Acquisition Integration Best Practices

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Medtronic
"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
Best Mergers

Disney & Pixar

Exxon & Mobil

Worst Mergers

AOL & Time Warner

Quaker & Snapple

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
"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
Integration Phases:

- **Strategy and Planning**
  - Due Diligence Phase; Deal Negotiation phase

- **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
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
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**

<table>
<thead>
<tr>
<th>Due Diligence</th>
<th>Level of Integration</th>
<th>Leadership</th>
<th>Quality System</th>
<th>Governance &amp; Oversight</th>
<th>Establish Integration Program Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bring the experts and Inform them on the integration plan and acquisition economics</td>
<td>Determine if the entity should be left stand alone or completely integrated</td>
<td>Decide whether to put in your own QA management or not</td>
<td>Determine the level of integration of the Quality Management System - Keep it or throw it.</td>
<td>The acquiring entity must assure acquired entity remains “good”</td>
<td>Separate integration program management from “run the business” activities</td>
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**Successful Integration:** Job of Functional Team  
“Do we have the right infrastructure”, “build functional excellence”

### Imperatives and Goals

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<tr>
<th>No compliance or product quality surprises</th>
<th><strong>KPI</strong></th>
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<tbody>
<tr>
<td>1. Proactive and comprehensive risk identification and mitigation</td>
<td>1. Product and Compliance Risks Identified within 120 days</td>
</tr>
<tr>
<td>2. All Quality integration deliverables completed per project plan</td>
<td>2. 100% on time on deliverables</td>
</tr>
<tr>
<td>3. Full alignment with all key stakeholders</td>
<td>3. On going alignment through meetings</td>
</tr>
<tr>
<td>5. No unplanned business disruptions due to integration activities</td>
<td>5. Fewer overall (combined) 483, Major findings. Fewer overall SOP and IT Systems. Cost Of Quality reduced per Synergy targets. No additional risks introduced</td>
</tr>
<tr>
<td>6. Best Practices Implemented and efficiencies gained</td>
<td>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.</td>
</tr>
<tr>
<td>6. Best QA Talent developed, retained and Promoted. Org. structure aligned</td>
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</table>
THAT CONCLUDES OUR 2 DAY INTERNATIONAL SALES MEETING. WE COVERED OUR 9 NEW PRODUCT INTROS...

OUR NEW SALES PROCESS...

AND OUR COMPLETE SHIFT IN VERTICAL MARKET FOCUS.

YOUR NEW COMPENSATION & SALES TERRITORY PLANS... RECENT REGULATORY ISSUES... OUR NEW POSITION STATEMENT... CRM SYSTEM CHANGES...

WE'LL POST EVERY BIT OF THIS ON OUR INTRANET JUST-IN-TIME FOR EVERYTHING TO CHANGE AGAIN. NOW...

...ANY QUESTIONS?
Understand what needs to be preserved and developed

<table>
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<tr>
<th>Products</th>
<th>Talent</th>
<th>Processes</th>
<th>Systems</th>
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<tr>
<td>Understand key areas that will be invested to grow.</td>
<td>Identify top talent and ensure they stay within the business.</td>
<td>Retain strong processes that exist within the newly acquired business while establishing which ones to let go.</td>
<td>Integrate differences in new systems, cultures and strategies.</td>
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Communicate, Communicate, Communicate, Communicate
Know key goals for Acquisition

What is Consistent?

Ø Culture target
  ✓ We will be excellent
  ✓ Transparency

Ø Intentionality

Ø Understanding the asset

Ø Same “definitions of good”

What is variable by condition?

Ø Pace of change

Ø Degree of integration
  ✓ Purpose to become good or to work collectively?

Ø Degree of effort for short lived activities or products

Ø Breadth of baseline product assessment work (enabling remediation work)
# Develop Integration Strategies

## Factors to Consider

<table>
<thead>
<tr>
<th>Company size</th>
<th>Fold in vs. stand alone</th>
<th>Public company challenges – pre-signing; pre-close, post close</th>
<th>Gun jumping rules</th>
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<td>Foreign vs domestic</td>
<td>Language</td>
<td>• Pace of communication slowed when major part of the org doesn’t speak English well, • Culture – Harder to create “we”</td>
<td></td>
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<tr>
<td>Integration resources</td>
<td>Due diligence – creating expectations</td>
<td>Integration resources – temporary</td>
<td>Long term resource run rate – typically higher than baseline pre-acquisition levels</td>
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<tr>
<td>Targeted business to integrate within</td>
<td>Level of Harmonization needed</td>
<td>Adequacy of corporate policies</td>
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<tr>
<td>Managing through the acquisition economics</td>
<td>Due diligence</td>
<td>Ask for needed resources</td>
<td>Distinguish short and long term needs</td>
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<tr>
<td>Managing the acquired team</td>
<td>Transitioning acquired team from generalists to specialists</td>
<td>Role changes, leveling</td>
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<td>Legacy problems</td>
<td>How large is the remediation challenge - Risks and timeline to clean</td>
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When the message gets home we’ll have it written all over our products!
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
“we will be excellent”, delivering success vs “doing the best with what we have”
Defining the standard of good

The Amnesty period
We will fix together what gets unloaded (acquiree vs acquired; QA vs entire team)
Transparency – more than words, early intro

Transparent
- Issue escalation &
- Standard reporting

Architecture
Management review and communication

Training
- Corporate policies
- Quality Strategy

Establish quality goals and standards
- Metrics inventory
- Timeliness for various activities
- CAPA expectations
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
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
Thank You