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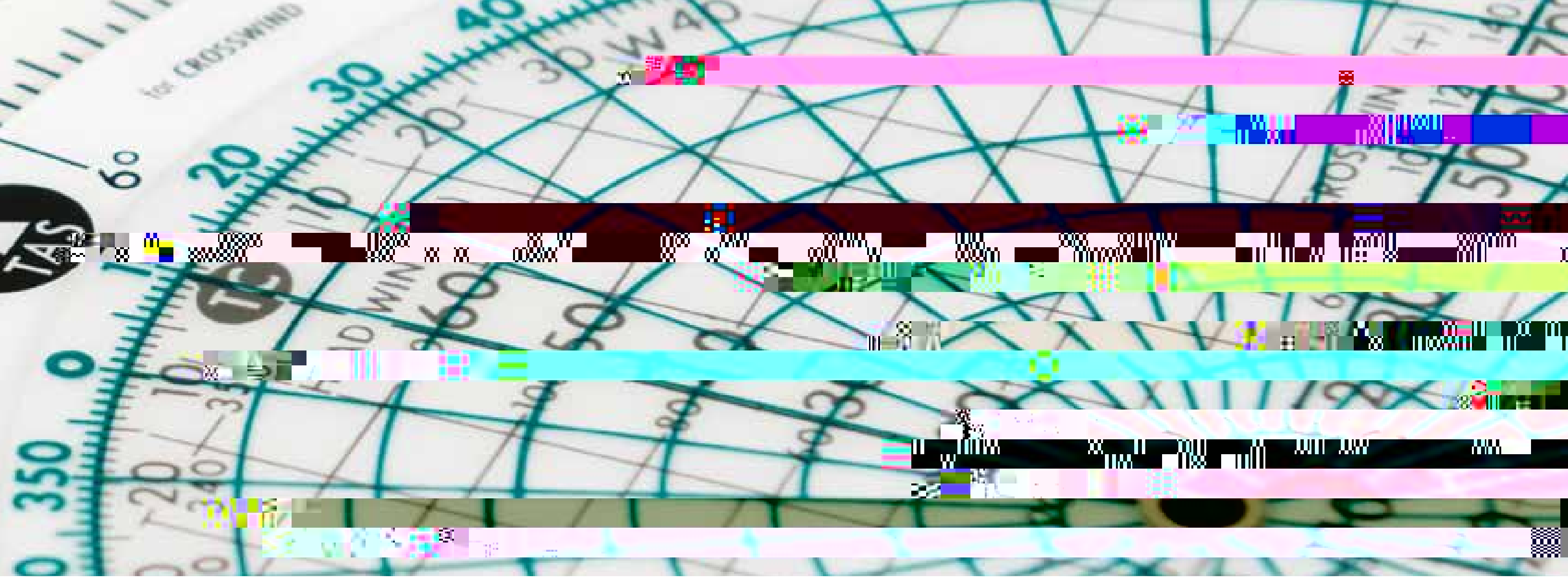
CONTENTS

FOREWORD: MAKING PEOPLE THE FOCUS

In spite of the daily geopolitical chaos — be it North Korean military threats, Brexit, trade wars, Japan's corporate governance challenges, the Brazilian political crisis or daily turbulence in Washington —

In taking a broad view of business and industry around the world, we see that one common



Making the wrong investment decisions in talent can cripple a deal. Often, organizations operate in a silo, focusing on the necessary nuts and bolts of transactions, like operating margins and cash flow, while overlooking a critical aspect of the deal — people.

Too frequently, retention schemes focus only on those at the top. Our research shows that the “Rising Middle Stars” are essential to keep organizations operating smoothly during and after a merger or acquisition.

This report introduces effective strategies for employee retention, leveraging new data to significantly improve your chances of a successful transition.

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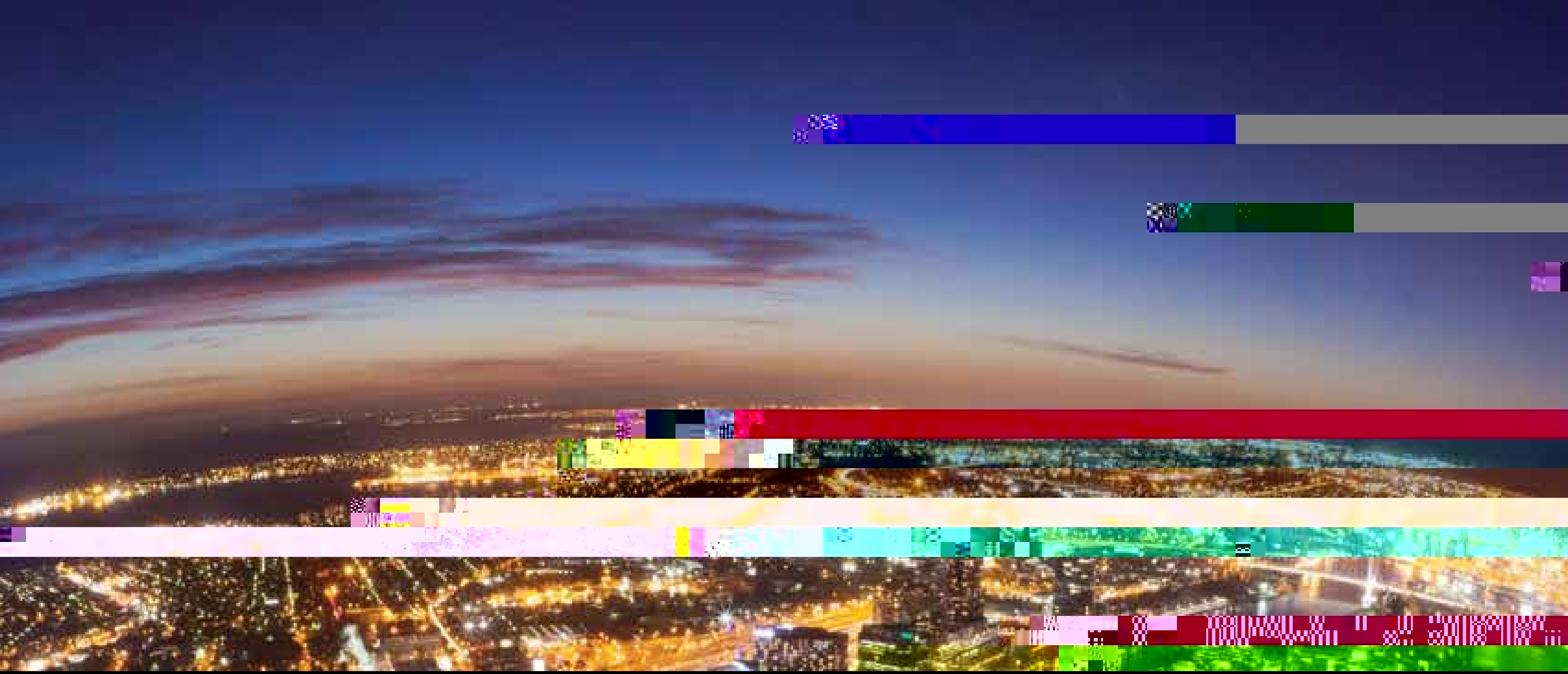
JEFF BLACK

Partner
Mercer’s Global M&A Transaction Services Leader

“The idea that an organization’s workforce is an asset — rather than simply a business cost — is now broadly embraced by business leaders everywhere.”

— Haig R. Nalbantian
Co-Leader, Mercer Workforce Sciences Institute



ABOUT THE REPORT

Our findings are based on 325 unique data points.

243
SURVEY PARTICIPANTS

212
UNIQUE TRANSACTIONS

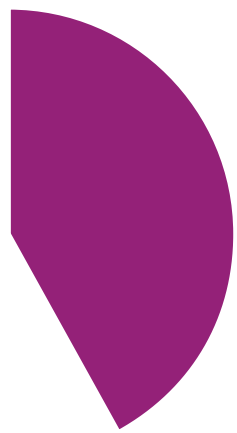
82
INTERVIEWS

FIRMS THAT PARTICIPATED IN THE RESEARCH

NUMBER OF EMPLOYEES GLOBALLY N=325	
Fewer than 1,000	13%
1,000 to fewer than 5,000	18%
5,000 to fewer than 20,000	30%
20,000 to fewer than 50,000	14%
50,000 or more	25%

ANNUAL REVENUE N=321	
Under US$100 million	7%
US$100 million to less than US$500 million	8%
US$500 million to less than US$1 billion	8%
US$1 billion to less than US$5 billion	34%
US$5 billion or more	43%

A total of 325 corporate and private equity professionals participated in our retention research.



EXECUTIVE SUMMARY

LITTLE ROOM FOR ERROR

We are experiencing another year of a brutally competitive, full-on seller's market around the world. As such, buyers are paying record multiples and taking on unprecedented risk in order to complete transactions. In today's environment, where capital is abundant and cheap, the opposite is true for talent. Top performers are expensive to replace. And buyers are vulnerable to the flight risk of key talent in most transactions. The organizational change involved in most deals puts people on edge, and they opt out or disengage without an added incentive to stay focused.

"The common denominator consistently driving economic value is having the right people on board to execute post-close. At no time globally have we seen it so critical for buyers and sellers both, who want to drive shareholder value, lock down talent at the top and including those 'Rising Middle Stars' critical for execution," said Konrad Deiters, Mercer's International M&A Transaction Services Leader.

Successful acquirers around the world routinely manage their people assets with the same rigor and discipline with which they manage balance sheet risk. They concentrate on three primary people practices to drive value:

RETENTION BONUS PREVALENCE*

FOCUS ON RETAINING TOP TALENT, NOT JUST TOP EXECUTIVES

We uncovered some key insights that are important to call out because they were quite different from the last time we looked at retention in M&A back in 2012.

One significant finding is that successful acquirers are taking a people-first, bottom-up approach when designing retention programs. They're not first budgeting for retention and distributing to employees ("top down" approach); they're focusing on talent first, making sure retention is designed with a focus on key employees.

This bottom-up approach also revealed another significant trend — retention programs are expanding outside of the C-suite. Buyers and sellers are definitely getting more nuanced about whom they offer retention to and how deeply and broadly to go into the acquired organization.

This research was triggered by last year's People Risks in M&A Transactions" *(www.mercer.com/peoplerisk)* report, which found that employee retention

Consistent with our experiences working on over 1,200 transactions annually, **smart buyers are more frequently leveraging enhanced severance programs to drive affordable short-term retention. Of course, all have access to market pay data for budgeting to ensure they do not overspend.**

RETENTION BONUS AS A PERCENTAGE OF BASE PAY

	25th percentile	Median	75th percentile
	(% +	% $ $ +	& $ $ +
" #	' * +	) (+	% ($ +
	& (+	($ +	% $ $ +
	% (+	& (+	($ +

Asia Outbound

K 50%
All Levels
on Average

Technology Industry

K 49%
All Levels
on Average

Vehicle for payments
cash vs. equity

Conditions for payment
time vs. performance

Number of payments
one, two or more

Timing of payments
pre-close, post-close, etc.

Individual retention bonus

“When you’re in the professional services industry, your greatest asset walks out the door at 5 pm … balancing the art and science of retaining talent is critical to driving deal value.”

– Corporate development leader, professional services firm, 60,000 employees, US$12 billion in revenue

FRAMEWORK FOR SUCCESS

The research was conclusive. Well-designed and implemented retention programs are viewed as "insurance policies." They keep the right people focused and engaged through integration. There is, however, no one silver bullet for buyers trying to solve deal-specific talent retention needs. While analysis of the global data uncovered regional and industry differences crucial to understand, everyone must first start in the same place in the process — with a clear understanding of the deal thesis.

"Successful buyers have elevated their retention strategies from an art to a repeatable science. The results are tangible and clear — increased productivity, engagement, owner-like behaviors and accountability," said Jeff Black, Mercer's Global M&A Transaction Services Leader.

This report introduces a best-in-class retention framework (Mercer's Retention Playbook™) for structuring financial incentives that are time sensitive, marke f

CONCLUSION

e only way to drive sustainable transaction value — regardless of deal size, geography and industry — is to get employees at all levels to understand their role in any impending CHANGE. Leaders willing to invest in frequent and transparent communication typically drive better workforce engagement and operating results.

Our research reinforces that successful buyers have a disciplined approach and roadmap to managing people assets in transactions. That roadmap has three clear strategies that capture economic value.

1 ENGAGE THE WORKFORCE

- Leverage frequent and transparent communication.
- Define and socialize new cultural norms around decision-making rights, accountability, performance expectations and tolerance for failure.
- Clearly articulate the new business strategy, including specific performance objectives for the new company and the need for changing behaviors at all levels to align with the new business objectives.
- Continuously communicate and measure business results against financial and other targets throughout the entire company.
- Document and socialize enterprisewide risk governance policies/procedures/boundaries.
- Embrace change and continuous improvement.

2 RETAIN CRITICAL TALENT THROUGH THE EVENT

- Understand first and foremost your business objectives and deal rationale.
- Identify mission-critical key talent, beyond the executives, for running your business.
- Design a deal-specific retention plan that provides the necessary “insurance” to engage key talent.
- Understand the market data and reasonableness of your retention budget.

ALIGN REWARDS SYSTEM WITH BEHAVIORS

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THE RESEARCH WAS CONCLUSIVE

In order to optimize the value of the transaction, buyers and sellers must

About the Authors

Jeff Black

Jeff Black is Mercer's Global M&A Transaction Services Leader. He has nearly 25 years of experience as a trusted advisor to business leaders. Jeff provides strategic deal advice to organizations on people-related aspects of transactions including start-ups, IPOs, acquisitions, mergers, partnerships, and divestitures. This advice is provided across all deal phases (sourcing, diligence, pre-close and post-merger integration). Jeff is a Phi Beta Kappa and graduated summa cum laude from the University of Illinois at Urbana-Champaign.

Dan McGuire

Dan McGuire is Mercer's Director of M&A Retention Research. He was selected in 2016 to participate in Mercer's prestigious Global Rotation Program. Over his 12-year career with the firm, he has worked on the ground in the US, India, Europe and Hong Kong. He has particular expertise consulting with global clients.

Contributors

NOTES

1. Mergermarket, Merrill Corp. 2017

2. Refinitiv. Mergers & Acquisitions Review (Full Year 2018)

3. Refinitiv. Mergers & Acquisitions Review (Full Year 2018)

4.1) US$6 trillion cash on corporate balance sheets
Citation: JP Morgan 2016 M&A Outlook
(https://www.jpmorgan.com/country/AR/ES/insights/maglobaloutlook)

4.2) US$1.6 trillion dry powder with private equity
Citation: Forbes March 2017

4.3) US$2.6 trillion US corporate cash held overseas
Citation: CNBC April 2017: Companies are holding a US$2.6 trillion pile of cash overseas that's still growing

MERCER

FLIGHT RISK IN M&A: THE ART AND SCIENCE OF RETAINING TALENT

For further information, please contact your local Mercer office or visit our website at www.mercer.com.

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Germany

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India

Indonesia

Ireland

Italy

Japan

Mainland China

Malaysia

Mexico

Netherlands

New Zealand