What Makes a Successful Integration

Or What To Do Before, During and After An M&A Transaction

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Dan Kutilek, Director, KPMG
Establishing disciplined structures and processes for managing the integration is fundamental to the deal’s success. There are many factors that should be considered when planning and executing an integration including:

- Setting the Tone at the Top
- Assessing the Integration Plan and Roadmap
- Effectively Challenging and Monitoring Synergy Targets
- Promoting Senior Leadership Involvement and Strong Governance Oversight
- Evaluating Customer and Employee Impacts, including compensation and Communication Plans
The Integration Life Cycle
The Integration Life Cycle

Bank Objective:
- Establish effective governance structure and processes to support integration
- Confirm and document the strategic intent, value drivers, and synergies to achieve the right deal
- Prepare to effectively take control day 1 and integrate
- Successfully complete integration to realize value from the deal

Regulatory Objective:
- Document initial business and capital plans
- Formal integration program including Board and Management oversight
- Robust integration plan with responsible parties, milestones, and due dates
- Successfully manage integration risk

Risk Objective: Provide key stakeholders (internal and external) with an independent assessment of the transaction risks and alignment with the bank’s strategic objectives.
### Before The Integration

**Success Factors**

- Clearly Defined Integration Due Diligence Targets and Goals
- Well thought out and well communicated Integration Guiding Principles
- Updated Playbook Review and Refresh
- End-to-End Integration Readiness Assessment
- Developing Program Structure and Governance
- Engagement of vendors and/or third parties in the diligence process

### Common Risks and Pitfalls:

- Integration Team Involvement (or lack thereof)
- Inability to Define or Track Key Metrics
- Failure of Target Operating Model due to the inability to effectively identify gaps between the two organizations’ current operating environments.
- Understanding Bank Culture(s)

**Objective:** Confirm and document the strategic intent, value drivers, synergies to achieve the right deal.
## During The Integration

### Success Factors
- Robust Communication Plan
- End-End Integration Roadmap
- Fully developed Target Operating Model (TOM) for both banks to operate as one
- Talent Retention and Compensation Plan Defined and ready to execute on Day One
- Customer and Employee Experience
- Training Plan Development and execution well prior to customer day 1

### Common Risks and Pitfalls:
- Unengaged/uninformed front line staff
- Ineffective communication across the acquirer and acquired institutions
- Mismanaged Implementation / Conversion Management
- Vendors and third parties not aligned
- Poorly planned compensation strategy

Objective: Establish effective governance structure and processes to support integration while preparing to effectively take control and integrate.
After The Integration

**Objective:** Successfully complete integration to realize value from the deal and transition integration activities to business as usual (BAU)

<table>
<thead>
<tr>
<th>Success Factors</th>
<th>Common Risks and Pitfalls:</th>
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<tbody>
<tr>
<td>• Integration Review</td>
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<td>• Customer and Employee Experience</td>
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<td>• Lessons Learned</td>
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<td>• Poor documentation and retention of key information</td>
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Focus on Compensation's Role in a Successful M&A
Delivering M&A Value

Robust M&A activity is likely to continue in 2017. However, numerous studies show that 50% or more M&As fail to unlock the potential of the deal. How can you as a director improve these odds? Where are the opportunities and the pitfalls?

Compensation could be a key to helping unlock the strategic value of an M&A.
Think Strategically at the Outset

- Retain and Select Talent
- Adjust Outstanding Compensation Arrangements
- Establish New Compensation Arrangements
- Communicate Effectively
- Overcome Uncertainty
### 1. Retain and Select Talent

**Seller**
- Keeping Talent through the close is critical
- Examine existing compensation and CIC programs
- Are retention mechanisms in place?
- Are new agreements or awards needed to enhance retention to deal close?
- Do the current plans continue to drive business strategy forward?

**Buyer**
- Motivation of “selected” team critical for future success
- Determine who is best suited for leading the new organization and fulfilling the mission of the M&A
- Examine two compensation structures to determine fit with post-close entity
- Are retention mechanisms in place beyond closing?
- Are new agreements or awards needed to enhance retention and ease the transition period?
- Quantify potential costs of planned and unexpected exits of executives

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Review compensation philosophy, programs, existing stock holdings, outstanding equity awards, severance protections, and other contractual guarantees
2. Adjust Outstanding Compensation Arrangements

**Seller**
- Keeping Talent through the close is critical
- Assess if current programs lack clarity given the current transaction and modify
- Assess current performance goals and metrics and adjust to drive results through close
- Continue ongoing compensation planning cycle if deal does not close

**Buyer**
- An M&A will materially impact near and long-term business results
- Examine impact of transaction on performance outcomes of current incentive plans; are there windfall gains or losses likely to occur?
- Can the impact of the transaction be excluded?
- And are there disclosure and/or tax issues under adjustment scenarios?
- Determine if and/or how to adjust performance goals and metrics

Review existing incentive plan provisions to model various adjustment scenarios
3. Establish New Compensation Arrangements

**Keeping Talent through the close is critical**
- Establish new retention programs as needed
- Continue ongoing compensation planning cycle if deal does not close

**Future compensation plans will help spur strategic execution at NewCo**
- Change programs and/or policies and practices as required
- Strategy
- Program design
- Performance measures
- Calibration of pay and performance
- Has size and complexity of organization changed such that benchmarking and peer group comparison should be revisited?

What should be done differently so that the leadership of the new entity can deliver on the promise of the transaction and deliver value?
4. Communicate Effectively

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<tr>
<td>Communicate how the impending transaction impacts future employment post closing</td>
<td>Be clear on all changes and rationale for pay programs. This extends to the board, certain executives, advisors, shareholders, and key internal constituents</td>
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<tr>
<td>Communicate impact on current compensation (bonus, equity, severance, retention, transaction bonus)</td>
<td>Boards need to plan for immediate disclosures such as merger proxy, 8-K filings, press releases, and/or other Reg FD material items</td>
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<tr>
<td>Prepare relevant disclosures such as merger proxy, 8-K filings, press releases, and/or other Reg FD material items</td>
<td>Should be planning ahead for CD&amp;A disclosure</td>
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The importance of strategically communicating across companies and throughout the organizations in all phases of the deal can’t be overemphasized

A proactive plan for internal, external and disclosure pay communication is essential for transaction success
5. Overcome Uncertainty

The board can help leadership overcome uncertainty and resistance to change.

- Avoid defaulting to a simpler basic, “best practices” compensation plan.
- Ensure changes to compensation plans support and reinforce the near-term needs of the transaction and long-term goals of the combined organization.

Helping executives maintain focus and motivation is critical for M&A success.

Executives are responsible for and also undergoing massive change; compensation can provide a means to simultaneously avoid inertia or revolt.
Laura Hay, Managing Director, Pearl Meyer – Laura is a Managing Director in Pearl Meyer, where she leads Pearl Meyer’s National Banking Industry Team. She has extensive experience specializing in executive and director compensation and is frequently retained to evaluate the appropriateness of compensation programs. She advises a number of public financial institutions as well as government sponsored enterprises and private banks including private equity and majority-shareholder owned institutions.

Dan Kutilek, Director, KPMG - Dan is a Director in KPMG’s Operations Risk practice. He has over 12 years of experience in Professional Services specializing in integrations and separations, implementing Project Management Offices (PMO) and large programs at global financial institutions. He has broad experience in the financial services industry but has also worked with clients in software, telecommunications, aerospace & defense, industrial products and state and local government.