AlixPartners

Private Equity

SIGN-TO-CLOSE: ACCELERATING VALUE CREATION IN THE MOST CHALLENGING PHASE OF COMPLEX MERGERS

The time between the signing and the closing of an M&A deal has been lengthening—by quite some distance. Investors and management teams have traditionally focused on the pre-signing, due diligence phase and the post-close first 100 days; but the growing interval between them can endanger the realization of deal value.

> The period between signing and closing has increased **by more than 30% in the past decade,** and it is continuing to grow. In the U.K., the average number of days between announcement and closing of public deals reached 165 days in 2022—an increase of 36% since 2019.
>
> **(Actum Group, 2023)**

More stringent merger control has been one cause of the increase, with increased regulatory scrutiny driving extended sign-to-close periods and a range of deals subject to regulatory investigation and approval also increasing. On average, the durations of significant U.S. antitrust merger investigations and European Union phase II cases **have risen by 90% and 47%, respectively.**

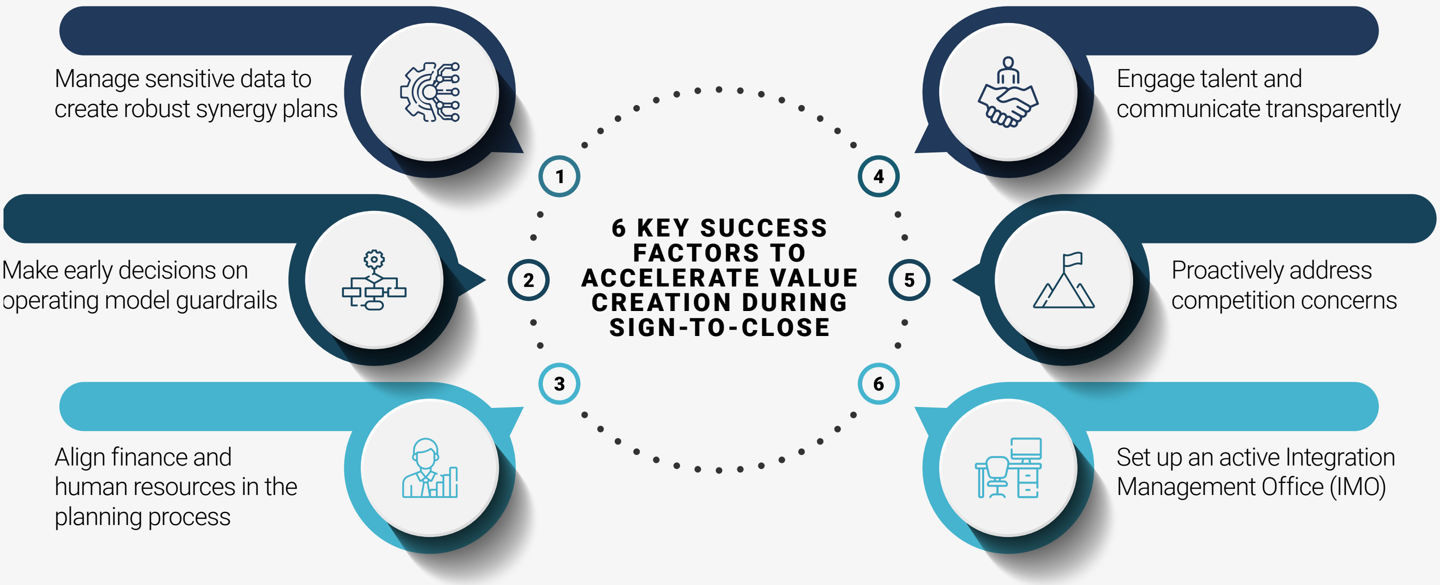
The recent case of **Microsoft's proposed $69-billion acquisition of Activision Blizzard** demonstrates the current, complex regulatory environment—especially in cross-border deals where merger control clearances need to be secured in multiple jurisdictions. The situation can create a strategic kind of limbo: when businesses must operate independently yet risk significant value erosion in the deal thesis due to delays in strategic decision-making.

During this limbo period, the potential risk of value erosion increases, the longer that key business decisions get delayed—for example, a delay in strategic investments for product research and development until regulatory clearance is achieved. Also, key talent becomes a flight risk the longer the inertia continues, and competitive agitation can further exacerbate the situation. As such, investors and management teams often hold back on their detailed synergy planning (particularly where involving sharing confidential information), due to understandable concerns over merger control clearance (called *gun jumping*), delaying their ability to drive value creation planning (VCP) earlier and faster in the process. Therefore, using the limbo period effectively becomes critical to accelerating the investment thesis and driving rapid value creation post-close.

SUCCESS FACTORS FOR ACCELERATED VALUE CREATION DURING SIGN-TO-CLOSE PERIODS

An elongated sign-to-close period poses substantial risks to the value of mergers and acquisitions, by impacting business continuity, timely synergy delivery, talent retention, and stakeholder management. Addressing these issues requires rigorous planning and implementation strategies that should ideally commence as soon as the deal is signed.

AlixPartners has worked with clients in recent transactions to develop an effective strategy to overcome these challenges and expedite synergy value creation planning during the sign-to-close period, allowing post-close management teams to focus on execution, to drive growth faster, and to achieve greater returns.



Our experience has typically led us to set up sign-to-close synergy value creation programs to address six key success factors immediately post signing, which turn challenge into opportunity:

1.

MANAGING COMMERCIALLY SENSITIVE DATA TO CREATE ROBUST SYNERGY PLANS

It's a sometimes misunderstood belief that detailed synergy planning cannot be undertaken during the merger control process. Working with legal advisors to establish a robust clean team structure and approach can enable management teams to use advisors and drive detailed synergy planning to a high level of confidence in data-sensitive environments.

We have found that a well-structured clean team process—with appropriate guardrails around the sharing of data and with limits on specific decisions (as guided by lawyers)—enables management teams to conduct highly robust analysis and undertake planning that can move rapidly to implementation post–Day One.

2. MAKING EARLY DECISIONS ON OPERATING MODEL GUARDRAILS

Aligning the combined leadership around the overarching operating model principles in line with the deal thesis provides teams with the necessary guardrails in which to think about synergy value creation. Leaving these higher-level concepts open or unresolved limits the ability of the team to think conceptually about how to plan for and design a more detailed future state organization and operational structure.

3. ALIGNING FINANCE AND HUMAN RESOURCES IN THE PLANNING PROCESS

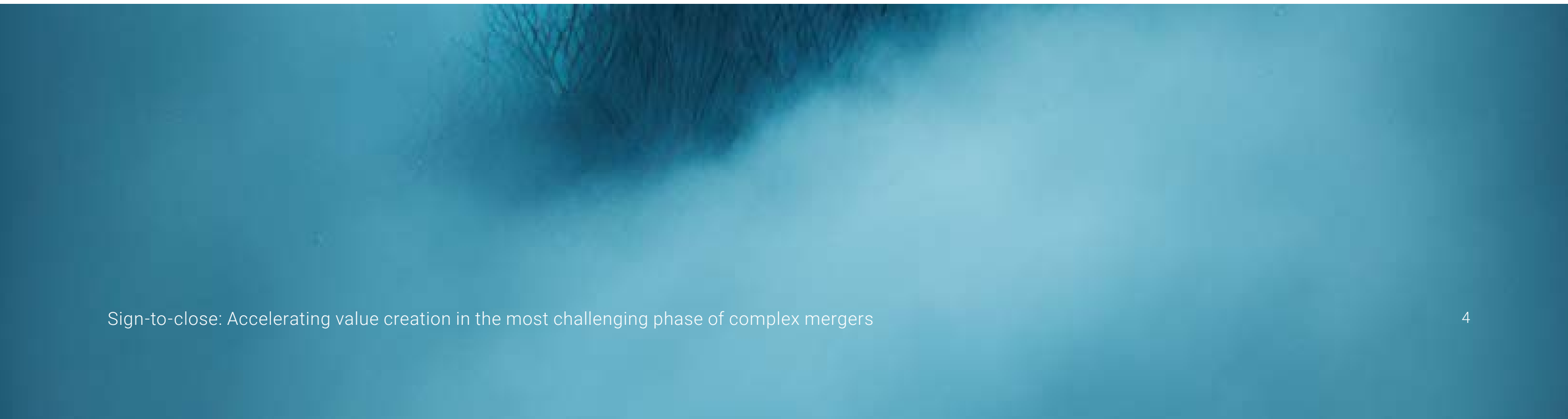
In a clean team environment, the primary limiting factor is the inability of respective parties to see detailed and sensitive information across clean team walls. However, an effective third-party clean team should work closely with the respective finance and HR organizations of both sides to clearly align on three things: the respective baseline information used, the basis and methodology of synergy business cases, and the method by which successful implementation will be tracked and measured.

Establishing this tightly aligned ownership early on drives engagement and ownership, de-risks timely and in-full synergy plan delivery and minimizes the need for iterative reviews and/or baseline adjustments post-close.

4. ENGAGING TALENT AND COMMUNICATING TRANSPARENTLY TO ELIMINATE INTERNAL FEARS

It is important to recognize key talent early and build clear communication and retention strategies to proactively address concerns. During periods of uncertainty and in an environment where decisions at the individual level can be prohibited, it's crucial to avoid the unpredictability of a prolonged clearance process that can ultimately lead to fear, uncertainty, and loss of key talent.

Proactive communication strategies, clear messaging about the timing of future decisions (if not communication of the decisions themselves), and the use of retention techniques can prevent disengagement, minimize uncertainty and anxiety, and ensure key talent is engaged in the planning process, all of which should serve to ensure a smooth Day One and seamless day-to-day delivery of the business objectives post-close.



5. PROACTIVELY ADDRESSING COMPETITION CONCERNS WITH REGULATORY BODIES

A topic we will explore further in a follow-up article is the idea of taking a proactive approach to engagement in the merger control process. Management teams should ensure that when they are subject to regulatory scrutiny, proactive rather than reactive engagement with competition authorities should be made to fully address concerns (either in terms of gathering the required data to confirm the absence of concerns, or coming up with worked through remedies) and mitigate the risk of allowing uncertainty to drive lengthier and more complex regulatory reviews.

6. SETTING UP AN ACTIVE INTEGRATION MANAGEMENT OFFICE (IMO), A GOVERNANCE MODEL, AND AN OPERATING CADENCE

Effective governance is a critical aspect of the integration process. Effective governance oversees the establishment of a decision-making framework, integrates governance structure, and defines roles and responsibilities to ensure accountability, efficient decision-making, executional clarity to de-risking integration, and synergy delivery—as integration progresses.

A key aspect of this process is stakeholder management, where change management, communication plans, and strategies are created to address concerns, maintain trust, and develop engagement initiatives that ensure a smooth transition and minimize resistance or uncertainties during both pre-close and post-close phases. This integration planning and preparation process relies heavily on cross-functional coordination, with the Integration Management Office (IMO) acting as a central hub to ensure that all relevant stakeholders are involved in planning.

LEVERAGING THE LIMBO

Taking this approach, AlixPartners has developed tools and approaches that better leverage the period prior to regulatory close as a critical part of the integration lifecycle. Taking a proactive approach enables businesses to move more rapidly away from the disruption of integration post-close and focus management teams on growth and value generation.

Leveraging the limbo not only effectively minimizes risks but also enables businesses to hit the ground running post-close. Our extensive experience in supporting clients through the sign-to-close period has helped identify barriers and has significantly accelerated value creation. By redefining traditional thinking and by challenging the status quo, we can navigate the complexities of the regulatory clearance phase, ensuring that value creation doesn't begin at Day One but is instead an integral part of the earlier M&A journey.

Al Hamood, president and chief financial and administrative officer of Culligan, a $2.5-billion global service provider of clean and sustainable drinking water solutions, said, ***"We worked with AlixPartners through a highly complex regulatory period during our acquisition of Waterlogic Group in 2022. Their rigorous approach to working with both parties immediately post signing and through to close enabled our teams to develop a highly robust business case—with buy-in from all stakeholders—that ultimately helped us accelerate the delivery of our deal thesis post-close."***

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.