Houston Compensation & Benefits

Post-Deal Integration Planning for Compensation & Benefits

Wednesday, April 22, 2015

pwc
Agenda

• Deal Timeline/Background
• Integration of Compensation and Benefits
  – Medical/Retirement
  – Compensation
  – Equity
  – Change of Control Payments
• Integration Project Management
• Contact Information
An integrated M&A approach minimizes transaction risks and maximizes the return on investment. By addressing each element of the transaction lifecycle, companies are able to minimize disruption, maximize deal value and execute in an accelerated manner.
What We Are Seeing in Today’s Deals
Today’s deals are more complex and larger in geographic scope

Bigger deals.
Larger scale integration projects.

Different types of deals.
Companies are going outside of their core competencies into new markets, channels, and products.

44% of leaders say they are engaging in transformational deals.

Stronger stakeholder pressures.
Stakeholders want to see quantifiable deal value quickly.
# Common HR integration pitfalls and mitigating strategies

HR touches every business function and virtually all stakeholders

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
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<tbody>
<tr>
<td>Not getting it done</td>
<td>• Many sub-work-streams within HR</td>
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<td></td>
<td>• Need disciplined project management and efficient process and timeline management</td>
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<tr>
<td>Dependency management</td>
<td>• Many dependencies between HR and other functions</td>
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<td></td>
<td>• Proactive identification and management of dependencies</td>
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<tr>
<td>Missing Day 1 deadlines</td>
<td>• Ensuring continuity of payroll and benefits</td>
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<td></td>
<td>• Employee visas</td>
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<tr>
<td>Driving the right behaviors</td>
<td>• Consult and communicate with employees and representatives</td>
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<td></td>
<td>• Define and implement performance targets and incentives</td>
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<td></td>
<td>• Harmonize terms and conditions effectively</td>
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<tr>
<td>Aligning comp &amp; bens</td>
<td>• Identify similarities and differences in total rewards philosophies</td>
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<td>• Develop guiding principles for the global integration</td>
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<td>• Reflect statutory requirements in each country</td>
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<td>• Design post-Closing plans, including transitional arrangements</td>
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<tr>
<td>Missing synergy targets</td>
<td>• Organized process to drive timing and execution of synergies</td>
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**Human Resources – functional considerations and lessons learned**

<table>
<thead>
<tr>
<th>Key Questions</th>
<th>Lessons Learned</th>
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<tbody>
<tr>
<td>• How will management identify HR costs that affect pricing, long-term</td>
<td>• Selecting the right leaders and key functional managers is critical to</td>
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<tr>
<td>value realization and comprise the new P&amp;L’s?</td>
<td>achieve deal success and should be completed before close.</td>
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<tr>
<td>• How should management approach ensuring NewCo has the right people?</td>
<td>• HR’s Day 1 priority should be ensuring basic services (e.g., payroll,</td>
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<tr>
<td>How will management ensure they retain the right people?</td>
<td>benefits) aren’t disrupted— an early loss can impact merger confidence.</td>
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<tr>
<td>• How large a challenge will it be to reconcile country-specific HR data</td>
<td>• Establishing processes and protocols for sharing critical HR data and</td>
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<tr>
<td>between the companies?</td>
<td>information as soon as possible helps the HR team identify data issues and</td>
</tr>
<tr>
<td>• What will the benefits and compensation philosophy and plans be? How will</td>
<td>mitigate data migration risks</td>
</tr>
<tr>
<td>NewCo get there?</td>
<td>• Organizational roles and responsibilities should be aligned as quickly as</td>
</tr>
<tr>
<td>• How will NewCo deal with local regulatory requirements in the US and</td>
<td>possible to ensure clarity of direction</td>
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<tr>
<td>abroad?</td>
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Seven Tenets of Successful Integration

Value Driver Selection

Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.

1. Accelerate the transition.
2. Define the strategy first, then execute.
3. Focus on 20% of work that drives 80% of the value.
4. Prepare for Day One, then the larger Integration.
5. Communicate to all stakeholders.
6. Establish leadership at all levels.
7. Manage the integration as a business process.
**Compensation & Benefits Integration**

How do you determine what level of benefit plans to offer employees post-close?

Are the plans generally more or less generous post-close?

How important is an overall compensation and benefits “winners and loser” analysis?

What process, if any, do you use to confirm that the final compensation and benefit options are consistent with the valuation model?

How does the change in employee costs impact your benefit decisions?
Major opportunities exist to capture short to long-term value from a compensation and benefits integration perspective

<table>
<thead>
<tr>
<th>Value Drivers</th>
<th>Key Dependencies / Risks</th>
<th>Perspectives</th>
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<tbody>
<tr>
<td>• Identify CIC payments</td>
<td>• 280G and other implications</td>
<td>• Proactive steps well in advance of CIC</td>
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<tr>
<td>• Optimize tax treatment and transition procedures</td>
<td>• Tax implications of equity conversions</td>
<td>• Eliminate poorly utilized or valued benefits</td>
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<tr>
<td>• Consolidate comp and benefit plans</td>
<td>• Union and Works Council approval</td>
<td>• Economies of scale could reduce contract costs</td>
</tr>
<tr>
<td>• Negotiate savings in vendor contract costs</td>
<td>• Potential entanglements with other work streams</td>
<td>• Increased focus on performance based compensation</td>
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<tr>
<td>• Refine Total Rewards philosophy</td>
<td>• Sustainability of comp and benefit plans</td>
<td>• Rapid integration and alignment of policies</td>
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<tr>
<td>• Review actuarial assumptions</td>
<td>• Consistency in accounting methodologies</td>
<td>• Plan governance process should be aligned Day One</td>
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<tr>
<td>• Align compliance policies and plan governance</td>
<td>• Identify potential compliance issues</td>
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**Executing an effective integration will require the following work-streams within the Compensation & Benefits sub-team**

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Scope</th>
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<tbody>
<tr>
<td>CIC Payments</td>
<td>Identify CIC payments, quantify potential exposures, identify mitigating strategies and establish post-CIC processes</td>
</tr>
<tr>
<td>Equity Compensation</td>
<td>Assess global implications of converting awards and develop conversion and go-forward processes</td>
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<tr>
<td>Health &amp; Welfare</td>
<td>Integrate global medical, dental, life insurance, short and long term disability, AD&amp;D, and other ancillary benefits</td>
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<tr>
<td>Retirement</td>
<td>Harmonize global qualified, non-qualified and postretirement welfare retirement plans</td>
</tr>
<tr>
<td>Compensation</td>
<td>Unify global compensation plans including short and long term incentives</td>
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**The answers to a number of key questions will affect integration scope, planning, and timing of key milestones**

**Key Questions**

- Is the intention to onboard employees onto Buyer plans without any changes (except as required by unions/works councils)?
- Are there any “keep whole” or other compensation and benefit related requirements in the purchase agreement?
- Are there any requirements from prior acquisitions that could impact the ability to change benefits?
- How quickly will employees be on-boarded onto Buyer payroll and HRIS systems?
- Are any near-term changes expected to current comp and benefits?
- What is the desired Total Rewards philosophy after integration?
- How will changes in the Total Reward philosophy and employee offering will be communicated?
- What is the current philosophy on pension and retiree welfare plans? Are plans open to new participants or frozen?
- Are decisions on plan design, accounting assumptions and plan compliance/governance handled locally in any countries?
**Compensation & Benefits Day One Checklist**

**Day One Critical Tasks**

- Set expectations for HR delivery for the near term
- Address and mitigate 280G impact
- Develop process for addressing conversion and administration of equity awards at Change in Control
- Assess needs for retention agreements or awards for management and structure arrangements as needed
- Assess certain retirement plans for any potential termination decisions
- Harmonize competency frameworks in order to align activities and rewards
- Identify regulatory and /or Union / works council requirements to consult and communicate any changes to programs
- Understand how the transaction does affect the financial security of the pension schemes and communicate with appropriate parties
The integration journey is designed to achieve key outcomes at each stage

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Pre-Close</th>
<th>Day 1 – 100</th>
<th>6 months +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Welfare / Retirement</td>
<td>• Inventory benefit plans</td>
<td>• Develop transition timeline and identify any interim changes</td>
<td>• Implement new health &amp; welfare plans, or onboard as applicable</td>
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<tr>
<td></td>
<td>• Understand statutory and union requirements</td>
<td>• Negotiate with vendors for adjusted fee quotes</td>
<td>• Merge retirement plans if no compliance issues identified and enroll new employees</td>
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<tr>
<td></td>
<td>• Compare benefits highlighting winners/losers and cost impacts</td>
<td>• Develop work plan and identify owners</td>
<td>• Establish new administrative process as applicable</td>
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<tr>
<td></td>
<td>• Inventory vendor contracts, administrative practices and system entanglements</td>
<td>• Review accounting methodologies for pensions, termination indemnities, gratuity plans etc. and calculate opening balances liabilities</td>
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<tr>
<td></td>
<td>• Based on new Total Rewards strategy, develop new company plan design</td>
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## The integration journey achieves key outcomes at each stage

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</table>
| **Compensation** | • Analysis of global comp practices  
• Assess labor law risks  
• Target’s pay positioning relative to Buyer’s comp structure  
• Develop Total Rewards transition philosophy  
• Harmonize/design new salary/structure, annual and long-term plan design, metrics and participation  
• Model impact of new programs on individuals and company  
• Develop retention strategy | • Incorporation of jobs into HRIS system; Payroll integration  
• Critical jobs identified and retention plans designed  
• Communicate compensation philosophy/actions to employees | • Make compensation adjustments based on leveling results  
• Evaluate opportunities to redesign compensation programs within purchase agreement terms-optimization plans |
The integration journey is designed to achieve key outcomes at each stage

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<th>Day 1 – 100</th>
<th>6 months +</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td>• Assess local country implications of award conversions</td>
<td>• Integrate vendor and other administrative platforms</td>
<td>• Determine appropriateness of equity participation levels</td>
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<td></td>
<td>• Establish processes for cash-outs, conversions and go-forward administration</td>
<td>• Manage equity grant processes</td>
<td>• Analyze equity usage for consistency with modeling and share pools</td>
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<tr>
<td></td>
<td>• Model equity usage</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Change in Control (CIC) Payments</strong></td>
<td>• Identify all payments and quantify worst case exposures</td>
<td>Process payments, finalize payroll reporting and effect tax provision and return impacts</td>
<td>• Prepare final report with analysis for use upon audit</td>
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<td></td>
<td>• Develop mitigating strategies</td>
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<tr>
<td></td>
<td>• Formalize processes for administering payments</td>
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Summary of Integration Best Practices

Compensation & Benefit Plan Key Considerations

1. Transition employees to new benefit plans as soon as possible, or consistent with the valuation model assumptions.
2. Compare the Target and Buyers plans, both from an employer and employee cost perspective. Use this comparison to drive post-close benefit recommendations.
3. Evaluate whether the form of benefits needs to change based on the post-close structure.
4. Consider how the timing of benefits migration will impact insurance quotes.
5. Quantify the overall differences between the Target and Buyer’s plans, considering base pay, bonus, equity and employee benefits. Identify winners and losers to ensure compliance with the Purchase Agreement, and for employee communication messages.
7. Evaluate if pay practices need to change post-close based on Buyer policies or procedures. In general, pay changes are not recommended.
8. Understand the transaction impact on the short term bonus plan metrics, and evaluate whether changes are needed.
9. Recommend retention awards based on the identification of critical employees.
10. Determine severance packages for any reductions in force.
Integration
Project
Management
### Integration: Project Management

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>How do you select your ideal team? How are external advisors used?</td>
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<tr>
<td>What is the decision making and governance process determined and communicated?</td>
</tr>
<tr>
<td>What tools and templates do you find most useful for managing a large scale integration project?</td>
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<tr>
<td>How are interdependencies with other work-streams identified and resolved?</td>
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**HR deal governance structure**

An HR deal governance structure is recommended for efficient execution within the HR function and for effective collaboration across the organization.

**Roles / Responsibilities**

- Leadership
- Decision-making
- Approach
- Methodology
- Monitor progress
- Rapid business requirements
- Prioritize, develop & execute plans
- Mobilize resources
- Escalate issues
- Identify cross-functional issues for HR Team support
- Eliminate barriers to resolution
- Work across functions

**HR Project Teams**

- Compensation and Benefits
- Payroll, T&E, Time & Attendance
- HR Organization and Services
- Talent and Organizational Development
- HRIS
- Recruiting
- Employee Relations
- Training

**HR Cross-Functional Teams**

- Stakeholder Communications and Change Management
- Organization Design and Workforce Management
The HR IMO will manage the interdependencies across HR, Talent Alignment, and other enterprise-wide activities

Examples of Interconnected Activities

• Workforce and talent needs for all functions
• Overall IMO
• Legal entity / tax structure finalization
• HR and Legal
• IT and Finance Day 1 / Day 2 operating model
• Communications – integration strategy and internal / external messaging
• Tax and structuring team: make sure teams consider HR and legal issues
• Global Compensation & Benefits
• Talent Alignment – enterprise organization design guiding principles
Approach for HR Synergies

An integral part of HR IMO planning will be the individual sub-teams calculating synergies and aligning with the IMO process to achieve and track synergies.

- **Synergy Analysis**
  - **Synergy Model**
    - Initial financial model based on limited information and set of assumptions
  - **Business Cases**
    - Detailed business case for each Value Driver initiative, including qualitative and quantitative information based on extensive analysis and information
  - **Workplans**
    - Detailed project plan for each Value Driver initiative based on qualitative information from business cases; includes tasks, resources, dates, and deliverables

- **Value Driver Analysis**

- **Value Driver Execution / Synergy Tracking**
  - **Synergy Tracker**
    - Tool used for tracking and reporting synergy achievement based on quantitative information from business cases

- **Outputs**

- **Timeline**

- **HR Integration Planning**

- **Deal Close**
Contact Information
Contact Information

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