



M&A Science Live with Tim Wentworth: The Role Leadership and Culture Plays in Successful Acquisitions

Tim Wentworth recently retired from his position as CEO of Evernorth. Tim was also the CEO of Express Scripts during the time of its sale to Cigna for \$67 billion in December of 2018. This deal is registered as the 35th largest M&A deal of all time. Tim has been acquired twice in his career and thrived in his new environments.

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TIM WENTWOTH'S M&A BACKGROUND

Let's go back to when I was 26 when I learned almost everything I needed to know about M&A.

I was at PepsiCo and we had acquired a bottler in Tulsa. As we acquired them, my boss said to me, "I need you to go down and run it on your own resources. You're not ready, but you're the only guy". So we inherited a union campaign in a place called Harrison, Arkansas in the middle of the Ozarks.

We had business challenges trying to integrate it into the core Pepsi franchise, and at 26, it was my job to figure that out. We ended up in that case going in and assessing leaders, which is obviously a big part of any merger. Ultimately, we changed out a few leaders because that union campaign was the result of some bad management we had purchased. Using local leadership we won that campaign and turned into a highly operating business.

At age 30, Pepsi sent me over to England to integrate Walkers Crisps. We bought a potato chip company with Pepsi's food business, which at that time was Frito-Lay International. I spent three years integrating that business into PepsiCo. **I joined Medco Health Solutions which was a part of Merck Medco in 1998.** I helped spin it off in 2003, and then we acquired a business called Accredo Health Group which is today the country's most successful biotechnology pharmacy.

It was a big acquisition for a relatively new

spun-out company. I was sent down to run that and I'll never forget it. I actually still have the speech that I gave to the employees at the time. I knew nothing about biotech or pharmacy, but I knew a lot about leadership. I knew a lot about the PBM business to whom they now belonged. There are a whole series of principles that stood me in good stead when we took over Accredo. When I went down, it was with the possibility of having to impair the asset a year after the purchase.

By the time I left, we were growing substantially and today I do not even know what it is worth. If it were to be spun out on its own, I would guess 30 or \$40 billion. It has been tremendously successful with many of the things that we put into place back then as part of that merger. **Of course, we took Express Scripts and Medco and put them together in 2012.**

I was a Medco employee at the time Express Scripts actually purchased us. I remember when I got the phone call from our CEO, Dave Snow, about the merger that had been discussed.

At the time I was about 52 years old and did not want to retire yet. I love the business and thought I could be helpful in putting the two companies together. Culturally, of course, this was a horizontal merger, so it was going to be difficult. It was going to require a real assessment of talent, at the end of the day, 1+1=1.

You needed to pick the best of two for many positions. To give an idea of this, we started with 450 vice presidents when the two companies merged and had 156 months later. There was a process of selecting and structuring the business. Being the acquired company, they put their trust in me. I ultimately became the CEO of that company, which is proof to anyone listening to this, that being acquired is not a death sentence but a massive opportunity. If you love the business you're in and you understand the customers, the profitability, and the underlying economics, you have a real shot.

If the acquiring company is smart, they are looking to pick the best talent that will make it succeed. Most companies do want the merger to succeed. I was fortunate that I was the guy that owned all the customers of Medco and therefore was the natural go-to when we put the companies together. It worked out really well.

Spin that clock ahead to 2018, it only took about three months from the first conversation David Cordani, the CEO of Cigna, and I had to the day we announced the

deal. However, the rest of the process was extremely drawn-out. It was a vertical deal where both of us had a vision. After the deal was approved by the shareholders, David and I spoke about my role.

Of course, having been the CEO of a Fortune 25 company, it was not likely that I would stay in the eyes of most folks. However, I loved the business, loved the customers, loved the employees, knew the investment community well, and knew the business in a way that would hopefully help. The combination began to have real incremental value right on the shoot. I actually volunteered to stay for three years and just closed out what was just slightly over three years. Every lesson I learned over the last 40 years I put to the test in making this merger successful. It was a much bigger merger than any other one I'd been involved in before.

That's the long-winded answer to your question of my background, and it has been a pretty constant theme to be on one side or the other of companies being merged and finding ways to make that successful.



02

KEYS PRINCIPLES FOR SUCCESS

Focus on culture

First of all, I'd tell you that it depends on whether the merger and acquisition is a vertical, strategic or horizontal one. There are some differences and you need to conceptualize that at the starting point as you think about planning the activity of making it successful.

As an acquiring company, **understanding what the synergies and the advantages are in the thesis is important.** You have to have a fundamental and strategic thesis, but I also think focusing on culture and leadership, particularly if you're doing a vertical move is important.

One of the things I did not mention in my background was when I bought eviCore for \$3.6 billion in 2016. **That was a vertical move for me, and it was a new area for us. We were beginning to define ourselves as a health services company.** It was a chance to visually create the transformation that we were

working on strategically by adding something that was different.

We had to make sure the leadership team was on board with this combination and stayed engaged. Could they help us deliver incremental value? It forced us to look at them as equals, even though we were buying as a Fortune 25 company.

The real goal was in that space. They were our go-to-market strategy if that was going to be successful. This notion of understanding the culture and the leadership there worked quite well for us because we wanted to buy a great team. We wanted to lock them in and we believed that we could align them to delivering incentives. **It required a big company to do some things that weren't as natural for us from an incentive standpoint to motivate and keep that group.** In the end, all of them stayed for three years. This is almost unheard of and it ended up producing a lot of value for us.

Do not buy bad companies

I do not believe in buying crappy businesses and fixing them. Some folks have done a really good job of doing that, it is just simply not a strategy that I've seen work often. I'd much rather buy a really strong business with a really strong team, and if it's horizontal, a really strong customer base or geographic depth and figure out how to integrate it without losing the magic they bring to the table.



Stay focused on customers

I think the other piece I would say is keeping focused on clients and customers of both entities through and after the process of merging cannot be over-managed enough. It simply is not possible. Again, the important point that I've learned is how easy it is to focus on not wanting to lose the customers of the company you're acquiring as in many cases that is the reason you're making the acquisition.

It is certainly the reason why Express Scripts bought Medco. We did not want to lose all of our customers. With Cigna buying Express Scripts, we had a wonderful book of health plan relationships that Cigna and I saw as an opportunity to grow health services. Losing those customers would destroy the underlying opportunity to create longer term value as you innovate.

I often see two mistakes being made involving the customer:

1

The acquirer interacts with the customers of the acquired company. **The teams that have supported them are the ones the customers will listen to, not the CEO of the acquiring company.** The customers are going to have questions about the acquisition. They'll wonder how it will benefit them and serve them in the long-run. The answer the acquired team gives to the customers determines your success in retaining them. **You have to start by convincing your new customer-facing employees that the acquisition is in fact a good thing. Their reputation is already on the line with those customers every day.**

2

The acquirer overlooks native customers. The flip side is the place where I've seen us lose sight. **In other acquisitions, you have to pay attention to your native customers.** When we merged Express Scripts, as much as the Medco customers were concerned, the Express Scripts customers also wondered what the changes would mean for them. **The danger for Express Scripts was that we focused so much on those Medco customers and integrating them that our native customers now felt like second fiddles.** They suddenly felt they needed to look around now because they were not as important as they once were. They used to be bigger fish in a smaller pond. Those account teams that service those clients needed to be confident that they were not going to be unsupported or lose focus. Those clients needed to hear that.

From my perspective, both the clients and the teams that support them can not overdo communicating with delivering both ahead of integration and after the merger occurs. **Keep focusing on the customers.** Particularly for mergers that I was a part of, there was always a thesis that had a significant dependency around keeping and growing customer relationships. **From that standpoint, especially in a publicly traded company, to acculate and scale customers validates the deal in the eyes of investors.** It creates excitement. To see customers running out the door because you're not

communicating well with them, gives you that opposite kind of spiral down that you do not want. **If existing customers or acquired customers do not believe the thesis and feel that they are going to be supported, they'll immediately look to your competitors.** A big part of ensuring customer success comes from solid leadership alignment. Ask yourself: **"Was there an attempt to keep that alignment amongst your leaders as you went through that whole transformation or integration?"**

I look at the Cigna and Express Scripts merger and I think what was really important was making sure that we nailed down the top team and that they all felt brought into being part of the new company. This is not an easy task as folks look at their place in the pecking order. Especially in my case, they had all been ELT members of a Fortune 25 publicly traded company. **Start focusing on the places they can add value and having them be a part of the strategic process and so forth was important.**

Because again, in our case, we did not want to lose the leaders. We wanted to keep them while elevating some key leaders. **Especially in mergers like ours, the places we've been the most successful are when we've taken talent from one of the legacy companies and moved it onto the others.**



Culture and Values

Aside from these tactical aspects, there were also cultural pieces where intentionality around culture and values aided to the success of the deal. **Focusing on culture was a big emphasis for our team.** From my perspective, the one thing I learned from my first acquisition in Arkansas was validating the culture and accomplishments of the company we had just purchased. People are there for a reason. When they are part of a merger, it is uncertain and scary. **They want to be understood, but have the expectation that will not happen. From our perspective, it is important that this process starts way before you merge companies.**

It may even start before you begin discussion of a merger. It starts when you begin profiling a chess board. I encourage every company that has the capital flexibility and opportunity to look at potential different relationships and go deeper into culture during pre-diligence.

What do the Glassdoor reviews say about this company? This information alone can not obviate or excite you about a merger, but it certainly will raise the right questions about its culture. I was asked about Express Scripts from Cigna folks. They were aware we had been a company that had rolled up its industry for 20 years. We were brutal. We were a tough place to work and everyone knew it. We were taking costs out of healthcare which was not an easy task.

There was concern because Cigna's culture was very collegial. We were highly innovative, very focused, and very fast. We had been a real bare knuckles company. The reason I was put to lead it was to convert to organic growth. There was no more rolling up our industry and the PBM business. Suddenly we had to be a place that can actually grow relationships with customers and existing employees. We weren't going to be getting another slug of employees from which we could evaluate and select the best.

From that perspective, Cigna was deeply interested in how far along that path I was, and what I was using to measure engagement and employee satisfaction outside of turnover. **One of the fortunate things in our merger was that we found out we were using the same employee engagement device.** This helped have a normalized perspective pre-merger regarding similarities in the culture. **We could quantify the differences and what needed to be reinforced in both company cultures.**

Even Cigna was trying to figure out what would happen to those internally who did the same things as Express Scripts teams. It informed our communication process as well as our leadership selection process. It helped point us towards which leaders we needed to lock down and which ones needed to be elevated. **The employees then can see the kind of leadership to which we're committing.**

03

HOW FAR DOES THAT CULTURE ANALYSIS GET SHARED? DOES IT STAY PURELY EXECUTIVE?

First of all, we put our teams from the two companies together during the merger planning process. Obviously, you have to be careful in case of any gun-j ping risks. **However, you can push hard on putting both teams into a room together and do deep on the data.** We wanted to be explicit and transparent with our entire workforce about this new company and its principles. We began to bifurcate the message with values versus culture. We concluded that all companies have multiple cultures. You go inside of any given company and there are subcultures. Usually adaptive, healthy, and well-run companies are where they let those differences play out.

The most classic example is technology folks versus marketing folks. **They have different missions inside the company and therefore hire people with different biases, perspectives, and interests.** Despite sharing the same goal, your subcultures are different.

We did this between Cigna and Express Scripts, and spent a lot of time looking at the culture. **Equally, we spent time discussing values. We identified hotspots and areas of alignment then constructed a way to**

communicate that to our employees. We wanted to demonstrate our intention to have a great culture focused on the patient and employees.

The values part of this was harder, as these are not negotiable. There are no differences in values across parts of a company. **With Cigna, they had a “no jerks” rule. I think that is a great value and speaks vol es to being challenging and having ideas, but conveying it in a way that doesn’t make you a jerk.** We obviously developed a better statement value from that. Cigna was a highly successful, multi-hundred year old company. They were good at managing risk but not big risk-takers. Express Scripts on the other hand was more ready-aim-fire than Cigna. We were ready to pick fights as that’s how we lower healthcare costs whether with pharmaceutical companies or retailers.

We had to reconcile some of those differences in culture without them showing up in our values and how we work together. **We discussed the value of working with speed and purpose so that it spoke to both cultures and groups of employees.**



04

HOW TO STRUCTURE YOUR MESSAGE TO EMPLOYEES

The CEOs of both companies and myself were deeply engaged in these working sessions. We did not just bring staff work into our offices. We rolled up our sleeves and spent time debating certain words, their order, and forming the best way to communicate our message. I do believe the chief executive officer of any company is the chief communication officer. In that case, this was the most important thing we were gonna communicate. **We could talk about the strategy all day long and the needs in the market.**

However, our employees want to know three simple things:

- 1 Who will I be working for?
- 2 How will I be treated?
- 3 Are the things that are important to me now going to be equally valued in this new combined state?

We wanted to be able to answer those questions with clarity and in a way that left no room for debate in terms of our principles. That was a really important part of it. Again, I think it is imperative that you send it out to all employees. **However, once you put those values out there, you're at risk of being held accountable to them.**



05

STEPS OF EVALUATION AND MAPPING

Values come first. On deals I did not pursue, there were a couple in which I found issues with values during pre-diligence. **Especially in today's world, you can not hide from your reputation.** If you want to really understand a company, you need to be discerning about what you can find in social media and other media sources.

Especially if you're in your general space, you probably have people working for the companies on your chest board. You can find consultants or bankers that have a helpful perspective. You can look at the movement of executives across the company over a period of time to help with assessments. **It requires a lot more work than most folks are willing to do, but that upfront deep profiling of your real opportunities is key.**

Whether you're looking at adventures or anything else, I can assure you it is important. About a year and a half ago, I did what I believe to be one of the first Amazon pharmacy deals. Amazon put their brand on somebody else's pharmacy work and let us run it. That was years in the making.

Getting to know one another and making sure that we would be able to work together in a face-to-face way ensured the success of a deal. I was told a thousand times by people who had not worked directly with Amazon that taking the deal would end my career. It was down to looking at people and lawyer's manners. However, we had lawyers that were enablers and not deal killers which I've always been lucky about in my career. Again, it starts before the merger in your profile.

Find opportunities in current relationships

Most mergers, at least in my world, come from some sort of prior existing relationship. You have to know someone, and eviCore is a great example of that. I acquired eviCore at Express Scripts, and Cigna was their biggest customer.

I actually saw that as an opportunity to build a relationship and maybe sell them to other things. That's actually how the deal got started with David and I. I was initially trying to pitch the white label deal to expand the services platform. Little did I know, David and his board were already looking at a services platform like the culture of eviCore.

I liked Cigna's culture and saw them as a likely buyer for us. There were several other potential merger partners for Express Scripts where the culture of that partner brought up concerns regarding long term value creation and alignment.

I wouldn't have stayed if several of those folks, who I will not name, would have potentially bought us.

Dive deep during pre-diligence

From that standpoint, we had both been looking at each other beyond the lens of business strategy, but additionally in the way we both focused on the market.

I liked their focus on customers and patients. You can not be lazy at the early part. If you do your work upfront, your diligence becomes informed and confirmatory.

Cigna did a good job. I remember John Murabito, the head of HR at Cigna, had lived in St. Louis in the mid-2000s and remembered Express Scripts. He told me what he remembered about the company and asked what it was like now. That was an important conversation to get into regarding values early on in the deal. **You should know ahead of time the questions you want to ask the CEO of the company you are potentially acquiring to better understand their values.**

I think about John a lot, as well as David Stevens from Accredo, and David Cordani from Cigna. In all those cases, I was on both sides of the table, but we always had that conversation about values. Unless you're trying to exit a unicorn, you actually want your employees to land. You want to succeed, and likely have a financial incentive for the thing to succeed.

Certainly, I did in the case of Cigna and Express Scripts, but also for the employees of Accredo and eviCore, we had escalators in that.

We both came to the table wanting to understand value creation but also where the burrs were going to be found under the saddle. I think the other thing that both of us did was appoint really good executives to take the lead on key things.

Appointing key people

Everybody loves to be part of a merger. Everybody wants to be in the room when the strategy is being done and the decisions will be made. **As a CEO, one of the jobs you have to do is be the one driving the deal. There is no delegation.** I learned early on that if I'm not the chief cheerleader for that deal, my board will not go for it. It did not after how much my team wanted to do it. I needed to be front and center. David needed to be front and center.

We both got tested, Carl Icahn actually came out against the deal and David and I worked shoulder to shoulder to gain support for the deal. **From that standpoint, it is important to appoint key people that you can count on to carry the narrative forward and execute pieces of analytics and the cultural piece.** The two HR departments have the important job of identifying who the key people are that will be held accountable.

They also help determine the process for bringing them in and making sure we like the way they are thinking. It involves a lot of checking the work David and I did. We leveraged a PMO office that was the most scaled and sophisticated I'd seen at that point.

Cigna and Express Scripts were well led in our PMO efforts. On the checklist of things for a merger, if I want to buy someone, I better know what my infrastructure has to be to make it successful. **That comes down to which person I'm going to appoint to drive key aspects of the merger. This includes who I see from the emerging partner as a helper.** It requires a lot of socialization to create a natural understanding.

06

TARGET CEOS SHOULD FRAME ACQUISITIONS AS AN OPPORTUNITY

One of things I fought over a lot of years is do not feel helpless just because you are on the “bought” side of the equation. Typically, you are being bought for a reason. They want you to come to the table with your ideas. Do not wait for them to tell you what to do.

So often, folks crawl into their shells. My job as a leader and David’s job was to get our people out of their shells and moving forward to focus on the market and creating immediate opportunities. We launched three new products in 90 days after the merger, and that was not by accident.

We wanted to send a message to our employees and our customers that we were open for business and moving forward. I think that that was the kind of thing that good leaders would try to energize ahead of time. Envision what the market is going to look like three to six months after the merger and how your team can raise the odds of making it happen.



07

MANAGING THE HR SIDE OF INTEGRATION

If it is successful, employees will feel like winners. Get them to be proactive around goals that you're setting. One of the questions related to culture and values that is common is overpromising. I stepped into one acquisition where the CEO of the acquiring company promised nothing would really change. You should never promise nothing will change.

On the flip side, obviously you can change the wrong things. People expect you to change and in some cases even welcome it. **However, they want you to be honest**

and transparent about it and get it done quickly. I think the other piece of waiting too long to make changes is that people do not gain faith during that process. In fact, you can lose some hearts and minds in that process.

The thing that is always interesting to me is quite often, if you've done a good job with a narrative and a theory upfront, the rest is less of a struggle. In the case for Express Scripts, we knew being a part of a health plan would be good for our future.

A number of employees two or three layers down sent me emails super excited about being a part of Cigna. I had to over-manage the first two layers because that is where all the uncertainty was. Our customer service reps were going to keep talking to folks on the phone that were having challenges with taking the pills. Their jobs weren't going to change much. **They just knew that they are now part of the company that probably had a brighter future because we were inside of a bigger health plan.**

However, the person who was responsible for our clinical decision-making now knew there are people in Cigna that are also clinical. Managing the messaging and the engagement of that first layer or two underneath the CEO is actually much harder than it is the broad workforce.

We spent a lot of time communicating to the broad workforce. Then we engaged and kept an eye on the top couple of tiers. We wanted to be honest with them and remove uncertainty. As soon as you can recognize not everyone is going to probably be able to stay, solve that problem as quickly as possible.

I think if David, the CEO of Cigna, was on this podcast and answering a question on what I was most helpful in, it was being intentional about this in the first six months. I took our top 150 people and their top 150 people and asked which ones were important to keep. Then it became something to deliver on and gave me a very specific 150 people that could be mapped.

08

NAVIGATING BENEFITS

Another mistake I've seen is implementing HR systems too quickly. There are a number of flavours around that. One approach is simply transferring all the employees to their benefits. This one almost feels inevitable. Whoever bought benefits were cheaper than theirs, which means it will cost money to perform the transfer. In many cases, those employees had the benefits they had because of either local differences in benefits or because the industry they were in was somewhat different than the core industry. In other cases, the competitors just did not have that same benefit. **That is what you benchmark your benefits: to is your local market and where you're competing for labor from an industry standpoint.**

I've seen instances where HR would come in without a lot of strategic thinking. They'd raise the cost basis on synergies, and frankly not get a lot for it in the end. **A better option is when you start looking at the top two or three layers, hardened HR departments will want to force people's titles into the acquiring companies rubric. I do not recommend that.**

When I bought eviCore, those guys had EVP titles. I had some VPs reporting to me at Express Scripts, but they weren't obviously at the same level. These guys are being paid to market their titles. Why would we screw around with them? However, it was one of the few foot faults we made early on in the merger. We were hasty with mapping jobs and career architecture for a really good reason. People would want to move talent back and forth, but there needed to be a normalized perspective on people's bonus targets and titling.

I will tell you that, that there is no price for doing that quickly at all, and it usually doesn't end well.

We had to backtrack and slow it down a little bit. I think it's that HR can not be done too quickly but ensure communications are honest and transparent. Take your time, be thoughtful. Do your diligence really well. **If something's going to cost you money, put it into the diligence number so you're not trying to find it after the merger.** The HR side could be meaningfully better in some of the acquisitions I saw.



09

CIGNA ACQUIRING EXPRESS SCRIPTS

The story of the deal

It was really fascinating. The context is really important. Express Scripts had just been told by our largest customer that they were not only leaving us, but suing us for billions of dollars for a lack of performance in contract based on their assessment. We were steadfast that they were not going to win and our investors generally believed that. Nonetheless, we were in the process of losing our largest customer. We had just told Wall Street that this customer comprised somewhere between 20 and 30% of our operating margin, so we were still going to be a Fortune 30 company when they left. We'd be fine.

My job of helping our employees stay focused was more important than my job even with the investors. We were looking to somehow backfill some capacity that a large customer leaving over a two to three year period was going to create. I was looking for white label deal. Cigna looked like an interesting merger partner, but I was not that far ahead yet. We had to put it on the game board.

We really had not activated it tremendously. When I bought eviCore, it kind of really brought Cigna back into view. That was the context for my first meeting with Cigna. Cigna on the other hand interestingly had a failed merger with Anthem due to regulatory issues. Again, both of our companies for different reasons were a little shell shocked. We both were not wanting to be in the press for something that was not going to work.

The last thing David wanted was to try to do another deal that was not gonna work because he just put his people through a really difficult

two year period. The last thing I wanted was a narrative on the street that my company was for sale because we were somehow damaged goods due to the lost deal. In that context, it meant both of us wanted no leaks. It meant both of us wanted a fast resolution to a decision of whether we should merge the companies or not. **Both of us needed to understand the regulatory environment exquisitely well, to make sure that we do not have a footfall there and announce something that we can not actually close on because of regulators.**

It also meant we had to know our shareholders well and guide them along a narrative about where each individual company is heading to the point of David and I sitting together. Once all that earth was taken care of, the speed could actually happen.

More importantly, you can get into the real substantive depth of understanding the deal. I first sat down with Eric Palmer, who was the CFO at that time, and a couple of his colleagues. I believe it was either Halloween or the day before in St. Louis. The idea was to talk about our key capabilities and their needs. We discussed a white label deal, possibly, and reached out to them through our sales channels. I actually did not know David. We did not have a relationship. From there, two weeks later we were up in Connecticut and again, it was a nice dinner. David was there, and we got to know each other. We talked about the role of physicians and the role of the specialty biotech pharmacy that I had run back in 2006. We discussed the relationships with the most valuable patients and how to service them.

On December 7th, David came to St. Louis and we had another dinner together. He asked, "What do you think of the conversations that we've had so far?" I replied, "I think there's a lot we can do for you." He said he was thinking bigger and that he had an idea. I tried to merge with another large health plan and they wanted to go down a different direction, so I did not want to appear overly anxious. I also was scared to death of being perceived as being for sale. Our stock in October of that year, just some for some perspective, had been \$55 a share.

The deal we did on March 8th was \$97.50, so I was also trying to not rush too quickly because we were starting to come back. We had announced earnings, and we were having very good results actually. The good news is that we were fundamentally performing very soundly. David and I agreed on the seventh, I had a board meeting, interestingly enough on the eighth and ninth. I told them I would talk to my board and give them an indication that there could be something interesting here. For both of us, the conversation at that table was about regulation. Of course,

Obviously having just had a failed merger and my board having just seen our largest customer leave, we did not want this to be a fire sale. Given that we all believed that we had a very high intrinsic value in the longer term, my job was to convince David and his board of that. We were at the JP Morgan healthcare conference the second week of January. We had a couple of meetings between December 7th and the conference with our teams in secret locations. **At that point, I had hired an investment banker and one of my ideas was to offer our investment bankers a four basis point, no leak bonus.**

Cigna got a bit indignant, as they never leak. While reassuring them that I knew they never leaked, I wanted to make sure they did not by offering a reward. We hired our bankers. And seeing as every CEO in healthcare in America goes to the JP Morgan conference in San Francisco, David and I met in the backseat of a car. Actually, I had just sold Wells Fargo and

met with their CEO in his hotel suite. When I got back in the car, his driver flicked his lights and we drove around the corner. He got out of his car and got in the backseat of mine. My driver got out and people we know are walking past the car. **Thankfully, they were blacked out windows and David gave me the first offer for the company.**

I looked at it and told him I would talk to my board about it, but that I was not excited about it. I thought there was still strategic validity in what we did. Interestingly, not an hour later, I did a Bloomberg television piece where I was asked, "If someone like Cigna were interested in buying, what would I do?"

What would you do? And I said, "Well, if it's an offer, I can not refuse. However, I believe in our standalone model." It was strange. **Two hours after getting the offer, I was on Bloomberg being asked about a hypothetical potential of it and having to look the other way.** The rest of January we go back and forth a bit. I countered with something that David needed to spend some real time digesting. He called me back on a Sunday and he needed some time. He had a few thoughts. One of the things I did in the deal was I asked for a large \$60 million contribution to the Express Scripts foundation because I told them if we do this merger, St. Louis will be left behind. we had both done some preliminary regulatory, customer overlap. The good news was because I had health plan customers that might view Cigna as a competitor, the overlap was good.

That means we were really expanding reach in the market for both companies. We talked about which bank has a shared view. I'm not going to tell your viewers or your listeners which ones, but I will tell you that it is well-known in the healthcare space. David and I settled on the bankers that we wanted to use if we were to move forward, and we agreed speed would be of the essence. My challenge was I had a board that saw speed as a potential risk. The stock price was just rebounding, so managing a board became very important from both CEO's perspectives David's board.

Often when companies have merged and the headquarters have been moved, we needed to send a message to the employees of this combined company that we're in St. Louis. If we get this combination that we are there, that we are going to stay engaged and that we've delivered on that promise. He was really curious that this was my counter. It's the end of February when David was ready to give me his final offer. He was in Arizona for a board meeting, and I was in St. Louis for an earnings call. We agreed that we would snap a chalk line on the map.

We flew our two jets to Dodge City, Kansas at nine at night. In such a small airport, the pilots actually turned the lights on with a radio signal. I do not believe there is even a control tower. We landed those two planes, and probably for the first time in history in Dodge City there were two private planes on the tarmac. We spent about an hour recommitting to the strategy. During our first meeting, we talked about the healthcare system and what we were leaving to our kids and how we could do better. **Between our two companies, there was a thesis that we both agreed upon early on.**

We talked about that thesis. We talked about where we were at on the numbers. David said, "I'm willing to give you a final offer today. That literally is more than I think I have to give you in some respects, because I think we've got to get this done. I think there's a lot of value here and I could probably force something to your shareholders. That would be less than I'm about to offer you. By the same token, I really think this is something we want to do."

He made me an offer. I asked one question about it and we shook hands. On March 8th, we announced the merger having had no leaks at \$97.50 share, half cash, half Cigna stock. I thought it was undervalued at the time, and I had to talk to my board about some concerns about Cigna's heavy commercial book of business.

There was a theory that only growth was going to come out of the government and that the payers in the self-insured business were going to get out of the business. We never believed that to be true. From March until December 20th, when we actually got the deal, we went to work and put our teams together.

That period of time you can do an awful lot of good to get out of the chute, which is what we really feel the need to do. David and I spent a lot of time with investors, and obviously with the Carl Ichan situation and dealing with regulators. We had teams that were being playful about the culture, talent, and day-one activities. It was very symbolic.



One day one, we had employees in over 20 locations, packing backpacks for kids in need to take to school. We made a \$25 million donation to childhood hunger that day as well. **Our combined company sent a real message that we were going to engage our communities and that we were going to be the kind of company you'd expect us to be.**

Being highly intentional and visible as two leaders, it was quite a piece. We never had the leak, as I said, so the investment bankers got their money and the shareholders overwhelmingly approved the deal in August of 2018. Then we just moved through the regulatory piece.

With no detail left unturned, you had 50 states or just about 15 that we had to drive approval through and make commitments to and so forth. We were able to get all that done by the end of the year. We had to keep people as both companies were in their sovereign states during 2018, trying to grow and deliver value to the marketplace.

In fact, I had one of the best years I ever had in new business retention and profitability the year that we were actually working through a merger. We stayed focused on our customers, and patients saw that as part of the vision of the combined company coming out in January.

We were proudly delivering on our individual promises before we began to deliver on synergies. This showed our existing customers in both companies that we were not losing focus. I think one of the best things that we could say about what happened that year was that our customers were front and center the whole time. It sent our employees and customers a strong message.



Convincing the board

I'll speak for my board and Express Scripts. In my case, I did not have a split board thankfully, but I definitely had a board that had different opinions. Some thought we were worth quite a bit more than \$97.50 a share. If we sat still, maybe we could go acquire something else. **We had done a good job finding and acquiring eviCore. They had confidence in my leadership.** Thankfully, the flip side was I had some board members that were looking at David's offer prior to \$97.50 thinking, given that we were at \$55 and were losing a large customer, the future was uncertain outside of this Cigna deal. This is good for our sheriff.

There was some real debate. I actually hired a second investment banker specifically because I was really trying to ensure every one of my board members felt that they were spoken to in a way they understood. I used two very different investment bankers. One had a good relationship with a couple of powerful directors on my board. The other had a long history with several of the most senior members. You also had some board members that were new and looking to the others to see how to feel about everything.

My job was to make sure that everybody felt heard and saw the deal as a strategic and financial opportunity. I wanted to move the debate to the things that mattered because there's a lot of emotion in these things, as you can imagine. Especially among some of the long standing board members, I think this may be one of the only deals ever that did not leak and where no one was paid to keep the confidence in terms of bankers. I also think it is fairly unique that the boards never communicated or met David.



Building trust between leaders

I did this entire deal between the two of us. We each had the confidence of our board. We each were doing what we had to do to manage our board. In my case, I did not want David to even think I had a split board or a board that might be more anxious than not. It was my job to ensure that I represented all my shareholders with an asset that was valued fairly.

David's job was to make sure that he got what he paid for in the deal. His board trusted him, and my board trusted me. When we shook, there had never been a meeting. He insisted a couple of times that he'd like to talk to his board chair, but I assured him if we wanted to get this deal done, it would have to be him and I. My board doesn't require it, and if yours does, then let's have that conversation. Otherwise, it's not necessary.

I can not emphasize enough how much it pays off to build trust between leadership. In every deal I've done, it has happened. Looking at Accredo, we put David Stevens on the board at Medco. It was a really smart move by David Snow. John Arlotta from eviCore came onto my leadership team and had a special place on it. **With Cigna, David and I built trust through those first months that I told you about, and I did some things that were intentional.** There

was a point where one of my bankers told me David thought I was parallel negotiating.

In some respects, it would have been good for me to have David believe that. Maybe it would have made him more nervous and so forth. I've actually made a decision unilaterally to pick up the phone and let them know I'm parallel negotiating for a particular reason. I was giving David my word. I let him know that this deal is one I want to get done. My board wants to get done and I do not want to blow it. I wanted him to know he had my word, and I had already done my outreaches long before that point, as I was obligated to on the part of my shareholders. **I assured him the two bankers I was working with were to get this deal framed and done. That effort and confirmation built a lot of trust.**

The building of trust is iterative.

If you view the process of getting to a deal as an opportunity to build trust, particularly if it is a vertical deal where you want people to stay and be part of the new team, this can not be overdone. The by-product of that was both David and my team were reinforcing a positive narrative built from trust and reciprocity. It was a narrative of shared value, ideas, and creation that of which we'd belong. That made all the difference in creating the hearts and minds that ultimately came together in December of 2018.



Convincing Carl Ichan

Carl and his company were a customer of Express Scripts and now Cigna Evernorth. His chief administrative officer is a good friend of mine. **We did not talk for about four months because we felt it was not appropriate. I have nothing but respect for Carl. He has done a lot of value creation over a long period of time.**

I'm going to quote a very well-known hedge fund guide that I'm very good friends with, "If Carl Icahn pulls up at the poker table, I would prefer to go to another table." That was not my choice or David's choice, but we were in one of the rare situations where his calculations were not on target. I think if he'd known everything that was to be known, he wouldn't have come out against the deal.

He wanted to see David and Cigna do something that was highly valued creating, and he was right to want to see that on the concern that our business was existentially threatened. The PBM business has always been in the cross hairs because we create a lot of value. **Large industry groups such as pharma lineup try to create a narrative about the industry on our worst days, and that can cause all sorts of questions to be raised.**



I'd also say some of the most value creative things we've ever done have been with pharma retail, but it is a sort of yin and yang of the relationship and the industries. Carl had bought into his calculation the threat that we were losing our largest client. You could point to the facts that would have said Express Scripts is a troubled asset. Cordani and his team rightly saw and that's why I could not have stayed three years, but I thought they were buying. I was not gonna walk into that board room every quarter and look like a monkey.

I did the opposite. I was proud every time I walked into the board. I let them know they bought a great company, and showed them we've grown at 10% plus a year for the last three years since the merger. With a hundred billion plus dollar company, that never happens. From my perspective, they did buy a great company.

Carl just did not have all his facts. I think he had an analyst that did very poor work, and he found out that he actually could not create the amount of shareholder accumulation ahead of a vote that he thought he could. **The dates were not understood by his analysts as they should've been.**

To the extent he would have maintained energy after getting the rest of the facts, he actually did not have the platform that he would normally have had because he was late on our deal. **The good news was though at the end of the day, shareholders have to vote and they got to see firsthand that Carl did not like the deal he did, and as I said, ultimately back off probably made a bunch of money on the deal.**

It's compelling that over 90% of Cigna shareholders voted for the deal. They saw the strategic piece and that's because David did a stupendous job meeting and talking with investors. I think it spoke volumes to our leaders, investors, and customers. I signed up as fast as I could, so I could send that message. I was a hundred percent committed and believed in this combination.

Thankfully, there were some very large institutional investors that were watching very carefully and quizzing us hard. They did not see us blink and ultimately supported the deal.

ISS and Glass Lewis both supported the deal which helped greatly alleviate worry around the challenge of execution. I think we did a tremendous job with managing culture.

You still have folks playing “wait and see” on the side of the Express Scripts team or pointing into the other things that may not have been exactly as people would have hoped. **Some of the HR stuff in hindsight, we would have done differently.**

One thing I’d recommend in a situation like this is, funny enough, the solution I used to make my career in PepsiCo. Given a deal this big, we should have had a super senior HR leader physically go and help with translation.

It is much harder to do. We had a really good person engaged, but he was sort of part-time and lived in the Northeast. He did dip in and out. However, in my experience, it is key to take the time to map out the differences in the HR systems and processes and find alignment in a way that people feel engaged. .

I think we lost some of that opportunity early on, and it took some time to recover. We were fortunate. We kept most of our leaders. **Our retention in this deal has been very high because the vision was so clear.** The HR thing is where these things are more than likely going to live or die. The financial thesis and market need will always be sort of approximately right.

If you’ve got it understood why it must be approximately correct, the rest comes down to the people. I just think as much as we did, we could have even done a bit more.

Success factors in the deal

Preparation, preparation, preparation. The things that we did in that period of time before the closure that kept us in good standing with customers and employees, and helped folks understand what we were planning.

We got them excited about launching brand new products into the market. I think that the magical piece was promising these products early to everybody: legislators, customers, and employees. For example, we launched a thing called Embark. Embark was for the first instance where small to midsize employers, governments, unions, could at a no-profit to us premium, defray their risk of the new gene therapies that were coming out at \$2 million to cure blindness or spinal conditions in babies.

These small to midsize self-insured employers were scared to death that they’d get one or two of those babies and it would wipe out their benefits plan. Because there was no

profit, we were able to underwrite it and offer them a PMPM (per month per member) fee of less than \$10. Then they’d be totally covered for those patients. There wouldn’t be any hoops and ladders they’d have to go through. We knew that these drugs were going to be pushed back on by payers who can not afford them. **We want access but you had to price them fairly.**

We offered to be the chassis that can monitor those patients. We created value for the pharma companies and for the patients and payers of the combined companies. Day 60 after the merger, this product sent a powerful message about why this combination would and could make sense.

Then we launched Evernorth about a year a half later as a go-to-market services brand to send the message that we’re a company that is intentional about serving the healthcare marketplace. Those things that are highly symbolic and really do matter to customers.

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ROLE OF THE CEO IN AN ACQUIRED BUSINESS

You have to be the chief cheerleader and the chief communications officer. You have to keep your board excited. The hard ride by board gave me to buy eviCore was amazing. They were correct to be concerned but any blinking that I would have done meant that deal would not have been approved. That's also true of this merger with Cigna. I think David's board never saw him blink; my board never saw me blink. Your role is to be owning and driving.

I remember in 2007, when I was running Accredo, we really wanted to move into oncology. There was a particular asset that was out in the market. I looked at it, and in my heart did not think it was a good fit for us. I think it was going to perform. I did not like the thesis and I turned out to be right, which in hindsight is awesome. However, at the time I did not know that. I went into my boss's office, and it was one of the bigger mistakes I made in my role. I proposed it to him, and he asked,

"Do you think you can buy it or are you passionate to buy it?" and I replied that I was a CEO but think it could give a good footprint as an oncology strategy. He said, "If you're not going to exude passion for this, why should I with the board?" He's right. I pulled the reins on that possibility and we let it go. It turns out that it was the best decision we could have made.

We did not buy it. In fact, I think three of the best deals I ever did are the ones I did not do. My big lesson learned as a CEO is you have to believe in it. It's not sufficient that your people are excited. You have to internalize it, spend time on it, and own it.

How do you lead your people to embrace the acquisition? You've got to be willing to walk on something that they are split on. They saw me walking a couple of things where I had people in the room that were pretty excited, but we could not get a consensus, but they saw I was willing to walk.

I was not a micromanager, but I was certainly a hands-on CEO and I wanted details. I wanted to ask questions. George Paz was brilliant at that, and I learned that at his feet to some extent. When I joined Express Scripts, he was relentless. **With George, a meeting with bad news was better than a meeting with good news.** He would just go deep enough to find the bad news that you hadn't found yet. That's not a bad process when you're looking to spend your shareholders' or investors' money on something that theoretically should add more value than doing something organically. You better believe in it. As a leader yourself, you'd better have gone in on it yourself. Because if you think to yourself afterwards, "Man, I wish I had known that", you have to live with the consequences. You show your team that you're going to be asking questions and that they better do their work twice.



I remember a great quote from Henry Kissinger was when someone placed work on his desk, he'd ask, "Is this good enough for me to put on the president's desk?" Usually someone would take it and work at it a bit harder. I think it's important to force people to be really deep in their thinking and explore the negatives of why it might not work. It's important to cover mitigation and cultural differences. They are not going to get easier to manage your better once you've signed the deal.

This also demonstrated how committed they are to it because you wouldn't put in the effort to something you did not believe in. If your team's not committed and you're not committed, how is it going to work? The bottom line for me is preparation and knowing yourself well. Being about who you are to your team and your board. Map out your culture, values, strengths, and know your leaders. Are they ready to be a part of a company that's making an acquisition?

It distracts and takes time and focus. It requires real leadership.

From a standpoint of really understanding the cultures and being intentional, it doesn't mean you can not put companies together that have different cultures or even different values. Rather, **It means you better be honest with yourself about what the implications of that are and how you're gonna manage them upfront.** The role of HR can not be understated in helping both you as a leader and your team in mapping a process to quickly moving into a new normal.

You should not try to make apologies for it. In situations where you have to pull the bandaid off, pull it off quickly. Do not ever commit to not making change. People need to be ready for change. What they need to know is how you're going to communicate and how they can tap into information. **They need to believe that the information is credible.**

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WALKING AWAY FROM A DEAL

I did walk away from one that my board and my team was really excited about. **The reason was that they had a culture that was known to be very loose from a regulatory and compliance standpoint.**

They were touching patients and the words that would be used about this company cleaned up a lot of that.

I had dinner with the CEO and we were a pretty natural buyer. I mentioned how much credit they were getting for cleaning it up, and wanted to see where they were in that process. He said that they were around 70% done. The deal died at that moment for me because I thought I'm not going to be smart enough to find the 30% that's too hard for you to fix. That also means they did not have the people evangelizing around this need to

transform.

You're just cleaning it up the best you have to get it sold. What I'll say about that is I've watched that acquisition subsequently and it was a major value destroyer for the acquirer. When you buy a business, you have to have your eyes widen open to the size of the challenges in front of you. We did not have the bandwidth to address those challenges at the time.

It would have been easy for me to sell that company to my board. All the financials on paper looked brilliant and the synergies were all conceptually there. **Generally it takes people to keep the customers. It takes people to believe in the mission.** If you do not see a pathway through to that, it's hard to succeed. I dodged a bullet there.



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CLOSING Q&A: “WHAT’S THE CRAZIEST THING YOU’VE SEEN IN M&A?”

At one level, the JP Morgan conference with David Cordani and I sneaking into the backseats of cars, flying to clandestine locations to agree to the deal, these situations were pretty crazy.

However, for this podcast, I think the craziest thing I’ve seen is that somebody would take a 26 year old and place them in the middle of a newly acquired business that was underperforming, had a union campaign, and was in the middle of nowhere. **On one hand it gave me the chance to show what I could do in aligning that business to our corporation. However, in hindsight it was a crazy situation.** However, that trust was my encouragement to my Cigna colleagues at my retirement.

One of the really cool things about a merger or acquisition is the chance to identify a couple of your up and coming leaders. You find a very different muscle for them to stretch and will

learn so much more about them. I can promise you, I would not have been sitting here today as a CEO of Express Scripts. Ultimately, eviCore had not been thrown in the deep water early into these novel situations that required sensitivity, thoughtful process, and alignment to the strategy and value.

When you make an acquisition, I can think of a young man who I loved, but he’d always been in the strategy vertical. We bought this particular small company and I was able to have him sit on top and run it as a portfolio company. He learned a ton, but more importantly, we learned a ton about him as it succeeded. **The craziest thing I’ve seen is also the smartest thing I’ve seen. If you take someone with the right values and they have good intellect, good commitment to strategy, and throw them in the water, you’ll watch them thrive.**

