МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
ВНЗ «УКРАЇНСЬКИЙ КАТОЛИЦЬКИЙ УНІВЕРСИТЕТ»

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на тему:

«Розробка стратегії та методології ефективної інтеграції у процесі злиття ІТ-компаній (Development of strategy and methodology of effective integration in IT M&A processes)»

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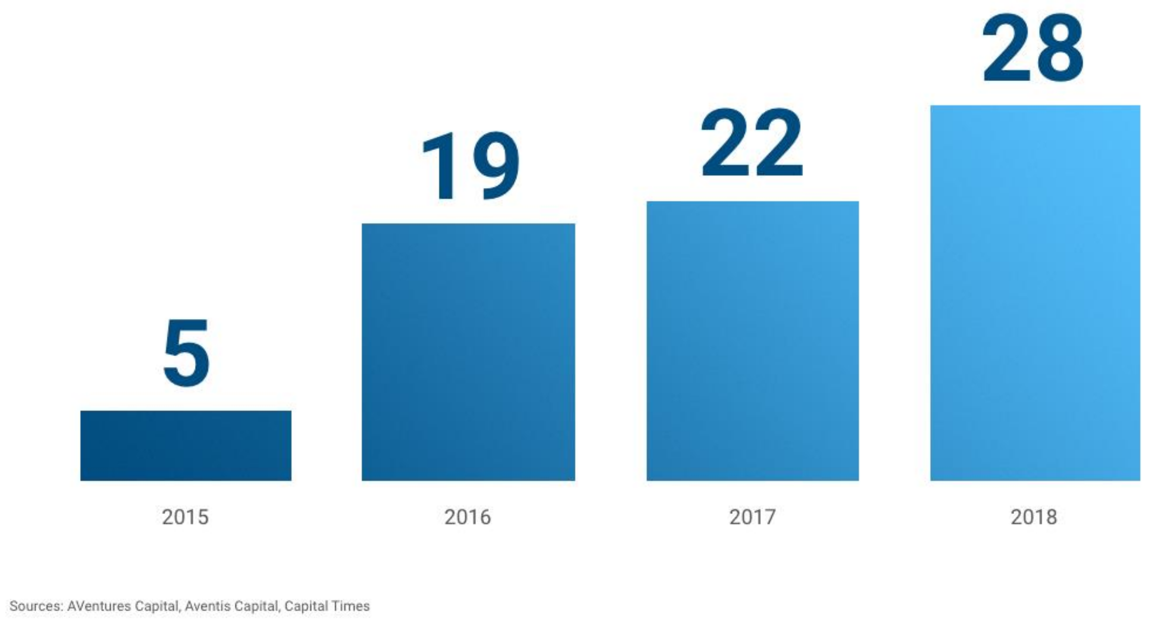
Introduction

The relevance of the topic.

For the last couple of years recent Ukrainian IT market trend has been moving towards consolidation of the firms, that work in the field of software development and deliver professional IT services. Just like many other industries, IT is restructuring itself in response to fundamental changes in technology, deregulation and globalization, and companies may be involved in M&A transactions as buyers, sellers or both.

The statistics below (Picture 1) showcases the upward trend of recent years in 4 eastern European countries [1]:



Picture 1. Count of M&A deals announced in Ukraine, Poland, Belarus and Romania in 2015-2018

2018 was a productive year in this respect. A good example to demonstrate the trend would be the following report on picture 2 [2].

Picture 2. Upward trend in M&A activity in the region. 2018 was a peak year.

Generally speaking, the M&A Strategy is an integral part of the enterprise overall strategy. There is a variety of reasons for a company to choose an M&A Strategy. Boards seek buyers for two main reasons:

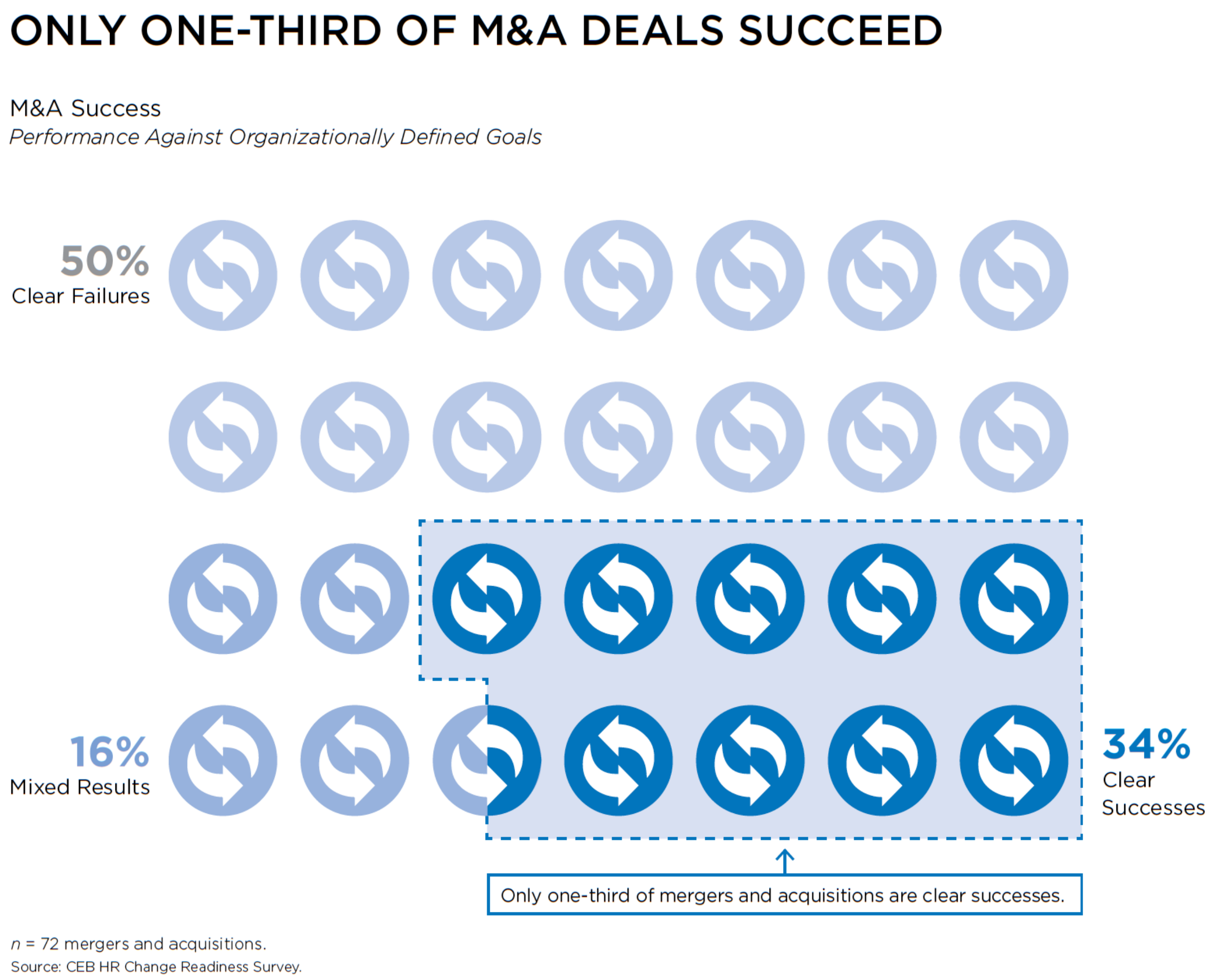
- because prospects for future value creation are very limited (or value destruction is very likely to be in place)
- because the company's current evaluation materially exceeds its estimated future value.

If the company's prospects for future value creation are limited or at risk, the enterprise is likely to be vulnerable for numerous reasons. It may be severely competitively disadvantaged, have an over-leveraged balance sheet, or it may lose major clients or key employees. Under these circumstances, a board could conclude that the enterprise might be worth more now than tomorrow. So, selling it is a better option than allowing its value to drop down.

Under these circumstances, the company must be clear about its strategic rationale, develop M&A screening criteria, and search for targets. An M&A strategy should ultimately create value for shareholders if executed effectively.

The idea behind this thesis is to provide a framework for the companies which chose this strategic way of M&A for the company development. And the practical aspect here is described in the example of CoreValue company, that is currently going through the similar process.

Unfortunately, a very high percentage of M&A deals fails due to various reasons. Mostly because of underestimated implied risks or due to poor planning and execution. The following illustration (Picture 3) clearly illustrates stated above:



Picture 3. The success statistics of M&A deals

The statistics above proves the importance of the systematic approach to post M&A integration.

This document is designed to equip directors with a framework to oversee the mergers and acquisitions (M&A) process, to identify critical steps and issues that will require attention, and to provide useful tools.

My mission and area of interest

I’m personally highly interested in this topic as my current employer company – CoreValue – is going through the M&A process at the moment, and I, on a Managing Director position and a member of CoreValue executive team, was invited to join the strategic group, that will be responsible for the integration strategy development and the actual implementation of the plan. So, this thesis has 2 major objectives:

1. Develop an integration methodology and use it as a guideline to transform our organization as requested by the new Board. Use the developed framework for all the upcoming mergers.
2. Obtain an M&A integration expertise for myself personally, as such processes are in a trend these days, and there is a high demand for experts in this field. This is one of the topics that are of very high interest to me in this business, as it opens the IT Services business from another perspective and shows a new value created by M&A strategy for the business.

1 Background, business reality and strategic problems

1.1 CoreValue company profile

CoreValue is a Global Software and Technology Services company established in 2006, providing Cloud based implementation services, Salesforce platform development and integration services, Data Services and Machine Learning powered solutions, Mobile & Web application design and development services to Fintech, Pharmatech, Healthcare, Media industries etc. CoreValue maintains quality software and consultancy services to funded startups, investors, mid-sized enterprises and Fortune 50 through 500 companies. The Company has 8 development labs across Ukraine and 1 in Poland. Its current headcount is ~ 450 employees.

In 2016 the major share of CoreValue was bought out by a Ukraine based investor, who, however, has been positioned as a non-active shareholder. At the end of 2017 the major global VC Fund "Oaktree Capital Management" selected CoreValue as a target for acquisition for their new entity "IT Services Competence Platform" (Platform) with a plan to buy out major share and with the first right to buy out all the other minor shareholders' shares. The shareholders accepted the idea of selling CoreValue because of 2 main reasons. First of all, according to their evaluation, the Company was at the peak of its financial performance. It has been restructured during previous 2 years to become more attractive for potential buyers. Another reason for shareholders to make this decision was lack of expertise in how to handle the company of this size and lack of strategic view how to bring the business to the next level. Since then and through the end of 2018 CoreValue was in Due Diligence process and as a result, was approved by the Platform Board (Board) for acquisition.

1.2 Vision and strategy of the new Board

The investors – "Oaktree Capital Management" and their partner – "Cornerstone Partners" – started the development of IT Services Competence Platform in 2017 by taking over IT Kontrakt in Poland. Solidbrain, another Polish company, joined the Platform in the second half of 2018, which significantly strengthened the

Group's potential in terms of operations and competence, especially in the area of handling managed services and managed capacity projects. The latest acquisition was Sevenval – a company based in Germany. The transaction has been completed in the beginning of May 2019.

The ultimate strategic goal of the Board is to create a new strong sustainable player on the global IT Service market and get it ready for the IPO. The target is to reach a size of 5+ thousand professionals by the end of 2023.

So the strategy is oriented primarily on the extremely fast growth and gaining maximum of benefits from the synergies between different Platform parts – be it augmenting technical expertise of one another, sharing different business domain knowledge base, expanding market coverage in geographical aspect, getting access to human resources pool in more geographical locations, cost savings etc.

With 4 existing companies in portfolio, there is still a number of potential targets being looked at – in Ukraine, Poland, Sweden, Austria, Romania etc. So, the integration approach will be based on the merge of 4 companies into the Platform. However, any potential merger of other newly acquired company should be following this methodology.

1.3 Other merger participants' profile

The other 3 Companies mentioned above are:

- IT Kontrakt (ITK) – https://www.itkontrakt.com/
- SolidBrain – https://solidbrain.com/
- Sevenval – https://www.sevenval.com/

ITK

Offers recruitment and outsourcing of IT professionals. The company specializes in the areas of project management, analysis, design, architecture, programming, system administration, and testing. It recruits IT specialists that include project managers, analysts, designers, architects, developers, and testers, who carry out projects related to the development and implementation of technologies for various businesses. It serves its customers in Poland and internationally. The company was established in 2004. The current size is approximately ~ 1700 employees. It is important to mention that more than 85% of the organization is purely staff augmentation model, which means these are the professionals recruited by the ITK purely for the client's needs, and physically located on client's premises. Only ~ 250 professionals work in what is called Software Development Center (SDC). SDC at ITK has been fairly recently established and not systematic yet, but mostly focused on one large client, which makes it focused on the specific process, rather than industry standard.

Solidbrain

Develops enterprise and mobile applications. The company was founded in 2014 and is based in Krakow, Poland. The size is ~ 250 employees. Solidbrain is heavily dependent on its largest client – ABB – Swiss-Swedish multinational corporation headquartered in Zurich (Switzerland), operating mainly in robotics, power, heavy electrical equipment and automation technology areas. Similarly, to the situation with ITK – the processes at Solidbrain are far from being standardized and unified.

Sevenval –

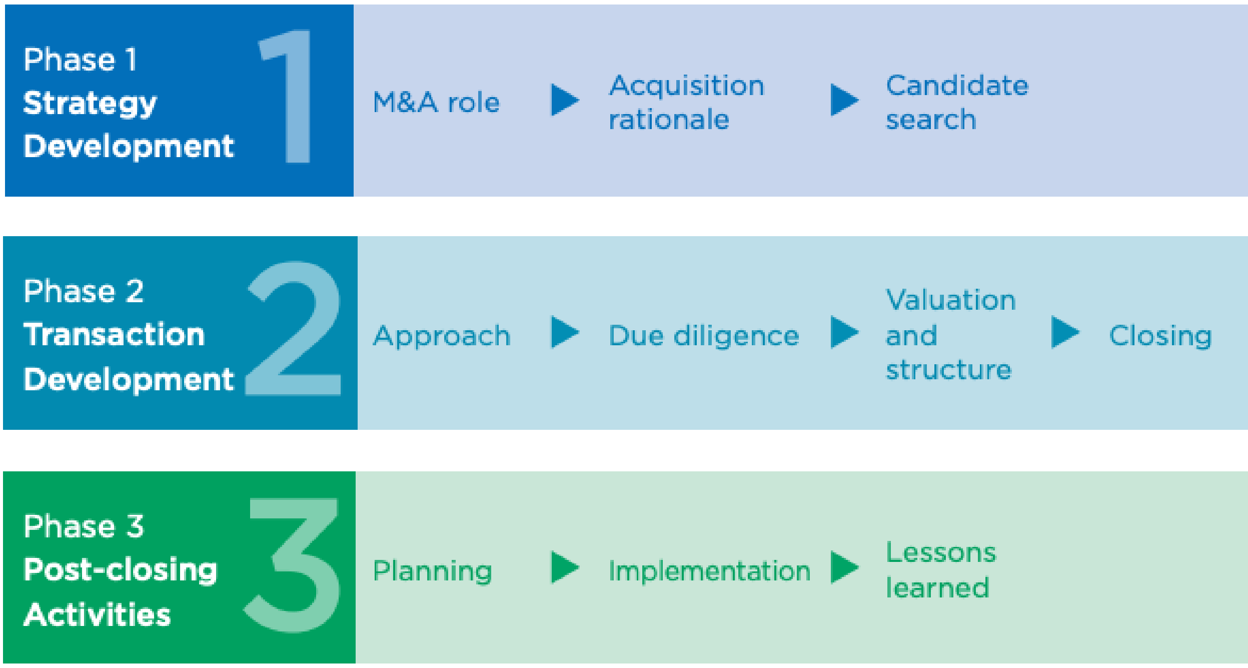
The German company that positions itself as premium-class front-end and digital transformation experts. The offices are located in Berlin and Cologne. The headcount is ~ 180 people. This is a highly profitable, but narrowly focused organization with low capabilities for scaling up.

The important note here is that CoreValue, being far smaller than ITK from the first glance, in reality, is a much more mature organization specifically as an SDC, with the long history and experience. One of the key criteria for acquiring CoreValue was maturity in all the organizational and excellence in development processes and practices. Another feature of CoreValue is that this is a full-cycle software development shop, unlike the others – are more narrowly focused when it comes to the business offering. The difference between organizations and potential integrations points and synergies will be discussed later in the document.

1.4 Phases of the M&A process

M&A oversight framework has three general phases:

- M&A strategy development
- Transaction development
- Post-closing activities



Picture 4. The phases of an M&A process

These are the steps that are common to most M&A transactions, but it should not be expected for any transaction to unfold exactly as outlined here. There are as many versions of this process as there are advisors, and the steps will vary depending on the kind of transaction.

In this document we will concentrate mostly on Phase 3 – the aspect of the companies' integration into the Platform – as at this moment the Company has already passed through the first 2 phases of M&A process. Some of the activities related to this activity should start even before the transaction itself is approved, but the major part belongs to the post-closing phase.

2 Integration framework explained

Most directors understand the importance of post-closing implementation to acquisition success, but they may not have the means to provide effective oversight at this stage. The three steps in this section outline key tasks and issues that can arise at this stage, to give directors a better understanding of the level of planning needed leading up to and after closing, including preliminary planning in advance of closing and more detailed plans developed later with the new, combined management team. Good planning, with appropriate accountabilities, metrics and milestones that can be reported and tracked at the board level are essential to proper board monitoring.

Harmonizing systems, policies and processes, integrating cultures and monitoring progress against integration plans and targets are all key to realizing value creation potential. This section also describes how to learn from each transaction to build competitive M&A skills.

2.1 Integration planning

2.1.1 Detailed, multi-phase internal and external stakeholder communication plan.

The importance of communications, from when a transaction is first announced and throughout the implementation period, should not be underestimated. Business combinations create uncertainty and can destabilize many stakeholder groups if they are not addressed proactively.

When the transaction is announced — public companies are required to issue a public announcement when they sign a purchase and sale agreement for material transaction, usually in the form of a press release. Because the news will be of interest to all stakeholders, a broad, integrated communications plan will be necessary. The objective is to communicate the details of the transaction well, to help stakeholders understand the reasons for the acquisition, and to ease any concerns.

The stakeholders will most likely want to know:

- the reasons for entering into a business combination

- how the new company fits the buyer’s strategy and acquisition rationale
- the expected benefits for each party
- how the stakeholders’ concerns will be addressed
- immediate and longer-term implementation plans
- implementation timing
- the value
- why they should support the transaction.

The communication strategy should be mostly focused on 2 more vulnerable categories of stakeholders – customers and employees.

Customer retention is critical in nearly all business combinations, so reaching out to customers should be of a very high priority. Typically, customers will be concerned about potential supply disruptions, any changes in key relationships. If customers feel uncertain, their first reaction is usually to reduce risk by reaching out to alternative sources of supply, so direct communication should be of high priority. In conjunction with issuing press releases, there should be a separate written communication sent to all customers, followed by phone calls and in-person visits for all key accounts, especially those most at risk of leaving. Both buyers and sellers will definitely want to retain their customers by emphasizing the benefits of the transaction and allaying any concerns.

Messaging to customers should be consistent with the initial calls after the announcement. It is advised to hold face-to-face meetings with key customers, ideally with the chief executive officer or another executive. Presentations and leave-behind materials are also helpful. Key themes might include:

- the importance of the customer
- a description of the combined entity and how its capabilities have expanded
- how the customer’s needs will be better fulfilled by the company’s products, services and capabilities, and how the combined company plans to add greater value to the customer’s business

- any changes in day-to-day relationships and interfaces
- key senior-level contacts, if there are issues or concerns.

Employees

Management should be over-communicating (but not overcommitting) with employees, if only keep them in the loop about progress towards closing, the status of integration planning and the timing for future communications. Best practices for employee communications include almost daily communication during early days, from the CEO and others, using face-to-face, print and digital communication and social media. Although employees will have more than a passing interest in understanding the acquisition rationale and benefits, their primary focus will be on understanding what it means for them.

Employees will request about:

- plans for realigning the combined organization
- reporting relationships
- changes in compensation or benefits
- how they will fit into the combined entity.

The period between announcing the transaction and closing is usually fraught with uncertainty for employees. While high-level organizational plans are developed throughout the sale process, the details are often worked out during the period from announcement to closing, and since the new owners have not yet written the cheque and taken the keys, communication about specific plans tends to be sparse until after closing. It is both customary and advisable for the buyer to reach out to key seller employees to provide assurances that they will have a continuing role. The delivery should be forthright and positive. The goals for this communication are to build confidence, reduce uncertainty, promote alignment and begin messaging related to cultural integration.

Key messages should include:

- defining the organization, reporting structure and accountabilities and how they align with the broader corporate strategy of the integrated company

- identifying when employees will be informed of their roles and reporting relationships
- defining short-term goals for the transition period
- clarifying and promoting opportunities for the combined entity and for personal development
- a broad outline and timeline for implementing plans after the short transition period.

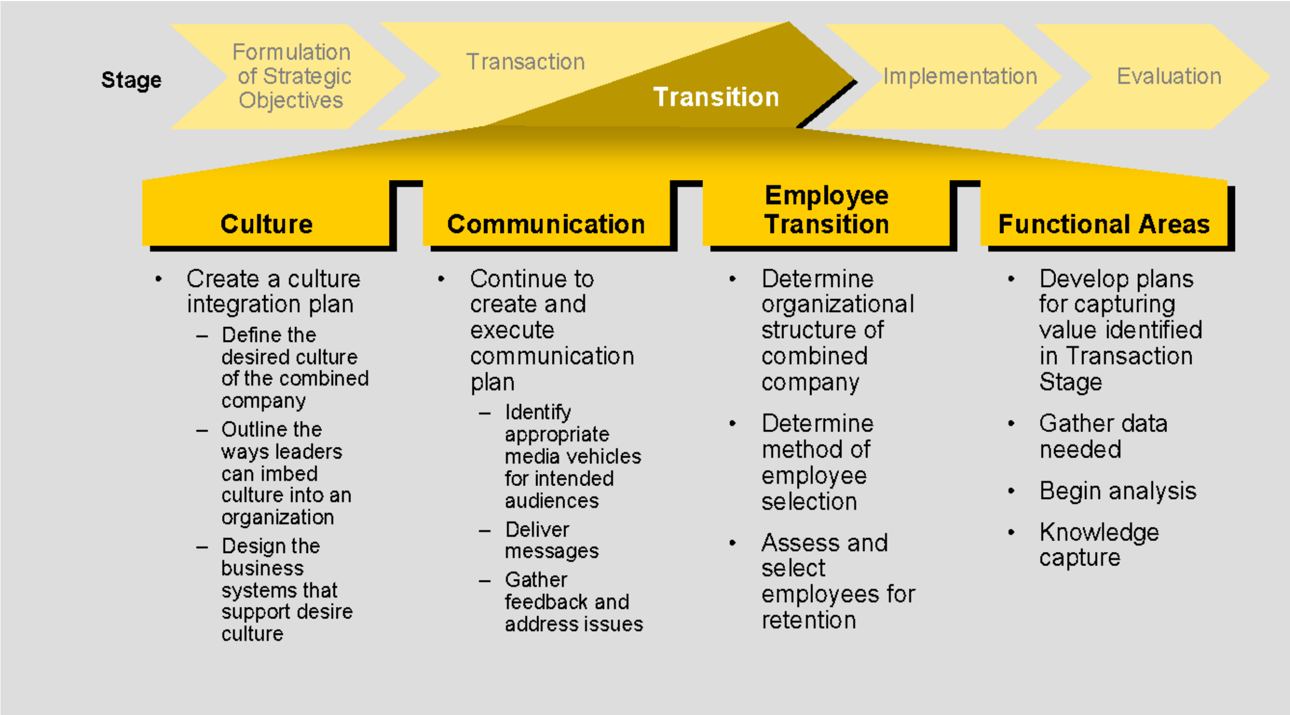
2.1.2 Transition

The goal in transition is to get to a functioning, combined organization as quickly as possible right after the change of management is done. Planning should begin during due diligence and be refined between the announcement and closing dates, using the combined resources of the blended organization. The transition plan should be short, implemented quickly after closing, and include: defining a structure and staffing for the new, interim organization and launching the second phase of the communication plan.

It is useful to separate transition planning from implementing the major initiatives that drive value. Not treating these as separate activities can lead to the following risks:

- blending stabilization tasks and implementing major initiatives too quickly — resulting in a weak implementation, failure to capture the full value of the transaction and poorly aligned organization
- waiting for too long to stabilize the organization — taking too long to unveil a final design structure because the company is trying to “get it right the first time” can leave employees and customers in the lurch.

The schematic role of this step can be visualized as follows:



Picture 5. Transition phase overview

Structure and Staffing

People need to know as quickly as possible what their roles in the combined entity will be, what their accountabilities will be and whom they will be reporting to. The best people always have other options and each day of uncertainty increases the risk that they may leave the company. The best practice is to define the top-level structure of the combined organization before closing and have a process for defining the levels below that very quickly after closing. Within the first day or two after closing, each employee should be told when their level and position will be defined. This does not need to be the final structure for the organization, but it needs to be functional and implemented quickly, and it should eliminate any obvious redundancies.

2.1.3 Develop a plan to integrate systems, policies and processes

There are three goals of harmonization planning:

- preserve system continuity after closing
- align key policies and practices
- identify broader changes the company will need to implement later.

When the plan is to quickly integrate the seller's business into the buyer's business, it is important to identify and address any temporary bridges that may be needed between each organization's systems and any important differences in their policies and practices. An obvious example is the accounting systems. The buyer will need to consolidate financial information, confirm accounting policies and practices, and identify any additional information requirements. Much of this work can be scoped and planned during due diligence and then examined in more details between announcement and closing. Best practices include setting up a harmonization steering committee with sub-committees for each functional area established and populated by staff from both organizations. If the seller permits, some of this work can start between announcement and closing.

2.1.4 Develop detailed implementation plans and timelines for projects related to the acquisition rationale and synergies

Throughout the entire M&A process, the strategic rationale has been at the forefront. It formed the basis for the initial approach, weighed heavily in valuation and was the primary focus of attention in due diligence. Once the initial transition and harmonization work is done, the buyer needs to drive opportunities to create value and map out specific, executable plans to realize the full benefits of the transaction as quickly as possible. Because an implementation may take longer than planned and fall short of expectations, the goal is to create a list of executable initiatives with defined deliverables, timelines, milestones and accountabilities. These plans should be reportable and reviewed with the board regularly until implementation is finished and the benefits are realized. The process should start with reviewing the acquisition rationale and breaking the list down into specific initiatives. A senior executive should manage the process. It may also be useful to form a steering committee to oversee activity and monitor progress. Task teams should be set up for each initiative and should be accountable for execution.

Implementation plans for each initiative should include:

- scope

- objectives (quantitative and qualitative)
- analysis (including risk assessment)
- conclusions and recommendations
- key actions, timelines and accountabilities
- post-completion metrics.

Reportable milestones include things like headcount reductions and new products introduced to each company's sales force from the other. Transaction-specific metrics might include indicators like customer retention and revenue from new products or new channels. The goal is to track and report on the progress and effectiveness of the transaction, not just the performance of the combined company. Effective implementation planning broadens understanding of the strategy across the organization, makes the execution plans more practical, and kick-starts the process of integrating the people and cultures of the two organizations.

2.2 Implementation

The M&A transaction itself is really only half the battle. While the market may recognize some of the potential value created by combining the two entities and reflect that in the buyer's stock price right away, no new value can be created until the post-closing execution begins. Post-merger implementation is particularly important for companies that built their strategy around M&A and plan to make series of acquisitions. While every acquisition is different, companies that successfully execute series of transactions must have an effective and repeatable approach to implementation — not only to succeed in each transaction but to ensure a sustainable competitive advantage in the M&A market. Execute implementation project plans, report to the board regularly.

2.2.1 Integrating Organizations and Cultures

Organizational issues often dominate post-merger agendas, but not necessarily in productive ways. Organizational solutions should be designed to realize the benefits of the transaction and advance the development of the enterprise, not just to integrate whatever can be integrated. Issues of culture, in particular, must be addressed carefully and deliberately — failure to deal with cultural integration well is often cited as a key reason why merger fail. Cultural integration is frequently not managed because it is seen as undefined. But most of what makes up corporate culture is defined by the organization's values, work practices and leadership.

Values

Collective values are largely determined by the values of the people who make up an organization, by what is understood about corporate values, and by what is reinforced or motivated. If a merging organization defines its desired collective values, it can select people for key positions whose values are consistent with that target and they can reinforce and motivate the desired behaviours.

Work Practices

Work practices represent "the way things are getting done around here" — formal and informal work practices that are largely determined by business processes, decision processes, and less formal, but definable, norms and standards. If properly implemented, process re-engineering is likely to have a direct impact on culture. Leadership can play a significant role by demonstrating the expected norms and standards.

While all agree on its importance, very few know how to properly assess or integrate corporate cultures. The ability to manage culture integration faster or more effectively than others can do, therefore, provide a competitive advantage in M&A. Because failure to integrate cultures represents a missed opportunity for shareholders, buyer directors should be satisfied that culture issues are actively managed, not simply perceived as barriers to doing a transaction or a neglected area of risk in an approved transaction. In each transaction, the cultural outcome should be defined and planned, usually based on one of three scenarios: the combined entity takes on the culture of one of the merging companies (usually the buyer), the cultures remain independent of one another, or a new culture is formed that is different from both of the previous cultures. Each case requires different post-transaction actions and different skills.

2.2.2 Manage implementation

A major M&A transaction is the beginning of a large, complex project. Implementation leaders must translate the acquisition rationale into post-merger priorities and plans, define and lead key implementation teams, and institute regular tracking and reporting. A few aspects important to board oversight are highlighted here: pace, completeness, and measurement and reporting.

Pace

The period between announcing a merger and achieving a stable organization should be considered a separate transition phase and should be completed as quickly as practically possible. Implementing key changes as soon as possible is important, but the emphasis should be on doing the right things. Leaders should focus on the acquisition rationale and the organizational and cultural changes needed to support it, including ensuring that both are consistent with the longer-term strategy of the combined enterprise. Other opportunities for improvement can wait.

Completeness

To make sure as many benefits are realized as possible, the post-merger implementation plan must be comprehensive — many companies implement less than half of the opportunities outlined in the M&A transaction proposal. Every element of the acquisition rationale should have both an owner and a plan.

Measurement and Reporting

Unlike the transition phase (which should be as short as possible) the post-merger implementation phase may need to extend over 6 to 12 months or more. Effective project management uses clear schedules, reporting milestones, metrics that track progress and measurement of actual impact versus goals, but these practices are not common in post-merger management. While relevant milestones and metrics will vary by industry and other transaction specifics, directors should expect management to use standard project management tools to manage their post-merger implementation projects. Select milestone reports should go to the board, and directors should be satisfied that the process will yield either the expected results or lessons learned that will be applied to the next transaction proposal.

2.3 Learning from Experience

Complete a post-mortem detailed post-acquisition review, including lessons learned from each phase of the transaction review post-acquisition audit report and lessons learned.

Post-merger implementation assessment can reveal which sources of expected value were not real and expose risks that had not been considered. For example, the transaction proposal may have included revenue growth from cross-selling, when the buyer had no experience in cross-selling or required turning the target's performance around when the buyer had no experience in managing turnarounds. Or it may have been an international transaction, and the buyer had no experience in the seller's country or insufficient knowledge of its corporate culture. These kinds of implementation issues often point to an M&A strategy that needs to be better aligned with the skills required to implement. The buyer either needs to acquire the right skills or change its M&A strategy.

3 Practical aspects of integration planning based on the framework

3.1 Stakeholders analysis and communication plan

Every group of stakeholders has its own primary tasks, concerns and the communication strategy associated with it. The analysis of all the stakeholder groups is crucial for understanding the structure and complexity of the communication strategy first of all. All the groups should be approached differently to address their concerns, fulfil their information inquiries and eventually build and integration plan around these groups.

The Board of the Platform

The ultimate goal of the Board is to reach a strategic objective of 5000 employees and to conduct an IPO in 2023-2024. The very first task is to establish a right Platform management structure, identify key drivers of the entire process. Another important focus for the Board is to make sure that the integration strategy is being planned and implemented in the most efficient way, as there are a lot of risks associated with merge, that may seriously and negatively affect the entire M&A strategy.

Top management of the portfolio companies.

Will be kept accountable for the execution of the strategic goals. However, the first short-term goal is to get into the limited group of people, who will be driving the company on the platform level. The secondary priority is to keep/motivate the key people, that will help go through the entire process, indicate the value drivers and get them involved in the process.

Director level, Heads of divisions, Competence leads, Key employees.

The most valuable and influencing layer which consolidates professional staff. They are concerned about retaining the position and status in the company hierarchy, but at the same time, the merge opens wider opportunities for further career growth.

During the transition phase providing a motivation plan for this group of people is one of the top priorities for the Board.

Customers.

They are usually concerned about potential supply disruptions, any changes in key relationships, pricing changes

Regular employees.

Require being informed enough about any changes in the Company. These people treat the changes as an opportunity for career growth, exposure to the bigger customers, more challenging projects and for more interesting motivation program.

3.2 Analyzing current status using The McKinsey 7S Framework

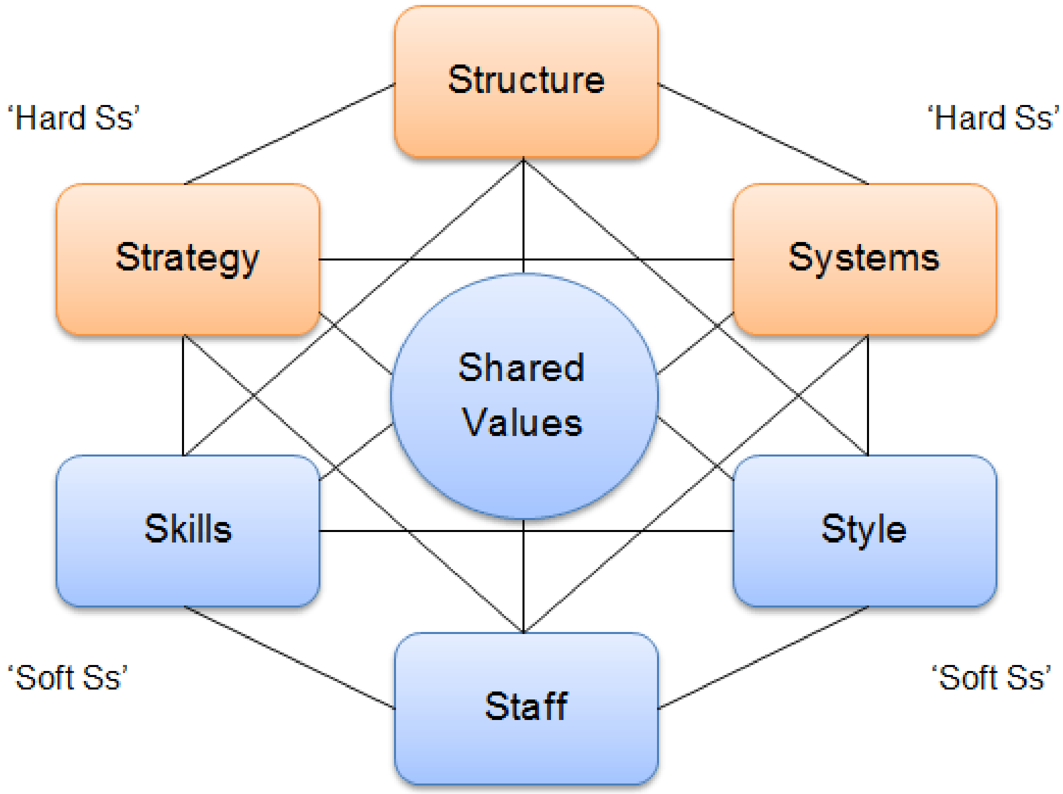
The general application and purpose of using McKinsey framework are analyzing how well your organization is positioned to achieve its intended objective. This is a question that has been asked for many years, and there are many different answers. Some approaches look at internal factors, others look at external ones, some combine these perspectives, and others look for congruence between various aspects of the organization being studied.

The 7S model can be used in a wide variety of situations where an alignment perspective is useful, for example, to help you:

- Improve the performance of a company
- Examine the likely effects of future changes within a company
- Align processes and departments during a merger or acquisition
- Determine the best way to implement a proposed strategy.

The McKinsey 7S model can be applied to elements of a team or a project as well. The alignment issues apply, regardless of how you decide to define the scope of the areas you study.

The McKinsey 7S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements:



Picture 6. The McKinsey 7S model

"Hard" elements are easier to define or identify and management can directly influence them: these are strategy statements; organization charts and reporting lines; and formal processes and IT systems. [4]

"Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.[4]

Let's perform the analysis based on the Model and elaborate on how the elements are aligned with each other on our path to the global change and towards our identified goals. For every element, we will analyze how the current state at CoreValue is aligned with "where we want to be" after successful integration.

Strategy

Status: aligned

The Platform sets growth as one of the key strategic goals, along with expanding presence on different markets and in as many as possible strategic business domains such as Pharma, Healthcare, Automotive, Fintech, Insurance, Manufacturing etc. Currently CoreValue provides more than significant contribution into this strategy implementation being one of the biggest experts in Eastern Europe in SalesForce custom development and integration. As well as it brings value by providing deep knowledge in PharmaTech and Healthcare domains. Working in a very dynamic environment CoreValue got used to quickly adapt to changes and adjust its focus to the newest and most demanded technologies on the market. This is done by means of the properly established Research and Development (R&D) department in close cooperation with marketing and sales organizations. Overall, we can consider this element as "aligned" as in general the strategy of the Board very much correlates with what CoreValue was seeing as its strategy: growth, expanding geographical and business domain expertise. The possible synergies on cost reduction and revenue boost are also, obviously, seen as a benefit.

Structure

Status: not aligned

The current organization structure at CoreValue can be seen in Appendix 1. Overall the new org structure is supposed to be as lean as possible. The changes will be required. The philosophy of delivery organization will remain the same, however, it will have to be extended to support more technical competencies and support much bigger scale for each competency.

The challenge is to build a common project staffing model which will take into consideration multiple aspects – like geographical availability of staff, client location-related constraints, domain knowledge and access to the pool of external resources in the given location. Also, there should be established a centralized decision making and communication mechanisms to facilitate the project staffing process. This model currently doesn't exist, so it's to be developed.

The problem that needs to be addressed is a general Platform governance model. Strategically it was decided to make a tight integration of all the key processes. However, there will be a division by a country factor. And CoreValue will keep on executing its own budget and have its own P&L. The new role of a Country Manager will be established to have this idea implemented. This officer will be responsible for all the operations within specified geographical region. The target org structure should reflect this.

Systems

Status: not aligned

Every single company is using a different set of IT system for their operations. The list of main systems and the exact name that CoreValue is using are listed in the table 1.

Table 1.

The list of main IT systems at CoreValue

CoreValue	**Function**
1C ERP	• Management and statutory reports • Taxation • Bookkeeping
Quickbooks	• Bookkeeping (USA)
Insightly CRM	• Sales pipeline tracking
Jira	• Financial flows • Administration issues tracking • HR flows and social benefits tracking • The Issue tracking system in Delivery processes
CoreBase	• Internal ERP system for: • Employee details tracking • Projects assignments • Employee project reporting • Salary and performance reviews • Recruiting, skills tracking, workload planning, attendance tracking

Confluence	• Project documentation storage • Company policies, procedures and templates • Department specific documents
G Suit	• Cloud solution for: • E-mail services • Document storage • Cloud computing

Some of the systems are either Company or even country-specific. A local system like CoreBase may be considered as a global ERP system across the Platform, as all of the corresponding processes, that it covers, are approved for use for all the Platform members.

Besides IT systems there are also Delivery processes and procedures at CoreValue, that may be absolutely different in other organizations, but as a result of integrations – they should be unified.

The alignments of the systems will be done in working groups, divided by the function and with the support of IT specialists, who will be implementing the change. The resulting plan of actions will be developed within the framework of the planning phase as one of the hardest to implement in terms of the workload.

Shared values

Status: not aligned

The CoreValue key value has always been delivering excellent services to our customers. This paradigm should remain one of the key values for the consolidated Platform as well. Maintaining a great relationship with our clients lets the companies in this industry get around 2/3 of all the new business that a company generates.

The second value is our employees. We are in the people business, so our people are our key asset. Merging with ITK, which is primarily recruiting/staffing organization we will have to overcome their philosophy and switch the focus to delivery staff, that is, in fact, generating the revenue for the Company. The delivery people are the most difficult to recruit, retain and motivate. That's why there should be a lot of attention dedicated to building the right corporate culture.

Style

Status: aligned

The managerial style at CoreValue is quite democratic. We empower our managers to act rather independently to achieve their goals. The proactiveness is something we at CoreValue have been trying to cultivate in our people. We delegate a lot to let people feel more involved and responsible for the outcome. This way we also encourage more junior employees to act and make any suggestions to process and system improvements. This motivates them and shows the way how to climb their career ladder. And growing the new generation of managers is crucial in this dynamic and constantly changing ecosystem.

At the same time, this approach fully corresponds to what is declared as the new Platform style of management – be open, less bureaucratic, proactive, innovative and supportive leaders.

Staff

Status: Not aligned

As it was already mentioned several times this business is very dynamic in terms of human resources. We always look for new talents to join our team. However general skills and competencies are already on board. For sure there will be some tactical hires and repositioning required, but it doesn't affect the entire picture. We will continue expanding our expertise and grow.

However, there is an issue that requires closer attention. Currently, the Competence managers at CoreValue are playing 2 roles at the same time:

- Managing the technical Competency. This means take care of the staff – growth, assignments, bench management, assessments etc. This is more of a managerial role.

- Delivery management. Be responsible for the delivery quality of the people, that belongs to the respective Competency.

This approach works pretty well while each group is not very big. But with the merge of resource pools each of the Competency groups will grow significantly. This means that the workload of Competency managers will grow as well, and it will not be feasible to deal with delivery anymore. So, one of the steps on the way to reform the structure is to separate staff management from the delivery process. To do this we should attract and hire external delivery managers.

Skills

Status: aligned

The entire strategy is built on the idea to utilize the combined skills of the group of companies and this way offer the clients a great variety of solutions that we can build using these skills. Along with a great experience in multiple business domains, that Platform is going to concentrate on, the consolidate offer will be a full cycle software development expertise.

There is a sophisticated process in place to monitor and assess individual skills based on the Competency matrix, that is being kept up to date and constantly updated with all the new technology changes. By doing this we can always be assured that we are in line with the newest modern trends and we have a highly competitive offer to our customers.

Based on the analysis above we can form a 7S matrix, which can be visualized as in the Table 2.

Table 2.

The 7S Matrix

Strategy	Aligned
Structure	Not aligned
Systems	Not aligned
Shared values	Not aligned

Style	Aligned
Staff	Not aligned
Skills	Aligned

Based on the analysis above, according to the framework, we will be working on the Integration plan itself. The elements of the 7S model, that are marked as "not aligned" should be considered in the plan first of all. The end result of the integration should resolve these issues and align the elements in the target system (in the consolidated Platform).

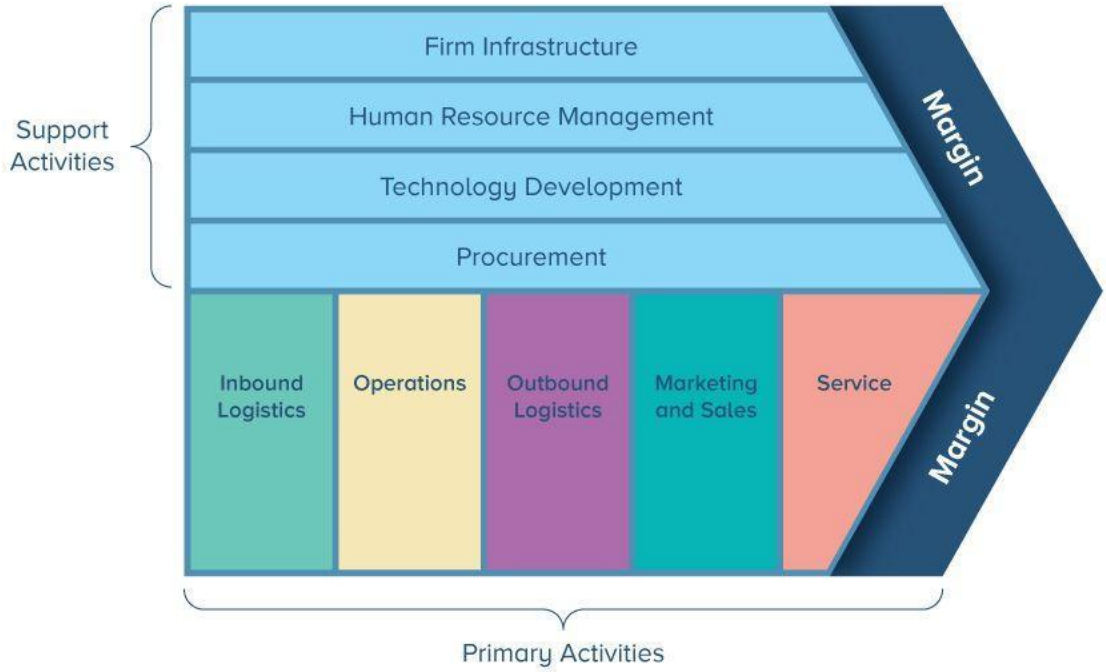
3.3 Post-change-control transition phase

We have already passed this stage in March 2019. The decision was made to make the steps below only and leave other activities for the full-cycle integration process:

- Integrate financials under Platform umbrella
- Create interim org structure
- Leave the operations of individual companies as is for the time being
- Make a temporary rebranding into a new name "IT Services Competence Platform"
- Create committees, that consist of Executives and some director level employees, that are responsible for creating a detailed integration plan on different levels.

3.4 Integration plan based on Value chain analysis

The classic Porter's Value chain diagram looks as on Picture 7.



Picture 7. Value chain analysis

There are some specifics how to adapt it to the activities in the IT services organization. For example, into inbound logistics, we should add some sales and pre-sale activities which actually generate a “raw material” for us – ready inputs for starting projects. The same way R&D is also treated as Inputs – as this activity generates a lot of new approaches and ideas that are very great to have and use.

The entire development process can be mapped to “Operations” element. The “Service” is the support activities that we provide to our customers after the original product is delivered.

What we see is that in merging IT service firms we can get some cost saving on support activities. In many cases, these functions are easy to consolidate across the Platform.

Primary activities, that actually generate profit, are to be optimized for revenue boost effect, by finding revenue – generating synergies.

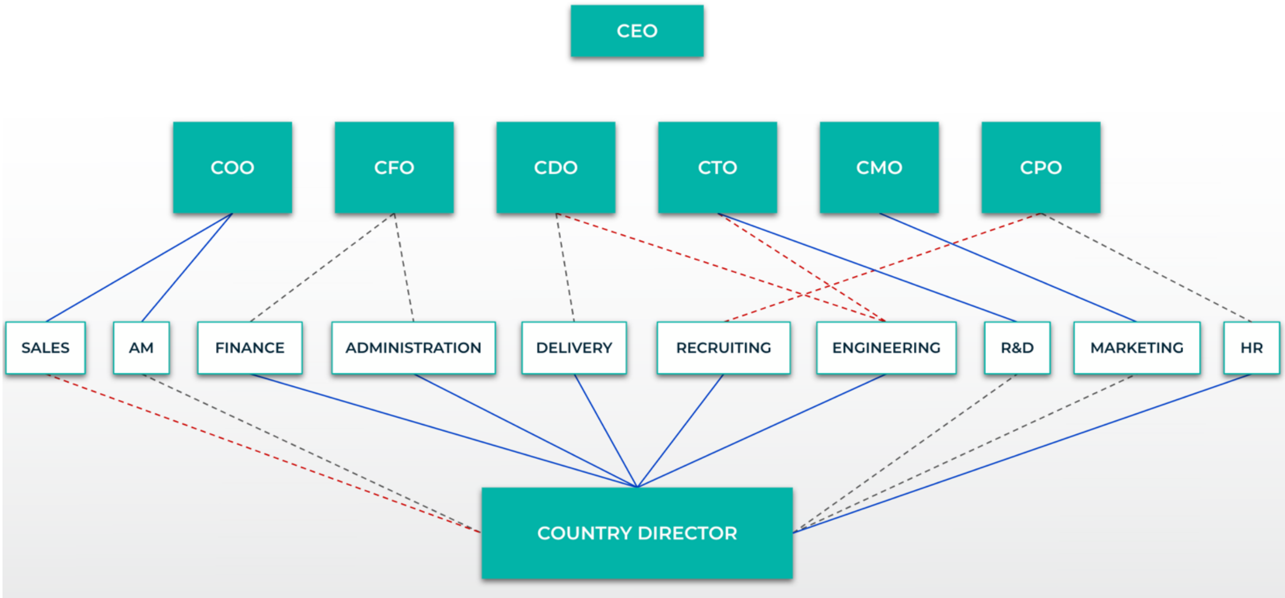
Taking into consideration unaligned elements of the 7S model and a breakdown of the activities by Value chain model we are building our actual plan of integration.

3.4.1 Company governance structure

Changing the company governance and org structure is a time consuming and challenging task. We have analyzed the key functions and set a geographical focus of the business units (former companies). As a result, company governance matrix looks as follows:

Picture 8. Company governance matrix

After composing together key roles in the organization and mapping it to business functions we get a canvas for building org structure. The connections between roles and functions indicate the level of interaction and eventually will turn into responsibility and reporting lines, once the finalized structure is created and approved. The actual mapping can be seen on Picture 9.



Picture 9. Key roles to business functions mapping diagram

Delivery organization structure

Taking into consideration the size of the post-merger target Delivery organization it deserves separate attention. It was decided to build a 2-dimension matrix structure based on the experience that CoreValue has in this respect. Professional staff (Engineering) organizationally will be divided into 4 main departments – Software development office (SDO), Project Management Office (PMO), Quality assurance office (QAO) and Business analysis office (BAO). These offices are based on hierarchy – typical pyramidal shape organizational structure. Within each office, we identify technical Competencies with a highly professional Competency manager in charge. The main responsibilities of this type of managers are growing their organization from the technical perspective, maintaining the right set of skills and maturity balance, certification, assignments planning etc.

The second dimension is the Delivery structure. The account or project is a key functional entity here. This structure should be divided into delivery units by the specified criteria. Based on the needs Delivery is requesting and as a result utilizing required resources from the 4 departments in the Organizational structure described above. To build the structure in the right way we are running a project to assess all the skills we have in house in the combined organization and running a set of interviews within all groups to identify the best candidates for the open positions in the structure.

Risk.

Doing this we should not underestimate the risk of losing some of the people, whose ambitions are too high and can't be fulfilled. The cultural risk should be treated seriously as well, but we will review this in the following sections

3.4.2 Integrated Sales and marketing

Integrated activities in this field will be performed by the consolidated team. In this respect, all other targets for acquisition are being evaluated by the criteria of having decent share on the markets that are not covered by the existing Platform companies. The sales team will have to be consolidated to cover the market for all the vectors:

- Geographical. All 4 companies of the Platform are playing on the different markets. CoreValue owns the USA market and has some exposure to Belgium and UK. Solidbrain has the widest exposure to Swiss and Swedish markets, and a local Polish market as well. The ITK has a variety of sales channels in Europe and Asia. Sevenval – Germany. This combination gives already fairly decent coverage altogether.
- Business domains. The combination of specific Companies' areas of expertise was selected yet on the pre-screening phase (during evaluating merge targets by the Board) in a way to get maximal coverage on the biggest or fastest growing domains. As a result, the Platform cumulatively carries an experience in Pharma, Healthcare, Auto-Motive, Fintech and financial services, Insurance, Global electronic manufacturing, Enterprise level CRM development, Legal field and many others.
- Technology stack. The same strategy of complementing one company's expertise with another's was as well used as a factor for selecting targets. Besides the most popular technologies, programming languages and approaches, that most of the other competitors use, the Platform will have one of the biggest in Western Europe development centers specialized in SalesForce, which is the

world's #1 customer relationship management (CRM) tool. This is one of the key differentiators and door-openers from the Sales perspective.

The very first Marketing task is the branding of the Platform. None of the names in the Platform does yet match the global ambitions of the united group. By mid-June, the new CMO is to come up with absolutely new brand name and philosophy, that corresponds to the global strategy. Afterwards, the brand-book should be created, and all the marketing materials will be rebranded following the new style, according to the brand-book.

The integration of the Marketing and Sales functions will form a solid source of the new business for the Platform, leveraging the entire technological potential and business domain knowledge within the group. This should lead to potential revenue growth, what proves the hypothesis generated based on Value chain analysis above.

3.4.3 Legitimization of contracts, informing the client

The dialogue with the clients should start way before the transaction is finished. The buyer usually wants to talk to the key clients in the process of due diligence. That's when the clients should be informed. During this process, CoreValue received a verbal confirmation from the clients to have their contracts and relationship with CoreValue transferred to the new company. From the legal perspective, all the contracts should be transferred to the new legal entity. In our case, the transfer has to be done from CoreValue Services LLC to CoreValue Global LLC. To do that we have to send out formal document "Request for consent to the transfer of a contract" (Appendix 2) and get a formal confirmation with a signature on it. This way we legally get a right to re-sign the contract under a new legal name. This process is time-consuming as in large organizations to get on the vendor list is a long bureaucratic procedure, and simple change of the entity can trigger the start of the procedure from the very beginning.

3.4.4 IT infrastructure

Integrating IT infrastructures seems to be more tactical task rather than a strategic problem. However, it is difficult to overestimate the importance. At the end of the day, it will affect practically all business processes to some extent. And adopting new systems, tools and practices will require enough time, retraining and implementation budget.

In addition to the reasons listed above, according to 7S model, the “Systems” element is not aligned. Hence, the IT part in integrating systems is very important.

The minimal Prioritized roadmap for Integration of IT (but not limited to) should look as follows:

1) The first step is analysis, infrastructure research for all implemented solutions across the entire list of portfolio companies (Firewall, Routers, Mail server, Networks, Servers, Storages, Virtual Environments, OS, Infrastructure Services, Cloud Resources etc.)
2) Identification of the main risk factors, the requirements under which the global infrastructure and systems should be built. ISO 27001, Information Risk Management.
3) Monitoring, evaluation of new technologies that can be applied to existing services and to new products and services.
4) Development of the architecture of IT infrastructure.
5) Development and alignment of Information Security policies:
   - Anti-virus Policy
   - Access Control Policy
   - Password Policy
   - Incident Management Policy
   - Monitoring Policy
   - Network Security Policy
   - Cryptographic protection policy and other
6) Proposals for current IT resources upgrade.

7) Development of migration plan taking into account business peculiarities (reduction of downtime, detection of bottlenecks, transfer of non-core systems to cloud solutions etc.)
8) Developing strategy for integrating corporate information systems which will allow visibility of groups resources, assets, finances on a high level.

Once the plan is finalized and the budget is approved, it has to be executed and the result should be carefully verified by the local representatives and fall under the responsibility of Country managers.

3.4.5 Production/Delivery processes

Projects and Delivery management

As previously described the entire delivery model will be built using matrix management philosophy. The Project management office (PMO) will be playing an integrator role on the project level. Projects from all Platform companies should be consolidated under the umbrella of a single PMO, using same standards, tools and procedures. However, jumping to 800+ professionals size allows and requires adding one more additional layer into the project governance – the Delivery layer. The role of Delivery manager may imply various responsibility in different organization. But given that the plan is to move towards bigger clients, more sophisticated enterprise level solutions – the technical and organizational projects complexity will grow as well. And a mature individual able to take over overall responsibility for project success is becoming crucial. This layer of people may be identified among the existing staff of Platform companies or attracted from the market.

A reasonable number of projects grouped by a specified factor – be it a technological type or a business domain – and headed by respective Delivery Managers should fall under the responsibility of a Delivery Director.

Establishing a new set of roles like Delivery Managers and Delivery Directors obviously adds up some overhead to the project's cost. However, this step makes it possible to logically split the Delivery into different business units. And respective

Delivery Directors in charge of these Delivery units will report directly to the Chief Delivery Officer (CDO)

Development process

As mentioned above the number of technological streams (Competencies) will grow with this merge, as well as a number of people in each Competency. This will have a direct impact on the organizational structure in each group. These changes require a number of clear processes and procedures to be established.

CoreValue here as well, as the most mature Software Development Center (SDC), will provide a set of rules to be followed by other parties. Each CoreValue technical Competency has the following list documented and stored on cloud-based document storage:

- Code conventions
- Recommended Architecture
- Set of requirements for every technical level for employees to be measured against
- List of learning materials for every technical level
- Recommended list of tools for code check
- Recommendations for Code test coverage
- Development flow description
- Deployment procedures
- CI/CD best practices
- Etc

Overall engineering process within the context of Software Development Life Cycle (SDLC) is documented as well and should be set as a standard across the Platform. Part of it is covered by the implementation of the Standard operation procedure.

Quality assurance

As a department it has a separate, in many cases rather independent, role in the SDLC. Most of the professionals in our team are ISTQB certified and provide their service according to the world-class standards. While other companies may not take QA that seriously, we believe that quality is an integral part of Software Delivery and cannot be neglected. This is one of our key values, that will definitely have to be kept in the Platform going further. So, our standards will be applied across all the SDCs.

The philosophy and some aspects of staffing the projects

According to the classic matrix management structure, every project is

a) Staffed by the required professionals from functional groups of the organization
b) Managed by a Delivery manager, who is responsible for overall Delivery success. In some cases, a Project Manager, Solution architect or a Team Lead may play the role of Delivery Manager

So, there are no barriers to treat portfolio companies simply as development centers in former CoreValue. And this process is already well established, tested and proven to be working well.

Initially sharing resources between companies is difficult as before the integration is completed the companies live with their own budgets and P&Ls and all the expenses for resources are attributed to the employer company costs and not to the project cost of the company which owns a specific commercial project. But once all integrations are completed – there will be low if any need to treat human resources separately.

3.4.6 Compliance – Standard Operating Procedures (SOPs) and document templates

To comply with industry standards the Company developed a set of Standard Operating Procedures and document templates. All the employees are passing a set of SOP trainings. In the new organizations the list of SOPs should be updated, the plan of training for all the employees outlined and conducted. The list of SOPs and document templates is added in Appendix 3.

3.4.7 Resource management

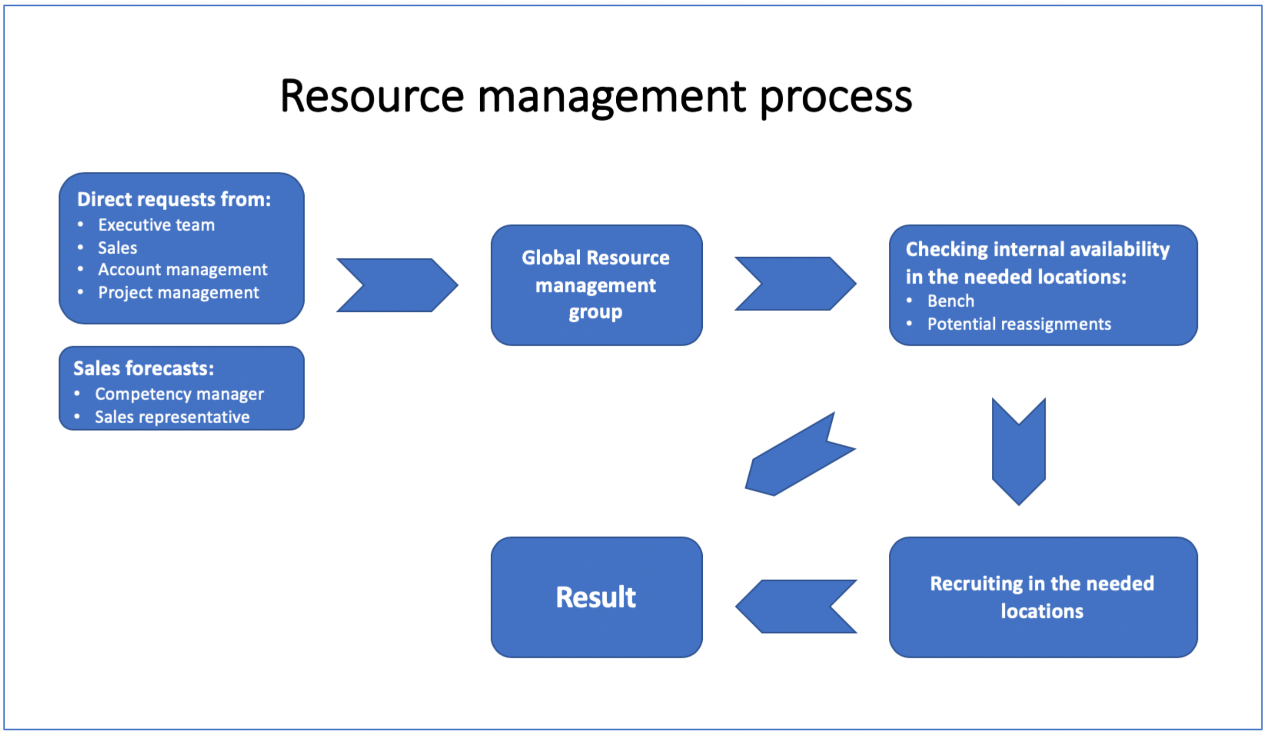
Each project is being staffed by a Resource manager, who is analyzing all possible options to find the best possible match. Competence managers and Directors (resource owners according to organizational structure) are the ones who actually facilitate this process by providing their best recommendations based on the requirements for the specific incoming resource request.

The idea behind new resource management is to minimize expenses for maintaining resources bench (professionals, that are not assigned to any billable activity, thus not generating any revenue, but being purely a cost) by having a consolidated pool of resources across the Platform. Every company carries a burden of having a bench for couple of reasons:

- People are getting released from the projects and have to wait for the new ones to arise;
- People are getting hired for the projects that are likely to come but not yet there;
- Juniors and trainees, educated by the company within the framework of internal academies and training programs in order to grow the next generation of professionals;
- People for the strategic initiatives, who are currently not billable;
- People assigned to internal tactical projects.

Having separate benches for every company is not always cost-effective and sharing free resources is a great way to improve efficiency and margins of the Delivery organization.

Obviously, there are many parameters that should be taken into consideration when planning to assign specific resources to a project. These are hard and soft skills, cost, location etc. However, a basic rule is to look for resources in all possible locations. And this process is in line with the integrated Recruitment process as well. The very basic staffing process looks like the following one on Picture 10.



Picture 10. Resource management flow

A part of the Resource manager's responsibilities within a project staffing phase is to control the effectiveness of utilizing each and every professional from every standpoint. Required skills, cost effectiveness, motivation aspect, potential individual growth, as well as his teammates' growth, team building. Obviously, this is a combined team effort of the resource manager and respective linear manager – Department Director or a Competency manager.

We have conducted a collection of the technical skills Platform wide. As a result, we have generated a mind map of the main technical competencies for everyone's convenience. It can be seen in Appendix 6.

HR

The role of HR in any M&A process is very difficult to overestimate. The proper HR function is a key to success in building a corporate culture. Our analysis based on 7S model showed that shared values and corporate culture is the crucial part of integration and should be set as one of the highest priorities. The strategic role of the HR function should be focused on the value driving employees and on the list of activities below (but not limited to):

- Create opportunities for employee input into the integration process
- Increase your insight on employee sentiment in your business unit
- Influence stakeholders on multiple levels of your business unit to contribute to the integration
- Crowdsource employee information about challenges to timely integration
- Helpline partners see the M&A from the employees' perspective
- Identify alignment resistors in your business unit
- Focus talent retention efforts to support integration
- Identify and address barriers to cultural alignment

For HR it's very important to discuss changes to talent strategy for the business unit at early stage. During the M&A process, it's necessary to set up conversations with key internal stakeholders in the assigned business unit to discuss changes to talent strategy due to the deal. It's advised to use the questions below to guide the conversations. This is an informational interview to support the learning. Important to remember that the business leaders should not be under any pressure. Below are the questions to be asked.

Table 3.

The list of HR questions to the key internal stakeholders

Current State	Strategy Definition	Skills and Talents
● What are the business unit primary sources of revenue and its major cost categories? ● What is the business unit competitive advantage	● What are our key business goals for the next two to five years, and how will M&A affect them?	● What critical skills are needed to succeed in this business unit? ● What are the three to five critical talent roles or groups required to

(or disadvantage) compared to its competitors? ● How does this business unit contribute to the larger competitive strengths of organization? ● What are the biggest challenges you are facing today as you lead the business, especially as they relate to the M&A? ● What are the most significant recent or projected changes due to the M&A in the organization or staff?	● How will you know if the business unit is successful? What will you measure? ● What is the direction of the key product line, supply chain, service offerings, etc.? ● What are the key success factors that will make or break the business unit success in the long term? ● What are the critical issues that put critical success factors at risk?	achieve business success? ● What positions or skills will become less important or no longer needed to achieve business success? What other resource requirements should be considered?

And it should be clearly understood that the regular daily HR activities are very different from the same activities in the M&A process. Below is the mini-framework how to change the focus of simple activities from the day-to-day regular operations to the M&A specific ones.

Table 4.

The change of HR focus from daily regular activities to the M&A specific ones

Sample HR activity	Daily work	Example in M&A
Identifying talent issues before they impact the Business	Helpline leaders monitor employee engagement and	Develop strategies to retain key leaders during M&A.

	handle disengagement challenges.	
Identifying Critical HR Metrics	Review HR metrics to identify how to monitor progress toward diversity and inclusion goals	Plan how to monitor the success of key integration initiatives.
Representing the Business Unit Talent Interests in the Organization	Represent your business unit during an organization-wide talent review.	Assess and select leaders for the merged organization based on your understanding of leaders' current strengths and development needs.
Designing HR programs to support an organizational culture	Design and analyze an engagement survey, giving you insight on EVP drivers central to your business unit culture.	Determine what the expanded organization's culture will look like.
Updating the Line on HR Initiatives	Coach line clients how to reflect available career opportunities with their teams.	Facilitate coaching conversations with an expanded set of career opportunities post-merger.
Communicating policies and procedures to employees	Develop and implement communication strategies to increase employee referral program participation.	Determine the M&A communication plan based on employees' preferred communication channels and styles.

Resolving Political Problems in Business Plan Execution	Help key line leaders in the business with strategic planning and talent planning, providing you with an insight on leaders' priorities and working styles.	Help leaders re-prioritize and negotiate roles and responsibilities during M&A related restructuring.

As a result of the HR integration plan, we should receive the following deliverables:

a) Detailed motivation system for employees.

It's fine for it to vary for a different level of employees. The higher person is in the organizational hierarchy the more motivation should depend on the Company result and the less – on individual performance. Talking about financial motivation – the bonus system is one of the very basic ones. Every hierarchy layer is entitled to a specific % of the bonus pool. But the actual reward is being granted using different criteria. In such cases the top management should get their bonus 100% based on the Company performance for the given period. Director level – 80%-20% of Company – Individual performance ratio. Middle managers 50%-50%, and regular employees – 100% based on individual performance only.

This schema is a basis, just an example, however, HR should facilitate the discussions and come up with the final tuned offer as soon as possible in the deal cycle.

b) Career growth and grading system

The main rule is that the grading system, evaluation flow and career path system should be the same across the Platform. As mentioned previously – the CoreValue Competency matrix (see the sample screenshot in Appendix 5) shows the structure of already implemented CoreValue matrix, that should be adjusted for the needs of entire Platform. It should be taken as a base and having the number of rounds of discussions with working groups HR should come up with a finalized documents and policies.

c) Communication strategy

The communication strategy regulates all the communication flows within the organization among employees, customers, management and investors. Usually, it includes the following elements (but not limited to):

- A brief summary of the situation analysis
- Audience segmentation
- Communication objectives
- Approaches for achieving objectives
- Positioning for the desired change
- Benefits and messages to encourage desired change
- Communication channels
- Implementation plan
- Monitoring and evaluation plan
- Budgets

The risk of implementing ineffective communication strategy can lead to miscommunication between management and employees, especially about M&A rationale, expected changes, goals and the overall strategy of a newly created organization.

d) Tools

The selection of tools, that the Company is planning to use, is yet one more example of aligning “Systems” element in the 7S model.

e) Recruiting

While there may be some differences in the recruiting approach in the geographical local context, but the global communication messages should be unified. The SLAs may also vary, but there should be a consolidated mechanism of providing forecasts on the vacancies closing time. As well as there should be defined expected salary ranges for different skills/seniority/location groups. The global recruiting group should be able to develop a workload planning algorithm, that will ultimately help planning the workforce required for the expected load. This way the recruiting will become quickly scalable.

3.4.8 Scope and timeline of the plan execution

Throughout the entire M&A process, the strategic rationale has been at the forefront. It formed the basis for the initial approach, weighed heavily in valuation and was the primary focus of attention in due diligence. Once the initial transition and harmonization work is done, the buyer needs to drive opportunities to create value and map out specific, executable plans to realize full benefits of the transaction as quickly as possible. Because an implementation may take longer than planned and fall short of expectations, the goal is to create a list of executable initiatives with defined deliverables, timelines, milestones and accountabilities. These plans should be reportable and reviewed with the board regularly until implementation is finished and the benefits are realized.

The process should start with reviewing the acquisition rationale and breaking the list down into specific initiatives. A senior executive should manage the process. It may also be useful to form a steering committee to oversee activity and monitor progress. Task teams should be set up for each initiative and should be accountable for execution.

Implementation plans for each initiative should include:

- Analysis
- Scope
- Objectives (quantitative and qualitative)
- Risk assessment
- Conclusions and recommendations
- Key actions, timelines and accountabilities
- Post-completion metrics

Reportable milestones include things like headcount reductions and new products introduced to each company's sales force from the other. Transaction-specific metrics might include indicators like customer retention and revenue from new products or new channels. The goal is to track and report on the progress and effectiveness of the transaction, not just the performance of the combined company. Effective implementation planning broadens understanding of the strategy across the organization, makes the execution plans more practical, and kick-starts the process of integrating the people and cultures of the two organizations.

The implementation project plan timelines are added in Appendix 4.

3.5 Benefits of integration and sources of value

There are four broad sources of value in M&A as shown below. Each should enhance competitiveness and drive shareholder value. Many transactions offer a combination of all four sources of value, but it is useful to examine each separately because they present different challenges and risks and require different skills for success. Note, that there are other such frameworks for evaluating the value that may use different classifications or definitions.

1) **Cost synergies**

   The benefits of increased scale in operations and administrative functions (common in industry consolidations)

2) **Revenue growth**.

   When the combination offers revenue synergies, like access to new markets, new products or new channels for existing products

3) **Strategic value**.

   When the combination creates a better positioning or better platform for future growth

4) **Other sources of value from the change of ownership**

   Many private equity firms try to create value by changing the financial structure of a business or the way it is managed

Cost synergies

During periods of consolidation, some companies identify opportunities to achieve competitive advantage through increased scale or scope, and others follow to remain competitive. These opportunities are often triggered by changes in technology, market and customer dynamics or regulation, which make larger scale or scope possible or simply more important. When companies buy others in the same industry, they can usually reduce their costs while combining their revenue (simply put, it usually takes less than twice the costs to run a company with twice the revenue in the same business). Depending on the industry, companies may look for cost synergies in:

- Operations — increasing purchasing power and eliminating manufacturing and distribution redundancies (for example, when branches are consolidated in bank mergers). In our case, this type of synergy is not very applicable. However, there are some minor improvements that should be analyzed and optimized.
- Administration — reducing staffing for corporate functions and shared services, like human resources, IT and finance, and eliminating excess building capacity, redundant administrative activities and external services. All the administrative departments have been given a task to find ways to make optimization. Even though that's absolutely not a strategic task, nor is it even a reason for merge, though we should always be looking for ways to reduce administrative costs, as with time this overhead grows. IT reported that based on increased volume there will be at least USD 15.000 annual cost savings from CoreValue side on optimizing licensing, membership fees, partnership programs. The detailed plan will be provided in the context of the entire IT integration plan.

  Moving away from the existing Sales CRM to ITK's BullHorn will save another USD 5.000 per year

  The reduction of staff in Finance is also an option after the integration process is completed. But according to the general plan, this may be done as one of the very last steps, as Finance departments are heavily involved during the entire integration process. The expected saving is USD 24.000 annually.

- Sales and marketing — eliminating redundant channels and benefiting from branding and marketing scale and scope efficiencies (for example, consumer product mergers). From this side, the synergy looks quite promising. The merge of sales markets, business domain expertise and unique points of differentiation from the technology standpoint create much better advantage during sales cycle activities. As the coverage from all these dimensions becomes much higher. In addition to this, the benefit from the big company reputation and the possibility of fast scaling will also be treated as a huge benefit for the existing and potential clients. The inefficient CoreValue sales channels will be eliminated, which will result in saving ~ USD 60.000 annually.
- Research and product development — better diversifying risk and optimizing the development process across broader research and development. Cost savings is a principal motivation for many corporate combinations.

Other optimizations are hardly possible as they may affect the operations.
All together the annual savings planned around USD 106.000.

Revenue Growth

Revenue growth is a key strategy driver for most companies. Bigger is not necessarily better, but growth in revenues tends to be associated (over time) with growth in shareholder value. Any acquisition adds some revenue growth, even if it simply adds the revenue of one company to the other, as long as the additional revenue is not lost through margin erosion or customer attrition. The more desirable kind of revenue growth is new revenue made available because of the acquisition — revenue from adding new customers and expanding sales from existing customers.

Besides the revenue delivered from the new markets, we also count on the continuous growth of rates in the long term. With this size of the organization, we can claim for bigger rates. The reason for that is that big corporations, which are ready to pay premium rates, usually expect high flexibility and scalability of the teams that we can plug in on relatively short notice. And with the big merge, this will be something we will be ready to offer.

Let’s try to analyze the effect of the new reality comparing to the planned (budgeted) numbers, that were made without taking M&A into consideration.

Up to this time, the forecast from the sales organization is that we can target a ~10% increase in the rates for new clients. And a gradual increase to the same level will come for existing clients over 3-5-year span.

As a separate item, we need to highlight cooperation of CoreValue part of the Platform with Sevenval. The latter charges their customers for premium rates, and the agreement is that the margin will be equally shared between two companies for the workforce that CoreValue will be providing to Sevenval. The synergy is in fact very much mutually beneficial. For CoreValue – this is a new business opportunity with the rates up to 2 times higher than regularly charged. For Sevenval – it’s great flexibility in resources availability as CoreValue size and expertise provides this flexibility and variety of available services.

Strategic Value

Many acquisitions offer genuine strategic value in the options they open up for the buyer.

Some of the highest-value strategies may not create value immediately or directly but will position the company in the face of other moves that may create value over time. Three of these are important to M&A strategies:

- Growth options — provide the potential to pursue new markets in the future (for example, an acquisition that provides a foothold in a new market segment or geography). Target criteria includes size (Can the company minimize the upfront investment and risk?) and quality (Can the target provide a robust base for possible expansion later?). In case of CoreValue, the merge with a bigger player opens doors to much more opportunities. The access to much wider consolidated market and already pipelined list of prospects guarantee much higher pace of growth.
- Flexibility options — open up different ways to exploit the assets acquired, depending on what happens in the future. Assessments of any target should

consider the value (or potential value) of its underlying assets. The huge resources pool (human resources and financial as well) gives a room for maneuver under any circumstances. Any major investment now can be budgeted without affecting operational capital. The cash flow issue, which used to be a problem in case of unforeseen problems with clients, or in case of required investment, is no longer an issue. CoreValue has always been investing into different sort of educational programs for our employees or potential employees. Growing next generation of professionals has always been a part of a big mission, a sort of social responsibility contribution.

As a practical example of a synergy, we can list potential for CoreValue to enter very interesting and profitable Automotive market. The door opener will be Solidbrain, which has one of the Scandinavian car manufacturers among their clients, but up till now, they were unable to penetrate this client deep enough due to lack of expertise in many fields, where CoreValue in fact has enough expertiese. This is a long shot; however, the potential result may bring CoreValue one more level up.

Same way ITK is opening the door to CoreValue to European division of world top 5 car manufacturer.

Benefits of financial conversion

Let’s analyze what financial effect the synergies, brought as a result of integration, will have on the CoreValue numbers. Using CoreValue only for analysis is enough, as the strategy is to let every company in the Platform have its own budget and P&L. So, in CoreValue’s case we will show how integration positively affects the bottom line. Below is the table with the key indicators of 2018 results (actuals) and planned (budgeted) 2019 respective numbers. The actuals for Q1 of 2019, while there was no significant effect of the merge, show that CoreValue is in line with the budget. Given that all mentioned synergies according to the plan start being implemented from Q3 2019, we will be analyzing the influence on the second half of 2019 only.

Table 5.

CoreValue's financials – 2018 actuals and 2019 plan

	2018 (actual)	2019 (plan budgeted)
Net Revenue (USD M)	USD 14.048	USD 17.835
Cost of revenue (USD M)	USD 8.530	USD 10.065
Gross profit (USD M)	USD 5.500	USD 7.207
General expenses (USD M)	USD 3.276	USD 4.432
EBITDA (USD M)	USD 1.745	USD 2.080
EBITDA %	12.42%	11.66%

Now let's analyze the contribution of all the synergies, mentioned above, to the planned result of 2019.

At the "+" to EBITDA side we will have:

1. External 10% rate increase for the new clients, which is 1/3 of new revenue planned. It gives us USD 65.000 in extra revenue
2. The largest part of extra revenue (besides budgeted new) comes from the cooperation with Sevenval. We forecast that we will be gradually adding resources to end up with 20 net new engineers working on Sevenval project by the end of the year at a rate of USD 75 per hour. If we assume that gradually expanding the team means linear extension, then during H2 it will generate for us 20/2 people * 6 months * 160 hours (average) +USD 75 = USD 720.000
3. The general expenses will go down by half of USD 106.000, giving USD 53.000 of savings during H2.

At the "-"side to EBITDA we will have:

1. Net new hires of 20 people for Sevenval, resulting in USD 138.000 of cumulative expenses by the end of 2019.
2. To sustain the growing pace of revenue growth we have to increase the size of the bench (resources pool) by 15% of the existing one. This will add up to the total cost USD 69.000

Having adjusted the numbers with the new revenues and additional costs associated with it we are getting raise in EBITDA from USD 2.08 M to USD 2.66, which results in EBITDA = 14.27% vs 11.66% planned.

Taking into consideration that during the valuation phase it was decided that the price should be formed on n*EBITDA basis, we get that comparing to 2018 the valuation at the end of 2019 will grow as 2.72/1.745, which is by 52,21%.

Conclusion

Lessons about M&A Strategy Development

Strategy formulation disappointments in post-merger implementation can sometimes be attributed to a change in context. For example, planned cost savings or revenue growth may prove impossible because of changes in competition or market dynamics. Such surprises may point out weakness in strategy development or due diligence. Companies should not underestimate the importance of setting strategy in the context of where analysts and other experts believe the industry is heading, rather than planning solely based on current market conditions and assumptions. While the future can never be certainly predicted, companies will improve their planning skills by considering alternative scenarios for future market environments and competitive actions.

Sources of Value and Risk

Post-merger implementation assessment can reveal which sources of expected value were not real and expose risks that had not been considered. For example, the transaction proposal may have included revenue growth from cross-selling, when the buyer had no experience in cross-selling or required turning the target's performance around, when the buyer had no experience in managing turnarounds. Or it may have been an international transaction, and the buyer had no experience in the seller's country or insufficient knowledge of its corporate culture. These kinds of implementation issues often point to an M&A strategy that needs to be better aligned with the skills required to implement. The buyer either needs to acquire the right skills or change its M&A strategy. The effective post-transaction implementation built on the M&A strategy and transaction development competencies described above. In addition, some of the most important competencies for competitive M&A programs relate directly to post-transaction implementation. Learning in post-transaction implementation helps build competitive M&A programs — companies that implement well have better insight into how they can create real value in the next transaction, which can affect target selection and negotiation, and can support paying the price required to win because of the greater confidence in implementation and performance outcomes. Effective and timely post-transaction execution also supports the stock price, which in turn puts the company back to the market ahead of the others. However, superior post-transaction implementation skills are difficult to acquire and there are three main stumbling blocks to successful post-transaction implementation:

- the difficulty of staying focused on the fundamental reasons for the acquisition
- the challenge of culture integration
- the size, scope and complexity of post-transaction projects

It is a multi-dimensional challenge that's becoming increasingly difficult as success in M&A started depending increasingly on strategic synergies (the hardest kind to achieve) and on integrating large, complex international organizations and cultures.

Managing Cultural Integration

While all agree on its importance, very few know how to properly assess or integrate corporate cultures. The ability to manage culture integration faster or more effectively than others can do, therefore, provides a competitive advantage in M&A. Because failure to integrate cultures represents a missed opportunity for shareholders, buyer directors should be satisfied that culture issues are actively managed, not simply perceived as barriers to doing a transaction or a neglected area of risk in an approved transaction. In each transaction, the cultural outcome should be defined and planned, usually based on one of the three scenarios: the combined entity takes on the culture of one of the merging companies (usually the buyer), the cultures remain independent of one another, or a new culture is formed that is different from both of the previous cultures. Each case requires different post-transaction actions and different skills.

Overseeing Post-Transaction Implementation Activities

Project management challenges associated with large M&A transactions are often underestimated. Companies commit their 'best and brightest' and hire expensive advisors to develop transactions, but then leave the detailed planning and implementation to hastily assembled integration task forces, which must often work on integration issues part-time while maintaining some or all of their usual duties. The best acquirers assign skilled integration leadership, carefully structure the key teams, provide adequate resources (including external resources, when needed), set clear post-merger priorities, and institute process and performance tracking. Many managers will be doing this for the first time, so skilled post-transaction project management requires codified tools and processes, capable resources, and training, support and coaching for the managers involved in each transaction.

What it brings for me personally

Overall the MBA education at Lviv Business School gives a great opportunity to look at what you have been doing from absolutely different angle, compare it to other businesses in other domains and find ways to optimize and tune the business in the ways, that you never thought of previously. You change your paradigm to some extent. The MBA education, that is traditionally built on real business cases, adds huge value. As well as one can benefit a lot from a real solid experience of the lecturers, who's knowledge and real experience can contribute a lot to your success and are in fact priceless.

Thanks to this program I managed to move my personal boundaries and start thinking globally. As well as to look on the business strategically – as a combination of multiple components. The importance of none of these components can be underestimated. As only in conjunction of all of them you can get the ultimate result.

The core of everything is, obviously, the strategy. It gives both – the starting point and the final target. As well as it draws the general path from the first to the latter. But once you are done with understanding the strategy, then comes a set of equally important tactical areas. As a result of my education I realized, for example, the value and importance of Marketing, Corporate culture maintaining, Human resources management, Financial reporting on all the levels, cruciality of correct processes and procedures implementation.

The business education not only gives you an understanding of the pieces, that the business consists of. But it also gives a number of clear tools to analyze, measure and act on the matter you are investigating. In this particular thesis I explicitly used at least 2 instruments. These were McKinsey 7S model and Value Chain analysis. And they helped a lot to structure and sort out the challenges I have in the organization and integration process. Then I was able to find the ways to optimize the inefficiencies and find synergies between business units in the integrated organization after the merge process.

I believe, that a combination of skills, that MBA education gave me, and practical application used in this project resulted in substantial improvement of my expertise in M&A process in IT Services industry in general, and in integrating companies in particular. Having said that, I conclude that the goal, that I set for myself – to obtain such expertise – is reached. Without contribution of LVBS that would not be possible.

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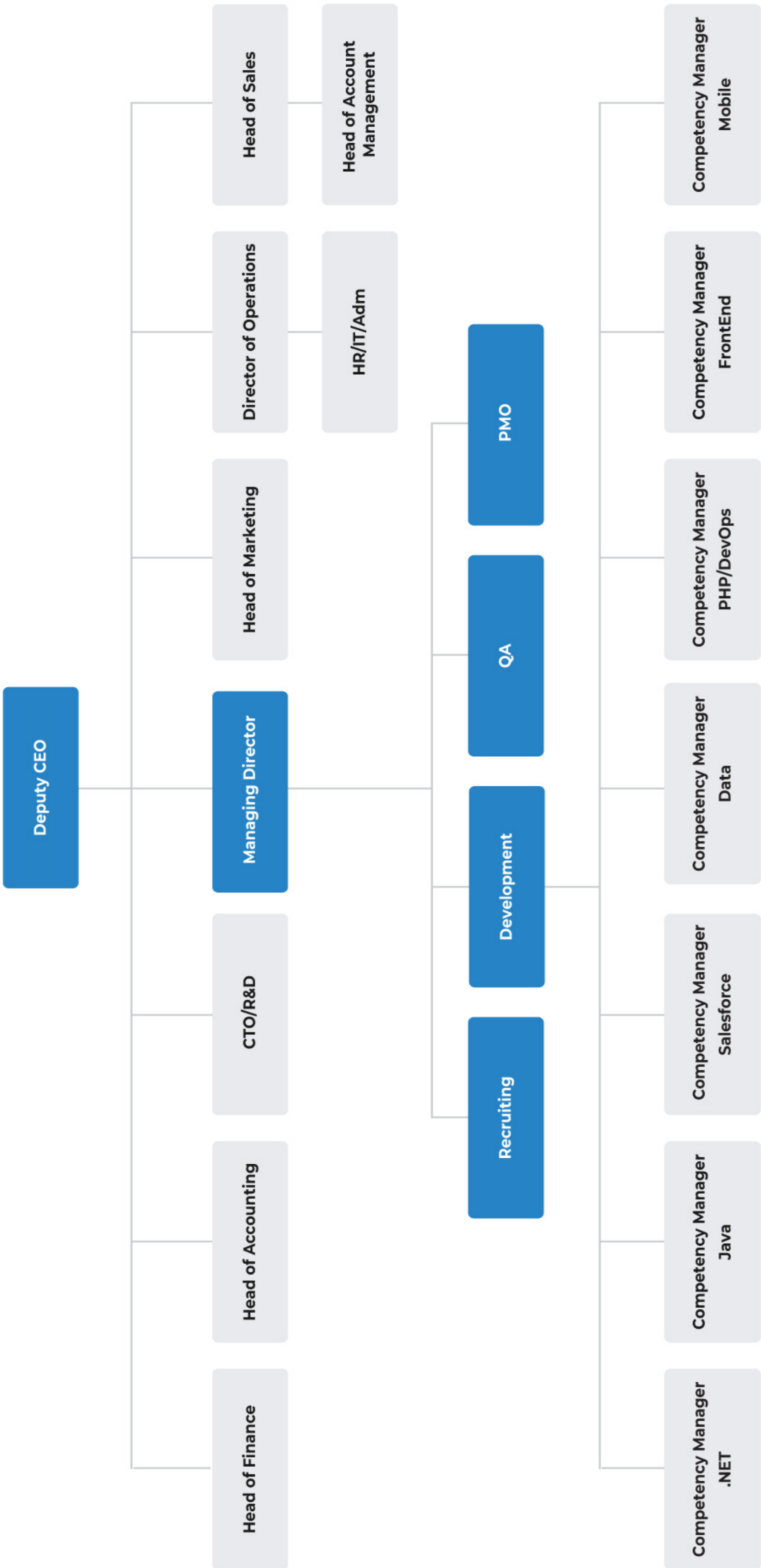
Appendix

#1 – Current CoreValue org. structure



Appendix #2

Request for consent to the transfer of a contract

From:

Core Value Services LLC

2088 Aldene Avenue

Scotch Plains, New Jersey 07076

United States of America

(the "**Transferor**")

To: John Smith, CFO

TheName, LLC. 1234 Broadway, Suite 2400 New York, NY 10018 United States (the "**Customer**")

Copy to:

Core Value Global LLC

18 Overlook Avenue, suite 9

Rochelle Park, New Jersey 07662

United States of America (the "**Transferee**")

REQUEST FOR CONSENT TO THE TRANSFER OF A CONTRACT

Reference is made to a contract dated October 11th, 2018 entered into by and between the Transferor and the Customer (the "**Contract**") under which Contract the Transferor provides certain IT services to the Customer.

In light of the fact that:

−it is intended by the Transferor and the Transferee in connection with the Contract Transfer Agreemententered into on 18 October 2018 by and between the Transferor and the Transferee that the Contract I transferred from the Transferor to the Transferee (the "**Transfer**") – for the avoidance of any doubt,as of the moment at which this request is submitted, the Transfer has yet not occurred;

−none of your rights and obligations under the Contract or any other provision of the Contract will beaffected by the Transfer should the Transfer take place; and

−the Contract provides that it cannot be assigned by the Transferor without the consent of the Customer (the "**Consent**"),

we hereby request that you grant the Consent to the assignment as at 1 November 2018 of the Contract from the Transferor to the Transferee, i.e. to the Transfer, by signing this request and returning a copy thereof to the address of the Transferee provided above.

We remain at your disposal should you have any questions relating to the Transfer.

Kind regards,

____

On behalf of the Transferor Igor Kruglyak – CEO

***

I hereby confirm that the Customer grants its consent to the Transfer.

Kind regards,

On behalf of the Customer

Appendix #3

List of Standard operation procedures:

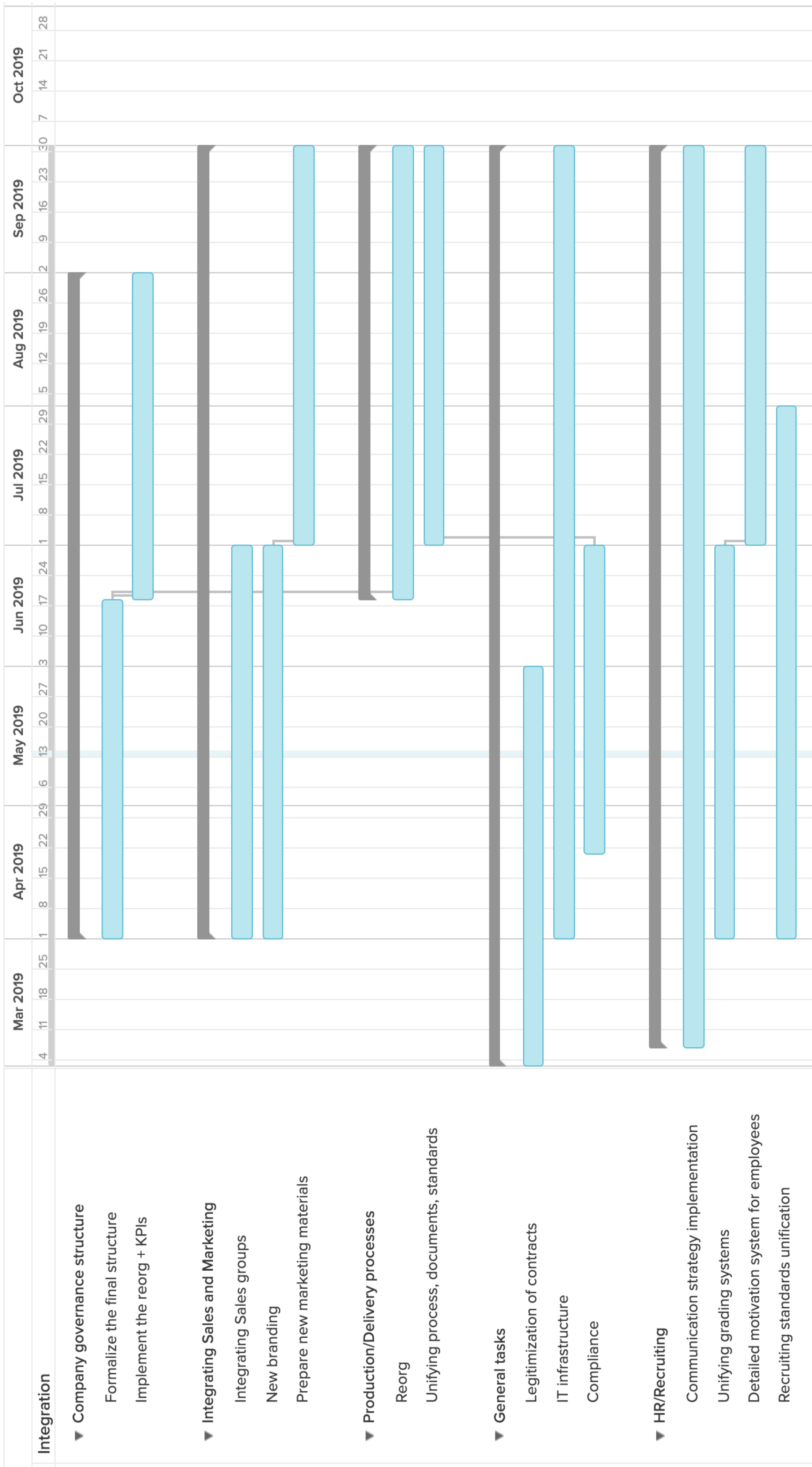
- SOP101 Project Initiation
- SOP102 Project Planning
- SOP302 Test Procedures
- SOP402 Code Review
- SOP501 Logical and Physical Security
- SOP601 Document Control
- SOP701 Back-up and Storage
- SOP801 Training and Certification
- SOP901 Corrective and Preventive Actions
- SOP902 Business Continuity and Disaster Recovery
- SOPXXX Software Development Life Cycle
- SOPXXX Test Cases Design Standards
- SOPXXX Unit Testing

List of document templates:

- Project Plan
- Project requirements
- Project scope statement
- Code Review Attestation
- IT Systems Access Record
- Project charter
- Project plan
- Requirements Specifications
- Requirements Traceability Matrix
- Test Design Specification
- Test Cases
- Test Evidences Document

Appendix #4

Integration project plan and timeline



Appendix #5

Technology list

Id	Name	Competency Matrix Actions
1	PHP	
2	Frontend	
3	.NET	
4	Mobile (IOS)	
5	Mobile (Android)	
6	Salesforce	
7	MySQL	
8	Java	
9	MSSQL Developing	
10	MSSQL Administrating	
11	MSSQL BI	
12	Oracle Administrating	
13	Node.js	
14	DevOps	

(below - an example for one of the technologies – Node.JS)

Competency matrix for Node.js

Node.js Dashboard

Knowledge area	Junior Engineer	Engineer Level 1	Engineer Level 2	Senior Engineer	Solution Architect
Programming language	Basic	Competent	Proficient	Expert	Expert
Third party libs	Basic	Competent	Proficient	Expert	Expert
Testing	Basic	Competent	Proficient	Expert	Expert
ORM	Basic	Competent	Proficient	Expert	Expert
JavaScript Backend	Basic	Competent	Proficient	Expert	Expert
Networking	Basic	Basic	Competent	Competent	Competent
UML	Basic	Basic	Competent	Competent	Proficient
Version Control Systems	Basic	Competent	Competent	Proficient	Expert
Security	Basic	Competent	Competent	Proficient	Proficient
OOP	Basic	Competent	Competent	Proficient	Expert
Html	Basic	Competent	Proficient	Expert	
CSS	Basic	Competent	Proficient		
Install and configure	Basic	Competent	Competent	Proficient	Expert
DB Design	Basic	Competent	Proficient	Expert	Expert
English: Reading/Listening	D	C	B	A	A
English: Writing	D	C	C	B	A
English: Speaking	E	E	C	B	A

Appendix #6

List of technologies