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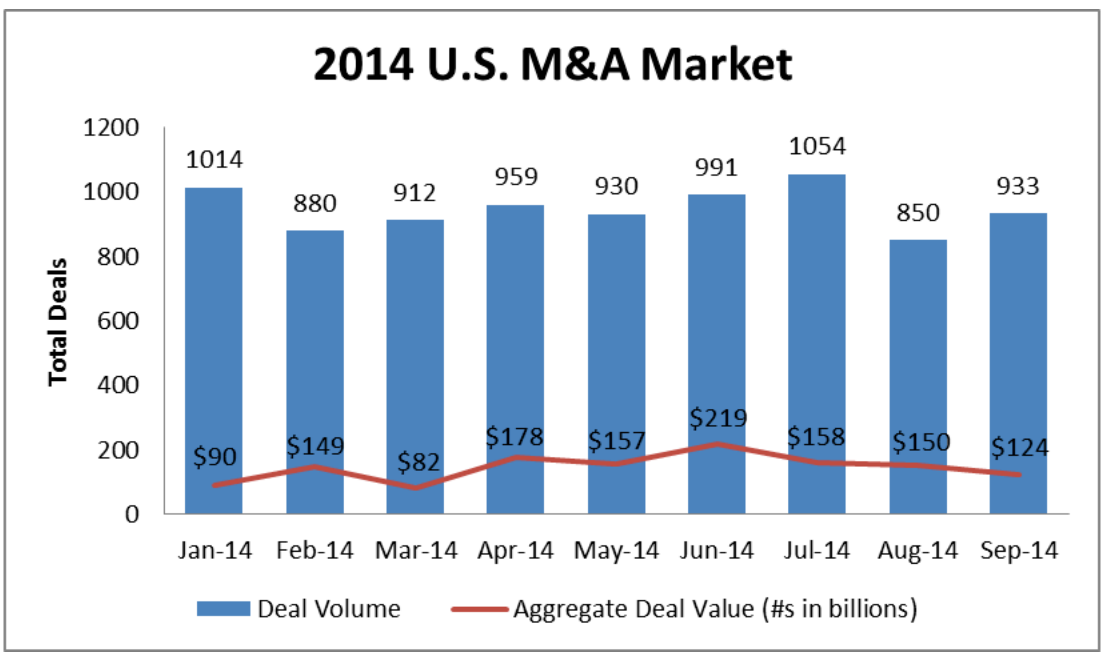
2014 Global M&A Activity Surges: Need to Reevaluate Executive Benefits

Global M&A activity has accelerated in 2014, making it one of the best years since 2008. In the first three quarters of the year, total value of global M&A deals reached $2.66tn, up 60% from the same period in 2013.[1] Headlined by popular megadeals such as Comcast's $45b purchase of Time Warner Cable and AT&T's $69b acquisition of DirectTV, YTD there are 23 transactions over $10b, which already eclipsed 2013's total of 16.

U.S. M&A Review

The U.S. accounted for 45% of the total global activity, up 79% over 2013 YTD. In Q3 alone, there were 2837 deals (including public and private), up from 2509 deals in 2013 Q3. The following chart summarizes 2014 U.S. M&A activity.



Industries that experienced the most M&A activity included: media & telecom, technology and healthcare.

Many companies contemplate mergers with big ambitions: accretive revenue, synergy potentials, increased market share, and a host of other wealth creating opportunities for its shareholders. And while companies are quick to highlight the numerous benefits associated with acquisitions, little is mentioned about the integration hurdles that lie ahead. Without the right integration plan and measurement metrics, M&A deals are likely to fall short of their financial objectives. Sadly, evidence shows that many companies do not devote resources needed to address merger integration. In 2013, Accenture found that nearly 70% of acquirers have no M&A integration playbook.[2] This may help explain why nearly half of the acquirers fail to achieve their M&A financial objectives.[2] While there are a variety of integration obstacles to address, this article will focus on one: executive benefits.

M&A Executive Benefit Integration

Executive benefit plans can range greatly from company to company. Unifying executive benefits post-merger becomes especially important, as it relates compensation equality as well as retaining key executives. Below are a series of executive benefit considerations acquirers should think through post-merger.

Review Existing Plans

- There are many types of non-qualified plans, including but not limited to: voluntary deferred compensation plans, supplemental executive retirement plan (SERP), phantom stock. All plan documents should be collected and reviewed at the beginning stages of the executive benefit evaluation process.

Identify Triggering events

- A triggering event, is a barrier or occurrence that once breached or met, causes another event to occur. Some plan designs have an M&A trigger event, often within the Rabbi trust provisions, that may require the sponsor to fully fund the non-qualified liability and distribute the executives account balance in a lump sum. This type of event, among others, needs to be quickly identified.

Review Plan Liabilities

- M&A deals can often result in a new set of strategies for each respective company. As such, non-qualified funding may need to be reevaluated against those new strategies. With a variety of funding options, it will be important to ensure plan liabilities and funding align with the current strategy.

Consolidate Recording Keepers

- It's likely that two companies will use two different non-qualified record keeping providers. In order to reduce costs, it makes sense to consolidate to one record keeper, post-merger. Record keepers strengths and weaknesses need to be evaluated against new plan designs, to ensure sponsor services can be met.

Overcommunicate

- Changes to the executive benefit plans will require a proactive and clear communication plan to participants, sponsors and record keepers. Additionally input from these sources will help define and build a plan that meets organizational and participants' needs.

Summary

A recent survey by Mckinsey and the Conference Board found that 50% of executives believe "cultural fit" lies at the heart of enhancing a merger.[3] However, unlike sales and marketing, culture is much harder to define and measure. A good cultural starting point, and one that is more tangible, is executive benefits. Perhaps by defining and harmonizing executive benefits at the onset, executives will be more aligned and motivated to achieve its corporate merger objectives.

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2. Inside Corporate M&A: The Formula of the Fittest. Accenture
3. Perspectives on Merger Integration, McKinsey & Co.