

M&A

PROTECTING THE CORE AND MAXIMIZING VALUE

With a number of mergers and acquisitions taking place in the CRO and CMO/CDMO space, this article highlights several areas driving the success of those new organizations, including: acquisition target criteria, fit with acquiring entity, building management consensus and performance expectations, onboarding new sites and teams, inclusive employee communications and projecting a new brand internally and externally.

→ BY **BRUCE MILES**, NICE CONSULTING

In October 2015, **Haig Barrett, Inc.** Management Consultants (Los Angeles) and **That's Nice LLC** (New York) a science agency announced the launch of **Nice Consulting**, a partnership designed to offer strategic and specialized consulting tailored to the marketing needs of life science companies, to help them to drive value in their brands, pricing, competitive positioning and capacity utilization.

Acquisition potential is predetermined by your criteria

Successful acquirers know what they are looking for before they begin. They have developed insights driven by thorough analyses of markets, customers, competitors, regulators and internal capabilities that lead them to identify a handful of very specific acquisition criteria. Moreover, these criteria enable a dispassionate evaluation of the target's fit from a strategic, financial and cultural perspective.

Capturing the full potential – mining for Silver and Gold

Most research indicates that only 40% to 60% of mergers succeed – and just 30% are cross-border mergers (Association for Corporate Growth). What exactly is a successful merger, and why aren't there more success stories? Generally, a merger is considered to be successful if the company achieves both the strategic imperative behind the merger and the merger synergies and operating results promised when a deal is announced.

Regardless of the strategic imperative, it has been our experience that the most successful mergers recognize that true long-term value is found in the white spaces within and between key value-creation functions (Product Development, Sales & Marketing and Supply Chain), while less successful mergers tend to focus too much attention on back-office integration and systems consolidation.

This is often immediately reinforced by the creation of a single Merger Integration team, with functional departments each addressing issues related to their functional scope. Instead, we recommend a two-pronged approach, reporting to an Integration Team Leader.

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SILVER TEAM This team takes the internal perspective, and is responsible for day one execution and synergy capture (cost reduction) related to Human Resources, Legal, Finance & Accounting and Information Technology. A key role of this team is avoiding employee defections and managing employee communications.

GOLD TEAM This team takes the external / customer-focused perspective, and is responsible for maximizing the value contribution (revenue and profit) of the Product Development, Sales & Marketing and Supply Chain organizations. A key role of this team is avoiding customer defections and managing external customer communications.

Capturing Value in the White Spaces

The Gold Team should be formed to specifically focus on leveraging the synergies within and between the value-creation assets entrusted to the newly combined organizations. Revenue increase during a merger is always more difficult to achieve, and takes longer than expected.

Don't underestimate the degree to which competitors will seek to poach your best customers and your best sales people, as your team develops strategies to address the following:

PRODUCT PORTFOLIO

To what degree do we need to rationalize the existing portfolio of development projects? Can we establish common platforms for existing products?

INNOVATION AGENDA

How do we best combine our teams to increase efficiency, fully leverage new capabilities and improve innovation?

SALES CHANNELS

How can we consolidate our sales force to remove overlap yet improve customer retention and sales?

MARKETING & BRANDING

How do we enhance and project our brand(s)? To what extent, and when, do we combine or shift our brands? What messages do we want our customers to hear during the merger integration?

SUPPLY CHAIN

When and how do we introduce new capabilities? To what degree can we consolidate, and how do we make this seamless for our customers?

Noteworthy mergers and acquisitions over the past few years:

Feb. 2014

Par Pharmaceuticals' acquisition of JHP Pharmaceutical

Mar./Sept. 2014

Merger of Patheon and DSM and the subsequent acquisition by the newly formed DPX Holdings of Gallus Biopharmaceuticals

Apr./Jul. 2014

Albany Molecular Research's acquisitions of Cedarburg Laboratories and Oso Biopharmaceuticals

Oct. 2014

Recipharm's acquisition of Corvette Pharmaceutical Services Group, a Flamel Technologies facility

WuXi PharmaTech's acquisition of XenoBiotic Laboratories

Nov. 2014

Consort Medical's acquisition of Aesica Pharmaceuticals Limited

Siegfried Group's acquisition of Hameln Pharma

Jan. 2015

Piramal Enterprises' purchase of Coldstream Laboratories

Sept. 2015

Pfizer's acquisition of Hospira, including its contract parenteral drug manufacturing operations

Mar. 2016

Renaming of AAIPharma and Cambridge Major Laboratories as Alcami

Clearly Defined Integration Strategy

To successfully integrate two companies, the approach must be consistent with the strategic intent. Guiding principles, priorities and governance must reflect the logic behind the merger. A well-defined integration strategy should clearly articulate both financial and non-financial goals, as well as risk mitigation strategies.

The following areas of focus are foundational to the ultimate success of an acquisition.

1

SOLID CORPORATE GOVERNANCE PROCESS

Comprehensively linking strategic intent to principles, processes, people, measurements and communications is challenging at the level of one company. Introducing a second company and stakeholder group to the mix multiplies these complexities. Decision-making authorities and approaches must be well defined. Cross-functional coordination, not only in the timing and execution of merger tasks, but also in the timing and consistency of communications to customers, employees and suppliers, is absolutely critical.

2

CULTURAL FIT

Bringing disparate groups of people together from different companies may be more difficult than it sounds. Subtle differences in language, decision-making, performance measurements, incentives – “culture” – can translate into major differences in expectations and behavior. Addressing these differences takes real work on the front-end of any merger, and throughout the integration period. Allowing differences to “resolve themselves over time” is a recipe for failure.

3

APPROPRIATELY RESOURCED INTEGRATION TEAM

Selecting the right individuals to lead the integration effort is essential. Those you choose will need to move quickly and make tough decisions based on limited information, yet remain sensitive to the needs and concerns of customers and employees from both companies. Although most of the organization should remain focused on running the existing business, full-time resources must be dedicated to the merger integration effort. Furthermore, incentives, for the integration team and adjacent leaders critical to the integration, should be implemented and equitably aligned across the organization.

4

INTERNAL OWNERSHIP VS. EXTERNAL ASSISTANCE

A central issue in the integration process is to find the right balance between internal and external resources to ensure success.

We believe it is imperative to have your people take ownership and responsibility for the success of the merger. A consultant's role is to help your people succeed. They should provide objectivity and practical experience in aligning the integration strategy with the merger's strategic intent and an organization's capabilities, honest evaluation and guidance regarding cultural and leadership challenges, cross-functional orchestration, continuous review of risk and risk mitigation strategies, and a persistent focus on maximizing merger synergies.

Fewer, more senior-level consultants can provide the coaching and guidance needed (and address management bandwidth issues), whereas a small army of more junior-level consultants can overwhelm your team with endless task lists, stretching them thin, distracting them from running the day-to-day business and increasing the risk that bigger-picture issues go unaddressed.

SUCCESSFUL MERGERS &
ACQUISITIONS THRIVE ON
INTENTIONAL, MEASURABLE
AND ADAPTIVE PLANS
WITH DEDICATED
RESOURCES INCENTIVIZED
TO DELIVER RESULTS

5

APPROPRIATE &
ALIGNED PERFORMANCE
EXPECTATIONS

Setting and aligning performance expectations begins well before the acquisition transaction even closes. As the acquirer builds its valuation model and identifies both revenue and cost synergies, expectations are being quantified and bought-in-to by leadership. Successful acquirers evaluate the financials both from an acquisition justification perspective and how they will operate the business once acquired. Performance expectations developed and established in this process enhance the likelihood of a successful acquisition.

In conclusion, successful mergers and acquisitions thrive on intentional, measurable and adaptive plans with dedicated resources incentivized to deliver results - capturing both the silver and the gold. **P**

M&A has been ongoing for both
sponsors and contract service
providers, continuing consolidation
on both sides of the industry

The strategy for some contract manufacturers to achieve integrated services for large portions – or all – of the pharmaceutical development lifecycle from discovery to commercialization has been one large driver in M&A. Contract manufacturing organizations (CMOs) turning themselves into contract development and manufacturing organizations (CDMOs) continues. There is also a rise in the number of ‘primary’ (drug substance) contract manufacturers that have expanded into ‘secondary’ (drug product) manufacturing – and vice versa.

2015 Banner Year for Pharma M&A

For many in pharma, 2014 was seen as a peak year for M&A activity. Some \$200 billion in deals came into play, even with failed bids like Pfizer’s attempt to acquire AstraZeneca and Abbvie’s efforts to acquire Shire. With 2015 in the rear-view mirror, industry observers and journalists alike were heralding the robustness and amazing acceleration of this past year’s M&A action. Top of mind for many was Pfizer’s now-thwarted acquisition of Allergan. This \$160 billion deal was to be the largest M&A deal in the industry’s history. Earlier in 2015 Abbvie announced its intentions to acquire Pharmacyclics for \$20 billion, a deal that was identified as the largest global M&A deal of 2015 – now that the Pfizer/Allergan deal is void, Teva’s \$40 billion acquisition of Allergan’s Activis operations takes the top spot. Even with Pfizer/Allergan off the table, 2015 M&A activity was relatively robust, sustaining a trend that is likely to carry on throughout 2016.

→ ABOUT THE AUTHOR



Bruce Miles Lead, Mergers & Acquisitions Integration, ThinkTank Partner, Nice Consulting

Bruce Miles has 30+ years of experience in business strategy, operational excellence and corporate development. His clients have included several of the world’s leading life sciences, retail, consumer and industrial companies. Prior roles Bruce has held include COO of a Philips Healthcare division, Consulting Partner with Ernst & Young, Managing Director at AlixPartners and Distribution Sector Executive at IBM.

LinkedIn www.linkedin.com/in/bruce-miles-87b77721

Email bruce.miles@haigbarrett.com