DON'T GO MAD: LESSONS FROM THE TRENCHES ON MERGERS, ACQUISITIONS AND DIVESTITURES

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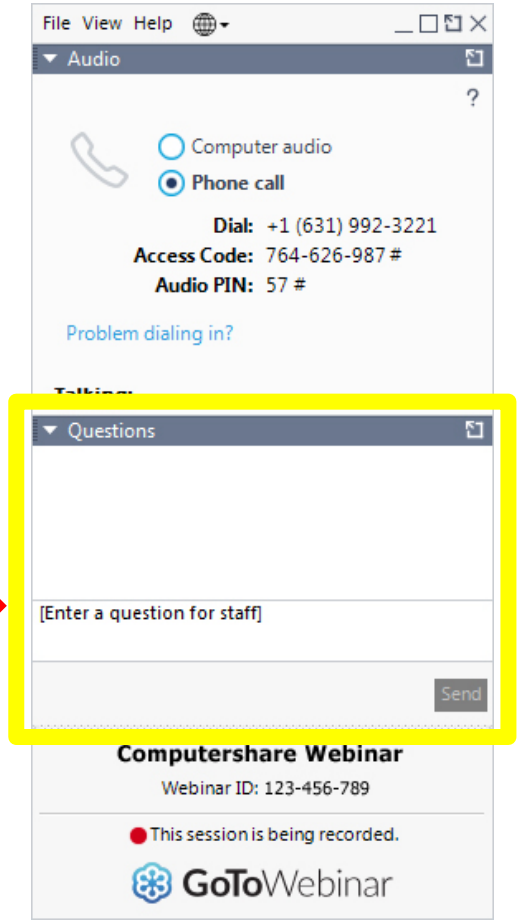

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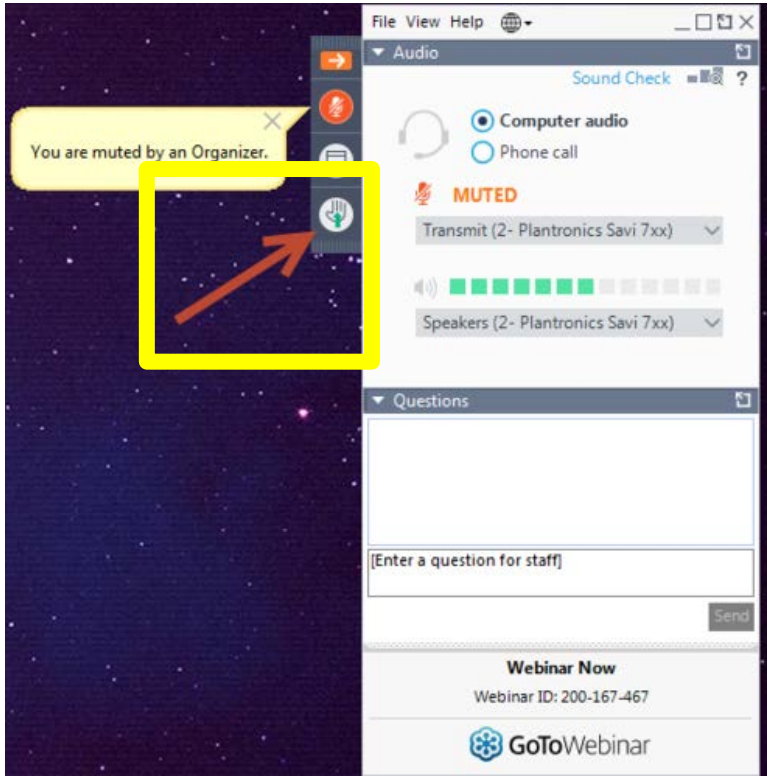

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Introductions

Scott Bellinger, CEP
VP, Manager, Relationship Management

Scott Bellinger is responsible for a dedicated and unique relationship management team at Computershare that administers all aspects of both employee equity plans as well as stock transfer agency for a small group of large and fully integrated client companies with highly customizable and complex needs.

Scott specializes in bringing an in depth consultative approach to bridging the gap between plan design, system capabilities and ongoing administration.

He joined Computershare in 2012 with the acquisition of the Shareowner Services business from The Bank of New York Mellon.

He brings over 25 years of experience in the equity compensation, stock transfer agency, corporate banking and financial services industry.

Michael A. Thompson, Senior Director, Executive Compensation Willis Towers Watson

Michael Thompson is a Senior Director in Willis Towers Watson's Executive Compensation practice in Toronto. Michael's expertise focuses on executive compensation and incentive program design.

Michael is widely recognized in North America as a leading consultant in Executive Compensation. He has over 30 years experience consulting to boards and executive management of some of the largest firms in both Canada and the United States.

His clients include large listed companies, closely held private organizations as well as public agencies and regulated companies.

He is an active writer and researcher on organizational performance and reward program effectiveness and is widely published. Michael was an editor of the Executive Handbook on Compensation published by the Free Press. In addition, he is a frequent lecturer on Compensation Governance at the Rotman School of Business's Director Education Program and at The Schulich School of Businesses MBA program. Michael has recently been engaged as a lecturer in Executive Compensation in the GPLLM program at University of Toronto. Prior to joining WTW, Michael was a Partner with Mercer in Toronto and previously the North American Practice Leader for Reward Consulting for the HayGroup based in New York and Philadelphia.

Michael holds an MBA from the IVEY School of Western University, a B.Admin from the University of Ottawa and is a Chartered Professional Accountant (CPA CMA).

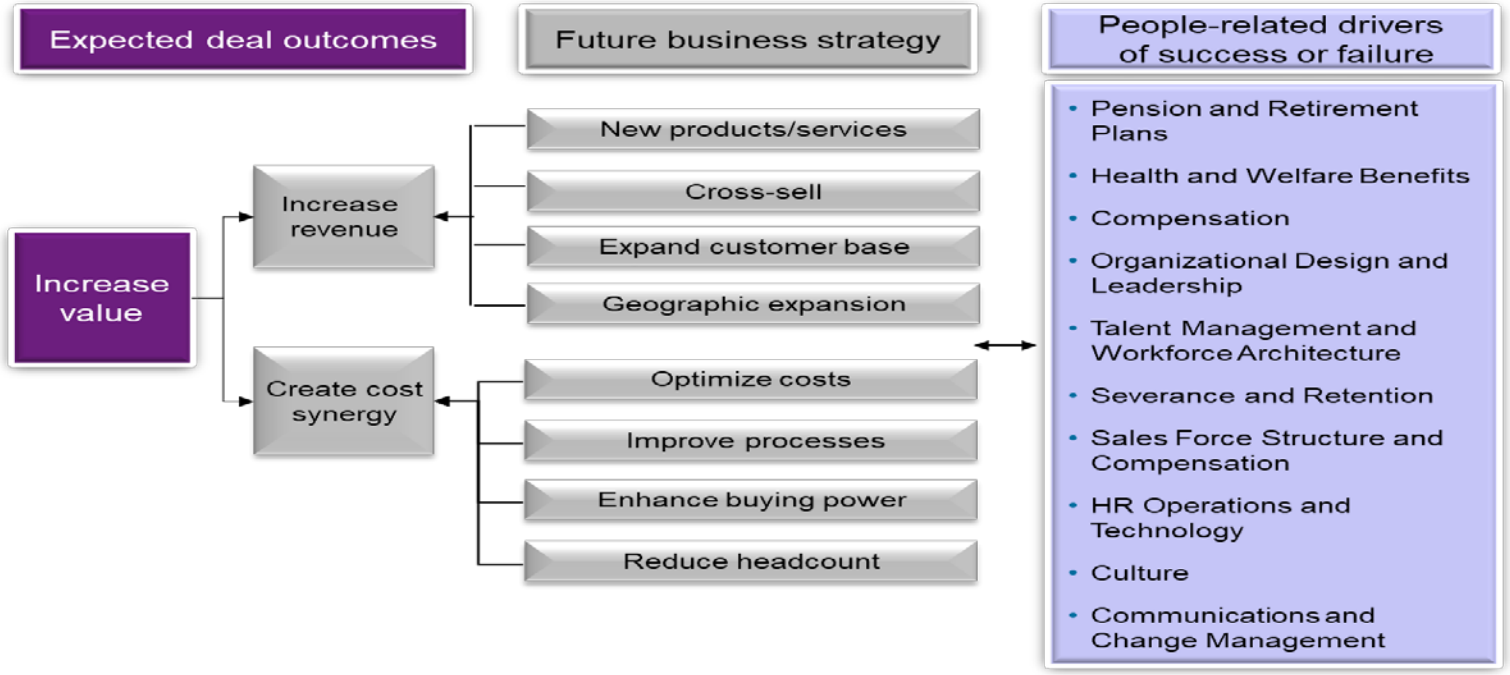
Today's Discussion

- Strategic Viewpoint
  - Overall corporate objectives
  - Holistic people issues and identification of key staff
  - Willis Towers Watson's M&A Retention Survey
  - Priorities broader than equity

- Tactical Viewpoint
  - Actions Pre-Close
  - Tasks Post-Close

Business Case for HR as a Key Component of Overall Deal Success

People issues directly affect realization of the strategic value of the deal



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Need for Holistic Analysis of People Issues

Although our focus is on compensation and benefits, you should be looking at the full range of people issues

Financial

Goal: Understand the cost structure. Identify and quantify all items affecting financial statements

Talent

Goal: Understand productivity drivers by understanding how work is done, and who does it to determine what needs to change

Culture

Source: "Managing People and Cultural Problems in Mergers", Jim McKay, M&A Engagement Leader, Watson Wyatt Worldwide and Elizabeth Huldin, Director, HR Global Strategic Transactions, Motorola, Harvard Business Review January 2006

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Typical Acquirer Business Goals During Integration

- Keep the base business running, without disruption to sales or profits.
  Requires (among other factors):
  - Successful identification and retention of critical talent
  - Early assessment of culture and organizational fit
  - Effective design and implementation of communication and change management plan

- Manage the integration to achieve target synergies.
  Requires (among other factors):
  - Early decisions relating to Organization Design
  - Cost/benefit analysis of restructuring plans and severance costs
  - Stream-lined but robust HR operations and technology

- Invest in the business as a platform for future growth
  Requires (among other factors):
  - Cost-effective but market-competitive compensation structure and retirement and benefit plans

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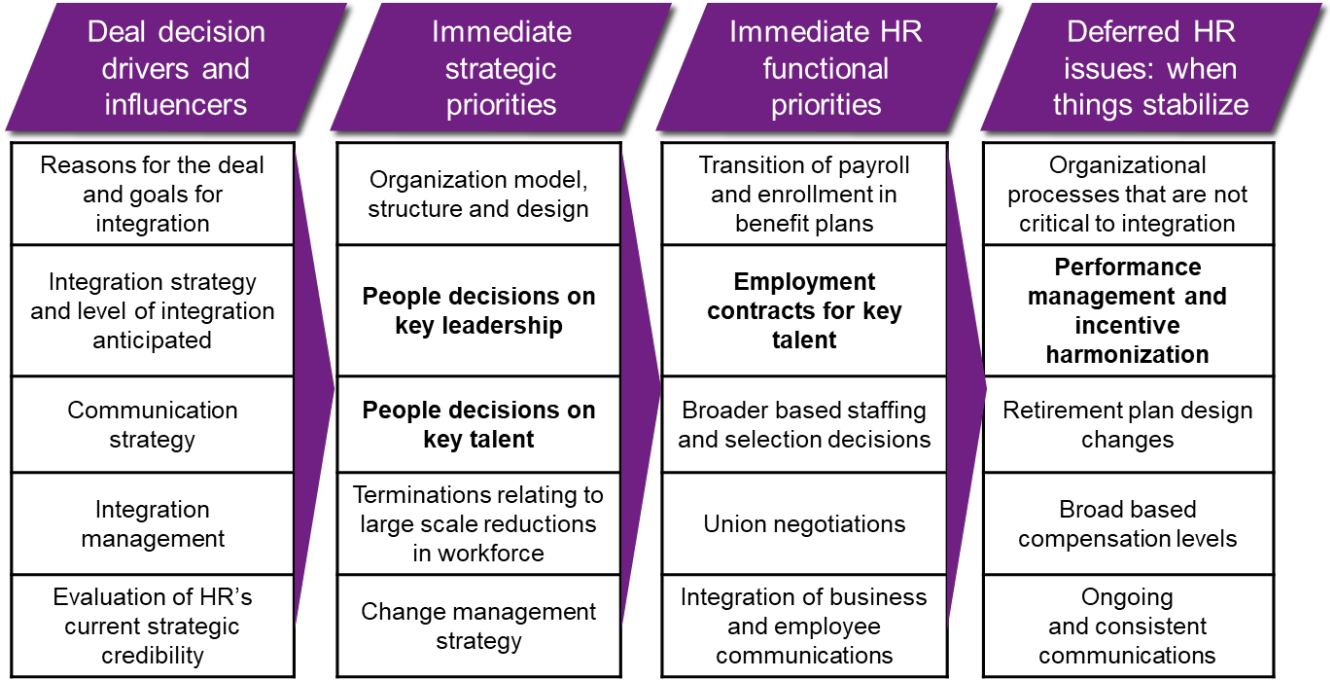
Prioritization of Integration Activities



Source: "Managing People and Cultural Problems in Merger", Jim McKay, M&A Engagement Leader and Elizabeth Huldin, Director, HR Global Strategic Transactions, Motorola, Harvard Business Review January 2006

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About the Willis Towers Watson Third M&A Retention Study (2017)

244/ 108

Employers — Acquiring companies headquartered in the US

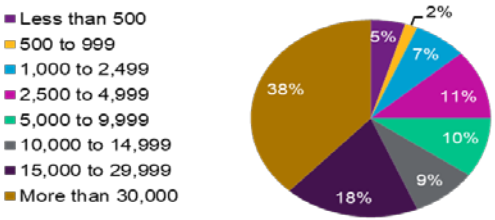
24

Countries

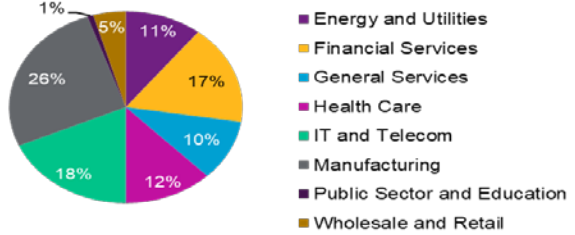
Survey participants responded in terms of one particular merger or acquisition their companies had initiated and/or completed within the past two years.

- Survey data collected between March and May 2017

Number of full-time workers employed by acquiring organization



Respondents by industry groups



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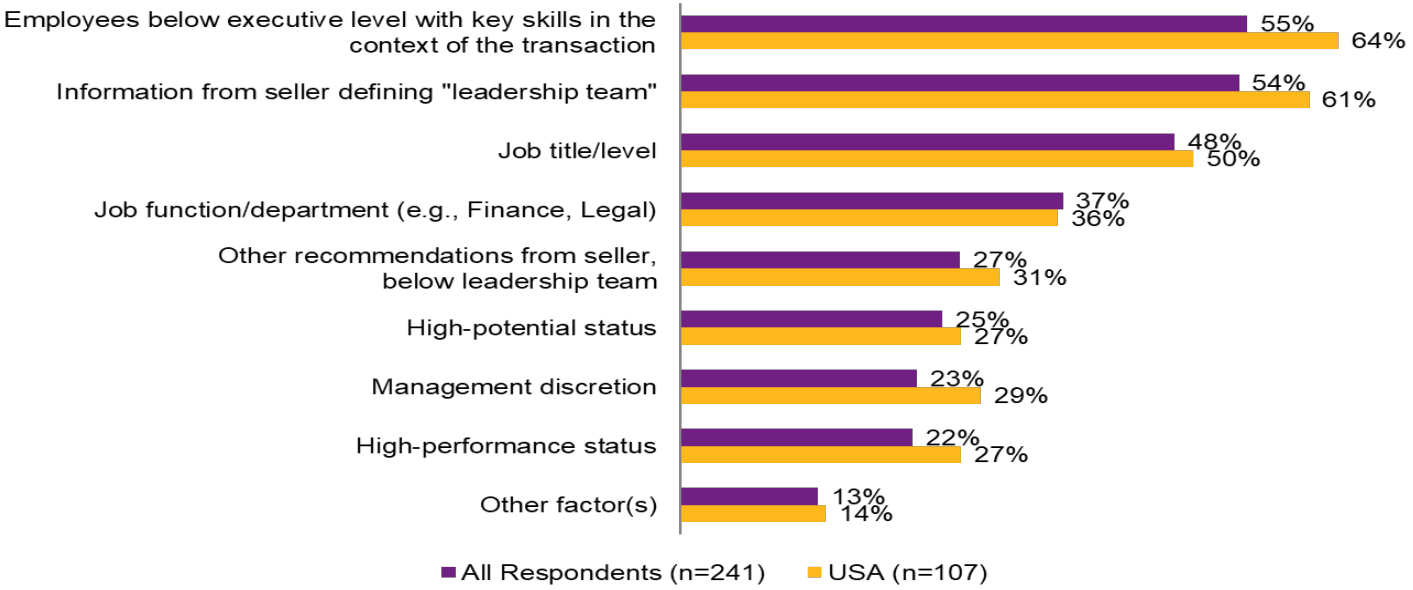
Having key skills or being on a leadership team were the main factors for retention agreement eligibility



High-retention companies (61%) are more likely to consider employees with key skills than low-retention companies (47%)

Base: Total respondents

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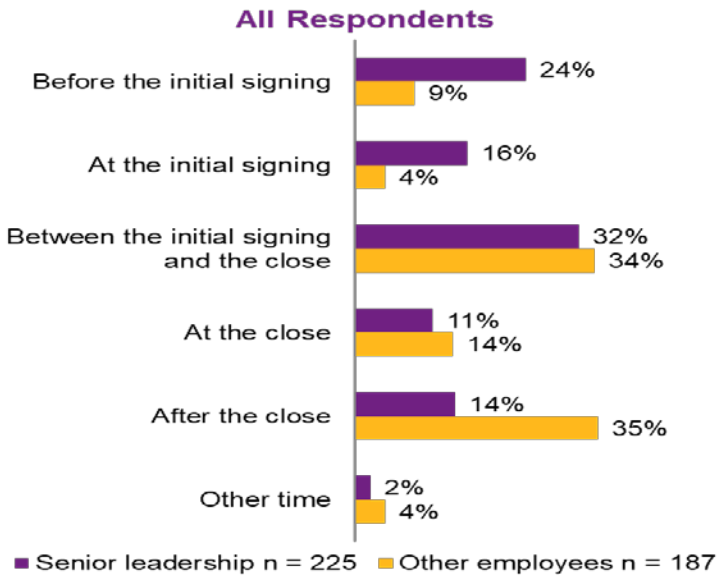
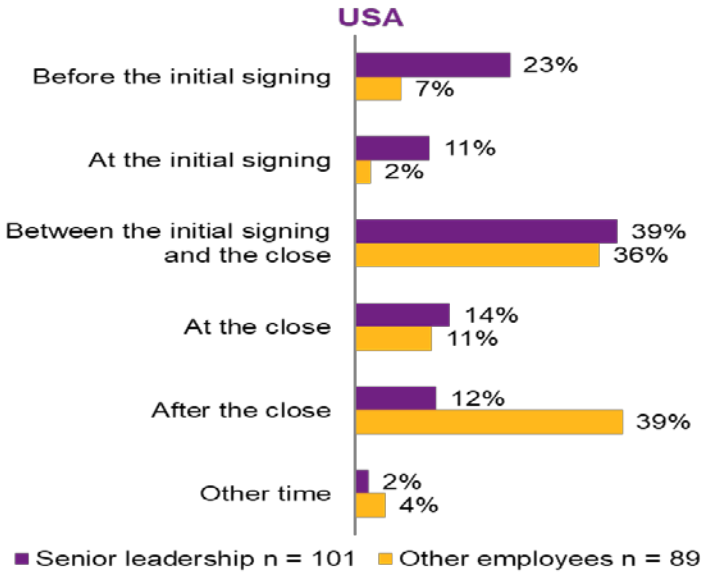
Senior leaders are asked to sign retention agreements at an earlier stage of the deal than employees





At high-retention acquirers, 28% of senior leaders were asked to sign before the initial signing (versus only 11% for low-retention)

Base: Those giving a valid response (percentages exclude "Not applicable" and "Don't know")

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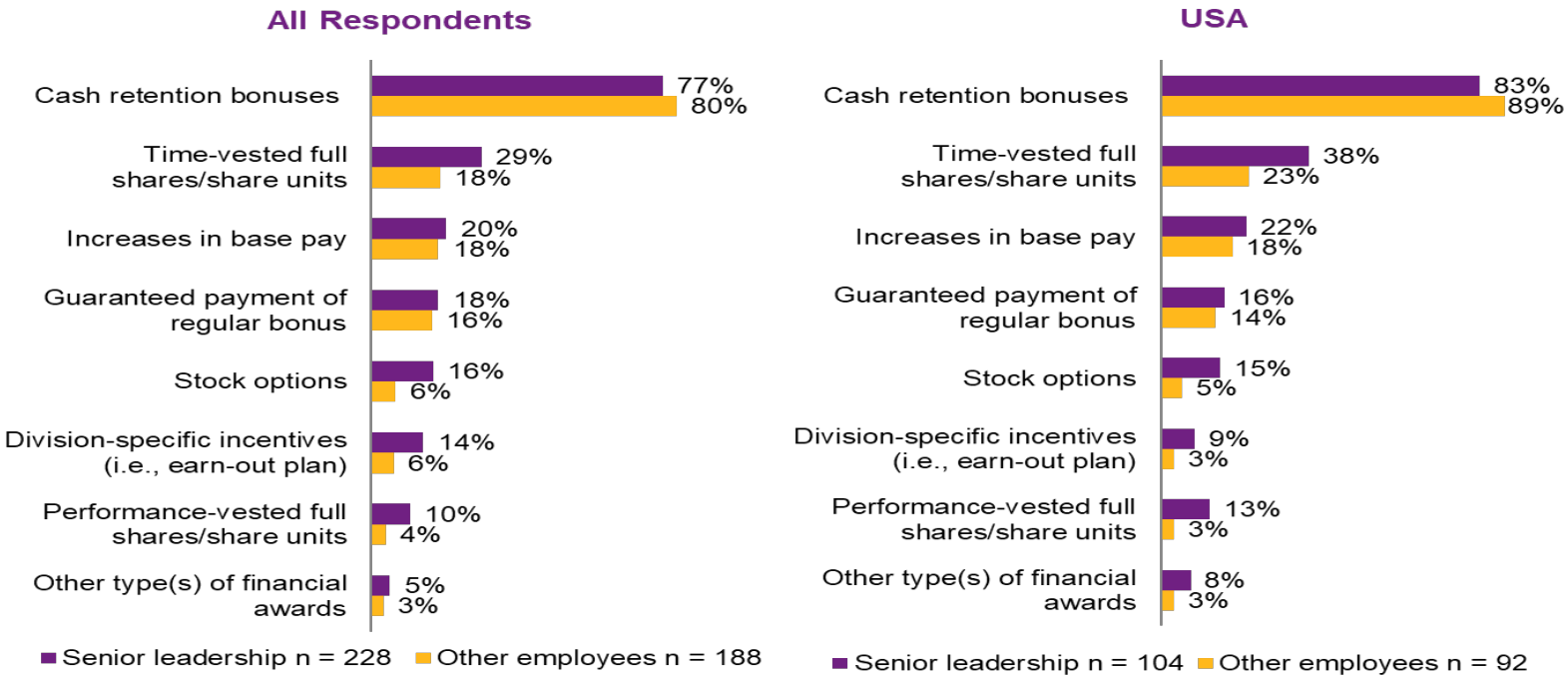
Cash bonuses are by far the most common financial award used in retention agreements



Base: Those giving a valid response (percentages exclude "Not applicable" and "Don't know")

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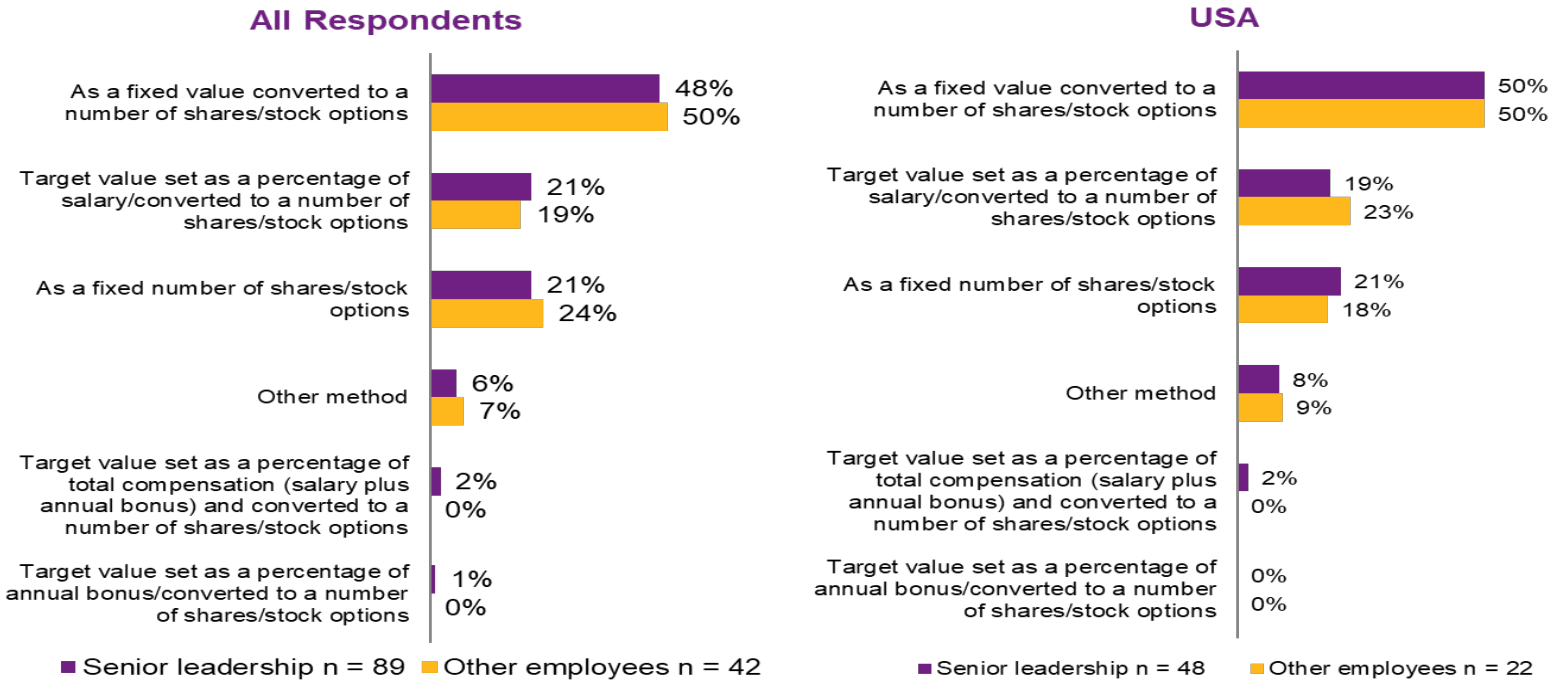
Those that use stock options or shares for retention most commonly set target values as a fixed value that is converted to a number of shares or options



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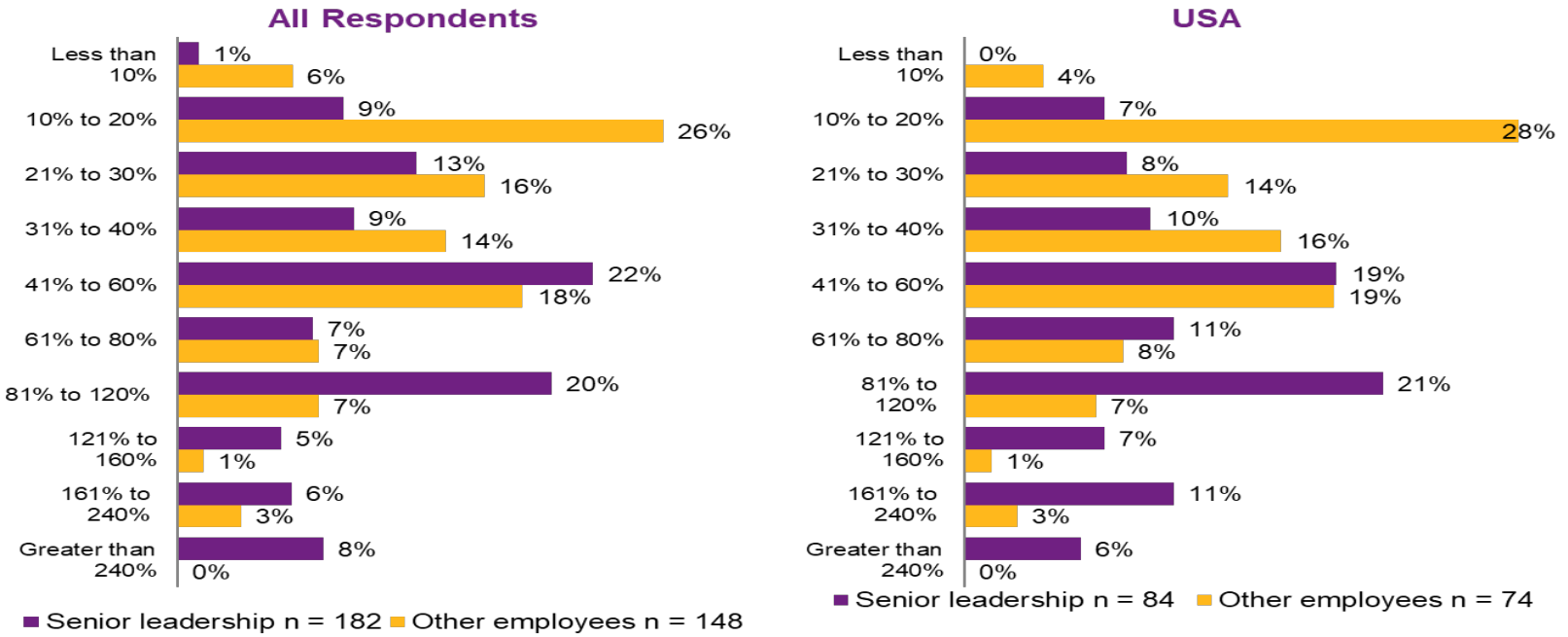
Over half of senior leaders receive target values equal to at least 60% of salary, compared to less than 20% of other employees



Base: Those giving a valid response (percentages exclude "Not applicable" and "Don't know/prefer not to say")

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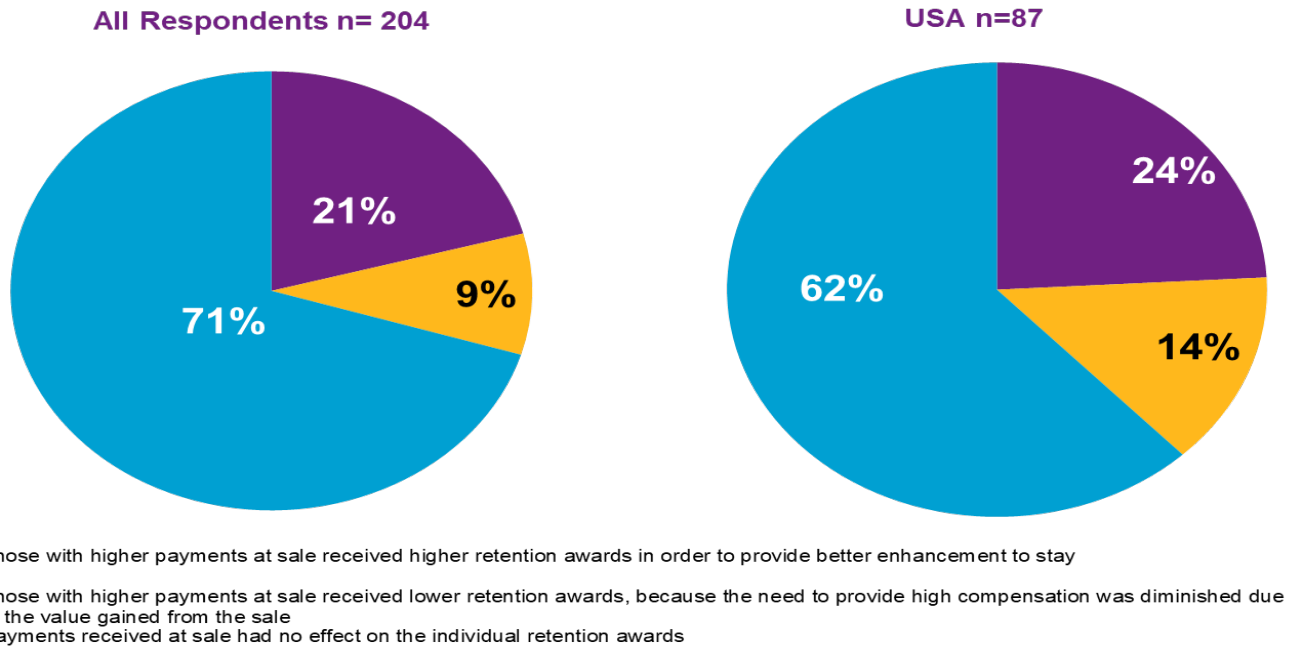
Over 60% responded that values that employees earned at sale had no effect on retention awards



Base: Those giving a valid response (percentages exclude “Don’t know/prefer not to say”)

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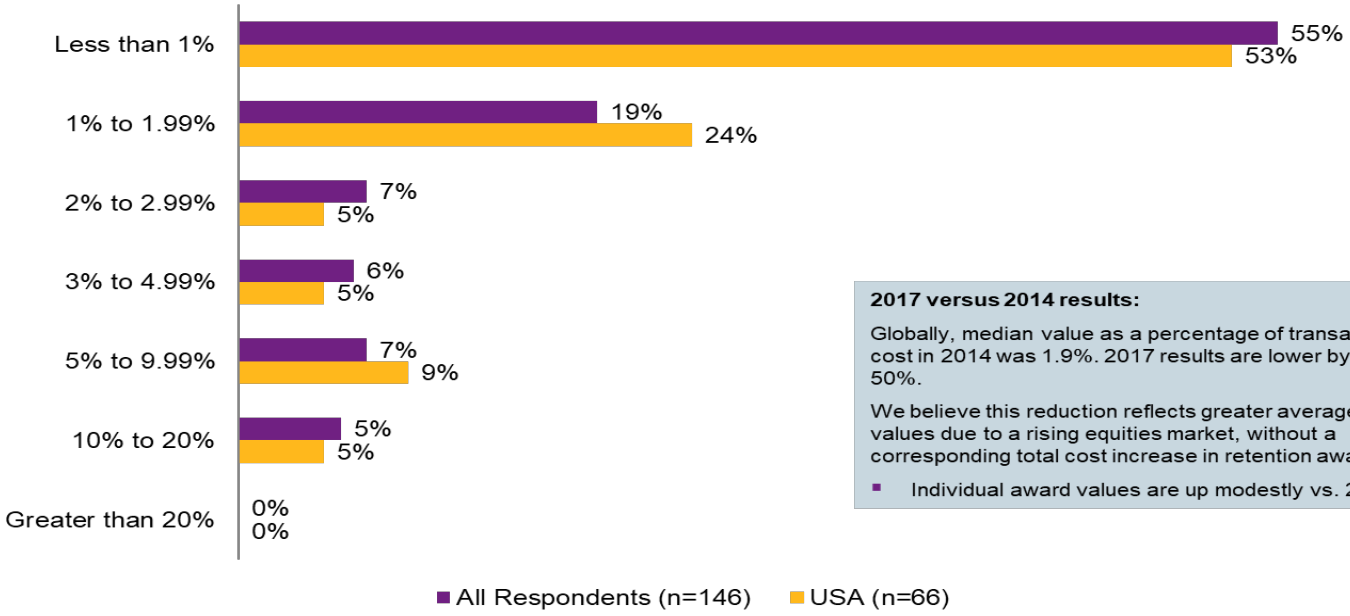
In the US, over half have a retention budget of less than 1% of the total transaction cost



2017 versus 2014 results:

Globally, median value as a percentage of transaction cost in 2014 was 1.9%. 2017 results are lower by about 50%.

We believe this reduction reflects greater average deal values due to a rising equities market, without a corresponding total cost increase in retention awards.

- Individual award values are up modestly vs. 2014

Base: Those giving a valid response (percentages exclude "Don't know/prefer not to say")

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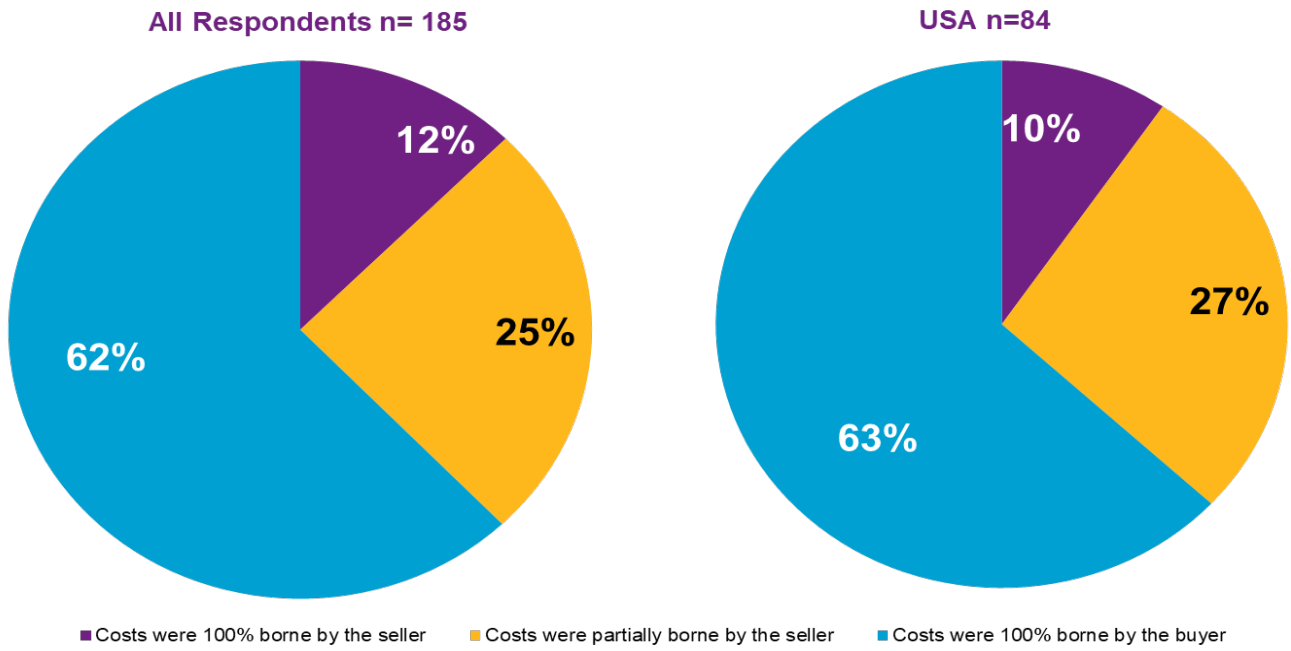
Nearly two-thirds of buyers covered retention costs in full



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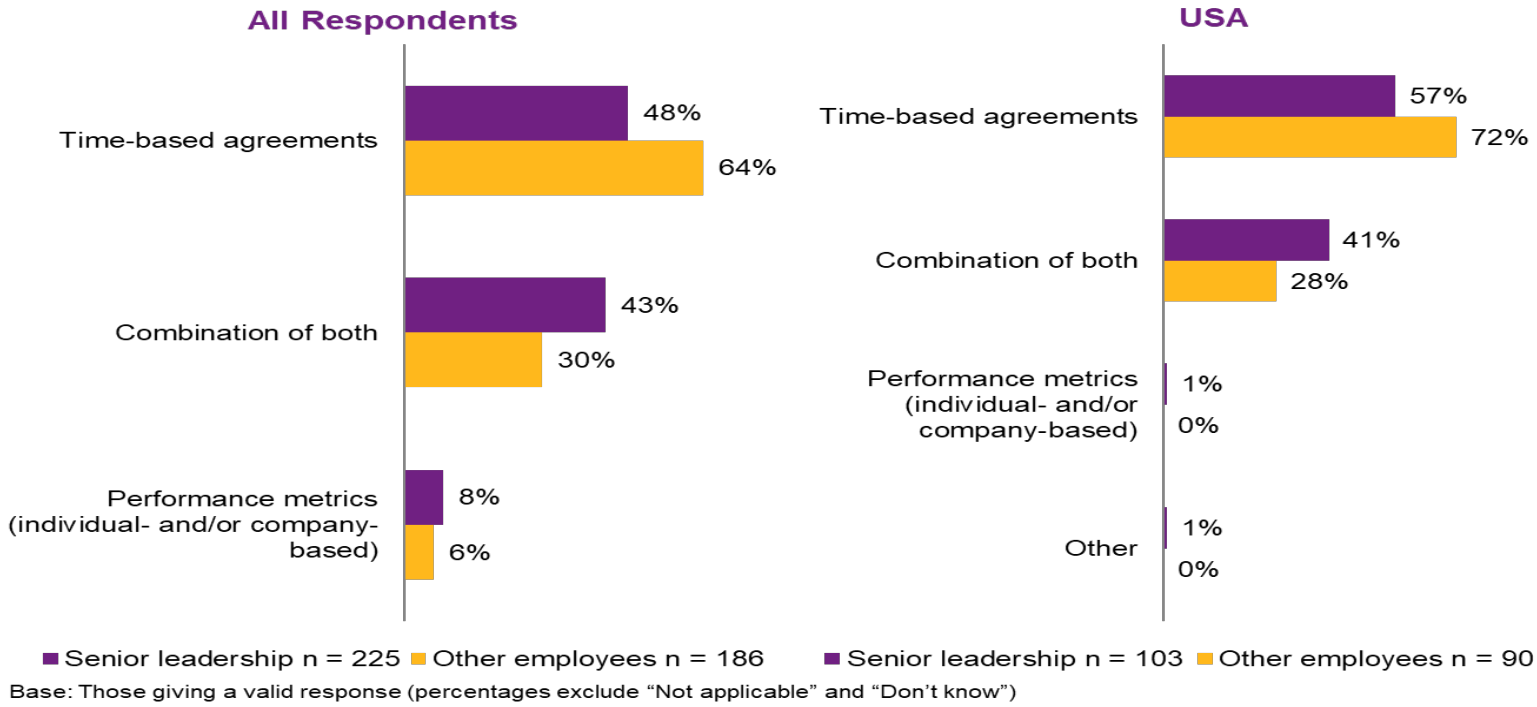
Time-based agreements are the most prevalent for both senior leadership and other employees



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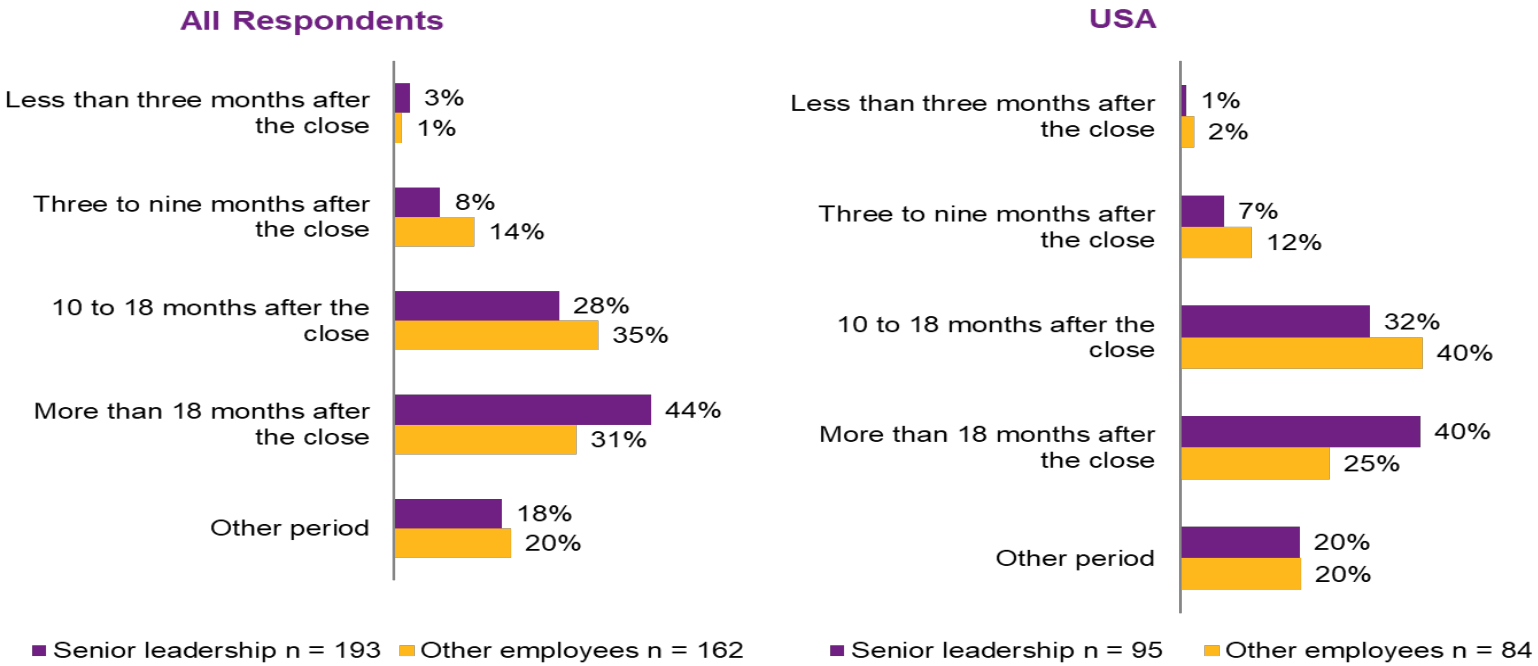
Those using time-based metrics establish a longer retention period for senior leaders than for others



Base: Those giving a valid response (percentages exclude "Not applicable" and "Don't know")

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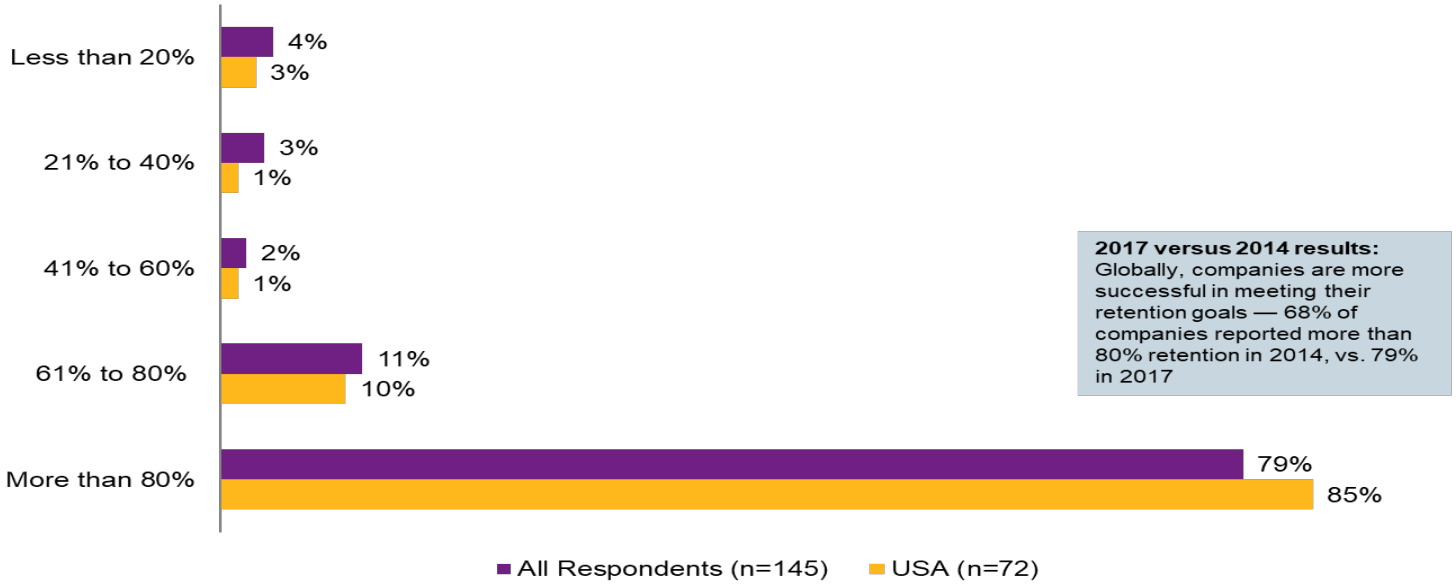
Over 80% of US acquiring firms were able to retain a high percentage of employees (more than 80%) for the full retention period



2017 versus 2014 results: Globally, companies are more successful in meeting their retention goals — 68% of companies reported more than 80% retention in 2014, vs. 79% in 2017

Base: Those giving a valid response (percentages exclude "Not applicable" and "Don't know")

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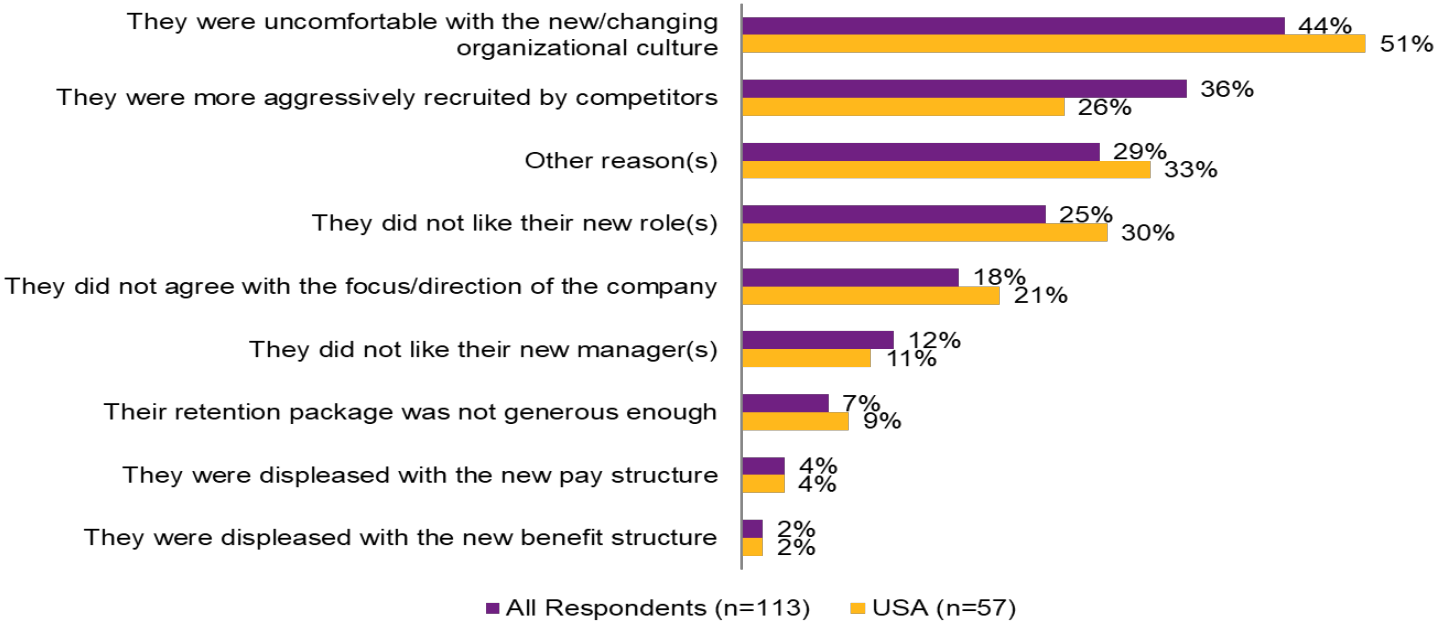
In the US, over half who left before the end of the retention period were uncomfortable with the new culture



Base: Those giving a valid response (percentages exclude "Not applicable" and "Don't know")

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Pre-Close tactics to ensure a smooth transition

- Get involved as early as possible
- Do your homework / due diligence
  - Full and complete inventory of awards
  - Complete understanding of plan provisions
- Make contact with all of your counterparts
  - Don’t forget about other award types; Deferred awards, cash plans, etc.
  - Ensure Transfer Agent / Exchange Agent are prepared for potential plan interactions
- Financial reporting needs
  - Time crunches and potential need for projections

Pre-Close tactics to ensure a smooth transition *(continued)*

- Don’t wait to plan & Devil in the details
  - Target company blackout / scheduled vesting events
  - Timing of accelerations (which stock)
  - Proper taxation (sequence of other payouts vs equity)
  - Responsibility and flow of calculations
- Involve your vendors
  - Information sharing and expertise
- Participant Communication
  - Silence breeds anxiety during a difficult time

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Post-Close tasks to ensure success

- Understanding and communication around timing
  - Payout of cash, shares, awards, etc.
- Tasks involving Day 1 / Day 2 terminations
  - Converted awards (timing, taxation, settlement)
- Potential of new grants to assist with retention
  - Equity vs Cash
  - Larger awards to compensate for loss of annual compounding
  - Inflated stock price / FMV immediately post close
- Eligibility / Enrollment in other equity benefit plans
  - Grandfathering or timing of eligibility (Deferred Comp Plans, ESPPs, etc.)

Post-Close tasks to ensure success *(continued)*

- Payroll interfaces for target employees
  - Transition period before payroll integrations
- Access to historical transactions and records
  - Administrator data reporting, continued engagement, conversion of records
  - Potential ongoing requirement for backup related to SOX audits
  - Staff retention
- Communication, Communication
  - Starting Day 1
  - Don’t add to potential employee concerns with new culture and corporate environment

WTW Retention Study: the leading source for structure, use and effectiveness of retention agreements during transactions

Employers | **Countries**

Key takeaways

Define success before implementing

- What are the corporate goals for the acquisition: stand-alone business or integrated with the parent company? Top-line or bottom-line growth? Where are the opportunities for synergies or efficiencies?
- Are you trying to retain employees forever or only for a select time period?

Conduct a thorough participant selection process

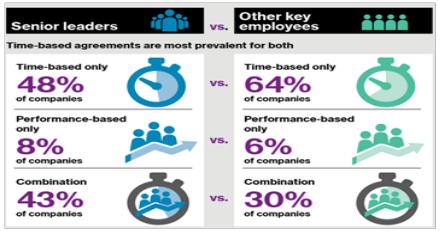
- High involvement of senior leaders at the acquired company to select participants is aligned with higher retention.

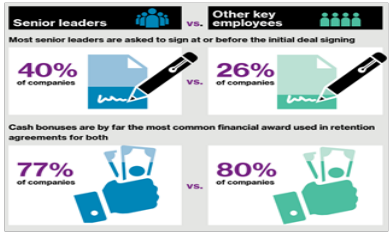
Beware of complicated plan designs

- Simple plan designs are correlated with high retention; cash bonuses are effective.
- Earn-out plans that pay on the future success of the acquired business are often appealing to the seller, but do they align with the acquirer's definition of success?

Understand that retention plans can buy the acquirer time, but not loyalty

- Acquirers still need comprehensive plans for leadership development, cultural integration and communication.
- Use the retention time period to build loyalty and commitment to the new parent.





79% retained 80+% of targeted employees for full retention period; What they do differently:

- Selection at all organization levels
- Early communication
- Delayed vesting
- Awards not net of individual values earned upon sale
- Median budget around 1% of deal value

In addition to retention agreements, most common tactics are:

- Enhanced severance
- Personal outreach and enhanced career opportunities

Most common reason for termination before end of retention period is discomfort with new culture

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