PEOPLE RISKS IN M&A TRANSACTIONS - PRESENTATION TO LONDON MERGER MARKET FORUM

JULY 7 2016

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Partner and M&A Leader for Europe
DEAL VOLUME OVER THE LAST 3 YEARS

GLOBAL M&A ACTIVITY - CORPORATE VS. PE

[Graph showing deal volume and value from 2013 to 2016 for corporate and private equity deals, with data points for deal count and value in US$bn.]

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MERGERMARKET DATA AT 1 April 2016.
FIRST OF ITS KIND RESEARCH: MERCER 2016 PEOPLE RISKS IN M&A TRANSACTIONS

INSIGHTS FROM LEADERS MANAGING OVER 4M+ EMPLOYEES GLOBALLY

847 UNIQUE DATA POINTS

PRIVATE EQUITY DEAL AND OPERATIONS TEAM 23%

CORPORATE FINANCE 7%

CHRO OR HR EXECUTIVE 44%

CORPORATE DEVELOPMENT/STRATEGY 15%

BUSINESS UNIT LEADER/CORPORATE BUSINESS EXECUTIVE 11%

HEALTH CARE 11.9%

OTHER 12.4%

INFORMATION TECHNOLOGY 10.5%

FINANCIAL 9.2%

ENERGY/UTILITIES 5.9%

CONSUMER DISCRETIONARY 26.2%
## FIRMS WE SURVEYED

<table>
<thead>
<tr>
<th>NUMBER OF EMPLOYEES GLOBALLY (N=319)</th>
<th>ANNUAL REVENUE (N=302)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 500</td>
<td>Less than £75 million</td>
</tr>
<tr>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>500 to 1,000</td>
<td>£75 - £375 million</td>
</tr>
<tr>
<td>7%</td>
<td>15%</td>
</tr>
<tr>
<td>1,000 to 5,000</td>
<td>£375 - £750 million</td>
</tr>
<tr>
<td>30%</td>
<td>11%</td>
</tr>
<tr>
<td>5,000 to 10,000</td>
<td>£750 million - £3.75 billion</td>
</tr>
<tr>
<td>12%</td>
<td>32%</td>
</tr>
<tr>
<td>10,000 or more</td>
<td>£3.75 billion or more</td>
</tr>
<tr>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>Average</strong></td>
</tr>
<tr>
<td><strong>18,200</strong></td>
<td><strong>3.6bn</strong></td>
</tr>
</tbody>
</table>

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MOST SIGNIFICANT PEOPLE ISSUES IDENTIFIED IN FUTURE TRANSACTIONS

THE TOP FIVE (IN DESCENDING ORDER)

1. Employee retention
2. Cultural and organizational fit/integration
3. Leadership team (determining the quality of the management team/executives for the new company)
4. Compensation and benefit levels (market pay concerns)
5. Talent availability and identifying, assessing, and placing talent
“Our primary focus in the first 100 days is on senior talent acquisition: upgrading talent, searching for vacant positions, and scaling for growth.”

Managing Director, Private Equity Portfolio Operations Executive

“Communication, communication, communication ... We tell acquired employees how important they are to us. We tell them how they fit into the organization. And we repeatedly tell them, you are core to our business.”

CHRO, Multinational Chemical Company

“Our biggest risk is retention — keeping the key revenue generators, the key operators, and the client-facing employees.”

CHRO, Multinational Chemical Company
BUYERS NAVIGATING NEW COMPLEXITIES

- Entering new geographies
- Taking on new risks / liabilities
- Entering new industries
- Getting comfortable with less due diligence (information and time)
SELLERS NAVIGATING NEW COMPLEXITIES

- Activist shareholders disrupting status quo
- Separation management
- Managing transition service agreements (TSA) to maximize exit price
- Pension volatility
CULTURE WAS IDENTIFIED AS THE NUMBER ONE HR INTEGRATION CHALLENGE

... a successful culture of winning was defined in 78 interviews with the following characteristics, behaviors, and outcome expectations:

- Leadership alignment
- Specific, deliberate behavior definition and reinforcement
- Clarity of purpose
- High collaboration
- Honest and frequent communication
- Well-socialized risk profile
- Owner-like accountability
- Performance-based environment
- Transparent governance
- Agile and empowered decision-making
- Progress measurement and celebration

“When we talk about culture risks, what we’re really talking about are productivity and profitability risks.”

M&A HR Executive,
Multinational Aviation and Aerospace Company

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DEDICATED PROJECT MANAGEMENT WAS CONSISTENTLY CITED AS A “MUST HAVE”

... effective PMO, SMO, IMO was defined in 78 interviews with the following characteristics, behaviors, and outcome expectations:

- Designated executive sponsorship
- Dedicated experienced (HR, M&A, global, etc.) resources
- Transparent decision-making protocols
- Rigorous/documentated governance standards
- Honest, frequent, concise messaging
- Focus on key priorities and people issues, in one or multiple countries that influence value creation
- Owner-like accountability (time, decision-making, budget, etc.)
- Progress measurement and recognition of achievements

“Outsourcing the PMO work to an HR M&A resource allowed us to drive results at a much faster pace than if we tried to do it ourselves.”

CHRO, Health care company
**AT THE END OF THE DAY M&A IS A PEOPLE BUSINESS**

“The human capital side is the most important part of this merger.”

Chairman and Chief Executive of a large multinational

<table>
<thead>
<tr>
<th>Survey Insight</th>
<th>Total</th>
<th>Corporate</th>
<th>Private Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent</td>
<td>55%</td>
<td>54%</td>
<td>57%</td>
</tr>
<tr>
<td>Compensation and Benefits</td>
<td>19%</td>
<td>18%</td>
<td>26%</td>
</tr>
<tr>
<td>Organizational Integration/Design</td>
<td>12%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Other HR Issues</td>
<td>14%</td>
<td>15%</td>
<td>13%</td>
</tr>
</tbody>
</table>
7 VALUE DRIVERS FOR BUYERS

- Assess leadership team and key employee capabilities
- Develop effective retention strategies
- Have a clear culture, communication, and change management plan
- Evaluate HR service, delivery, and design needs
- Enlist experienced resources to make the transition process more efficient
- Adopt an enterprise or global view to effectively manage benefits
- Understand the market competitiveness of rewards, and leverage total reward programs to attract and retain the right talent
As they plan for and execute transactions, many sellers are finding that HR issues require increased focus and attention.

**EFFORT ON HR ISSUES**

- **34%** More Effort
- **65%** About the Same
- **<1%** Less Effort
TOP 4 VALUE DRIVERS FOR SELLERS

- Identify critical employee groups and consider a retention program.
- Leverage experienced sell-side advisors and separation specialists (SMO resources).
- Consider providing a sensible, appropriately priced (cost-plus) transition services agreement (TSA).
- Document a clear talent management/staffing plan.

Applying these principles throughout a transaction helps organizations mitigate risk and maximize return on exit.
SELLERS LOOKING TO MAXIMIZE PRICE MITIGATE PENSION ISSUES IN TRANSACTIONS

PENSION RISK: VOLATILITY OF PENSION FUNDED STATUS

Periods of large funded status swings can occur over short periods of time.

TRANSACTION ISSUES FROM DEFINED BENEFIT PENSIONS

- Buyers perceive defined benefit plans as risky debt - barrier to bid?
- Seller exposure to pension risk with long-term investment strategy during sale process
- Buyers lack readiness to implement their pension strategy at Close

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NEW! 2016/17 GLOBAL M&A RETENTION AND TRANSACTION PROGRAMS SURVEY

• Survey Launch: July 2016
• Participants receive complimentary copy of report
• The research will focus on key issues buyers and sellers face including:
  – Top 5 practices for retaining key employees
  – When a retention incentive plan is appropriate
  – Retention eligibility and award size
  – Plan costs and accounting
  – Retention strategy/plan exceptions
  – Retention plan metrics
  – Links to severance or other plans
RETENTION PLAN ANALYSIS – IMPACT ASSESSMENT

Risk employee will leave

<table>
<thead>
<tr>
<th>Business impact of role</th>
<th>High impact + low retention risk</th>
<th>Medium impact + medium retention risk</th>
<th>Low impact + low retention risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>B</td>
<td>A</td>
<td>D</td>
</tr>
<tr>
<td>High retention risk</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>High impact</td>
<td>Medium impact</td>
<td>Low impact</td>
<td></td>
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ARE YOU READY FOR THE NEXT DEAL?
LONDON EVENT – 22 AND 23 NOVEMBER 2016

TACKLE CRITICAL PEOPLE ISSUES THAT DRIVE M&A SUCCESS

MULTIPLE WORKSHOPS ACROSS EUROPE

Register and learn more at:
www.mercer.com/MAREADY

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