Internal Audit’s Role in Mergers and Acquisitions

Muna Sheikh – Managing Director
JD Tengberg - Principal
Deloitte
Agenda

• Introductions from Presenters
• Mergers & Acquisitions (M&A) trends
• M&A risks
• Role of Internal Audit in M&A
• Panel discussion
Deloitte’s 2015 M&A Trends Report

In 2015, Deloitte surveyed 2,500 executives from US companies and private equity firms to gauge their expectations, experiences, and plans for M&A.

M&A Trends Report 2015
A comprehensive look at the M&A market

9/10 corporate respondents reported not achieving intended ROI.

85% of corporate respondents expect sustained or increased M&A activity.

Top sectors for M&A activity reported by corporate respondents:
- Technology
- Oil and Gas
- Health Care Provider

94% of PEI respondents anticipate average to very high deal activity.

39% corporate respondents expect increase in divestiture activity (up 24% from last year).

96% of PEI respondents reported not achieving intended ROI.

Respondents indicated FSI sectors are most likely to pursue divestitures.

Overseas expansion is on the rise with 85% of PEI respondents expecting to purchase outside of the U.S. (up from 73% last year) while 79% of corporate respondents expect to do the same (up from 59% last year).

Copyright © 2015 Deloitte Development LLC. All rights reserved.
# Integration poses significant challenges

The principal challenge is to integrate across multiple dimensions, within tight timeframes, while relying on resources who are charged with running business as usual.

## Principal integration challenge

**How do you capture synergies...**
- Functional integration
- Organization rationalization
- Facility consolidation (Headquarters and Manufacturing)
- Infrastructure rationalization
- Spend reduction
- Technology integration

**and building a strategic platform...**
- New customer value proposition
- New processes
- New organization

## Outcomes sought

**while integrating...**
- Customers
- Operations sites
- Facilities
- Supply Chain
- Systems
- Management
- Processes and controls
- Employees

**without negatively impacting...**
- Customers
- Employees
- Shareholders
- Vendors/suppliers
- Financial performance

## Potential failure points

- Cost reduction, post merger, not achieved
- Return on investment not achieved
- Delayed transaction close
- Transition disruptions
- Customers see and are frustrated by change
- Productivity is reduced
- Fully integrated end-state is not achieved
- Effective tax rate increases or cash repatriation is stalled
The Role of Internal Audit can be a success factor for M&A transactions

Transactional events require the attention and focus of all areas as they impact the majority of the business. Internal Audit (IA) is uniquely positioned to help drive the transaction cycle because it:

- Involves adding value to the business and can be helpful identifying areas for synergy capture
- Monitors compliance and can serve as a resource to support new compliance requirements
- Understands the areas of key risk and can recommend measures to mitigate it
- Works across different business functions and can serve as a connector
- Has a good understanding of the company overall
- Can be the party to perform post-transaction assessments that help measure the level of success of the transaction

Ultimately, IA can influence other business functions due to the visibility and credibility it possesses.
## M&A life cycle

Winning the bidding process signals the transition from transaction to integration, where the true value of the acquisition is realized and where the business functions become very involved.

<table>
<thead>
<tr>
<th>M&amp;A strategy</th>
<th>Target screening</th>
<th>Due diligence</th>
<th>Transaction execution</th>
<th>Integration</th>
<th>Divestiture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop M&amp;A strategy</td>
<td>Plan M&amp;A target screening</td>
<td>Plan due diligence</td>
<td>Develop deal structure</td>
<td>Integration program management</td>
<td>Divestiture program management</td>
</tr>
<tr>
<td>Develop M&amp;A execution capability</td>
<td>Screen M&amp;A target candidates</td>
<td>Establish due diligence protocols</td>
<td>Analyze synergies</td>
<td>Synergies and shareholders</td>
<td>Cost reduction and shareholders</td>
</tr>
<tr>
<td>Conduct M&amp;A target selection</td>
<td>Conduct due diligence</td>
<td>Analyze target valuation</td>
<td>Customers, markets, and products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conduct M&amp;A target approach</td>
<td>Finalize due diligence</td>
<td>Plan M&amp;A integration</td>
<td>360° communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop deal documentation</td>
<td></td>
<td></td>
<td>Conduct M&amp;A deal negotiations</td>
<td>Organization and workforce</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Conduct M&amp;A deal closing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Functional planning and execution</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Locations and facilities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where IA typically gets involved:

- **Conduct due diligence**
- **Plan M&A integration**