“Post M&A Integration, Culture Alignment and Dispute Resolution”

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Presentation by

Kevin Mickey - President, Scaled Composites LLC
Jeff Hynes - President & CEO, Composites Horizons
Larry Braun - Corporate/ M&A Partner, Sheppard Mullin
Ivan Rosenberg - President & CEO, Frontier Associates
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“What was tougher . . .”

It was a simple but direct question posed by moderator Stephen Perry, Co-Founder and Managing Partner of Janes Capital Partners, to panelist Kevin Mickey early on in the presentation. "What was tougher, the deal or the post transaction integration?" Kevin's answer set the tone for the remainder of the meeting.

Panelists Kevin Mickey, President of Scaled Composites, and Jeff Hynes, President and CEO of Composites Horizons, LLC have both experienced first-hand the trials and tribulations of having their companies acquired. In Jeff's case, multiple times. Sixteen hour days were not uncommon for these two gentlemen, focusing their energies on their "day jobs" and then spending hours each day consumed by all that was required to bring the transaction to a successful conclusion.

They were long and arduous days. So when asked the question about what was tougher . . . pre- or post-closure activities . . . one could logically conclude that the ramp up was more challenging. But it wasn't. As was shared more than once by Kevin and Jeff but then confirmed by the other panelists, the "real work" begins **the day after** the deal was closed.

Surprised? I wasn't. Having recently written an article for my newsletter discussing the linkage between operational performance and corporate culture, hearing the panelists talk about the importance of the cultural integration between the acquired company and the buyer was rather reaffirming.

According to Larry Braun, law partner at Sheppard Mullin, who focuses on M&A transactions in aerospace and defense, 15 to 20 years ago no one talked about or seriously considered integration/ culture . . . and its impact on the success of the merger. Why? As Ivan Rosenberg, founder of the Aerospace and Defense Forum and President & CEO of Frontier Associates, explained, business schools do not teach culture and CEO's typically look at what is measurable. It is not easy to quantify corporate culture and its impact.

Ivan offered some sobering statistics regarding the success of mergers and acquisitions. 60 to 70% of deals fail and 60 to 70% of those failures are attributed to the inability to successfully integrate the cultures. So, no wonder that in today's world of M&A, the approach has changed. From his personal experience, Larry shared how companies during negotiations now have a deal room and an integration room running simultaneously and how the person in charge of a deal no longer hands off the baton at closure and walks away. Today that person remains actively involved through integration. Taking it a step further, it is now not uncommon to evaluate the deal one or two years after closure to determine if it has met expectations.

In real estate, we've all heard the mantra "location, location, location." The message from this presentation was "culture, culture, culture." Kevin spoke with definite resolve about his efforts to maintain the entrepreneurial culture of his company. "It's a balancing act," proclaimed Larry. While Northrup has their "way" of conducting business, allowing Composites to fully adopt the Northrup culture would, in Kevin's mind, ultimately undermine the value of having bought Composites. So Kevin "fights" to maintain the attributes that have made Composites a success.

Jeff has been directly involved in three transactions. The first deal did not work. The last one definitely has. What is the difference? Kevin learned from his initial experience that integration and the merging of cultures held the key to success. Understanding that fundamental premise has made Kevin a better leader and resulted in a successful integration of cultures.

Talking about cultural integration is just that, talk. But making it happen is the magic elixir. Here are some of the steps the panelists suggest to achieve a successful integration -

- Remember, it's all about the people. Get them involved as early as possible. As Kevin cautioned, do not underestimate the impact a sale . . . or purchase . . . will have on the psyche of the employees.
- Communicate . . . early and often. Have a cohesive message to share with employees. Everyone needs to be on the same page. Have direct lines of communication. Make employees "citizens of the business" Jeff encouraged.
- Create trust. Ivan reminded the group of the successful merger of Pixar and Disney. Why was it successful? Disney took great effort to not make radical changes, to instill trust with the Pixar employees. They kept their promises. They allowed Pixar employees to retain

their Pixar e-mail addresses. Pixar signage was unchanged. Even Disney's sign-off at the end of a phone call "Have a magical day" wasn't forced upon Pixar.

- Get a jump start. Recognize early in the negotiations how important culture and integration will be to the long term success of a merger. Deal with it. Do not sweep these discussions under the carpet. Larry has assembled a multi-page document for his use outlining the discussion points related to post-close activities to be covered during negotiations.

This was indeed an extremely enlightening presentation. For those who were unable to be there in person, I would encourage you to visit the A&DF website (www.aerospacedefenseforum.org) to access the archived audio.

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