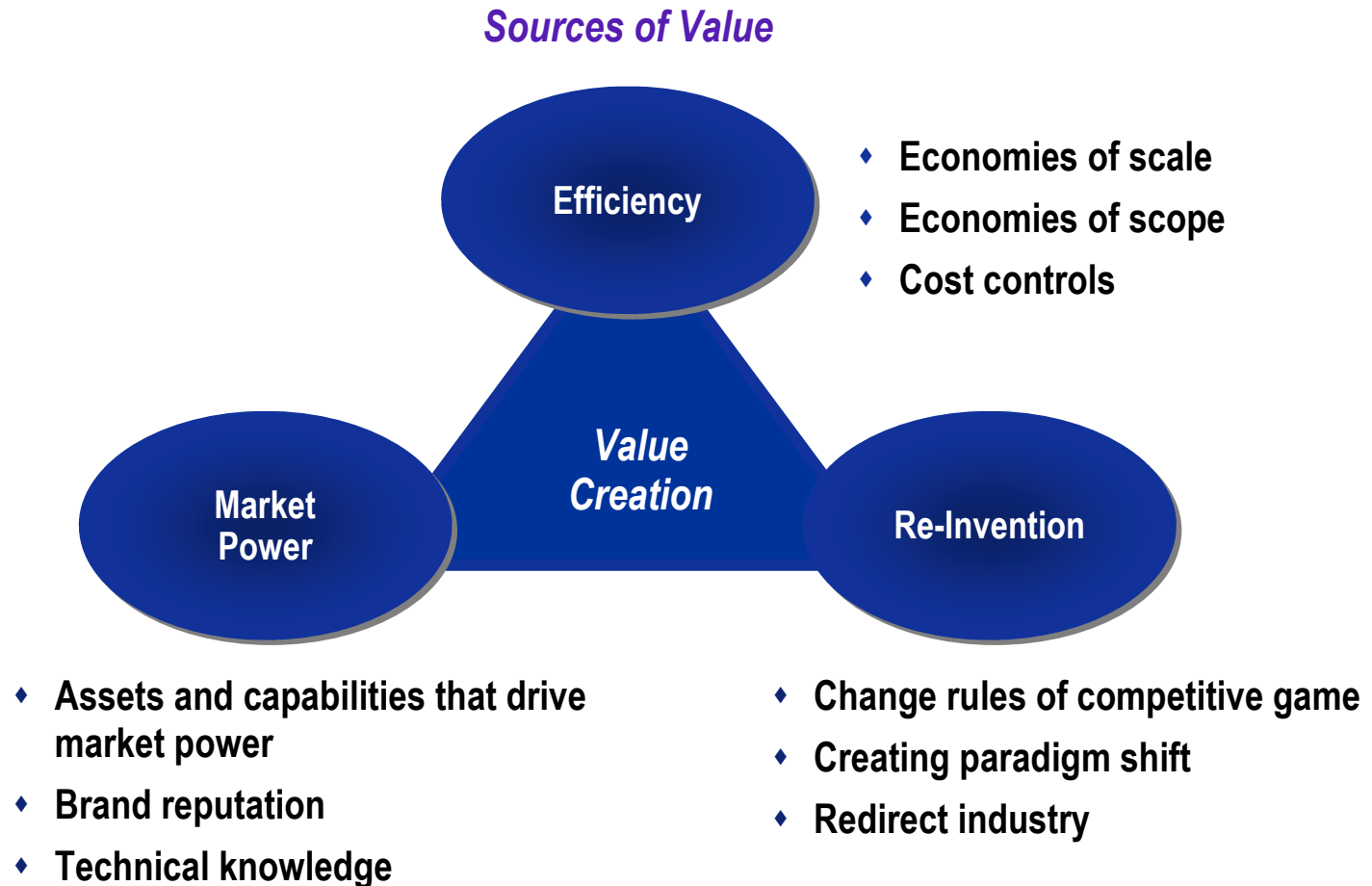
The following 12 lessons enhance the probability of success

Approach	Strategy	1. Establish an acquisition strategy that focuses on the sources of value
	Value	2. Determine the maximum price before commencing the bidding process 3. Do thorough due diligence — financial, legal and strategic
Execution	Destination Definition	4. Determine the degree of integration and address integration issues, especially management and culture, prior to deal consummation
	Process	5. Clearly quantify revenue and cost synergies 6. Focus on a quick integration — iterative speed matters 7. Focus integration on clearly defined drivers of value
	People	8. Launch small, rapid, iterative integration teams 9. Align organization roles and responsibilities and communicate 10. Address retention issues early and often 11. Consider the importance of culture — “humanize” the merger 12. Clearly and frequently communicate to stakeholders the implications and progress of the merger

Lessons Learned Based on Over 400 Case Studies

Lessons Learned – Best Practices in M&A



1. Establish an Acquisition Strategy that Focuses on the Sources of Value

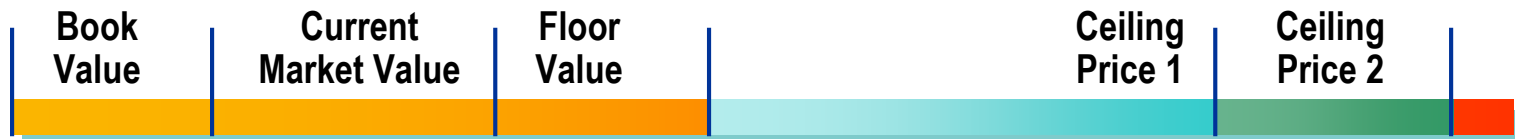


Integration Must Focus on Value Drivers

Lessons Learned – Best Practices in M&A

2. Determine the Maximum Price Before Commencing the Bidding Process

- ◆ Determine how to access more value from the business than its current value
this will occur if returns  and/or risk 
- ◆ Then, the negotiating range is determined by:

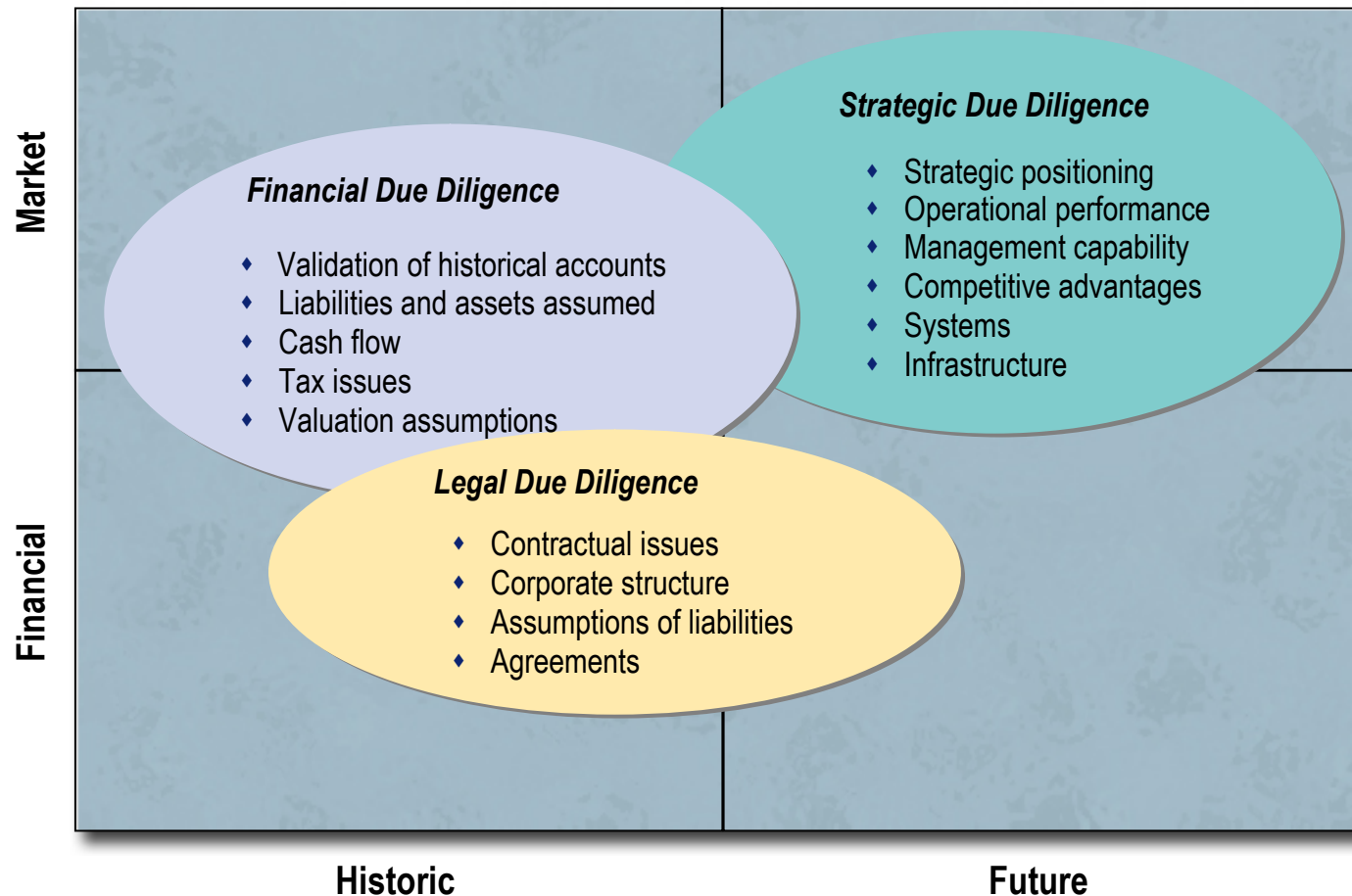


- ◆ Establish a clear negotiating range when bidding on target firm with a carefully computed ceiling price

Need to Avoid the “Winner’s Curse”

Lessons Learned – Best Practices in M&A

3. Do Thorough Due Diligence — Financial, Legal, and Strategic

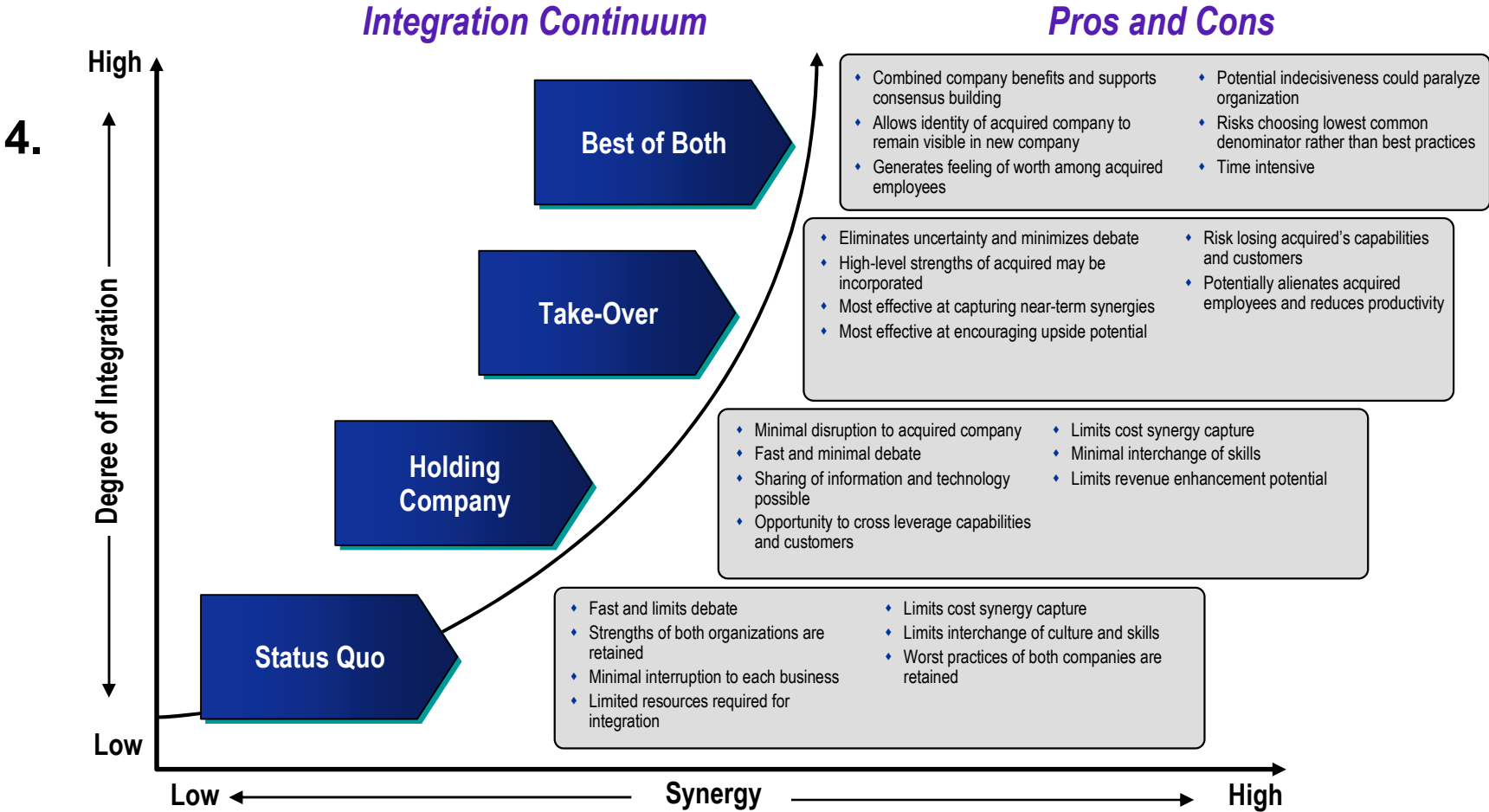


Non-Negotiables Must be Prepared, Updated, and Communicated

Lessons Learned – Best Practices in M&A

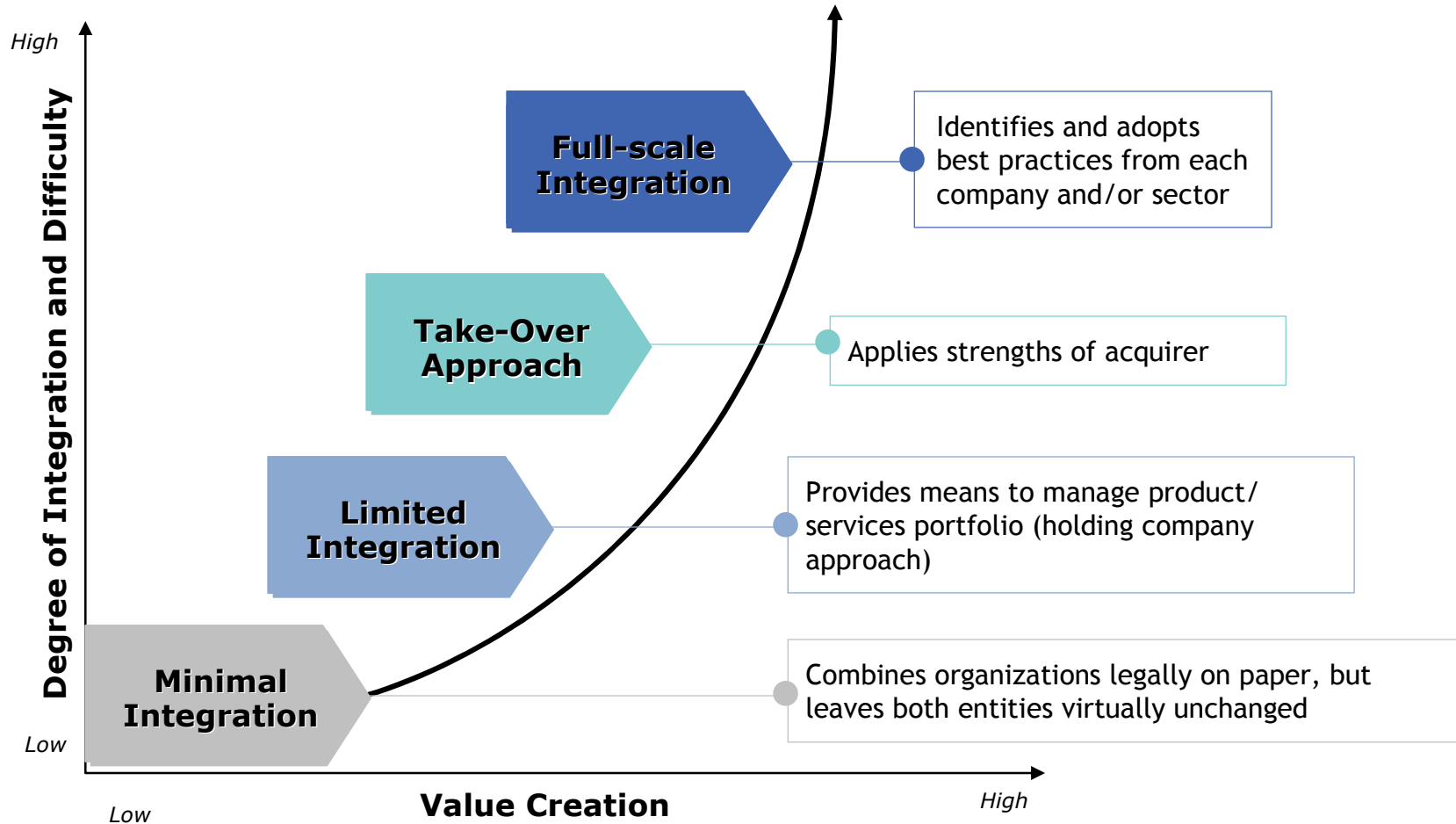
4. Determine the Degree of Integration and Address Integration Issues Prior to Deal Consummation

ILLUSTRATIVE



Value Capture Drives Integration Decision

Degree of Integration



The degree of integration may differ across business areas.

Lessons Learned – Best Practices in M&A

5. Clearly Quantify Revenue and Cost Synergies

Strategic Rationale for the Merger

- ◆ Increased scale and business diversity drive consistent earnings
- ◆ Diversified distribution and customer relationship management
- ◆ Significant revenue & cost synergies in banking
- ◆ Combination of strong business portfolio and operating discipline including global brand, technology and systems and services
- ◆ Greater capability for acquisitions
- ◆ Strong strategic leadership for the future

ILLUSTRATIVE

Creating A Global Technology Powerhouse

Cost Synergies

Year 2002

Six Sigma Acceleration	\$150M
Corporate/Shared Services	\$110M
Purchasing	\$100M
Distribution Channel and Field Services	\$90M
Product Development / Marketing	\$30M
International Infrastructure	\$20M

Total Cost Synergies

\$500M

EPS Impact

\$0.32

\$250 Million
in Savings
in 2000

\$500 Million is Realistic and Achievable

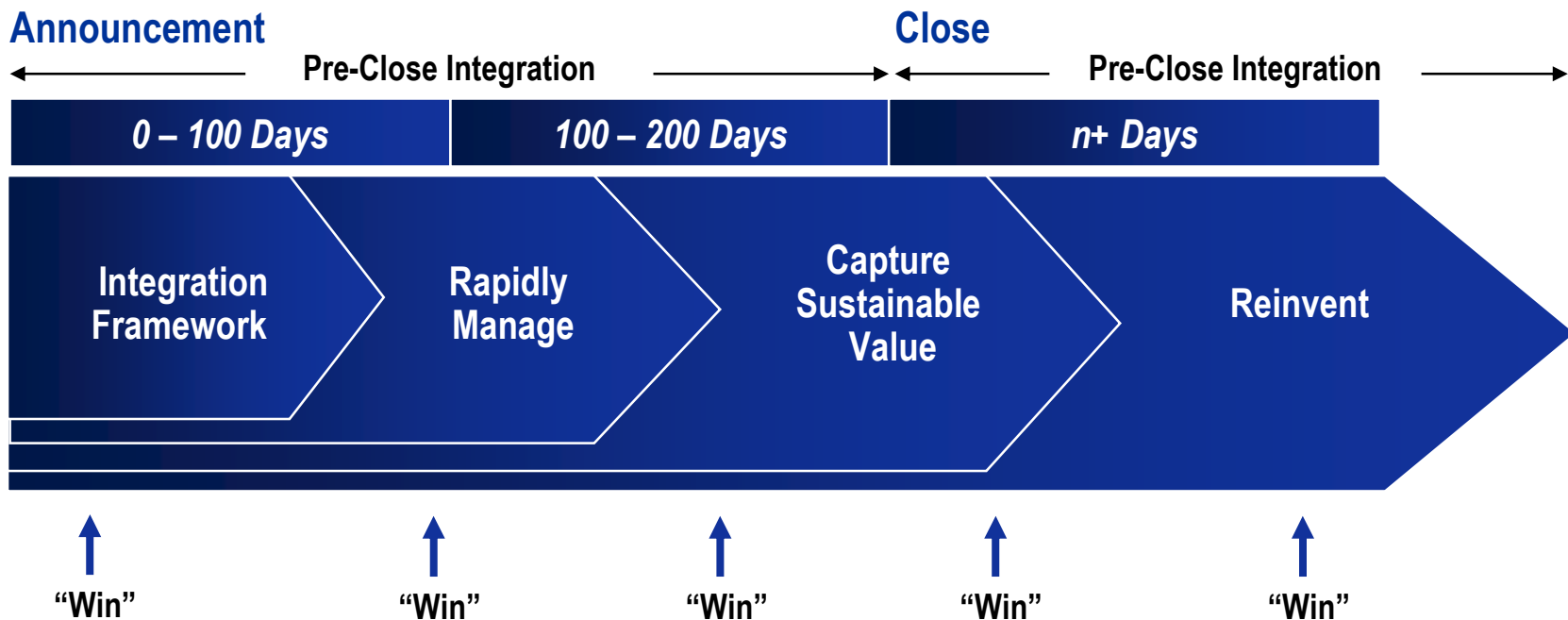
- ◆ Timeframe
- ◆ Accountability/ Roles
- ◆ Incentives

Synergy identification and capture are critical in realizing acquisition value.

Lessons Learned – Best Practices in M&A

6. Focus on a Quick Integration — Iterative Speed Matters

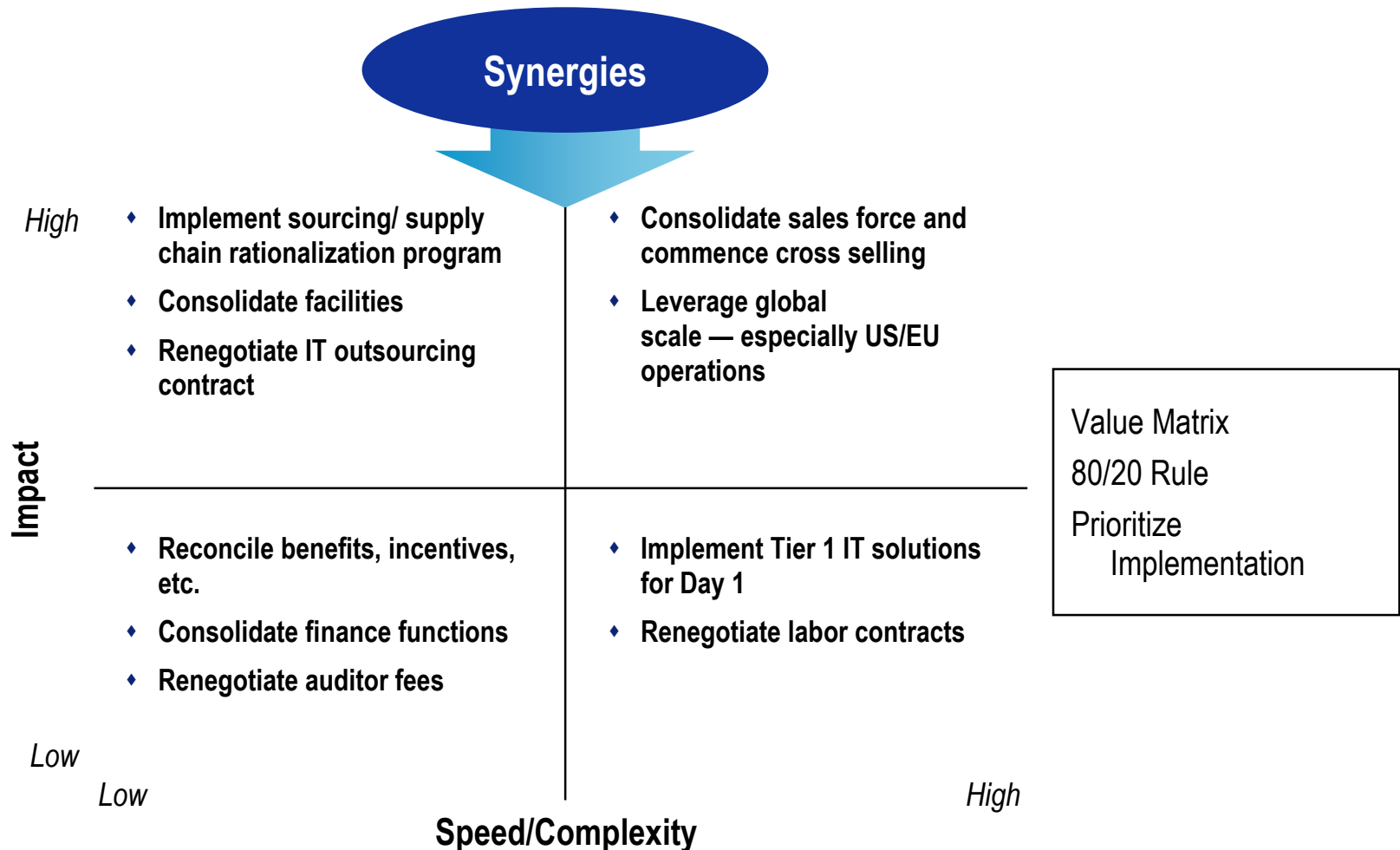
- ◆ Create a process which leverages due diligence efforts — speed matters
- ◆ Define “end state” develop a roadmap, focus on Day 1
- ◆ Iterate/phase in small “30-day” chunks
- ◆ Set tangible targets; measure performance; celebrate early wins



Non-negotiables must be prepared, updated, and communicated.

Lessons Learned – Best Practices in M&A

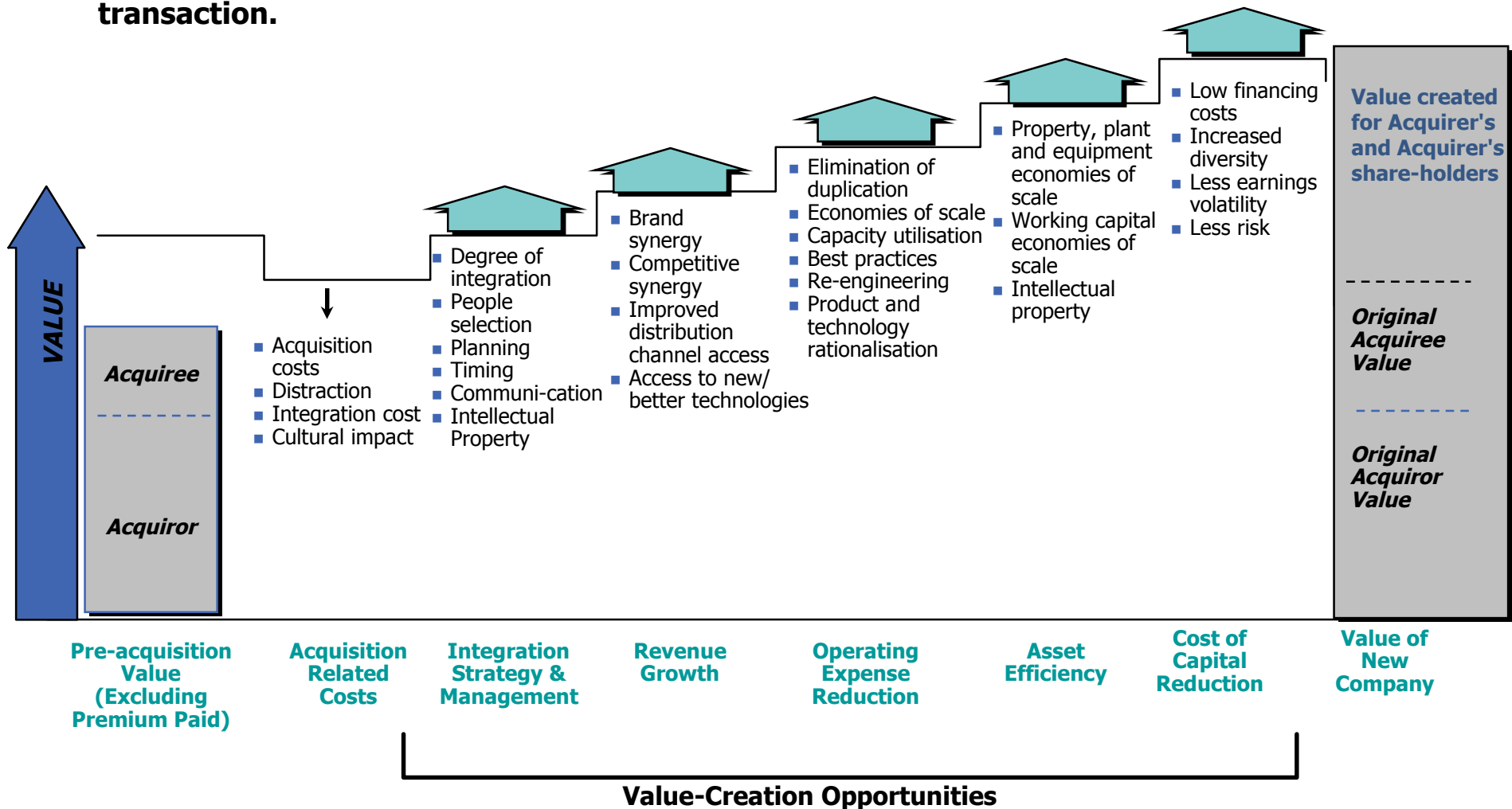
7. Focus Integration on Clearly Defined Drivers of Value



Set high aspirations and take advantage of unfreezing opportunity.

Focus on Drivers of Value (Synergy Capture)

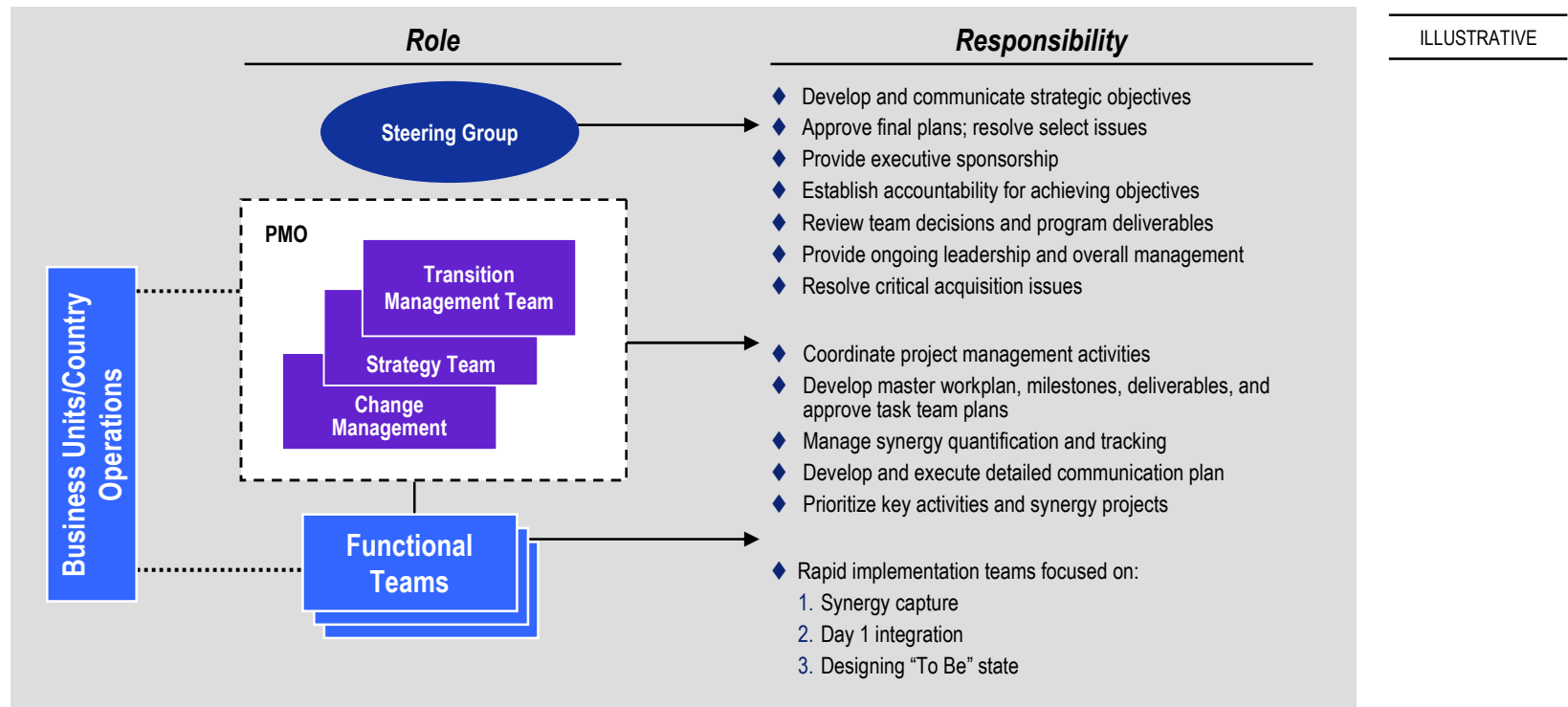
Value creation through integration will determine the ultimate success or failure of the transaction.



Lessons Learned – Best Practices in M&A

8. Launch Small, Rapid, Iterative Integration Teams

- ◆ Iterate “solutions” around clear end-state
- ◆ Staff with the very best people, irrespective of organization
- ◆ Link pre-transaction analysis with post-transaction integration
- ◆ Appoint a champion



Project organization structure creates the backbone for the integration.

Lessons Learned – Best Practices in M&A

9. Align and Communicate Organization Roles and Responsibilities

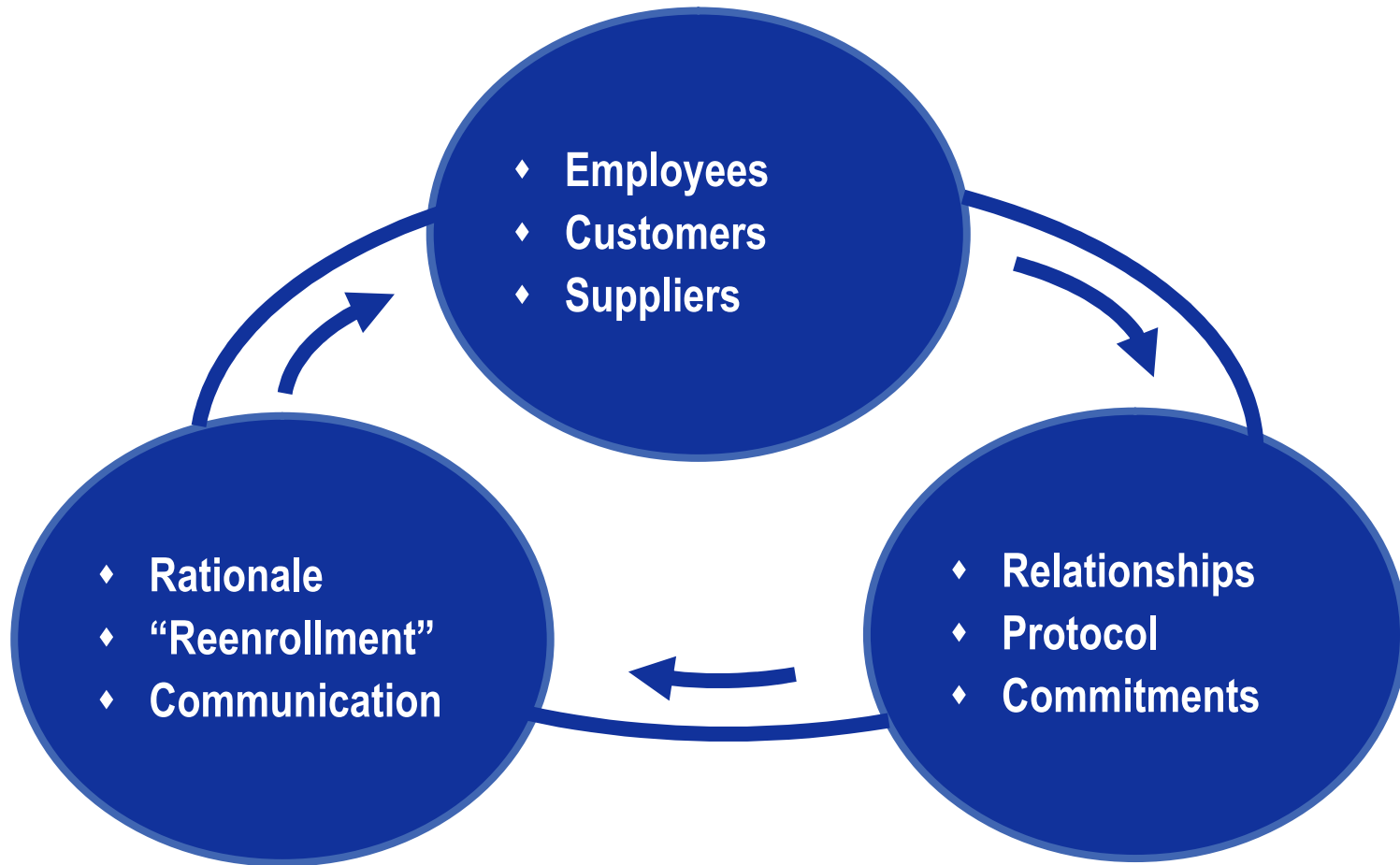
- ⑩ Develop senior level organization structure to establish clear ownership of synergy capture
- ⑩ Establish clear roles and responsibilities for senior management; publicize
- ⑩ Incent talented management to show there is a place for them in the new organization
- ⑩ Avoid “lame duck” positions — catastrophic for building strong organizational buy-in



Minimize uncertainty by creating and communicating key roles and responsibilities early.

Lessons Learned – Best Practices in M&A

10. Address Retention Issues Early and Often



Employees, customers, and suppliers are key to maintaining operational commitments.

Lessons Learned – Best Practices in M&A

11. Consider the Importance of Culture – “Humanize” the Merger

85 percent of all integration failures have cultural undertones.



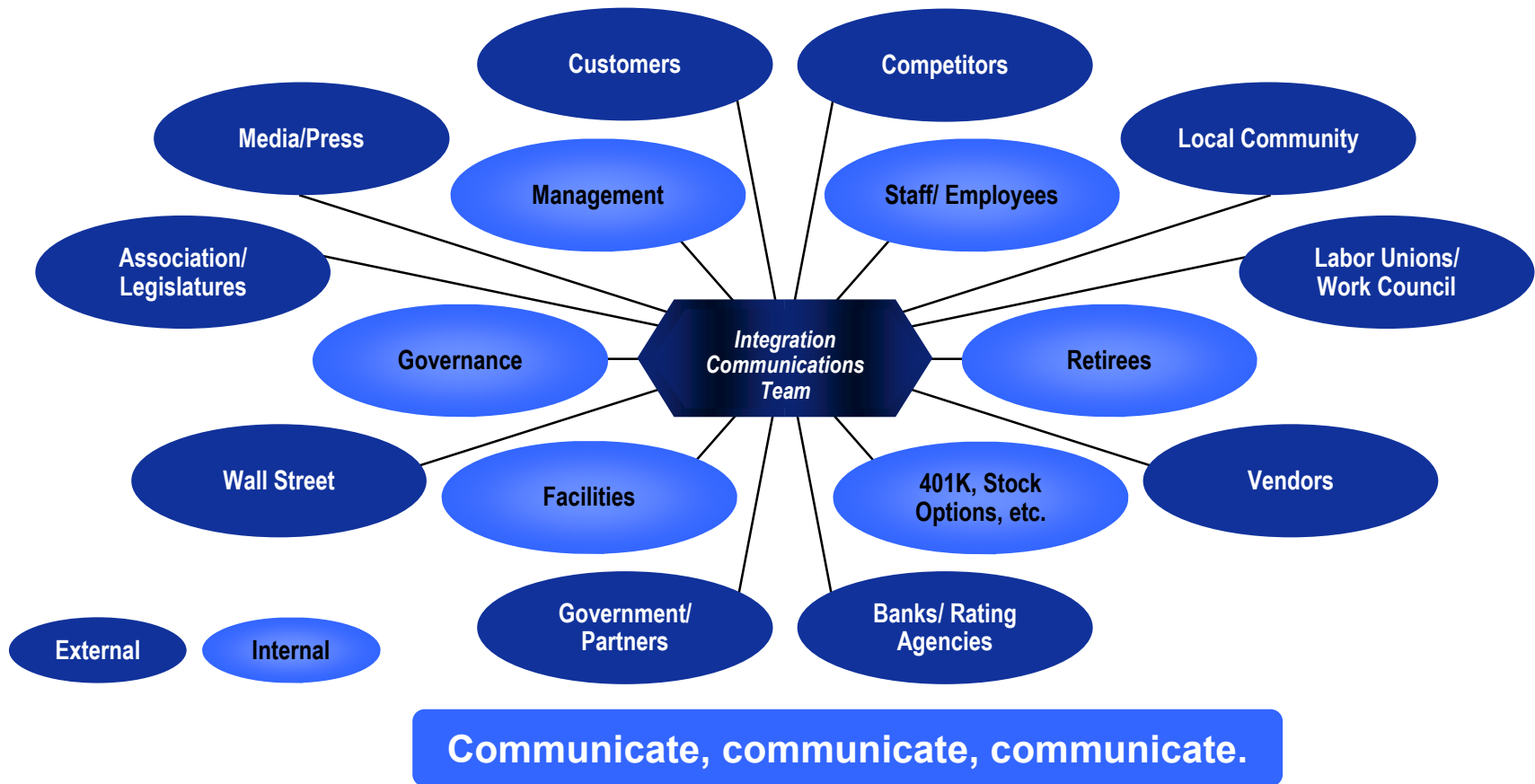
Bank/ Securities Firm	Deal cancelled: Management disagreement over control and differences between culture were deemed too difficult to effectively overcome.
Insurance Merger	Underperforming merger: Clash over culture and management control led to the eventual divestiture of the acquired company.
Non-Bank Lender/ Traditional Bank	Underperforming merger: Stiff imposition of management control over the acquired company led to departure of key managers. Also difficulties integrating new multinational workforce with distinct cultures.

- Model behavior around business events;
- Use end-state
- Understanding similarities and differences is just as important as integrating
- Clearly define roles, targets, and incentives

Lessons Learned – Best Practices in M&A

12. Clearly and Frequently Communicate to Stakeholders the Implications and Progress of the Merger

- ◆ Early
- ◆ Often
- ◆ Open
- ◆ Content-rich
- ◆ Repeat key themes
- ◆ Multi-faceted



Deloitte.

A diverse offering

Unlike most professional services organizations today, the Deloitte U.S. Firms believe that drawing upon a combination of the disciplines of consulting, financial advisory, tax, and enterprise risk management allows us to see more clearly and deeply — creating greater value for our clients.

Consulting	Tax	Audit and Enterprise Risk	Financial Advisory Services
<ul style="list-style-type: none"> • Enterprise Applications • Human Capital • Strategy & Operations • Technology Integration • Extended Business Services 	<ul style="list-style-type: none"> • Corporate Tax • Multistate Tax • International Tax • Private Client Advisors • Transfer Pricing • Employee Benefits Tax • International Assignment Services • Tax Controversy Services • Process and Technology Solutions 	<ul style="list-style-type: none"> • External Audit • Internal Audit • Control Assurance • Security & Privacy Services • Capital Markets Services • Regulatory Consulting • Venture Capital Services • Global Offerings • Corporate Governance 	<ul style="list-style-type: none"> • Corporate Finance • Forensic Investigations • Dispute Consulting • Reorganization Services • Valuation Services
Deloitte Consulting LLP	Deloitte Tax LLP	Deloitte & Touche LLP	Deloitte Financial Advisory Services LLP

*Representative clients of Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Financial Advisory Services LLP and Deloitte Tax LLP