ASK THE EXPERTS WEBINAR

Post-Merger Integration

August 13, 2020

AGENDA

INTRO & REMINDERS

STATE OF THE MARKET

HOW TO APPROACH A SUCCESSFUL INTEGRATION

PRE-CLOSE PLANNING

POST-CLOSE EXECUTION

FORWARD-LOOKING MARKET INSIGHTS

Q&A

PRESENTERS

Vipul Barbhaya
MANAGING DIRECTOR

Anne Heffington
MANAGING DIRECTOR

Meghan Jutca
SENIOR MANAGER

Kirk Lane
SENIOR MANAGER

Sasha Morozova
MANAGING DIRECTOR

Greg Sarich
MANAGING DIRECTOR

MODERATED BY:

Ryan Gamble
MANAGING DIRECTOR

KEY REMINDERS

- Riveron webcasts – past and upcoming
- 4 polling questions must be answered to obtain CPE
- If you have questions, feel free to ask in Q&A option in Zoom
- Webinar evaluation form & CPE certificate will be emailed to you
- On demand video is not eligible for CPE
- You will receive a follow up email including:
  - Access to this webinar recording and deck
  - The ability to join our Webinars Mailing list to receive future invites
  - Presenter contact info

STATE OF THE MARKET

IMPACT OF COVID-19 TO M&A ACTIVITY

SIGNIFICANTLY INCREASED UNCERTAINTY AFFECTS EVERY STEP OF THE DEAL CYCLE

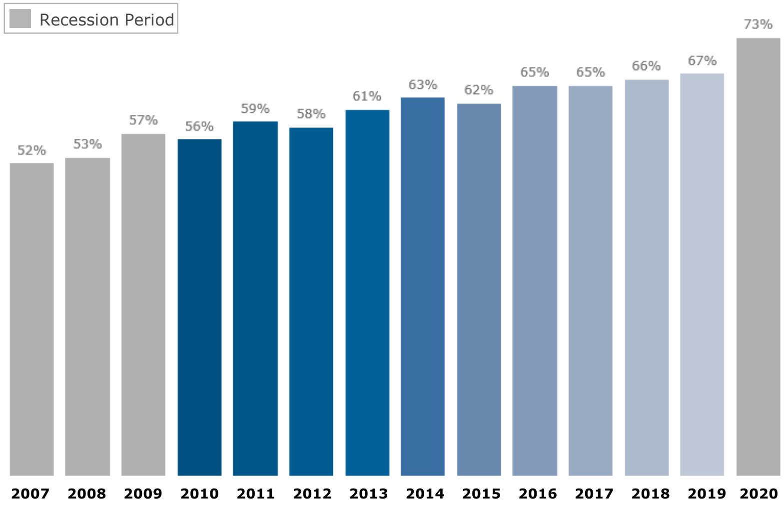
LIQUIDITY ON THE BENCH	Near- to medium-term focus on balance sheet health is prompting conservation of capital and caution in the deployment of liquidity, despite considerable dry powder
LOOKING INWARD	Many buyers are prioritizing employee welfare, business continuity, internal projects and operational flexibility, reducing appetite for inorganic growth
VALUATION VOLATILITY	Lack of confidence in valuations – particularly regarding stability over the course of the deal cycle – presents a challenge to push transactions to completion
LOGISTICS	As with other industries (e.g. commercial real estate), the difficulty of completing traditional diligence activities in person has crimped the deal pipeline
FORWARD GUIDANCE	As with valuations, forward-looking guidance for most companies is unpredictable and prone to rapid revision, complicating the timing on strategic acquisitions

ADDITIONAL CONSIDERATIONS

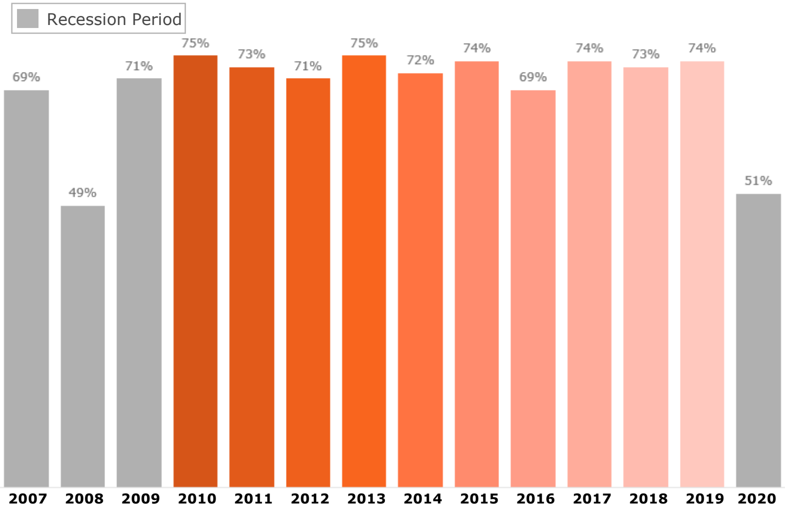
- Sustained volatility in capital and commodity markets as well as fiscal and monetary policy introduce further instability to the long-term outlook for markets as a whole
- The shutdown of broad sectors of the economy for an extended period of time is an unprecedented experiment with uncertain back-end ramifications, clouding attempts to forecast deal activity for Q4 2020 and beyond

PRIVATE EQUITY OUTLOOK

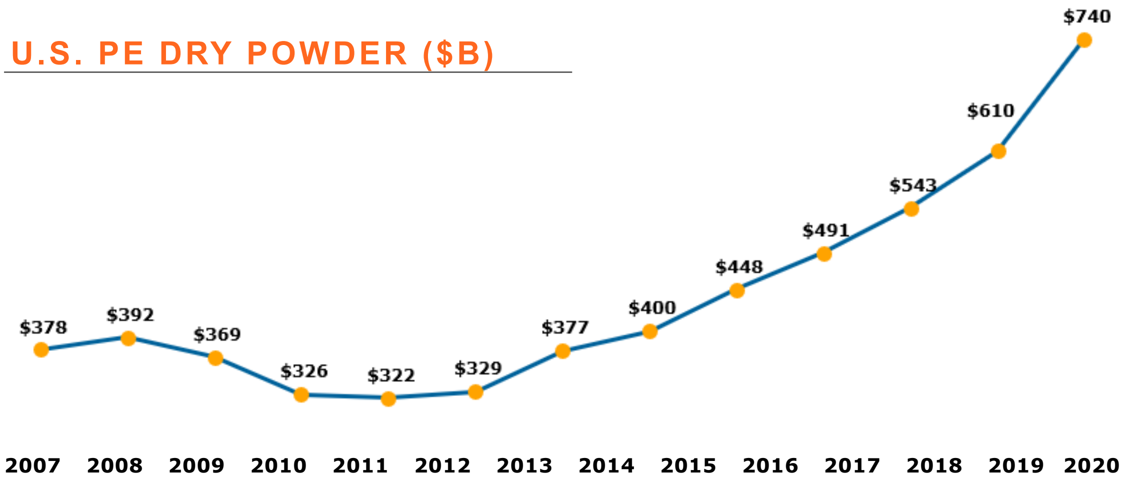
ADD-ONS AS % OF PE BUYOUTS



% OF PE EXITS WITH >$500MM IN TEV



U.S. PE DRY POWDER ($B)



Sources: PitchBook, BMO

INDUSTRY SPOTLIGHT: ENERGY

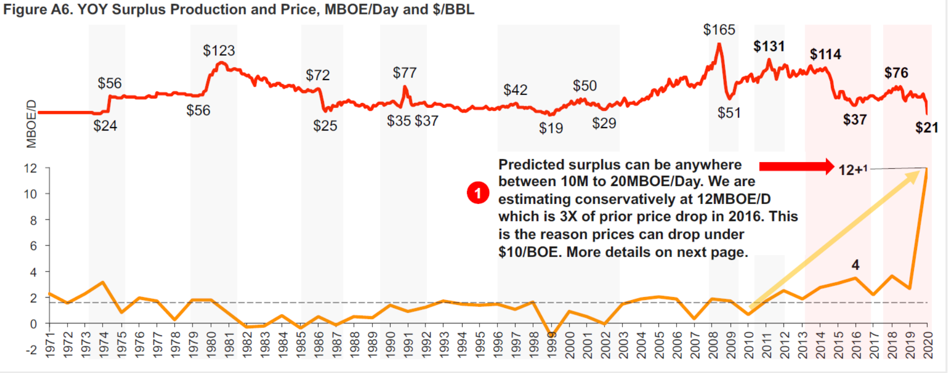
CHALLENGES

- After more than a decade of expansion, particularly in unconventionals, M&A activity began slowing in the fall of 2019; investors see a mature industry, with slowing productivity, which should be maximizing profits and generating returns rather than pursuing growth
- Capital providers have tightened the financial screws when lending to E&P companies, whether it is for new operating capital, boosting output or strategic acquisitions
- In the past half century, there have been ten major oil price events; what we're currently experiencing is the only event with both supply (Saudi / Russian price war) and demand (COVID-19 demand cut) as major drivers

OPPORTUNITIES

- Other oil price shock events in the supermajor era serve as a guide for industry deal activity
  - 1999 / 2001: Significantly slower demand did not stem the deals that created today's supermajors
    - Exxon/Mobil 1999, Total/Elf 2000, BP/Amoco/ARCO 2000, Chevron/Texaco 2001, Conoco/Phillips 2002
  - 2014: Opportunistic investors snapped up cash-strapped assets for a relative bargain, as many firms (particularly independents) were not built to be competitive at $40 oil
- Beyond oil & gas, renewables could see a spike as wind and solar descend the price curve and market forces hollow out "legacy" energy

Figure A6. YOY Surplus Production and Price, MBOE/Day and $/BBL



Sources: IBM Analysis, EIA, IEA, FRED, BP Statistical Review, CapIQ

Polling Question #1

When does your company foresee having sufficient clarity to re-engage in the active pursuit of transactions?

A. Right now

B. End of Q3

C. End of 2020

D. 1H 2021 at earliest

HOW TO APPROACH A SUCCESSFUL INTEGRATION

Pre-Close Planning

COMMON INTEGRATION CHALLENGES

ORGANIZATION

- **First Acquisition**
- **Personnel Constraints**
- **Lack of SS Support**

EXPERTISE

- **Incomplete DD**
- **System Scalability**
- **Departmental Collaboration**

INTEGRATED DILIGENCE

Investors that consistently succeed in realizing deal value treat diligence as an in-depth assessment of the overall deal thesis, including potential synergies and the long-term sustainability of the standalone or combined business

Diligence Focus Areas

FINANCIAL

- Financial reporting
- Quality of Earnings
- Working capital and performance analysis
- Operating free cash flow

HR

- Organizational and operational structures
- Legal/regulatory synergies, non-compliance violation potentials
- Plan, program, process synergies

TAX

- Legal entity and tax structuring
- Tax risks and opportunity identification

IT

- Organization and strategy
- Systems and business applications
- Infrastructure and scalability
- Risks and controls

OPERATIONAL

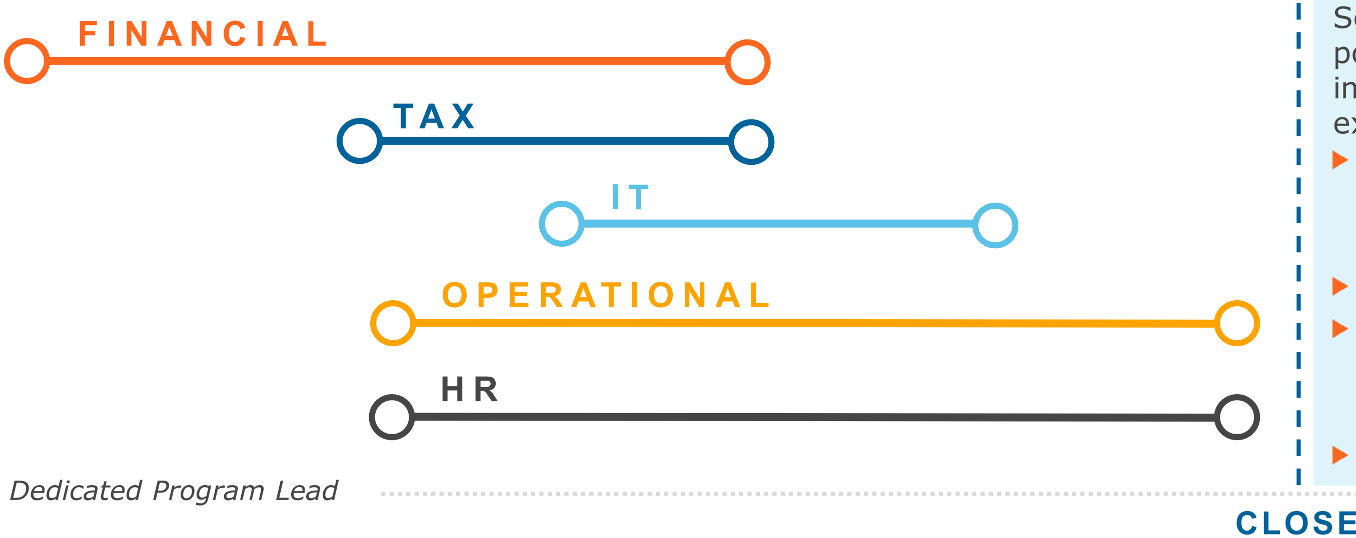
- Operational risk assessment
- Cost take-out, sales/marketing/CS analysis
- Synergy analysis
- Integration planning

Sales & Purchase Agreement Advisory and Close Support

Diligence findings drive risk mitigation and negotiation strategy

INTEGRATED DILIGENCE APPROACH

PRE-CLOSE	POST-CLOSE



POST-CLOSE

Seamless transition to post-close implementation using existing deal team

- Opening balance sheet and purchase accounting
- Tax acquisition filings
- Integration management and execution
- EBITDA enhancement

VALUE OF INTEGRATED DILIGENCE

- Accountability and alignment with a single service provider
- Combined request lists
- Streamlined interviews
- Integrated deliverables
- Consistent methodology
- Prioritization of negotiation levers
- Consolidated inputs into Purchase & Sales Agreement (PSA)

CASE STUDY

Integrated Diligence for Mid-Market PE Firm

INDUSTRY

Services

SERVICES

Integrated Diligence

CHALLENGE

With a long history of performing transaction services for our client, Riveron was engaged to provide integrated diligence services, including financial, tax, and IT diligence, for the purchase of an HVAC company, a platform acquisition.

HOW WE HELPED

Riveron started with financial diligence to ensure there were no red flags that would impact the viability of the deal. Throughout the process, we streamlined the interviews and requests to ease the burden on the seller. Additionally, our team:

- Completed financial diligence, including revenue recognition and a new pro forma P&L to demonstrate what the organization looks like after recent strategic initiatives
- Assessed potential tax liabilities that could pass to the PE in connection with the acquisition
- Evaluated the quality and scalability of IT systems as a platform acquisition, including areas that could be improved during the hold period

CLIENT RESULTS

- Successfully completed the transaction based on a thorough validation of the investment model
- Benefitted from working with Riveron as the single service provider across workstreams
- Continued seamlessly with us for post-close support to analyze monthly financial statements for an earn-out

Polling Question #2

What area of your company's typical deal cycle is most impacted by COVID-19?

A. Target identification & evaluation

B. Transaction closing

C. Integration planning

D. Integration execution

HOW TO APPROACH A SUCCESSFUL INTEGRATION

Post-Close Execution

BEST PRACTICES FOR A SUCCESSFUL INTEGRATION

Preparation during the pre-close period and maintained throughout post-close ensures smooth execution and enables the transition team's fluidity throughout integration management.

I. IMPORTANCE OF INTEGRATION PLANNING

- Pre-close planning and compilation of comprehensive 100 Day Plans are critical
- Understand key activities that drive synergy realization early on to prioritize for execution and maximize deal value
- Design future state operating model and reporting structure to inform ownership of integration workstreams and aid in communication to employees pre-close/Day 1

II. CONSISTENT GOVERNANCE STRUCTURE

- In standing up the Integration Management Office, maintain cadence of updates, risk/issue escalation and decision-making authority throughout the integration period
- Enable stakeholders to make strategic decisions that are directly linked to synergies and tactical workstream activities
- Clearly define workstream ownership, key responsibilities for execution and objective of transition by function

III. MAINTAIN FLUID DUE DILIGENCE

- Rapidly conduct integrated diligence (operations, IT, finance, tax) to develop a detailed understanding of the target's current state
- During initial diligence, build a structure to allow for continuous diligence and improvement throughout integration period
- When defining synergies, understand "synergy ranges" to account for fluctuations as valuation and market conditions are subject to change over the course of the deal

IV. PREPARE TO BE AGILE

- Continuously changing market conditions may require flexibility in execution of integration plans
- Maintain business continuity while driving transition
- Secure buy-in across organization up front to ensure workstream leads are aware of responsibilities, communication is proactive and succinct, and morale is maintained through change management

INTEGRATION SUCCESS FACTORS – FINANCE & ACCOUNTING

OPERATIONAL INTEGRATION

- Review current-state processes (R2R, P2P, Payroll, FSCP, etc.) and coverage- TSA vs. Day 1 transition
- Determine future state design for Finance & Accounting and identify resource gaps
- Determine combined company FP&A and internal reporting needs and related ERP requirements
- Assess control environment and align key policies and procedures
- Align account mappings, close calendars and consolidated reporting

TECHNICAL ACCOUNTING

- Review LOI/draft PSA to ensure no unintended accounting and financial reporting consequences
- Accelerate certain post-close activities into pre-close to minimize year-end crunch (policy alignment, closing balance sheet review ASC 805
- Determine impact on reporting units/segment reporting
- Ensure consistent application of new accounting standards (ASC 606, 842, etc.)

AUDIT READINESS AND FINANCIAL REPORTING

- Agree on timeline commitments with auditors, valuation specialist and other third parties
- Ensure closing and opening balance sheet adjustments are well supported and documented
- Document management's judgements and estimates used in establishing fair values including sensitivity analysis
- Determine data availability for required disclosures (e.g. ASC 805 pro forma)

INTEGRATION SUCCESS FACTORS – TAX

TYPICAL CHALLENGES	CHANGE MANAGEMENT	BEST PRACTICES
▶ Access to historical data ▶ Possible short tax year filings for federal and state returns ▶ Attribute limitation rules ▶ Bandwidth of tax personnel	▶ Define new roles and responsibilities of tax personnel ▶ Review internal controls to ensure full coverage across new business and processes ▶ Identify new sources of data required for tax provision and tax compliance	▶ Review due diligence report - take action on risk items ▶ Create tax filing calendar ▶ Assess current tax talent versus needs ▶ Align with financial accounting team
COMMUNICATION		

INTEGRATION SUCCESS FACTORS – OPERATIONS

COST TAKE-OUT

- Opportunities to reduce SG&A spend
  - HR
  - IT
  - Finance
- Supply chain optimization assessment
  - Sourcing spend
  - Inventory right sizing
  - Manufacturing efficiencies
  - Opportunities to better negotiate 3PL contracts

RISK ASSESSMENT

- Operational risk of achieving transaction goals
  - Leadership capability
  - Operating model effectiveness
  - Cultural fit
  - Operational liabilities
  - Market growth

SYNERGY ANALYSIS

- Economies of scale opportunities
  - Combine and rationalize back office resources
  - End to end supply chain
  - IT infrastructure and spend
- Evaluation and additional analysis of management suggested synergies

INTEGRATION PLANNING

- Post merger plan development, including:
  - Day 1 readiness
  - 100-day plan
  - Integration management office (IMO) design
  - Change management plan

INTEGRATION SUCCESS FACTORS – HUMAN RESOURCES

PEOPLE

- Identify key personnel and management critical to the success of the integration
- Define and execute the retention strategy
- Identify redundancies in roles and responsibilities performed and determine separation strategy (severance, retirement, upskill/re-skill)
- Determine future-state operating model
- Define clear roles and responsibilities to ensure continuity of operations

PROCESS

- Understand current-state HCM processes and define integrated future-state processes
- Evaluate total rewards programs and determine best approach for benefits programs, compensation plans, severance packages, pension, & retirement
- Evaluate potential compliance violations as these can be very costly (e.g. compliance with ACA reporting)
- Ensure policies and procedures are documented and communicated to support new processes

TECHNOLOGY

- Evaluate HRIS landscape and determine plan for consolidating onto one scalable platform including insourcing vs outsourcing of certain processes
- Perform vendor assessment and selection, as needed
- Ensure the HCM system can support legal, regulatory, and compliance requirements including protection of HR data
- Execute the HCM system integration/implementation including establishing a service delivery model

ONGOING

Culture, Communications, Change Management, Training and Adoption to support mission and objective of the integration.

INTEGRATION SUCCESS FACTORS – IT

PEOPLE	PROCESS	TECHNOLOGY
▸ Understand the Company's IT organization capabilities and review organizational structure ▸ Create interim operating model for IT organization ▸ Define clear roles and responsibilities to ensure IT continuity of operations ▸ Develop future state operating model and integration strategy plans ▸ Align IT organizational structure and functional support to support the business	▸ Assess the current application development process maturity and quality ▸ Evaluate IT Governance and process maturity for all functions of IT ▸ Align IT processes and procedures across organization to support the business ▸ Strategic portfolio planning, business initiatives and technology projects ▸ Look at IT controls, including physical and logical security, as well as backup and recovery	▸ Evaluate key business applications and their applicability for the Company's business needs ▸ Gauge the technical aspects of the proprietary software, including tools, utilities, databases, etc. ▸ Understand the physical hardware including network, servers, desktop workstations in-place; age, brand, warranty available, refresh policy ▸ Facilities (Data Centers, Server Rooms, & Data Rooms including Locations,

ONGOING

Communications, Change Management, Compliance, Performance Improvement, and Synergies

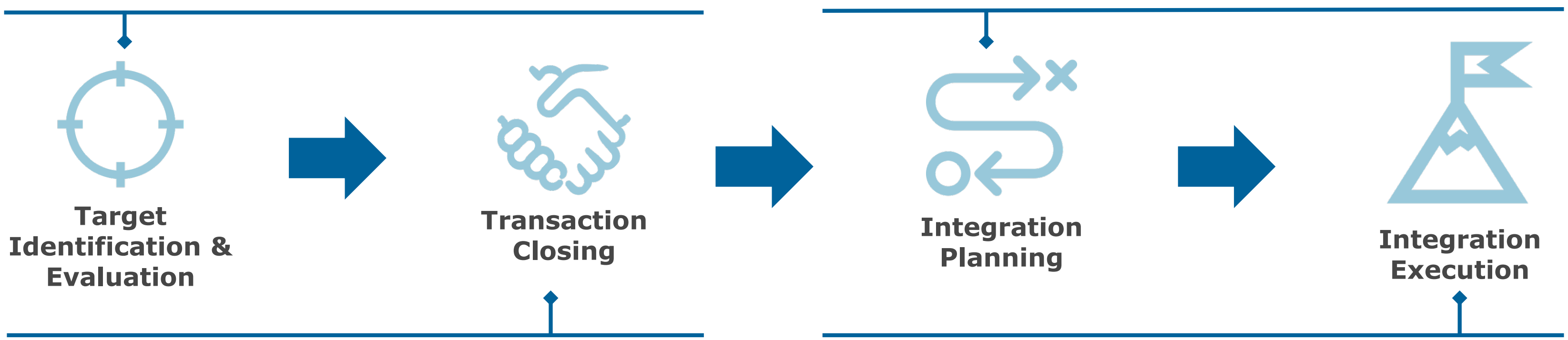
PROACTIVE ADJUSTMENTS FOR TODAY'S DEAL ENVIRONMENT

Selective Deal Funnel

- Narrower list of prospective targets
- Focus on healthy cash position
- Amend traditional investment strategy to include businesses immune to recession or with a unique niche

Robust Integration Planning

- Pre-close planning is more important than ever
- Synergy analysis and development of the 100-day plan are critical to the process
- Carefully evaluate both parent and target financial and operational landscape to develop and maintain a robust integration plan



Dynamic Due Diligence

- Rapid completion of valuation while maintaining quality will be vital
- Conduct integrated diligence (operations, IT, finance, tax) to develop a detailed understanding of the target's current state
- As opposed to a hard figure, consider a "comfort range" within which valuation may fluctuate during the deal cycle

Prepare to Be Agile

- Know that rapidly changing macro conditions will require a dynamic execution plan
- Secure organizational buy-in up front and ensure robust IMO leadership to drive change management and workstream execution
- In this market, reducing strain on the underlying businesses is paramount

FORWARD-LOOKING MARKET INSIGHTS

OUTLOOK FOR Q4 AND BEYOND

QUESTION MARKS

- The week of April 17th was the first since 2004 without the announcement of a deal valued at more than $1 billion
- 75 percent decrease in year-over-year deals for transactions of this size

POSITIVE MOMENTUM

- However, activity has since picked up; nine of the 14 deals valued at more than $1 billion that have occurred during the pandemic were announced in June
- The Federal Reserve has been significantly more active relative to recessions past, cushioning the downturn and producing an environment more conducive to M&A
- Infrastructure-specific funds have $200B in dry powder, lower return thresholds and longer hold periods; with the likelihood of infrastructure-focused stimulus spending, this could deepen the investor pool and increase valuations
- Election anxiety due to the candidates' respective cap gains and corporate tax plans may drive more activity than the environment might otherwise suggest

Source: BMO

Polling Question #3

To what degree is regulatory uncertainty a consideration in your company's transaction process?

A. Primary driver

B. Major consideration

C. Minor footnote

D. Not a factor

M&A INDUSTRY OUTLOOK

DEAL STRUCTURE

- Buyers are pursuing alternative structures and values to mitigate risk and uncertainty
- Increase in non-traditional minority deals (i.e. structured equity, mezz, convertible debt, majority recap or buyout "two-step")
- More focus on language in purchase agreements and reps and warranty insurance for COVID considerations
- Tight credit markets are impacting ability to stretch for value

PRIVATE EQUITY

- Most are starting to look for values and opportunities to deploy capital now that they are past the initial portfolio and liquidity analysis
- Will have increased focus on Q2 and Q3 sales and consumer buying patterns as they recover from COVID

STRATEGIC ACQUIRERS

- There is less competition since the traditional auction process has not resumed
- They expect M&A to continue once face-to-face meetings resume but will increase the focus on synergies post-close
- Expect more buyer friendly deals but corp dev traditionally does not want to use earn-outs so will look to other risk-adjusted structures
- Starting to see more deal flow from IBs

INVESTMENT BANKS:

- Most investment banks are struggling compared to years past and those that do not have a significant restructuring practice are struggling more than those with restructuring
- Expect more restructuring activity as companies can no longer "ride out" COVID
- Beginning to ready more companies and see more pitches
- Sellers are holding pre-COVID valuation expectations at this time

CAPITAL MARKETS ALTERNATIVES

Private Debt Offerings

ADVANTAGES	DISADVANTAGES
▸ Speed. There is no SEC review process ▸ Flexibility. Financial information requirements can be dispensed if not useful ▸ Typically requires 2 years of audited financials instead of 3 ▸ Funds are raised immediately; public company reporting obligations are deferred	▸ May result in higher interest rate due to less liquidity for investors ▸ Investor base is limited to qualified institutional buyers (QIBs) ▸ QIBs often expect public company level information, regardless of Rule 144A requirements ▸ Costs could increase due to preparation of offering materials plus registration statement later

Asset-based Lending

ADVANTAGES	DISADVANTAGES
▸ Provides a stable funding base while company focuses on increasing liquidity ▸ Funding availability flexes with changes to working capital ▸ Once on recovery track, provides platform to fund growth	▸ Potential forfeiture of assets in the event of default ▸ Risk that loan-to-collateral valuation will undervalue the underlying asset ▸ Secured loans do not increase the immediate value of the firm

Polling Question #4

In your experience, what has been the greatest challenge in post-close merger integration?

A. System requirements
B. Realizing projected synergies
C. Culture alignment
D. Lack of integration resources

Q&A

ADDITIONAL RESOURCES

Related Thought Leadership

Navigating M&A Through Macro Uncertainty

View additional insights **HERE**

Contact Us

REQUEST TO SPEAK WITH ONE OF OUR EXPERTS