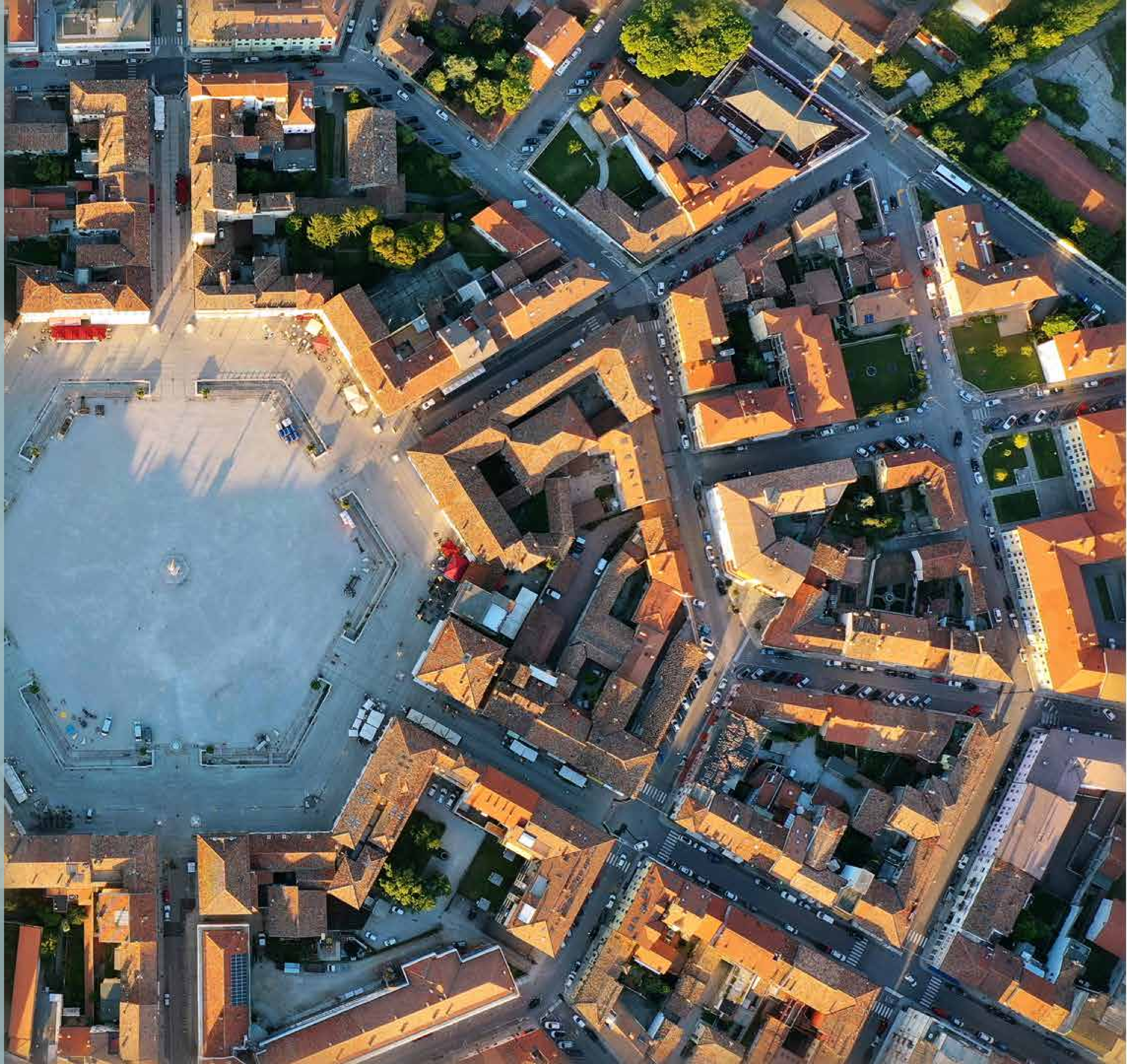
Mergers and Acquisitions

Securing Investments and Enhancing Returns to Turn Risk in to Opportunity



Why M&A Presents Broad Challenges

M&A and other capital market transactions are complex, time-critical and highly specialised. To optimise the return on investments, it is imperative to secure risks across multiple business disciplines and functions and, in a tightening environment, rethink the approach to unlocking capital and managing risks identified in the deal process.

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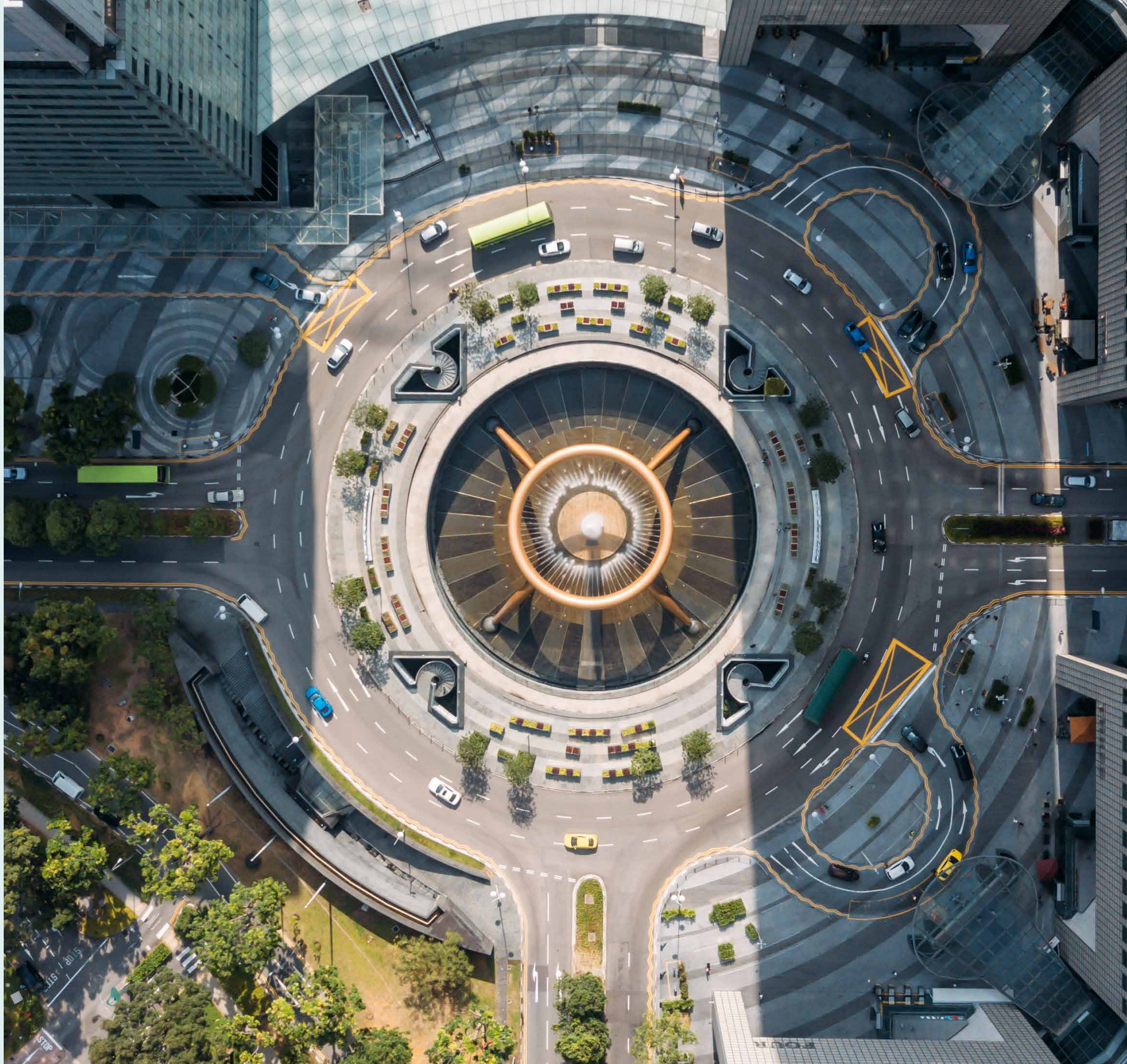

1 What are the Major Challenges Impacting Mergers and Acquisitions?

Following an intense period of record mergers and acquisitions (M&A) activity, dealmakers still maintain a healthy pipeline with cash at unprecedented levels. They are, however, faced with significant headwinds and material risks including, among others, geopolitical uncertainty driving inflation and interest rises, the acceleration of the digital economy, a constantly changing tax landscape, sophisticated cyber threats, heightened scrutiny of environmental, social and governance programs and a challenging talent market that puts pressure on people programs and integration.

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Aon's recent M&A Risk in Review and C-Suite Series reports identified the following key themes:

- **Increased investment in technology:** Digital solutions played a crucial role in facilitating M&A even at the height of the pandemic; having seen the advantages of working this way, dealmakers will continue to invest. Technological innovation has the potential to support M&A in multiple areas, from understanding tax and credit risk to driving valuation models.
- **Enhanced use of risk mitigation tools:** With risk heightened and the outlook uncertain, dealmakers will look for more imaginative and creative methods of mitigating risk including the increased utilisation of transactional insurance instruments.
- **Deeper and broader due diligence:** Sellers continue to demand higher prices, but with an increasingly uncertain big picture outlook and buyers becoming more dependent on third-party deal finance, a determined focus on the fundamentals of due diligence will be crucial.
- **The rise of the environmental, social and governance (ESG) agenda:** From climate change risk to social issues, ESG considerations will play a role across M&A transactions. In due diligence processes, buyers will increasingly scrutinize targets' ESG credentials, homing in on reputational risks as well as regulatory concerns.
- **Specific risks:** Regulation is on the increase across several fronts. Meanwhile, credit markets look more uncertain and tax risk uncertainty continues to escalate.

2 What are the Opportunities Created by These Issues?

To help secure investments, enhance deal value and drive transaction success, dealmakers are expected to solve a wide-ranging view of issues facing them throughout the deal lifecycle by:

- Using structured transaction solutions such as Representations & Warranties/Warranty & Indemnity
- Undertaking comprehensive due diligence, including intellectual property, human resources and people transaction advisory, insurance, credit and working capital, as well as digital, cyber and increasingly, ESG commitments

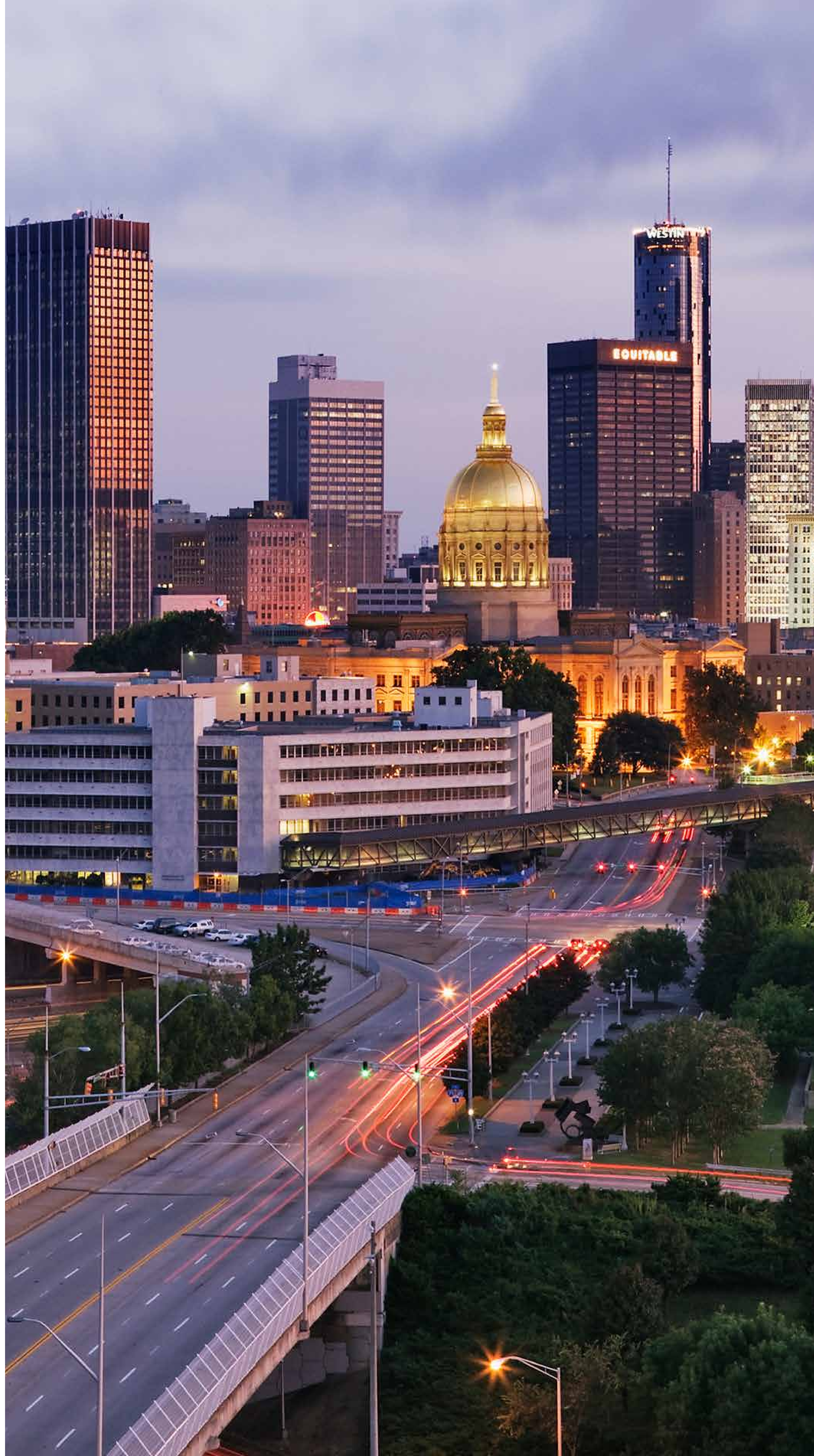
Both within and outside of a transaction when managing complex financial risks, leaders must also address tax, litigation and other contingent risks that could adversely affect deal outcomes, balance sheets and cash flow.

Leaders are in a Position to Align the Business

By approaching M&A risk across business disciplines and functions, dealmakers can realise positive results at every deal stage. From target identification and due diligence to deal negotiation and post-deal implementation and integration it is critical to ensure:

- Transaction risks are addressed
- People-related programs and financials are well-managed and optimised
- Cyber threats are identified and mitigated
- Intellectual property is secured and its value optimised when either selling or buying

By viewing M&A risks and opportunities holistically, dealmakers are better positioned to secure their investment and enhance their returns for transactions and other event-driven situations.



3 Why is it Imperative to Act?

Optimising an M&A Execution Process

> M&A is complex and while it isn't the answer for every strategic goal, treating M&A as a strategic capability can give companies an edge. Companies are more successful at M&A when they apply the same focus, consistency and professionalism to their deals as they do to other critical disciplines.[1]

It is important to address four often-neglected institutional capabilities:

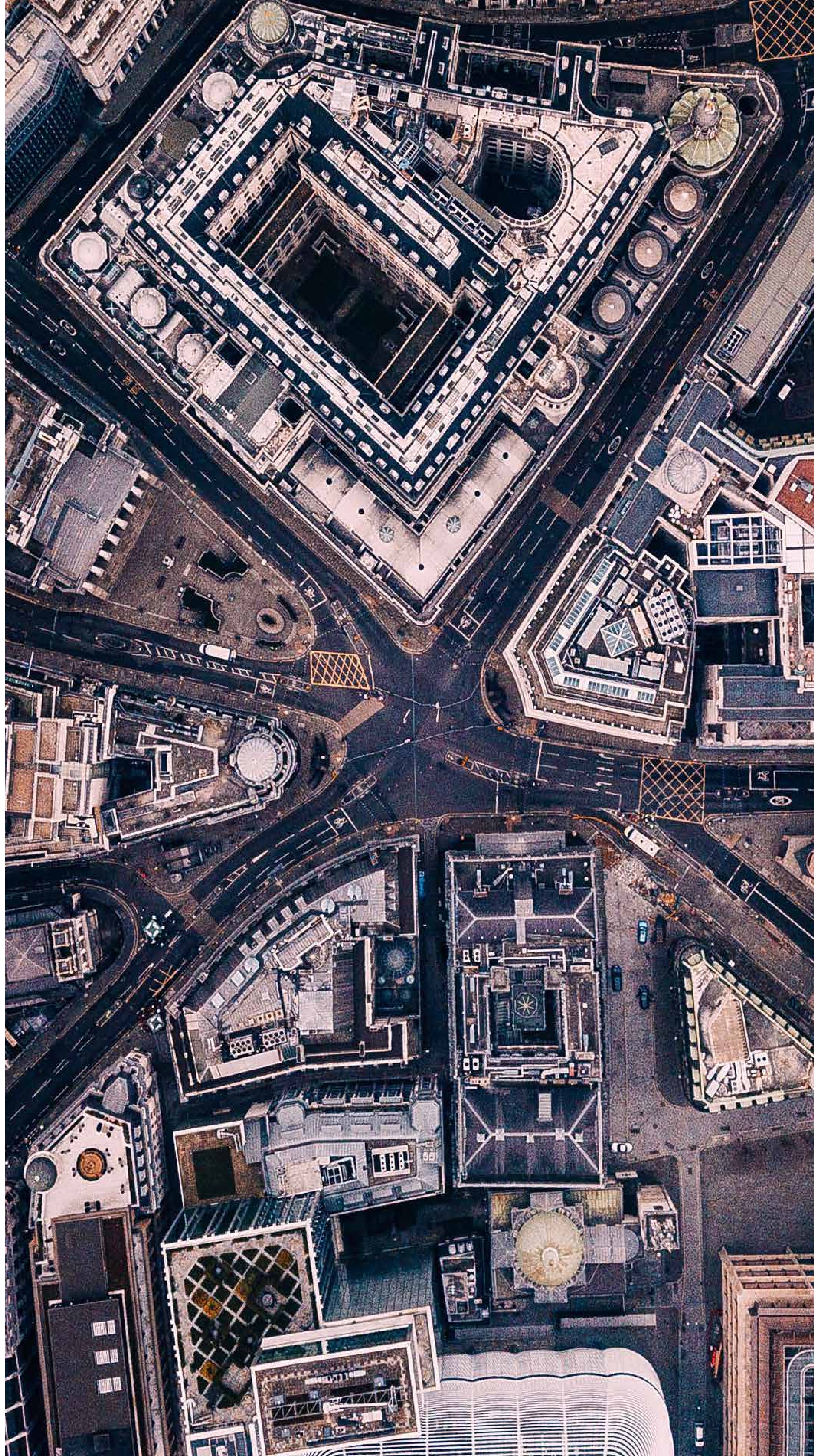
- Engaging in M&A thematically
- Managing your reputation as an acquirer
- Confirming the strategic vision
- Managing synergy targets across the M&A lifecycle

The ability to approach M&A in this way elevates it from a tactical necessity focused solely on risk management to a strategic capability delivering a competitive advantage that others will struggle to replicate.

This mindset is equally important to both buyers and sellers of businesses.

It is critical for both strategic and private equity dealmakers to take a wide view when approaching deal, financial, legal and an array of other risks (e.g., ESG is itself a very broad topic) and identify opportunities throughout the deal lifecycle.

[1]McKinsey - The flip side of large M&A deals



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What Should Leaders Focus on Throughout the Deal Lifecycle?

Deal Lifecycle Solutions

Assess and navigate M&A deals and complex financial risks across industries and across the globe at every stage of the deal lifecycle.

1 Identify, Target and Buy

Identifying a target that fits business and growth goals and understanding opportunities and risks to build long-term success of a merger or acquisition In this critical stage dealmakers should:

Strategically evaluate the underlying intellectual property of a target and its opportunity for growth.

Identify broad risks to effectively respond to digital, intellectual property, cyber and digital threats, tax, legal and regulatory issues and people program considerations.

Leverage transactional insurance instruments to transfer deal risks to improve future deal outcomes.

2 Integrate

Establishing strong connections between business and transaction objectives and your risk, people and human capital integration strategy to drive long-term M&A success. There are three key considerations.

Drive deal value: Strategically quantify and managed people programs to deliver on deal and business objectives.

Attract and retain talent: Take a holistic and integrated approach to total rewards to attract, retain and motivate talent in this increasingly competitive environment.

Align goals and culture: Adopt an early approach to align employee goals, foster the desired organisational culture and develop change and communication strategies.

3 Separate and Sell

Creating and articulating value, managing ongoing business risks, positioning the positive attributes of the business across cyber, digital, intellectual property and wider aspects, and negotiating from a position of knowledge is essential to maximise returns and improve long-term outcomes.

Mergers and acquisitions and other market transactions are a key driver for corporate growth and the lifeblood of private equity and the wider private markets ecosystem.

Optimising the return on investments is the paramount measure for success. To realise the anticipated return on investment from a transaction, deal doers must both address risks across multiple business disciplines and functions and capture value. Businesses who take this thorough and broad approach across every stage of the deal lifecycle are better positioned to transform risk into opportunity and realise strong outcomes.

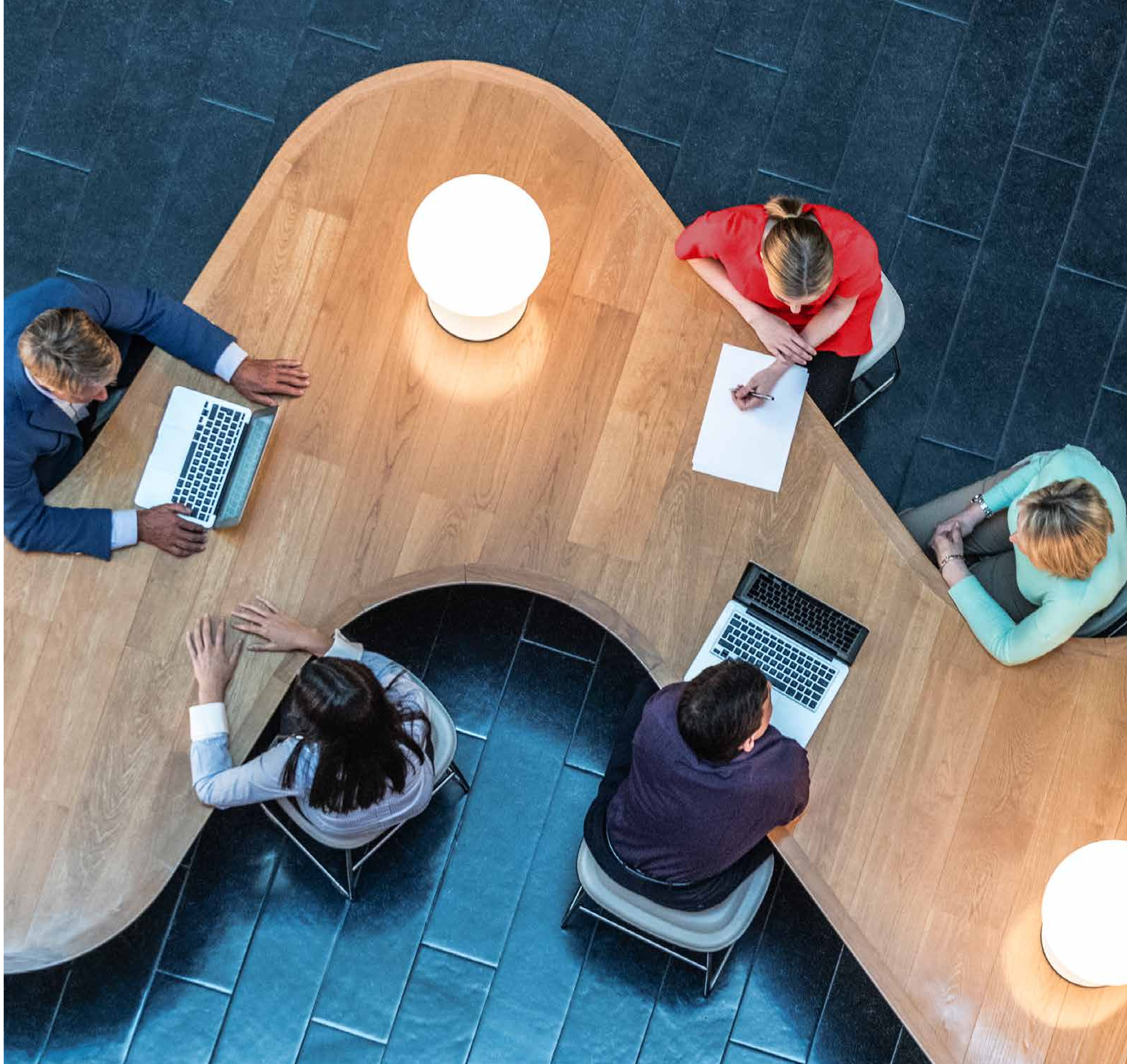
5 Further Insights

Further M&A Insights:

M&A and Transaction Solutions

M&A Thought Leadership

Optimising Transactions with Enhanced Insights



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