Post-Merger Integration in Software
BCG has extensive experience in software and supporting Post-Merger Integrations

Number of client assignments by topic and region over the past 10 years

<table>
<thead>
<tr>
<th>Topic</th>
<th>Americas</th>
<th>EMEA</th>
<th>Asia-Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>58</td>
<td>33</td>
<td>5</td>
</tr>
<tr>
<td>Marketing and Sales</td>
<td>90</td>
<td>42</td>
<td>21</td>
</tr>
<tr>
<td>People and Organization</td>
<td>32</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td>Corporate Development</td>
<td>73</td>
<td>95</td>
<td>21</td>
</tr>
<tr>
<td>Strategy</td>
<td>80</td>
<td>47</td>
<td>23</td>
</tr>
</tbody>
</table>

Growth-oriented complex technology integrations

BCG has extensive integration experience

Integration is one of the largest topics for BCG, representing greater ~10+% of our annual revenues

Helped clients integrate more than 550 mergers and acquisitions in the last five years. Most are multinational or global

Supported deals with cumulative value of more than $3 trillion

Accumulated more than 8 million hours of experience supporting PMIs
BCG-supported integrations systematically over-deliver on synergies

Creating 9%+ more shareholder value

10 imperatives for success in Post-Merger Integrations (PMIs) in software

1. **Define first principles** — the objectives and philosophy of the merger—and design the PMI to reflect them

2. **Manage the PMI in iterative sprints** and empower leaders to make decisions with a bias for action

3. **Organize cross-functional teams** to mirror the value drivers of the merger—and staff them with the best people

4. **Focus integration planning on ensuring speed of integration and synergy capture post Day 1**

5. **Enable the sales force to begin cross-selling on Day 1**

6. **Align product roadmaps early and communicate to customers to reduce uncertainty about products’ futures**

7. **Identify the cultural differences between the two companies and actions needed to adopt the buyer’s culture**

8. **Track morale through pulse checks and take corrective change management actions**

9. **Manage talent carefully**—use a segmented approach for talent retention and focus on high-risk areas (e.g. developers)

10. **Plan for business continuity on Day 1** by having a clear view on what is changing and pressure-testing plans

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**Indexed shareholder returns relative to market**

**BCG assisted**

<table>
<thead>
<tr>
<th>Months after deal close</th>
<th>BCG value add</th>
<th>Average merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>95%</td>
<td>105%</td>
</tr>
<tr>
<td>2</td>
<td>110%</td>
<td>115%</td>
</tr>
<tr>
<td>4</td>
<td>115%</td>
<td>120%</td>
</tr>
<tr>
<td>6</td>
<td>120%</td>
<td>125%</td>
</tr>
<tr>
<td>8</td>
<td>125%</td>
<td>130%</td>
</tr>
<tr>
<td>10</td>
<td>130%</td>
<td>135%</td>
</tr>
<tr>
<td>12</td>
<td>135%</td>
<td>140%</td>
</tr>
<tr>
<td>14</td>
<td>140%</td>
<td>145%</td>
</tr>
<tr>
<td>16</td>
<td>145%</td>
<td>150%</td>
</tr>
<tr>
<td>18</td>
<td>150%</td>
<td>155%</td>
</tr>
<tr>
<td>20</td>
<td>155%</td>
<td>160%</td>
</tr>
<tr>
<td>22</td>
<td>160%</td>
<td>165%</td>
</tr>
<tr>
<td>24</td>
<td>165%</td>
<td>170%</td>
</tr>
</tbody>
</table>

**Source:** BCG’s PMI Synergy Database as of June 2016

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**Announced Planned Achieved**

<table>
<thead>
<tr>
<th>Revenue synergies</th>
<th>Cost synergies</th>
</tr>
</thead>
<tbody>
<tr>
<td>+21%</td>
<td>-15%</td>
</tr>
<tr>
<td>+21%</td>
<td>-13%</td>
</tr>
<tr>
<td>+23%</td>
<td>-13%</td>
</tr>
<tr>
<td>+25%</td>
<td>-13%</td>
</tr>
</tbody>
</table>

**BCG-assisted value add:** 51%

**Average merger value add:** 32%

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**Monthly revenue synergies**

<table>
<thead>
<tr>
<th>Month</th>
<th>BCG-assisted</th>
<th>Average merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>+21%</td>
<td>+25%</td>
</tr>
<tr>
<td>2</td>
<td>+21%</td>
<td>+30%</td>
</tr>
<tr>
<td>4</td>
<td>+23%</td>
<td>+33%</td>
</tr>
<tr>
<td>6</td>
<td>+25%</td>
<td>+35%</td>
</tr>
<tr>
<td>8</td>
<td>+27%</td>
<td>+37%</td>
</tr>
<tr>
<td>10</td>
<td>+29%</td>
<td>+39%</td>
</tr>
<tr>
<td>12</td>
<td>+31%</td>
<td>+41%</td>
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<tr>
<td>14</td>
<td>+33%</td>
<td>+43%</td>
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<td>18</td>
<td>+37%</td>
<td>+47%</td>
</tr>
<tr>
<td>20</td>
<td>+39%</td>
<td>+49%</td>
</tr>
<tr>
<td>22</td>
<td>+41%</td>
<td>+51%</td>
</tr>
</tbody>
</table>

**Source:** BCG’s PMI Synergy Database as of June 2016
The BCG difference in Software integrations

Integration objectives

Value creation

Execution certainty

- Shared integration vision and strategy
- Day 1 business continuity
- Faster progress towards end state while protecting business momentum
- (Over)delivery on cost synergies
- Key talent retention and engagement

What BCG brings

- Agile, value-focused, battle-tested PMI approach and tools
- Agile IMO
- Independence, focus, and pace
- Executive perspective
- Collaborative style to orchestrate cross-functional efforts

Accelerated growth

- "One company" customer experience
- Growth opportunities identified and captured
- Product and service roadmap alignment
- Deep functional experts on the ground in critical areas (GTM, Engineering, Development, IT, etc.)
- Strong experience in global delivery models (offshoring and nearshoring)
- Able to act with 'one face' to customers from Day 1
- Differentiated approach for different integration models
- Faster time-to-revenue synergies

Transformed new company

- New purpose, vision and strategy
- New operating model
- Culture design and implementation
- Equity story

- Deep knowledge of software industry and target end markets
- Strategy and intellectual creativity are our DNA
- Proprietary, practical culture and change management toolkit
- Proprietary, data-driven TSR toolkit to ground investor strategy
- Proven, best practice benchmarks and models for high-performing software and SaaS companies
**BCG survey identified**

critical value drivers for software integrations

**Q:** Rank the top three reasons why you felt the deal was successful

<table>
<thead>
<tr>
<th>Reason</th>
<th>Rank #1</th>
<th>Rank #2</th>
<th>Rank #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined a clear culture and way of working</td>
<td>20</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Allowed for joint development of new features on existing products to best meet customer needs</td>
<td>9</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Provided access to new markets/customer segments</td>
<td>7</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Shortened time-to-market for new products, reduced speed of innovation</td>
<td>10</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Strong change management and communication</td>
<td>12</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>The company was able to cross-sell the product offerings of the original companies</td>
<td>9</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Allowed for joint development of new integrated products/solutions to best meet customer needs</td>
<td>9</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Successfully delivered on cost synergies</td>
<td>6</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Significantly improved market share and bargaining position in key markets</td>
<td>3</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Financial performance of the combined company outperformed the market</td>
<td>4</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Provided access to key talent that is important for our performance</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Developed a clear operating model and org design</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Culture**

**Revenue growth**

**Product alignment**

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**Four areas** that could have gone better in integrations

**Q:** In your view, what could have been done differently to make the integration more successful?

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborative approach to develop new organization’s policies, such as HR and retention policies</td>
<td>32</td>
</tr>
<tr>
<td>Improve overall integration planning and execution</td>
<td>18</td>
</tr>
<tr>
<td>The effective planning of integration should have been clear during the initial phase to avoid delay in the entire process of integration</td>
<td>28</td>
</tr>
<tr>
<td>Prioritize customer experience</td>
<td>13</td>
</tr>
<tr>
<td>Focus should be on target customers—providing them best service and experience will help the company grow</td>
<td>28</td>
</tr>
<tr>
<td>Implement change management that unified the two companies</td>
<td>13</td>
</tr>
<tr>
<td>To make the integration process smoother, companies must adapt to the new employees’ behavior and their respective demands</td>
<td>13</td>
</tr>
</tbody>
</table>

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Key risks to consider for Software integration

- Talent retention, especially for software developers
- Revenue dip after deal close due to uncertainty of products
- Setting the right ambitions for value creation
- Culture not aligned
- Not prepared for Day 1 and beyond
Our approach for successful software integrations

**Align product portfolios**
Define new roadmap and optimize overlapping platforms and products
Align shared platform components and develop go-forward development methodologies
Align packaging and pricing strategies

**Accelerate the go-to-market alignment**
Ensure no risk of disruption to customers—with focus on overlap
Maximize revenue synergy potential
• Fast enablement of cross-selling
• Medium and long-term opportunities

**Capture cost synergies quickly**
Consolidate corporate functions, systems, offices (excluding sales and product development)
Leverage increased bargaining power with vendors

**Redefine the operating model, org design, and talent management**
Vision, medium-term aspirations, strategy, and operating model

**Create a deliberate company culture**
Operate as a unified company: shared purpose, values, and desired behaviors

**Establish value-oriented integration planning and execution**
Make Day 1 a ‘non-event’ and provide execution certainty
Develop rigorous integration plans for Day 30, Day 100, Year 1, etc.
Product development integration planning starts pre-close to accelerate synergy realization

**Initial hypotheses based on current portfolio and publicly available information**

**Portfolio rationalization**
Plan to optimize identified overlaps in existing products to maximize revenue opportunity and cut costs

**Development methodology**
Migrate to common approach for product development

**Product management**
Outline product management structure for go-forward organization and identify leadership

**Shared platform components**
Evaluate the benefits of shared platform components vs. unique applications to balance flexibility and economies of scale

**Policy alignment**
Plan to share technology across both legacy orgs and converge on common open source policy

**Roadmap integration**
Including new joint product development opportunities, consistent with combined strategy and R&D opex envelope

**Development methodology**
Migrate to common approach for product development

**Roadmap integration**
Rollout new methodology approach, if needed

1. Close
2. Close + 3 months
3. Close + 6 months
**Integrated go-to-market approach should encourage sales forces to cross-sell immediately post-close**

Example of software client

<table>
<thead>
<tr>
<th>Identify high-level sales organization</th>
<th>Overlay sales forces on Day 1</th>
<th>Align incentives</th>
<th>Prepare for cross-selling</th>
<th>Train sales forces on new products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define end state sales model</td>
<td>Align existing sales forces into Day 1 org structure</td>
<td>For any new sale, compensate both sales reps involved</td>
<td>Identify similar products from both companies to create “bundles”</td>
<td>Before Day 1, conduct global sales kick-off</td>
</tr>
<tr>
<td>Design and staff sales leadership</td>
<td>Define responsibilities and expectations for sales forces</td>
<td>Consider unintended consequences of the structure established</td>
<td>Develop collateral marketing materials</td>
<td>Train sales force on other company’s products</td>
</tr>
<tr>
<td>Align pricing policies</td>
<td>Prepare systems to enable selling (e.g. data available)</td>
<td>Establish lead generation office to validate leads and facilitate cross-sell</td>
<td>Outline updated incentive structure</td>
<td></td>
</tr>
</tbody>
</table>

Foster teaming and attention to expanded portfolio while protecting business continuity
BCG experience leveraged to develop ambitious SG&A cost synergy plans

Inputs into SG&A cost synergy planning

Cost synergies typically realized in SG&A functions

BCG benchmarks

Custom analyses

Inputs into SG&A cost synergy planning

- BCG benchmarks
- Custom analyses

Scale curve in company/sector

Granular baselining to size overlaps

Note: Savings estimates median; Data based on recent PMIs; Ranges of savings can be found in the database Source: Synergy Database, BCG experience

Org design: Use cascaded design process for senior layers

Cascaded design process

Wave 1

Wave 2

CEO

Layer 2

Layer 3

Layer 4

Layer 5 and below

Wave 3

Wave 4

Rationale

Results in high quality of design decisions

- Conducted by people closest to the work at each step in cascade
- Structured workshop process to ensure high quality of design and holistic review of how the work in the organization is done

Promotes values of openness and trust

- Enables the organization by building org redesign capabilities across the cascade steps

Encourages superior ownership and engagement

- Managers given an opportunity to design their organization as they see best based on their mandates

Ensures horizontal alignment

- Managers at each step of cascade align on how their individual designs will fit together

Percentage of Target Co. cost baseline

<table>
<thead>
<tr>
<th>Function</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td>28</td>
</tr>
<tr>
<td>Strategy and corporate development</td>
<td>50</td>
</tr>
<tr>
<td>Legal</td>
<td>20</td>
</tr>
<tr>
<td>IT</td>
<td>24</td>
</tr>
<tr>
<td>Facilities</td>
<td>18</td>
</tr>
<tr>
<td>Indirect procurement (%) of combined purchase</td>
<td>4</td>
</tr>
</tbody>
</table>

Finance

37

Total Result

28 13

37 18

4
Before defining the go-forward culture, need to understand the differences between legacy company cultures.

Client example: perceived similarities and differences of 700+ survey respondents

Decision making long-term over short-term
Product excellence drives decisions
New solutions generated internally
Do not respond to new customer needs
Risk is tightly controlled
Rewarded for the idea itself
Financial metrics are primary decision drivers
Consistently succeed and hit financial targets
Accountabilities clearly assigned
Decision making rights clearly defined
Decisions are often revisited with new information
Expected to work from the office
Bias towards consensus in decision making
Mistakes addressed privately
Difficult messages as diplomatically as possible
People withdraw if others challenge them
Do not share information across functions and divisions
Focus on perspective of their own functions and divisions

Decision making short-term over long-term
Consumer focus drives decisions
New solutions generated with customers
Responds to new customer needs
Experimentation is generally encouraged
Rewarded for the execution of an idea
Innovation and design are primary decision drivers
Expect some projects and units to fail
Accountabilities are diffused
Decision making rights open and flexible
Decisions are not often changed
Free to work from anywhere
Bias towards speed in decision making
Mistakes addressed publicly
Deliver difficult messages as directly as possible
People persevere, even if others challenge them
Share information across functions and divisions
Consider broader picture of other functions and divisions

With the objective of defining go-forward culture through careful change management to minimize disruptions.
Typical integration team structure creates central IMO and integration teams

Steering committee (SC)
- Set integration principles and direction
- Review and preference design recommendations
- Decide on best path forward to resolve issues
- Sign off progress against plans and targets

Integration management office (IMO)
- Coordinate overall integration process
- Review and challenge team output and targets
- Sets agendas for SC attention/decisions

Special issue teams
- Support IMO/SC on specific non-functional or cross-functional integration issues
- Evaluate and recommend strategies to SC/IMO regarding internal and external issues impacting deal closure or other risks

Platform teams
- Provide specialist support to integration teams
- Define policies and processes related to core integration activities; e.g.
  HR selection, retention, and severance
  Baseline, synergy and one-time cost
  Communications plan
  Culture integration and change management

Integration planning teams

Revenue synergies
- Opportunity maps based on product portfolio and market/customer analysis
- Prioritization of combined value propositions
- Near term enablement workarounds and execution support mechanisms

Sales
- Re-alignment of account coverage model—especially overlapping accts.
- Harmonization of lead-to-cash/sales ops processes
- De-risking customer experience
- Cross-selling activation

Engineering/technology
- Product portfolio alignment/rationalization
- Technology/IP sharing
- Joint new product development
- Development methodology alignment

Support functions
- Consolidation of HR, legal, finance, and IT orgs
- Brand/marketing programs
- IT infrastructure and applications
- Processes and policies
- Real estate footprint consolidation

Vision
- Equity story
- Operating model

Key agile principles applied in software integrations

1 Cross-functional (multi-disciplinary) teams of ~8 people
   Lean teams focused on delivering maximum value

2 Working against discrete problems with shared goals and metrics
   Compressed timeline leads to completion 30-50% faster

3 Iterative sprints
   Sprint based workflows combined with bias to action

4 Frequent feedback and learning
   Make decisions quickly based on available data, open to iteration

5 Single leader who is empowered to make decisions
   Leaders with decision-focused mindset
BCG Post-Merger Integration toolkit helps successful integration

Includes battle-tested processes, tools, templates and software to pressure test and mitigate risks

**Post-Merger Integration Toolkit**

- **Synergy database**: Tracks synergy data from hundreds of PMI projects with live, proprietary benchmarking
- **Synergybuilder by BCG**: Supports BCG’s proven finance baselining, synergy target setting and planning methodology
- **Roadmapping tool**: Supports proactive setting and tracking of workplans and identification of roadblocks
- **OrgBuilder**: Helps manage complex organization design and change efforts during PMI
- **Culture survey**: Analyzes cultural differences and helps defining target culture in line with NewCo strategy and undertaking change management
- **Day 1 checklist**
  - Tuned by BCG: Diagnoses an organization’s sentiment around the progress of culture integration and change management
  - Provides Day 1 priority checklists by function
We are committed to your success

We serve as a ‘sparring partner’ for integration issues and beyond, helping to ensure implications for the integration across the whole business are part of the executive dialogue.

Highly collaborative approach
We consistently hear from clients that BCG’s key differentiator is how we partner with you through the work, enable your ownership, and ultimately ensure execution and delivery of results.

Serving as a thought partner
We serve as a ‘sparring partner’ for integration issues and beyond, helping to ensure implications for the integration across the whole business are part of the executive dialogue.

Flexible resourcing to meet your needs
We take a transparent, collaborative, and open approach to resourcing. We view the BCG team and your team as ‘one team’. We revisit resource levels constantly and mutually agree to any changes on a scheduled (typically bi-weekly) or ad hoc basis.

Focusing on high-value work, while sweating the small stuff
We focus on the areas with the most value at stake, deploying analytical power to the deepest levels to ensure successful execution with no detail or risk ignored. Serving as a thought partner.

BCG experts in Software Post-Merger Integrations

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