



DEAL LOGIC IN M&A: CORPORATE PURPOSE, ESG AND THE AON-WTW DEAL

In the wake of the collapse of \$30bn Aon - Willis Towers Watson mega-deal, CORPGRO's Damian Carnell and Mark Duke discuss "deal logic", for newsbrief.

TAKING STOCK

Corporate growth? No problem - buy another company, quick, big, and impressive. But not so fast! That destroys shareholder value; we all know that.

You pay too much, or the unwrapped purchase disappoints due to ignored flaws or unrealistic assumptions. Yet we see company acquisitions constantly. Are they all bad?

Executive compensation goes up when a company gets bigger. That is how pay benchmarking works. So why not use stockholders' money to buy yourself a pay rise? For years and years, that happened a lot.

Then stock-based compensation stepped in. Options, Performance Shares and Restricted Stock all help link executive compensation to stock price performance. Helpful, but not a 100 percent antidote.

ROLE OF DEAL LOGIC

Acquisitions are now performance focused. The buyer must define the "DEAL LOGIC" and implement that vision by:

- ◆ Identifying the right targets
- ◆ Paying the right price
- ◆ Assess fit and due diligence
- ◆ Manage correctly post acquisition.

Deal logic varies by acquisition type. Big and small, synergistic or strategic. It is not all about post acquisition integration - but often that matters a lot.

PURPOSE AND ESG

Corporate purpose should be woven into the deal logic. For a commercial success, the immediate money items should be assessed alongside the mid and longer term outruns.

Buyer and target must both judge corporate culture reflected in values, purpose, and management style. AGGRESSIVE plc buying COMFORTABLE Inc. is an unlikely fit.

The ESG—Environmental, Social, and Governance— profile of both companies matters too. The buyer will pay more than Net Asset Value. That "Goodwill" difference is in part derived from the Target ESG investments. So how to assess, preserve and put to work the Target ESG value post-acquisition?

Even "own space" buys need care. They sell the same stuff as you, yes; but they are not identical.

Ignoring purpose and ESG profile differences are prime sources for value destruction. They can be a source of value creation, however. This is an example among others to show that the deal logic must be framed with care. This applies to both bolt-on acquisitions by a serial acquirer and to step change in size and strategy mega deals.

CASE STUDY: AON-WTW

Recently the \$30billion Aon and Willis Towers Watson mega-deal folded. Started March 2020. Ended July 2021, 16 months on.

An “own space” Aon acquisition to create the world's largest insurance broker.

Anti-trust means planned disposals, like the Willis RE business. But there were synergies too, like innovation plays, and the WTW Climate and Resilience Hub. That world leading thinking, into a vast global client footprint? Unquestionably good news.

Industry consolidation in mature industries is normal. The Insurance industry is some 300 years old. This deal logic is a synergistic, big, deal. Integration should be key. So should culture match, as talent plays a crucial role in a brokerage firm.

If the deal logic worked well, and corporate purpose was folded in smoothly, the shareholders', customers' and employees' benefits should be clear.

So, what happened?

1. Shareholders

Announcement: March 9 2020.

- ◆ WTW down about eight percent.
- ◆ Aon down some 12 percent.

Being fair, the market overall was disrupted by the unfolding news of the Covid-19 pandemic.

Termination: July 26 2021.

- ◆ Aon up about eight percent. Shrugged off news of the \$1.4billion deal abort cost.
- ◆ WTW down about nine percent. A fall in market capitalisation of c.\$2.5billion – however the \$1billion break fee means the total loss was c.\$3.5billion.

Between these dates? Aon up about 17 percent; and WTW up about three percent.

The other comparison is Marsh & McLennan. Their share price increased about twice as much as Aon over that same period.

2. Customers?

The US Department of Justice said on the deal kill day:

“Victory for competition for American Business”.

Enough said? But Aon may have been unlucky as a new US administration chose to mark a new path.

3. Staff: and Suppliers?

“Producer Talent” a win?

David Howden, ceo of Howdens said his firm's employee share plan commitment trebled recently. The aim of the sector is both social outcomes; profit and employees enjoying their job and making a difference. Sounds refreshing.

David then cites, on *Insurance TV*, the 95,000 professional Aon and WTW lives disrupted over many months. Not good, he says.

Will WTW now survive, he wondered? An ironic Anti-Trust decision result, he mused. Does he have a point?

Sometimes business combinations open opportunities for competitors on the sidelines.

Was there a talent attrition problem? *Insurance Journal* says “Yes”:

“Marsh McLennan's level of new hires from Aon and WTW after their merger was announced last year was “three times higher” on a net basis than it was in the 15 months prior to the announcement.” (July 2021)

And - Meyer Shields, property/casualty at KBW agrees.

“Our understanding is that besides MMC – dozens of smaller companies have recruited from Aon, and even more so from WTW...,” (August 2021)

Yet big stay bonus and restricted stock awards may have slowed the flow. Big bucks for top jobs no doubt; but disengagement too maybe for those deemed unworthy of those retention dollars.

Now the deal is off, shareholders may ask if more stay bonus and restricted stock is proposed and for whom?

WTW has a spare \$1billion cash for that and might beef up the annual bonus pool as well. Shareholders will expect effective action, but at a reasonable cost.

For suppliers as well, the deal was not good. Selling to a bigger customer with one less customer in the frame may mean unwelcome news for your margins.

What next?

The Aon ceo and cfo employment agreements now extend to 2026. But Haley was due to exit on merger close. So WTW also has a succession issue. Whomever is the new WTW ceo, *Insurance Journal* says they will need to:

“Balance the need to spend a lot of money to replace talent against the fact that WTW’s insurance brokerage margins have trailed Aon’s and MMC’s” (July 2021)

After many months of explaining the value of combining with a bigger rival;

WTW now needs also to frame the business proposition as to how it will thrive going it alone.

CONCLUSIONS

Big deals are extraordinarily complex. Often these trigger anti-trust disposals; but the outrun of state intervention is a public policy issue and often hard to judge.

Those proposing the Aon-WTW deal may well have been on the right track. Explaining the virtues of the deal is needed; but when the deal is off what then?

An acquisition narrative that flags better competitiveness or efficiency is logical; but those issues then still need to be fixed if the deal is off. Shareholders can expect to hear details of *Plan B* from both sides of the deal.

Plainly we will not see the outturn of the Aon-WTW promised deal benefits. Success would have meant delivering great numbers, plus insightful and adroit management of corporate purpose, ESG and within that, Human Capital in particular.

All deals must have strong and detailed deal logic. Failure to define and quantify that logic, including the intangible moving parts like ESG and talent management is a key source of value destruction. Done well, however, the deal logic is a major source of opportunity and value creation.

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This article, along with a video commentary can be found on the CORPGRO LinkedIn page at <https://www.linkedin.com/company/corpgro>

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EVENTS

Webinar - Esop Sofa: newspad review – August 19

We hope you will join us **Thursday August 19 at 11:00am** for our regular panel discussion when guests, Arran Simpson, partner in Deloitte's reward practice, Sonia Gilbert, partner at Clifford Chance and Julie Shepherd, director of share plans at The Sage Group (read further on Julie's work to increase share plan participation at Sage in **August's newspad**), chew over the pick of issues raised in recent editions of *newspad* - *It's Our Business*. The discussion highlights the Centre's response to the Treasury's Call for Evidence, on whether and how more UK companies should be able to access EMI schemes. The Centre's evidence urged chancellor Rishi Sunak to reboot EMI by tearing up its archaic and increasingly irrelevant rule book. The panel will be chaired by Darren Smith of Global Shares.

Webinar – Share plans for non-employees and the gig economy – Sept 14

Employee share ownership has the greatest impact on company productivity and performance when participation rates are high, but a major challenge currently facing employee share plans is the changing nature of the labour market. **The rise of the gig economy**, outsourcing and the demise of a "job for life" have served to diminish access to share plans for a significant proportion of the workforce. Gig economy workers: freelancers; independent contractors; consultants etc, are treated as self-employed rather than employees of a company.

On Tuesday September 14 2021 at 15:00 (BST), share schemes expert David Craddock will explore the considerations that apply to the involvement in company

share schemes of individuals who are not employees or executive directors of the company. **Register now.**

Save the day: share schemes & trustees event on-line – Dec 1

The Esop Centre is teaming up with STEP Jersey for its annual **employee share schemes and trustees conference**. The format of this year's event will be a 90 minute **live on-line** panel discussion with breakout group debates on the morning of December 1 2021. Speakers will pre-record presentations as background material for participants. Further details to be announced.

Here is our library of broadcasts:

Building Back Better With Your Employees Through Shared Ownership ; EOTs: The Credible Alternative To Succession; The Role of Employee Share Schemes In Achieving The UN Sustainable Development Goals ; Esop Sofa: Hot Topics In Employee Share Ownership - Newspad Review ; Beyond Brexit: EU-UK Social Security Contribution Rules; Esop Sofa: Hot Topics – newspad Review; The Share Valuation Worked Examples Group In The Changing Valuation Landscape ; Looking Ahead To 2021: Moving Beyond Brexit In Financial Services Regulation; Insights Into Share Valuation for Employee Share Schemes: Revealed Through Dynamic Case Studies; Lessons From Lockdown: Re-Assessing How You Manage Share Plans In A Digital Way; Employee Share Schemes: Innovative Communication Strategies Guaranteed To Increase Employee Take-Up ; Selling Your Company To An EOT - How It Differs From An MBO; Institutional Investors' Views On The Use Of Share Plans; Esop Sofa – Hot Topics; Employment -Related Securities: The Complexity Unravalled Into Practical Application; Employee Ownership & The Future Of

Capitalism; Could Equity Be Used To Replace A Portion Of An Employee's Salary?; The Case For Employee Share Ownership: The Heart Of The Matter Revealed; Esop Sofa Lockdown Stories; Share Valuation: The Wisdom On Price-Setting For Your Employee Share Schemes; Tools Of Engagement: The Power Of All-Employee Plans; Awarding Shares To Employees In A Covid-19 World; The Employee Share Trust: Establishing A Dynamic Market For Your Employee Share Schemes; How To Ensure All-Employee Share Plans Remain Relevant; Esop Sofa - What Are Today's Big Employee Share Ownership Questions?; Enterprise Management Incentives (EMIs) – Powerful Lessons From Five Practical Case Studies; Enterprise Management Incentives (EMIs) – Igniting Your Business By Sharing Success; Esop's Tales: The Foundation Of The Esop Centre.

Broadening horizons, Z/Yen Group Limited is hosting a range of webinars over the coming weeks. For a full listing of Z/Yen, Long Finance, FS Club, and Esop Centre webinars look here - <https://fsclub.zyen.com/events/webinars/> - or sign up for mailings - <https://fsclub.zyen.com/#Subscribe>

CENTRE & MEMBERS' NEWS

NCEO Fall Esop Forum totally online – September 22-24

Due to increasing uncertainty around the Covid pandemic, NCEO's 2021 Fall Esop Forum will now be entirely online. However, the organisation is confident it will deliver all the educational and networking content you would expect. Along with online networking opportunities, the forum offers 40+ virtual sessions in four tracks:

Governance & Fiduciary Issues: board member management, Esop transactions, and proper governance techniques.

Ownership culture & people management: ranges EO messaging, company diversification, and keys to building a successful ownership culture.

Esop sustainability: highlights repurchase obligations, ceo transitions, and the big-picture perspective.

Esop operations: the Esop ABCs: accounting, basics, and compliance.

Register before August 31 to catch the early-bird discount of \$100 off your ticket price.

Private equity shares its windfall with hourly employees

Bloomberg editor Melissa Karsh has told the **Gardner Denver/Ingersoll Rand shared ownership story**, commenting that it looked like the opposite of corporate raiding, the antithesis of asset stripping. KKR & Co made a roughly \$4billion profit from its eight-year investment in manufacturer Ingersoll Rand, which it exited this month. But in a new twist for the private-equity firm, it gave the Davidson, North Carolina-based company's 16,000 workers a heaping taste of the windfall -- \$500 million.

To Pete Stavros, KKR's co-head of Americas private equity, it's a validation of the model he helped champion within the alternative asset manager. He's the architect of the firm's employee engagement strategy, which gives workers -- many of whom receive an hourly wage -- an ownership stake in their company.

"This would be among the more profitable deals we've done," Stavros, 47, said in a telephone interview. "Especially when you take it in totality -- not just dollar gains -- but what it has meant for employee ownership, safety, engagement, diversity and the environment."

IEA: Threats to free speech in the 21st Century publication

Friend of the Centre Prof Len Shackleton has edited the Institute of Economic Affairs' publication "**Having your say: Threats to free speech in the 21st Century**".

Free speech is, with free trade, freedom of enterprise and security of property, one of the key features of classical liberalism. It is currently being undermined, for a variety of plausible reasons, by government, social and mainstream media companies, and the behaviour of individuals, firms and non-profit organisations.

LIFE AFTER LOCKDOWN

The unseen costs of flexible working rights

Writing for the Institute of Economic Affairs blog, Prof Shackleton considers the idea of a 'right' to flexible working, including regular home working, which seems popular with the public following the experience of lockdown and furlough.

Already, over 30 percent of jobs involve flexible working arrangements that are mutually agreed by workers and employers, and usually work well. However not all jobs easily fit into this framework. And, despite claims of 'win-win', imposing a flexibility mandate would have definite costs.

Gannons on risks for employers under life without lockdown

Gannons has set out an **overview of the key employment law requirements** for employers post lock down. Key points are:

- There is no automatic right for an employee to work from home unless the contract expressly provides.
- It is not all about convenience for the employee. There can be lost opportunities for employers. Team building, networking and personal development can easily suffer.
- Employers have to apply a fair process in making a decision.

PENSIONS

CMS trustee knowledge update

Trustees of occupational pension schemes have a statutory duty to ensure that they have an adequate knowledge and understanding of the legal issues relevant to their scheme, ensuring that they are up to date with relevant changes in the law.

CMS's regular trustee knowledge update is aimed specifically at pension scheme trustees, highlighting key issues to let them know what has changed in the last quarter and how it might be relevant to them.

ESG - from policies to practice

In a **recording from the Pensions and Lifetime Savings Association's inaugural ESG conference** (July 2021), Travers Smith pensions partner Andy Lewis, partner and head of financial services and markets Tim Lewis and senior consultant Simon Witney discuss key questions that can arise for pension schemes looking develop their ESG policies and beliefs and translate these into practical action.

CONGRATULATIONS!

The Law Society Excellence Awards

highlight the outstanding work done across the legal profession over the past year.

Lewis Silkin has been recognised in this year's shortlist for the curation and development of the firm's furlough guidance materials and related content through its Covid-19 hub.

The **Citywealth International Financial Centre Awards** highlight the excellence of the advisers and managers in the private wealth sector in the major international financial centres. **LGL Group** and has been shortlisted for 2022, under the category: 'Independent Trust Company of the Year'.

The **Drawdown Awards** celebrate the best service providers in the private capital industry. **JTC Group** has been shortlisted in *three* categories.

The Irish Business and Employers Confederation **KeepWell™ Workplace Wellbeing Awards** showcase companies that represent best practice in implementing corporate wellness strategies that contribute significantly to the emotional, physical, and mental health and wellbeing of their employees. **Global Shares** has been shortlisted for the 2021 finals reflecting the firm's progress since putting the KeepWell™ framework in place two years ago.

UK NEWS

Late payments stifle SME funding access

The ongoing fallout from Covid continues to weigh heavy on businesses with the risk of further lockdowns, concerns around customer demand, inflation pressure and recruitment difficulties cited as the biggest barriers to reopening, a survey by the British Chambers of Commerce and Funding Circle has found. The consensus among many SMEs is that access finance would help overcome the remaining barriers they face and be key to unlocking their full growth potential.

Access to finance is particularly important as, despite attempts to beef up the Prompt Payment Code, **late payment continues to plague many SMEs**. From next month, signatories to the code commit to paying 95 percent of invoices from small businesses (those with fewer than 50 employees) within 30 days – slashing the time outlined in the current code by half. The target for larger businesses will remain 95 percent of invoices within 60 days.

Small Business Commissioner Liz Barclay commented: “Firms often tell the OSBC

they can't sign up to the PPC because they can't identify small firms amongst their suppliers. The 3,000 plus firms that are signatories have worked out which suppliers have fewer than 50 employees so it can be done. If we had a culture of paying promptly everyone would get paid within 30 days and the problem wouldn't arise.”

Centre chairman Malcolm Hurlston CBE added “First step is to send the invoice and make sure it's paid. You'll never write anything finer.”

FRC's Enforcement Division grows

The FRC's latest **Annual Enforcement Review**, published July 30 2021, reveals the FRC's Enforcement Division has grown by 44 percent in the last year while the number of open investigations has increased to 49.

The report offers a thematic review of past cases and this year the spotlight falls on accountants in business. Looking to the future, the review considers the challenges for the preparers and auditors of financial statements posed by ongoing uncertainties due to Covid-19, Brexit and climate change. It also notes the consideration being given to the implications of the legislative proposals in the government's white paper *Restoring Trust in Audit and Corporate Governance* and the FRC's continued work with government during the consultation and implementation process.

WORLD NEWS

France: Rémy Cointreau announces the success of its first employee share ownership plan

Market Watch reported that on June 8 2021, Rémy Cointreau (Paris:RCO) launched its **first employee share ownership plan**, “**My Rémy Cointreau**”, in France.

More than 630 subscribers, equating to 68.4 percent of eligible current and former employees, signed up for the plan via the My Rémy Cointreau employee investment fund (FCPE).

Rémy Cointreau's ceo, Eric Vallat, said, “This first employee share ownership plan demonstrates how keen employees are to participate in value creation and confirms how confident they are in the Group's ability to deliver sustainable growth. This show of commitment to Rémy Cointreau gives us confidence for the future.”

Consequently, 23 457 new shares were issued on August 6 2021. Following this issue, the My Rémy Cointreau employee investment fund's equity interest equates to 0.05 percent of the company, based on the share capital at August 6 2021.

Canadian stock option tax changes – what you need to know

Changes to the taxation of stock option benefits that affect certain Canadian employees and their employers, apply to stock options granted on or after July 1 2021. This (linked) **summary provides an overview** of these changes and the impact they may have.

India: JSW rolls out across-the-board stock options for steel and energy employees

According to *Business Standard*, the \$13 billion **JSW group is rolling out stock options** to include the rank and file of JSW

Steel and JSW Energy, as a means to reward employees with wealth creation opportunities and ensure that they remain invested in the next phase of growth.

The Esop opportunity is being extended to around 15,000 employees across JSW Steel (13,700) and JSW Energy (1,300) for all grades including workmen, junior, middle, senior management and business leadership.

South Africa: Omnia launches employee share scheme

Moneyweb reported that JSE-listed diversified chemicals company **Omnia announced the launch of its broad-based employee share scheme** on August 3, which will see all eligible permanent staff employed as of July 1 2021, receiving an equal number of fully funded shares with an initial three-year vesting period ending June 30 2024.

The scheme, initially called the Omnia Management Share Trust (a JSE Schedule 14 compliant incentive scheme) was approved by the group's shareholders on October 20 2014 with the intention of creating ownership within the company for all qualifying permanent employees, and so that participants may benefit from any appreciation of the Omnia share price overtime.

Omnia ceo Seelan Gobalsamy said the launch shows its commitment to strengthen Omnia's overall positioning through its reset and growth strategy. “It is designed to be inclusive with all our employees becoming Omnia shareholders and accessing the opportunity to benefit from our future growth by aligning to a common goal of driving performance.

“The shares will be held in a trust with all eligible employees becoming its beneficiaries and allocated an equal number of trust units linked to Omnia shares.”

USA: Congressman cosponsors bill to incentivise employee stock ownership plans

Congressman Mo Brooks, R-Alabama, announced that he **is cosponsoring bipartisan legislation** to incentivise business owners to sell their stocks to employee stock ownership plans. HR4141 was introduced in the House in June by Reps. Ron Kind, D-Wisconsin, and Jason Smith, R-Missouri (as reported in July's edition of *newsbrief*).

"I'm proud to be cosponsoring the bipartisan HR4141. This bill will take steps to encourage employee ownership of private businesses," Brooks said. "It incentivises owners of S corporations to sell their stock to an employee stock ownership plan by making Sec. 1042 benefits available to S corporation owners, encourages the flow of bank capital to Esop-owned S corporations, provides needed technical assistance for companies that may be interested in forming an employee-owned S corporation (S Esop), ensures small businesses that become Esop companies retain their Small Business Administration certification, and affirms the importance of preserving the S Esop structure in the IRS Code. Employee ownership has a proven track record of helping American workers build exceptional financial security and strong retirement savings and I'm glad to support it!"

USA: Foxhole Technology becomes employee owned as part of corporate growth strategy

Foxhole Technology Inc announced its **transition to an employee-owned company** as of July 30 2021. "Becoming an Esop allows our employees the ability to share in the growth of the company," stated Gus

Tomé, president. "This is a key factor in our growth strategy - helping us develop talent, empower thought leadership and achieve critical impact success with our customers. Our employees are an essential component in our success. This structure allows them to reap additional rewards financially as the company grows, while the company will be able to attract and retain top cyber and application development talent so integral to our success."

In an Esop, all stock is held in trust for the benefit of Foxhole employees. The plan, which allows employees to earn stock in the company, is designed as a long-term retirement benefit. Under the plan, all eligible employees earn an annual allocation of shares, and those shares are valued on an annual basis - as the value of the company increases, the value of shares held in an employee's Esop account also grow. Foxhole Technology will continue maintaining its 401(k) plan and encourages employees to utilise this added retirement plan to diversify their retirement assets.

USA: Can Esops be a tool to lessen the racial wealth gap?

Michael Butler writes in *Technical.ly* that, in the **era of stakeholder capitalism**, thinking has shifted about companies' responsibilities to society. Now, it's more generally believed, a company owes more to those affected by its work — customers, employees, suppliers, communities — than to its shareholders. Accordingly, employee ownership is emerging as part of the discussion on fulfilling those responsibilities.

Employee stock ownership plans are touted as a way to boost workers' wealth by providing them with ownership stakes in the businesses they work for. It's most

common in the manufacturing industry, with science and technology services behind it, making up 19 percent of the approximately 6,500 Esops in the US according to the National Center for Employee Ownership.

Business ownership is a racial equity issue, too: Especially for employees of marginalised and underrepresented backgrounds, this model provides equity to those who might not typically receive it, potentially leading to increased generational wealth and more stable communities in the process.

“Wealth is created by owning a company or a piece of company,” Philadelphia City Council member Derek Green said during a recent ImpactPHL panel about the advantages of Esops. “Finding ways to provide that path to employees of companies is a path to addressing some of those systemic issues. People are not as familiar with some of those opportunities.”

USA: New data finds aging baby boomer small business owners have no concrete exit plan

The **North Carolina Employee Ownership Center (NCEOC)** has released new data that reveals the impact of the Silver Tsunami, coupled with Covid-19, on small businesses across the state. Developed by Project Equity, the study shows that baby boomers own half of the privately held businesses with employees in North Carolina and the majority of owners have no concrete exit plan, putting local jobs and state revenue at risk.

EMPLOYEE OWNERSHIP NEWS

EOT ROUND-UP

PR agency **Milk and Honey** has become majority employee owned after transferring 55 percent of its shares to an EOT.

Professional services advisory business **Oakwood Corporate Services** has become employee owned after forming an EOT.

Tachograph technology firm **Lisle Design** has become the 99th Scottish business this year to adopt an employee ownership model.

UK distributor for computer retailers **Target Components** has planned to become an employee-owned business to protect its staff from potential acquisition approaches.

The shareholders of **Lebus Upholstery and Lebus Furniture** have taken the decision to sell 100 percent of their shareholding to the company's employees.

Civil and structural engineering consultant **Curtins** has moved from around 25 percent staff ownership to become an Employee-Owned Trust.

Pandemic pressures put employee ownership back on to the agenda

Generous tax incentives for workers and business owners have failed to inspire a **hoped-for surge in employee ownership** in recent years, but there are signs that some entrepreneurs' responses to the pandemic, as well as the fear of a tax rise, might finally be moving the needle.



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ABOUT NEWSBRIEF

newsbrief is the Employee Share Ownership Centre's members-only mid-month publication.

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