



M & A Successes and Failures: Tales from the Trenches

NACD Chicago Chapter president Michele Hooper called the meeting to order, noting that the extended session featured an all-star panel to tackle the complex subject of M&A Successes and Failures while providing “Tales from the Trenches.”

Moderator Paul Choi noted the expertise of the panelists, two current and one former CEO with deep experience in M&A transactions as well as a leader whose day job was corporate development. With the majority of M&A deals classified as failure, the session was designed to share best practices and experiences to help improve the rate of success.

Frank Jaehnert, former CEO and Chairman of Brady Corp., who had grown the company from \$500 million to \$1 billion largely by acquisition, said it was critical for M&A to be part of the company’s strategy. He currently serves on three public company boards, which are all active acquirers.

Noah Gottdiener concurred. “M&A has to dovetail into the corporate mission and vision with oversight from the board,” he said. “The CEO sets the vision. The board of directors serves as a sounding board. The board shouldn’t drive the acquisition but they should be involved because they can add a lot of value. They also need to hold management accountable for execution.” Acquisition has been a critical element of the Duff & Phelps’ strategy. Since becoming Chairman and CEO, Mr. Gottdiener has grown the firm from \$20 million to \$700 million.

As SVP of Development and Strategy at Polaris Industries, Bob Mack is pursuing and reviewing deals all the time. He closed a \$700 million acquisition for the company last week.

Tom Quinlan, Chairman and CEO of LSC Communications, noted that no one “bats 1000” in acquisitions, “but you take your learnings with you as you build on successes.”

Mr. Choi, who heads the M&A practice at Sidley Austin, turned to the topic of communication with the board.

“Never surprise the board,” said Mr. Mack. “They should be hearing all along about the names of the acquisitions we are pursuing and know how it fits into the company’s larger strategy.”

In his position, Mr. Mack receives a lot of “inbound traffic” from investment bankers suggesting deals. He always listens and uses it as a chance to let them know what his company is looking for to bring better focus to what they suggest.

Mr. Gottdiener acknowledged that he has been brought some “crazy ideas.” “The key is to be true to strategy and mission. Anticipate what will go right and what will go wrong,” he said. Duff & Phelps utilizes a transaction committee, composed of “worker bees” reporting to the directors, who are informed at the get-go and remain up to date. It’s still important for the CEO to engage with directors.

Mr. Mack cautioned that activists can exploit M&A committees. “If they are advocating for a merger or divestment, a committee means they only have to get to four directors.” Polaris has made it a practice to make M&A an item for the full board.

In a discussion about advisors, the panel talked about the advantage of the boutique advisors as well as the value of big firms. While it depends on the deal, the crucial element is trust.

The panel was asked about the role of culture in the successful integration of M&A. “Culture is #1 factor,” said Mr. Gottdiener. “When the culture fits the strategy and mission, it’s easy. If target has different cultures it will fail.”

Mr. Mack gave an example of a great cultural fit for his company. Polaris makes off-road vehicles and the acquisition of Transamerica Auto Parts, which makes parts for kidded-out jeeps seemed to be a good fit. While there were the usual trade shows and dinners, it was the two management teams going off to the desert for some off-road racing that melded the two organizations. “That’s when you know, you got it right.”

LSC makes acquisitions to attain customers, reduce cost, and add capacity. “The company’s assets are the people in factory,” Mr. Quinlan said. Culture is a matter of relationships and spending time with the target company. While LSC Communication does the requisite research, but “we show up; we walk the facility.” The acquiring company should be surviving culture, the panelists agreed.

Discussion turned to integration. Mr. Mack emphasized the importance of boards holding management accountable for a successful integration. At Polaris, the board reviews the integration of new transactions quarterly for the first year and annually thereafter.

Mr. Choi asked the panelists to share their final thoughts:

Mr. Gottdiener. “You have to spend time with the target company. We can spend years developing relationships. Execution is always difficult. Be mindful of small things, like taking away coffee machine. Remember, people in the company being acquired are terrified. If you can be flexible, thoughtful and open, it will help success.”

Mr. Jaehnert: “Understand your responsibility as board member. Remember, M&A can create value but the wrong acquisition can destroy the company. Management always wants to do things. The board often serves as a brake.

Mr. Mack emphasized the process of integration. “You need the right advice and good program management. Boards hold management accountable in regular feedback.

Mr. Quinlan: "Communication with the board on M&A issues is critical. They can offer perspective and advice. You cannot surprise them."