M&A SCIENCE

HOW TO SUCCESSFULLY EXECUTE DEALS AS A ONE MAN M&A TEAM, AND BUILD A GOVERNANCE AND INTEGRATION STRATEGY

Tomer Stavitsky

Corporate Development, Head of M&A

1. Tomer Stavitsky's M&A Background

Tomer Stavitsky is the Corporate Development Partnerships and M&A Lead for the Digital and Data Business Unit and Surgical, Intuitive Based out of San Jose. Surgical is a maker of robots for surgery. Their flagship product Devinci is in nearly every major hospital, and they're also a $120 billion NASDAQ traded company. He has over 15 years of experience in M&A, including a mix of tech investment banking, consulting, partnerships, development, joint ventures, and acquisitions.

Currently, he leads the digital data corporate development efforts for Intuitive.

2. How to Plan Your Deal Strategy

Start with the strategy before deal sourcing to determine if the strategy is solid enough to actually enable the acquisition. Once the strategy is set, you can start to source the deal. Go out to the market and make sure that the deal aligns with the strategic goals that you uncovered. Pick the people internally who would work on the diligence and integration planning. As you do this, check for alignment between the various teams that are involved in the process in order to prevent work silos.

Next, go out and conduct the diligence and integration planning with the teams. As you do this, also work on governance, prepare a pitch based on your reading of the situation at hand. Collect various team members' feedback and conduct alignment with both your own management and the target company at its required management. This includes creating a steering committee and board of directors structure. Continue to execute on the integration until the 30, 60, 90-day plan gets to a steady state. At that point hand off the reins to the long-term integration lead for the business, but still, stay involved in monitoring the situation of the deal even up to a year after.

3. The Benefits of Sticking Through the Whole Experience

It's the collective experience that a person gets from being exposed to all facets of the deal. By virtue of being there, exposed to everything that's happening, the good and the bad, you learn potential issues that can bubble up. You can then share and guide the long-term integration week, the steering committee, and executive management. The beauty of this is that you can segment certain chunks of tasks that a person needs to do. After the business development, you can hand off-range to the long-term lead. If a certain issue comes up that was dealt with previously, then the long-term lead can reach out and ask you for advice.

4. How to Make Sure the Strategy is Solid Enough to do the Acquisition

Start with anticipating the trends of the market; then, to go a step further, actually talk to the market. Go out and talk with companies in this space; have phone calls and emails. Position this as you're trying to landscape the market and learn more about it. As you do this, try to understand how these companies that participated in the market actually work, where they're going, what they're doing, etc. To complement this view, go out and speak with users of the technology or product. These market studies can be done by either yourself if it's a very high-level discussion, or team members (they have a competitive intelligence team).

Focus on making sure that the problem statement/cases that they have to revolve around bringing value to customers. There needs to be a very clear problem that is being solved. The next step is how to monetize this value. This is typically dollars, such as more revenues, fewer costs, etc. but it can also be a more efficient experience for end-users.

Use these elements to continue evaluating the strategy at large, and do quarterly updates at least to the deal and M&A strategy.

5. What Kind of Language to Use When Approaching a Company and Their Customers

It depends on the context of the situation, for example, you're trying to learn about the market. That is exactly what you should say. Be upfront with them. Tell them, "hey, we are considering doing something in this market. We want to talk with you, and everything is non-confidential at a very high level." It's done for learning purposes, so explicitly saying that in calls and outreaches. There's a benefit for companies to talk to a major player in a given market, and one of the companies that you talk with could become a target.

6. Mapping Out and Trying to Identify Patterns for a View That Lays Into a Strategy

Start with a certain strategy in mind; do this over a certain timeline because it's going to have a competitive advantage. As you talk with companies, sometimes changes are needed in the strategic mandate that you have. If you hear it from a couple of companies, then go back and have discussions internally to propose changes to the approach. You want the approach to be effective and current, an evolving process.

7. Ensuring the Target Aligns With the Strategy

This is more art than science. It really involves doing a lot of diligence; deep diligence on understanding the individual goals of key talent and the target company that they're acquiring.

What is the target company's existing strategy? What is their vision? Where is their roadmap actually taking them?

Also, look at their past experience and assess from your conversations and observations.

To give an example, you may have personal relationships with investors that might have heard or know something about this company in question. Leverage these connections to go and have a conversation. An informal conversation with these investors to learn about the company question gives you another piece of the puzzle. Then take everything, all these facts, and go internally and couple this with the deal team's impressions. Go to the executive management of the company, and in some cases, even organize a meeting between your own executive management and the target's senior management. Do this during the term sheet stage where the goal is to help educate the management and yourself. You can learn what the target is doing and the vision. More importantly, it also serves as another set of eyes to evaluate the fit and capabilities. Use what you learn to determine if you are comfortable putting an LOI out there.

8. What the Sign-off Looks Like

The sign-off process entails pitching to the executive management, and the company they work for. You need to approve both the definitive and the total amount that's being paid. After you get their approval, (depending on the scope of the deal, whether the company's public, how large the acquisition is, etc.) it might need to go to the board of directors of the company. When there's a presentation, and there is a full sign-off, everyone can proceed.

Next, build your deal team. It starts with sketching out the timelines and the overall tasks that are needed during diligence and integration. Then, map out the functions that are needed to accomplish each task and think through exactly who you need. Pitch your recommendations to each team member individually to get them on board. Also, weigh their availability to accomplish the tasks at hand to a given timeline. Try to be completely transparent with them. Tell them, for example, " I need 20% of your time over the next couple of months" and next ask for their commitment, to accomplish this 20%. Have them also appoint a backup in case any availability issues come up in real-time.

9. Any Diligence or Vetting Out You May Need to do

It really depends on the situation and some things are less complex than others. For example, if you're evaluating the accounting of a company and they have standard accounting, then you probably don't need too many resources or too much effort in that particular area. On the other hand, if you are assessing a very complex supply chain that is across the world, and it's in an area of the world that maybe your company doesn't have a lot of experience in, (or it's in a product area that people don't have the necessary skill set) then it complicates matters. In these cases, involving more people internally is recommended because collectively they might have the full picture. In some cases, you might even want to involve external resources consultants that have a very specific skill set and experience with the particular area in question.

10. The Team - Responsibilities, Timelines, & Challenges

To help organize team responsibilities, you can create a cohesive document that is shared across the entire deal team. The goal here is to make sure each and every person on the deal team knows their tasks, the timeline, and the tasks of other teams. Having people align on the diligence and integration structures before they even start doing the diligence allows people to come up with ideas, thoughts, and challenges.

Another thing you can do is keep an issue tracker, which should be a live document. Share this document with the entire deal team, and everybody is able to assign tasks and action items to

specific people. Then this creates a sense of ownership to the people that have the action items. They need to agree to work with these action items, and they need to agree to a timeline. Then each week, when there is a joint call, ask for updates in real-time. That provides a more comprehensive view of the deal and the challenges.

In addition to an issue tracker, another useful tool is a roles and responsibilities map. Do not wait until integration starts to create one, but rather during when the governance structure is being built.

You should also build the integration planning before the term sheet. Think of this as a ratio, matrix of sorts, where you map every role in sensibility across the board and the team. This doesn't just involve the people that are doing the work on diligence or integration. This also involves the deal sponsor, executive committee, and board (if they have a role), and the goal is to assist; to make sure it's clear and simple for everybody to know what each person is doing. This helps keep the deal moving along. It saves time, resources, and has a lot of benefits. Things can become quite chaotic later on if this approach is not taken.

11. Aligning the Diligence Process with Integration Planning

This has to do with speaking through everything with integration, planning, and all the activities that are before the term sheet. Before one submits a term sheet, it is helpful to have the functional duration leads to be either a close contact of the diligence leaders or the same person. The most effective thing is that the person that does the diligence is also the person that does the integration. This is because the people that discover the diligence findings prioritize them. They're then able to translate in real-time to integration activities instead of handing it off to another person. That is where effectiveness comes into play. In fact, when the process is started, that is when the diligence and integration planning starts to explicitly say they're doing both of these things at the same time. Provide templates to people that they can utilize if they want to, in diligence and integration. Even the 30, 60, 90-day plan should have a template. Focus first on the 30 days, moving to the 60 days, then moving to the 90 days.

12. What if it is a competitive process?

For some companies, it helps to identify repetitive items that have to do with diligence and integration planning. Some items just keep repeating. There's no use in asking the integration planners to repeat the same thing for each deal, so utilize templates to contain some of these activities. If it's a tight deadline or even a situation like 2021 (a highly competitive process), and you're getting little to no exclusivity period, some items get thrown out when you're trying to cherry-pick key diligence items. Even though the process is competitive, you can still go quickly if you plan in the right way. You have to balance the amount of planning and the amount of execution through the deal timelines. Of course, if you're going to have a very short window of the sensitivity period, then you're going to spend more time planning ahead while you have it.

Also, spend more time on execution during the exclusivity period. The goal is to always adjust the situation to what's currently happening.

13. How to Build Your Governance Structure

Start with thinking about how the steering committee and who's going to be participating. What's the structure? In order to do this, begin with understanding and weighing the deal goals. Do they have the deal strategy and the overall desired timeline of tasks that need to be accomplished? Next, weigh the complexity of the target company, the business that's being acquired. Weigh the culture of the target company and their own corporate structure, where they're located, how they're formed, etc. Along with a very deep assessment of the strengths and weaknesses of the key talents, take all of these parameters as a package. Couple these with all the issues that were identified during diligence. The complexity of all these integration tasks that the team came up with, along with several talent management and technical talent, are growth areas that need to happen. All these parameters lead you to choose certain people for the steering committee. It is important to know that the steering committee could actually be larger or smaller as a result, and it potentially has subcommittees.

14. The Context of These Sprouts

If you were to run an acquisition of a business that's operating in a country where your company doesn't have a direct presence (meaning it doesn't have payroll, HR, accounting, etc.), then that will lead you to have the target company more independent in the first year or two, and fuller integration thereafter. If the company that you're acquiring needs to move much faster, certainly leave them to execute on their own while only fixing the critical issues. It's important to have membership from both the acquired company management and your own management. There would definitely be more meetings in the beginning. For the first six months, you can have a monthly meeting with the steering committee, and then you move to quarterly after things have become more steady.

15. Who governs the steering committee?

There is typically a head of the steering committee, but it really depends on the situation of the deal. This person could be the deal sponsor, for example, the head of a certain business unit that is acquiring the entity it's going into. In another case, if it's a really big acquisition, it could even be a C-suite. When recommending these sorts of things, you weigh the goals and who would be best in the shoes as the head of the steering committee.

The integration lead and steering meeting should be in constant communication to keep each other apprised of how the integration is going.

With the steering committee, the big components or roles for them are decision-making, problem-solving, and giving advice.

16. What People Get Wrong When Setting Up a Steering Committee

When a company places commercial people on a steering committee, or they put an executive that doesn't have to do with dissolvement directly, it causes a gap. If that development person is not there, then that executive has to take all the information you've gathered during meetings and integration, and then go and deliver it to another group. This information could change along the way a bit. There could be misunderstandings and it also potentially causes delays throughout the whole process. It is difficult to make these kinds of decisions in real-time.

17. Other Things to do Pre LOI Related to Integration Planning

Try to have a very clear idea of what the deal is about, including all the issues that may occur when integration is done. Integration directly ends around the 90-day point because that is the point where the reins are handed-off to the long-term integration lead, but obviously, the work continues because the long-term integration leads continues to do the work. Another thing to do during the planning phase is to map out the integration steps beyond 90 days. Think about the strategy overall, and separate the strategy for division into steps. For example, start with integrating the technology stack, payroll, and HR. Also, map out the steps for long-term integration and the strategy around every step.

The steering committee could actually grow from each step as you move forward. The integration really ends when the last step is within reach. It could be anywhere from a couple of months to maybe three years. But again, it depends on how you space and map out the steps.

18. The Biggest Challenge When Doing This Kind of End-to-End M&A Approach

The biggest challenge has to do with the timely execution of the deal because so much planning is involved. Usually, there's a certain time frame that you agreed upon in the term sheet. You want to stick to that timeline and not exceed it, and also stick to the 30, 60, 90-day integration plan. It can be challenging because there are multiple roles to play, and you may be handling more than one deal simultaneously. The way to handle this is through planning.

The goal with all this planning is to: help yourself, help the team, help the steering committee, help the organization anticipate issues, and help prepare for changes.

19. When Your Miss a Target Deadline

It might not be that impactful, but a critical activity like sending up any factoring lines is pretty impactful if you miss it, in that you just can't manufacture the products. Essentially, try to get everybody on board with finding core initiatives to execute timely and effectively on critical things.

20. The Biggest Lessons Learned From Years of Experience

One of the biggest lessons I have learned is not to underestimate the scope of planning for the deal, and invest a good chunk of time and thinking into it. Always be on your guard even when things seem to work. Always think ahead, think outside the box in every step of the process. Question what could go wrong, and if you are doing the right thing. Do not obsessively do it, but do it in a balanced way. Be prepared to change the process in real-time and adapt to the changing situation. Always communicate, and be crystal clear in every bit of communication. Reaching maximum deal value is dependent on strong relationships and communication is key to maintaining those relationships. Every deal team, both internal and external, should have the full picture of what's happening with the other side.

Most team members do not read presentation documents. They'll wait until you call them so really focus on the things that matter to that specific person. For example, if there are 5 slides in a presentation of 100 that you want them to look at, you obviously don't want them to look at all 100. Divide up that presentation and just give them the key snippets of things that they need. Say to them, "Hey, look at this" and ask them very specific questions. Try to relate it to what you want them to do. You don't just want them to go over something, you want a specific outcome.