

Germany integration highlights

Global Capital Confidence Barometer



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For Germans, post-M&A deal success requires pre-deal planning for smooth integration

Integration is a renewed focus for German dealmakers surveyed for the latest EY *Capital Confidence Barometer*. Amid Brexit and other trade and political uncertainties, and facing difficulty in identifying high-quality investments, many leaders of German companies are now concentrating on integrating their acquisitions more successfully to reap better results.

Their renewed attention to integration also may be a result of the challenges German companies have experienced in integrating their recent acquisitions. The survey reveals that nearly half (46%) of German respondents admit that they failed to meet their synergy targets on their most recent deal. Underplanning and underexecuting on these deals appear to be behind some of the challenges in achieving synergies and successful integration.

However, it appears to set the stage for a more upbeat future as leaders are now recognizing the importance of careful pre-deal planning and target setting. In the survey, 52% of German respondents indicate that they are preparing for post-deal integration earlier in the deal life cycle, while 31% have stated their intention to be more aggressive in setting synergy and transformation targets.

Most interestingly, respondents who plan to start integration earlier in the future have likely been influenced by recent experience. Two-thirds of respondents (66%) looking to move integration plans forward in the deal process had achieved lower levels of synergies in their most recent deal.

Key to realizing those integration targets is to understand and identify where value can be created. When it comes to driving synergies, 45% of executives in the German market identify technology as critical in reducing duplication and costs through efficiencies of scale and optimizing supply chains, while 39% point to bottom-line synergies from applying technology and intellectual property (IP) from one company to the operations of the other.

Those respondents who focused primarily on bottom-line or top-line synergies – that is, growing revenues through access to differentiated customers or access to new markets – were more successful in their post-deal integration. In both cases, more than half met or exceeded expectations. But for those who relied on applying technology and IP from one company to the operations of the other, results were less positive. The majority (67%) underachieved their synergy targets in their most recent deal.

This is where a longer-term approach to planning and target setting is important. German executives may need to look beyond the first year to assess and cultivate longer-term benefits of technology and IP value creation. This is especially the case for acquisitions in disruptive



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areas, such as startups, technology firms and IP-focused entities. These investments may open up new markets or new business lines for the acquiring company, offering exciting opportunities to develop new products or services that may be welcomed by its existing customers. But realistically, they take longer to realize the synergies and drive positive results for the acquiring company's top or bottom line.

Budgeting is also a key factor in integration success. Companies that deemed their efforts successful spent 8% more (as a percentage of announced synergies) than those that failed to meet their ambitions.

Although many executives have been dissatisfied by synergy impacts to date, the future looks brighter. Mapping out synergies early on in the process and budgeting sufficient costs and time from the outset can help acquiring companies realize the competitive advantages that successful M&A initiatives can yield.

Buy and integrate

Identification and realization of synergies are at the center of M&A value creation.

55%

of executives expect to actively pursue acquisitions in the next year.

52%

of executives are starting integration planning earlier.

46%

of companies say they achieved lower synergies than anticipated in their most recent deal.

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