

Buy-and-Build | Managing the Organisational Risks to get the Returns

Humatica breakfast event 15th March, The Ritz, London

Overview of Materials and Outputs

15th March 2018

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1 | Humatica's purpose - Organisational performance & enterprise value growth

New reality

- Good products & services, the right strategy and efficient processes are necessary, but no longer sufficient for *sustained* value growth
- Success in changing markets is increasingly driven by the collective ability of an organisation to *adapt, innovate, transform and renew*

Behaviors are critical

- *Quality* of employee interaction and behaviours increasingly drive differentiation and a firm's ability to collectively process information, recognise patterns of opportunity & risk, and to act quickly on them

Humatica founding idea:

Deliver hard facts analysis and implementation support to optimise the human factors that increasingly drive performance, innovation, productivity, differentiation and enterprise value



Delivers bottom-line performance improvement

- proven to deliver outstanding results
- focus on impact and sustainability to achieve rapid organisational change
- deliver sales, cost and profitability improvements

1 | Cutting through the complexity of the organisation : how Humatica helps sponsors and senior executives grow value

Pre-deal

- Modular organisational due diligence tailored to the level of access
- In depth understanding of value creation plan
- Fact-based understanding of key organisational risks to value creation plan delivery – based on varied data sources
- Includes senior management team's ability to execute the value growth plan
- Estimates of cost and time to resolve organisational issues for factoring into the investment case

Better deals

Post-deal

- Deep organisational effectiveness transparency including culture, behaviours, management processes, leadership practices, structures and enabling systems
- Recommended measures to address organizational bottlenecks and accelerate implementation of the value growth plan
- Fact-based foundation for trust-building between sponsor and management
- Catalyst for change with front-line buy-in

Faster implementation

2 | Overview of Humatica's Organisational Excellence Breakfast Seminar

- Humatica's 4th Organisational Excellence Breakfast Seminar was held at the Ritz in Mayfair on March 15th
- Over 20 participants including deal-makers, operating partners and portfolio company CEOs
- 07:30 breakfast reception, 08:00 start, 09:30 end with coffee and pastries
- The seminar was focused on managing organisational risks in buy-and-build strategies to achieve superior returns
- Topics of discussion included:
 - Where have you encountered most organisational challenges?
 - What are the most common organisational challenges you have encountered in the steps of the buy-and-build process?
 - How do you currently address these organisational challenges?

2 | Seminar Participants

Participant	Organisation
Jeffrey Altman	Finadvice
Paul Barrett	Babcock International Group
Laura Carballo	STAR Capital
James Cunningham	Elysian Capital
Mark Dunfoy	Montagu Private Equity
Ken Fowlie	Slater & Gordon
James Markham	Graphite Capital
Alastair Mills	H.I.G Capital
Giulio Piccinini	Intermediate Capital Group (ICG)
Antoine Raoux	Stage Capital
Ewa Bielecka Rigby	LDC
Geoff Scott	Uster Technologies AG
Nicolas Slim	LetterOne
Sean Smyth	Natwest
Nils Stoesser	Anchorage Capital Europe
Lisa Telford	Montagu Private Equity
Theo Tizard	Caledonia Investments



3 | Key Insights

- Organisational issues are encountered across the buy-and-build process and when they are not well handled, they can materially impact investment returns
- While thorough due diligence of the platform company and bolt-on companies is critical, most organisational challenges relate to preparing the platform company and integrating the acquisitions
- Management capabilities were noted as a major organisational challenge; both from Senior Management balancing BAU with acquisitions and integrations, and from Middle Management in driving M&A and running functions / divisions at an increased scale
- Misalignment of expectations on strategy and execution timelines / targets between Senior Management and PE sponsor are common and a source of delay and frustration on both sides
- Identifying and addressing resource, capacity and capability gaps up-front was noted as being critical to successful execution, of which developing a strategy to retain key people is an important component
- Proactive and upfront communication with Senior Management and others in the organisation is viewed as being critical to ensuring there is alignment on strategy and to get an accurate understanding of execution progress
- Overall it was felt that PE sponsors do well at driving simple s, but with traditional approaches encounter material organisational difficulties during executing more complex strategies (e.g. moving up / down the value chain, operating in a new geography).

3 | Where Organisational Challenges are Encountered – Questions and Plenum Discussion Responses

Question: Where have you encountered most organisational challenges?

- *Organisational issues are encountered across the process*
 - *Platform company selection / acquisition*
 - *Preparing your platform company for bolt-on acquisitions*
 - *Acquisition of bolt-on companies*
 - *Integration of bolt-on companies*
- *Success at each stage of the process is a pre-requisite for success in future stages*
- *While thorough due diligence is critical – most organisational challenges fall into preparing the platform company and integrating the bolt-on acquisitions*

3 | What Organisational Challenges are Encountered – Questions and Plenum Discussion Responses

Question: What are the most common organisational challenges you have encountered in the steps of the Buy-and-Build process?

- *Due diligence not identifying issues upfront – to allow either the deal not to be done or for the bottlenecks to be addressed early*
- *Misalignment on strategy between the company and PE firm (e.g. acquisition number / type)*
- *Senior Management team capability and capacity to manage a larger business and balance BAU with acquiring and integrating bolt-ons*
- *Retention of key people in middle management*
- *M&A capability to identify and acquire bolt-ons resulting in small pipeline and as a result the short listing/ acquisition of non optimal target companies*
- *Resource level and competency to drive bolt-on integrations – especially when things go wrong*
- *Lack of understanding of cultural and emotional fit of bolt-on acquisitions*
- *Functional capabilities to successfully operate at increased scale*

3 | How Organisational Challenges are Addressed – Questions and Plenum Discussion Responses

Seminar Discussion Results

Question: How do you currently address these organisational challenges?

- *Proactive communication at all stages*
- *Upfront and ongoing discussion of strategy with Senior Management team*
- *Clear timelines and targets*
- *Resources made available to provide required capacity and capability – using PE resources if necessary*
- *Like-for-like MI reporting to ensure focus on underlying business performance not neglected*
- *Involvement of the platform company's operations team in bolt-on due diligence*
- *Development of a pipeline of bolt-on acquisition alternatives as early as possible*

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Agenda

- Welcome and introductions
- Context
- Key elements of a strategy
- Group exercise – most common challenges
- Plenum discussion
- Humatica's approach to maximising organisational effectiveness for
- Conclusion

strategies are playing an increasingly important role in value creation

- European “Buy & Build” activity in H1 2017 continued to be extremely strong and has exceeded the previous high point for a half-year which was reached in H1 2016.
- Number of European €70 million+ bolt-on acquisitions in H1 2017 were nearly the same as for the full year of 2016.
- *“In an essentially flat, but increasingly expensive, buyout market, private equity firms are working harder than ever with their portfolio companies to make add-on acquisitions to help generate EBITDA growth.”*

It is also likely that driving down blended entry multiples is another objective. The superabundance of debt to fund such acquisitive growth continues to facilitate this trend.”

Source : European Buy & Build report H1 2017– Merger Market/ Silverfleet

Creating value through a strategy requires effective execution across multiple steps



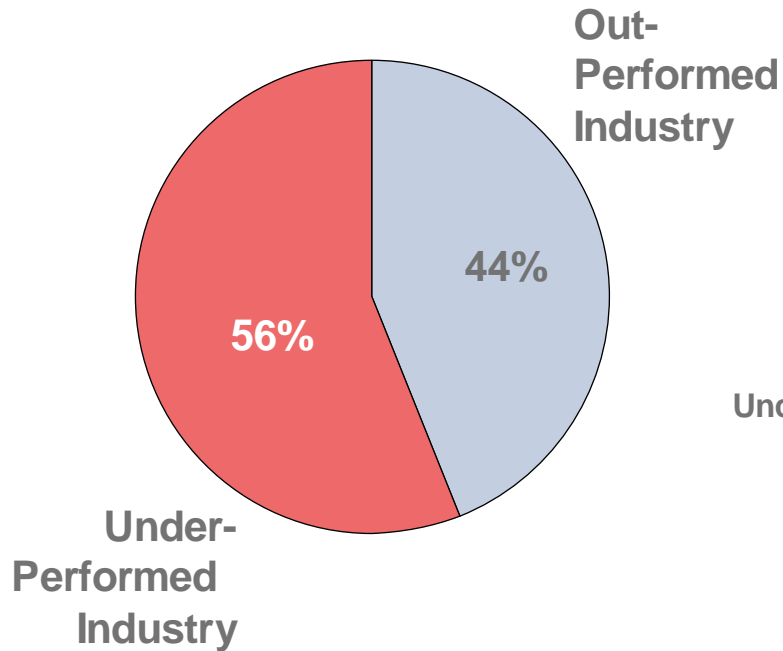
Question

Does the process, at a high level, reflect the steps you go through when executing a strategy?

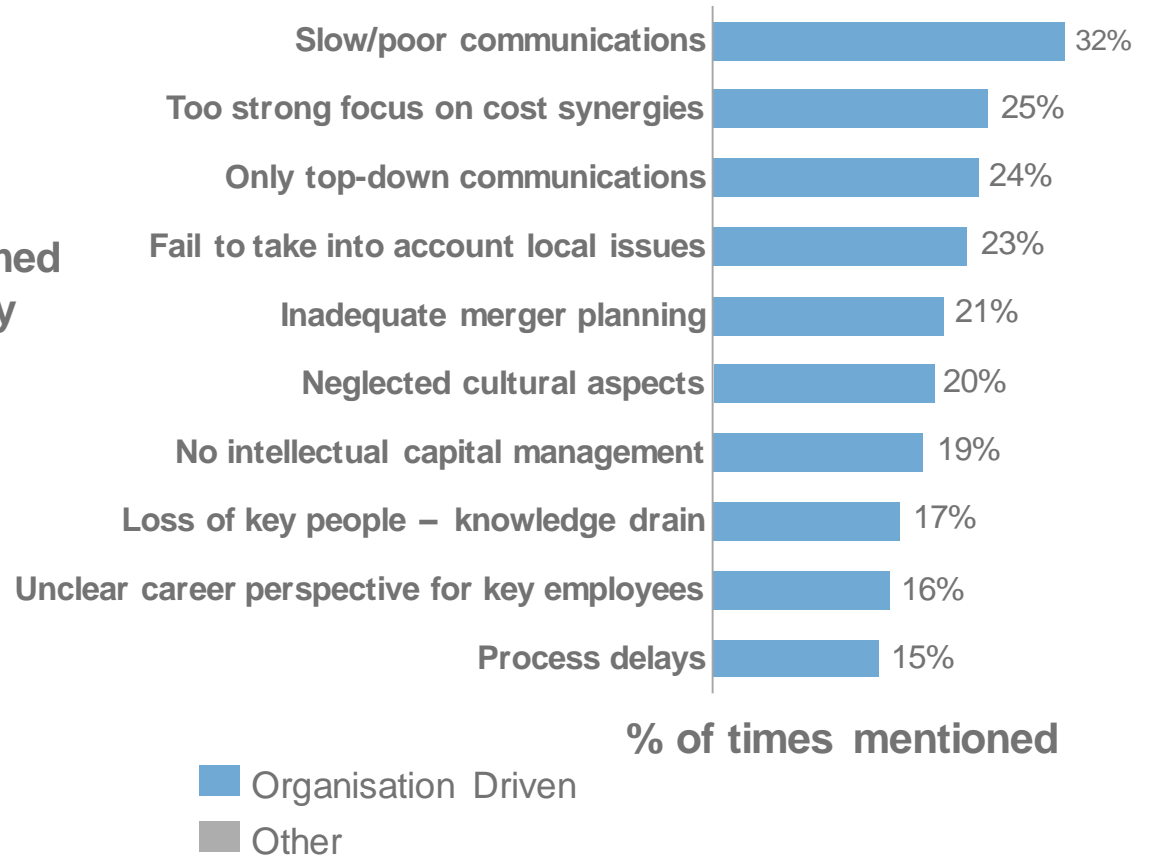
In general acquisitions fail to generate the expected returns – the reasons for failure are without exception organisation driven

Acquisitions Struggle to Generate Value

Investor returns relative to industry average (% of transactions)



Reasons for Failure in the Integration Process



Note: Transactions >\$500M; acquirer total shareholder returns for 316 transactions versus their relevant S&P Industry Index measured from 3 months prior to 12 month post the acquisition announcement. Source: Mercer survey of 130 senior leaders of companies just having completed a merger (Europe, USA).

There is the potential to encounter organisational issues across the execution steps



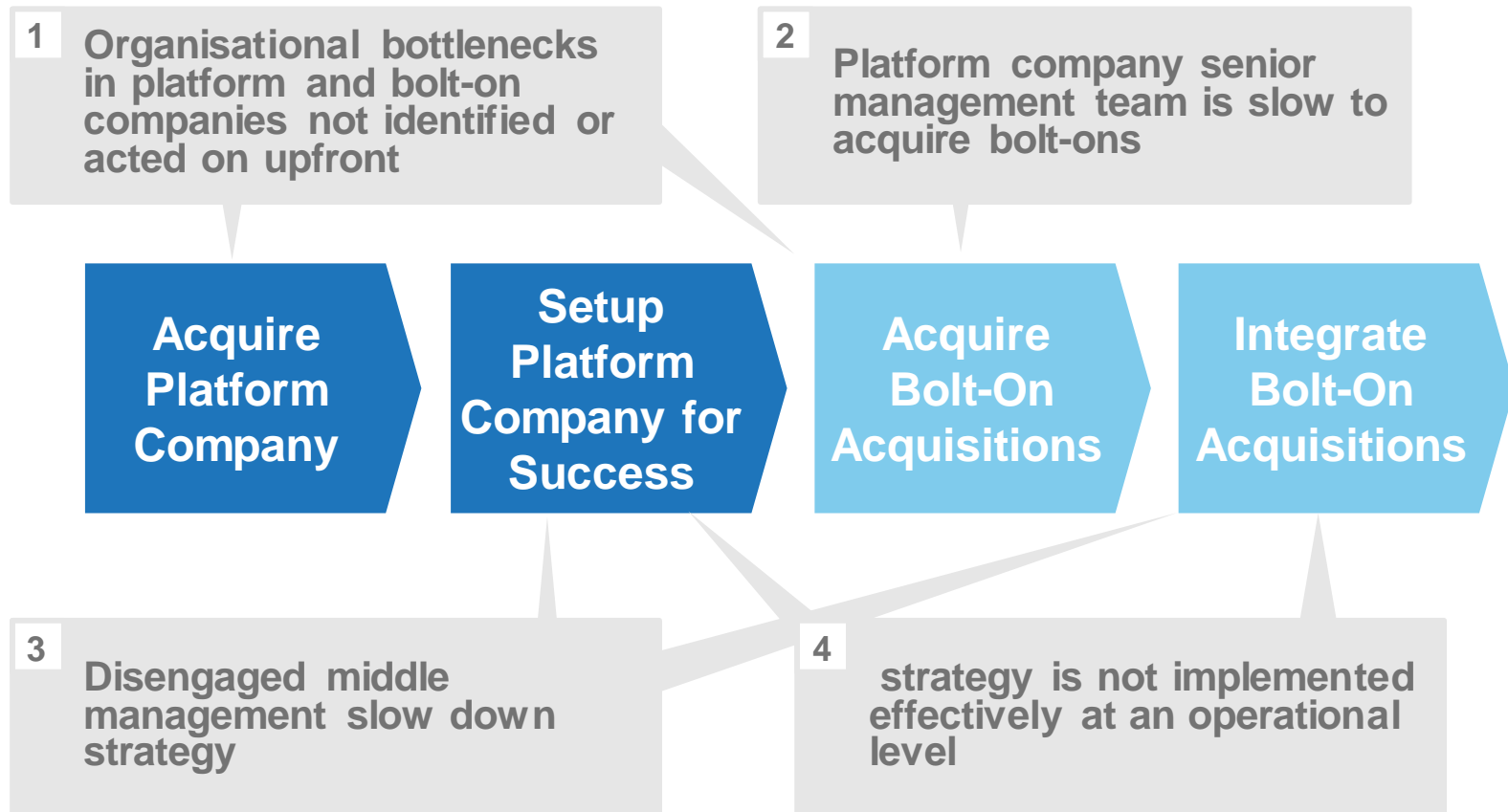
Group Discussion – Key Buy-and-Build organisational challenges

Please spend 20 minutes in your group discussing the following 3 questions :

- 1. Where have you encountered most organisational challenges?**
 - Platform company selection/acquisition
 - Preparing your platform company for bolt-on acquisitions
 - Acquisition of bolt-on companies
 - Integration of bolt-on companies
- 2. What are the most common organisational challenges you have encountered in the steps of the buy-and-build process?**
- 3. How do you currently address these organisational challenges?**

Please document the group's thinking and agree a presenter for your team

In our experience we see four key organisational issues impacting value creation from strategies



Issue #1: Organisational bottlenecks in platform and bolt-on companies not identified or acted on upfront

Traditional Approach

Typically limited to senior team assessment only, via:

- Senior management assessment by business psychologists, search firms
- Management referencing
- Deal team's own assessment



Limitations

- Assessment focused only on senior management and conducted by psychologists (not business practitioners) evaluating subjective statements
- Referencing has low predictive ability, performance references now less common and subjective
- Unstructured interviews have much lower predictive ability than structured interviews



Issue #2: Platform company senior management team is slow to acquire bolt-ons

Traditional Approach

- Kick off meeting with PE and Senior Management Team
- Senior Management incentive plan implemented
- Progress review meeting framework and reporting



Limitations

- Lack of genuine understanding / engagement / ownership / urgency for the strategy by platform senior management team
- Mismatch of respective expectations not always addressed – especially around platform / bolt-on governance processes



Issue #3: Disengaged middle management slow down strategy

Traditional Approach

- Reliance on Senior Management to address



Limitations

- Senior management may lack the skill set to drive significant change across several organisations / locations / geographies

“What got you here won’t get you there!”



Issue #4: strategy is not implemented effectively at an operational level

Traditional Approach

- Reliance on Board meetings, financial reporting, Chairman







Limitations

- Difficult to “sanity check” management team’s / Chairman’s view of progress to plan due to access restricted to senior team
- Lack of operational experience to “see through the smoke”



Humatica has a unique, proven set of tools and methodologies to address buy & build organisational issues

	Pre Deal Due Diligence	Platform Company / Bolt On First 100 Days		Holding Period
Issue	#1: Organisational bottlenecks in platform and bolt-on companies not identified or acted on upfront	#2: Platform company senior management team is slow to acquire bolt-ons	#3: Disengaged middle management slow down strategy	#4: strategy is not implemented effectively at an operational level
Humatica Solution	 <p>αccelerate</p> <p><i>Identify platform and bolt-on organisational bottlenecks <u>upfront</u></i></p>	 <p>αlign</p> <p><i>Align top management and sponsor around the strategy and implementation roadmap</i></p>	 <p>αctivate</p> <p><i>Activate middle management and employees – and address middle management implementation roadblocks</i></p>	 <p>αssure</p> <p><i>Ensure strategy is being delivered “on time” or “ahead of time”</i></p>

For more information on Humatica and our structured services to increase employee productivity and effectiveness

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