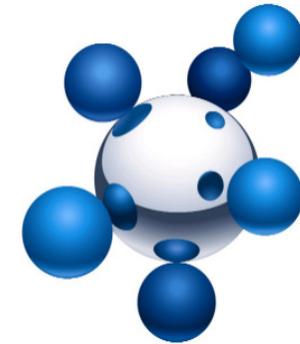


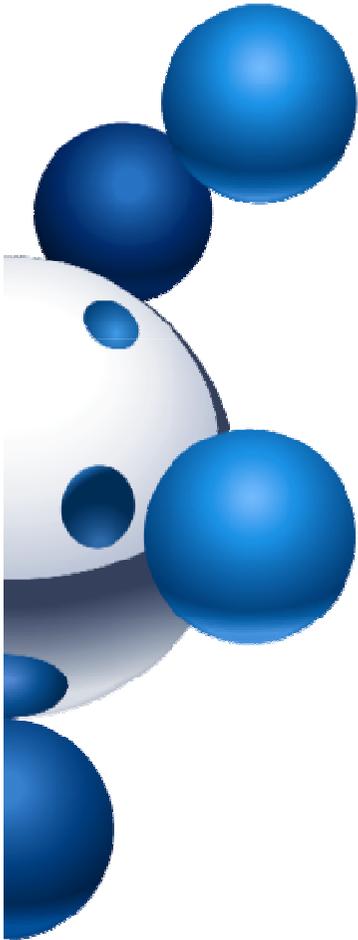
SASOL
reaching new frontiers



Acquisitions An HR Perspective

Presentation by Sakkie Jacobs

*SARA EMG Meeting
10 May 2007*



Structure



1. Trends in M&A activities
2. Research by Corporate Leadership Council
3. Motivation for embarking on M&A activities
4. Who are the buyers?
5. The role of HR in Mergers and Acquisitions
6. Legal framework
7. Due diligence
8. Social plans
9. Integration - HR Road Map
10. Restructuring
11. Lessons learned

M&A Activities



- In **South Africa**, M&A activity saw a 6% increase in transaction value. While the number of transactions decreased from 744 in 2005 to 729 in 2006, the combined value increased from **R269 billion in 2005 to R284bn in 2006**.
- About **\$US113 billion** worth of deals were completed in the **global resources sector last year**. In contrast, **mergers and acquisitions in the first four months of 2007 already account for half of that amount**.
- According to M&A Intelligence, there were 188 merger and acquisition transactions involving **Russian companies** in the first quarter. They were worth a **total of \$20,864,700,000**. The number of deals increased 42.2 percent over the same period last year and their value increased by 4.5 times. The average value of each deal increased from \$56.11 million to \$176.82 million.
- In a matter of one day 19 companies and investors around the world announced US\$75bn worth of deals, bringing the total value of M&A activity for 2006 to a record \$3,5trillion. The two largest deals announced during that week was a \$36bn takeover of US property company Equity Office Properties by private equity group Blackstone, and copper firm Phelps Dodge's \$26bn takeover by Freeport McMoran.
- **Two of the drivers of the 2006 M&A boom: rising metal prices and the growing status of private equity firms.**

Motivation



What is motivating M&A activities? -- Many reasons!

- Growth – Internal growth too difficult or slow
- Brand acquisition
- Market penetration
- Synergies
- Acquiring new technology
- Industry restructuring/consolidation
- Up- or down stream integration
- Access to resources or markets
- Panic & Ego

Mergers and acquisitions tend to come in waves. Some of this is related to external conditions, including the perceived value of the operations in a market segment or the loosening of antitrust rules. But a lot of it is based on panic.

Once a sector starts consolidating, other players feel the need to follow suit in order to maintain market power and to deny growth to others. After a few acquisitions, panic often sets in, and a domino effect comes into play. Most large companies are constantly exploring the chance to buy out other firms in their industry, but the segment-wide panic moves the deal making from back to front burner. **M&As are contagious.**



Sharp increases in both deal volume and value, companies are once again pursuing mergers and acquisitions as a means to strengthen their competitive position.

However

- Surveys shows that the majority of companies fail to capture the full value from M&A, mainly due to poor integration management. Human capital related factors are frequently at the root of failed M&A.
 - *Right Management Consultants – 77% of M&A do not achieve their original purpose*
 - *Mercer – 50-80% of M&A never produce anticipated benefits*
 - *McKinsey – 70% of mergers fail to achieve synergies*
- Sources of deal failure
 - *Cultural integration issues*
 - *Organizational structure issues*
 - *Failure of leadership from Top Management*
 - *Communication failures*

Buyers



- **Strategic buyers:**

Acquisition as part of an exiting business strategy to achieve a particular goal, most often "winning".

- **Private equity buyers :**

Acquisition by private equity group. Equity capital provided by professional, institutionally-backed outside investors. Generally made as cash in exchange for shares in the invested company, venture capital investments are **usually high risk**, but offer the potential for above-average returns.

- *Private equity deals increased by over 15% in 2006, including five off the six largest private equity buyouts in history. The biggest equity firms, including Blackstone, KKR, Carlyle, and others, accounted for around \$400 billion of the announced \$1.5 trillion mergers and acquisitions.*

The role of HR in Mergers and Acquisitions – Corporate Leadership Council



Key conclusions

- **HR performance in integration is a key driver of M&A success**

44% of senior executives report that integration is the greatest source of error in M&A and that overcoming human capital challenges is more important to integration success than any other aspect of integration

HR imperatives

1. Establish an HR M&A infrastructure
2. Gain early insight into deal objectives
3. Assess and identify human capital risks
4. Identify financial and compliance risks
5. Identify cultural and talent risks
6. Plan responses to identified risks
7. Build a communication plan
8. Monitor and respond to integration risks
9. Continuously monitor key talent metrics related to performance, retention and engagement
10. Assess HR's performance post-integration and capture lessons learned

Legal framework



Countries have different legal requirements/obligations depending on the type of purchase transaction - acquisition

- *Assets purchase*
- *Stock purchase*
- *Co-determination – Works Council & Union agreements*

USA

Assets purchase: A buyer is not legally obligated to hire any of the employees of the target business and the employees would not be automatically “transferred” to a buyer, they must apply for employment. A buyer may establish new terms and conditions of employment.

Germany

Assets purchase: *The seller’s rights and duties under the employment agreements or employment relationships as a whole are transferred automatically on transfer of the business to the purchaser. Purchaser may not select any employees, but has to retain them all for a period of one year, the content of the works agreement is non negotiable and cannot be changed*

Due diligence



- **Purpose**
 - *Real cost of the acquisition*
 - *Risk mitigation*
 - *“Fit”*
- **Information memorandum**
 - *Detailed description of the business – marketing tool*
- **Data room**
 - *Information about all aspects of the business – **Un-edited***
- **Core HR Issues**
 - *Direct staff costs*
 - *Payroll costs*
 - *Incentives*
 - *Indirect staff costs*
 - *Liabilities re retirement and social benefits*
 - *Social plans*
 - *Management talent and depth*
 - *Business model and organisation structure*
 - *Culture compatibility*

Due diligence



Main HR Topics

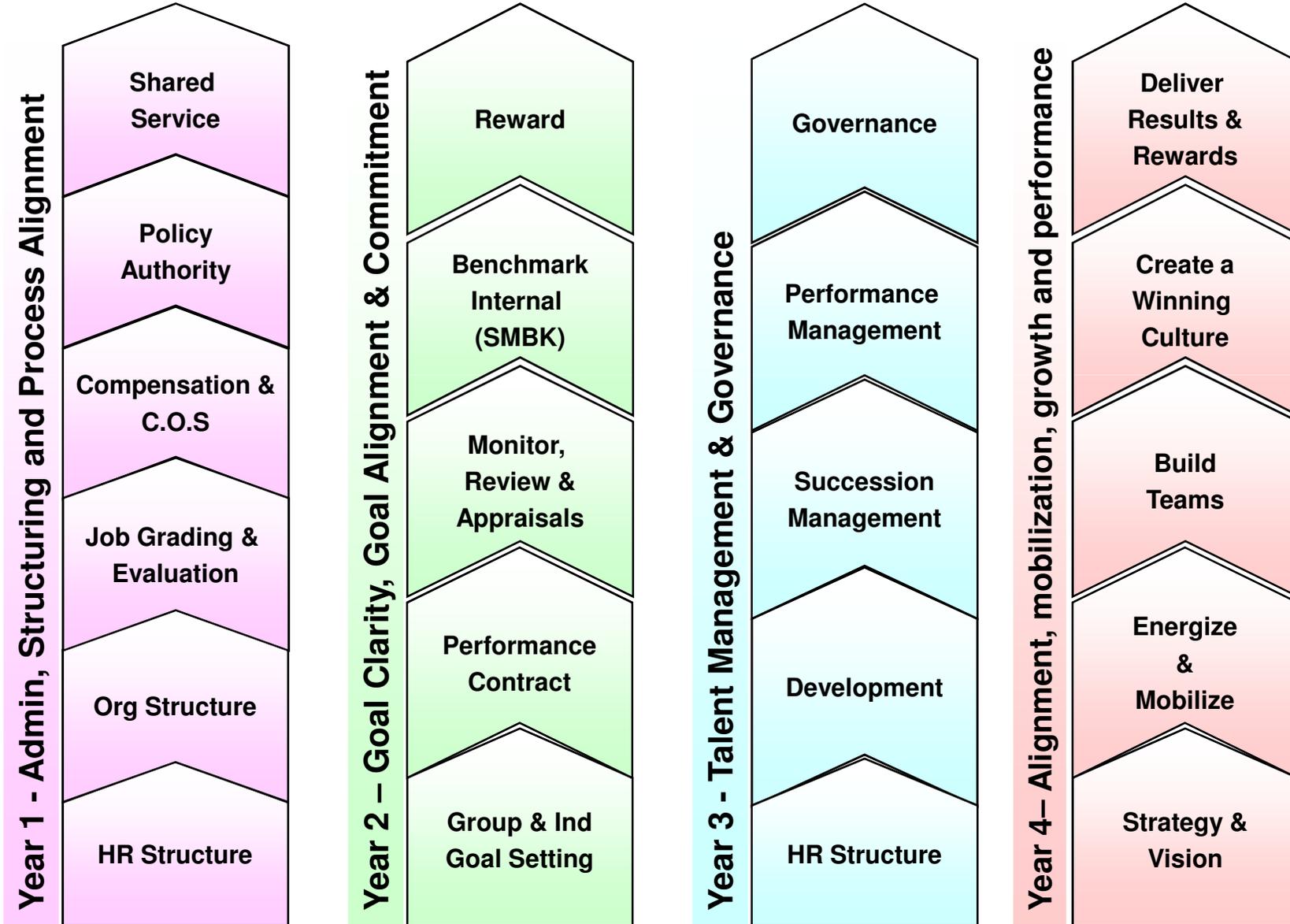
- Staff numbers
- Organisation structures and business models
- Organisation culture and change fitness
- Remuneration
- Benefits
- Incentives
- Conditions of employment
- Labour relations/law
- Employee statistics and skills retention issues
- Talent management
 - *Training & development*
 - *Training structures*
 - *Learners*
 - *Performance management*
 - *Succession – health of pipeline*
- Admin systems
- Compliance

Social plans



- Employee contracts
- Union agreements
- Works Council agreements
- Supervisory Board and co-determination
- Statutory requirements/restrictions
- National and regional contracts (European Union)
 - *Change of control provisions*
 - *Severance benefits*
 - *Relocation benefits*
 - *Pension and post-retirement benefits*
 - *Share option schemes/plans*
 - *Long term incentive plans*
 - *Executive contracts and parachute clauses*

Integration - HR Road Map



Restructuring



Objective: Extraction of value

In a *Wall Street Journal* article ("How to Assess 2007's M&A Activity," 16/01/07), analysts Dennis Berman writes that 2007 will be an even bigger year for such deals. He warns, however, that investors should be wary, as success leads to hubris (*excessive pride or arrogance*), and eventually catastrophe, especially for smaller investors.

As Berman points out, "***The purpose of most of today's mergers is to make money. Firing people is the obvious way to achieve it.***" Bad news for workers. But also bad news for investors -- after the initial personnel savings are delivered, most companies are unable to deliver any enhanced revenue after the dust settles from a merger.

Objective

- Is to support the achievement of the business needs of the acquiring company

But

- Often requires carve-out and separation of business units
- Staff reductions, relocations and or job content changes are often inevitable
- "Social plans" restricts management options and impacts time lines
- Restructuring highly regulated in many countries
- Impacts relationship with communities and effects company reputation
- Many hidden costs
- Counter to integration objectives

Restructuring

Project Streams and Main Activities

- **Business Philosophies**
 - *Business framework for carve-outs*
- **Organisation**
 - *Process analysis & Design*
 - *Financial, HR, IT and PSM structures*
 - *New Organizations*
- **Commercial**
 - *Supply chain / logistics*
 - *Procurement*
- **Co-ordination / Communication**
 - *Overall co-ordination of the process*
 - *Communication*
- **Plant related issues**
 - *Inter company agreements to reflect business philosophies*
 - *Technical support and other shared services*
- **Legal**
 - *Terms sheets / new contracts*
 - *Transfer of contracts/agreements*
 - *Compliance to regulations*
- **SHE / Asset Integrity**
 - *Site reports*
- **Financial / Admin**
 - *Banks and internal financing*
 - *Governance structures/credit control*
 - *Management and Statutory Reporting*
 - *Tax / Treasury / Controlling*
 - *Office accommodation*
- **IM / IT systems**
 - *IT support / systems requirements defined*
 - *Infrastructure / systems defined and provided*
- **HR**
 - *Future HR support per entity*
 - *Job descriptions/evaluations*
 - *Compensation & Rewards*
 - *Motivated and focused workforce*
 - *Mobilization & communication*
 - *Desired culture reinforced*
 - *Transfer of contracts of employment*

Lessons learned



- **Why do most mergers and acquisitions fail to live up to expectations?**

- Is it the finances or the technology? Rarely.
- Is it the overly ambitious strategy of executives? Occasionally.
- Mostly, it is poor execution of the actual “merging” of the companies involved.
- Merger failures usually revolve around people issues:
 - *loss of key staff,*
 - *culture clash,*
 - *FUD: fear-uncertainty-doubt,*
 - *poor communication and interaction between employees of the merging organizations.*



Thank you

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