KPMG Webcast: How to prepare and execute transformative transactions

One of the most impactful types of deal taking place in the market for mergers and acquisitions is what has been termed a "transformative transaction," a mega deal that serves as a catalyst for the transformation of an entire company. While the process can fundamentally transform an entire organization and set the stage for substantial growth, the challenge for many companies is that the complexity of the transaction makes successful execution extremely tricky.

"There are key strategies management teams must undertake with dedication to perform a transformative transaction with excellence.," said Dean Bell, Market Activation Leader for the KPMG Deal Advisory and Strategy business. "To be clear, though, these transformative transactions are not for the faint of heart. But for those willing to navigate the complexity, they can reap huge rewards."

In a recent KPMG survey of global CEOs, more than half said they are likely to undertake an acquisition with a significant impact on the organization. Organizations that adapt well to change tend to be more successful and achieve marketable growth.

The benefits and risks involved with transformative transactions were detailed during a recent KPMG webcast with a panel of M&A subject matter specialists.

Compounding complexities

Preston Parker, the Global Complex Transactions Lead at KPMG, said transformative transactions are operationally complex because they are often global in nature with large employee populations, very intricate supply chains, difficult regulatory environments and manufacturing distribution around the world. When you put these attributes together, you get compounding complexity, which means the process gets significantly harder.

Parker noted that in the past five years, there have been around 400 mega deals greater than $1 billion in value annually, and while they are only 2 percent of the total M&A transactions in the U.S., they account for 74 percent of total transaction value. While the sample KPMG measured was for large deals, transformational deals can happen at a lower valuation when companies try to achieve the same amount of enterprise integration and have a similar deal thesis.

Charles Arnold, Service Network Leader of Transformation Delivery for Commercial Industries at KPMG, said that among the complicating factors of transformative transaction can be that at times they are not a single deal, but a string of deals involving transactions such as multiple acquisitions and carve-outs. He further stated that while the announced volume of M&A deals may be lower now than in the past two years, because of the complexity of transformational deals, much is happening away from the headlines. The actual transaction may be at a single point in time, but the reality is these deals can be twelve to 36 months long and post-transaction activity can go even five or six years. That does not include the lead time that goes into preparing for these deals.

Historically there is a surge in transformative deals after downturns in the economy. In 2008 deals stopped, but in 2009, we started seeing large and middle-market corporates start to come back with deals starting on the sell side. Many of them were evaluating their portfolios and saying, 'Do these assets fit?' But they were also looking at the market and saying, 'What do we want to be doing when the financing markets change?'

Planning for the right moment

Parker explained that often these deals take on the attributes of an internal transaction. Many times, a client wants to get out of a certain business but does not see the right market to do that. For example, a current client has been planning a divestment for two years, but the specific market niche is not ripe for a sale. The company has decided to separate the business and run it as a standalone division. When the time is right, they will spin that business. "Many of these transactions are happening but are not visible to the broader market."

Arnold said company planners are sometimes unaware at the outset that the transaction is likely to be transformational, thereby inadequately planning and structuring teams for Day 1. Then they quickly realize the jurisdictions are different or the functions do not operate in the same way, which means to achieve the value they had articulated, they need to be intentional about how they structure the transaction team.

People matters

Another component that makes the transformative transaction so difficult is when multiple geographies are involved. Lyna Sun, the HR M&A and People Strategy Leader for KPMG, said that combining different industries or different geographies often involves cultural issues. "All of these aspects really play a large role in the complexities that just need dedication and focus, much more than the smaller transactions." For example, in a recent deal involving a large pharma company that bought a consumer business, the differences were material with different sales structures and sales incentives, different supply chain considerations, even accounting. These different pieces fundamentally changed the way the deal was structured to account for and address those differences, driving the complexity of the transaction significantly higher.

Bell noted that employee culture is also critically important to transactions. Whenever you are taking a smaller organization out of a larger organization, you have a unique ability to influence what the sentiment of that organization will be in the marketplace as an independent company. Sun described one deal in which a company wanted to reshape the culture of the legacy organization to be more representative of a tech industrial company. From the brand name to the systems, the company chose to be more agile and nimble and oriented to the experience that they wanted to deploy for their employees and their customers.

Navigating Government Scrutiny

It is important to be agile and able to adjust the transaction structure as deals may get closely scrutinized by government entities to address potential antitrust issues. This means being flexible to the potential delay of closings and the need to be creative as the transformation journey might take a little bit longer to capture.

Sun said it was also crucially important for all functions, not just finance, to be included in the planning for a transaction. This means bringing in the right functional experts early and often throughout the process and including the local country views. How do you start to capture value levers in the local markets and increase efficiencies without engaging the right people?

Exhibit 1: How Revvity achieved a successful transformation

Dan Tereau is the Senior Vice President and Chief Strategy and Development Officer at Revvity. Tereau explained to Kristin Pothier, the Global and US Healthcare and Life Sciences Deal Advisory and Strategy leader at KPMG, how Revvity had begun as the life sciences firm PerkinElmer and its transformational transaction involved eighteen different acquisitions, a major divestiture, and a total rebranding.

When Tereau joined in 2014, the company had four divisions—life sciences, diagnostics, medical imaging, and industrial applied markets. Industrial applied markets was about 50% of the company's revenue and the other 50% was largely in instruments. Revvity saw a strategic need to pick a vision for a mission that differentiated the organization from the larger conglomerates and become a much more focused company.," Tereau said. "One that was focused on reliable, repeatable profit and sales growth through reagents and consumables to move away from equipment; one that diversified our geographical markets; and one that really sent the message to our employees and customers that we are a much more focused company with a mission to create a new identity for PerkinElmer."

The company did a complete assessment of company strengths and weaknesses to assess its future direction. And the company made the difficult decision to divest resulting in a multibillion deal which was more complicated than anticipated. It started with making sure the right teams were in place before beginning the selling process. The company transformed with the help of significant teamwork, planning, preparation, and commitment.

Among the takeaways from the Revvity example, Bell concluded saying picking the right vision and strategy is key to drive repeatable profit and sales growth. "Form a great team, find the right direction and don't give up."

Conclusion

Transformational transactions require strong commitment and a ruthless focus on value as they are long and complex. Such transactions are underpinned by cultural alignment. Jurisdictional and anti-trust regulation can significantly alter initial plans and on-ground implementation. Thorough pre-deal analysis, going beyond functional silos, working on value levers, and the right transformation mindset by executives can go a long way in making a transaction successful.

The next KPMG webcast of this M&A series will be focused on value creation and held in the fall.

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