

Silicon Valley Thought Leaders Series

The Acquirer's Dilemma

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@MarkHolmanATK

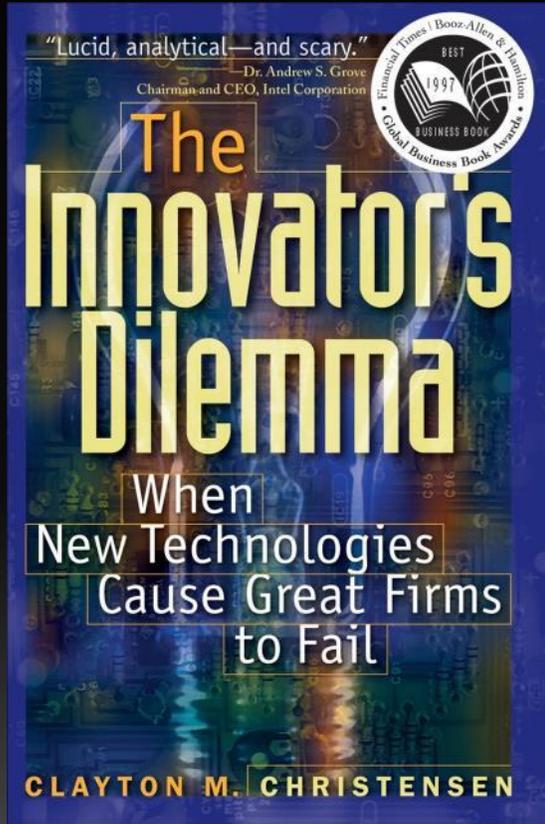
@ATKearney

#AcquirersDilemma

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The Acquirer's Dilemma has its roots in the Innovator's Dilemma proposed by Clayton Christensen



“Most companies with a practiced discipline of listening to their best customers and identifying new products that promise greater profitability and growth are rarely able to build a case for investing in disruptive technologies until it is too late”

Clayton Christensen



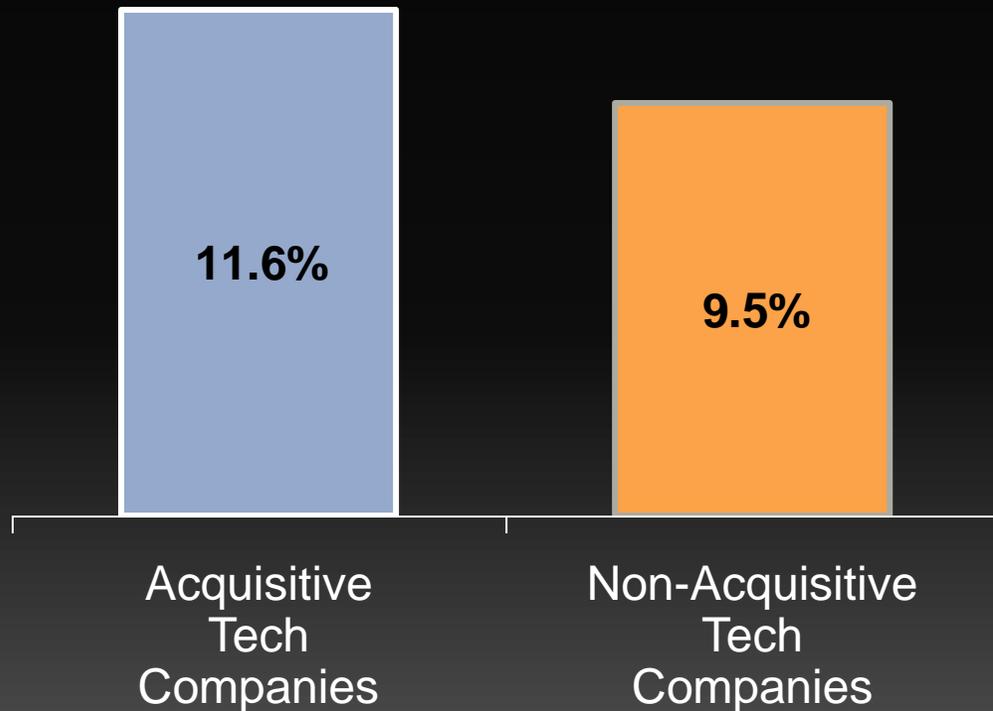
But solving the Innovator's Dilemma presents a new challenge –
The Acquirer's Dilemma



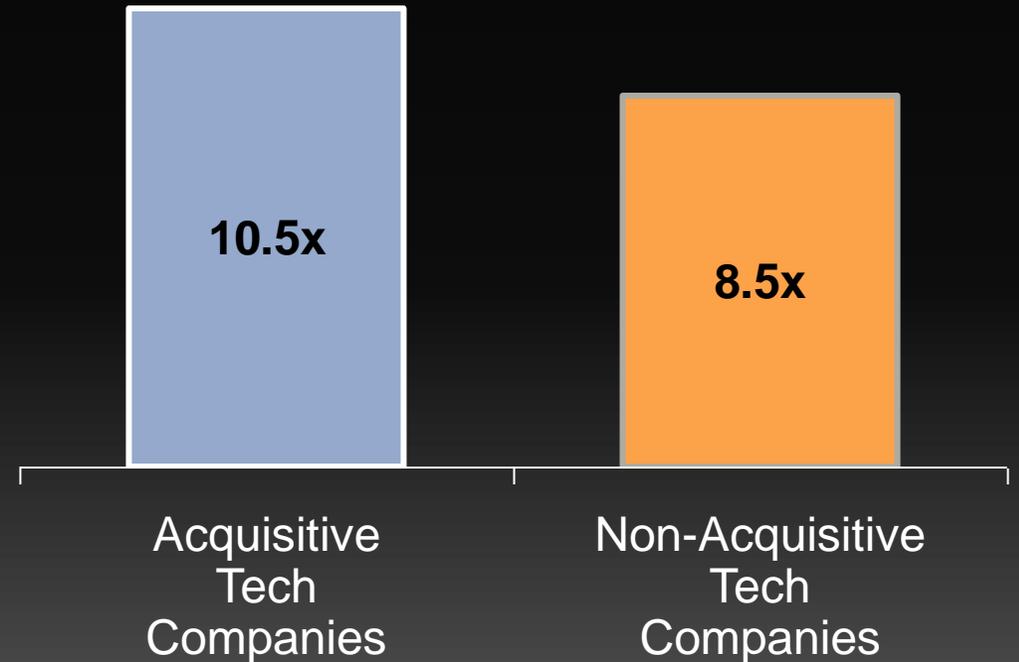
Delay in responding to the disruptive companies' challenge leads to a “catch-up” by the innovators, at which point the only option for the incumbent is to “acquire”

Overall M&A as a strategy pays off – acquisitive tech companies outperform their non-acquisitive tech peers

Enterprise Value CAGR (2010-2014)



EV/EBITDA Multiple (2010-2014)



M&A is increasingly a key part of Silicon Valley growth agendas

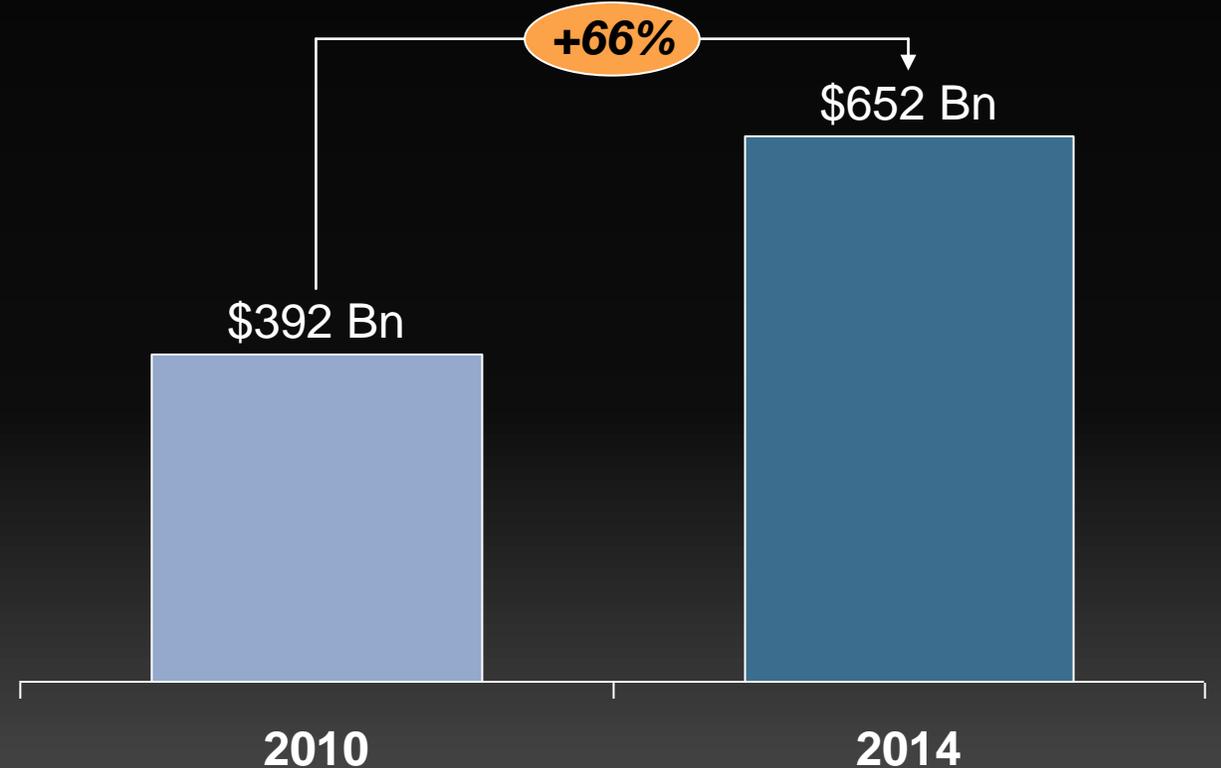
Industry Maturation

Sector Convergence

New Applications

Global Competition

Global Tech M&A Deal Value (2010-2014)



However, acquisition in the technology industry presents a unique set of challenges

Target Identification



Picking winners in dynamic markets

Valuation



Assessing the value of the future

Value Creation



Establishing a foundation for growth

The Acquirer's Dilemma exists at every stage

#1

**Picking winners
in dynamic
markets**



Picking winners ...

- Do you bet against your team?
- Is it a portfolio or a big bet?
- Can you craft a winner from an underdog?

#2

**Assessing the
value of the
future**



Valuing the future ...

- How can you see the future?
- What's the value of protecting your core?
- Can you structure a deal to payoff when value is clear?

#3

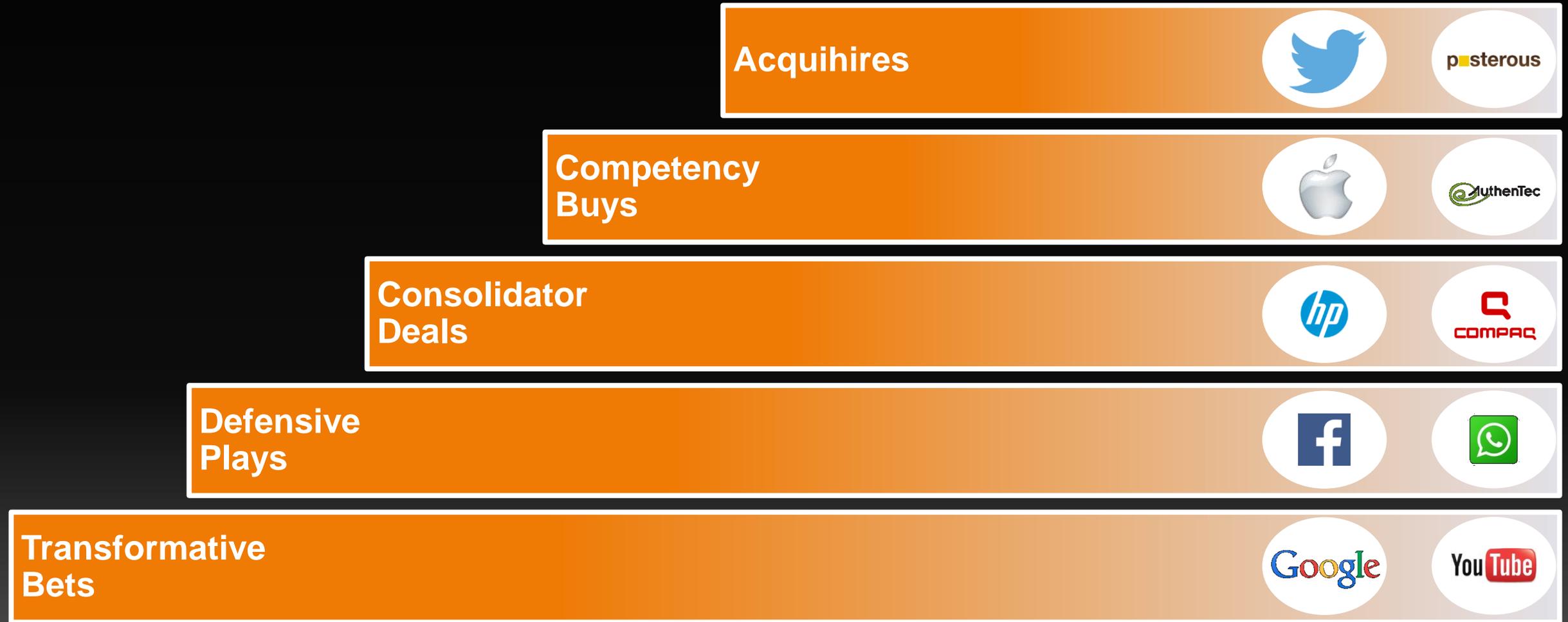
**Establishing a
foundation for
growth**



Establishing the foundation ...

- Creating value from “synergy” – how not to suffocate them?
- If the magic is in the team, how do I keep them?
- How to avoid a “one size fits all” approach?

There are five major archetypes of high-tech deals



Solving Dilemma #1: Picking the winners ...

**Perform active
market sensing**



**Align approach
with archetype**



**Establish clear
perspectives and
decisive actions**

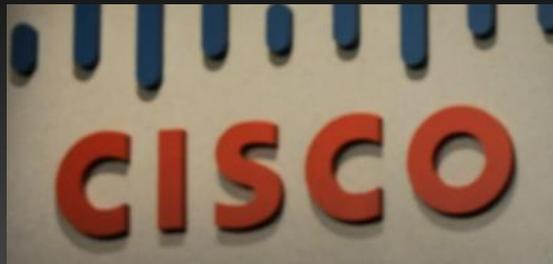


Leading acquirer's have clear views on deal strategy



CEO Larry Page uses the "toothbrush test" to determine whether a company is worth buying. He'll ask, "Is this something you will use once or twice a day, and does it make your life better?"
David Gelles, The New York Times

"...I said we're not going to do what those other guys did. We're looking for the next thing... he, called me and said, 'you gotta see this [Vine].' We all agreed that this is the next thing down the road."
Dick Costolo, CEO, Twitter



"While most discussions have led to consensual decisions... sometimes... the business development staff was able to sell top executives on the move despite the engineers' objections."
Saikat Chaudhuri and Benham Tabrizi, Harvard Business Review

Solving Dilemma #2: Valuing the future ...

Develop a future-in valuation

Evaluate the impact of not doing the deal

Explore creative deal structures

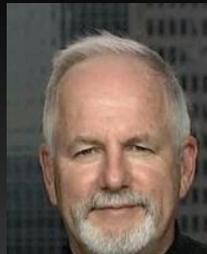


A real valuation dilemma – Was WhatsApp worth \$19B ?

Facebook closing stock price around WhatsApp deal announcement (Feb 2014)



FB Market Cap (\$Bn)



Rob Enderle
principal analyst,
Enderle Group

"This is crazy money... I think they massively overpaid. ... They've done it because they are desperate."



Mark Zuckerberg
ceo, Facebook

".. I think it's worth more than \$19 billion. I could be wrong-there is some chance that this gets to a billion people and ends up not being that valuable-[but] I don't think I am."

Solving Dilemma #3: Establishing the foundation ...

Creating value by tailoring acquisition strategy to deal archetype



A.T. Kearney viewpoint: Tailor approach to deal type

	Risk	Value Focus	Integration
 Acquires	Low – Moderate	Team Effectiveness	Focus on team mission and retention
 Competency	Moderate	Product/IP Leverage	Clearly defined product roadmap and mission
 Consolidator	Moderate – High	Cost / Go-to-Market Synergies	Synergy planning, capture and speed to benefits
 Defensive	High	Revenue Growth / Protection	Clarity of mission relative to competing products/units
 Transformative	Very High	Product / Market Creation	Thoughtful decisions on key integration points

Solving the Dilemma

1. Acquisitions should be an essential element of growth strategy for Tech companies
2. Acquisitive companies create value BUT only with the right strategy and capabilities
3. “Traditional” approaches to M&A need to be re-examined for deals predicated on “Futures”
4. Deal type matters – structure the deal right and align the go forward strategy



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