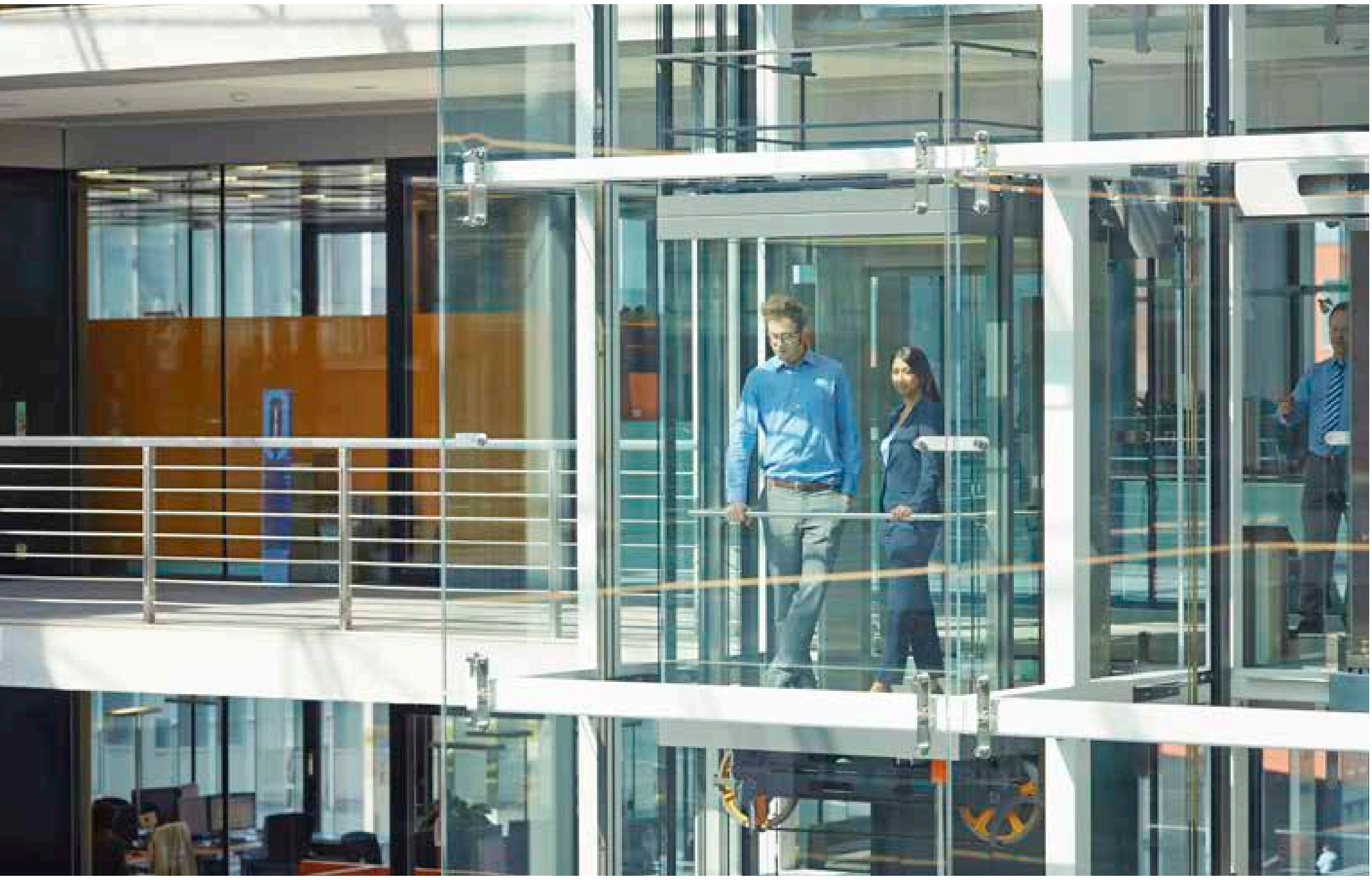
Confederation of Indian Industry

Value creation: Laying the foundation for mergers and acquisitions



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Preface

The anxiety of getting into an M&A transaction and closing successfully looms large before any conglomerate. This is a debate, often run in the boardrooms of the corporates who, having been part of one of the world's fastest growing business environments, and have in general been blessed with healthy growth often weigh M&A opportunities at any given point of time. This report seeks to answer few of those concerns by probing into below related issues:

1. How is value creation measured?

2. Does M&A create better value than organic growth?

3. Is M&A a 'check-in-the box' guarantee for value creation, or is there more that needs to be done?

Basis data availability, this report measures value creation for public companies - defined by total shareholder returns (TSR), which accounts for share price movement over time, along with the added gain from dividends paid.

The findings of this report indicate that M&A is not very effective for certain types of industries - especially those that have significant regulatory uncertainty or prolonged sector headwinds. For other industries, this report interestingly notes that it is only some, not all, kinds of M&A behaviour that generally leads to higher value creation than organic growth.

Lastly, the report notes that M&A is not a destination but a journey. The process and discipline of doing M&A - in pre-deal, diligence and post-deal stages - is more important than the act of M&A itself.

With this context in mind, we have put together this report on whether M&A is the silver bullet to a company's value creation woes.

We hope that you will find this report to be differentiated and useful, especially in the Indian context.

Confederation of Indian Industry

Foreword

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India has seen M&A activity in excess of 120, 180 and 345 billion USD[1] over the last three, five and ten years respectively, representing a CAGR of 13.2%, 13.7% and 4% for the respective periods. At the same time, inbound M&A accounted for 25%, 23% and 29%[2] of the overall foreign direct investments into the country in the same period. M&A in FY18 alone accounted for 6% of the aggregate gross capital formation.[3] It is pertinent to note that the growth in value of M&A deals in Q1 FY19 was nearly tenfold as compared to the same period last year, while GDP registered a 7.3% growth over last year.[4]

The above statistics clearly establish the relevance and contribution of M&A to the growth of India Inc. There are numerous qualitative factors which drive M&A; however, very often, the question that is asked is, does M&A really create value? And if not, then why do we see such sequential growth in levels of M&A activity?

To answer the question, one needs to assess what 'value' means—it could mean different things for various stakeholders across the ecosystem, but is there one outcome at which there is value convergence amongst all constituents? Then, quite certainly, not all attempts at value creation would be successful, but is there a class of acquirers which has been more successful than others, and if so, why? Is it simply because of the growth that their respective sectors are experiencing, or is the value creation a result of the diligent execution of the M&A process?

We live in a volatile, uncertain, complex and ambiguous world, and it will continue to become more so. This only means that what may seem right today may not be so tomorrow. These observations also apply to any pre-investment appraisal process, which has accordingly seen a significant jump in the intensity of efforts in recent times. But, is this enough, or even after doing this well, can we still lose value?

Over the years, many studies have shown that winning a bid for an asset is not the end, but just the first step towards goal of creating value. Studies also show that not many deals actually create value. That being the case, what is the recipe for value creation? Is there any relevance to what the acquirer communicates on Day 1, or what it does over the first 100 days, or is all this overhyped?

This report aims to provide answers to some of the above questions. We do hope you find the analysis insightful.

1. VCC Edge
2. Department of Industrial Policy and Promotion (http://dipp.nic.in/)
3. https://www.ceicdata.com/en/indicator/india/gross-fixed-capital-formation
4. https://www.statista.com/statistics/263617/gross-domestic-product-gdp-growth-rate-in-india/

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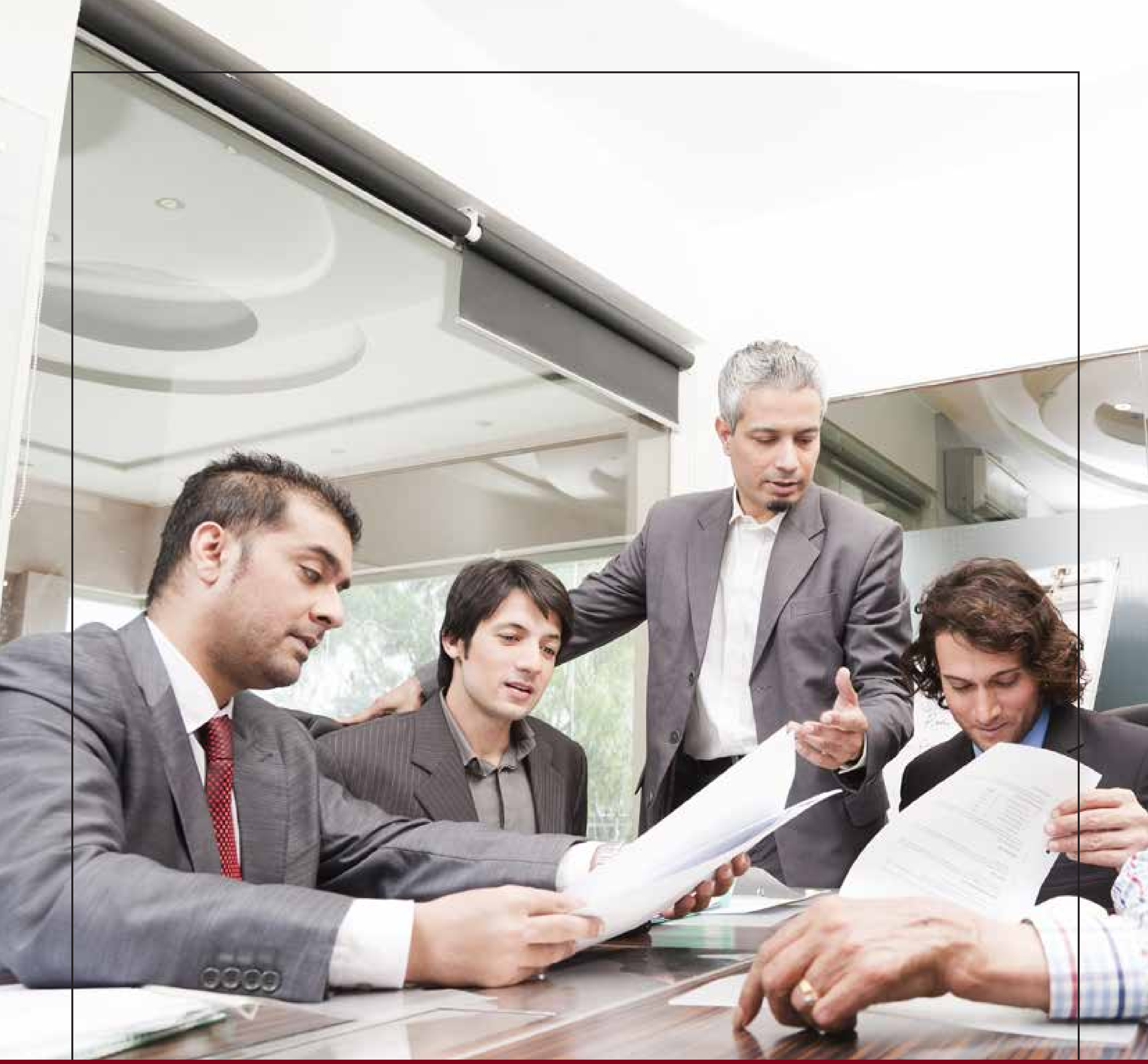


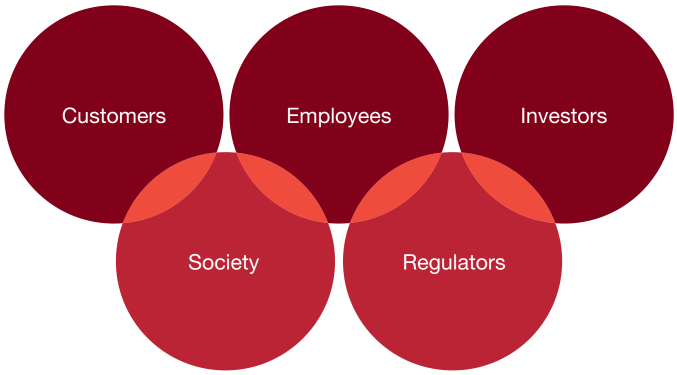
What does value creation mean and how can it be measured?

The primary aim for which any business is set up is to create value. Value creation can have multiple definitions for owners or shareholders and for other stakeholders.

Owner returns: At a fundamental financial level, an entrepreneur may seek to create value for himself when he starts a business by generating returns that not only exceed his cost of capital, but also meet his target return on investment (that is, the opportunity cost).

Other stakeholders: As the business grows, there are other stakeholders whose expectations of value creation also need to be considered. Strategically, the business strives to meet its customers' value expectations and hence achieve higher sales of its products and services. For example, in an upcoming technologically driven segment like robotics, value creation can be achieved by focusing on innovation, investments in research and development or tie-ups with technology partners. Such strategies enable the business to provide its customers with the latest in technology and products with superior features. In a mature sector like retail, customers may look for consistent quality, product and process innovation and an enhanced 'brand experience', and the company's value may be driven by factors like brand strength, market presence, revenue growth, productivity or stability of margins. Operationally, the business also needs to meet other stakeholder expectations, including those of its employees, regulators and society at large. Understanding what drives value will help a business deploy its financial and human capital in a focused manner, to achieve profitable and sustainable growth.

Figure 1: Interconnected stakeholders for value creation



Of the three basic categories of stakeholders within an organisation—that is, customers, employees and investors—no stakeholder's interests can grow in isolation at the expense of those of others. Investing in employees, technology and other intangible assets, or a well thought-out marketing strategy, can create a 'win-win' situation wherein short-term expenditure results in higher long-term returns that support higher valuation for the business.

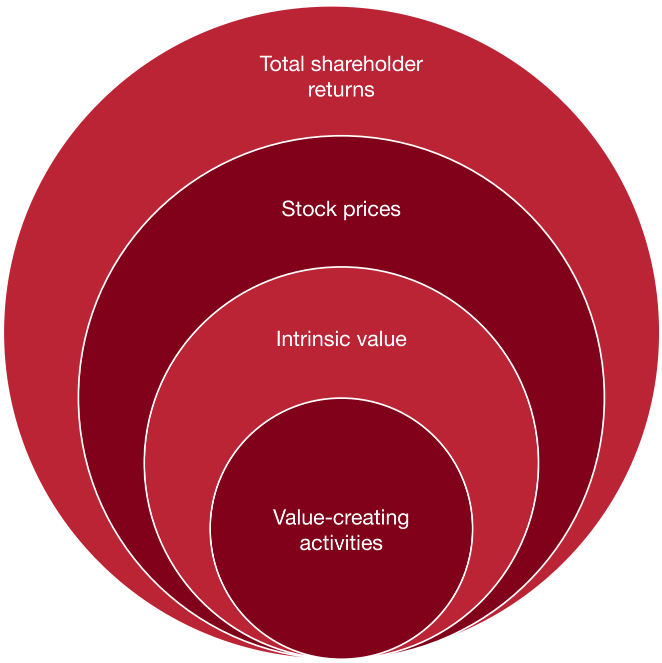
Conversely, a short-term focus on maximising net profits, or returns on equity to shareholders, may have negative consequences. For example, ignoring aspects such as quality of products and services, employee satisfaction, fair trade practices and environmental sustainability can result in short-term cost savings and higher margins, but will inevitably impact the organisation's performance in the medium to long term, thus creating a negative cycle which ultimately destroys value.

Measuring value creation

Typical measures of a company's performance include financial metrics such as operating margins (such as earnings before interest, depreciation and tax [EBITDA] as a percentage of revenues), net profit margins, return on capital employed or return on equity. These are typically computed on a yearly basis and are an indication of the current or latest operating and financial performance of the company.

These metrics, however, do not reflect the company's earnings potential and also would not adequately reflect the tangible and intangible asset base of the business. Further, the value of a business is not driven by its short-term financial performance alone. EBITDA and earnings per share (EPS) are not measures of value by themselves. Ultimately, returns to investors or shareholders would be generated if the business is able to grow in value over time, as a result of efforts to provide sustained value to all its stakeholders.

Figure 2: Measuring value creation



Stock prices are considered to be a transparent benchmark of value, and represent the market's expectations of the present value of the company's future earnings potential. Thus, the stock price should arguably track the company's intrinsic value over time, allowing for short-term adjustments resulting from market sentiment or the availability of information. The intrinsic value would, in turn, reflect the company's efforts at value creation for all its stakeholders, as reflected in its tangible and intangible asset base, its strategies and decisions, its near-term operating performance and its future outlook. Based on this logic, changes in a company's stock price over a period of time should be a good indicator of value creation.

Taking this a step further, the best external measure of a company's performance would be the relative shareholder returns over time. Tracking the total shareholder returns (TSR) of a company relative to those of its peers over a period of several years would be an important indicator of its strategic and operational success.

Defining TSR

TSR is widely used to measure the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder, expressed as an annualised percentage.

TSR is calculated based on the growth in capital from purchasing a share in a company, assuming that the dividends are reinvested each time they are paid:

TSR = $(Price_{end} - Price_{begin} + Dividends^*) / Price_{begin}$,

where $Price_{begin}$ = Share price at the beginning of the period,

$Price_{end}$ = Share price at the end of the period,

Dividends = Dividends paid over the period and

TSR = Total shareholder returns.

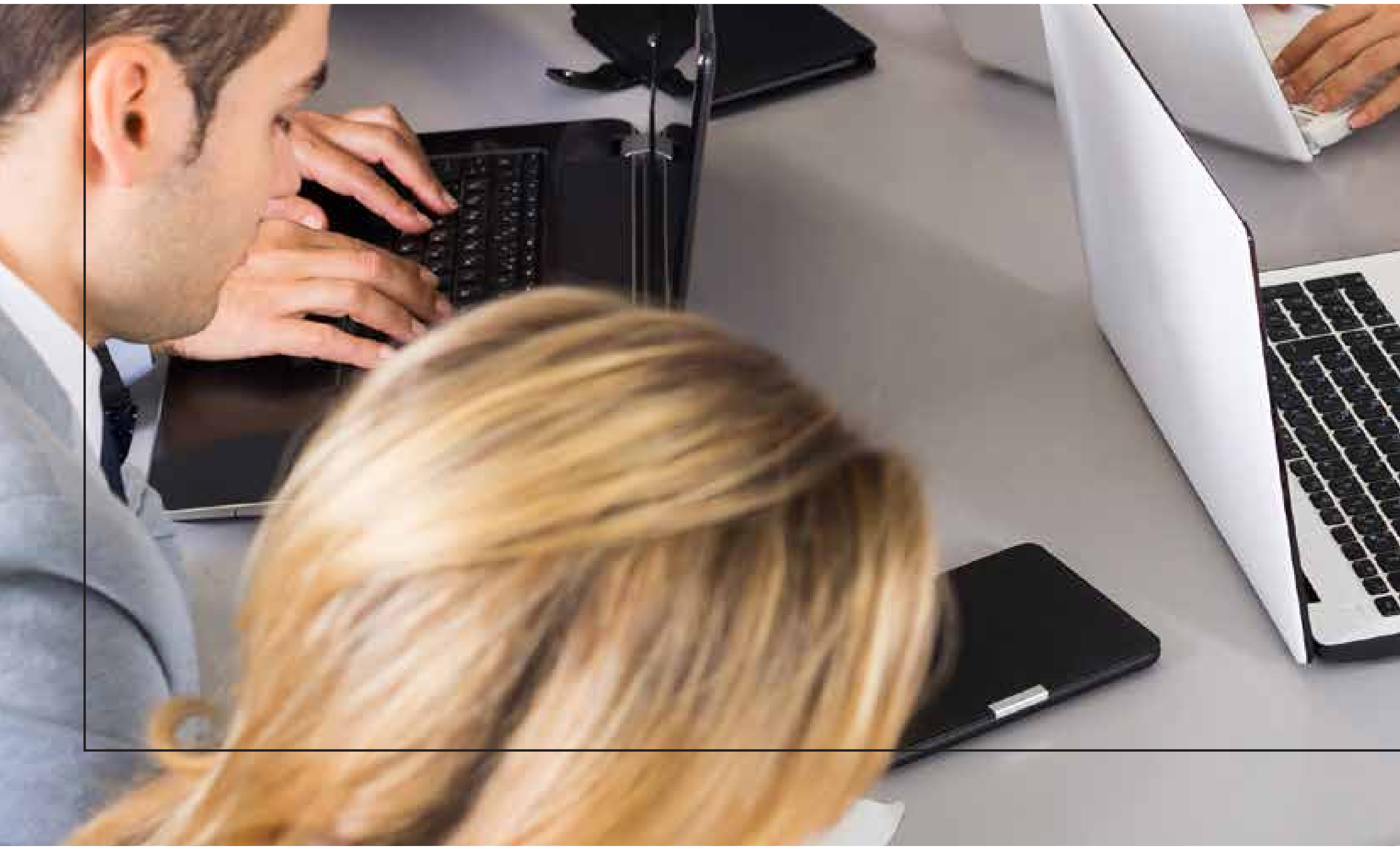
**While this is the basic formula, there may also be other returns, such as shares received in a spin-off/demerger after the stock was acquired, and dividends or distributions received on such spin-off shares, which should be added to arrive at the aggregate shareholder returns.*

TSR can be a powerful tool for value creation if viewed in a holistic fashion, as shareholder returns are primarily a reflection of the overall health of a company and its ability to create value for all its stakeholders. While the formula is based on historical stock price and dividend data, it reflects not only past performance but also market expectations of the future performance of the company.

Earnings growth from activities that have the potential to generate higher returns on investment would result in greater shareholder returns, for example, investment in a new technology or process, or inorganic growth that is expected to deliver synergies to the acquirer. On the other hand, activities that are potentially not value-accretive, such as diversification into a non-core business or acquisition of a target at a high valuation and/or with significant goodwill, may be viewed as having a lower potential for generating returns, and may thus negatively impact the share price.

In order to assess value creation by the business, TSR should ideally be examined over a longer period of time. A company that delivers consistent or growing TSR to its shareholders is likely to be doing something right, whether it is having a consistent strategy for value creation for all its stakeholders or efficiently managing the relationships between its assets, processes and operating environment.

A business can add value organically (by focusing on product innovation, growth in market share or productivity) or inorganically (with acquisitions that help it to add market share, new products or capabilities). The following chapters examine value creation by companies in India through deals, specifically M&A, by analysing data on M&A over the last 10 years, and also the TSR of BSE 500 companies based on their M&A behaviour.



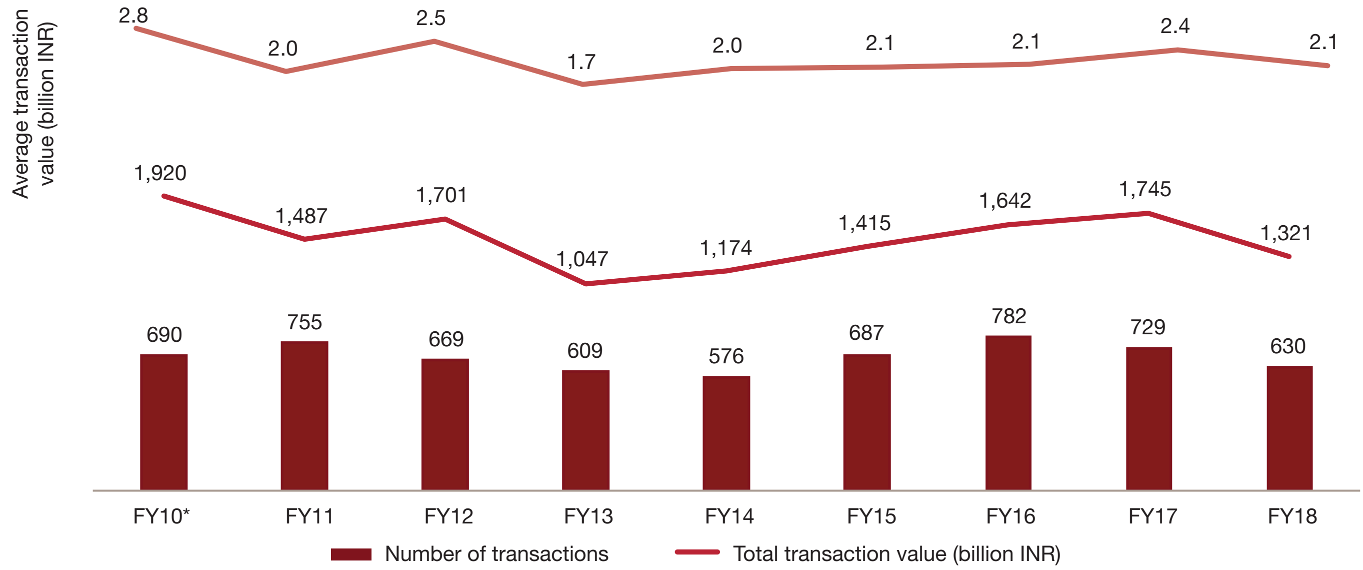
Did M&A activity during the last decade create value?

M&A has always been viewed as a crucial tool for companies to drive growth. Whether it is gaining access to a new market, technology, customer set or product, or simply adding complementary products and services, the role of M&A cannot be downplayed.

PwC's analysis indicates that more than 3,400 Indian companies (public and private) have been active in M&A[5] over the last decade (FY10–18). Around 600–750 companies have been acquired annually over the last decade with an average transaction size of 2 billion INR (Figure 3).

Figure 3: Indian companies – M&A deals

FY10[5]–18, units, billion INR



Source: CapitalIQ, Bloomberg, PwC analysis

Large companies pull more M&A weight…

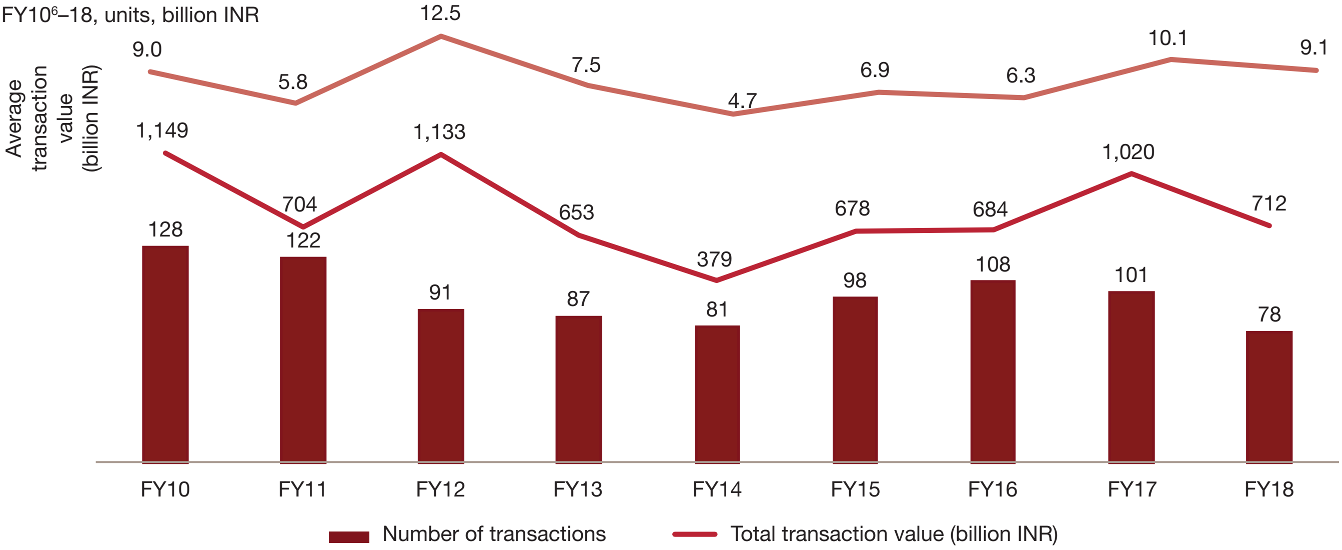
Of the more than 6,000 M&A transactions (cumulative, FY10–18), 900 have been done by the current BSE 500 companies (Figure 4).[6] While transactions by BSE 500 companies account for only 15% of total M&A volume, they comprise more than 52% by value. This indicates that larger companies have been acquiring larger targets (3–5 times the average deal size) compared to the overall group.

…but overall, M&A is linked to macroeconomic and sector winds

What is also interesting to note is that M&A trends (number and average value of transactions) have been similar for BSE 500 as well as other companies, indicating a close linkage of M&A with macroeconomic and sector trends.

Figure 4: BSE 500 Companies – M&A deals

FY10[6]–18, units, billion INR



Source: CapitalIQ, Bloomberg, PwC analysis

5. Includes all completed and effective deals from 1 January 2009 till 31 March 2018. Only M&A deals have been considered and our analysis does not include the acquisition of assets or purchase of stakes less than 100%.
6. BSE 500 companies which were a part of the index as of 31 March 2018 and 1 January 2009 and which have been acquirers

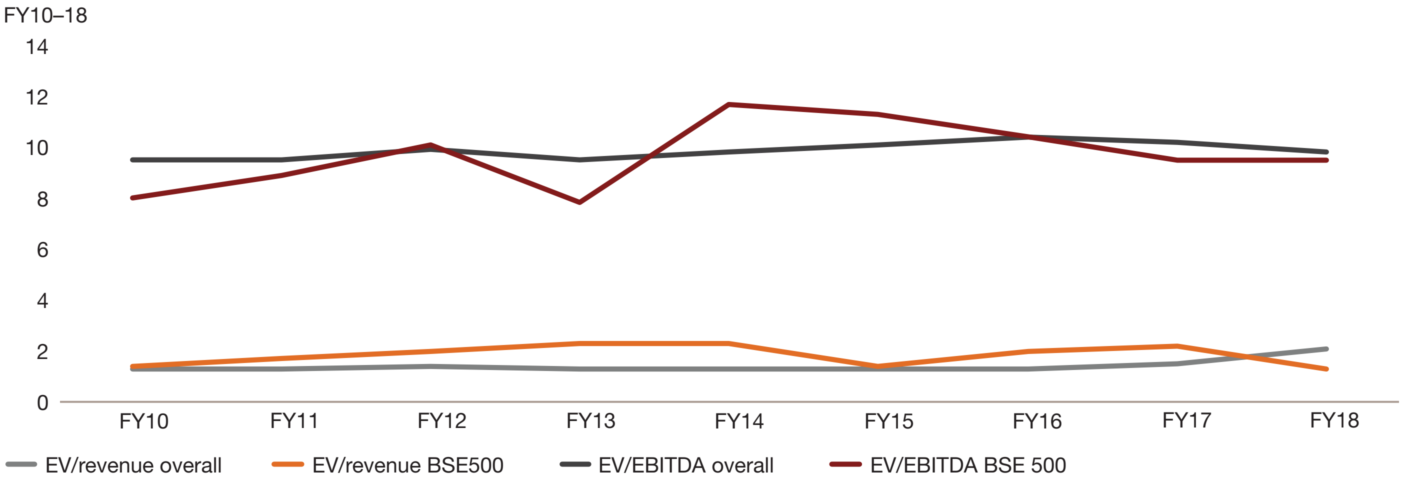
Valuation multiples in India have not significantly increased in the last eight years…

While EBIDTA and revenue multiples have been on an upswing recently (barring a dip in FY18), our analysis indicates that median EBITDA multiples for all transactions have remained within a tight range of 9.5–10.4 times over FY10–18, belying the belief that deals are getting more expensive.

…but larger companies are more discerning of value

However, for BSE 500 companies, median EBITDA multiples have been in a wider range of 8.0–11.7 times and median revenue multiples in the 1.4–2.3 times range, indicating that larger companies are more discerning of deals, and are willing to pay a premium for attractive targets.

Figure 5: Overall and BSE 500 deal multiples



Source: CapitalIQ, Bloomberg, PwC analysis

There are four kinds of growers

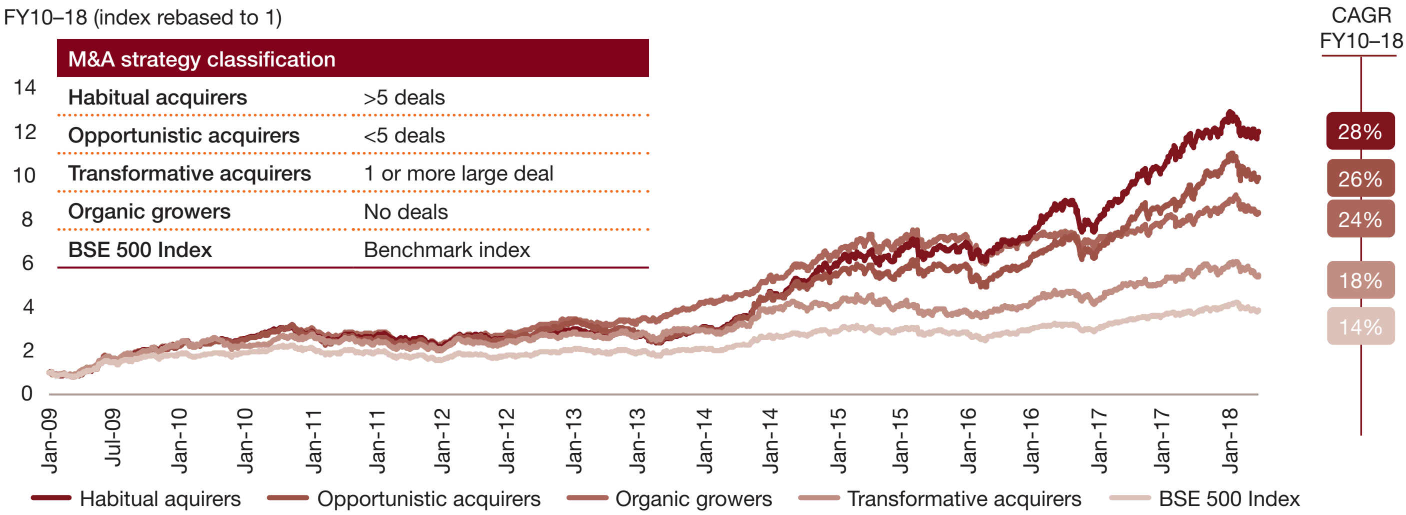
Over two-thirds of the surviving (FY10–18) set of BSE 500 companies have pursued M&A during our analysis period. While some BSE 500 companies may have made large bets on a few large targets, others have been either prolific or selective acquirers.

We have classified the current set of 291 surviving BSE 500 companies (from FY10) into four categories:

1. **Opportunistic acquirers (OAs) –** those with less than five acquisitions – 50% of companies
2. **Habitual acquirers (HAs) –** those with more than five acquisitions – 15% of companies
3. **Transformative acquirers (TAs) –** those with at least 1 large[7] deal – 3% of companies
4. **Organic growers (OGs) –** no M&A activity – 30% of companies

Our analysis of TSR for the 291 surviving BSE 500 companies indicates that not all M&A transactions are equal or value creating (see Figure 6). Until 2016, HAs consistently delivered higher returns than all other groups, while OAs have surged ahead since 2016. Interestingly, OGs have also managed to deliver TSR that are second only to those delivered by HAs, thereby indicating that M&A is not the only path to glory. TAs have consistently lagged behind other groups on TSR, which raises the following question: What differentiates an HA from a TA?

Figure 6: BSE 500 TSR



Source: CapitalIQ, Bloomberg, PwC analysis

7. Large deals are defined as marquee deals in each sector and deals with sizes greater than the average deal size.

We also analysed profitability differences across the four kinds of growers, measured by the median EBITDA margin for each category of grower. HAs and TAs delivered significantly higher profitability margins than OAs and OGs, with the latter two trailing the median BSE 500 companies' EBITDA margin (see Figure 7). This may be because TAs and HAs are more accustomed to M&A and model/deliver better synergies through M&A.

Practice makes perfect…

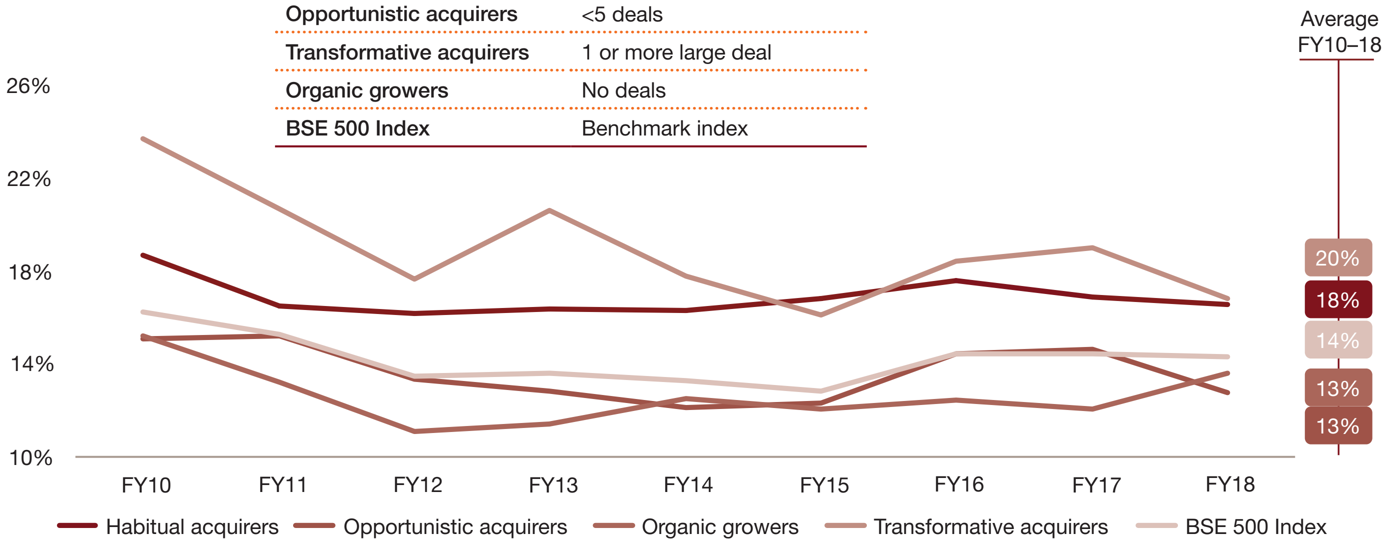
HAs, through their experience with multiple M&A situations, seem to have a more planned approach for dealing with acquisitions. This expertise may vary from one company to another, but these acquirers appear to have better managed the deal lifecycle—from target identification to integration. This is also evidenced by the relatively higher EBITDA margins of HAs.

On average, HAs have completed one acquisition every other year, and seem to have done better at identifying the right targets, being diligent about diligence, and having planned for and delivered synergies and integrated acquired companies better.

Figure 7: BSE 500 EBITDA%

FY10-18

M&A strategy classification	
Habitual acquirers	>5 deals
Opportunistic acquirers	<5 deals
Transformative acquirers	1 or more large deal
Organic growers	No deals
BSE 500 Index	Benchmark index



Source: CapitalIQ, Bloomberg, PwC analysis

…but the story is different across industry sectors

Our analysis (see Figure 8) also indicates that HAs and OAs have significant differences in performance (TSR) across sectors. In our analysis, we have classified industry sectors[8] into three categories:

1. **Uncertain underperformers –** industries such as telecom, utilities, energy and real estate, which have gone through extended 'down' cycles or have faced regulatory headwinds
2. **Local market innovators –** industries such as financial services, healthcare, industrials, materials and consumer, which have significant domestic growth/penetration, change or innovation potential
3. **Globally linked outperformers –** industries such as IT/ITeS and pharma which have significant global linkages

For the above categories, we note the following findings in the delivery of excess TSR:

- **Local market innovators:** Organic growth is often very effective, especially when combined with opportunistic acquisitions.
- **Uncertain underperformers:** Pursuing M&A is better than organic growth, but an inorganic strategy almost never negates the underlying industry challenges which lead to poor TSR, though M&A does improve relative TSR.
- **Globally linked outperformers:** Pursuing organic growth, along with either habitual or opportunistic acquisitions, leads to superior TSR.

Our findings generally indicate that, for Indian companies, an M&A strategy of pursuing opportunistic acquisitions is better than habitually acquiring or effecting transformative acquisitions.

8. Industry sectors are defined as per the BSE classification: xonsumer – automobiles, consumer durables, household products; textile and apparels, food, beverage and tobacco, FMCG, retailing; energy – oil and gas, coal; financial services – banks, insurance, other financial services; healthcare – healthcare, healthcare equipment and supplies; pharma – pharmaceutical and biotechnology; industrials – capital goods, general industrials like plastic products, transport infrastructure; IT – software and services, hardware technology and equipment; materials – steel, non-ferrous metals, chemicals, fertilisers, cement, construction materials, paper and paper products; real estate – realty; telecom – telecom services, telecommunications equipment; utilities – electrical utilities, other utilities.

Figure 8: Sector-wise excess TSR growth

% CAGR in excess of benchmark index, FY10–18

Strategy category	Sector category	Local market innovators					Globally linked outperformers		Uncertain underperformers			
	Sector	Consumer	Industrials	Materials	Financial services	Healthcare	IT	Pharma	Telecom	Utilities	Real estate	Energy
	Sector total	14% (201)	13% (126)	12% (116)	15% (88)	2% (21)	17% (114)	12% (116)	-14% (30)	-1% (30)	-2% (41)	3% (19)
	Habitual acquirers	13% (108)	-6% (58)	10% (31)	3% (30)	-8% (16)	14% (94)	17% (76)	-12% (20)	-9% (19)	3% (37)	NA
	Opportunistic acquirers	13% (91)	14% (68)	11% (58)	22% (50)	3% (5)	19% (20)	11% (15)	-18% (10)	6% (11)	-4% (4)	4% (9)
	Organic growers	19%	14%	14%	7%	7%	24%	3%	-11%	-10%	-10%	5%
	Transformative acquirers	NA	NA	5% (27)	14% (8)	NA	NA	1% (25)	NA	NA	NA	-4% (10)

(x) denotes no. of deals

=>5% TSR CAGR than benchmark index TSR

1-5% TSR CAGR than benchmark index TSR

<0% TSR CAGR than benchmark index TSR

Source: CapitalIQ, Bloomberg, PwC analysis

We also analysed EBITDA margin differences across the four kinds of growers, across sectors, and note that, barring some sectors such as financial services, healthcare and utilities, M&A in most other sectors generally leads to higher margin gains than organic growth (see Figure 9).

Figure 9: Sector-wise EBITDA%

% EBITDA in excess of benchmark index EBITDA%, FY10–18

Strategy category	Sector category	Local market innovators					Globally linked outperformers		Uncertain underperformers			
	Sector	Consumer	Industrials	Materials	Financial services	Healthcare	IT	Pharma	Telecom	Utilities	Real estate	Energy
	Sector total	7%	7%	8%	-4%	1%	8%	7%	11%	-127%	25%	5%
	Habitual acquirers	6%	7%	2%	-10%	-2%	11%	13%	26%	31%	20%	NA
	Opportunistic acquirers	7%	9%	8%	-5%	4%	3%	10%	3%	-307%	48%	3%
	Organic growers	7%	4%	10%	-2%	NA	9%	-17%	18%	12%	8%	3%
	Transformative acquirers	NA	NA	7%	-10%	NA	NA	19%	NA	NA	NA	14%

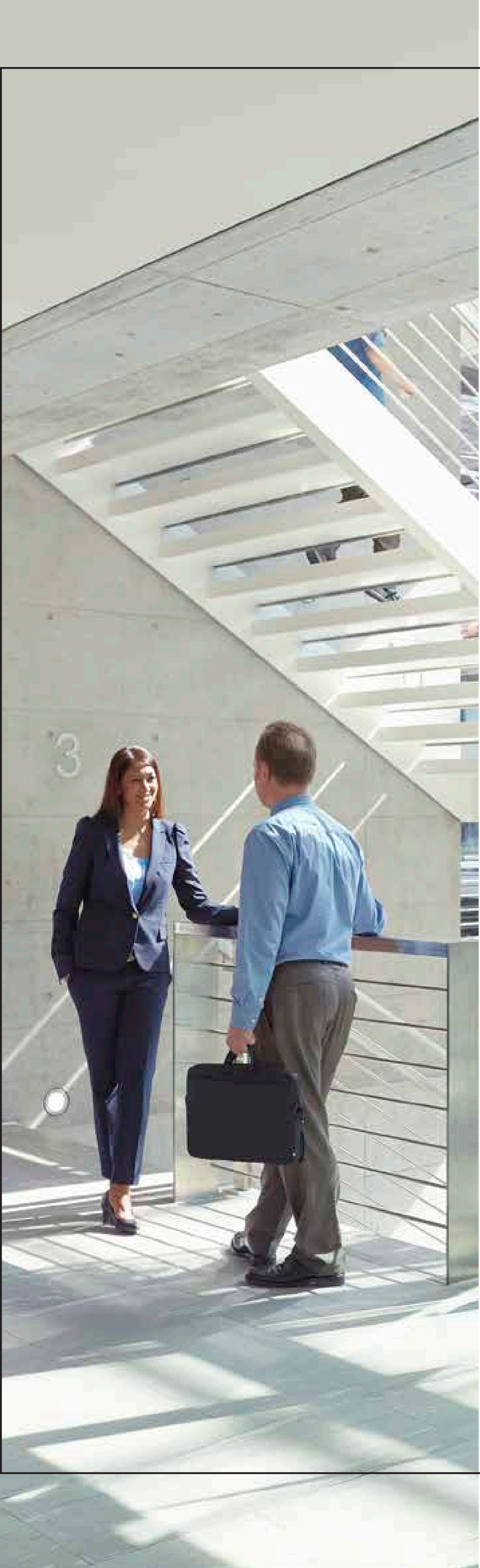
(x) denotes no. of deals

=>5% EBITDA% than benchmark index EBITDA%

1-5% EBITDA% than benchmark index EBITDA%

<0% EBITDA% than benchmark index EBITDA%

Source: CapitalIQ, Bloomberg, PwC analysis



Industry cycles/performance overrides potential M&A success

In general, *uncertain underperformer* industries underperformed in M&A value creation (negative deviation in TSR CAGR from the BSE 500 Index CAGR: Telecom at -14%, utilities at -1% and real estate at -2%), indicating that *overall industry headwinds can offset* M&A gains.

Local market innovator industries generated a positive value through M&A (positive deviation in TSR CAGR over the BSE 500 Index CAGR: Financial services at 15%, consumer at 14% and materials at 12%).

Globally linked outperformer industries have exceeded or closely *followed local market innovators* (positive deviation in TSR CAGR over the BSE 500 Index CAGR: IT at 17% and pharma at 12%).

The extent of habituality varies by industry

Each industry has between 1–3 HAs, but the degree of habituality has been vastly different. This implies that it is not necessary to only engage in transformative M&A to create value. In fact, our findings indicate that, more often than not, transformative acquisitions result in the destruction of shareholder value.

Conclusion: Globally linked outperformers and local market innovators are more likely to benefit from M&A than through organic growth

It appears that *globally linked outperformers* and *local market innovators* are more amenable to value creation through M&A than through organic growth, though the type of M&A strategy (HA, OA or TA) yields different results within each category and sector. However, industry headwinds seem to override M&A value creation potential in the case of *uncertain underperformers*, irrespective of the M&A strategy.

The variation in performance does give rise to the following question: What differentiates one acquirer from another in terms of its ability to deliver value, apart from the overall sector performance and choice of M&A strategy?

What are the safeguards for successful M&A and value creation?

M&A has always been viewed as a crucial tool for companies to drive growth. Whether it is gaining access to a new market, technology, customer set or product, or simply adding complementary products and services, the role of M&A cannot be downplayed.

PwC's analysis indicates that more than 3,400 Indian companies (public and private) have been active in M&A over the last decade (FY10–18). Around 600–750 companies have been acquired annually over the last decade with an average transaction size of 2 billion INR (Figure 3).

With the pace of organic growth slowing down, M&A has been on an upswing. Much of the M&A that we are seeing today looks beyond straightforward consolidation or acquisitions. Accelerated technological disruption, coupled with healthy equity and debt markets, continues to provide companies with the confidence to pursue innovative and transformative M&A transactions.

The key focus of transformational deals is bringing in new capabilities, enabling a business to access fresh revenue streams or even overhaul its entire business model.

In addition, the focus of Indian banks and financial institutions on recovering debts from stressed assets and the constantly evolving debt recovery process have led to increased M&A activity, with buyers looking to acquire assets at attractive valuations.

A lot of deals are also opportunistic—for example, a target becomes available and the prospective buyer moves in. This reactive approach lacks the firm strategic foundations essential to make a success of transformational M&A. This brings us to the first and most important point of any M&A transaction—defining and putting in place the M&A strategy.

Defining and putting in place a sound M&A strategy

A company's M&A strategy should be a subset of its overall corporate growth strategy. This includes assessing the need to acquire or divest; how the M&A alternatives align with the company's vision, objectives, and strategy to enhance its competitive advantage; and management's capacity and ability to execute an M&A strategy.

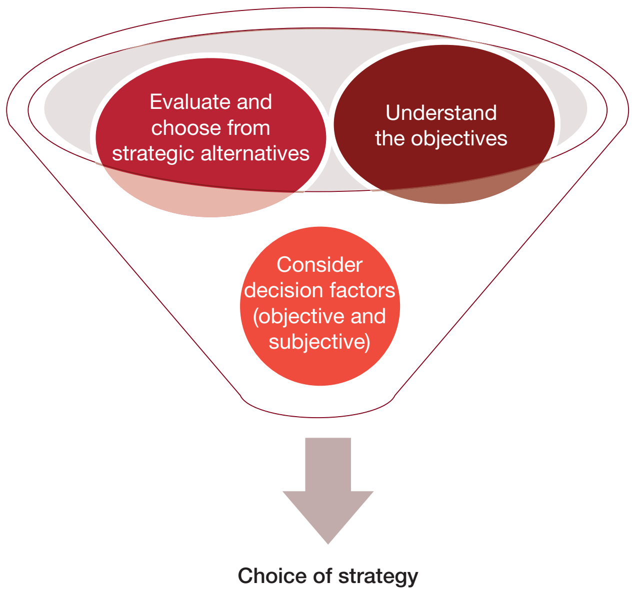
Every deal should be linked to strategic goals, such as:

- Transferring core strengths to the target business(es)
- Acquiring or expanding products or markets
- Transferring skills to new or non-core business(es)
- Consolidating products or markets consolidation
- Building new capabilities

It has become more important that a company's M&A strategy and integration plan are in sync with the disruptive business models and the changing mechanics of value creation, like shifting customer demands, interaction models and the economic logic for transacting.

In other words, companies need to transform their strategic business plans into a set of drivers, which the M&A strategy should address. The selection of a strategy depends on the organisational objectives, in the light of the opportunities presented by the environment and the strengths, weaknesses, opportunities and threats for the organisation. The M&A strategy-making process is a decision-making process which passes through various stages:

Figure 10: Defining M&A Strategy

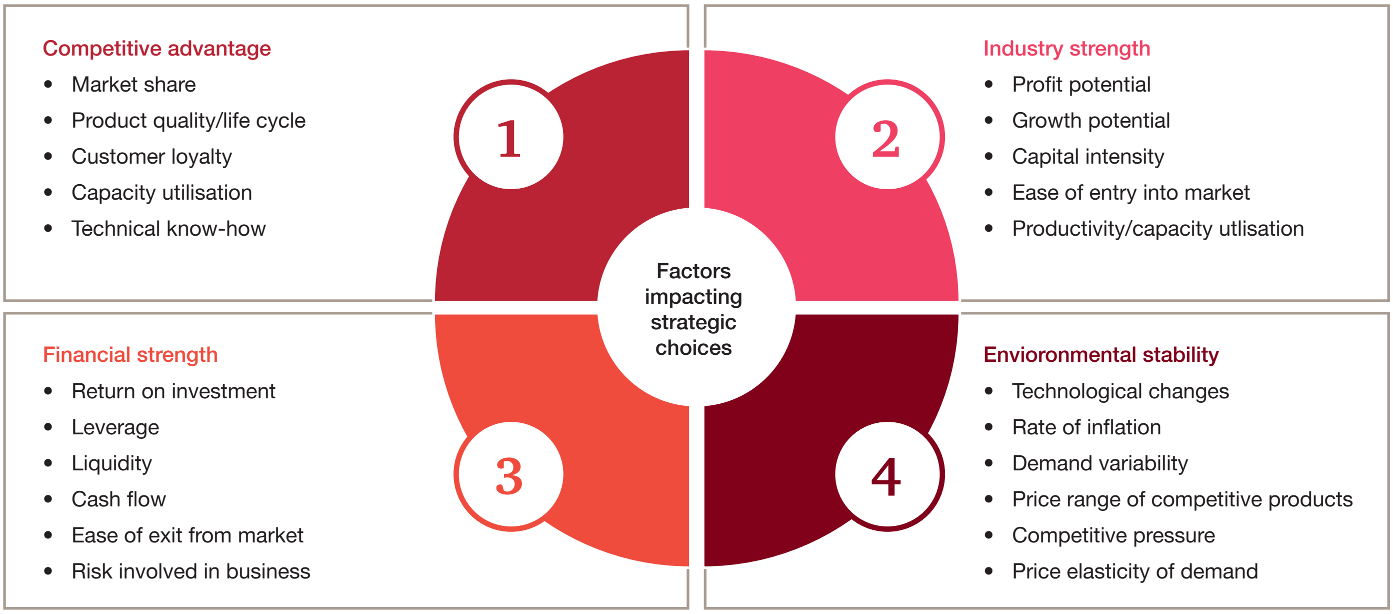


1. **Understand the objectives:** The whole idea of M&A strategy planning is to achieve certain predetermined objectives at the corporate enterprise level, ranging from orderly redirection of the firm's activities to deploying surplus cash from businesses to finance profitable growth, to exploiting the interdependence between present or prospective businesses within corporate portfolios, and risk reduction.
2. **Evaluate and choose from strategic alternatives:** Based on the nature of an organisation's competitive strength, its financial strength, industry strength and environmental stability, the organisation may choose from various strategic alternatives. The selected strategy may be aggressive, conservative, defensive or competitive.
3. **Consider decision factors:** A variety of factors may affect the choice of strategy. These may be grouped in two broad categories—objective and subjective factors. Objective factors are those which arise from a rigorous analysis of various strategic alternatives (as discussed in point 2 above), while subjective factors include an organisation's past strategies, personal factors, attitudes towards risk, internal policy considerations, timing considerations and competitive reaction.

Thus, the choice of an M&A strategy is a trade-off between risk and opportunity.

Defining the M&A strategy as early as possible in the process enables the development of a clear M&A blueprint, and sets out what capabilities the company can look to acquire and how.

Figure 11: Factors impacting strategic choices



Identifying the right targets

The key to effective target search is to pursue a strategy such that the identified target company can immediately discern the strategic benefits of the business combination.

An effective target identification process originates from recognising an appropriate M&A approach. Companies usually pursue M&A in one of the following three ways:

- **A proactive approach –** identifying the most effective alternative which aligns perfectly with the M&A strategy
- **A reactive approach –** responding to an outside opportunity which has already been identified to be in line with the M&A strategy
- **An opportunistic approach –** responding to an outside opportunity which has not been identified as an attractive option in the M&A strategy

A proactive approach, which involves identifying targets through a strategic search process, has the highest probability of success as compared to a reactive or an opportunistic approach. The key reason for this is that proactive companies are not completely dependent on investment bankers or advisors to identify targets or bring them deals; rather, they conduct the strategic target search process thoughtfully, and with immense due diligence. This results in the identification of potential targets which are in line with the company's overall business strategy.

The strategic target search process is a subjective concept since every deal is different and unique. However, there are certain essentials to finding the right targets for any deal. We define a four-step process for target search:

Step 1: Develop M&A rationale

The first step in conducting a successful target search exercise is obtaining clarity about the strategic rationale for making the acquisition. Assessing how M&A is likely to create value helps to identify potential opportunities and risks and, in turn, dictates the criteria for screening targets. Potential opportunities for value creation in M&A may be the following:

a. **Synergy in cost:** These may be in the form of reduced costs as a result of operational synergies, elimination of redundant administrative activities, benefiting from increased scope and size of branding, marketing activities, better development process due to broader research and development activities.

b. **Synergy in revenues:** These may be in the form of increased revenue from existing product improvements/ efficiencies through the introduction of new products to existing customers, the introduction of existing products to new markets/geographies or through the introduction of new products to new markets.

c. **Strategic synergies:** These can be in the form of improving the current positioning of the company to create potential for exploiting new markets/new segments in the future, better flexibility currently to derive value from the exploitation of assets acquired in the future or alleviating current risks for a company to enable a hive-off in the future.

d. **Other values:** These include internal restructuring or financial engineering to bring in management/ownership changes, leading to improved performance.

Step 2: Develop screening criteria

Screening criteria vary depending on the M&A rationale. These should be a comprehensive list of questions or categories to ensure that the company does not waste time on targets that do not fit within the M&A rationale. These categories include the size range of the target, its geographic location, valuation, market standing, potential synergies, quality and condition of assets (including tangibles and intangibles), the quality of the management team, ownership structure, customer loyalty and concentration, product specifics, past profitability, structure and quantification of debts and integration mechanics.

Step 3: Identify potential targets

Based on the screening criteria defined, the company needs to develop a broad-ranging list of all possibilities/alternatives for potential acquisition targets or merger partners. For example, companies may list down all the relevant competitors from the same as well as other geographies; or for revenue growth, companies may consider new products and/or new markets. Multiple stages of research and analysis need to be applied on the universe of targets to shortlist the most appropriate potential targets.

Step 4: Prioritise targets

After shortlisting the most appropriate potential targets, the final step is prioritising which targets need to be approached and ranking them in the order in which they will be approached. This step involves a rigorous analysis of all the facts gathered from various sources, to avoid bias. It is also important to analyse the extent of value creation offered by each of the potential targets shortlisted, and continuously tracking all events/market updates impacting the attractiveness of the potential targets.

This marks the end of the strategic target search process and the beginning of the process of due diligence, negotiation and integration planning.

The importance of 360-degree due diligence

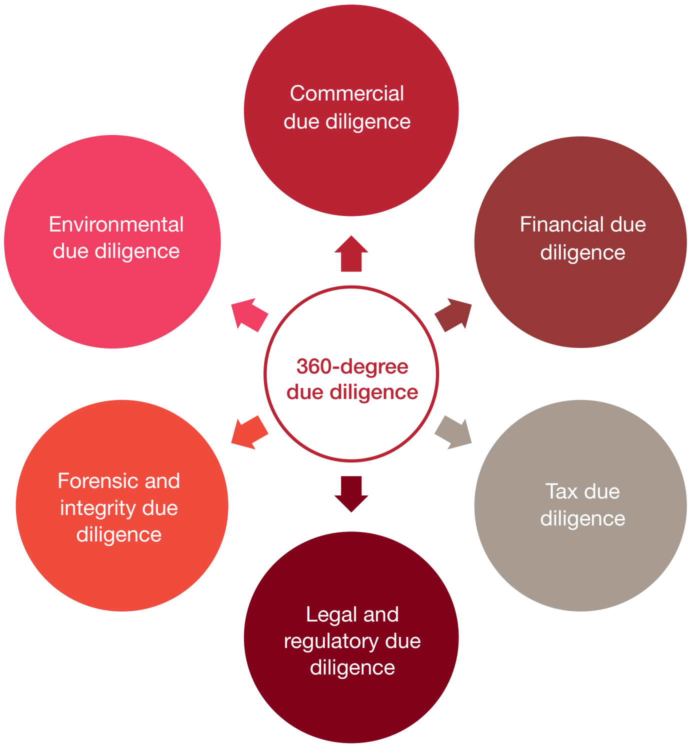
Value creation in a deal depends on knowing the opportunity well before buying and buying at the right price. Understanding upsides and risks can help in making the right decision and create the maximum value on a deal. It can help a bidder bid higher for a desired asset with upside as well as help negotiate or even walk away from a deal with risks outside the comfort zone. Due diligence, the cornerstone of planning and execution of a deal, equips a bidder to develop his bidding strategy.

Each investment is different—with its own characteristics and objectives—and there is no 'one-size fits all' appraisal framework for appraising investment opportunities. The due diligence process evaluates all the critical aspects of a target to be acquired in the context of the specific deal drivers and deal rationale for assessing the potential risks and upsides of a transaction. Although due diligence is mostly commissioned by the acquirer, in certain cases, to avoid multiple occasions of due diligence, the process can also be commissioned by the target or the vendor (known as vendor due diligence or sell-side due diligence).

Due diligence is needed to validate the reasonableness of the financial results disclosed by the management and put business sense behind each number. The process can provide detailed insights into business, quantify adjustments and synergies to be factored in by potential investors in their valuation of the business. The findings from due diligence also help identify items for which protection needs to be sought by potential investors from vendors in the transaction, by way of indemnities, representations and warranties.

In the dynamic world of deals, the scope of due diligence is ever evolving. Today, investors look at a **360-degree due diligence** process. This process typically covers the following categories; however, many other categories of due diligence may require focus in the case of certain unique transactions.

Figure 12: 360-degree due diligence

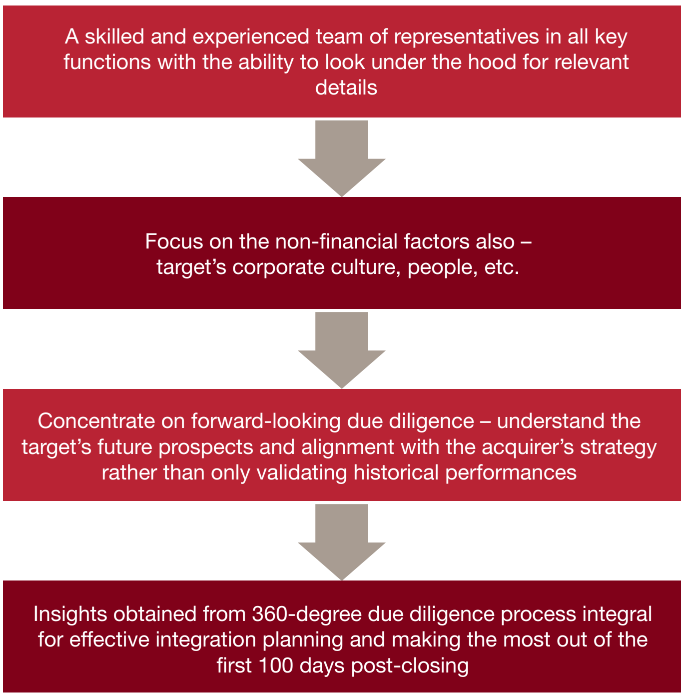


- The due diligence process usually starts with **commercial due diligence** (also known as market due diligence). Commercial due diligence can assist in understanding the competitive landscape from a top-down or a build-up approach. This knowledge can help measure the attractiveness of an industry or a target. Commercial due diligence plays a vital role in deciding whether to enter a new market or launch a new product.
- Once a target is identified and deal execution starts, thorough **financial and tax due diligence** on a target can assist in validating historical financial performance and tax attributes and, more importantly, proposed adjustments to deal consideration which can help in valuation and determination for pricing a deal.

Key aspects to focus on in financial due diligence are quality of earnings, debt and debt-like items, cash flow, capex and normalised working capital used in a business. Tax due diligence ensures tax compliances, tax exposures of the target and contingent tax liabilities. Often, financial and tax due diligence also reveal positive adjustments in a business which can help potential bidders to bid higher and still generate value through a deal. On the other hand, negative adjustments highlighted in financial and tax due diligence can help negotiate with the vendor.

- **Legal and regulatory** due diligence is often carried out alongside the financial and tax due diligence, which covers a review of material contracts, assessment of ongoing litigations, compliance with regulatory environment and inputs for transaction documents. Comprehensive legal due diligence would usually also cover areas such as corporate, contracts, labour, insurance, regulatory, real property, environmental, intellectual property and litigation. Legal reviews can often reveal latent legal issues and contingent liabilities which can impact the contours of a deal.
- **Forensic and integrity due diligence** covers background checks on promoters and business processes to identify corporate governance related aspects. It also helps to identify beneficial ownership of the companies and unearth hidden aspects about the business or persons who own or run the business that are generally not visible through the information disclosed by the target. Acquirers rely on forensic due diligence to avert any post-investment or acquisition disaster.
- **Environmental health and safety due diligence** includes assessments which can protect a buyer from potential environmental liabilities under the regulations of the country post the deal. It includes a review of compliances with national and state regulations with respect to air, water and environment protection laws. Procedures for handling, storage and disposal of hazardous waste are also covered along with compliance to conditions for managing a safe workplace.

Figure 13: Key considerations of 360-degree due diligence process



In summary, a successful due diligence process is one which confirms the expected valuation of the target and gives a multifarious and accurate understanding of the target's risks and potentials, which is useful for effective integration planning of the target's business. It bridges the gap between expected value and real value.

Regulatory and tax aspects

With a strong growth impetus in most of the developed markets, India's emergence as an investment hotspot and consolidation in the domestic markets driven by stressed assets are some of the key drivers for M&A. The fast-changing regulatory and tax ecosystem continues to impact M&A participants. From running as a parallel activity on the sidelines of an M&A deal traditionally, tax and regulatory aspects have now become a crucial governing and value creation factor in M&A deals.

Depending on the transaction and the way it is structured, the following are the areas which may lead to value creation:

a. Step-up in cost basis: An increase in the tax cost basis of tangible and intangible assets may help in reducing the tax outflow, thereby improving the return on capital employed in the business.

b. Recognition and amortisation of intangibles: The ability to recognise intangible assets which were self-generated by the target entity in the financial statements allows amortisation over the period during which the economic benefits are derived. Further, eligibility to claim allowance for depreciation may lead to early realisation of the value expected to be created as a result of the said acquisition.

c. Preservation of tax attributes: The continuity of tax losses, foreign tax credits and incentive entitlements of the target need to be carefully evaluated as the buyer can generally carry these forward for potential utilisation in the future subject to certain conditions, thus considerably optimising his existing tax structure. Reverse mergers are often pursued with the rationale of carry-forward of losses of a loss-making company by merging a profit-making company with such company.

d. Finance costs: In instances where the acquisition is funded out of borrowings, deductibility of interest on the funds borrowed for such expansion reduces the cost of capital and improves the returns from such acquisition.

Greater public focus on the use of aggressive tax planning has increased the exposure to reputational risks, especially for consumer-facing businesses. The potential result can be damaging media coverage and even boycotts. Further, with the introduction of the General Anti-Avoidance Rule (GAAR) regime, establishing that a transaction is structured for genuine commercial purposes and not with the purpose of obtaining a tax benefit is one of the key steps to avoid any impediments to value creation from a tax perspective.

Further, governments across countries are trying to devise provisions to ensure that companies pay the fair share of taxes attributable to the economic activities conducted by them in the respective countries. With the objective of taxing the value created, governments have introduced several changes in the tax laws which have disrupted the business models developed by companies. Key notable changes include the levy of digital tax, indirect tax provisions introduced by the Indian government and Global Intangible Low Taxed Income (GILTI) introduced by the US.[9]

At the same time, considering that companies today operate in a global economy, governments across the globe are trying to become competitive by reducing effective tax rates. These shifts are game-changing from an M&A perspective, in terms of not only higher tax liabilities but also their knock-on impact on strategy, operations and talent management.

With the increased adoption of technology, the regulatory oversight of data and data protection have gained importance, with countries seeking to frame laws to ensure the protection of citizens' data. Any failure or lapses to comply with such laws may have far-reaching consequences for the company, which can range from financial penalties to shutdown of business.

One of the most notable changes was the introduction of the General Data Protection Regulation (GDPR) by the European Parliament. This is a borderless legislation which implies that no matter where a company is located in the world, if it offer goods or services to EU-based customers or collects their personal data, the GDPR is applicable to such a company. With penalties as high as 4% of the annual worldwide turnover or 20 million EUR (whichever is higher) for non-compliance, this regulation is likely to have a profound impact on the operational and control environment of all organisations, especially those in the technology sector, companies that use ERP solutions and global in-house centres (GICs).

9. GILTI is a tax imposed, in the hands of US persons who own 10% or more of the controlled foreign corporations (CFCs), on the income of CFCs.

What are the potential challenges to value disruption across the deal cycle and what can be done to preserve and enhance value?

Balancing integration between securing the new value (to make 1 + 1 > 2) and protecting the old (to ensure 1 + 1 = 2) is imperative for continued success.

The success of a deal is defined by the achievement of strategic, financial and operational objectives. However, the integration process—an important lever to achieve these goals—often does not find adequate space in the priority calendars of dealmakers, thus resulting in less-than-optimum value realisation.

Planning for Day 1 and Day 100

'As is the case in marriage, business acquisitions often deliver surprises after the "I do's"' – Warren Buffet

The above statement conveys the importance of integration planning in an M&A transaction in a lighter vein.

With the information obtained through the due diligence, an acquirer should formulate a sufficiently detailed picture of the target company to understand the priority issues that are likely to have a fundamental impact on the success of a post-merger integration. This demonstrates the need for creating a comprehensive integration roadmap to successfully realise the expected synergies and value while minimising the risk of business disruption in an M&A transaction. Detailed Day 1 and 100 day plans provide a framework for identifying the key milestones for each functional area across the targeted timeline for integration. The first 100 days of a merger have a disproportionately higher impact on the overall success of an integration. The goal of the first 100 days should be to ensure business continuity, confirm synergy expectations and define the target operating model while following a critical path to best mitigate integration risks. The existence of multiple concurrent functional work streams and the interdependency on each function on the other requires these plans to be highly explicit.

A Day 1 plan should work more like a guidance on what is to happen post-closing of the transaction and serve like a control mechanism for execution of various activities. It should include an extended or detailed list of essential tasks organised f0r each independent function with the processes and system to perform the same along with the relevant timelines.

First 100 days plan – key components and success factors

The first 100 days plan should consist of five core components, with each component entailing an analysis and an implementation phase. Each core component should be assigned a specific set of activities and deliverables to be achieved by a specific deadline.

These key components are:

1. Realignment of the organisation structure;
2. Process integration;
3. Systems integration;
4. Tracking of synergy and product; and
5. Customer realignment.

The success of the first 100 days plan would depend on the following key factors:

- Developing a clear and comprehensive communication plan to address the anticipated concerns of key constituents – customers, suppliers, employees and financial stakeholders;
- Developing a decisive change leadership/management changes – involvement of top management as change sponsors to generate and drive the momentum;
- Ingraining financial discipline and accountability in the business by putting in place financial and operational metrics and tools;
- Ensuring availability of adequate technology infrastructure to implement the necessary financial and operational discipline to measure the change and performance.

Thus, developing and supporting the first 100 days of an integration is a vital component of any post-merger integration and the success of the M&A transaction as a whole.

Imperatives to making deals successful

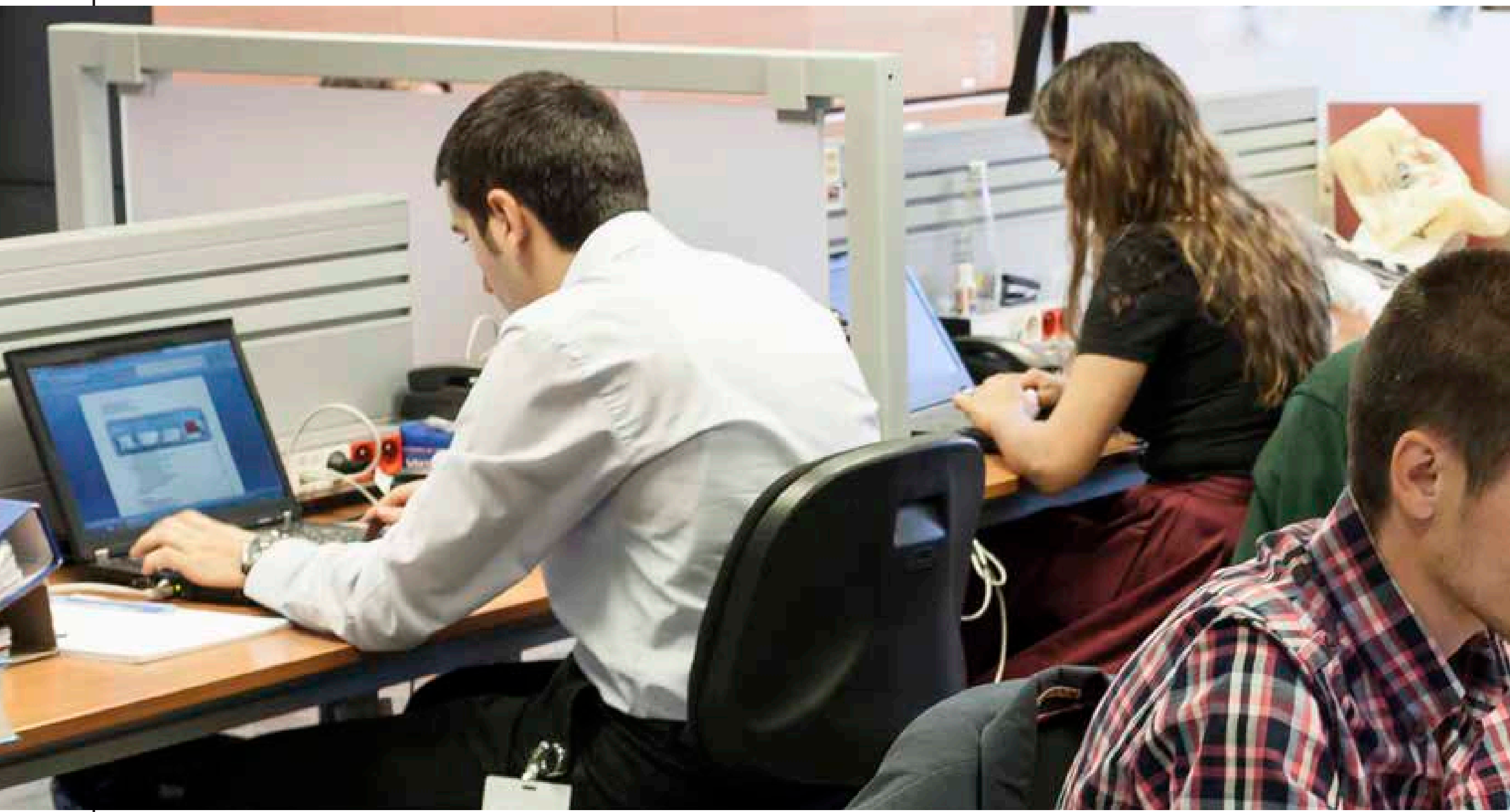
Some of the key challenges and imperatives for making deals successful are discussed below:

1. Deal success measures should be clearly defined and tracked

Often, dealmakers consider their deals to be successful once the strategic objectives are met, even though operational objectives lag behind. However, can a deal really be termed successful in such cases? Not realising operational objectives implies leaving behind value on the table and, thus, not achieving the full potential of a deal. Dealmakers need to adequately assess, analyse and determine synergy levers as well as the factors that may erode value. Once the identification process is complete, concrete steps need to be taken to realise synergies and streamline operations, to avoid pitfalls.

2. Early and thorough planning, supported by rigorous execution and continuous monitoring, leads to deal success

This is an area which is often neglected and which, in the end, causes the most damage to a buyer's value creation plan. Typically, corporates start thinking about integration only when the deal has closed or, in the best case, when the deal is nearing signing/closing. Ideally, integration work begins long before negotiations close, and even before due diligence starts. Understanding the differences between the companies involved in a merger, anticipating the issues, uncovering further challenges through the diligence process, and drawing up a detailed, prioritised and time-bound execution plan is the mantra for success. Moreover, many companies still look at diligence with a traditional lens. For most acquirers, diligence is used for value negotiation or as an input in legal documentation. Our experience from successful deals is that 360 degree 3D (especially combining financial, commercial and operational due diligence) can provide valuable inputs for drawing up an integration plan, identification of one-time costs and firming up synergy assessment. For example, in one of the deals that we advised on, IT integration was a major challenge as the acquirer had to comply with data protection laws and guidelines, which entailed heavy capital expenditure. This issue was not identified in the diligence phase and came as a major surprise, post the execution of the deal.



3. Cultural issues and lack of communication are major challenges in the deal process

Understanding the anxieties and concerns of different stakeholders and enabling them to see the benefits of the transaction differentiate successful acquirers from 'also-ran' acquirers. In the case of cross-border deals, further understanding the cultural nuances in India, both professional and personal, is critical. Building on the target's organisation culture and leveraging formal and informal channels to deploy the ideal communication plan helps in disseminating a strong message. This also aids in building a transparent, friendly and trust-driven work environment. This, however, is certainly easier said than done, as we have seen so many acquirers doing a mediocre job of recognising cultural differences and communicating effectively to the wider employee group. Rumour mongering is very common in the run-up to deal closure and even post-deal closure.

4. The integration team should involve the leadership and dedicated resources

Operational teams are often stretched by their day-to-day responsibilities. Having a core, dedicated integration team to drive the cross-functional process is critical in ensuring that integration initiatives get adequate focus. Further, senior leadership participation in the integration process is important to bringing focus and drive to this cross-functional initiative. The integration team needs senior leadership sponsorship as well as a mandate to take timely decisions.

Evaluating synergies

Synergy, from an M&A perspective, signifies the positive net incremental gain associated with the combination of two firms through a merger or an acquisition. The development of disruptive business models and emerging technologies like artificial intelligence, software-defined everything, open source, Internet of things, cloud and blockchain are significantly impacting the conceptualisation and execution of an M&A strategy. Consequently, the concepts of assessment and maximisation of potential synergies to create value through M&A are undergoing transformation. Synergies are often used to justify an M&A transaction's success or failure. However, determining the actual role of synergies in the M&A outcome in numerical terms becomes extremely difficult.

Hence, value creation in M&A requires discipline in the assessment, valuation, and delivery of synergies.

Identification of synergies

On the basis of their impact on cash flows, synergies can be classified into cost, revenue, financial and market synergies.

- **Cost synergies** refer to a reduction/elimination of administrative and overhead costs as a result of the consolidation of operations of the combined companies. Cost synergies are often achieved through a reduction in the number of employees, elimination of excess resources due to integration processes, economies of scale, etc.

- **Revenue synergies** indicate the enhanced ability of the combined company to sell more or generate more revenue through cross-selling, gaining access to new markets, selling and distribution of similar or complementary products, reduction of competition, integrated distribution channels, etc.
- **Financial synergies** are represented by better profitability emerging as a result of lower costs of capital, improved cash flows, higher revenue of combined companies, improved capacity to handle debts/liabilities, a better risk-taking ability and probable tax benefits.
- **Market synergies** through M&A are achieved by way of enhanced negotiation/bargaining abilities, increased recognition and market standing of the combined entity at the industry level, etc.

Valuation of synergies

Post identification of the synergies, the next most important milestone in the process of value creation is the estimation of the expected synergies. This process involves the computation of various multiples to compare the estimations made with the industry benchmarks. For a proper synergy valuation, the traditional discounted cash flow (DCF) approach can be used by taking into consideration the specifics of each transaction.

Thus, the objective of value creation will be accomplished only if the realised level of synergy is sufficient enough to justify the invested amount and risk associated with the M&A.

However, realising synergies and meeting deal objectives requires focus and structured planning.

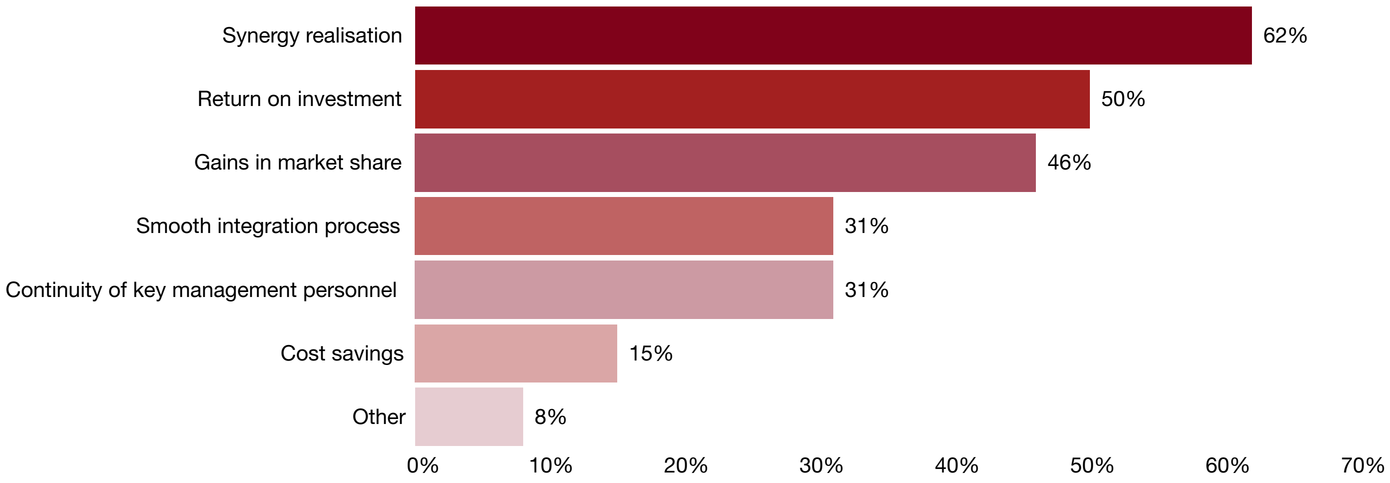
What do dealmakers have to say?

In order to gain key insights into (1) how dealmakers are driving M&A success, (2) the top challenges they face and (3) the best practices to effectively address those challenges, PwC India conducted a Post-Merger Integration Survey. As part of the survey, we discussed these three aspects with CXOs and M&A, strategy and operations heads of companies across various industries (IT, pharma, healthcare, industrial products, financial services, energy and infrastructure, etc.) which have undergone a merger or acquisition in the recent past and who had played a key role in integration efforts. The key findings are discussed below.

Defining deal success

While deal success can be defined in multiple ways, synergy realisation, return on investment and gains in market share emerged as the top three measures. Figure 14 sets out various KPIs/metrics applied by organisations in measuring deal success.

Figure 14: KPIs/metrics used by organisations to measure deal success



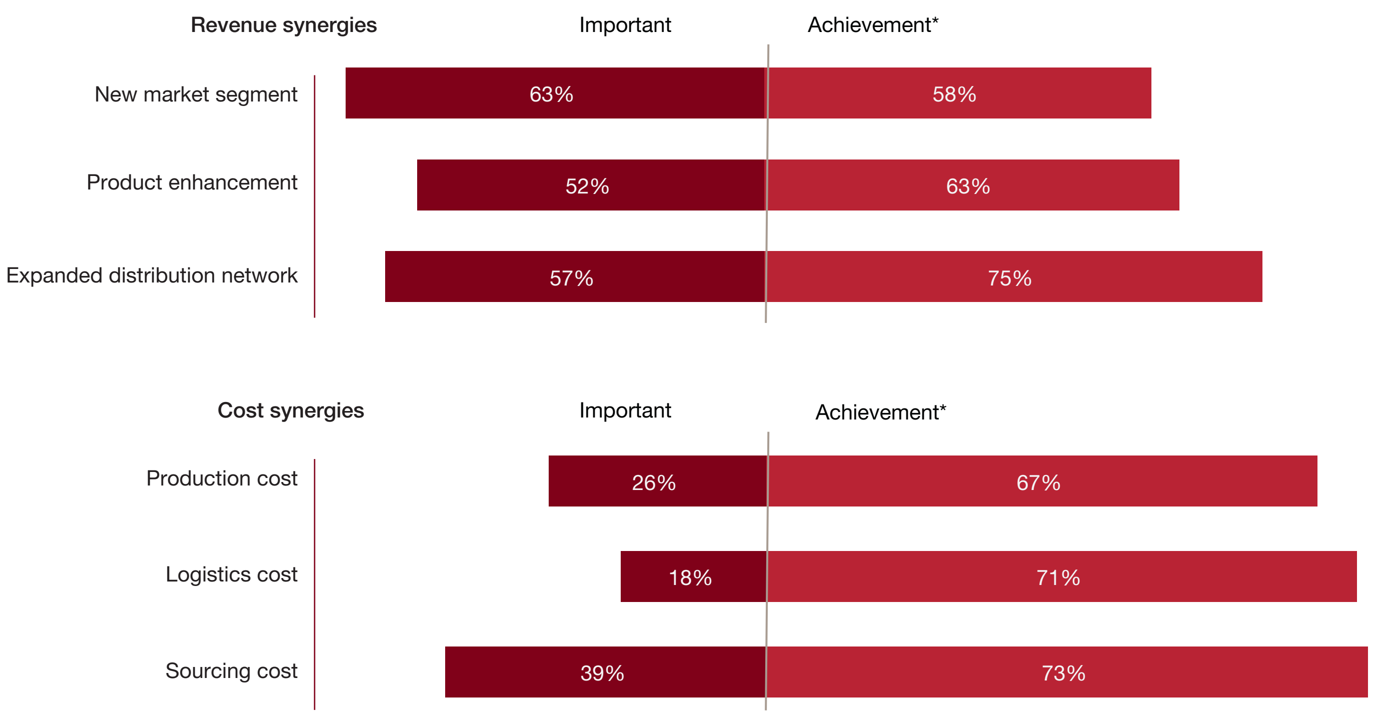
Source: PwC India's Post-Merger Integration Survey

Synergy achievement

While the synergy numbers are at times highlighted and baked into the business plans, the actual realisation of these numbers leaves a lot to be desired. The revenue synergies—focused on new markets, products and distribution—are given significant importance but are typically more difficult to achieve and require a longer time period to achieve. Compared to this, cost synergies—like procurement and logistics—are often the low-hanging fruits that can kickstart benefits realisation at an early stage. Various components of revenue and cost synergies as well as their degree of importance vs. achievement are set out in Figure 15.

One of the key reasons for early realisation of cost synergies is that cost synergies also involve initiatives which are less dependent on the external environment, while revenue synergies are typically dependent on the market and, hence, are less predictable. For example, in one of our deals, where the dealer/distributor network was a key driver of the deal, the acquirer failed to rationalise dealer margins, which adversely impacted synergy realisations.

Figure 15: Importance versus achievement of synergies



Source: PwC India's Post-Merger Integration Survey

Key challenges

While overall strategic alignment often defines the benefits realisation pace and success, organisations fall short on synergy realisation forecast at the beginning of the deal due to a variety of operational challenges, including poor planning and communication, unstructured execution and inadequate monitoring. Figure 16 showcases the key reasons behind to challenges in meeting synergy targets.

Figure 16: Challenges faced by respondents for whom synergy realisation was the key deal success factor

53%	Complexity in execution due to factors like culture and communication issues
33%	Delays in execution
27%	Insufficient data in due diligence
20%	Lack of planning and accountability
13%	Negotiations with customers and suppliers
13%	Others

Source: PwC India's Post-Merger Integration Survey

Structured process

Establishing a structured and formal process for synergy realisation is often key to ensuring that operational issues are highlighted and addressed. Organisations often let the achievement of synergy realisation be driven solely by the operational teams, where the focus on ensuring 'business-as-usual' activities is often considered much more important than synergy initiatives. A structured programme should include leadership involvement and focus on driving these initiatives and giving them adequate priority among the plethora of business-as-usual activities being taken care of by the operational teams.

With mega deals involving large organisations coming together with their own distinct cultures, a structured synergy realisation process becomes all the more important. A structured process helps not only in the realisation of benefits earlier but also in improving the quantum of benefits realised.

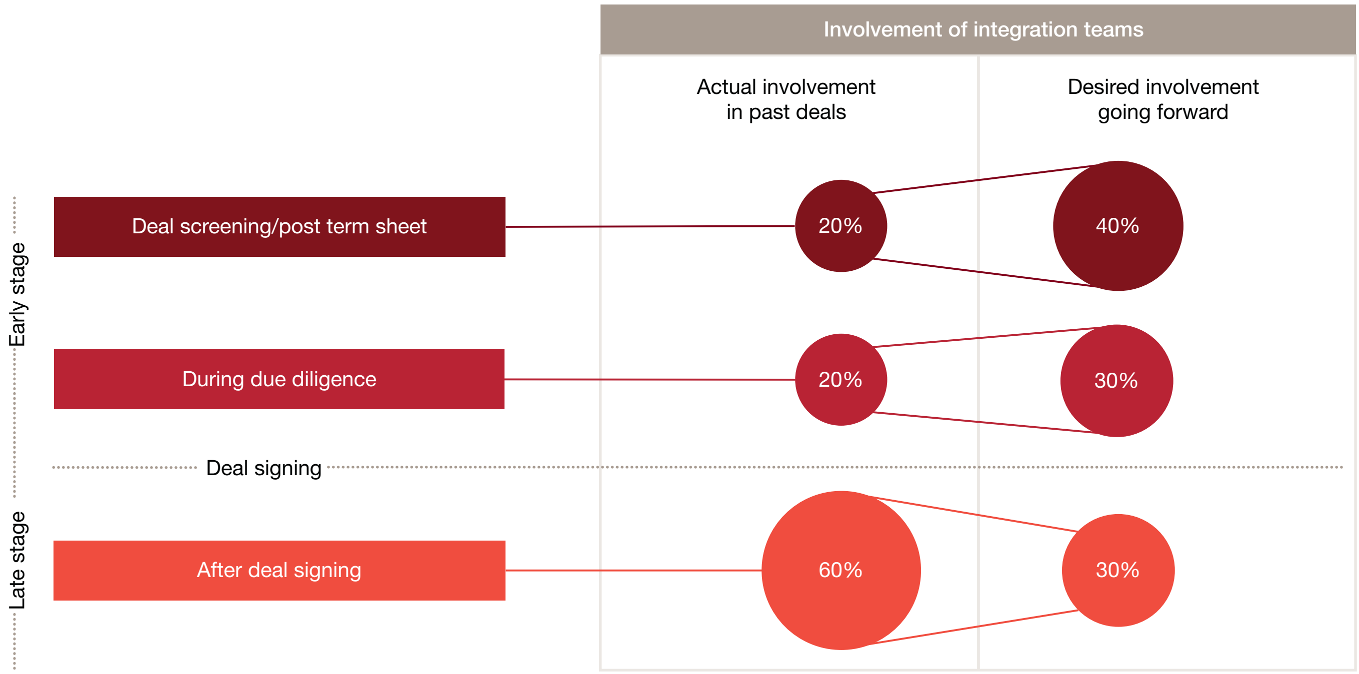
Achieving deal success

A key reason deals fail to achieve their potential is inadequate preparation and planning for the post-merger phase. While deal negotiators in a complex transaction focus largely on closure, anticipating bumps after the deal and planning appropriately for mitigation are what truly determine whether integration teams have prepared for the rocky road ahead.

Integration starts at the word 'go': Early involvement gives integration teams time to understand the target and its challenges. It also enables the team to rope in additional members in a timely manner, thus facilitating speedy execution and making the best resources available internally. In hindsight, most dealmakers state that the probability of achieving deal objectives increases when integration planning starts earlier in the deal value chain.

Figure 17 ndicates that going forward, 70% deal practitioners would like to involve integration teams at an early stage as opposed to 40% at present.

Figure 17: Starting the integration process – pre-deal or post-deal?

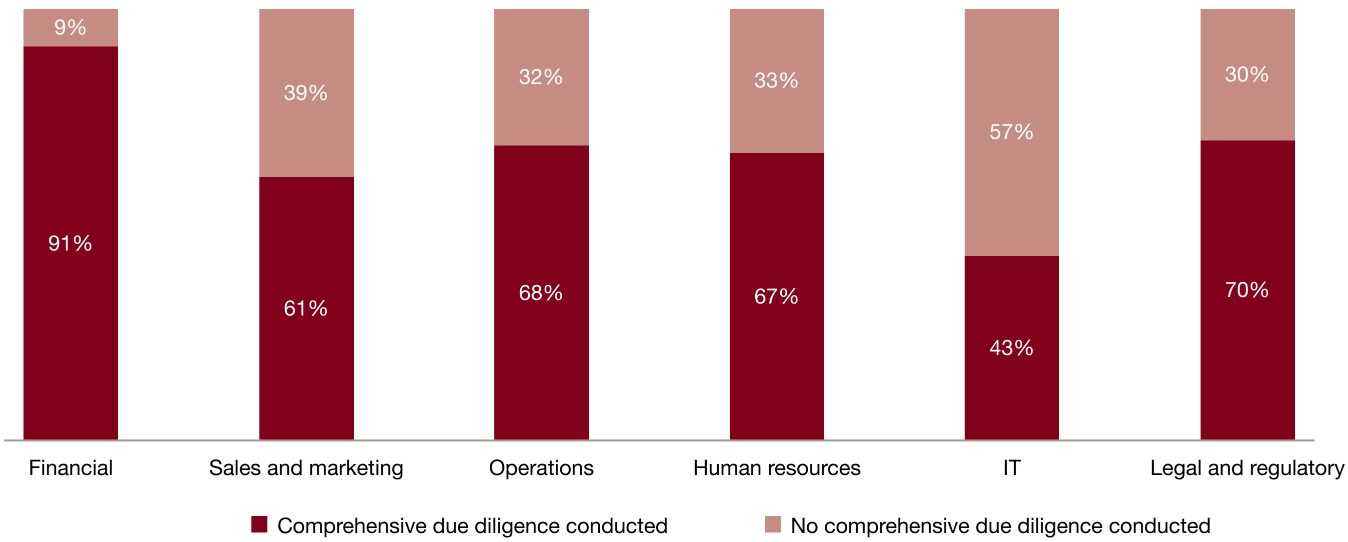


Source: PwC India's Post-Merger Integration Survey

Due diligence can provide the right impetus for integration: Due diligence can often uncover issues that become the base for an integration plan. When not identified early enough, smaller concerns become critical issues and leave the team 'firefighting' to reach resolution—and this often requires more time, resources and efforts. While dealmakers conduct thorough legal, financial and tax due diligence on targets, strategic and operational areas such as commercial, HR, IT, sales and operations are typically covered only at a high level, if at all (Figure 18).

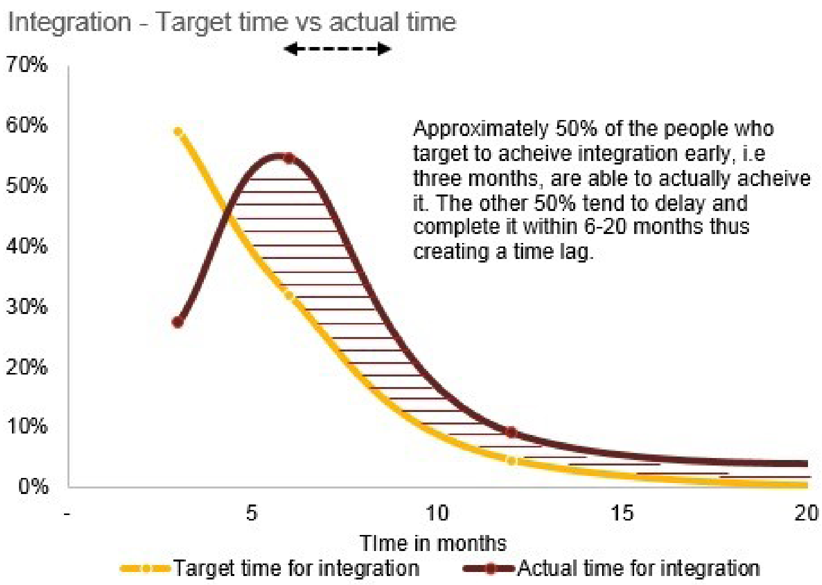
While deal and operational challenges will differ, certain critical areas are common across all deals and addressing these correctly can be the differentiators in determining deal outcome.

Figure 18: Types of due diligence typically conducted



Source: PwC India's Post-Merger Integration Survey

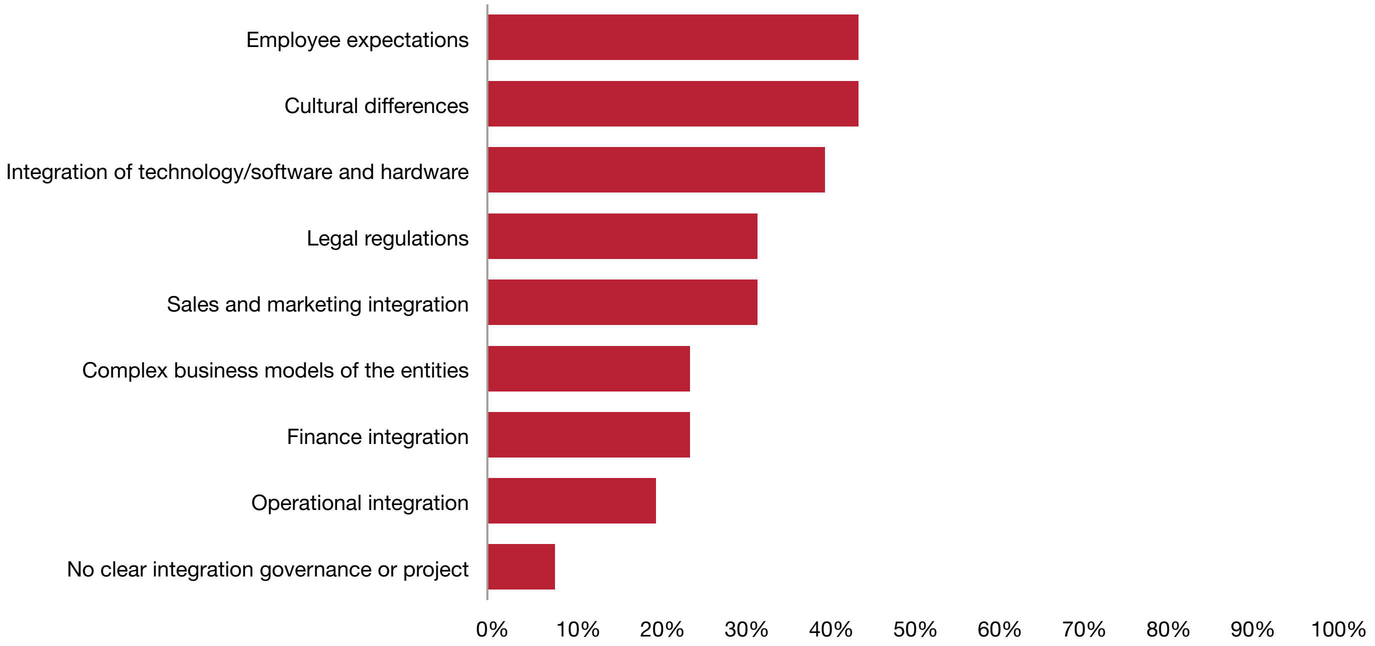
Figure 19: Target time versus actual time taken for integration



Source: PwC India's Post-Merger Integration Survey

In our experience, **organisation culture, employee expectations and IT integration are the top factors that drive integration complexity.**

Figure 20: Factors driving the complexity of integration



Source: PwC India's Post-Merger Integration Survey

Organisation culture

Often, at the negotiating table, dealmakers underestimate the importance of cultural integration. The overriding sentiment is that the companies involved are largely similar and hence, there will be no issues in integration.

However, companies are seldom culturally similar. A company's work culture, which includes its leadership style, talent management, degree of autonomy, decision making, the extent to which it holds employees accountable or its approach to innovation, employee engagement, building and maintaining internal or external relationships and other such parameters, defines and shapes its performance.

Companies that have conflicting cultures and leadership styles are at risk of losing their top talent, having stretched integration periods and, ultimately, of failing to capture deal value. Some companies also struggle to re-align cultures and values in the case of large and complex mergers. We have seen two diametrically opposite approaches—both not ideal. One approach is to ruthlessly thrust the acquirer's culture onto the target company, which creates short-term resistance, resentment and even anxiety. In the other approach, the acquired company simply does not do anything to integrate cultures due to the fear of a 'revolt'-like scenario, which means that both companies never share common values and cultures. They continue to work in a disjointed manner.

Figure 21: Top integration focus areas identified by respondents

~68%

Communicate clearly and regularly with internal and external stakeholders

Transparency and highlighting the impact of a transaction to internal stakeholders, including employees and board members as well as external stakeholders, go a long way in building trust.

~64%

Involve senior management in the integration team

Senior management is often not involved in integration activities and is hence unable to provide direction to the integration exercise.

~61%

Have a dedicated integration team

Keeping track of progress and coordinating with multiple teams ensure that management is aware of roadblocks and can take course corrective measures when required.

~64%

Establish a faster pace of integration, defined roadmap and achievable milestones to build momentum

Setting targets, prioritising tasks, identifying areas for quick wins and allocating responsibilities are essentials of integration planning.

Source: PwC India's Post-Merger Integration Survey

Employee expectations

In today's knowledge-driven economy, people are often the biggest assets. Hence, managing the transition from a people expectation perspective assumes utmost importance. Further, expectations are often interpreted as being monetary only. However, often, ensuring that employees are aligned to a common purpose and have clarity on where the company and, thus, their employment and career, are headed as a result of the transaction is very important. Lack of information often creates unnecessary speculation, resulting in anxiety.

IT integration

IT standards across companies can vary vastly, which only increases the complexity of bringing different platforms together. In addition, the extraction and verification of data, buy-in required from multiple stakeholders, and technical complexity and cost of implementation make systems integration a herculean task.

The right way to integrate

Integrations can seem overwhelming, with conflicts of opinions, cultures and personal incentives, surrounded by uncertainty. However, focusing efforts on the right fundamentals can help streamline the process and drive the team to success.

Appropriate and timely communication can kill uncertainty. Companies need to communicate clearly and regularly with employees and external stakeholders. Indian organisations, especially mid-sized promoter-driven companies, are vastly different from larger companies. In these mid-sized organisations, relationships, respect and loyalty can be far stronger incentives than monetary gains. Understanding these unique virtues, listening to stakeholder questions, concerns and issues, and proactively addressing those in thought and action go a long way and are instrumental in cementing a productive, trusting and encouraging workspace.

While communication through formal channels such as emails, town halls and notices/posters helps in publicising the leadership's vision and strategy, informal communication/grapevine exchanges should be leveraged to further instil key messages.

In this regard, aligning the acquired company's leadership with the deal rationale, vision and goals is paramount. This alignment is achieved through regular and clear communication. Through its role in achieving the vision, the acquired company's leadership lays the foundation of a successful integration.

Anticipating and understanding the anxieties, fears and beliefs of all stakeholders and addressing them through clear, comprehensive and timely communication will have a lasting impact in aligning organisations. Apt communication not only inculcates the desired culture but also helps keep stakeholders engaged in and motivated towards achieving the overall deal vision.

Successful integration needs to happen quickly and systematically. A faster pace, combined with a defined plan and achievable milestones, builds momentum and confidence among stakeholders and helps dealmakers integrate smoothly.

A well-selected integration team orchestrates the pursuit of value creation opportunities, manages the deal complexity and builds robust, yet simple, processes that resolve sticky issues. In fact, it can serve as the litmus test to reveal the 'leadership of tomorrow'—one that is capable of dealing with tight timelines, tough decisions and conflict management. Thus, the emphasis on having a dedicated integration team, which runs the integration as an independent business process, is absolutely essential.

To summarise, creating value through M&A is more 'science' than 'art'. Well-thought-out target identification, comprehensive due diligence and structured integration processes are the critical elements that lead to value creation in deals.

Glossary

BSE	Bombay Stock Exchange
CAGR	Compound annual growth rate
CFC	Controlled foreign corporations
DCF	Discounted cash flow
EBITDA	Earnings before interest, depreciation and tax
EPS	Earnings per share
FY	Financial year – 1 April to 31 March
GAAR	General Anti-Avoidance Rule
GDPR	General Data Protection Regulation
GICs	Global in-house centres
GILTI	Global intangible low taxed income
HA	Habitual acquirers
OA	Opportunistic acquirers
OG	Organic growers
TA	Transformative acquirers
TSR	Total shareholder returns

Acknowledgement

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Notes

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 265 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

As a developmental institution working towards India's overall growth with a special focus on India@75 in 2022, the CII theme for 2018-19, India RISE : Responsible. Inclusive. Sustainable. Entrepreneurial emphasizes Industry's role in partnering Government to accelerate India's growth and development. The focus will be on key enablers such as job creation; skill development; financing growth; promoting next gen manufacturing; sustainability; corporate social responsibility and governance and transparency.

With 65 offices, including 9 Centres of Excellence, in India, and 10 overseas offices in Australia, China, Egypt, France, Germany, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 355 counterpart organizations in 126 countries, CII serves as a reference point for Indian industry and the international business community.

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GM/HS/Aug 2018-14275