Acquisition Integration Best Practices

American Medical Device Summit

Chicago Sept. 12, 2014

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"If you ask me, someone needs to tell Mergers and Acquisitions to cool it for a while!"

"The real question isn't whether M&A is good or bad but whether you are good at M&A"

Mckinsey & Company

INTEGRATION
Just because you can, doesn't mean you should.

Best Mergers

Worst Mergers

Disney & Pixar

Exxon & Mobil

TOP 10 BEST AND WORST
MERGERS OF ALL TIME
THE GOOD, THE BAD AND THE UGLY

AOL & Time Warner

Quaker & Snapple
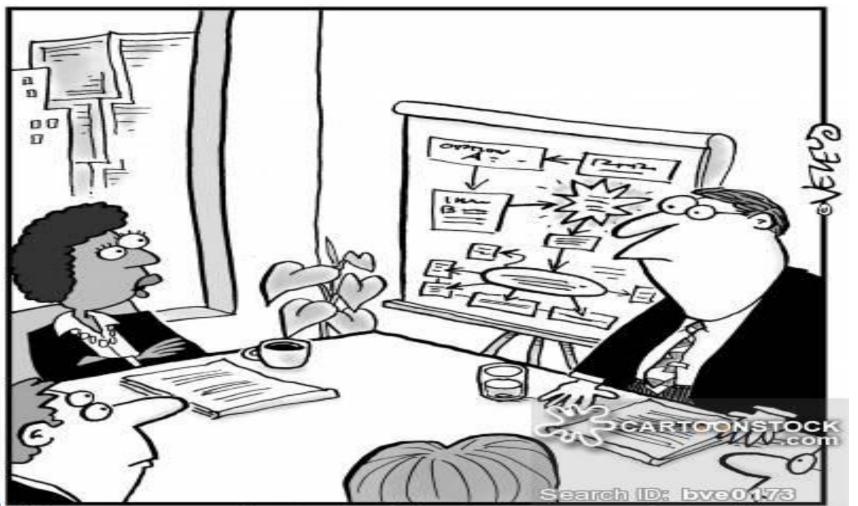
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Source:www.rasmussen.edu

Key Reasons for Merger Failures

- Paying too much for the acquisition
- Inadequate value creation
- Unclear roles & responsibilities at top level
- Culture mismatch
- Systems incompatibility
- Insufficient due diligence
- Poor execution of acquisition integration

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"I guess you lost me, Hank, at the point where we jump to light speed, travel back in time and undo the stupid merger that's causing all of our current problems!"

Successful Integrations- few Key Factors

- Know the key goals, value drivers for acquisition

- Define success

- Validate with stakeholders; communicate

- Understand what needs to be preserved and developed

- Develop Integration strategies based on the above two factors

- Perform thorough risk assessment and put appropriate contingencies and mitigations

- Implement issue monitoring systems in place

- Focus on Culture Change (do not underestimate)

- Put your best resources on integration

- Do not declare victory prematurely

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Integration Phases:

Strategy and Planning

Due Diligence Phase; Deal Negotiation phase

Pre Deal Closure, Fact Finding and Planning Phase. Gun Jumping Rules Apply.

Deal Close

Post Deal Closure, 90 Days Education, assimilation of team and Management Reporting

Detailed Execution for 2-3 years. In phases

Strategy Refinement, detailed planning and execution

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Quality Integration Phases

Phase 1
Assessment and Education (Pre-Signing to 90 days)
Set Quality Culture Tone

- Due diligence pre & post close
- Integration planning
- Quality System assessment
- Data integrity audits
- Priority SOP's
- Quality Principles & Strategy

Phase 2
Stabilization (90 to 180) – *Establish control without damaging asset*

- Fix compliance risks
- Product line assessments
- Corp policy gap closure.

Phase 3
Optimization (+180 to 1 year) – *Developing sustainability and scalability*

- Full corporate policy implementation
- Rebranding to Medtronic
- Enabling IT system implementation

Phase 4
Institutionalization (1-2 years) – *Full sustainability & fulfillment of business objectives*

- Integration plan milestone completion

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Quality Integration Approach

Formal Process

- SOPs for post acquisition assessments
- Checklist driven and phase reviews
- Dedicated Integration team
- Governance to drive QA function & cross functional alignment

Typical Integration Approach Choices

Due Diligence	Level of Integration	Leadership	Quality System	Governance & Oversight	Establish Integration Program Management
Bring the experts and Inform them on the integration plan and acquisition economics	Determine if the entity should be left stand alone or completely integrated	Decide whether to put in your own QA management or not	Determine the level of integration of the Quality Management System - Keep it or throw it.	The acquiring entity must assure acquired entity remains "good"	Separate integration program management from "run the business" activities

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Successful Integration: Job of Functional Team
"Do we have the right infrastructure", "build functional excellence"

Imperatives and Goals

1. No compliance or product quality <u>surprises</u>
   - Proactive and comprehensive risk identification and mitigation

2. All Quality integration deliverables completed per project plan

3. Full alignment with all key stakeholders
   - Strategy, Approach, Milestones, Metrics

4. No unplanned business disruptions due to integration activities

5. Best Practices Implemented and efficiencies gained

6. Best QA Talent developed, retained and Promoted. Org. structure aligned

KPI

1. Product and Compliance Risks Identified within 120 days
   - Full EXCOMM level reporting. Resources allocated and risk mitigation defined

2. 100% on time on deliverables

3. On going alignment through meetings

4. No unplanned Revenue loss, EBIT loss due to quality integration related disruption

5. Fewer overall (combined) 483, Major findings. Fewer overall SOP and IT Systems. Cost Of Quality reduced per Synergy targets. No additional risks introduced

6. % HIPO with higher scope / level Jobs, 1 year post integration. Titles, levels aligned. Entity Map defined for EM and World Quality. Diversity maintained or improved in combined organization.

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Understand what needs to be preserved and developed

Products	Talent	Processes	Systems
Understand key areas that will be invested to grow.	Identify top talent and ensure they stay within the business.	Retain strong processes that exist within the newly acquired business while establishing which ones to let go.	Integrate differences in new systems, cultures and strategies.

← Communicate, Communicate, Communicate →

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Know key goals for Acquisition

What is Consistent?

- **Culture target**
  - We will be excellent
  - Transparency
- **Intentionality**
- **Understanding the asset**
- **Same "definitions of good"**

What is variable by condition?

- **Pace of change**
- **Degree of integration**
  - Purpose to become good or to work collectively?
- **Degree of effort for short lived activities or products**
- **Breadth of baseline product assessment work (enabling remediation work)**

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Develop Integration Strategies

Factors to Consider

Company size	Fold in vs. stand alone Public company challenges – pre-signing; pre-close, post close Gun jumping rules
Foreign vs domestic	Language • Pace of communication slowed when major part of the org doesn't speak English well, • Culture – Harder to create "we"
Integration resources	Due diligence – creating expectations Integration resources – temporary Long term resource run rate – typically higher than baseline pre-acquisition levels
Targeted business to integrate within	Level of Harmonization needed Adequacy of corporate policies
Managing through the acquisition economics	Due diligence Ask for needed resources Distinguish short and long term needs
Managing the acquired team	Transitioning acquired team from generalists to specialists Role changes, leveling
Legacy problems	How large is the remediation challenge - Risks and timeline to clean

Quality Integration of Culture

Cultural Challenges

- Entrepreneurial– push back to structure & process
- Risk profile – product in field, testing during product/process development
- Push back to oversight – not all employees are happy about the acquisition
- Value proposition changes – lack of advocating with customers

Strategies & priorities to tackle the challenges

Management setting tone	The Amnesty period	Transparent	Architecture	Training	Establish quality goals and standards
"we will be excellent", delivering success vs "doing the best with what we have" Defining the standard of good	We will fix together what gets unloaded (acquiree vs acquired; QA vs entire team) Transparency – more than words, early intro	- Issue escalation & - Standard reporting	Management review and communication	- Corporate policies - Quality Strategy	- Metrics inventory - Timeliness for various activities - CAPA expectations

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Quality Integration Areas of Focus

Quality Systems
- Assess if Quality System need to be upgraded
- Decide whether to harmonize the Quality System
- Quality records integration

Organization & Structure
- Assess how quality function fulfill roles consistent with expectations
- Decide the future state org chart
- Assess resource adequacy – quantity and quality
- Decide what to centralize

Culture
- Set Tone

Remediation
- Shipped product quality
- Liability of prior years of inadequate Quality Systems

IT Systems
- Decide on how much to harmonize and what rate

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Summary

- How to identify top talent and ensure they stay

- Retaining strong processes; which to let go

- Integrating differences in systems, cultures, strategies

- Key common challenges that go unnoticed
  - Resourcing
  - Due Diligence confidence
  - Who are the stakeholders?
  - Success definition
  - When is integration over?
  - Culture change

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