WHEN TWO BECOME ONE. WHAT NEXT?

Alex Bell delves into the management of the post-deal integration phase

It remains a key hurdle and major challenge in making mergers and acquisitions (M&A) perform according to expectations.

Despite more than a century of M&A, the post-deal integration phase is arguably the biggest headache. M&As – which saw double-digit growth of deals in the 1980s and '90s – has been quoted as having overwhelming failure rates of between 60 and 90 per cent.

According to the Office for National Statistics (ONS), the average M&A deal value in 2021 for the ten highest-value deals was £3.3bn, markedly higher than 2020's £0.6bn.

But what does it take to succeed in 2022? And what is driving this need to triumph against the odds?

Digital Adoption Platform (DAP) vendor AppLearn recently completed the acquisition of Slovakia-based DAP provider, YesElf.

The deal enabled AppLearn to triple development capacity and create a best-in-class DAP for its global client base.

As part of the move, AppLearn – which has offices in Manchester, Boston and San Francisco – extended its reach in central Europe, having onboarded YesElf's Bratislava base. It followed AppLearn's recent eight-digit funding from Silicon Valley Bank and Northern Powerhouse Investment Fund (NPIF) – Maven.

Andrew Avanessian is chief executive and says AppLearn services a global customer base but that 60 per cent of revenue comes from the US. "We are like sat-nav for enterprise software," he says,

"It's like holding a giant Rubik's Cube. There are various different moving parts."

Andrew Avanessian

chief executive, AppLearn

before discussing life after the YesElf acquisition. "We were delighted to have acquired YesElf. What it had done was accelerate its AI [artificial intelligence] and machine learning capabilities really quickly because it didn't have the customer base that AppLearn did.

"So, post-deal, it has been a great success. The devs teams have come together super easily, super quickly and we're getting combined products out to the market because we are not reinventing the wheel. It's a case of plugging the best bits of both technologies together."

Avanessian, who describes Manchester as "a great place to build a tech company that is fun and has purpose", adds: "From a people perspective, we knew there was synergy with YesElf and it's proven to be the case, with the teams cross-populating and the merging of all communications channels into one set of technologies.

"It's like holding a giant Rubik's Cube. There are various different moving parts. But it's a process that I enjoy as you have to pull it all together in a particular order for it to be successful."

Manchester-based Andi Tomkinson, partner at Equistone Partners Europe, has worked on Equistone's investments in AFI-Uplift, Concept Life Sciences, Easynet and PD&MS and is currently a non-executive director on the boards of NES Fircroft, Nylacast, WHP Telecoms and Willerby.

Since the start of 2020, Equistone has completed ten platform deals: Access Industrie, Ligentia, Kusters Beheer, KWC Group, Vertbaudet, GSCM Groupe, TIMETOACT Group, Gardengate, adm Group and eperi.

The independent investment firm, which operates across Benelux, France, Germany, Switzerland and the UK, investing as a strategic partner alongside management teams, also completed 56 bolt-on deals in the same period.

Tomkinson says: "The people side of integration [post-deal] often needs to be tackled first because it's about maintaining culture and ensuring you don't lose it. ➤

Retaining identity and sharing best practice

Yannis Loucopoulos, chief executive, Tristone Capital, talks about its post-integration model in the social care sector

"The social care sector is quite unique and with that in mind, we have quite purposefully adopted a federalised structure with a high degree of decentralisation. Every business we acquire, or invest in, remains independent with the boards and management teams expected to be autonomous and harvest an ownership mentality.

"Therefore, while we will look for some sensible cost and process synergies – for example, centralised procurement, IT or insurance – we aren't necessarily looking for the same level of integration synergy as in other buy-and-build strategies."

Following three years of acquisitions activity, Tristone's existing community includes ProCare Wales, Sportfit Support Services, CFS Care, Premier Care Management, Dimensions Care, Juventas Services, Seaside Care Homes and Beyond Limits.

Loucopoulos says Tristone employs a structure where the business continues to operate independently and retains its identity and value base. With no expectations of integration post-deal, he adds: "Our corporate centre has one senior executive for each of the core functions to ensure a sensible level of governance, quality and consistency across the group.

"This model enables us to provide corporate strategic guidelines within which businesses operate, monitor results of major initiatives and check business logic. It also means we can add considerable value by knowledge sharing best practice across teams and establishing key financial and HR policies without risking the quality of what already exists.

"The key for us is not to wade into a portfolio business and make wholesale changes or alter the fabric of the company. We are acquiring already successful companies and our role is to help unlock further value using our strategic experience."


Yannis Loucopoulos

"When an organisation becomes part of a bigger outfit, you don't want it to feel like it has lost its identity and ethos. Not taking your eye off the prize of underlying performance within the existing business is crucial too. That can be quite tricky because people can become excited by 'what is new'. It's a good idea to bring in a business integration manager or similar job title that has this expertise and can set and deliver on a roadmap of timelines."

Tomkinson reckons identifying cost overlay that the combined group can benefit from is essential to synergy. "As is making sure systems are all brought together and they talk to each other," he says. "But the most important thing is being flexible, pre and post-sale and being able to assess quickly what's working and what isn't working and to make changes where appropriate."

Elizabeth Delaney, partner at UK law firm TLT, says: "Many people have commented that any merger activity is like a marriage – two sides coming together for their common good to build a flourishing family from strong foundations. And just like a good marriage, the key to any successful merger is one simple thing – communication.

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Elizabeth Delaney
partner, TLT

"Clear, unambiguous, honest communication from each party is the fundamental criterion to enable a merger or acquisition to succeed."

This starts in the due diligence process, according to Delaney. She adds: "It's clear and straightforward disclosure of the current state of play in the target business together with details of any key information for a new partner to know. This principle continues in the drafting of the acquisition documents – each side of the transaction needs to be clear on what it expects, what it agrees to, what it doesn't and what the key terms and conditions are."

Chartered accountants and business advisers MHA Moore & Smalley employs 320 staff across its Preston, Liverpool, Manchester, Blackpool, East Midlands, Kendal, Lancaster and Southport offices.

Stephen Gregson, corporate finance director, says: "An often fundamental aspect of integration is the degree of cultural fit between the buyer and selling organisation. It is often mentioned, but if the consideration of fit doesn't go much deeper, issues can arise.

"For example, if the acquired staff feel what they work for has fundamentally changed and it isn't where they want to be any longer, those challenges could morph into quite serious problems for an acquirer if key staff decide to vote with their feet in sufficient numbers after the sale." ■