


NEWS RELEASE

Report Urges Better Planning to Ensure Acquisitions Fit Corporate Strategy

- *Prospectus Predicts Decline in Technology M&A this Year but good time to buy*
- *Need to Decide Top Management Early, especially CEO*

Dublin; Wednesday, 17th October, 2001: Technology companies do not always ensure that acquisitions are in line with overall corporate strategy but can be based on opportunistic or ego reasons according to a new study by Prospectus Strategy Consultants  merger and acquisition integration. The report, which was sponsored by Merrion Corporate Finance draws on the experience of leading Irish and UK companies active in the M&A arena.

The report also predicts a significant decline in technology mergers and acquisitions this year due to the fall in technology share values. Despite this it suggests that there has never been a better time to acquire as there are both bargains to be had and also companies have learned a lot over the past 18 months during the period of frenzied M&A activity. "There are good opportunities out there at realistic valuations which may not be repeated in 12 months time," commented Mary Cryan, Head of Prospectus Technology Practice.

She cautioned, however, that apparent good value should not entice companies unless the acquisition was in line with overall corporate strategy. "The current downturn in the technology sector has unfortunately exposed some companies who made acquisitions which did not adhere to good corporate strategy principles and more importantly failed to successfully integrate the two entities," she said. "This rather surprising finding

emphasises the need for a strong board of directors which can vigorously test management's motivation for mergers and acquisitions."

The study predicts that M&A activity will fall significantly in 2001 to its lowest level since 1990 as a result of declining technology company stock market valuations. Irish companies invested IR£8.2 billion acquiring 129 companies in 2000, almost double the £4.2 billion spent in 1999.

"Irish companies were using high value shares to grow quickly in line with market sentiment at the time," commented Pat Landy (Managing Director Merrion Corporate Finance). "Investors are now less concerned with rapid growth than with a realistic revenue model and path to profitability."

The report states that one of the core success factors in any M&A is to decide the company's new management team, especially the boss, early on. The integration planning stage is crucial and companies should aim to have made the tough decisions about senior management by day one rather than allowing the decision process drag on into the execution phase.

The report also finds that too much emphasis is placed on the accounting aspects of mergers and acquisitions and not enough on the people role. The main driver of mergers and acquisitions in the technology sector has been the acquisition of R&D. "Yet key members of the R&D team can walk out the door thereby negating the whole purpose of the deal unless companies reassure staff," commented Mary Cryan of Prospectus. "There appears to be a far greater role in today's M&A for the people specialist than in the past."

70% of those surveyed said that the main driver of acquisitions in the technology sector was the desire to acquire research and development. The report quotes John Chambers, CEO of Cisco who said, "Most people forget that in a high tech acquisition you are really only acquiring people. That's why so many fail. At what we pay, \$500,000 to \$2 million

an employee, we are not acquiring current market share. We are acquiring futures."

The report finds that while people issues are important in all sectors they should be the number one priority for technology companies when integrating an acquisition. "For technology companies the failure to hold on to intellectual capital that results from the premature exit of key staff jeopardises the company's future innovation stream and therefore in many cases the entire reason for the acquisition," said Mary Cryan.

Apart from R&D one of the drivers of acquisitions in the technology sector is to remove the competition. Other drivers include acquiring customers, extending product lines and entering new markets.

The report highlights the risk of many technology companies struggling when they come to larger or cross border acquisitions. "Initial acquisitions by technology companies are generally small and may involve only a piece of technology or R&D team. False confidence gained from smaller acquisitions, often coupled with lack of experience, can lead some companies to embark on the integration of sizeable acquisitions with little understanding of the integration planning required to make it work," said Damian Ringwood, Director Strategy, Prospectus Strategy Consultants.

The Prospectus report finds that the most successful acquisitions are those where early planning of the integration process had taken place. "There is a strong temptation for management to delay planning the integration until the deal is signed," said Mary Cryan. "This has proven to be a false economy. The most successful acquisitions are those which started the integration programme early assuming the deal would go ahead."

The report also recommends that an integration team be assigned by management and one that is dedicated to the role. "We found that while many

companies assigned integration personnel, they struggled to balance this with their normal managerial responsibilities. This is an important finding and one of the key challenges that faces technology companies involved in M&A activity," said Mary Cryan.

The full report may be accessed on the Prospectus website at www.prospectus.ie
<<http://www.prospectus.ie>>.

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About Prospectus

Prospectus is Ireland's leading independent strategy consultancy. Since its establishment in 1991 by David Duffy (former head of Andersen Consulting's strategy division), Prospectus has been assisting organisations build global businesses. Prospectus' client base includes many blue chip organisations across Financial Services, Technology, Public Sector and Healthcare sectors.

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Merrion Corporate Finance provides a full range of corporate advisory services to organisations in the public, private and state sectors. We are geared to present a fresh, energetic, creative and international perspective to corporate clients with a particular

emphasis on serving the needs of growth oriented companies in all sectors of the economy.