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How to seal *the global deal*

From initial research to post-merger integration, the CFO can play a key role in cross-border acquisitions. *Christian Doherty* talks to three CFOs to learn how they add value to the process.

In a global economy where organic growth is increasingly rare, M&A activity continues to be a significant factor. Indeed, despite political and economic uncertainty, EY's 15th *Global Capital Confidence Barometer* reveals that 2016 was one of the best years ever for dealmaking. While the deal value globally – US$3.5t – was down 17% compared with 2015, that was a record year; overall, 2016 was up 9% against 2014. Significantly, 37% of that deal value was made up of cross-border acquisitions; Chinese buyers alone were responsible for deals totaling US$210b. In short, while M&A may not be the only game in town, it's arguably the biggest.

For most CFOs, acquisitions present both an opportunity and a challenge: the opportunity to add value to their company by buying new businesses, and the challenge of finding the right target, getting the deal done and making sure the acquisition delivers the intended benefits. Acquisitions are as much an art as a science and require a range of skills from the CFO, including diplomacy, persistence, strategic vision and leadership.

STRATEGY COUNTS

Mark Okerstrom (pictured on page 2, top left) has more experience than most when it comes to acquiring companies. As CFO and Executive Vice President, Operations of US travel company Expedia, Inc., he has overseen more than US$8b of acquisitions and divestitures, and he emphasizes

that every deal is underpinned by a clear alignment with corporate strategy.

"We examine 50–100 possible transactions a year," he says. "Every year, we take a close look at where we want this company to be in the next three to five years. We look at our organic prospects and the trajectories that all of our businesses are on and we see gaps — places where we want to either fill in white space in our existing portfolio, or we want to accelerate some of our capabilities or growth prospects. We fill those gaps with M&A."

Naturally, there isn't a one-size-fits-all model. "Every deal is different," says Okerstrom, who explains that he has learned to address each potential acquisition on its own merits.

"If you take a deal like trivago [in which Expedia acquired a majority stake in the German hotel search company for US$570m in 2013], the thesis was: this is a great company which has phenomenal growth prospects. Yes, our global scale and our presence in the US — a market they wanted to enter — was helpful, but really the base thesis was that we had the opportunity to create a huge amount of shareholder value."

Okerstrom contrasts that with the more recent acquisition of global online travel company Orbitz for US$1.3b. "There, we had a very clear deal thesis around the ability to realize significant cost synergies, at the same time as actually making the consumer product better and therefore driving revenue synergies. In that respect, it's the complete opposite of trivago. With Orbitz, it was all about leveraging the Expedia platforms to create the value."

THE ACID TEST

Reeza Isaacs (pictured right) is the CFO of South African retailer Woolworths, a role that has seen him handle a number of acquisitions, most recently that of Australian clothing brand David Jones for approximately US$2b. For Isaacs and his team, once the process of identifying a suitable target has been completed, the spotlight falls on interrogating the rationale behind the deal. "I would typically ask: does the acquisition bring with it, for example, substantial EBITDA? Is it immediately earnings- or value-accretive to shareholders?" he says.

In the Woolworths model, once the basic assumptions have been ratified, the CFO's role focuses on asking some key questions, as Isaacs explains: "What is the strategic rationale, and how can we as a group leverage our scale, either in terms of product or support services or other expertise, that would generate additional value for the group and for shareholders?"

Answering those questions can be especially tricky when it comes to acquiring overseas companies. Isaacs has (like Okerstrom) been a key player in finding and completing deals with foreign targets. Woolworths has been involved in two Australian acquisitions since Isaacs became CFO and he says

> "Exposing yourself to different approaches and management styles broadens your horizons."
>
> **Mark Okerstrom, Expedia**

that, while the due diligence process is broadly similar, some different arrangements are required in terms of financing.

"We take a view that if we acquire in a particular jurisdiction, then we match the cash flows in that jurisdiction to the financing requirements in the country," he explains. "We ensure that we aren't exposed from a forex fluctuation perspective; obviously, we are exposed from a pure currency translation point of view from earnings, but from a cash flow point of view, we don't hedge."

Yi Sun is Leader, EY Greater China Business Services in Germany, Switzerland and Austria. She echoes Isaacs' point about the need for the CFO to address and reduce complexity in cross-border acquisitions.

"Normally there are five different work streams: financial, tax, legal, environment and commercial," she says. "The CFO should work closely with the rest of the

team to understand the financial and tax implications."

Sun has worked with client CFOs on many cross-border deals, and she says that if both the acquirer and the target are listed companies, the most challenging points for both parties immediately after the deal are purchase price allocation and financial reporting integration.

She explains: "The biggest challenges coalesce around the tight time line in order to fulfill the mandatory disclosure obligation, the limited resources available (manpower, data, etc.) due to the increase in non-routine processes, and the differences between each party (in terms of legal and regulatory issues, internal process, IT and so on). However, the savvy CFO will make sure they adopt a structured approach, with sufficient lead time, in any international transaction."

MAKING SYNERGY COUNT

As a veteran of numerous acquisitions, Robin Wang (pictured above), VP and CFO of Fosun Group, a Shanghai-based investment group, has become an expert in identifying and tracking synergies – often the stimulus for an acquisition, but notoriously difficult to measure, let alone achieve.

Acquisitions are central to Wang's role at Fosun Group, and Fosun Pharma recently completed a US$1.2b deal to buy Gland Pharma in India. In that acquisition, as in others, identifying and achieving synergies was a key driver.

"Before we decide to go forward with a deal, we have to discuss synergy, and we look for that across a range of areas: innovation, technology, data exchange, collaboration and so on," Wang explains. "Then we look at KPIs for the investment managers, so once the deal is done, we can monitor the synergies that are being created."

Under Wang's guidance, Fosun has introduced a detailed mechanism for monitoring and improving the synergy performance of every acquisition. While not every deal is a synergy play, "for the big deals, we're always focused on them," Wang says. "We're trying to create an ecosystem rather than a conglomerate. That's why synergy targets are important."

INTEGRATION INSPIRATION

Of course, Wang recognizes that achieving synergies – and the attendant long-term shareholder value – will largely depend on how well the acquirer integrates the target into the group. Neglecting the integration phase is a mistake many businesses have made, as Okerstrom points out.

"If one piece of the deal thesis involves benefits around integration, then you'd better be sure that you get your integration team involved in vetting the assumptions you're making," he says. "That way, when you close the deal, they can hit the ground running."

Recent research from *Harvard Business Review* revealed that between 70% and 90% of mergers fail to realize the declared benefits post-deal. These sobering statistics support Okerstrom's reflection that the worst deals are those that are either ill-conceived from the start, or, even worse, ill-conceived and then handed off to a team that has not been involved in the transaction. "When the CFO simply says, 'Here, integrate this,' it'll end up being a difficult transaction," he says.

That is especially true of cross-border acquisitions, where cultural differences can delay or even derail a successful integration. "Culture is a factor that has to be considered, especially when

> "Trust, respect and open communication will make everything happen."
> **Yi Sun, EY**

it involves the different habits and ways of those people involved in the business," says Sun.

"For example, in China, there is normally no structured M&A process and limited upfront due diligence. Most Chinese companies do not have their own M&A teams. For the execution of the transaction, Chinese companies prefer exclusive negotiations and often struggle to comply with a tight auction timetable.

"If there is one golden rule for cross-border transactions," she concludes, "I would say that trust, respect and open communication will make everything happen."

THE MORNING AFTER

As Isaacs points out, whatever euphoria may accompany the successful completion of a deal, "at the end of the day, the executive is accountable to the board and shareholders for delivering on the plan. Once your advisers, banks and lawyers move off, the hard part begins. Despite all the due diligence you've done, there will be surprises that pop out."

Given all that, discipline is key in the immediate aftermath of deal completion; the discipline to stick by the guiding principles that led to the deal in the first place and the discipline to remain focused on its success.

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So, to achieve the best possible outcome, Woolworths insists on the formation of what Isaacs calls a "group transformation management unit" in order to bring governance to integration. "This body effectively manages all aspects of integration and synergies," he explains. "We typically track that on a monthly basis and we then report to the board on synergy tracking every quarter."

SUCCESSFUL PARTNERSHIPS

Wang has played a critical part in Fosun Group's M&A-led growth strategy and has successfully compiled a balanced and diverse portfolio, from growing health care businesses in India to soccer clubs in the UK, famous resorts in France and Israeli cosmetics firms. Much of his role involves assessing the merits of his CFO counterparts at the target company to see whether their outlook and skill set will fit well with Fosun's culture.

"I'm not a traditional CFO myself — I used to work for local government and a large accountancy firm," he explains. "So I'm looking to work with different types of CFO. And we have so many different companies, we try to move away from simply stocking them with CFOs with the same skill sets. They might have business backgrounds rather than purely accounting or finance backgrounds, for instance."

From Wang's perspective, the most important thing to look at is the ability, and specifically the entrepreneurship, of the management team of the target. "That's critical," he says. "On every project, before we decide to buy or sell, our board members will meet the management team. I like to spend time talking to the CFO and CIO, and you have to rely on your sense of those people sometimes."

Despite all the pressure of completing a deal and overseeing its successful integration, there are some personal benefits that may accrue for the CFO. Okerstrom certainly feels that working extensively on M&A has made him a better leader.

"Apart from the due diligence process and taking a critical look at other businesses, exposing yourself to different approaches and management styles broadens your horizons," he reflects. "It sets what you're doing within a broader context and allows you to get an assessment of your business from almost a higher plane, because you're doing it with the benefit of the knowledge of what else is happening in the industry. Ultimately, I think it makes you a better CFO." ■

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Lessons learned

Reeza Isaacs: "I am very conscious of staying objective and avoiding getting 'deal fever.' It's easy to get excited at various points in the process, but your role is to be the voice of reason. I would also say question, question, question and stay level-headed. Everyone around you could be losing their heads, so you've got to stay calm."

Robin Wang: "If you really want to influence your company, you have to be a finance expert first. But then you have to come up with solutions — make a positive contribution, rather than simply pointing out the flaws of a deal."

Mark Okerstrom: "The crucial thing for the CFO is having a good handle on what's important to you and having the ability to say no. We've said no to a lot of things and I have very few regrets about deals we passed on. As a result, we have very few regrets about the deals we *have* done."

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