What Goes Up…

A Guide to Sustaining and Improving Share Price
during M&A and Integration

Irrespective of whether your deal ultimately adds value, specific events both pre- and post-close can directly drive your share price up – or down – along the way. In this paper, BTD explores the right actions to keep your share price moving in the right direction.

There is a measurable tendency for the share price of the acquiring business to drop on deal announcement, while that of the target firm generally rises.

This phenomenon remains depressingly common, especially if the acquirer pays a premium (essentially over-valuing the target) but fails to convince the market of their ability to more than recover this premium through integration and improvements post-close.

Does M&A add value to publicly-listed organisations?

This is, as the saying goes, the million dollar question, and the subject of endless surveys, academic studies and consulting reports over the years. A majority of these reports grossly oversimplifies the many factors and externalities impacting deal success. Others lazily confuse correlation with causation – does doing M&A increase long-term share price, or do successful businesses do more M&A? Ultimately, most conclude with the fundamental, albeit tautological lesson: Your enterprise value (as reflected in the share price) will indeed increase following a merger or acquisition *provided the market believes that the deal has resulted in a more profitable business*.

This is no surprise. After all, everyone intends for their M&A to add value, and if they buy and integrate well, value will indeed be added (compensating of course for macroeconomic and market trends).

The need to look deeper

To get to something genuinely helpful, we need to go deeper. There is a well-observed, measurable tendency for the share price of the acquiring business to drop on deal announcement, while that of the target firm generally rises. This phenomenon remains depressingly common, but makes sense, especially if the acquirer pays a premium (essentially over-valuing the target as a stand-alone entity) but fails to convince the market of their ability to more than recover this premium through integration and improvements post-close.

When Quaker Oats acquired Snapple in 1994, Quaker Chairman and CEO William Smithburg stated that the acquisition “brings together the marketing muscle and growth potential of two of the great brands in an incredibly health-conscious America.” Nice words, but unfortunately they were not enough to convince the stock market: Quaker paid a zero-premium for Snapple, but lost 10% of its market value – almost $500 million – the moment this announcement was released.[1]

Out of our hands, but under our influence

The best way to increase long-term, sustainable share price is to deliver on identified deal benefit. But what’s often missed are the ways share price can, and often is, impacted during the M&A *over the course of* the deal and integration process. There is a lot to consider, from managing rumours pre-close, through the critical point of deal announcement, and most importantly during the first twelve months post-close. Let’s consider these factors step by step through the journey.

[1] More on this and other examples can be found in *The Synergy Trap*; Mark L. Sirower, 1997

Will the announcement position you as leading, disrupting or falling behind your peers? Will your increased scale, new offering or geographies lead to greater power in the market, or transport your business into a different competitive landscape altogether?

These and other questions are worth considering so you can start preparing your story well before news of any potential deal is released or leaks.

Preparing for M&A, assessing targets

Creating your story in readiness for a credible, compelling announcement.

1. **Ensure strong, M&A-experienced investor relations support.** Starting with the basics, remember that stock markets value a business based on *expectation of* future performance. Your vision, aspirations and plans for the deal are only important if you can convince investors, analysts and the press of their realism and your ability to deliver on them. Controlling (or at least influencing) the story is therefore fundamental to everything that follows. Skilled Investor Relations resources (internal or outsourced) which communicate regularly and credibly with your investment community is critical, and they must have strong specific experience in M&A activities.

2. **Understand the market and competitive landscape, and your desired place in it.** Assessing how the broader market may react to an acquisition is key to your overall M&A strategy. In the case of a specific deal, how your key messages will be positively received will help ensure a good message doesn't land badly (as it did for Quaker). Would this acquisition reduce excess supply and so strengthen the sector, or simply transfer unused capacity onto your balance sheet? Will the announcement position you as leading, disrupting or falling behind your peers? Will your increased scale, new offering or geographies lead to greater power in the market, or transport your business into a different competitive landscape altogether? What concerns might regulators have about the deal? These and other questions are worth considering so you can start preparing your story well before news of any potential deal is released or leaks.

3. **Prepare the market for your M&A.** Solid, compelling answers to the above questions will help inform decisions on whether to speak to the market and what to say about your wider acquisition strategy. Educating the market on your intention to grow by M&A can both interest the investment community and attract a better set of (pre-qualified) targets. As ever, surprises are rarely received positively by investors and analysts, especially if they don't understand the general thrust of your strategy in advance.

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A simple confidentiality management process – robustly and comprehensively adopted by everyone involved – goes a very long way to minimising the risk of a deal leak.

Completing and announcing the deal

Engaging investors in your story.

4. **Minimise the risk of a deal leak pre-announcement.** We still see many businesses fail to establish the controls, governance and culture required to prevent a (very likely inaccurate) leak to the market, resulting in market volatility and additional work to repair the damage. Counter to conventional wisdom, this is **not** directly related to the number of individuals with 'inside' knowledge of the deal, but more about how the insider process is managed, especially with third parties involved. Most deal leaks don't come from employees, but from junior advisory, banking or third-party staff.

   We are not talking small beer here. Last year the impact of leaks on deals equated to $21 million globally and it is increasing according to Intralinks. While never possible to eliminate entirely, a simple confidentiality management process – robustly and comprehensively adopted by everyone involved – goes a very long way. Even the practice of maintaining an insider list and enforcing the use of deal code names sets the right example and culture.

5. **Announce the deal rationale and plan simply and credibly.** This is by far the most important immediate, short-term influencer of share price. Without giving away too much detail or making promises you may not be able to keep, the announcement should present a clear, compelling, and market-informed rationale for the deal. What new capabilities will this acquisition bring to your business, and how will you be able to enhance and exploit them for the *increased* benefit of the combined organisation? If your announcement suggests no concrete benefit will arise from the deal, or worse still infer that you don't know what or where any such benefits might arise, you will deserve every ounce of punishment the market will inflict on your share price.

   Sound rather extreme? Reflect on Quaker's experience, and consider the following additional examples:

   - Announcing the $19bn acquisition of WhatsApp in February 2014, Facebook's Mark Zuckerberg said "*WhatsApp is on a path to connect one billion people. The services that reach that milestone are all incredibly valuable. I've known Jan [Koum, founder and CEO] for a long time and I'm excited to partner with him and his team to make the world more open and connected.*" On releasing this announcement, Facebook's share price immediately dropped 3.4%, instantly wiping close to $6 billion off their value.

Your announcement must answer the two basic questions the investment community pose: How specifically is this deal going to benefit your firm, and how are you going to achieve it?

- Announcing the acquisition of Dresden Papier in March 2013, the CEO of Glatfelter, a mid-cap manufacturing firm with revenues at the time of $1.7 billion, stated, "*The acquisition of Dresden Papier will add another industry-leading nonwovens product line to our Composite Fibers business, and broaden our relationship with leading producers of consumer and industrial products. Despite the ongoing economic challenges in parts of Europe, we believe the global nonwoven wallpaper business will continue to grow at a compound annual growth rate of at least 10%. This acquisition will also provide additional operational leverage and growth opportunities for Glatfelter globally, particularly in large markets such as Russia and China, and other developing markets in eastern Europe and Asia.*" Their share price immediately increased by a staggering 28% - and went on to rise by a further 29% in the coming months as integration progressed.

The Glatfelter example gives a simple, logical statement focused on the rationale, context and benefits of the deal; backed up by specifics and targets. Facebook's vague statements about the size of the acquisition and a personal relationship with its owner of WhatsApp don't answer the two basic questions the investment community pose – how specifically is this deal going to benefit your firm, and how are you going to achieve it?

6. **Look out for, and be prepared to manage, adverse reactions from the public.** In the days and weeks following announcement, press (local or national) will be watching carefully for any angle that might make the deal more interesting to their readers. This is especially true in cases where the deal has the *potential* to impact local employment, or where the news may be useful to an enterprising politician. In recent years we've seen deals 'picked over to the point of destruction' in the press following announcement, even if the transaction has already been completed and integration is well underway. The merger of online gaming firms bwin and PartyGaming in 2011 became the subject of considerable negative press in Vienna (bwin's HQ) as concerns over the possible destruction of a national Austrian success story 'by the British' emerged.

   As part of your pre-close risk assessment process, it is important to think through both the reality and the potential media interest related to employment, tax obligations, national security, environmental impact, and any other hot topics likely to attract attention.

Nothing will derail the reputation of an acquisition more quickly than a story about a significant customer defecting to the competition.

Considering establishing a dedicated 'customer experience' workstream within your integration programme to ensure all touch-points with the customer are positive along the way.

Early-stage integration

Building confidence in the story.

7. **Manage the perception caused by any early leadership or key talent departures.** Any immediate flight of senior managers or key employees will be scrutinised. Does their departure infer a lack of confidence in the new direction of the combined business? Are key people going to somewhere more 'interesting'? Try to announce and conduct changes to key personnel quickly and in as few tranches as possible to get the news over with. Drip-feeding this kind of bad news is to be avoided at all costs. Conversely, any positive announcements you can make regarding new leadership or talent *joining* the business post-close should be highlighted to the market.

8. **Deliver, and publicise, quick wins.** Equally helpful in building confidence and credibility with your employees and customers, your ability to publicly announce key integration milestones or targets achieved will help sustain market interest and add substance to your reputation as a group that promises realistic benefits, and delivers what it promises. Strong announcements should be equally helpful in building confidence and credibility with both existing employees and customers.

9. **Retain customer confidence and goodwill.** Nothing will derail the reputation of an acquisition more quickly or effectively than a story about a significant customer defecting to the competition. It is especially important immediately post-close that customers are kept informed, provided with an additional level of 'hypercare', and shown the love needed to help them avoid the temptation of considering other suppliers. Considering establishing a dedicated 'customer experience' workstream to ensure all touch-points with the customer are positive along the way.

10. **Predict and be prepared to counter market and competitor reaction.** M&A doesn't happen in a vacuum, and the market itself will respond to your deal. Smart competitors will find ways to take advantage of your (perceived) distraction on integration, working to poach customers or employees, or accelerating their own growth initiatives. In many instances one acquisition sets off a wave of reactive M&A as other market players seek to re-establish relative or improved power and influence on the field. Often overlooked, even a small exercise to think through and prepare for potential scenarios will help ensure you're able to both respond and react to them quickly.

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Employees also tend to hit the bottom of the famous change curve around the same time.

This perfect storm is why high-profile systems failures, depressed efficiencies, increased internal costs and customer dissatisfaction often arise around nine to twelve months post-close.

Later-stage integration

Demonstrating that the story is fact, not fiction.

11. **Be ready to *react* to communications emergencies.** Sometimes acquirers lose focus for a few months following completion of the deal, thinking the key challenges post-close have already been faced and successfully overcome. They are usually wrong. In fact, the very point at which a business tends to claim 'mission accomplished' is often the point at which the 'heavy lifting' of integration begins to bite (*e.g.* major systems implementation or broader, lower-level organisational restructuring). Employees also tend to hit the bottom of the famous change curve around the same time, leading to an increase in staff flight. This perfect storm is why high-profile systems failures, depressed efficiencies, increased internal costs and customer dissatisfaction often arise around nine to twelve months post-close.

    When it comes to communications, we now live in a world in which no organisation is able to contain or control any story. Every employee has the ability, if not seemingly the compulsion, to post and comment on any internal issues to which they are exposed. Anything from an internal town hall challenge to an integration update newsletter or a walk around a less-than-impressive company site can easily appear in high-resolution video on the web, at any time.

    Your communications and investor relations team need to be ready to react together with facts at a moment's notice, to any such event. This is no easy task, but it is not impossible. Conduct some fire drills to see how communication teams respond and where they can improve. Build a pack of contingency statements related to the high-risk items in your integration programme. And finally, provide clear guidance for employees on how they should, or rather should *not*, post anything related to the business on social media, interact with anyone who is, or may be, related to the press, etc.

12. **Deliver deal benefits to the business.** Going full circle to where we began, the best way to achieve positive, sustained share price increase is to deliver on the promise of the deal, and publicise your successes. Clearly the most important long-term goal, the previous 11 points should help ensure that your ultimate success is supported and extended throughout the M&A and integration process.

KEY TAKEAWAYS
HOW TO MANAGE YOUR SHARE PRICE THROUGH M&A AND INTEGRATION

1. **Ensure you have strong, M&A-experienced investor relations support in place early in the pre-deal process.**
2. **Be clear on the market and competitive landscape, and your desired place in it.**
3. **Prepare the market for your M&A strategy.**
4. **Minimise the risk of a deal leak pre-announcement.**
5. **Announce the deal rationale and plan simply and credibly.**
6. **Look out for, and be prepared to manage, adverse reactions from the public.**
7. **Manage the perception caused by any early leadership or key talent departures.**
8. **Deliver, and publicise, quick wins.**
9. **Retain customer confidence and goodwill.**
10. **Predict and be prepared to counter market and competitor reaction.**
11. **Be ready to react to communications emergencies.**
12. **Deliver deal benefits to the business! Demonstrate that you keep your public promises.**

ABOUT THE AUTHOR

Carlos Keener is a specialist in M&A Integration, and the founder of Beyond the Deal (now BTD). In addition to personally leading M&A and integration programmes, Carlos advises businesses on corporate and acquisition strategy; enterprise operating model design; integration strategy, planning and execution; and turnaround of poorly performing acquisitions.

Before establishing Beyond the Deal in 2001, Carlos was a senior consultant at PricewaterhouseCoopers, and a senior manager within Accenture's Corporate Strategy and M&A practice. Based in the UK, Carlos' work has taken him across Europe, the US, Africa, Latin America, the Middle-East, and the Far-East.

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BTD is an independent specialist firm providing M&A, divestment, integration and separation support to businesses around the world.