The Softer Side of Post-Merger Integration (PMI): Maximizing Value in Pharmaceutical M&A Deals

Overview

Despite recent economic volatility, mergers and acquisitions (M&A) remain a prevailing strategy in today's global market for corporations seeking to rapidly increase shareholder value and bottom-line growth. Over the past five years, more than $20 trillion has been spent on M&A deals worldwide (Figure 1)[1]. As M&A deal volume and size trend upward, however, so do market risks and deal complexities. While M&A deals often make sense on paper, over 80% of M&A transactions fail to increase shareholder value, and over 50% actually destroy value[2].

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In 2011[3], pharma-related deals accounted for $224 billion[4], activity that can be attributed in large part to the "patent cliff" that has resulted in an industry-wide loss of approximately $50 billion as of March 2011[5]. With pharma companies using strategic M&A for pipeline acquisitions and new R&D capabilities to remain competitive in challenging economic times, the importance of success has never been greater. Acquis believes that comprehensive post-merger integration (PMI) planning, with a particular focus on change management to address the "softer" human aspect, can significantly mitigate the risk of M&A failure.

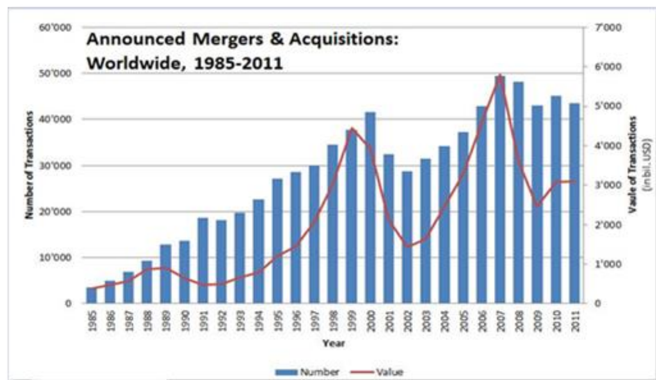


Figure 1

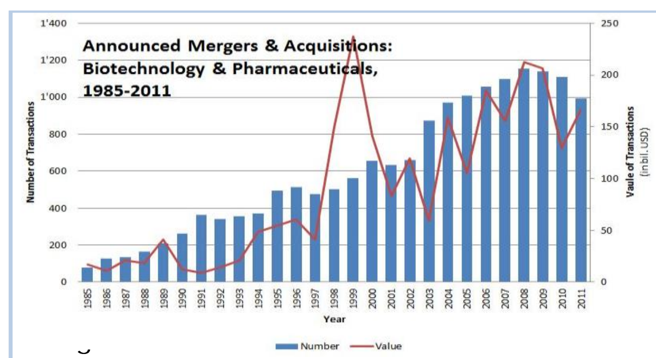


Figure 2

1 Thomson Financial, Institute of Mergers, Acquisitions and Alliances (IMAA) analysis, 2012.
2 "The Big Idea: The New M&A Playbook", Harvard Business Review March 2011
3 "A mixed year for M&A", McKinsey Quarterly, Jan 2012.
4 "Pharma M&A 'surged back' in 2011", Pharma Times Online, January 2012.
5 "Policy & Medicine Online", September 2012.

The Challenge: Delivering Value

There is an opportunity to extract additional value from the deal by incorporating a change management plan to address the people related elements.

Given the massive deal size, commercial risk, multi-national nature, and complex regulatory and legal environment of many pharma deals, the stakes are high and the expected value can be elusive. Deals in the pharmaceutical industry often decrease shareholder value and increase risk for acquirers due to ineffective integration execution[6]. A Business Week survey found that nearly 40% of respondents blamed the PMI process and lack of communication for transaction failures[7].

While it may seem obvious that a successful acquisition requires meticulous PMI planning, critical details are often overlooked in even the most carefully documented integration plans. PMI teams tend to focus on tangible, quantifiable components of the integration, such as corporate governance, financial strategy, and value creation strategy that can be easily documented, planned for, and communicated to shareholders, but other intangible components, such as people, culture, and customer relationship management can get overlooked or not prioritized. According to a senior M&A executive at a Fortune 500 global pharmaceutical company, it is essential to engage with the newly acquired employees as quickly as possible to identify potential issues and understand their priorities. This helps reduce the frustrations and enables a more seamless integration.

Unintended side effects of M&A deals like employee dissatisfaction, layoffs or attrition, management issues, customer/HCP defection, and decreased productivity can have an especially great impact on pharmaceutical companies because of the highly specialized and knowledge-based nature of the industry. Though pharma companies seek to develop their pipeline through strategic M&A, it is critical they retain the key talent that ultimately develops that pipeline. According to Herb Neuman, MD, MBA, Advisor to Acquis Affiliate Company SSI Strategy: "Retaining human capital is critical and is often overlooked. Pharma companies often acquire businesses with very different cultures. It's essential to do as much work [as possible] pre-close to assess the differences and determine the appropriate integration plans. This goes beyond HR. It must come from the C-suite and often there is value in bringing in a third party to help manage the PMI."

The Solution: Focus on the Intangibles

In the pharmaceutical industry in particular, it is important to ensure that goals and organizational structure is aligned, cultures are properly integrated, top talent is retained and regulatory and safety requirements are met.

It is essential to recognize the importance of the less tangible, people-centric components of PMI because such issues can make or break the long-term success of a transaction. By addressing the human element with a comprehensive change management plan integrated into the overall PMI program, organizations can not only ensure long-term success, but also extract additional value from the deal. Acquis recommends three key steps:

1. *Include people (internal and external) and culture in early stages of PMI planning:* Assign dedicated resources to address people and culture issues early in the pre-close planning process. By identifying and mapping cultural and organizational differences between merging companies early on, management can ensure that people issues are not overlooked later.

[6] "Getting a good deal: M&A best practices", WatsonWyatt, 2009.

[7] Business Week

Organizations know that aligning organizational structure and retaining top talent is essential, and therefore usually have plans to address these areas. However, other essential components often go overlooked:

- *Cultural Alignment:* When a more established pharma company with a sales and marketing focus acquires a development focused entrepreneurial biotech, company cultures often differ greatly. Understanding and managing the integration of these cultures is essential.

- *HCP Relationship Management:* Prescribers are often suspicious of acquisitions and the changes they bring. Communicating the new strategy to prescribers as soon as possible is critical to maintaining those important relationships.

- *Safety & Regulatory Alignment:* This becomes particularly important when a U.S. based company acquires a non-U.S. based company, as the U.S. generally adheres to more stringent laws and liabilities. Providing change management and training to the acquired employees can help mitigate problems.

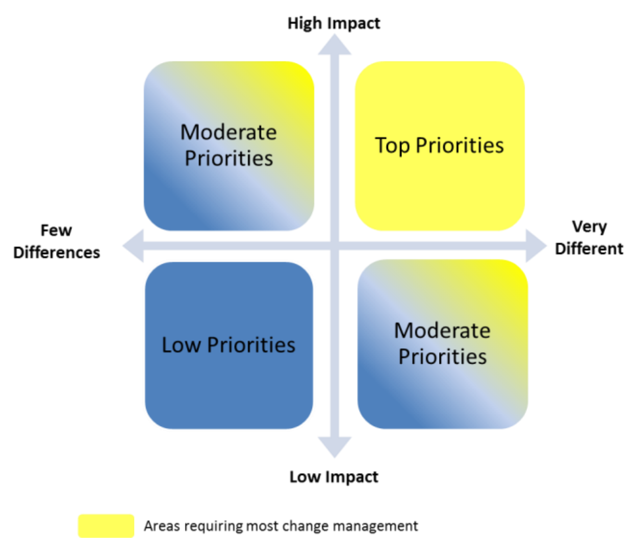
By understanding these areas, the PMI team can gain insight into less tangible, but critical, value drivers. This will help shape a more successful and sustainable PMI plan and ensure that the softer side is in alignment with overall integration efforts.

2. *Map priorities and determine change management strategy*: To determine key areas of focus, leaders must conduct deep assessment of both companies to identify and map organizational differences. By understanding the magnitude of the differences and the impact the merger will have on employees in the new organization, management can develop the most effective change management plans (Figure 3).

The areas with the greatest impact and biggest differences between the two organizations require the most extensive change management to ensure they are adequately addressed.

<u>Acquis's Framework for Assessing Change Management Objectives</u>

This type of assessment helps organizations identify and prioritize the integration areas with the greatest differences between the organizations that will have the greatest



Examples of Elements to Map

- Organization Goals
- Cultures
- Leadership styles
- Communication styles
- Processes
- Change Readiness
- Talent Management
- Safety Procedures
- Regulatory Alignment
- Customers/Prescribers

Figure 3

impact. Management can also better determine the appropriate timing of specific integration activities. "Faster is not always better. Management needs to understand and continue to assess the implications on employees, customers, operations and shareholders throughout the PMI process," says pharma expert Herb Neuman. A detailed change management strategy and communication plan should be developed to reflect a company's priorities and then continually be re-assessed throughout integration.

3. *Integrate change management into every step of the PMI program*: World-class PMI teams are known to maintain open lines of communication throughout an entire deal cycle, whether to acknowledge uncertainty, provide concrete details, or simply give a timeframe for expected future communications.

Companies are best positioned to maximize the value of an acquisition when they identify, plan for and manage the softer, people side of the PMI process.

Acquis's Approach to PMI

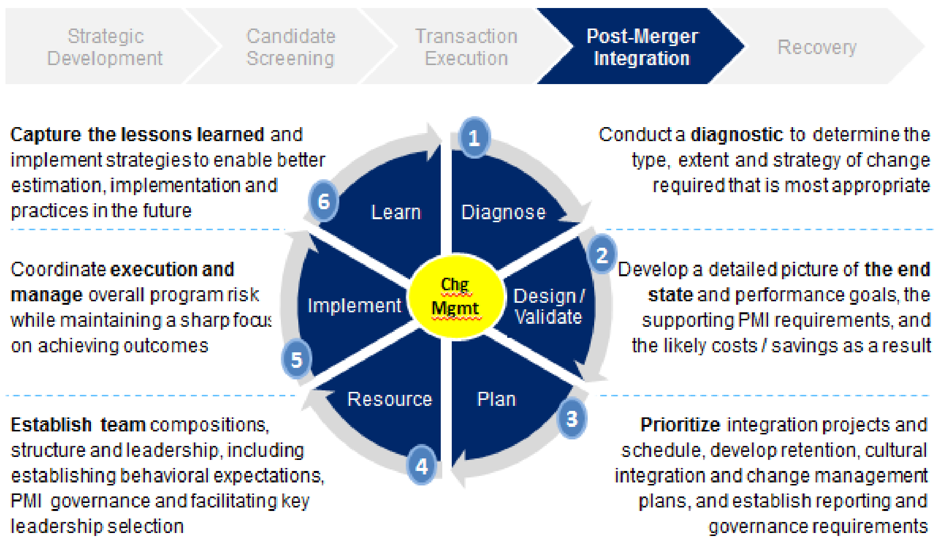


Figure 4

Ongoing transparent communication helps employees feel informed, a key factor in improved employee morale, lower attrition, and sustained business performance. It also sets the tone for the future culture and the organizational direction.

Conclusion

Companies best position themselves to maximize the value of an acquisition when they identify, plan for, and manage the softer side of the PMI process. By incorporating a change management program to address the human element, companies are more likely to be successful and avoid:

1) Missing key targets and operational goals

2) Losing key employees

3) Cultural misalignment, and

4) Losing key customers/HCPs.

Integration activities often take up too much attention and drag on too long. However, if proper attention is given both pre- and post-transaction, the acquisition can produce the desired results. For pharmaceutical companies, this means a robust pipeline of innovative, clinically differentiated product that will deliver the desired stakeholder value.

About Acquis Consulting Group

Acquis Consulting Group is a boutique management consulting firm that focuses on the alignment of business and operational strategy. Acquis was founded in 1998 and is based in New York City.

Acquis Consulting Group has been partnering with companies in the Life Sciences industry for the past fifteen years and is focused on helping organizations with their Post-Merger Integration Planning and Program Management. Companies that are considering an acquisition or divestiture can benefit from Acquis's expertise in Project Management, Post-Merger Acquisition Planning, and Change Management expertise. Please contact us to discuss any questions you may have about this article or to discuss your company's specific needs.

About SSI Strategy

SSI Strategy is an affiliate company of Acquis Consulting. The company was originally launched as a consultancy focused on pharmacovigilence (PV) advice and other drug safety related services. In partnership with Acquis, SSI Strategy has broadened its service offerings to support strategic initiatives spanning regulatory domains of Medical Affairs and PV. SSI currently supports numerous large and mid-market life sciences companies.

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