NAVIGATING THE TECH M&A LANDSCAPE

Strategies for success and value creation in a rapidly evolving ecosystem

VIVA TECHNOLOGY

Roland Berger

INTRODUCTION

In view of the acceleration of ecological transformations and technological disruptions as well as the current geopolitical and financial turmoil, many companies, regardless of their size or their industry, are reconsidering their growth models with a focus on technology (the cloud, AI, data). The funding crisis that started in 2022 in the United States and the drop in valuations in the tech industry are creating opportunities for consolidation and acquisitions in multiple fields. The focus on the price paid for the acquisition is gradually shifting to the cost of integration and the associated return on investment; the challenge faced by the companies making these acquisitions lies in their ability to properly integrate their acquired companies' management teams and employees.

Given this context, what are the main drivers behind tech M&A today? Are we witnessing developing trends in integration practices?

In this study, Roland Berger and Viva Technology analyze these issues, with insights from global executives from companies and scale-ups that have been involved in major M&A operations over the last few years.

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1.1. TECH M&AS IS A STRATEGIC TOPIC THAT SHOULD BE TAKEN INTO CONSIDERATION BY COMPANIES ACROSS ALL INDUSTRIES

1.1.1 The current macroeconomic context is favorable for acquisitions

Technological disruptions have had a profound impact on industries, challenging traditional business models and reshaping market landscapes. Industry leaders are particularly attentive to the current macroeconomic context, shaped by the knock-on effects of the Covid pandemic.

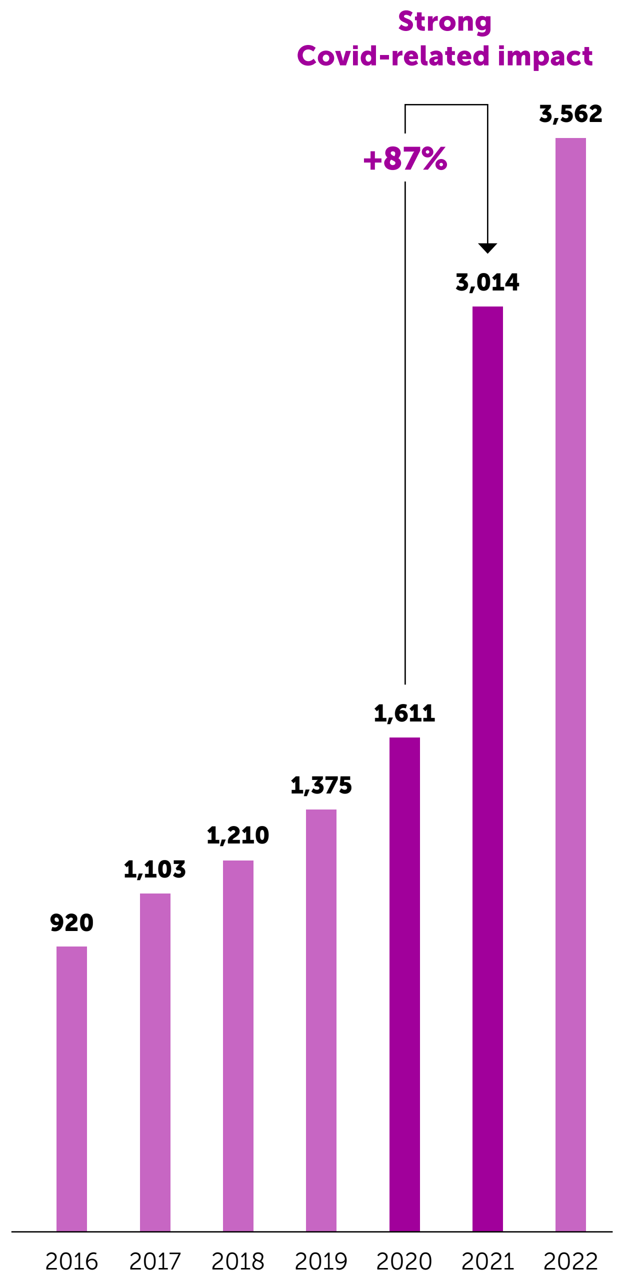
This presents a compelling opportunity for companies seeking to pursue acquisitions. Indeed, the widespread drop in company valuations has created increased market opportunities and a conducive environment for strategic partnerships; with well-executed tech M&A, companies can unlock growth potential, gain a competitive advantage, and create value.

This is reflected in the increasing volume of transactions: in Europe, the volume of tech M&A transactions grew steadily between 2016 and 2020, then almost doubled (+87%) between 2020 and 2021 – the result of a significant Covid-related impact. As a result, the growth between 2016 and 2022 is spectacular: the volume of transactions almost increased fourfold. › A The value of these transactions followed the same trend, although the increase between 2020 and 2021 was less spectacular (+40%). › B

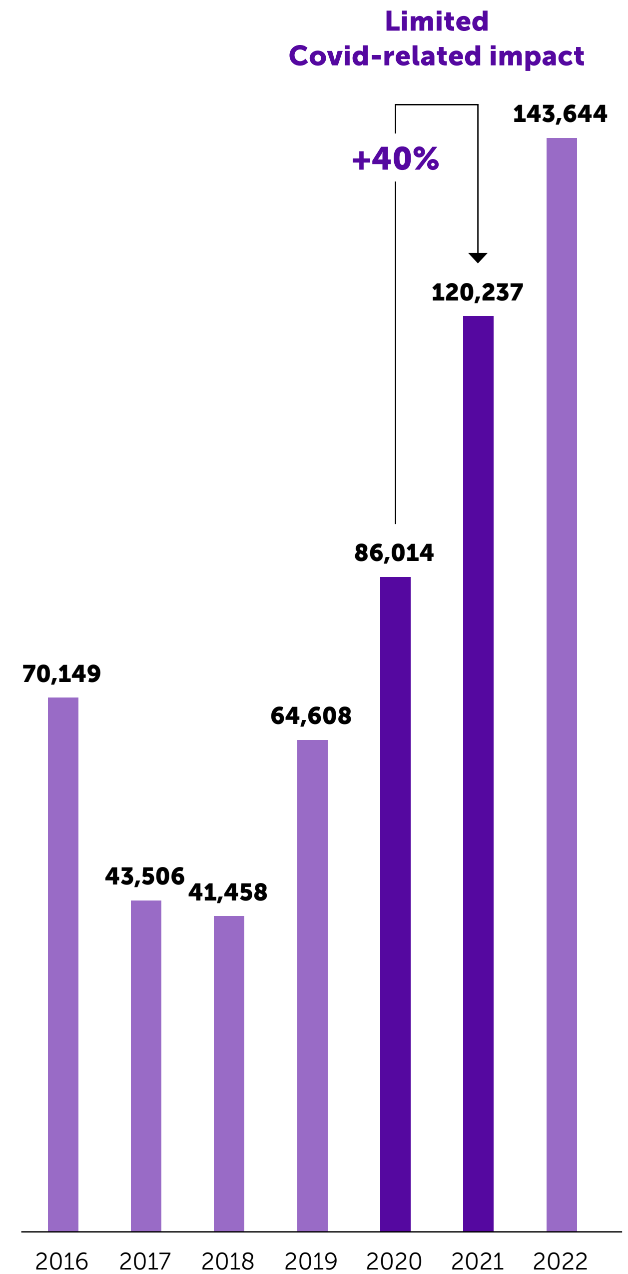
Looking at the nationality of acquirers, European companies themselves lead the way, accounting for about 75% of all transactions. Within Europe, the UK, France, and Germany are the most prolific countries, with a combined share of 49% of the total volume of European transactions. › C

The widespread drop in company valuations has created increased market opportunities and a conducive environment for strategic acquisitions.

A | VOLUME OF EUROPEAN TECH M&A TRANSACTIONS
[# transactions]



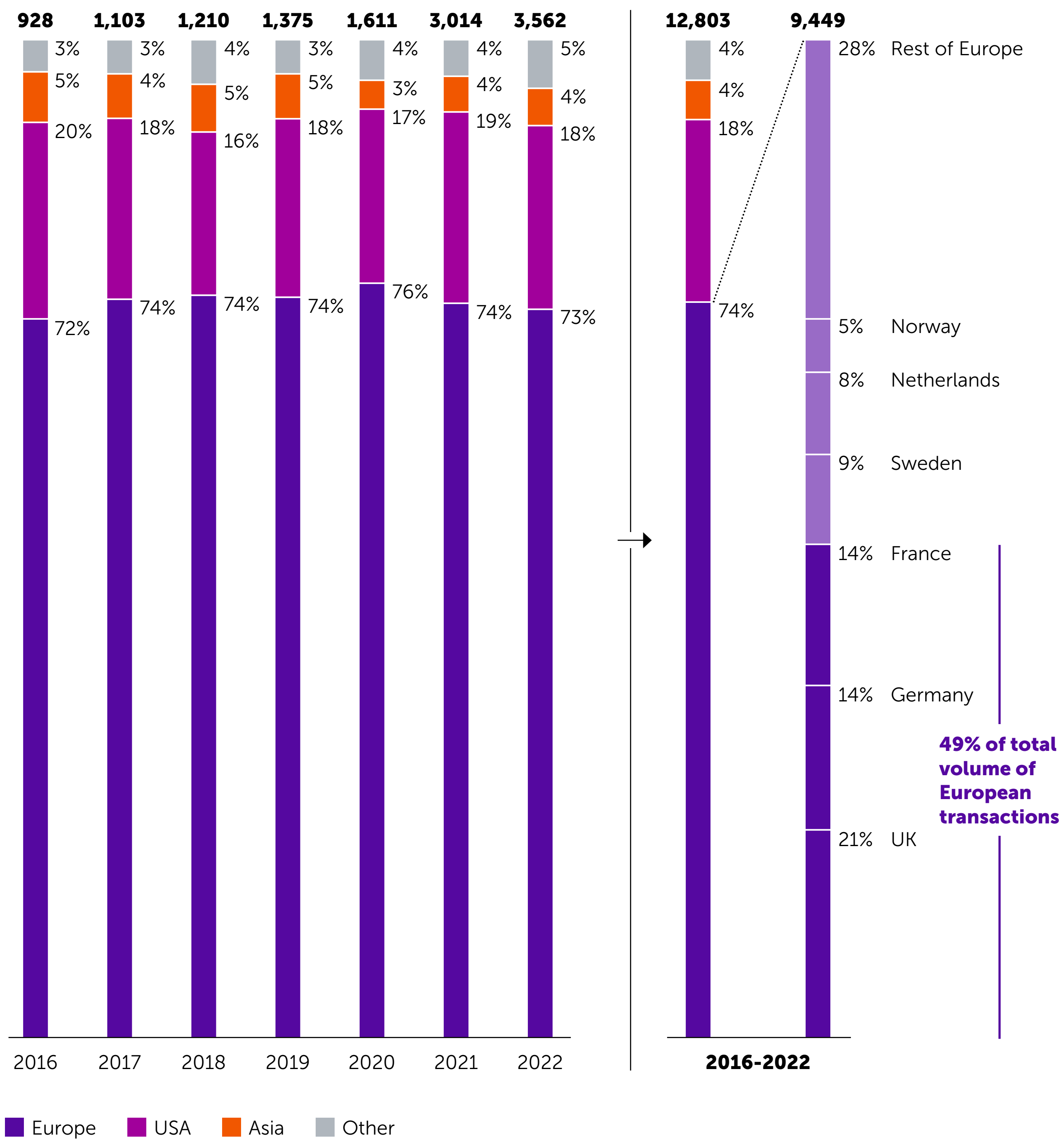
B | VALUE OF EUROPEAN TECH M&A TRANSACTIONS
[Total deal value in EUR million]



Source: Roland Berger, MergerMarket

C | VOLUME OF EUROPEAN TECH M&A TRANSACTIONS BY ACQUIRER-DOMINANT COUNTRY

[# transactions; 2016-2022]



Source: Roland Berger, MergerMarket

1.1.2 Technological disruptions have had a profound impact on all sectors

The rapid advance of technology, including AI, apps, APIs, and data, has revolutionized how businesses in all industries operate. In addition to creating new opportunities, these transformative technologies have also presented challenges across sectors, including increased cybersecurity risks, the need for talent with specialized skills, complex regulatory landscapes, and rapidly changing consumer expectations. Tech M&A can serve as a catalyst both for offensive transformation strategies, whereby companies acquire innovative start-ups or technology-driven firms to gain a competitive edge, and defensive strategies, such as consolidation, whereby companies merge with or acquire competitors to enhance their market share and establish stronger barriers to entry. In this era of technological disruption, companies must consider tech M&A as a way to stay relevant and maintain their competitive positions.

TECH M&A TRENDS

Max Bautin, Founding Partner of IQ Capital VC

In deep tech, the decision to invest is more conviction-based, driven by the opportunity to disrupt large existing markets or create new ones.

As a sector, B2B and B2C SaaS are more exposed to readjustment in valuations, as they are more directly correlated to public market multiples. Consequently, companies will be trying to focus on profitable growth rather than growth at any cost.

Comparatively, vertical software will be a more attractive sector, subject to concerns about longer-term scalability; horizontal software should largely be driven by tech advances in data and ML algorithms, particularly large language models (LLMs).

Another emerging trend: increasing investor focus on crossover technologies that could be applied in new industries, such as advances in AI, robotics, and materials, applied in life science, AgriTech, or even oil & gas.

Some verticals have been completely counter-cyclical to the rest of the tech world. In particular, generative AI, its infrastructure and the application layer are seeing a 2021-style explosion in capital, valuations, and M&A activity.

Others, such as the metaverse, Web3, and crypto, have moved past the hype cycle and are landing hard.

CASE STUDY

PUBLICIS GROUPE

UNLOCKING GROWTH THROUGH START-UP INTEGRATION

Founded in 1926, Publicis Groupe is the third largest global communication group. Over the years, it has reinvented itself, transitioning from a holding company to a unique modular platform that provides clients with plug-and-play access to their services.

The group is currently organized into four solution hubs: Publicis Communications, Publicis Media, Publicis Sapient and Publicis Health. Epsilon, the data-driven marketing and tech company, joined the Group in July 2019; it occupies a central position, driving all the Group's operations with its unparalleled data expertise. Publicis Groupe operates in more than 100 countries, has a workforce of more than 98,000 employees and a net revenue of EUR 12.6 billion in 2022.

Publicis has strategically pursued the acquisition of technological products and platforms to drive the growth of data and media and meet evolving client needs.

Emerging trends in the tech industry

As a result of deflation in the tech sector, sellers expect to see compensatory increases in premiums on stock prices. Despite the overall decline, it remains to be seen whether premiums will actually increase from the previous range of 30%-40%. This upward shift would reflect renewed investor interest and confidence, showcasing the industry's resilience and adaptability in the face of market challenges.

"Smaller companies we look at have remained largely unaffected by this trend, so long as they are showing robust and profitable growth."

Stéphane Estryn, M&A Director, Groupe Publicis

In fact, well-financed start-ups that do not require fundraising have a strategic advantage in waiting for valuations to rebound. With this in mind, start-ups may find that being acquired by larger groups is advantageous when it comes to optimizing their growth potential and mitigating the risks of deflationary trends.

The integration of start-ups into large groups

Integrating start-ups into large groups like Publicis Groupe poses a challenge: these groups' service-oriented culture must be reconciled with product development, the driving force behind these start-ups.

One of the main challenges lies in aligning the priorities and approaches of two entities, as large companies often have established processes and a client-centric focus that may hinder start-ups' fast and agile way of working.

Recent acquisitions including Epsilon, CitrusAd, Profitero, and Yieldify have proven successful, with CitrusAd experiencing more than 100% growth in two years and Profitero announcing impressive results. The convergence of go-to-market strategies has also worked well for CitrusAd, leading to a forthcoming joint-venture in retail media with Carrefour.

BEST PRACTICES

Create a sense of connection at every level.

Establish a plan to develop synergies and ensure the genuine commitment of all stakeholders.

Be transparent about the constraints of joining a multinational group.

Use earnout structures to accelerate integration, rather than to slow it down.

The holy grail: safeguard start-ups' agility.

1.1.3 The rise of generative AI is an unprecedented accelerator

Today, generative AI is the most pressing technological disruption around; this branch of artificial intelligence will have significant implications for businesses in every industry. Many companies have already embraced generative AI initiatives and developed custom generative AI models, fine-tuning them with proprietary data. There are numerous potential benefits to generative AI, including expanding labor productivity, personalizing customer experiences, accelerating research and development through generative design, and even creating new business models. In addition, the recent launch of ChatGPT, an advanced language model developed by OpenAI, has further emphasized the transformative capabilities of generative AI, demonstrating an understanding of natural language and generating human-like responses. Given the transformative power of generative AI, it is increasingly important for companies to see tech M&A as a strategic imperative. Through M&A activities, companies can gain access to generative AI expertise, technologies, and datasets, enabling them to unlock the full potential of this technology and drive innovation within their respective sectors.

Given the transformative power of generative AI, it is increasingly important for companies to see tech M&A as a strategic imperative.

Mihkel Jäätma, CEO of Realeyes, emphasizes the evolving landscape and opportunities within the AdTech industry and beyond:

"Generative AI is set to have a significant and transformative impact on the AdTech industry, particularly in the realm of AI content generation and measurement. Despite financial constraints affecting product development across the AdTech value chain, investments in generative AI have remained robust, with increased budgets being allocated. Benefits of these investments extend beyond AdTech, as these new-age generative AI content engines will not only support paid media campaigns, but also organic channels like mobile apps, websites, and games."

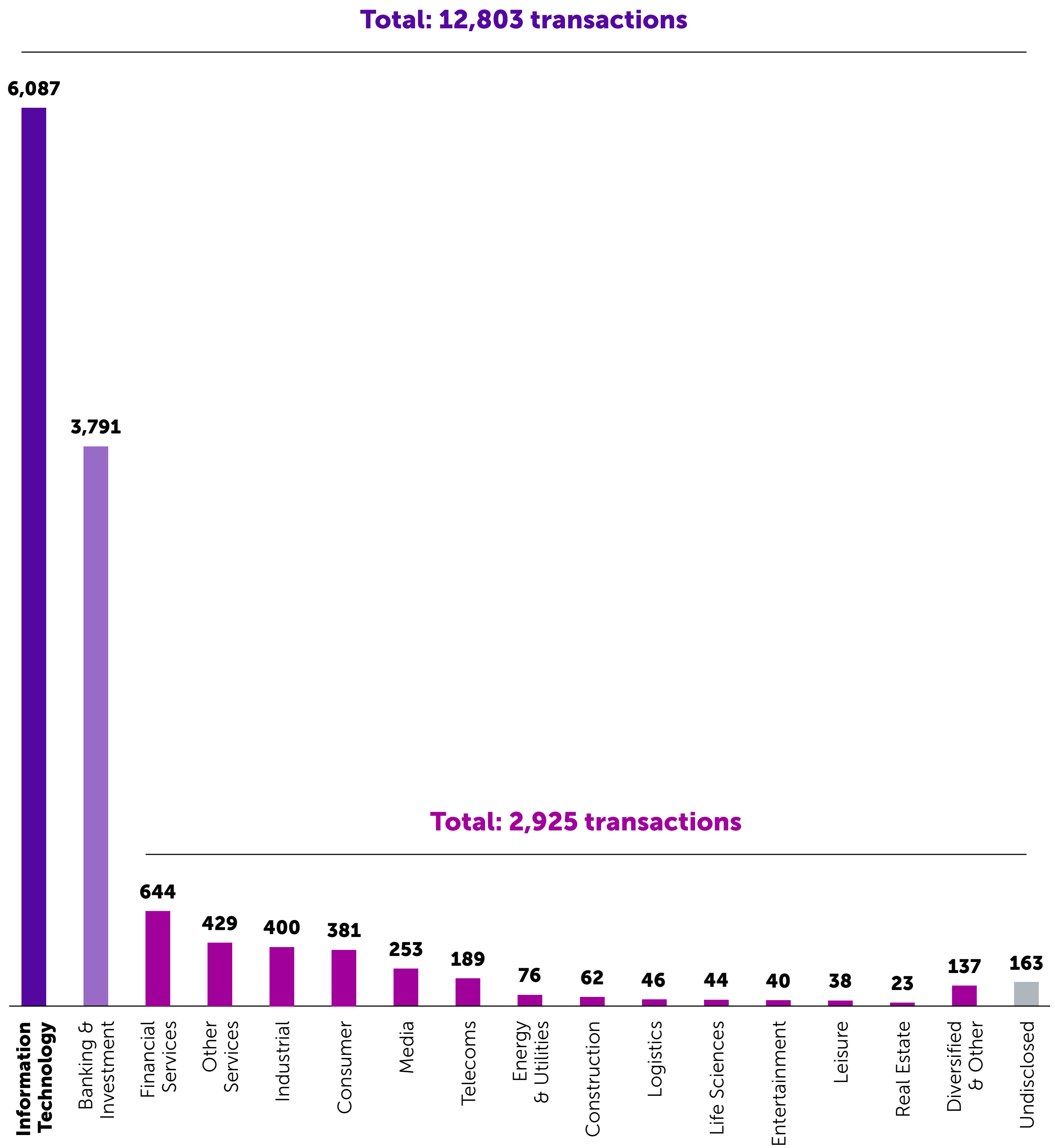
1.1.4. M&A is now an essential tool

There are several reasons for which M&A activities have long been seen as being unsuited to technology companies. Firstly, technology companies are often innovative and agile and the integration processes involved in M&A have been considered as a hindrance to their ability to adapt quickly. Secondly, technology companies tend to have unique cultures and specialized talent, making alignment with the acquired company's culture and retention of key personnel particularly challenging. Thirdly, technology companies often have valuable intellectual property and proprietary technology; this may be put at risk during the M&A process, leading to concerns about the protection of these assets.

However, in today's fast-paced and highly competitive tech landscape, this view is no longer justified. Increasingly, companies within tech-driven industries are realizing that M&A activities are inevitable if they are to stay ahead of the curve and maintain their competitive positions.

These activities allow companies to access new technologies, intellectual property, and talent pools that can enhance their capabilities and fuel innovation. Analysis of M&A transactions highlights the inevitability of these activities: in Europe, the information technology sector itself is the most active industry, amounting to almost half (47%) of the total transactions, followed by banking & investment, accounting for 29% of transactions. › D

D | VOLUME OF EUROPEAN TECH M&A TRANSACTIONS BY ACQUIRER-DOMINANT SECTOR
[#transactions; 2016-2022]



Source: Roland Berger, MergerMarket

1.1.5. Tech M&A will inevitably accelerate

Tech M&A activities are expected to accelerate, driven by the predicted lasting drop in valuations and the need for companies to remain competitive and innovative. As technology continues to shape industries, executives cannot afford to overlook the importance of a well-defined tech M&A strategy.

Such a strategy could become as important as Environmental, Social, and Governance (ESG) considerations, which have gained real prominence in response to widespread climate concerns that have encouraged companies to address their sustainability and social responsibilities.

Similarly, tech M&A strategies are bound to become a crucial topic in board discussions, particularly with the emergence of technologies such as AI; these strategies have a direct impact on a company's ability to navigate digital disruption and ensure its future relevance. Executives must proactively develop and execute a tech M&A strategy to position their organizations for success, especially in technology-driven industries.

Tech M&A strategies are bound to become a crucial topic in board discussions.

1.2. THE STRATEGIC INTENTS BEHIND TECH M&A ARE EXTREMELY DIVERSE

1.2.1 Accelerating growth

Growth acceleration is one of the primary strategic intents for tech M&A. In contrast to the traditional approach adopted by some companies, which often involves acquiring a limited number of businesses to leverage economies of scale and take advantage of cost synergies, some disruptors take a broader approach. These disruptors, including both established corporate players and emerging tech companies, seek to turbo-charge their growth trajectory by acquiring numerous companies that complement their existing capabilities. This approach highlights their agile and forward-thinking mindset. Pursuing accelerated growth through tech M&A goes beyond simply making transformative acquisitions; instead, it requires a holistic approach that often combines frequent small acquisitions with a focus on innovation and in-house business-building efforts that are aligned with corporate growth objectives.

Ynsect, a French industrial scale-up in the insect-based food sector, is proof of the benefits of this strategy and **Charles Pontvianne**, Corporate Finance Director at Ynsect, explains this approach:

"Ynsect's focused and nimble M&A strategy involves acquiring small companies that bring valuable technological expertise and specific know-how for developing new and improved products, taking advantage of deflation-driven opportunities, instead of acquiring additional production capacity."

Pursuing accelerated growth through tech M&A requires a holistic approach that often combines frequent small acquisitions with a focus on innovation and in-house business-building efforts.

Brevo

EXPANDING THE PRODUCT PORTFOLIO

Brevo (formerly Sendinblue) is a French scale-up, founded by Armand Thiberge in 2012. It provides businesses of all sizes with a full CRM suite that has been designed to efficiently build meaningful customer relationships at scale in a fast-changing digital world. Brevo has 500,000 customers in 180 countries, its services and platform are available in 6 languages and it has more than 700 employees of almost 70 nationalities in 8 offices. In 2020, it raised over EUR 140 million and it reached centaur status (> EUR 100 million ARR) in December 2022. Over the last few years, Brevo has acquired close to 10 start-ups as part of its M&A strategy.

Tactical tech acquisitions

With the recent rebranding from Sendinblue to Brevo, the company changed its positioning, transforming itself from a provider of email marketing to a provider of a full CRM suite. This was made possible by 6 acquisitions in the past two years. The company's M&A approach illustrates its strategic objective of providing its customers with more comprehensive solutions so that it can stay ahead of its digital marketing competition in a rapidly evolving market.

MeetFox, acquired in 2022, provides a scheduling solution that works across multiple channels, including the web, email, social media, and messaging. By integrating MeetFox's technology into its platform, turning it into what is now "Meetings", Brevo made it easier for its customers to schedule and manage appointments with their own customers.

Most recently, Brevo acquired Captain Wallet in 2023, a company specializing in the mobile digitization of various types of cards, including loyalty cards, coupons, membership cards, and gift cards. This acquisition further strengthened Brevo's impact in retail.

Thanks to this active M&A strategy, Brevo has accelerated the delivery of features, including Push, Phone, Chat, and Meetings, and can respond to its customers' changing needs.

A wider customer base

These recent acquisitions have allowed Brevo to expand its customer base, reaching new audiences. By becoming a more comprehensive solution, Brevo has attracted new clients and now appeals to a wider range of industries and businesses.

> *"The series of acquisitions made by Brevo has resulted in a shift in the company's center of gravity, creating more value for businesses as they can engage with their customers over more channels in smarter ways."*
>
> **Edouard Celier**, CFO of Brevo

Although Brevo has had an international customer base since day one, these acquisitions have enabled the company to expand its global presence and enhance the cultural diversity of its teams. As Edouard Celier puts it: *"MeetFox was founded in Vienna, like Yodel, but its CEO is based in New York. Metrilo was born in Bulgaria, Chatra operates mainly in the US with worldwide fully remote teams and PushOwl is an Indian company"*. Such a diverse team creates real value for the company, mirroring its customer base so that Brevo can better relate to and engage with its customers. This ensures Brevo remains agile while growing in size.

Ultimately, technology, products, and ease of use are key when it comes to measuring the success of Brevo's acquisitions.

> *"It is all about making sure that the customer can easily use the features we provide. [...] We invest a lot in the product's ease of use."*
>
> **Edouard Celier**, CFO of Brevo

BEST PRACTICES

Identify the M&A target's appeal: size of business (ARR, team), feature-related acquisition vs market share.

Talk openly with the target's sellers to discuss the future organization, the level of integration, and the objectives of the acquisition.

Consider due diligence as the first phase of the integration process.

Ensure that the acquired company's product(s) and teams are rapidly integrated.

1.2.2 Pursuing new channels

The pursuit of new channels is another significant reason for M&A activities. By seeking out new channels, companies can boost revenue, explore untapped markets, and deliver innovative solutions. Not only do these new channels provide immediate revenue opportunities, they also serve as a catalyst for long-term business expansion and diversification.

As businesses navigate the complex world of tech M&A, pursuing new avenues is a valuable strategy, enabling companies to adapt to evolving market dynamics and differentiate themselves from competitors.

1.2.3 Accelerating international expansion

Strategic acquisitions in new markets offer considerable advantages as they provide companies with immediate access to local infrastructure, supply chains, and customer bases. In this way, acquirers can accelerate their time to market and gain a competitive edge. Moreover, this regional expansion strategy facilitates market entry and provides access to valuable resources and capabilities that are crucial for success in unfamiliar territories.

By acquiring companies in different geographical regions, organizations can tap into standardized service-level agreements, thereby benefiting from established processes and operational efficiencies. Regional expansion also presents an opportunity to access local legal support and navigate the complexities of different jurisdictions more efficiently. By leveraging the acquired company's resources, including legal expertise, tech firms can expedite their international expansion, mitigate risks, and accelerate their growth trajectory.

In summary, pursuing new geographical regions and accelerating international expansion are vital to a company's success; in this way, it can position itself for sustained growth and enhance its global reach.

malt

A STRONG LOCAL PRESENCE TO SUCCESSFULLY EXPAND TO A STRATEGIC MARKET

Currently managed by co-CEO Alexandre Fretti and founded in 2013 by Vincent Huguet, co-CEO and Hugo Lassiège, CTO, Malt is a platform that connects tech freelancers and companies. Over the years, Malt has become a well-known marketplace for freelancers with a strong presence in France, Spain, Belgium, the Netherlands, and Germany. Malt has built up a real sense of trust with over 400,000 freelancers and 50,000 clients and has secured total funding of EUR 112 million.

"Becoming German in Germany": Malt's acquisition of Comatch

Malt has focused on expanding and achieving external growth to establish a strong foothold in the European market, starting with Germany. The acquisition of Comatch, a curated marketplace that combines innovative technology with personalized service for independent consultants and experts, focusing on the high-end freelance market, gave Malt the opportunity to *"become German in Germany"*. By establishing a strong foothold in the country, the company entered the German business landscape and showed its desire to operate as a local entity, rather than as a foreign company. This acquisition expanded Malt's client base in addition to its market, while complementing Malt's existing offerings, thereby further strengthening its position in the industry.

This acquisition was a logical choice for several reasons: the companies' shared vision, their complementary services, and the cultural proximity between the two entities.

> *"It was an ideal "marriage" and an extremely positive experience."*

Alexandre Fretti, co-CEO, Malt

Fostering cultural alignment: the key to Malt's successful acquisition of Comatch

To ensure successful integration, Malt and Comatch embarked on a comprehensive process, beginning with an intensive two-day offsite seminar in Spain where their teams had the opportunity to strengthen their working relationships.

At a management level, Comatch's founders joined Malt's executive committee; Christoph Hardt, cofounder of Comatch, is the current CEO of Malt Germany.

At the same time, regular governance meetings and open communication ensured a seamless transition: the carefully planned integration process was executed over a six-month period.

Working with an experienced consultant from Comatch's network with expertise in PMI in France and Germany, a Franco-German PMI team provided a valuable understanding of the two countries' cultures, reassuring both teams and fostering a sense of community.

Alexandre Fretti explains the importance of teambuilding as part of the process:

> *"Over the course of a 48-hour offsite, our progress was equivalent to one year of PMI."*

Custom integration KPIs

Malt used 3 major integration indicators as KPIs to assess the success of its acquisition and the ensuing integration process. These indicators included the NPS (Net Promoter Score) for employees, the attrition rate, and achieving EUR 5 million in cross-selling business within 12 months.

To track progress effectively, Malt also closely monitored the migration of freelancers from Comatch to Malt, ensuring a successful transition and a seamless talent integration process. This comprehensive approach made it possible for Malt to evaluate the overall success of its acquisition and integration and make the necessary adjustments to maximize synergies and business growth.

BEST PRACTICES

Prioritize a period of observation: decide on a specific duration during which to focus on understanding the acquired company's culture.

Embrace and leverage the acquired company's culture: acknowledge its culture and find ways to include it in the overall integration strategy, thereby creating a feeling of belonging and maximizing synergies.

Harness the power of effective communication: this is vital when it comes to maintaining engagement and momentum during the integration process.

Address resistance from nostalgic individuals: although it is important to respect different perspectives, be mindful of individuals who cling to the past and may hinder the overall integration process.

1.2.4 Quickly integrating innovation and reducing the cost of its adoption

The rapid integration of disruptive innovation into existing operations is another major driver of tech M&A.

Companies are aware that developing innovative technologies and solutions from scratch can be time-consuming and resource-intensive. By acquiring companies that have already developed the desired technologies, organizations can accelerate their innovation efforts and bypass the need for lengthy development cycles.

Integrating these innovations allows organizations to enhance their market offerings with new features or customer segmentation and targeting capabilities. In this way, companies can leverage external expertise and rapidly update their existing portfolio.

In some cases, portfolio optimization may involve acquiring underperforming assets for performance improvement or divesting certain activities to enhance the company's quality of sales and customer base, reduce costs, and improve liquidity and working capital management.

Leveraging economies of scale provides potential cost advantages that arise from increased production or operations.

In addition, through M&A, companies can consolidate their purchasing power, negotiate better deals with suppliers, and achieve economies of scale for procurement. Larger volumes of purchases can lead to lower costs per unit and more favorable terms, thereby reducing expenses and improving overall profitability.

CRITEO

A TAILOR-MADE APPROACH TO TECH M&A

Founded in 2005 and headquartered in Paris, France, Criteo is a global commerce media company. With a market capitalization of USD 1.9 billion (as of June 5, 2023) and a workforce of 3,500 employees, the company operates in multiple countries around the world, serving clients in various sectors. Through its industry-leading Commerce Media Platform, Criteo connects thousands of marketers and media owners, enabling them to deliver richer consumer experiences, from product discovery to purchase.

An M&A strategy that has evolved with Criteo's development

The reasons behind Criteo's M&A activities have evolved with the company's development. In its early stages, Criteo prioritized international expansion and access to new marketing channels and technology environments, while also leveraging its global retargeting solution's relatively low cost of organic market penetration. However, with the consolidation of the sector and the evolving regulatory landscape, in addition to the potential end of third-party cookies, Criteo looked to further diversify its offerings.

> ***"This is when Criteo structured its mergers and acquisitions' strategy to accelerate its product diversification around commerce media in particular, which represents the next wave of digital advertising."***
>
> **Audrey Hibon**, VP Corporate Development, M&A, Criteo

Over the years, Criteo has strategically expanded its product portfolio through acquisitions, including Hooklogic in 2016, a retail media (exchange) platform, Storetail in 2018, a technology platform enabling retailers to monetize native placements on their e-commerce websites, Mabaya in 2021, whose marketplace technology complements Criteo's retail media solutions, and Iponweb in 2022, an advanced platform providing advertising technologies for programmatic media buying and selling across various digital channels. Most recently, Criteo acquired Brandcrush, a software platform that enables the buying and selling of omnichannel retail media, to fast-track its offline retail media strategy.

A similarly evolving approach to integration

Criteo has also adapted its integration approach over the years. Early on, Criteo focused primarily on "acqui-hiring", acquiring companies for their talent and products that weren't fully scaled. Criteo would often integrate these acquired assets directly into its platform and teams.

However, since then, there has been a shift in its approach to integration. Audrey Hibon explains that *"as Criteo's technology stack grew more comprehensive and we evolved further into retail media, the company adopted a more hybrid approach to integration"*. Instead of fully integrating acquired companies, Criteo now focuses on leveraging financial and human resources, along with commercial synergies, while directly connecting the acquired platforms to Criteo's stack to accelerate the time to market.

Cultural fit is also a crucial part of the integration process. Although the integration of "acqui-hires" was initially relatively straightforward, acquiring bigger companies has proved to be more challenging, particularly in a post-pandemic context, driving global firms to re-assess how their company culture is retained and nurtured in a world in which fewer people are in offices together.

Post-integration talent retention is another important consideration for Criteo. The company uses equity and other classic retention mechanisms to retain key employees who are responsible for integrating and scaling (and, in several cases, continuing to lead) the acquired business.

BEST PRACTICES

Starting with a focus on strategy: developing a clear business and product strategy behind its areas of organic and inorganic investment.

Ensuring an in-depth knowledge of the ecosystem: Criteo's Corporate Development team plays a critical role in establishing connections with companies, investors, and advisors across the ecosystem, and has a thorough understanding of the market dynamics of the areas in which it invests.

Prioritizing agility: leveraging M&A to encourage internal product innovation and market adaptation and accelerate the time to market.

Identifying a clear integration strategy: it is vital to have well-defined integration goals and ensure leadership alignment on expected value creation over a minimum 12-month period, particularly in a dynamic environment like tech.

1.2.5. Moving along the value chain

Within tech M&A, the value chain encompasses the sequential set of activities and processes involving value creation, delivery, and capture in this specific sector. The strategic acquisition of companies positioned at various stages of this value chain enables tech firms to build on their position within the value chain and establish a more substantial share of the generated value.

It is significant that pioneering organizations actively embrace such an approach, capitalizing on digital technologies to optimize the value chain in its entirety. By skillfully leveraging predictive analytics and forecasting, these organizations empower their own business operations, suppliers, and customers to adopt a proactive stance toward value creation and risk management.

1.2.6. Acquiring new skills

Today, companies are actively seeking to acquire firms with specific skillsets to enhance and complement their own capabilities.

Acquiring new skills has become a key objective for companies, particularly in sectors in which specific expertise is scarce, as with emerging technologies like AI. This approach, referred to as "acqui-hiring", involves acquiring a company primarily for its talented workforce, rather than solely for its products or services. In these cases, companies actively seek to acquire firms that have the right skills; this makes it possible for the acquiring company to tap into rare skillsets that are crucial for growth and innovation.

For instance, in the tech industry, with demand for AI skills at a particular high, companies often resort to acquisitions as an effective way of identifying and integrating these sought-after skills. By making targeted acquisitions, organizations can access and nurture the necessary talent to guarantee their success, ensuring they remain at the forefront of technological advances.

Companies often resort to acquisitions as an effective way of identifying and integrating these sought-after skills.

Over the course of the integration process, these newly acquired skills contribute to the company's overall growth, fostering a dynamic environment primed for continuous innovation and adaptation.

1.2.7 Consolidation to reduce competition

Companies operating in the tech sector actively engage in M&A activities as a strategic way to consolidate their market share and strengthen their competitive position.

Strategic acquisitions enable companies to eliminate competitors by acquiring them, thus gaining a larger market presence that also provides them with greater influence within the relevant industry. This consolidation strategy serves to reduce competition, positioning the acquiring companies as dominant players and providing them with a larger share of the customer base.

In addition, by joining forces with competitors, tech firms can leverage the combined resources and expertise of the merging entities. Companies can then exercise greater pricing control and potentially drive higher revenues.

By joining forces with competitors, tech firms can leverage the combined resources and expertise of the merging entities, exercise greater pricing control and potentially drive higher revenues.

Qonto

ACQUIRING AND INTEGRATING A FORMER COMPETITOR

Founded in 2017 by Alexandre Prot and Steve Anavi, Qonto is a leading European business finance solution for SMEs and freelancers, based in France. The company offers a range of banking services, including business accounts, spend & expense management, invoice management and financing.

The strategic objectives behind the acquisition of Penta

Qonto made a strategic decision to join forces with Penta, the German fintech champion. Qonto was a full-fledged payment institution and had been regulated by the ACPR in France since 2018, while Penta, as an agent of Solarisbank, a credit institution, was also exploring the possibility of obtaining this status. The acquisition was a logical choice because of this alignment between the two companies' goals and regulatory aspirations.

Penta by Qonto served as a strategic initiative, aimed at accelerating Qonto's growth in Germany, a key market representing significant opportunities for the company. Penta was a major business finance solution for German SMEs and freelancers, offering similar services and solutions to Qonto, which is why its acquisition presented a clear opportunity for consolidation within the German market and, more broadly, across Europe.

A well-designed integration process

To ensure the successful integration of Penta, Qonto carefully structured the process to include five main areas of focus:

Firstly, Qonto implemented a go-to-market strategy by redirecting its marketing efforts towards its own platform. This strategic decision helped Qonto seamlessly channel new clients from Penta to Qonto, ensuring a smooth transition for both existing and potential clients.

The company also executed the client integration process, transferring Penta's 50,000 clients onto its platform. Leveraging its existing regulatory licenses, Qonto provided a simplified onboarding experience, enabling a seamless transfer of accounts and services while ensuring regulatory compliance.

Qonto also prioritized the harmonization of processes and teams. While continuing to invest in Penta's customer service hub in Belgrade, Qonto worked to align processes and integrate teams across both entities. This approach ensured a cohesive and unified operational framework, promoting cooperation and synergies between teams.

Most importantly of all, Qonto focused on the integration of Penta's team at all levels and gave strategic positions to those in executive roles at the acquired company; as such, the former CPO at Penta is now Qonto's VP for Germany. Within a few months of the acquisition's announcement, Qonto finalized the integration process and established the new organizational structure. This ensured efficient coordination and collaboration, maximizing the teams' operational efficiency and facilitating a successful integration.

Lastly, Qonto placed significant emphasis on change management throughout the integration process. Recognizing the importance of supporting teams during major change, Qonto provided comprehensive training programs and conducted workshops to facilitate the transition to the organization's new structure and processes. By prioritizing change management, Qonto ensured that the teams had the necessary tools and support to navigate the integration process with confidence.

BEST PRACTICES

Clear objectives: prioritize and focus on specific objectives rather than pursuing numerous goals simultaneously.

Team integration: acknowledge the complexity of integrating teams and focus on timing to ensure a seamless transition.

Leadership involvement: include key members from the acquired company's leadership in the integration process to ensure alignment and effective communication.

Collaborative approach: appoint representatives from both entities to leverage expertise and foster a sense of unity within the team.

1.2.8 Accelerating time to market

Companies often pursue M&A activities in the tech sector with the goal of reducing the time it takes to bring products, services, or innovations to market. Acquisitions are a valuable strategic tool for achieving rapid growth and increasing market share by expediting the time-to-market process.

The "buy and scale" approach is valid at all stages of business-building. One way to accelerate a company's time to market is through tech- and intellectual property (IP)-driven acquisitions. By acquiring a start-up with critical technologies and IP, companies can immediately access and control these assets, thereby avoiding the lengthy process that would be required to develop similar capabilities internally. This approach enables organizations to expedite their entry into new businesses and markets, giving them a head start and a competitive edge.

By acquiring a start-up with critical technologies and IP, companies can immediately access and control these assets, thereby avoiding the lengthy process that would be required to develop similar capabilities internally.

PASQAL

ACCELERATING A TECHNOLOGICAL AND GO-TO-MARKET ROADMAP WITH M&A

Founded in 2019 by 5 physicists and entrepreneurs, Georges-Olivier Reymond (CEO), Christophe Jurczak, Prof. Alain Aspect, Dr. Antoine Browaeys and Dr. Thierry Lahaye, Pasqal builds quantum computers to provide a practical quantum advantage and address real-world problems in various fields including energy, finance and chemistry.

Over a year ago, Pasqal merged with Qu&Co, a Dutch developer of quantum computational algorithms and software that empowers its corporate clients to solve valuable problems in the fields of chemistry, materials science, fluid dynamics and computational finance with unprecedented accuracy and speed. This merger led to the integration of Qu&Co's employees and enabled Pasqal to expand its operations in Amsterdam, the current headquarters of Qu&Co. In early 2023, Pasqal raised EUR 100 million.

A strategic driver with multiple outcomes

"As a start-up, to quantify the success of a deal, it is important to consider several key factors: have we gained market share in new geographical areas? How much time have we saved on the roadmap? Have we acquired new expertise internally?"

Nicolas Proust, Chief of Staff to the CEO, Pasqal

This merger was tech-driven: it made it possible for Pasqal to accelerate its technological and go-to-market roadmap by integrating Qu&Co's expertise in quantum software development and quantum algorithms in Pasqal's offering. By becoming a full-stack player and strengthening its position in this very competitive industry, Pasqal has been able to bring its products to market faster.

In addition, the merger resulted in a significant geographical and customer expansion, thanks to Qu&Co's global activities and blue-chip customers (including BMW, BASF, and Covestro) in various technological sectors. As a result, Pasqal expanded its operations beyond its traditional markets and tapped into new opportunities for growth.

This merger was mutually beneficial: not only did it allow Pasqal to enhance its market exposure, it also provided Qu&Co with access to Pasqal's hardware and resources, along with a broader platform for delivering their solutions to a wider range of customers, in keeping with the company's long-term goals.

"We're talking about a timeframe in the very short term, but we are focused on the coming decades."

Nicolas Proust, Chief of Staff to the CEO, Pasqal

Scientific culture at the heart of the partnership

Both companies shared a deep commitment to scientific excellence and were aligned in terms of their values and culture, making the merger a good fit and creating a solid foundation for development.

"Scientific culture is stronger than geographic differences."

Nicolas Proust, Chief of Staff to the CEO, Pasqal

The early involvement of tech teams and initial internal discussions also contributed to a seamless integration process. This approach allowed the teams to identify and address potential challenges early on and minimize disruption to ongoing operations.

With both companies sharing the same strategy, scientific culture, and objectives, Pasqal ensured a smooth integration process that led to significant talent retention. Nicolas Proust, Chief of Staff to the CEO, explains that the merger made sense, both to the companies' teams and to their customers.

BEST PRACTICES

Success is about more than signing a deal – it also involves creating a strong future working relationship with the new partner(s).

Involve the right people in the process at the right time.

As a buyer, understand the target company's cultural and strategic fit.

Communicate internally to ensure a well-integrated organization; it's better to communicate too much than too little.

Ensure that senior leadership is committed.

1.2.9 Acquiring a trending tech start-up for an increased market valuation

Acquiring a trending tech start-up or emerging technology for an increased market valuation is a way to capitalize on the potential market value growth associated with high-growth start-ups and technologies. By acquiring a start-up that is already gaining traction and has the potential for rapid growth, the acquiring company can enhance its own market perception and investor appeal. The market recognizes the value of innovative and disruptive technologies; by acquiring such start-ups, companies can position themselves as forward-thinking industry leaders.

EXPERT INSIGHT

"One key aspect driving the acquisition of trending tech start-ups and technologies is the need to provide comprehensive solutions for operations."

Bill O'Such, former Senior Director at Windriver

Individually, a company's technological components are usually less highly valued (excluding major market players). As such, to remain competitive and prove their relevance, companies must aggregate technologies and offer solutions that drive direct ROI. However, without a carefully developed strategy, acquiring a trending tech start-up for an increased market valuation may not yield the desired results. Acquirers must identify synergies between their existing company and the start-up, ensuring that the acquisition aligns with their long-term goals.

INSIGHT FROM INVESTMENT BANKS

"It's important to look for tech start-ups that don't need huge cash injections, and already break-even."

Philippe Englebert, Director at Lazard

2. SUCCESSFUL INTEGRATION RELIES ON MULTIPLE CRITICAL FACTORS

2.1. ALIGNING THE ORGANIZATIONS AND ESTABLISHING APPROPRIATE GOVERNANCE STRUCTURES

To ensure the success and value creation of M&A operations, companies must work to align organizations and establish a robust governance structure; this can significantly increase the likelihood of a successful M&A..

2.1.1 There are several organizational patterns driving M&A to consider

The top-down approach involves senior executives or the board of directors driving the decision-making process. This approach usually prioritizes strategic alignment, financial performance, and operational efficiency. When a company opts for a top-down approach, the integration process is usually overseen by a centralized team; this ensures consistency and control.

The bottom-up approach is more tech- or sales-driven. With this approach, functional leaders take the lead when it comes to the integration process, tailoring it to the company's specific needs and objectives. Companies that opt for this decentralized and flexible approach can often be more agile and responsive in addressing operational aspects.

To ensure a successful M&A operation, it is vital to ensure alignment between the acquiring company's management and operations and the acquired start-up's new organization and governance structure before initiating the acquisition process. This creates the foundation for a seamless integration process and maximizes the chances of its success.

INSIGHT FROM INVESTMENT BANKS

"In measuring the success of tech M&A, it is important to strike a balance by integrating the acquired start-up without disrupting its culture, gradually transitioning, and preserving agility while seeking synergies. It is also beneficial to target mature start-ups that work in segments where the acquiring company has gaps, fostering complementarity."

Philippe Englebert, Director at Lazard

To ensure the smooth integration of a new company, key stakeholders from both entities must work together to establish a mutual understanding of the objectives, interdependencies, and expectations of the integration. They must effectively address critical issues including operational synergies, cultural integration, and strategic alignment. It is vital to align the top team and shape the new organizational culture; this establishes an integration structure and emphasizes the importance of leaders' actions and behavior. By consolidating teams and initiatives under the guidance of an Integration Management Officer (IMO) or a central coordinating body, organizations can define synergy targets and resolve cross-team dependencies. The IMO plays a crucial role in generating broader alignment by establishing cross-functional, value-capture teams and implementing performance monitoring mechanisms, such as dashboards, to track integration progress.

By consolidating teams and initiatives under the guidance of an Integration Management Officer (IMO) or a central coordinating body, organizations can define synergy targets and resolve cross-team dependencies.

EDG
EUROPEAN
DIGITAL GROUP

"INTEGRATING WITHOUT DISINTEGRATING"

A European digital acceleration powerhouse

European Digital Group (EDG) was founded in 2019 by Vincent Klingbeil and Eric Bismuth of Montefiore Investments. It is the first multi-dimensional and multi-specialist digital acceleration group with more than 1,200 talented employees. EDG generated over EUR 200 million in revenue in 2022 and aims to reach EUR 250 million in 2023.

EDG offers an end-to-end service, bringing together specialists at every digitalization level, all within one structure, and provides a comprehensive and personalized approach, thanks to the complementary services of its subsidiaries, including Follow, Wold, Avizio, Dataventure, Ad's Up Consulting, and many others.

The different aspects to EDG's target selection strategy

EDG's M&A strategy is built on a foundation of personal fit, development potential and business synergies. In Vincent Klingbeil's view, the most important aspect when choosing a company to acquire is the personal fit with the executives and the teams. The success of an acquisition hinges on the chemistry between the buyers and the sellers, which is usually assessed through various analytical indicators and the company founder's instinct and impressions. EDG is emphatic about the importance of team players who have an entrepreneurial mindset and a passion for growth and success.

In addition, assessing the target company's development potential is another critical part of EDG's M&A strategy as it searches for potential synergies that can be achieved by combining the target company's product and services portfolio with its own offerings. As Vincent Klingbeil says, "the goal is to complete the puzzle", thereby creating solutions that are more comprehensive and robust for customers. EDG also considers the potential for organic growth, rather than focusing solely on a company's current EBITDA.

"We'd rather acquire a company with growth potential than one that has reached its ceiling."

Vincent Klingbeil

"Integrating without disintegrating"

When integrating a newly acquired company, EDG aims to strike a balance between providing support and guidance and allowing the acquired company to maintain some independence and control. Consequently, the company is focused on earning the trust of entrepreneurs and team members.

Vincent Klingbeil believes in *"integrating without disintegrating"*. To achieve this, EDG takes a gradual approach to implementing processes and communicating changes and recognizes the importance of ensuring that entrepreneurs continue to have some independence in running their business.

Another key aspect of successful integration is finding the right level of sales and HR integration. EDG believes that it is important not to disrupt the acquired company's culture and values. To oversee this process, EDG has hired a Chief Transformation Officer (CTO) who also implements best practices. The CTO has a roadmap to ensure the first 100 days go smoothly and makes sure that everyone is in their rightful place.

"Thanks to our thoughtful approach to integration, we have not experienced any integration failures to date."

Vincent Klingbeil

BEST PRACTICES

Don't make a deal if you have any doubts.

To achieve hypergrowth, it is important to have a mixture of strong internal growth and strong external growth.

When it comes to integrating without disintegrating, it is vital to find the right balance.

2.1.2 A process that benefits from continuous improvement

Developing a better understanding of the intricacies and complexities involved in M&A transactions enables large groups to streamline and fine-tune their tech acquisition strategies. This optimization process involves implementing best practices, leveraging lessons learned from previous acquisitions, and continuously improving internal processes and capabilities. In this way, these organizations are better equipped to identify suitable acquisition targets, conduct thorough due diligence, negotiate favorable terms, and execute seamless integration. Furthermore, they prioritize building strong governance structures that facilitate effective decision-making, risk management, and post-acquisition integration.

LA POSTE GROUPE

THE TRANSFORMATION OF THE POSTAL GIANT

La Poste Group is a diversified French company. Because its customers are sending fewer letters today[1], it has implemented a profound strategic transformation of its operations in response to these changes to its long-standing core business. Today, La Poste Group operates in various sectors, including mail & parcel services, banking & insurance, express parcels, and retail & digital services.

La Poste operates nearly 17,000 contact points across France and maintains a global presence in 63 countries on five continents. As a result of its transformation, mail accounted for less than 19% of the Group's total revenue in 2022, with other sources representing the remaining 81% of revenue; furthermore, 44% of total revenue is generated outside France.

Tech M&A, a driver of innovation and growth for large groups

La Poste takes a proactive approach to M&A and aims to find profitable growth opportunities. Tech M&A has enabled the group to move faster and accelerate its penetration in various industries.

To become a key player in the express parcel delivery market in Europe, La Poste has sought to expand the geographic network of its wholly owned subsidiary, Geopost. Through M&A, the group has also been able to develop its presence and acquire new skills and services to ultimately become the leading express road transport parcel delivery company in Europe, with some EUR 15 billion in revenue.

1 The number of letters sent fell from 18 billion in 2008 to less than 7 billion in 2022

"M&A does not only serve to find profitable growth opportunities, but also facilitates the search for new competencies and services, with the aim of contributing to the Group's transformation into a self-sustaining model".

Nicolas Michel, Head of Financing, M&A and Financial Strategy, Docaposte

Since 2014, Docaposte has positioned itself as La Poste's digital entity. It specializes in handling sensitive data and is an expert in digital trust. It has more than 60 sites across France, with teams on the French mainland, in the French overseas territories and operates in 17 other countries. In 2022, Docaposte generated EUR 826 million in revenue.

A digital entity specializing in tech acquisitions

Docaposte is responsible for the group's main tech acquisitions. Since 2017, Docaposte has developed an active acquisition and integration strategy, expanding its portfolio with some 20 acquisitions. These have included companies focusing on digital services, such as Softeam Group, a bank-centered consulting firm with turnover of EUR 150 million, and Openvalue, a consulting integration firm specializing in data and AI, but the focus has been on companies that provide solutions (software publishers).

There is a common thread to these acquisitions: they reflect Docaposte's strategic focus on enhancing its capabilities in the digital space and broadening its reach in priority markets, which include healthcare, banking and the public sector.

"When we needed to extend our skillset and grow fast, M&A was a logical step to bolster our organic development."

Jean-Baptiste Morin, Head of M&A and Strategy, Docaposte

Moreover, these acquisitions showcase Docaposte's commitment to innovation and its recognition of the growing importance of technology and digital solutions in La Poste's industry.

Industry focus: tech-focused M&A strategy to make a splash in the healthcare sector

"Mergers and acquisitions have enabled La Poste to move faster and accelerate its transformation in different sectors, especially through human and digital services in the healthcare sector."

Nicolas Michel, Head of Financing, M&A and Financial Strategy, Docaposte

La Poste has strategically pursued a series of tech-focused mergers and acquisitions with the aim of establishing its position in the healthcare sector, notably through the creation of its Health & Autonomy business unit from 2016, in addition to Docaposte's other activities in the sector. Recognizing the potential for digital transformation in healthcare, La Poste is working to expand its presence in this industry.

There are several reasons for the company's tech-focused M&A strategy. La Poste has identified the growing importance of digital solutions in healthcare, which offer opportunities for improved efficiency, patient care, and overall healthcare management. By acquiring specialized businesses in the healthcare technology space, the company can leverage their expertise and innovative solutions to gain a competitive edge.

With the acquisition of companies including Heva, Happytal, and Maincare, La Poste aims to tap into specific market needs and position itself as a leader in the digital healthcare ecosystem.

"Healthcare is a sector where data holds significant value."

Jean-Baptiste Morin, Head of M&A and Strategy, Docaposte

The vital role of culture in tech M&A

Culture plays a vital role in the integration process of tech acquisitions. La Poste and Docaposte acknowledge that successfully integrating employees from the acquired company requires a thoughtful approach that respects and safeguards the acquired company's culture. Instead of imposing a single and uniform culture, the group aims for a gradual convergence of cultures and processes, while protecting the acquired company's unique DNA.

"One of the most important things is delivering on the promises made during the acquisition process and aligning all stakeholders' interests."

Nicolas Michel, Head of Financing, M&A and Financial Strategy, Docaposte

During the integration process, La Poste encourages the acquired company to continue operating with a certain degree of independence. This approach fosters a sense of ownership and empowers the acquired company's employees to contribute their unique expertise and perspectives.

2.2 COMMUNICATING WITH THE RIGHT TONE AND AT THE RIGHT TIME

Communication is critical to the success of tech M&A and should not be underestimated. Regardless of whether this communication is within the organization or with external stakeholders, it plays a vital role, notably in cross-border transactions, where language barriers and time-zone differences can be challenging. Consequently, acquiring companies must have a clear and concise communication plan to ensure all stakeholders remain informed and engaged throughout the process.

2.2.1 Communication enables management teams to find the right speed of execution for M&A processes

One of the most important benefits of effective communication in M&A is that it enables management teams to find the right speed of execution. By maintaining open and transparent communication channels, companies can align their actions with their strategic goals and make informed decisions to ensure a smooth and efficient M&A process. In this way, they can adapt their approach and pace to meet the transaction's specific needs and dynamics.

2.2.2 Alignment with all internal and external stakeholders is crucial

Clear and timely communication alleviates concerns and builds trust among employees, customers, suppliers, and investors. Even when addressing uncertainty, communication creates a sense of stability because it provides an opportunity to convey visions, strategies, and plans. This ultimately promotes business continuity and encourages talent retention.

2.2.3 Meeting expectations

Effective communication in M&A ensures stakeholders' expectations are met. However, many companies engaging in tech M&A neglect their M&A communication plan, often outsourcing it entirely to HR and communications departments and underestimating its substantial benefits.

To ensure a successful acquisition, it is vital to provide specific details about the rationale behind the process, in addition to the anticipated changes and the ways in which individuals can actively participate in the process. Companies should also make time for informal discussions and check-ins: this provides opportunities for active listening and comprehensive explanations. Lastly, well-informed employees are more likely to be engaged; in turn, they will add value as they remain committed to the organization.

INSIGHT FROM INVESTMENT BANKS

"To ensure a successful acquisition at the employee level, it is important to communicate the opportunities it brings, such as access to a larger market and potential ownership of the company."

Alexandre Greco, Managing Director at BNP Paribas

2.2.4 The importance of a tailor-made approach

Every transaction is unique, and a one-size-fits-all communication strategy may not effectively address the specific circumstances and challenges at hand. Investing time and effort in designing a communication plan that caters to the needs and expectations of stakeholders is crucial.

Clear and timely communication alleviates concerns and builds trust among employees, customers, suppliers, and investors.

BUILDING TRUST FOR SUCCESSFUL INTEGRATION

Founded in 2015 by David Nothacker, Nicolaus Schefenacker and Julius Köhler, sennder is the leading European digital freight forwarder, providing shippers with access to a connected fleet of thousands of trucks, with a focus on digitalization, automation, and optimization of road freight in a traditionally manual industry.

Targeting different types of players for different goals

sennder's opportunistic M&A strategy involved targeting different types of companies to achieve different objectives.

By acquiring digital players, such as Inroad and Everoad, its aim was to consolidate the market and expand to new regions, enabling the company to remove their competition and become the leading digital freight forwarder in Europe.

When sennder acquired Uber Freight, a transaction carried out via an exchange of shares, its objective was to revolutionize the world of digital merchandise transportation in Europe and North America (US and Canada). The aim of this strategic collaboration agreement between sennder and Uber Freight was to provide shippers with premium services and cutting-edge technology.

sennder's joint venture with Poste Italiane, the largest logistics operator in Italy and a major player in the financial, insurance and payment services sectors, was another strategic move. According to David Nothacker, CEO and co-founder of sennder, this is one of their greatest success stories; as he puts it, *"we surpassed expectations"*. This joint venture is valued at EUR 100 million per year for Poste Italiane's full truck load market and is focused on improving the efficiency of the Italian company's long-distance road transport.

Smooth integration requires communication and the bridging of cultural differences

One of the ways sennder ensures successful integration is by giving key roles to the executive management of its acquired companies. The company has successfully integrated executives from acquired companies in this way, including the former General Manager of Europe at Uber Freight who became sennder's COO. This was a win-win situation: sennder convinced this individual that it was the right company for him and the former General Manager of Europe at Uber Freight provided significant experience for sennder and enhanced the company's structure.

> *"In terms of spirit and mindset, we were the same. But building trust and connecting takes time and perseverance."*
>
> **David Nothacker**, CEO and co-founder of sennder

During the integration process, sennder's executives focus on building trust with the acquired company. This involves understanding their vision, identifying influential opinion makers, and involving them in communication and decision-making processes.

> *"People wanted to be sure they would still have a job tomorrow. This is where communication plays an important role.*
> *Our mission is to reassure them and integrate them."*
>
> **David Nothacker**, CEO and co-founder of sennder

When a company is bought, it is extremely difficult to retain an unchanged founding team. But assigning major roles to the executive management of acquired companies can be a solution to the issues surrounding such an acquisition: otherwise, the acquired company's team might wonder why it was their company that was bought and not the other way around. This also applies to branding-related discussions – it can sometimes be painful to accept that a strong brand no longer exists.

Communication is essential in ensuring successful integration. As David Nothacker explains, these processes weren't linear: *"one month in, things were going well, then there were some issues. The first 6 to 8 months were the most difficult for the teams that were joining us."* To bring people together and build stronger relationships, sennder created an outdoor office event: they organized a summer camp, attended by almost 800 people. Employees returned to work feeling more connected and more motivated.

BEST PRACTICES

Not being open about planned acquisitions can lead to difficult post-merger integration, which ultimately leads to negative results.

Focusing on good, transparent communication is critical; everyone must be informed and on the same page.

It is also vital to remember that mergers and acquisitions involve more work and complexity than is often anticipated; in addition to requiring a significant amount of energy, they can sometimes end up being resource-intensive.

2.3 CULTURAL DIFFERENCES CAN BE VAST AND MUST BE ADDRESSED

2.3.1 Integration processes are significantly affected by cultural specificities

The cultural specificities of companies involved in tech M&A have a major impact on integration processes, including the choice between generic and tailor-made approaches and the varying significance assigned to cultural fit. Acquiring companies should be aware that culture is as important as financial and operational information. A cultural assessment during the due diligence phase or at the outset of integration planning is vital to ensure successful integration. In addition, an in-depth understanding of how culture directly influences decision-making and the ability to harness cultural differences to expedite change are critical to the integration process.

TRUSTONIC

OVERCOMING CROSS-BORDER ACQUISITION HURDLES

Headquartered in Cambridge, UK, with offices in seven international locations and more than 100 employees, Trustonic's Telecoms Platform provides device-locking capabilities to protect revenue and reduce risk for mobile network carriers, retailers, and financiers. It is used on approximately 60 million devices around the world. Initially a joint venture between ARM and Gemalto, Trustonic has since become an EMK Capital portfolio company.

Cross-border acquisition challenges

During their acquisition of SITIC, a device-locking provider based in Colombia, Trustonic's executives identified several key challenges. These included overcoming the barriers of culture and language, navigating differences in working practices and priorities, managing complex tax and legal considerations, and addressing disparities in organizational maturity.

"The UK and Colombia are quite different in terms of culture and regulations. So, navigating through all of that was quite challenging for Trustonic."

Mark Holt, CFO, Trustonic

These obstacles required a proactive approach, including face-to-face interaction to build cohesion between teams (and therefore a willingness to travel).

"Whilst video conferencing is more prevalent than ever and helped us significantly, being face-to-face is one of the things that got us back on track when negotiations got tough and allowed us to build a solid relationship,"

Mark Holt, CFO, Trustonic

Additionally, seeking local expertise and advisory support and ensuring clear communication channels across the organizations were crucial.

Trustonic's teams were able to overcome these challenges with the support of their advisors who not only handled the due diligence while playing a major role in legal decisions but also went the extra mile by acting as cultural mediators, bridging any gaps in understanding between the two parties. These advisors were recommended to Trustonic and provided significant expertise and valuable guidance to enable Trustonic to navigate the complexities of this cross-border acquisition.

Post-acquisition communication strategies and talent retention

As Suzie Smith, COO at Trustonic, explains, *"it is a constant work in progress"*. Trustonic recognizes the importance of effective communication during and after the acquisition process. Maintaining separate entities for a transitional period contributes to a successful integration process. John Helliwell, Head of Marketing at Trustonic, also emphasizes the importance of this: *"with such acquisitions, you need to let the dust settle for 6 months."*

Setting expectations early, documenting agreements in both languages to avoid misunderstandings, and leveraging multiple workstreams all help prevent miscommunication and ensure clarity.

BEST PRACTICES

Document all agreements and information in both languages to minimize the risk of misinterpretation or confusion.

Set clear expectations from the outset and prioritize tasks to optimize the time needed for completion.

Be flexible and willing to engage in hands-on activities to address cultural and operational differences.

Choose the right advisors on both sides of the deal, including legal, financial, and cultural experts who can provide guidance and navigate complexities effectively.

2.3.2 Different company cultures call for a range of integration models

When it comes to tech M&A, different company cultures call for different integration models. These models vary, based on the specific cultures involved, and may include acquisition portfolios, strong integration of all business functions, and technical integration. The chosen integration model will depend on various factors, including the desired level of autonomy of the acquired company, the degree of cross-functional collaboration required, and the need to safeguard innovation and entrepreneurial spirit within the merged organization. Each culture brings its own set of requirements and preferences, necessitating a tailor-made approach to integration. By understanding the cultural dynamics at play, companies can develop integration strategies that reflect the values and practices of the organizations involved, ensuring a smoother and more effective integration process.

INSIGHT FROM INVESTMENT BANKS

"Cultural phenomena play a significant role in acquisitions. Different strategies are employed by different groups, with some companies opting to maintain a high level of autonomy for the acquired company."

Alexandre Greco, Managing Director at BNP Paribas

Talent integration plays a pivotal role in tech M&A and has a significant impact on the success of the process. To preserve the value generated through digital acquisitions and develop a cohesive culture that is focused on innovation, talent must be integrated effectively. Acquiring up-and-coming technology companies often presents challenges when it comes to retaining the agile talent and culture that were instrumental in their development of new products and services. To address this, major efforts should be made during the integration process to identify the right retention incentives, maintain important cultural elements, and foster an environment that encourages innovation. By prioritizing talent integration and cultural preservation, companies can unlock the full potential of their M&A activities in the tech sector.

2.3.3 Working with start-ups' management and teams

There's no getting around it: a start-up's executive management poses a unique challenge when it comes to acquisitions in the tech sector. Given the rapid growth and innovation associated with start-ups, acquiring companies must focus on effectively retaining and integrating this talent. In this way, they can retain the elements of start-up culture that facilitated the development of services and products, something that is vital to the acquisition's success.

Incentive alignment between the merging companies is also critical to ensure that both sides are working toward the same goals. This may involve establishing a new incentive structure or modifying existing ones to align with the new company's strategic objectives. In addition, leaders and teams must be given the necessary capabilities to navigate the integration process. A successful integration process involves investment in training and development programs that enhance leaders' understanding of integration planning and provide them with the skills to manage change effectively. By embedding change management into integration and equipping leaders for success, companies can maximize the value derived from the transaction and lay the foundation for future M&A endeavors.

2.4 CUSTOMER- AND PEOPLE-CENTRIC METRICS SHOULD BE PRIORITIZED

2.4.1 Acquiring companies must be aware of acquired start-ups' most common expectations and concerns

Understanding the expectations and concerns of acquired tech companies is vitally important. Start-ups assume that the acquiring company has the necessary financial resources and investment capacity to support their growth and development. In addition, they expect the acquirer to have well-defined organizational processes and, in some cases, tools such as an efficient Enterprise Resource Planning (ERP) system to streamline operations. Access to the acquiring company's customer portfolio is often expected; this will expand start-ups' market reach. Furthermore, start-ups are receptive to acquiring companies with strong purchasing and operational capabilities to enhance their supply chain and logistics processes. Being aware of these expectations enables acquirers to integrate start-ups more effectively into their organization.

INSIGHT FROM INVESTMENT BANKS

"Start-ups aim to achieve financial independence and maturity, either through internal development or by being acquired by larger companies that provide financial resources, market reach, and support."

Virginie Lazès, Head of Tech Practice at Rothschild

One of the most common concerns expressed by start-ups during acquisitions is the potential loss of their unique identity and culture. They fear that their brand and culture may be diluted or destroyed after the acquisition. Acquiring companies must address this by streamlining decision-making processes and empowering start-up employees to make decisions within their areas of expertise. By safeguarding the start-up's brand and culture, acquirers can retain key talent and institutional knowledge, preventing any negative impact on the overall success of the acquisition. However, in some cases, a rebrand is needed to ensure that the integrated company is fully aligned with the acquirer's business goals.

"Sometimes, introducing a rebrand can be a challenging process, especially when the original brand has significant strength and recognition. However, we needed to navigate this transition and ensure the acceptance of our own brand identity by the newly integrated teams."

David Nothacker, CEO of Sennder

2.4.2 Financial KPI have a limited impact on the success of tech M&A

While financial metrics such as revenue growth, profitability, and return on investment (ROI) are frequently used to assess a deal, they may not accurately reflect the true value or success of a company or acquisition within the tech industry. Within the world of tech M&A, it is common for financial Key Performance Indicators (KPI) to consistently fall below target. This is to be expected and should have little influence on the ultimate assessment of the success of tech M&A activities.

Tech companies put significant emphasis on growth potential and innovation; as such, financial performance alone may not convey sufficient information about M&A transactions. Consequently, the focus must shift from solely analyzing financial metrics to evaluating the total cost of the integration process, considering various factors including integration expenses, cultural alignment, talent retention, and customer satisfaction.

Factors such as strategic alignment, market share expansion, and innovation potential often hold greater significance in determining the ultimate success of a tech M&A transaction. These non-financial considerations contribute to the long-term value and positioning of the acquired company within the acquirer's ecosystem.

Consequently, while financial KPI may not meet the predefined targets in tech M&A deals, this should not be viewed as a failure. Assessing the aforementioned factors alongside financial performance will provide a more comprehensive and accurate picture of the success of tech M&A.

2.4.3 The most important M&A metrics focus on customers, people, and branding

In essence, the most important measures of the success of M&A transactions extend beyond purely financial metrics. Customer-related metrics are pivotal indicators of success in tech M&A; they go beyond financial figures, delving into the realm of customer satisfaction and market reach. A successful acquisition seamlessly complements the acquirer's existing offerings, while simultaneously expanding its customer base. The integration process should be executed with precision to ensure minimal disruption to the acquired company's existing customers. By nurturing and enhancing these customer relationships, the acquiring company can leverage the acquisition to consolidate its market position and drive further growth.

INSIGHT FROM INVESTMENT BANKS

"Measuring the success of an M&A deal involves assessing the active involvement of the acquired start-up in the post-merger integration process."

Virginie Lazès, Head of the Tech Practice at Rothschild

CONCLUSION

In conclusion, navigating the ever-evolving tech M&A landscape requires a profound understanding of the current macroeconomic context. This has created a favorable climate for consolidation and acquisitions in many industries.

Today, tech M&A should no longer be seen as optional; it is now an indispensable tool for companies seeking to boost growth, expand, and build significant momentum within their respective ecosystems. By engaging in strategic M&A activities, organizations can achieve their objectives and stay ahead of the curve.

However, these transactions do not occur in isolation and require successful integration strategies that involve aligning organizations, establishing appropriate governance structures, facilitating effective communications, addressing cultural differences, and prioritizing non-financial metrics. Embracing and leveraging cultural diversity requires flexible integration models that foster collaboration and synergies among diverse teams. Moreover, emphasizing customer satisfaction, talent development, and brand management ensures a comprehensive assessment of success, beyond merely financial gains.

Lastly, to thrive in the tech M&A landscape, companies must remain agile and adaptable, constantly monitoring industry trends and advances in technology. Organizations that are well-informed and take a proactive approach can leverage M&A opportunities to consolidate their positions, foster innovation, and secure long-term success in their industry.

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