Post-acquisition evaluation processes: A case study of the acquisition performance evaluation processes undertaken by Trelleborg AB

Henrik Fridlund - 22015

Christopher Jonsson – 22019

Tutor: Torkel Strömsten

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ABSTRACT

The purpose of this thesis is to investigate the post-acquisition evaluation processes undertaken by the Swedish large cap company Trelleborg AB and by external equity researchers, as three acquisitions completed by Trelleborg AB are investigated; Harbour Engineering Pty Ltd, Reeves Brothers Inc. and MacDermid Offset Printing Blankets.

To conclude, this thesis presents several factors affecting the post-acquisition evaluation processes undertaken: The size of the acquisition; the market of the acquired company; the macroeconomic environment; the performance of the acquired company; the payment structure; and the level of integration. Finally, we suggest that corporates potentially could gain from sharing more information with equity researchers, as the view of the successfulness of the acquisitions differs due to information asymmetry.

Signs: 74 558

Key Words: Post-acquisition evaluation; performance measurement; evaluation processes; mergers and acquisitions

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1. INTRODUCTION

The first wave of mergers and acquisitions commenced in the turn of the 19^{th} century and has been steadily growing since, with disregard to multiple financial downturns. In 2007 the global volume of mergers and acquisitions peaked, but as the financial markets stabilize the activity is recovering as well[1]. Today, it is one of the most fundamental and widely discussed strategies of corporate governance at large cap companies.

The increased M&A activity has also augmented the interest from academia and M&A has become a common research area. However, previous research within the area is highly composed by quantitative studies, discussing whether M&A is value creating or not. Meanwhile, the qualitative M&A research is often focusing on the integration process and often tries to find key success factors with an acquisition.

Still, the results are inconsistent, most likely due to the unclear view of which measures shall be used in order to determine a successful acquisition.[2] This inconsistency is the starting point to this thesis, as we investigate the post-acquisition evaluation processes undertaken within corporates, as well as by equity researchers.

To clarify, the objective of this thesis is to describe and analyse how the post-acquisition evaluation processes are undertaken internally by a Swedish large cap company (Trelleborg AB), as well as how finance professionals evaluate these acquisitions.

Thus, the study aims to display how the post-acquisition evaluation processes are undertaken, from an internal as well as an external perspective and to demonstrate similarities and differences between these two perspectives.

The paper is based on in-depth qualitative interviews with seven representatives from the Swedish company Trelleborg AB, regarding three of their acquisitions, as well as interviews with two research analysts from major Scandinavian investment banks.

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[1] PricewaterhouseCoopers – M&A Academy – 14 Oct 2010

[2] King, D. R., Dalton, D. R., Daily, C. M. and Covin, J. G., (2004) *"Meta-analyses of post- acquisition performance: Indicators of unidentified moderators"*, Strategic Management Journal, Vol. 25, pages 187-200

2. RESEARCH QUESTION

This thesis is based on the two following questions:

- How does Trelleborg AB conduct their post-acquisition evaluation processes?
- How are post-acquisition evaluation processes undertaken by finance professionals?

Consequently, the objective of this thesis is to describe the post-acquisition evaluation processes undertaken, internally as well as externally, and to display similarities and differences between these. The conclusions will also involve what factors that are affecting the post-acquisition evaluation processes undertaken.

3. PURPOSE AND CONTRIBUTION

The confusion about findings and the unclear view of what performance measurement should be used offer a wide scope for research, including possibilities of testing innovative frameworks aiming to describe the relationship between specific measures and corporate performance.[3] The purpose of this thesis is to further clarify these uncertainties, by displaying the post-acquisition evaluation processes undertaken by Trelleborg AB and by external finance professionals. Consequently this thesis aims to add a new perspective on the evaluation process, as this investigation of Trelleborg, to our knowledge, never have been conducted.

4. METHOD

4.1. RESEARCH METHODOLOGY

This paper can be seen as a descriptive research, aiming to investigate the internal and external evaluation processes of acquisitions conducted by Trelleborg AB. However, despite the descriptive approach, the ambition with this thesis is to find causal relationships between the type of acquisitions and the evaluation processes.

[3] Very P. (2011) *"Acquisition performance and the Quest for the Holy Grail"*, Scandinavian Journal of Management

4.2. WORKING PROCESS

Despite the fact that M&A studies are highly common within academia, it shall be noted that the specific area of post-acquisition performance measurements used and the following evaluation processes undertaken within corporates, are relatively unexplored. Even though theory was studied throughout the working process, the study can be seen as applying an inductive working process, where the empirical findings have been the starting point followed by the analysis where theories have been linked to these findings.

4.3. EMPIRICAL FINDINGS

The empirical findings in this study are largely based on interviews with representatives from Trelleborg, as well as equity researchers. In addition, press releases regarding the acquisitions and internal documents, such as documentation regarding the M&A process, the integration process and the quarterly review have been provided by Trelleborg. However, as some of these documents are considered to be sensitive information, they have been used with cautiousness and not been explicitly expressed or quoted, but rather been used to describe the overall processes applied by Trelleborg. In addition, broker reports from several different investment banks have been studied to further describe the external view of the acquisitions undertaken.

4.4. ACQUISITIONS

This thesis is based on three different acquisitions: Reeves Brothers Inc., MacDermid Offset Printing Blankets and Harbour & Marine Engineering Pty Ltd. Reeves Brothers and MacDermid were chosen since they were two of the major acquisitions completed since 2006 and both merged, together with Trelleborg's existing operations, into the product area Printing Solutions. Harbour & Marine Engineering Pty Ltd was chosen as it represents the more traditional type of acquisitions pursued by Trelleborg; smaller acquisitions where targets are market leaders in a niche market. To summarize, the three acquisitions create a platform for analysis as they are processed in similar ways, while the differences in strategy, structure and size display interesting findings.

4.5. INTERVIEWEES

The study is based on in-depth interviews with seven representatives of Trelleborg AB, including: Fredrik Meuller, currently President of Offshore & Construction and previously Head of Strategic Development, Conny Torstensson, currently Vice President, Finance & IT at Trelleborg Industrial Solutions and previously Head of Strategic Development, Anders Wallström, currently Head of Strategic Development, André Carlsson, associate in the Strategic Development Group, Lars Olsson, Vice President, Finance at Engineered Systems, Claes Jörwall, Senior Vice President, Taxes and Group Structures and finally Claes Lindqvist, Board Member, representing the largest shareholder Dunker Funds and Foundations.

In addition the study includes interviews with two equity researchers following Trelleborg: Erik Pettersson, ABG Sundal Collier and Hampus Engellau, Handelsbanken.

Consequently, the internal evaluation process in this study is largely based upon the perspective of the acquiring party and somewhat left out the target company's perspective, while equity researchers represent the external perspective.

4.6. INTERVIEW PROCESS

This thesis is based on in-depth interviews, as recommended in qualitative studies[4]. In order to ensure that the interviews were carried out in a sufficient way, securing that right data was gathered, while not being too pegged to a questionnaire, a semi-structured interview-approach has been applied in this thesis. To be more concrete, the framework produced by David Otley has been the underlying model during the interviews, creating a structure while enabling certain freedom to the interviewees, being able to raise new perspectives and aspects of the evaluation process. [5]

While trying to standardize the process as much as possible, it shall be noted that due to the different type of experience of the interviewees, the interview processes have differed somewhat. Specifically, the involvement in the three acquisitions have varied a

[4] Trost, J., (1993), *"Kvalitativa intervjuer"*, Studentlitteratur, Lund
[5] Otley, D. (1999) *"Performance management: a framework for management control systems research"*, Management Accounting Research, Vol. 10, pages 363-382

lot between the interviewees, leading to some interviews having more of a generic approach, in order to create a better overall understanding of the different processes at Trelleborg.

4.7. STRUCTURE

The empirics in this study is structured in a way where the overall processes are introduced to create a contextual understanding. Once this generic information is presented, the three acquisitions are featured separately; apart from the follow-up aspect raised by the board which relates to both the Reeves and the MacDermid acquisition, as these were merged into the Printing Solutions unit. Finally, the external view, represented by equity researchers, is presented.

In the analysis the internal view of the three acquisitions and the external perspective are presented in the framework published by David Otley.[6] The framework displays similarities and differences between the acquisitions as well as the internal and external interpretations of the acquisitions. Finally, the conclusions are presented in a separate section.

4.8. RELIABILITY AND VALIDITY

According to Lundahl & Skärvad reliability is defined as the absence of random measurement errors[7]. Reliability consists of four different concepts: congruency, precision, objectivity and consistency. Congruency refers to the similarity of questions aiming to measure the same objects.[8] To ensure a satisfactory level of congruency we have applied the framework published by David Otley during all of the interviews.[9] In addition, some of the interviews involved more than one interviewee and consequently, the exact same questions were asked.

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[6] Otley, D. (1999) *"Performance management: a framework for management control systems research",* Management Accounting Research, Vol. 10, pages 363-382

[7] Bengtsson L. & Skärvad P-H. (2001) "*Företagsstrategiska perspektiv"*, Studentlitteratur, Lund

[8] Trost, J., (1993) *"Kvalitativa intervjuer"*, Studentlitteratur, Lund

[9] Otley, D. (1999) *"Performance management: a framework for management control systems research",* Management Accounting Research, Vol. 10, pages 363-382

Precision is defined as the way that the interviewer registers the respondent's answers.[10] In this thesis we chose to not voice record the interviews. This decision can of course be discussed, but the reasoning behind this was to make sure that none of the interviewees felt uncomfortable and reluctant to answer sensitive questions. However, all of the interviews were carefully text recorded by the authors. Consequently, the precision aspect is recognized as fulfilled.

The third concept, objectivity, can be received if several interviewers record the interview results in a similar way.[11] All of the interviews have been conducted by both of the authors, however, the recording have more or less been done by one author, while the other has been responsible for interviewing. On the other hand, responsibilities have varied and consequently both authors have been recording interviews, increasing the level of objectivity somewhat. Regardless, as the type of questions has been quite straightforward, the degree of objectivity can be considered to achieve an acceptable level.

Finally, consistency is referred to whether the object that is being studied may change during the study.[12] As the interview period has been quite short and intense, while studying historical acquisitions, there should be no concerns regarding this matter.

Validity instead refers to the absence of systematic measurement errors[13] and more specifically that the object that is supposed to be measured actually gets measured.[14] Once again, this thesis relies on the framework published by David Otley, [15] to ensure that the relevant aspects of post-acquisition performance measurements are covered.

[10] Trost, J., (1993) *"Kvalitativa intervjuer"*, Studentlitteratur, Lund
[11] Ibid.
[12] Ibid.
[13] Lundahl, U. & Skärvad, P-H., (1999) *"Utredningsmetodik för samhällsvetare och ekonomer, 3:e upplagan"*, Studentlitteratur, Lund
[14] Patel, R. & Davidsson, B. (1994) *"Forskningsmetodikens grunder, Att planera, genomföra och rapportera en undersökning",* Studentlitteratur, Lund
[15] Otley, D. (1999) *"Performance management: a framework for management control systems research",* Management Accounting Research, Vol. 10, pages 363-382

4.9. CRITIQUE

It shall be noted that in this type of case study, based on interviews with representatives of the object (Trelleborg) studied, responses may be subject to managerial bias.[16] [17] Even though the objective of this thesis is not to decide whether an acquisition is successful or not, the interviewees may still be somewhat biased when describing the processes undertaken. However, by crosschecking the internal documentation provided with the interviews, can to some extent verify that these seems to align and consequently can be considered adequate. In addition, the equity researchers interviewed provides an external, more objective view of the specific acquisitions.

5. THEORY

5.1. PREVIOUS RESEARCH

Mergers and acquisition is an increasingly common topic within academia and the area has caught the attention of several researchers. Birkinshaw et al. suggest that the research on acquisitions can be divided into four groups: "*Financial economics*", discussing wealth creation for shareholders; for economy as a whole; "*Strategic management*", discussing Performance of acquiring and acquired firms; "Organizational *behaviour*", discussing impact of acquisitions on individuals and organization culture and "*Process perspective*", discussing creation of value after the acquisitions.[18]

A majority of the published papers regarding acquisitions investigate whether mergers and acquisitions are value creating or distorting, by quantitatively studying historical transactions. However, the results are highly inconsistent. King et al. suggest that this inconsistency originates from the unclear view of which measures shall be used in order to determine a successful acquisition.[19]

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[16] Lubatkin, M. and R. E. Shrieves (1986) *"Towards reconciliation of market performance measures to strategic management research"*, Academy of Management Review, Vol. 11, pages 497–512

[17] Schoenberg, R. (2006) *"Measuring the performance of corporate acquisitions: an empirical comparison of alternative metrics"*, British Journal of Management, Vol. 17, pages 361–370

[18] Birkinshaw J., Bresman H., Håkansson L. (2000) *"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"* Journal of Management Studies Vol. 37:3, page 397

[19] King, D. R., Dalton, D. R., Daily, C. M. and Covin, J. G., (2004) *"Meta-analyses of post- acquisition performance: Indicators of unidentified moderators"*, Strategic Management Journal, Vol. 25, pages: 187-200

While a majority of the research relating to mergers and acquisitions is trying to define if these are successful, a more qualitative research area, relating to integration processes, has evolved. Here, researchers often try to define key success factors for successful integrations.

In general, the type of measures used in the literature can be divided into two major groups: Stock returns and Accounting profits.[20] Papadakis and Thanos extend this view by claiming there are three main types of performance measurements: accounting-based measures, cumulative abnormal returns and mangers' subjective assessments.[21] Vasilaki takes a similar approach and expands the subjective assessments area by describing which measures are commonly used; return on assets, the return on investment, the return on sales and the return on capital employed. [22]

This thesis is dedicated to the less traditional research area of "managers' subjective assessments", as we examine how acquisitions are evaluated, internally, as well as by finance professionals. As expressed by Brouthers, van Hastenburg and van der Ven this approach takes into consideration that mergers and acquisitions have multiple motives.[23]

It shall be noted that this approach has been somewhat debatable. As an example, in 1997, Very, Lubatkin, Calori & Veiga, conducted one of the first quantitative studies where managers were asked to report their perception of the firm's performance since and because of the merger. Three performance appraisal items were selected (earnings, sales, and market share). However, as Very mentions, this methodology was hard to persuade the reviewers of rank-A journals, as they wanted additional proof of construct validity and external validity.[24]

In 2003, Steven Gates and Philippe Very published the paper (Measuring Performance During M&A Integration). The paper was inspired by a study conducted by the Conference Board on integration management. In that survey, integration managers of

[20] Cochran, P.L. and Wood, R.A. (1984) "*Corporate social responsibility and financial performance*". Academy of Management Journal, Vol. 27, pages: 42-56

[21] Papadakis, V. and Thanos, I. (2010) *"Measuring the performance of acquisitions: An empirical investigation using multiple criteria"* British Journal of Management, Vol. 21, pages: 859–873

[22] Vasilaki, A. (2009) *"A critique of measuring post-acquisition performance"*, Performance Management Association Conference in Dunedin, NZ, 14-17 April, page: 7

[23] Brouthers, K. D., P. van Hastenburg & J. van den Ven (1998) *"If most mergers fail why are they so popular?"*, Long Range Planning, Vol. 31, pages: 347–353

[24] Very P., Lubatkin M., Calori R., & Veiga, J. (1997) *"Relative standing and the performance of recently acquired European firms"*. Strategic Management Journal, Vol. 18, pages: 593-614

large companies were asked how they measure performance during the integration process. Half of the almost 60 respondents answered that they did not measure performance at all.[25]

However, Gates and Very made in-depth interviews with twenty integration specialists at experienced acquires, where ten of the interviewees had participated in The Conference Board's study, and presented the following results: [26]

Measure	% of respondents using the measure	% of respondents finding the measure quite useful
Strategic measures		
Market Share	79	73
New Product Development	57	77
Product Portfolio	66	90
Operating measures		
Employee retention	64	85
Headcount reduction	61	78
Employee satisfaction	52	53
Management selection	47	67
Customer retention	72	67
IT systems integration	70	68
Speed of integration	78	75
Economic measures		
Share price	42	83
Revenue	83	96
Net income	82	92
Operating income	92	88
EVA	38	76
Sales/expense ratio	39	84
Cost savings	92	84

NB: only respondents who used the measure indicated their perception of usefulness

In addition Gates and Very presented the following conclusions regarding the existence of a formal integration plan or process:

- Eighty per cent of the respondents described the implementation phase as an absorption. If this combination yields to a dissemination of the target's resources within multiple divisions of the acquirer, measuring the success of the acquisition might become complex.

[25] Gates S., & Very P. (2003) *"Measuring performance during M&A integration"* Long Range Planning, Vol. 36(2), pages: 167—185
[26] Ibid.

- The small relative size of the acquisitions in the sample could incite acquirers to limit their measurement effort, if these acquisitions are only expected to have a weak impact on the acquirer's value.
- Finance directors were responsible for the performance measurement process in 57% of the cases. Due to their expertise and the position occupied, these executives are likely to be more sensitive to end results than to the process through which they are achieved.
- Many acquirers still spend a lot of time and money for analysing, valuing and negotiating with targets but tend to neglect integration planning and control.

In addition to the metrics presented, Birkinshaw et al suggest that "Realisation of technology transfers" and "Market position after the acquisition" are two important measures to determine the successfulness of an acquisition.[27]

Kumar and Peiro highlight the importance of the linkages between the contextual, the strategy and the organisational factors in explaining the ex-post performance. Kumar and Peiro suggest that instead of viewing acquisitions or mergers as a 2 plus 2 equal 5 (synergy concept) it shall be regarded as a question of A * B (i.e. strategy and organisational fit), meaning that if either fails the acquisition will fail. Consequently, they recognize the need of a holistic view and that integration aspects should be considered as an integral part of the evaluation of an acquisition decision.[28]

Birkinshaw et al. suggest a similar conclusion, when claiming that integration processes can be divided into task integration and human integration and that both need to be satisfied in order to create a successful acquisition.[29]

Several authors have discussed the adequate level of integration to achieve highest possible synergy realisation. Zollo & Singh, 2004; Larsson & Finkelstein, 1999; Birkinshaw et al., 2000; Meyer, 2008 all argue that a higher level of integration is

[27] Birkinshaw J., Bresman H., Håkansson L. (2000) *"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"* Journal of Management Studies Vol. 37:3, page: 418
[28] Kumar K., Peiro M. (1994) *"Determinants of the ex-post performance of mergers and acquisitions: A case study"* 6th National Convention of Association of Indian Management Schools August 25-27
[29] Birkinshaw J., Bresman H., Håkansson L. (2000) *"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"* Journal of Management Studies Vol. 37:3, page: 420

associated with higher synergy realization,[30] [31] [32] [33] while Paruchuri et al. (2006) revealed that inventors of acquired organizations, who were integrated into the acquirer's firm, produced fewer innovations than inventors who where not integrated. Thus, performance declined and synergies could not be realized.[34] In addition, Duncan & Mtar (2006) argue that synergy realization can also be achieved without integration of the target.[35] Schweizer (2005) probably adds the most valuable lesson, when claiming that different motives for the M&A deal require different integration processes.[36]

The timing of integration is also debated, as Colombo et al. (2007) show that "the longer the temporal lag between closing and the start of the integration, the lower the acquisition performance".[37] Epstein (2004) argues in a similar way, claiming that an early completion of integration allows for earlier synergy realization.[38] Against these findings, Quah & Young (2005) argue that it seems to be more beneficial to initially leave the target company as it is and head for adjustments, i.e. integration, at a later step in the change process.[39]

[30] Zollo, M. & Singh, H. (2004) *"Deliberate learning in corporate acquisitions: Post-acquisition strategies and integration capability in US bank mergers."* Strategic Management Journal, Vol. 25, pages: 1233-1256

[31] Larsson, R., & Lubatkin, M. (2001) *"Achieving acculturation in mergers and acquisitions: An international case survey"* Human Relations, Vol. 54 (12), pages: 1573-1607

[32] Birkinshaw J., Bresman H., Håkansson L. (2000) *"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"* Journal of Management Studies Vol. 37:3, pages: 395-425

[33] Meyer, C.B. (2008) *"Value leakages in mergers and acquisitions: Why they occur and how they can be addressed"* Long Range Planning, Vol. 41, pages: 197-224

[34] Paruchuri, S., Nerkar, A. & Hambrick, D.C. (2006) *"Acquisition integration and productivity losses in the technical core: Disruption of inventors in acquired companies"* Organization Science, Vol. 17 (5), pages: 545-562

[35] Duncan, C. & Mtar, M. (2006) *"Determinants of international acquisition success: Lessons from FirstGroup in North America"*, European Management Journal, Vol. 24 (6), pages: 396-410

[36] Schweizer, L. (2005) *"Organizational integration of acquired biotechnology companies in pharmaceutical companies: The need for a hybrid approach"* Academy of Management Journal, Vol. 6, pages: 1051-1074

[37] Colombo, G., Conca, V., Buongiorno, M. & Gnan, L. (2007) *"Integrating cross-border acquisitions: A process oriented approach"*. Long Range Planning, Vol. 40, pages: 202-222

[38] Epstein M. J., (2004) *"The drivers of success in post-merger integration"*, Organizational Dynamics, Vol. 33(2), pages: 174-189

[39] Quah, P. Young, S. (2005) *"Post-acquisition management: A phase approach for cross-border M&As"* European Management Journal, Vol. 23 (1), pages: 65-75

5.2. THEORETICAL FRAMEWORK

The theoretical framework used in this thesis is the framework produced by David Otley in 1999. Otley asks the five following questions:[40]

1. What are the key objectives that are central to the organization's overall future success, and how does it go about evaluating its achievement for each of these objectives?

2. What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to successfully implement these? How does it assess and measure the performance of these activities?

3. What level of performance does the organization need to achieve in each of the areas defined in the above two questions, and how does it go about setting appropriate performance targets for them?

4. What rewards will managers and other employees gain by achieving these performance targets or, conversely, what penalties will they suffer by failing to achieve them?

5. What are the information flows feedback and feed-forward loops that are necessary to enable the organization to learn from its experience, and to adapt its current behaviour in the light of that experience?

However, for clarity, we have applied an extended version of the framework, dividing targets and standards (question 3) into separate sections. Consequently, the model consists of the following: Objectives, Strategies, Targets, Standards, Rewards and Feedback.

The framework is a cornerstone of this thesis, as it creates a foundation for analysis, while ensuring that all crucial aspects are being covered. The model is used to exhibit all the three acquisitions as well as to display the view of the equity researchers.

[40] Otley, D. (1999) *"Performance management: a framework for management control systems research",* Management Accounting Research, Vol. 10, pages: 363-382

6. FINDINGS

6.1. OVERVIEW

Trelleborg AB, founded in 1905, is a large conglomerate listed on the OMX large cap list on the Stockholm stock exchange, active in the polymer business. Their business motto is to *"seal, damp and protect"*. Trelleborg has a very wide product range when it comes to polymer business, varying from tractor wheels to sealing solutions for jet engines. The company has split these different segments into four business areas: Automotive, Wheels, Sealing solutions and Engineered systems. These are all independent business areas (BA) and report directly to the CEO. On the 8th of February 2012 it was announced that the BA Engineered systems will be split into three separate business areas: Coated Systems, Offshore & construction and industrial solutions.[41] However, in this paper we will not cover these changes and instead it will be based on the old structure, as displayed below:[42]

CEO				
Division	**Automotive**	**Wheels**	**Sealing solutions**	**Engineered systems**
Description	Provides damping for engines and lamination for brakes etc.	Wheels for forest and agricultural machines	Standardized sealing products such as rubber rings	Tailored solutions in 3 segments: - Coated systems - Offshore & construction - Industrial solutions

The main four business areas (BA) are further spun down to business units (BU), product areas (PA) and finally product groups (PG).

[41] Trelleborg press release *"Trelleborg strengthens and focuses the Group"*, 8 Feb 2012
[42] Trelleborg website *"Organisation"*

6.2. STRATEGIC DEVELOPMENT GROUP

The following sections (6.2-6.4.6) are largely based on information provided by André Carlsson, associate, Strategic Development Group, Trelleborg and internal documentation provided by Trelleborg.[43][44] All other sources are explicitly denoted.

The strategic development group is responsible for managing the M&A processes and acts as a separate entity outside of the main corporate structure. They assist in the acquisition process, but generally do not initiate the process. Their main responsibility is to manage the company's yearly strategic planning process. This is an internal decision document, discussing the outlook for the next three years, consisting of elements such as: macro factors, value drivers, strategy goals and possible acquisitions. The strategic development group contributes in the corporate strategy by supplying a framework for the strategic planning process to the product area managers, which is then processed upwards in the hierarchy. Consequently, the business unit managers will receive several strategic plans from the product area managers, which they summarize, and forward to the business area managers. In total, possible targets recognized in the strategic planning process at all corporate levels often exceed a hundred.

6.3. SELECTION

The selections of acquisition targets, which are later infused into the main corporate strategy, can originate at any level of the organisation from top management to product group level. These are recognized as the **top down** and **bottom up** processes, respectively.

In the **bottom up process** all the product managers have been provided with guidelines for potential acquisition targets from the strategic development group. Acquisition criteria vary widely, but always include any of the following: technology, market share or geographical presence as the main objective.[45] The product group managers have a great understanding of their respective market and they are often in close contact with their competitors. The involvement of investment banks requires a certain deal size and

[43] André Carlsson, Associate, Strategic Development Group, Trelleborg AB
[44] Trelleborg – Internal Documentation, *" M&A manual - Trelleborg's step-wise instructions to conducting acquisition (and divestment) processes"*
[45] Fredrik Meuller, President, Trelleborg Offshore & Construction

consequently, in general, they do not originate acquisitions of companies small enough to be integrated at a PG level.[46] Instead, the managers at PG- or PA-level initiate most targets. However, a fair amount of the acquisitions is originated by the competitors themselves, contacting Trelleborg when the owners are willing to sell their business. The smallest acquisitions Trelleborg undertakes can be companies employing only five people and it is thus quite logical that they are not proposed by financial advisors, but rather originate from the product group managers' network.

The **top down process** refers to acquisitions that are originated from more senior levels, as high up in the hierarchy as the CEO, who, according to the strategic development group, actively proposes acquisition targets, regardless of size. Investment banks play an integral part in these types of acquisitions and often pitch potential acquisitions to Trelleborg. The size of the acquisitions proposed by external investment banks varies, as the size of these financial advisors differs.[47] Investment banks are generally transaction oriented and often propose targets that act close to the main business of Trelleborg to ensure a fast transaction process.[48] Consequently, the suggestions they make are often regarding companies that are already noticed by Trelleborg on beforehand, hence, the "value added" is rarely in the idea initiation process. There are, however, many advantages using a bank besides industry knowledge, and thus Trelleborg often tries to involve these financial advisors, making sure that directives regarding types of acquisitions are given, to ensure a satisfactory result.[49] The strategic development group generally handles the contact with investments banks, but the process also involves the CFO or CEO, to some extent. It also happens that management consultancy firms, trying to promote their services, suggest acquisition targets.

6.4. DECISION MAKING PROCESS

The strategic development group has, during the coverage time of this study, varied between two to three persons, and to handle the workload of surging through hundreds of potential targets, they have established a framework that consists of: one-pager

[46] Anders Wallström, Head of Strategic Development Group, Trelleborg AB
[47] Ibid.
[48] Ibid.
[49] Ibid.

approval; non-disclosure agreement; go-ahead request, including indicative non-binding offer; board approval request, including conditional final offer; pre-signing approval, pre-closing approval and finally, integration. There is no exact rule when the strategic development group interacts in a potential acquisition; sometimes they only acts as observers of the acquisition process. Instead, this is largely decided upon time management of the strategic development group.[50] There is also not an exact rule of when a transaction is large enough to call upon external consultation from a financial advisor/investment bank.

The acquisition process at Trelleborg:[51]

1. One-pager approval
2. NDA agreement
3. Go-ahead request inc. non-binding indicative offer
4. Board approval request inc. conditional final offer
5. Pre-signing approval
6. Pre-closing approval
7. Integration

6.4.1. ONE-PAGER APPROVAL – is created after either a product group manager or someone in a more senior position finds a target. It entails a snapshot of the company quickly detailing operations, geography, product and technologies, key financials and ownership. The one-pager is furthered with a strategic analysis containing a brief SWOT and the deal rationale. It is sent to the strategic development group, which forwards it to the CEO. The CEO must approve the potential acquisition before further actions are taken. The reason behind this is largely concerning anti-trust issues and potential conflicts of interest. According to the strategic development group the CEO usually responds within the hour on these request, suggesting that it is only checked against current pressing issues and a form of proactive damage control, rather than a strategic planning concern.

[50] Anders Wallström, Head of Strategic Development Group, Trelleborg AB

[51] Trelleborg – Internal Documentation, *" M&A manual - Trelleborg's step-wise instructions to conducting acquisition (and divestment) processes"*

6.4.2. NDA AGREEMENT – many projects will be scrapped at the one-pager stage because the unit loses interest after further investigating the target. Projects that still seem interesting are continued and a non-disclosure agreement is established to avoid rumours from spreading. The group control unit is responsible for overseeing this part of the process, but the NDA is usually a standard template. The project is now moved up from the starting phase and appears on the strategic development group's radar.

6.4.3. GO-AHEAD REQUEST, INC. NON-BINDING INDICATIVE OFFER – is a much more in-depth analysis of the target than the one-pager approval. The go ahead request will in the end be presented to the board after the indicative non-binding offer, therefore the strategic development group is highly interested in the outcome and is often involved in the development of the material. There is a formalized template for presenting the request, which entails target overview, operations overview, transaction details and key financials.

The board is usually focusing on two elements, valuation and synergies.[52] The valuation part is consisting of fundamental corporate finance principles and often concentrated on multiples. Important figures are EV/Sales, EV/EBITDA, EV/EBIT and ROCE. There is also an estimation of the potential synergies, which will form a base for valuation. A NPV analysis is not always undertaken at this stage, since a thorough due diligence still has not been undertaken and the numbers are based upon best available information. The synergy-analysis presents improvements from an income statement view as well as a cash flow perspective.

In addition to analysing the strategic fit and the financial consequences, Trelleborg puts great effort in the managerial aspects: *"When acquiring a company we have a clear view of the management aspect and current management of the target company is definitely a matter that is included in our acquisition analysis."* [53]

After the completion of the presentation a request for indicative offer is sent to the strategic development group and forwarded to taxes, general counsel and group

[52] Claes Lindqvist, Board Member, Trelleborg AB
[53] Anders Wallström, Head of Strategic Development Group, Trelleborg AB

structures, as well as the CEO. At this point the transaction is considered promising and the business area president has the ultimate responsibility over the project, while the strategic development group is responsible for communication with other departments and the board.

6.4.4. BOARD APPROVAL REQUEST INC. CONDITIONAL FINAL OFFER – acquisitions that cannot be financed with surplus cash from the divisional budget i.e. almost all potential transactions, must have a board approval.[54] The information presented to the board is the same as in the go-ahead request except for a market analysis. This analysis is completed in-house when targets are operating in familiar industries and by external consultancies when assessing new markets.[55] Before the board approval all numbers are finalized and checked against the due diligence to ensure certainty.[56] When considering smaller targets, financial, commercial and property due diligence will be finished before board request, while larger acquisitions require more extensive due diligence and are therefore to some degree left until after board approval. Legal due diligence is always left until after the approval due to the costs and time management of the legal department. After the acceptance from the board a bid letter is constructed in collaboration with the general counsel and law department and a conditional final offer is presented to the target company.

6.4.5. PRE-SIGNING APPROVAL – after this step the contract will be signed and the preparation for integration will be started in the closing step. The project team will meet, arrange and prepare for the upcoming steps including finding all roles that are not already assigned. They will present the formal agreement to the transaction as well as draft and issue the press release.

6.4.6. PRE-CLOSING APPROVAL – the transaction is complete. This marks the formal start of the integration process. Depending on the size of transaction there is a lot

[54] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[55] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[56] Anders Wallström, Head of Strategic Development Group, Trelleborg AB

of action in the investor relations department with more drafting and releases of press releases and conference calls with finance professionals.[57] There is also pressure on the general counsel, the strategic development group and the transaction counsel to finalize all documentation so there is proper documentation of the entire project.[58]

6.5. INTEGRATION

After the closing there are several tasks that need to be completed in order to ensure that the acquired company is integrated in a sufficient way. The acquired company is organizationally and legally assigned to its division, either within a product group, product area or business unit, and in some rare cases as an independent business area (the business area Sealing Solutions was acquired, but left as a separate business area).[59] The integration process is run under the motto *"100 in 100"*, lining out how 100 tasks shall be finished within 100 days of the closing. These activities include everything from producing press releases to managing employees, including appointments for new positions. The tasks are broken down into eight fields: introduction, legal, communications, finance and treasury, human resources, strategy and operations, IT & completion and signing. These headlines cover all basic general actions necessary for all transactions undertaken. Other individual actions might also be necessary, especially concerning production, these are however company specific and thus tailor made for each transaction. Most of these larger actions are planned on beforehand and also planned at this stage outside of the *"100 in 100"* frame.[60]

100-100 INTEGRATION PROCESS [61]

- Introduction
- Legal
- Communications
- Finance and treasury
- Human resources
- Strategy and operations
- IT
- Completion and signing

[57] Ibid.
[58] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[59] Fredrik Meuller, President, Trelleborg Offshore & Construction
[60] Ibid.
[61] Trelleborg – Internal Documentation, *" M&A manual - Trelleborg's step-wise instructions to conducting acquisition (and divestment) processes"*

The background behind the *"100 in 100"* plan is that Trelleborg through their long transaction history has learned that the first one hundred days are crucial: *"During the first 100 days from closing, most value from an acquisition is generated"*[62]

According to Trelleborg, since implementation of *"100 in 100"*, the transaction value extraction has increased substantially.[63] The hope is that *"100 in 100"* will embrace the company and its employees to the Trelleborg Group as well as clarifying the strategic and operational priorities. Typically it is the business area president that is responsible for the completion and signing of the checklist.[64]

6.6. EVALUATION

Trelleborg puts a great effort in the valuation process of a possible acquisition. As a consequence, the evaluation process is greatly relying on the findings and plans of integration set out before the acquisition.[65]

In order to decide whether an acquisition is successful or not it is crucial to conduct an evaluation process to analyse how the integration process went. Trelleborg does this in a straightforward manner and considers an acquisition integrated after the first 100 days. The object will then be evaluated in the same manner as an existing unit, if there are difficulties these are handled just as if it was an existing unit. The mantra is: *"If it is bought by Trelleborg, then it is Trelleborg"*.[66] Conny Torstensson takes this further by stating: *"It does not matter if the unit is acquired or organically developed, it is still a unit within Trelleborg and is treated as such."*[67]

The evaluation is done at three separate levels and intensities: On-going follow up, budget follow up and quarterly review, where quarterly review is the most rigorous evaluation. In addition quarterly reports are published and communicated to the market.

The on-going follow up is a daily to weekly brief update on the on-going sales and expenses and how they compare to the budget. The evaluation is started at product

[62] Trelleborg – Internal Documentation, *" M&A manual - Trelleborg's step-wise instructions to conducting acquisition (and divestment) processes"*
[63] Ibid.
[64] Anders Wallström, Head of Strategic Development Group, Trelleborg AB
[65] Fredrik Meuller, President, Trelleborg Offshore & Construction
[66] Conny Torstensson, Vice President, Finance & IT at Trelleborg Industrial Solutions
[67] Ibid.

group level and compiled on product area, business unit and business area level. These figures will be presented through mail or phone to the CEO on a weekly basis. The main reason for these evaluations is to early spot short-term fluctuations in sales and costs as well as keeping the communication open.[68]

The monthly budget follow up is concluded once every month. It is built around the same criteria as the on-going follow up, but covers more financial details and is matched with the numbers from previous months and comparable months for previous years.[69] These follow ups are however more sophisticated and are more important in the corporate governance. The monthly budget-follow ups act as a way to earlier detect deviations and will put pressure on managers to rectify these deviations.

Quarterly review or QR is the most extensive evaluation of the on-going operations. There are no specific yearly evaluation meetings/processes, apart from the annual report; the yearly strategic process is rather focusing on future plans than looking backwards.[70] The reasoning behind using quarterly instead of yearly evaluations is largely due to the fact that fluctuation in sales can occur faster than once a year and the management want to stay informed in order to be proactive. The quarterly review is very extensive and is collected from product group level up to business area. The business area manager and vice president of finance present it to the CEO and CFO of the Trelleborg group, as well as the strategic development group and some other representatives from the group management. The exact group management representatives vary from time to time, depending on what issues will be discussed as well as the representatives availability.[71]

The report covers most parts of the strategic and financial situation of the business area and is based upon a template developed by the strategic development group. It consists of three major elements; current situation, financial key figures from all three financial statements and outlook & priorities.[72] However, the exact structure does vary depending on pressing issues and top management usually communicate what they want to focus

[68] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[69] Ibid.
[70] Anders Wallström, Head of Strategic Development Group, Trelleborg AB
[71] Ibid.
[72] Trelleborg – Internal Documentation, *"Quarterly Review – Template"*

on before the meeting. Anders Wallström expressed this as: *"The need for follow up is greater in units not performing in line with expectations"*.[73]

It is also very important for Trelleborg to track its market share within each specific product, as they strive to be the market leaders. Claes Lindqvist says: *"It is our strategy to strive for the market leader position in all our markets, otherwise it is debateable if we should keep the business"*.[74] Torstensson adds: *"It is important to track market share, but the information available varies, and consequently our ability to evaluate our market share"*. [75]

Trelleborg AB – Financial targets fig.[76]	
Organic growth over an economic cycle	5%
EBITDA-margin	>12%
Return on shareholders' equity	12%

The QR-meetings usually last for a half-day per business area and are conducted either by meeting or through a conference call.[77] On-going and monthly follow ups usually concern outcome compared to budget and comparable period last year[78], quarterly review however are also focused on making sure that the corporate long-term goals are met (as can be seen in Fig. above).[79] As the information gathered to these reviews is also to some extent the same as those incorporated in the quarterly report presented to investors, managers take these numbers very seriously. In addition, the variable part of their salary is closely correlated to these, adding to the importance.[80]

[73] Anders Wallström, Head of Strategic Development Group, Trelleborg AB
[74] Claes Lindqvist, Board Member, Trelleborg AB
[75] Conny Torstensson, Vice President, Finance & IT at Trelleborg Industrial Solutions
[76] Trelleborg website "Financial Targets"
[77] Fredrik Meuller, President, Trelleborg Offshore & Construction
[78] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[79] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[80] Ibid.

6.7. THE BOARD OF DIRECTORS

At the Trelleborg website the following directives regarding the board of directors and their responsibilities can be found: *"The Board is responsible for managing operations in the interest of the company and all its share-holders in accordance with external and internal steering documents. The framework comprises a written formal work plan for the Board that is adopted by the Board each year. The Board monitors the President's work through on-going reviews of the operation over the year. The Board's responsibilities include ensuring that there are effective systems for follow-up and control of the company's operations, that there is satisfactory internal control and that internal steering instruments have been established. In addition, the responsibilities of the Board include setting targets and strategies, decisions concerning major acquisitions and divestments of operations or other major investments and decisions concerning financial investments and loans in accordance with the Treasury Policy. The Board issues financial reports. The Board annually evaluates the President and other senior executives and oversees the planning of managerial succession. Trelleborg's Board of Directors meets at least seven times per year."*[81]

6.8. HARBOUR & ENGINEERING PTY LTD

Harbour & Engineering Pty Ltd, established in Melbourne Australia in 1971, was bought by Trelleborg in 2006. The acquisition was made to complement the brands Fentek, Seaward and Trellex, furthering Trelleborg products for marine harbours and increasing geographical presence in the pacific region. The acquisition also brought quick release hooks and instrumentation technology to the existing product range.

The Trelleborg product area Marine Systems, with over 35 years of experience to date, uses the motto to: "Enhance safety, improve efficiency and performance in demanding marine environments".[82] It is currently consisting of four sub divisions or product groups: Marine fender systems, Docking & Mooring, Offshore integrated mooring and Marine protection.[83]

[81] Trelleborg website *"The Board's Activities – Responsibilities and work of the board"*
[82] Trelleborg website *"About Marine systems"*
[83] Trelleborg website *"Product and solutions, Marine systems"*

In 2001, Marine Systems expanded their presence in the fender business segment by acquiring Fentek's global fender business. Very soon after Seward's foam fender and plastic business in Virginia, USA, was bolted on.[84] Thus, Trelleborg had managed to rapidly increase its global reach and product portfolio in the industrial and commercial marine fender industry. However, Trelleborg was still faced with a slim product directory when catering for the mooring business. This segment is extra valuable because the customers to a large extent is made up of Oil and liquid natural gas extractors and transporters, an increasingly important customer segment to the whole business area Trelleborg Engineered Systems.[85] The gap could however be overcome with help of the Melbourne, Australia, based company Harbour & Engineering Pty Ltd, which besides its fender business also had quick release hooks and instrumentation technology. Quick release hooks were extremely important for the furthering of Trelleborg in the mooring business, because they form the basis of any advanced mooring operations and safeguards that the ship is held to the jetty, with steadfast anchor points for mooring lines.[86] Harbour & Engineering had for 5 consecutive years catered to 2/3 of the liquid natural gas terminals outside of Japan for the last 5 years running up to 2006.[87]

Harbour & Engineering had an ownership concentrated to three partners who were still active in the company. They were approached by Trelleborg Engineered Systems and reacted positively to a possible acquisition and integration of the company. The acquisition went through and two of the three partners stayed on in Trelleborg Marine Systems and were given management positions. The owners were incentivized to stay on and smooth out the transition by a so-called earn-out program, meaning that they received a certain percentage of the purchase price each year for the following three years, if certain set-up milestones were reached.[88] However, as the purchase price and incentives program remain un-disclosed, exact structure cannot be disclosed.

The acquisition increased the presence of Trelleborg Marine Systems in Australia and the pacific region, which they before only had a few minor acquisitions in, such as the

[84] Trelleborg website *"About Marine systems"*
[85] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[86] Ibid.
[87] Ibid.
[88] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB

Queensland Rubber Co, which provides infrastructure rubber solutions. [89] The integration played out mostly as a product add-on. The fender business of Harbour furthered Trelleborg's existing trademarks Fentek, Seaward and Trellex. Whilst the new quick releases, capstans and docking aid systems were placed in the two new product groups called Docking & Mooring and Offshore Integrated Mooring. To each of these new product groups the managing director positions were assigned to the partners of Harbour & Engineering. [90]

Harbour & Engineering was quickly integrated into Trelleborg Marine through the "100 in 100" procedure and the creation of the two new product groups. As Trelleborg had a need to offer the products supplied by Harbour & Engineering to its existing customers, and thus strengthen its market share further, the integration process were conducted quite instantly. There were also suitable production facilities in locations where Trelleborg was lacking presence (and had a corporate goal to increase its presence in) and thus, no though relocation decisions were needed. [91] According to Trelleborg Harbour and Engineering employees were also considered satisfied, since the business were kept going more or less as usual, but with the addition of greater access to capital and a larger global reach and new promotional opportunities. The initial evaluation of the integration was firstly based on that production kept going. After the first 100 days the targets started being evaluated just as the rest of the product groups in the product area Trelleborg Marine Systems. There were of course a need to revise the budget to have the continuous and monthly talking points in the communication updated and useful, but because of harbour and engineering's well-kept books this were an easy task for Engineered Systems. [92] Due to the relatively small size of the acquisition there were no major points raised in the quarterly report. The objective of the transaction was to create a good mooring system to complement the already established fender business. The managing director of Trelleborg Docking and Mooring expressed the benefit of their new system like this *"An integrated mooring system brings together all the 'building blocks' of state-of-the-art mooring within a standard PC-controlled*

[89] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[90] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[91] Ibid.
[92] Ibid.

system".[93] The market share has increased and Trelleborg now caters to 70% of the liquid natural gas terminals worldwide. [94]

6.9. REEVES BROTHERS INC.

Reeves Brothers Inc, established in 1919 in South Carolina, was bought by Trelleborg in 2006. [95] The acquisition was made because of Reeves status as a leading international player in the development and production of polymer-coated, high-precision material in, for example, rubber, silicon and polyurethane. The acquisition provided Trelleborg with a world-leading position in polymer-coated fabrics and thereby strengthened what was already a market-leading position in the European market. Reeves also brought the printing blanket business to Trelleborg's portfolio and thus Trelleborg entered a completely new market. [96]

At the time of the acquisition, Reeves brothers employed around 1000 employees and generated annual sales of around SEK 1.4 billion. The acquisition was made from the distressed Private Equity fund Oaktree Capital Management for a price of approximately SEK 1.3 billion in cash. [97] In a press release Peter Nilsson, CEO of Trelleborg AB, described the acquisition as following: *"The acquisition is another step in our strategy of growing in profitable industrial segments… Reeves' areas of operation are based on precision material that satisfy high demands for reliability, robustness and elasticity, which means that they correspond well with Trelleborg's core competencies: to seal, damp and protect in demanding industrial environments. With printing blankets, the acquisition opens a new and growing market segment for us, while also generating synergies in existing operations. As a result of the acquisition, the Trelleborg Group's structure is further improved".* [98] *" Printing blankets for the graphic industry is a very attractive segment for us, in which we will now expand our customer group based on our technology and applications know-how. Reeves has a very strong position in this consolidated, profitable and growing segment with high entry barriers,"* continues Lennart Johansson, President Trelleborg Engineered Systems, in

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[93] Trelleborg website *"Product and solutions, One system many benefits, Marine systems"*
[94] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[95] Trelleborg press release *"Trelleborg acquires American Reeves Brothers Inc."*
[96] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[97] Ibid.
[98] Trelleborg press release *"Trelleborg acquires American Reeves Brothers Inc."*

the same press release and concludes *"In total, Reeves provides us with a strong platform with excellent geographical cover; we gain a leading position in the US and establish ourselves in a rapidly growing market in China, while consolidating operations in Europe and creating favourable synergies."* [99]

Trelleborg had previously not been active in the printing blanket business and only had a minor global market share in engineered fabrics. The acquisition quickly increased its presence in these two industries; therefore a research report was created on beforehand to evaluate the potential of the industries by an external consultancy. [100]

Because Trelleborg's existing business was smaller than Reeves the integration process became quite easy. The Reeves business was kept almost as usual and the smaller Trelleborg business was integrated without any major troubles. Reeves was divided into two product area units: Engineered Fabrics and Printing Solutions in the business unit Coated Systems. [101] There was however one quite unforeseen circumstance when the CEO left, due to a more lucrative offer from Oaktree as CEO for another portfolio company. That issue was however fixed quite easy, by promoting the president of the European business to product area manager over Trelleborg Printing Solutions.[102]

Along with the acquisition, Trelleborg also got a joint venture in China for printing blankets. The company was founded back in the days when full foreign ownership was not allowed in China. The ownership was split between: Reeves Brothers Inc, a Hong Kong based investment banker, a local industrial company and the local communist party. The joint venture was initiated by the Chinese, requesting Reeves to join forces, as they required access to their superior technology.[103] However, even though this seemed like a smart set up, it soon proved otherwise. The most pressing issue was the low quality of the management. Due to the communist ownership the company had state salary levels, which made it hard to attract good managers. Thus the company was in a quite unsustainable long-term situation. In 2008 Trelleborg solved the problems, as they

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[99] Trelleborg press release *"Trelleborg acquires American Reeves Brothers Inc."*
[100] Fredrik Meuller, President, Trelleborg Offshore & Construction
[101] Anders Wallström, Head of Strategic Development Group, Trelleborg AB
[102] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[103] Ibid.

acquired 100% of the shares in Shanghai Reeves. By then the company had 100 employees and revenues of SEK 60 millions.[104]

Since the company was integrated as two product areas they were quickly treated as such and evaluated as their fellow areas. In addition, as the new entities become incorporated in the consolidated financial statements, the entities also become a base for bonus calculations. [105]

6.10. MACDERMID OFFSET PRINTING BLANKETS

MacDermid, established in 1922 in Connecticut, sold its printing blankets and engineered fabrics division to Trelleborg in 2008. [106] The acquisition was made to improve Trelleborg's leading position in the area of Printing Blankets - polymer-coated composite fabrics designed in several layers for use in commercial offset printing.

The Offset printing blankets and engineered fabrics division of MacDermid employed around 400 employees and had a turnover of SEK 540 millions in 2007. [107] The printing blankets were a leading brand in the printing industry. Reeves and MacDermid had been in acquisition talks for a long time before Trelleborg bought Reeves. MacDermid's printing business had been in decline for several years, which made it seem like a good moment to buy a complementary business to the acquisition of Reeves, completed two years earlier. [108] Lennart Johansson, president of Trelleborg Engineered Systems commented the acquisitions with *"The graphic industry is an attractive and growing segment for us and since our acquisition of Reeves in 2006, the area of Printing Blankets has developed very well. We are now strengthening our offering further in terms of the product portfolio and geographic presence within the aftermarket as well as OEM sales*". [109] The acquisition also gave Trelleborg a good base to continue growing within offset printing blankets, making them market leaders in Europe and

[104] Trelleborg annual report 2008, page: 16
[105] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[106] Trelleborg press release *"Trelleborg acquires MacDermid Offset Printing Blankets"*
[107] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[108] Ibid.
[109] Trelleborg press release *"Trelleborg acquires MacDermid Offset Printing Blankets"*

second largest in the US. The acquisition was also argued on the basis of synergies within sales, marketing and costs. [110]

The integration of MacDermid was more difficult than Reeves because Trelleborg now had existing business in printing and fabric. [111] The business was split into Trelleborg Printing Solutions and Engineered Fabrics just as Reeves had been. However this time it was harder to convince management to stay on, mostly because MacDermid was a listed conglomerate and they found more possibilities there. Most of the first tier of management chose not to go over. However most middle management stayed on and was given new possibilities as an incentive from Trelleborg. The acquisition of the MacDermid division was a bolt on in contrast to Reeves that was an almost completely new market entry by Trelleborg and did as such include less suspense and reorganization. [112]

Since the MacDermid was integrated into the two product areas Printing Solutions and Engineered Fabrics they were quickly treated as an integrated part and evaluated amongst these. [113]

6.11. THE BOARD INTERVENES

In 2009, the board was curious towards what had happened with the new market entry in printing blankets and engineered fabrics and the bolt on of MacDermid. They therefore decided to have the business area and strategic development group conduct a special evaluation and presentation on these acquisitions. Claes Lindqvist, member of the board, explained that they were curious of these acquisitions due to the considerable size and the prospect of the new market entry.[114]

The executives of engineered systems therefore developed a presentation for the board. Part of this evaluation involved a financial analysis of the business. It summed the parts acquired, both Reeves and MacDermid, plus all restructuring costs as well as non recurring major capital expenditures and compared these with the current value of the holding. The current value of the holding was based upon a comparable

[110] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[111] Ibid.
[112] Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB
[113] Fredrik Meuller, President, Trelleborg Offshore & Construction
[114] Claes Lindqvist, Board Member, Trelleborg AB

multiple valuation using EBITDA. It was deemed a sound investment because the holding was now worth more than all the money put into the project. [115]

During the financial crisis the board also decided to change the variable remuneration to emphasize the importance of cash flows, as bonuses were calculated on cash flow metrics instead of being profit-based as before. This tactic was proven effective and in combination with a capital injection by the major shareholder, the company managed to survive through harsh times. [116]

6.12. EQUITY RESEARCHERS VIEW

To gain insight into how equity researchers view the company equity research reports were screened and interviews with Erik Pettersson, at ABG Sundal Collier, and Hampus Engellau, at Handelsbanken Capital Markets were conducted. Both are head of their respective research team and the lead analysts of the coverage of Trelleborg, for their respective investment bank.

They had quite similar views of Trelleborg and similar approaches in conducting their research. On average, they spend around 5-15% of their time on analysing Trelleborg specifically. They usually have an on-going weekly contact with the company, and also attend conference calls in connection to quarterly reports. Reports are published around 10 times a year, one report in relation to the quarterly report and then specific reports in relation to major events.

In order for the equity researchers to publish specific analyses of major acquisitions they need to be of a certain size, impacting the revenue by approximately 5% and upwards.[117] When acquiring a company, Trelleborg first of all must communicate why the purchase price is fair: *"Trelleborg needs to justify why they are a better owner than the previous, due to acquisition premiums ... We argue that Reeves is a good acquisition that should expand the division's margins; but additional similar acquisitions are needed to help grow its profitability."*[118]

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[115] Lars Olsson, Vice President, Finance, Trelleborg Engineered Systems
[116] Claes Lindqvist, Board Member, Trelleborg AB
[117] Erik Pettersson, Equity Researcher, ABG Sundal Collier
[118] Hampus Engellau, Equity Researcher, Handelsbanken Capital Markets

One of the brokers interviewed did however suggest that due to the lack of information shared by Trelleborg regarding the acquisitions undertaken, it is often pointless to evaluate the effects of an acquisition. *"The information Trelleborg publish is quite scarce, sometimes they only display sales and in the best case profit and purchase price, which often makes it very hard to make a specific analysis of an acquisition"*[119] This statement is however in stark contrast to Kaupthing's research report, which stated *"Our new estimates – including the new acquisition, Reeves Brothers in Engineered Systems– nevertheless lift EPS somewhat, particularly in 2007. Our new EPS forecast for the group is a decrease of 5.4% in 2006 and a decrease of 1.5% in 2007"*.[120]

It also contradicts ABN Amro's view, which along the lines of Kaupthing stated *"The next acquisition was made in 3Q06, when American Reeves Brothers was purchased for SKr1.3bn, adding SKr1.4bn in sales. The company was acquired to serve the Engineered Systems and Industrial Fluid Systems divisions. Although a consumer-oriented focus was the company's core mind-set, the primary rationale for this acquisition was to provide the company with important technology in engineered fabrics and printing blankets, and improved the division's margin. Printing blankets also opened up a new segment in the graphics industry. We forecast 2006-08 margins of 8.4%, 8.5 and 8.9%, respectively, for Engineered Systems, on the back of the Reeves acquisition and, as we expected, raw-materials prices beginning to decline"*.[121]

A research report from Deutsche Bank also confirmed that they have a clear view of what the financial benefits of upcoming acquisitions will be: **"***We forecast acquisitions to add 6% to the top-line in 2007, which is mostly the contribution from Reeves (acquired in Q406), as well as numerous small bolt-ons with sales between a few million and a couple of hundred million. In terms of currency we expect an adverse effect to shave off c.1% in 2007"*.[122]

However equity researchers do not appear to have enough insight to follow-up how specific integration processes is going: *"The integration of American Reeves*

[119] Hampus Engellau, Equity Researcher, Handelsbanken Capital Markets
[120] Joakim Höglund, Lead Analyst and John Hernander, Equity Researcher, Kaupthing
[121] Klas Bergelind, Equity Researcher, ABN AMRO
[122] Johan Wettergren, Research Analyst and Peter Reilly, Research Analyst, Deutsche Bank

Brothers, which carries higher margins than the rest of the division, appears to be proceeding well. Organic growth was 10% in the quarter.” [123]

Brokers / Companies	**RBS**	**Swedbank**	**Kaupthing**	**Deutsche Bank**	**Carnegie**	**ABN**	**Handels-banken**	**ABGSC**
ABB	■		■		■			
Alfa Laval	■	■	■	■	■			
Arvinmeritor	■							
Assa Abloy	■	■		■	■			
Atlas Copco	■	■	■	■	■			
Autoliv	■		■		■			■
Cardo	■				■			
Cargotech	■				■			
Continental	■							
Electrolux	■	■	■		■			
Freudenberg							■	
Gunnebo	■							
Haldex	■					■		
Hexagon	■		■	■	■			
Husqvarna	■		■					
Höganäs	■				■			■
Johnson Controls	■							
KCI Konecranes	■				■			
Kone	■				■			
Lear	■							
Magna Intl.	■							
Metso	■				■			
Munters	■				■			
SAAB					■			
Sandvik	■	■	■	■	■			■
Scania		■	■		■			
Seco Tools	■							
Skanska					■			
SKF	■	■	■	■	■	■		■
Tokai							■	
TRW Auto	■							
Valeo	■							
Volvo		■	■		■			
Wärtsiliä	■				■			

Summary of peers used by Brokers

Even if strategies vary from case to case, Pettersson had a clear view of how he recognized the general case “*When aiming for sales synergies entities can be kept separate, but if focus is on cost synergies integration is preferred… In general, Trelleborg focus on sales synergies and is in less need of integration than its peers.”*[124]

When valuating Trelleborg both Hampus Engellau and Erik Pettersson applied DCF-, ROE- and ROCE-based models, even though they disagreed in terms of the necessity to evaluate new acquisitions. However, despite both recognizing the importance of these financial valuation models, they acknowledged the fact that peer-multiples were much more straightforward and consequently easier to communicate towards

[123] Johan Wettergren, Research Analyst and Peter Reilly, Research Analyst, Deutsche Bank
[124] Erik Pettersson, Equity Researcher, ABG Sundal Collier

investors. *"Of course, the DCF is an important underlying model and I use it to cross-check the valuation, but multiples are much easier to communicate towards our clients"*[125]

This can also be found in several broker reports, as many equity researchers choose to display the peer analysis in front of the DCF-based valuations.[126] [127] Deutsche Bank takes this further *"To value Trelleborg we use a multiples approach where we have applied 9x 2012E EBIT. This equates to a multiple somewhat below the mid-end of the overall capital goods sectors historical trading range of 9-10x."*[128]

When finding peers to develop standards for Trelleborg Engellau and Pettersson agreed that it is very hard, due to Trelleborg's diverse nature. Pettersson used Nordic companies that had exposure to automotive and or industrial industry, such as Autoliv, SKF, Höganäs and Sandvik.[129] Engellau on the other hand used more international companies such as Freudenberg (with whom Trelleborg is starting a joint venture) and Tokai.[130] Regarding variable remunerations they were both agreeing on positive effects for the stock price, however, they did mention that information regarding middle management compensation is scarce: *"We receive very little information regarding the remuneration, apart from information on senior executives that can be found in the annual report"*[131]

In the specific Reeves and MacDermid acquisitions Erik Pettersson was quite bearish: *"I would not regard these acquisitions as successful due to their timing. The integration process might have been successful, but due to the global downturn I would say that the market growth did not reach the levels Trelleborg would have expected"*[132]

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[125] Erik Pettersson, Equity Researcher, ABG Sundal Collier
[126] Klas Bergelind, Equity Researcher, ABN AMRO
[127] Oscar Stjerngren, Financial Analyst, Carnegie Investment Bank
[128] Johan Wettergren, Research Analyst and Peter Reilly, Research Analyst, Deutsche Bank
[129] Erik Pettersson, Equity Researcher, ABG Sundal Collier
[130] Hampus Engellau, Equity Researcher, Handelsbanken Capital Markets
[131] Erik Pettersson, Equity Researcher, ABG Sundal Collier
[132] Ibid.

In the table to the right the peers used by each of the brokers included in this paper is displayed. The equity researchers use these peers to create comparable multiples, upon which Trelleborg can be evaluated and consequently recommendations can be based upon. It is very obvious that there are large discrepancies between brokers in the matter of which companies comparable multiples for Trelleborg should be developed. Due to limitations in access the sample consists of eight different brokers (currently twelve different banks/analysts cover Trelleborg) and out of the 36 mentioned peers only eight appear in more than three broker peer analysis. Notable is that ABN AMRO/RBS has significantly more peers, due to the fact that the broker report published is an initiating coverage and thus more thorough.[133] They also use two different sets of peers to create a range of multiples. Finally, it is also important to mention that we have not gained access to the reports published by Handelsbanken Capital Markets and ABG Sundal Collier and thus rely on interviews from which certain peers could have been left out.

Peers used by more than 3 brokers	
Company	#
SKF	7
Sandvik	6
Alfa Laval	5
Atlas Copco	5
Autoliv	5
Assa Abloy	4
Electrolux	4
Hexagon	4

[133] Klas Bergelind, Equity Researcher, ABN AMRO

7. ANALYSIS

	Harbour & Engineering	Reeves Brothers	MacDermid Offset Printing Blankets	Equity researchers view
Objectives	Increase presence in fender and enter mooring business and geographical expansion	New product area and geographical presences (including Asia)	Increase product portfolio and production facilities (economies of scale)	Trelleborg needs to justify why they are a better owner than the previous
Strategies	Fully integrated within Trelleborg	Reeves management responsible for the merged unit, all executives stays except for former CEO	MacDermid unit integrated in Trelleborg (Reeves).	When aiming for sales synergies entities can be kept separate, but if focus is on cost synergies integration is preferred. In general, Trelleborg focus on sales synergies and is in less need of integration than its peers
	Two former owners continue working for Trelleborg	Head of Europe steps up as CEO	Management stays with MacDermid and do not follow the acquired unit	
	Branded as Trelleborg	China operations fully acquired in 2008	The Rollin brand is acquired to enable dual branding (standard and premium brand)	
Targets	Follow-up of acquisition plan and budget (All three statements)	Follow-up of acquisition plan and budget (All three statements)	Follow-up of acquisition plan and budget (All three statements)	Recommendations are given by multiple-, DCF-, ROE- and ROCE-based models
	Market share	Market share	Market share	One analyst tries to evaluate acquisitions when announced, another claim that the lack of data makes it useless
	Earn-out goals	Investments (including restructuring and CapEx) vs. current value (using multiples)	Investments (including restructuring and CapEx) vs. current value (using multiples)	
Standards	Short-term: Historical comparison & budgets	Short-term: Historical comparison & budgets	Short-term: Historical comparison & budgets	Evaluation relative to peers. Peers include Nordic as well as international industrial companies
	Long-term: Corporate financial targets	Long-term: Corporate financial targets	Long-term: Corporate financial targets	
		Comparison between divisions/units	Comparison between divisions/units	
Rewards	Former owners involved in an earn-out structure	Career progress within larger organisation	Career progress within larger organisation	Positive to variable remuneration
	Variable remuneration	Variable remuneration	Variable remuneration	
	Acquisition will be included in bonus calculations for Trelleborg management next year	Acquisition will be included in bonus calculations for Trelleborg management next year	Acquisition will be included in bonus calculations for Trelleborg management next year	
Feedback	Integrated unit, consequently continuous follow-ups	Integrated unit, consequently continuous follow-ups.	Integrated unit, consequently continuous follow-ups.	On-going contact ~once a week
	Budget follow-ups monthly	Budget follow-ups monthly	Budget follow-ups monthly	Conference calls in relation to quarterly reports
		Quarterly reports	Quarterly reports	
	Quarterly reviews	Quarterly reviews	Quarterly reviews	Reports are published ~10 times a year
		Post-acquisition evaluation requested by the board	Post-acquisition evaluation requested by the board	

Above is the Otley framework displayed, which is the foundation for the analysis presented in this thesis. The analysis is divided into two major groups; *internal discrepancies* (differences and similarities regarding the specific acquisitions) and *external discrepancies* (differences and similarities concerning Trelleborg's internal processes and the equity researchers).

7.1. INTERNAL DISCREPANCIES

7.1.1. OBJECTIVES

As described in the empirical section, the objectives of the three acquisitions are somewhat similar. By acquiring Harbour & Engineering Trelleborg became a clear market leader in a narrow niche market. Reeves Brothers had a similar objective to become market leader, and as current operations were quite limited, the acquisition may, to some extent, be regarded as a new market entry. Finally, the acquisition of MacDermid Offset Printing Blankets completed the market entry and ensured Trelleborg a market leading position within both printing blankets and engineered fabrics, in line with its overall strategy.

Both Harbour & Engineering and Reeves Brothers helped Trelleborg expanding their geographical presence, a goal emphasized by the company. This is important because even though market penetration is the first priority, the market is ever changing and Trelleborg must expand outside of their normally strong home market in Europe to stay prepared. In this aspect MacDermid stands out, as it did not significantly increase presence in new markets.

7.1.2. STRATEGIES

In all the three cases, the units were integrated into the Trelleborg units. However, the integration processes varies to some extent. Harbour & Engineering was fully integrated into existing Trelleborg operations, but Trelleborg still recognized the need of the former owners and consequently made sure that two of the three partners followed to Trelleborg. The acquisition of Reeves is a bit different, as the Reeves operations were considerably greater than the existing Trelleborg operations. As a consequence, the management of Reeves were appointed to run the merged unit, due to their valuable experience. Notably, Trelleborg recognize that the head of the European operations was a suitable as replacement of the old CEO and would be a good way of emphasizing the importance of the European market to this new business area. In other words, not only the Reeves operations were acquired, but also the expertise of the management team was considered an important asset, as Trelleborg's experience within this specific area was scarce.

Once MacDermid Offset Printing Blankets was acquired the opposite situation occurred. As the merged Reeves/Trelleborg unit was of substantially greater size than the MacDermid division, and the former Reeves management were considered to perform well, only a few of the top management of MacDermid Offset Printing Blankets were transferred to the new entities. In addition, the former management of MacDermid Offset Printing Blankets were offered other positions within MacDermid and did not indicate any interest in transferring to Trelleborg, as these new opportunities furthermore evolved. The importance of MacDermid's production facilities and sales channels is clearly emphasised in Trelleborg's strategies behind the bolt on, as Trelleborg, being impressed by the head of production and the sales manager at MacDermid, offered these two individuals promotions to assure a transfer to the new Trelleborg entity.

Consequently, one can find an interesting aspect regarding the effect of the type of the owner selling the business. As Reeves were acquired from a private equity firm, with no other portfolio companies operating in an adjacent industry, management were willing to join Trelleborg. Meanwhile, Trelleborg recognized their value, potentially as they had been running the business with no superiors (except for the private equity representatives) and consequently had been ultimately responsible for all decisions. On the contrary, the MacDermid Offset Printing Blankets management, being part of a larger organisation, was offered other opportunities within the larger corporation and was less willing to transfer.

Furthermore, we can also conclude that the acquisitions vary in terms of branding. Harbour & Engineering was fully integrated into Trelleborg, including being branded as Trelleborg, while Reeves and MacDermid, renamed to Trelleborg Printing Solutions and Trelleborg Engineered Fabrics, were branded under the existing brands Rollin and

Vulcan. To concretise, as Reeves and MacDermid were considerably larger than existing Trelleborg operations, the recognition of the current brands were considered higher than the Trelleborg brand.

The execution plan *"100 in 100"* is used as a framework in all of the integration processes of the acquisitions covered. An important factor to enlighten is that the plan covers both human and task oriented integration efforts, which Trelleborg believes to be highly crucial to successfully integrate an acquisition. This point is also raised by Birkinshaw et al, claiming that the integration process can be divided into both task and human integration, and that both are needed to be satisfied in order to create a successful acquisition. [134]

The integration through the *"100 in 100"* process is also beneficial seen by the eyes of Colombo et al. and Epstein arguing that short temporal lag and early integration is better for the acquisitions performance. Trelleborg considers an acquisition to be integrated after 100 days and thus share this view on the importance on acting fast after conclusion of the deal.

7.1.3. TARGETS

In terms of targets the three acquisitions are similar in a majority of the aspects. Since all of the acquisitions are integrated they get recognized as part of the organisation more or less instantly. As such, they need to participate in all the on-going follow-ups, including providing monthly budget follow-ups, attend quarterly reviews, provide their figures to the consolidated financial statements, as well as keeping an on-going contact with superiors. As one of the representatives expressed, how the unit was established (either acquired or developed by establishing new factories) is to some extent irrelevant, and consequently they are treated in the same way. Trelleborg empathizes the importance of combining metrics from all of the three financial statements. During quarterly reviews and budget follow-ups a wide range of metrics is discussed and most importantly, the reasons behind the figures are being described. In the financial

[134] Birkinshaw J., Bresman H., Håkansson L. (2000) *"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"* Journal of Management Studies Vol. 37:3, page: 420

downturn in 2008 focus on cash flows increased, as the Trelleborg remuneration committee decided to structure bonus terms based on cash flows.

In addition, the overall corporate financial targets are important long-term targets to each of the units. These include: organic growth over an economic cycle: 5% EBITDA-margin: >12% and ROE: 12%.

Some types of payment, such as earn-outs or deferred payments, where parts of the payment are variable and dependent on the performance of the acquired unit, creates an extra evaluation process. As the set up goals need to be followed-up in order to determine the payment, these payment structures automatically generate an effective performance measurement. The exact metrics and targets is a matter of negotiation, but they tend to focus on different levels of the P&L and ROE or ROCE.

As Trelleborg's strategy involves being market leaders in the markets they operate in, market share is a crucial measure during performance evaluation. However, the availability of market data varies, and consequently these figures are evaluated to the extent that is possible. Birkinshaw emphasizes the use of "Market position after the acquisition" and "Realisation of technology transfers" as two important measures to determine the successfulness of an acquisition, half of which Trelleborg has adopted in their evaluation process. [135] Evaluation of technology transfer is not explicitly expressed in the central evaluation process, however as the Quarterly Review covers the on-going processes; trends and pressing problems will be raised. Thus if technology transfer is not realised, it will be raised during this screening process.

In general, acquisitions are evaluated on an operational improvement basis, rather than trying to value the business and compare to the investment, but in the evaluation requested by the board, such an analysis was carried out. Comparing to the most common measurements presented by Gates and Very it is noticeable that Trelleborg mostly focus on the "*Strategic*" and "*Economic*" measurements while skipping most of the "*Operating*" measurements"[136]. However, this can be argued from Trelleborg's side

[135] Birkinshaw J., Bresman H., Håkansson L. (2000) *"Managing the post-acquisition integration process: How the human integration and task integration processes interact to foster value creation"* Journal of Management Studies Vol. 37:3, page: 418
[136] Gates S., & Very P. (2003) *"Measuring performance during M&A integration"* Long Range Planning, Vol. 36(2), pages: 167—185

as an effect of their substantial effort of planning the integration and especially regarding questions of relocation and management that is planned on beforehand.

7.1.4. STANDARDS

Trelleborg does not perform an external/benchmark evaluation, but rather keeps it quite simple and focuses on internal figures. Due to the wide range of operations, comparability between units varies and consequently historical figures become an important benchmark. The budgets produced are probably the most important benchmark, but these are also, to some extent, based on improving historical figures. In the long run, the corporate financial targets are a benchmark for the units.

7.1.5. REWARDS

As acquisitions are incorporated in the consolidated financial statements they become part of the figures that bonuses are being based on. In general they appear in the bonus calculations the year after the acquisition and thus, senior management (including business area management) are incentivised to ensure that the acquired companies are performing according to plan.

In the examples described we can see a discrepancy in reward structure, depending on the former owners. Harbour & Engineering was owned by three senior managers, which enabled an earn-out structure, ensuring that two of these critical executives remained within Trelleborg. The acquisitions of Reeves Brothers and MacDermid however, were impossible to structure in a similar way, as neither Oaktree Capital nor MacDermid would be interested in delaying the payments.

Apart from the general variable remuneration, the executives from Reeves and, to some extent, MacDermid can be considered to be incentivised in terms of potential career progress. Being part of a larger organisation means further possibilities to move up in the hierarchy and by appointing the head of the European operations as CEO for both of the units, these new possibilities were communicated throughout the organisation.

7.1.6. FEEDBACK

As mentioned above, there are several forums for performance evaluations, including monthly follow-ups, quarterly reviews (and quarterly reports), and on-going contact with superiors. In addition, earn-out structures create an extra feedback session.

Most importantly, as described in the case, the board may request an in-depth evaluation of the acquisitions. We have found four major elements triggering this evaluation. First of all, the size needs to be considerable in order to grasp attention. Secondly, as raised by one board member, if the acquisition leads to a new market entry, interest from the board is further enhanced. Thirdly, the performance of the acquisition will have impact, as less successful acquisitions are more likely to be evaluated. Finally, the timing/macroeconomic environment will affect, as it is reasonable to assume that the financial turmoil increased pressure on justifying these two major acquisitions.

7.2. EXTERNAL DISCREPANCIES

7.2.1. OBJECTIVES

When Trelleborg announces an acquisition, the basic assumption is that the paid price is the "right" market price. In other words, in order for Trelleborg to add value they need to justify why they are a better owner than the previous. How this can be done varies from case to case, but equity researchers recognize the importance of being able to match the acquisition into the overall strategy of the company, which is to focus on its core business.

In all three acquisitions Trelleborg has a clear view of how and why the new company will fit into the overall company structure. Harbour & Engineering is bought to further their existing business in marine and thus will create great synergies. At the point of the acquisition, it is harder for equity researchers to understand the Reeves acquisitions, except for the fact that engineered fabric and printing blankets is within Trelleborg's focus on polymer. The value creation does however become clearer when it is combined with the MacDermid division and thus creates possible cost and sales synergies.

7.2.2. STRATEGIES

Equity researchers are not overly focused on the integration strategies applied by corporates, but rather try to evaluate the operations. However, their general view is that the preferred integration strategy depends on what goals that shall be achieved. When aiming for sales synergies, the need for integration is less, whereas cost synergies often require a more extensive integration process. This argument is backed by Schweitzer's claim that different motives for the M&A deal requires different integration processes. [137] The view by equity researchers is that Trelleborg primarily focus on sales synergies and subsequently is in less need of integrating its acquisition relative to peers.

It is however very time consuming and sometimes impossible for analysts to find and evaluate how the integration process is undertaken and which managers that are appointed. Therefore a lot of trust is put upon Trelleborg, which is left unscrutinized in this manner. Klas Bergelind of ABN Amro, exemplifies this in the statement "The integration of American Reeves Brothers, which carries higher margins than the rest of the division, appears to be proceeding well. Organic growth was 10% in the quarter." [138]

7.2.3. TARGETS

In general, one can conclude that cash flow and balance sheet figures are more commonly used by equity researchers than by Trelleborg, although both recognize the importance of using several metrics. The equity researchers apply several methods for valuing Trelleborg, such as comparable multiples (EV/EBITDA and EV/EBIT), Discounted Cash Flow analysis and ROE- and ROCE-based models. Due to the lack of data published by Trelleborg (sometimes only sales and in the best case profit and purchase price) the acquisition analysis varies. One researcher claims to try to find the theoretical value compared to the acquisition price, while the other means it is too much of a guessing game. In general, equity researchers mention the acquisitions in their reports, but the level of detail varies.

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[137] Schweizer, L. (2005) *"Organizational integration of acquired biotechnology companies in pharmaceutical companies: The need for a hybrid approach"* Academy of Management Journal, Vol. 6, pages: 1051-1074

[138] Klas Bergelind, Equity Researcher, ABN AMRO

What is more interesting, there is a major difference between the researchers view and the Trelleborg representatives, as the equity researcher recognize that the Reeves & MacDermid acquisitions have been unsuccessful, while Trelleborg claims that the opposite were found when carrying out the analysis. The discrepancy is largely because Trelleborg compares internally and thus the acquisition has increased margin, while researchers claim that the economic downturn made the acquisition too expensive, due to lower growth than expected at the point of the acquisition.

Both Trelleborg and equity researcher apply many measurements and emphasis the importance of having a holistic view, in accordance with Kumar and Peiro.[139] This is a possible explanation to why equity researchers are quite uninterested in evaluating the integration process itself. It can be argued that they see the integration aspects as an integral part of the valuation during an acquisition decision and consequently rely on Trelleborg and their ability to conduct the integration process. Thus equity researchers only feel the need of committing the extra effort of conducting an evaluation of the integration process if the outcome proves significantly better or worse than what could normally be expected.

7.2.4. STANDARDS

Equity researchers are putting a substantial effort into comparing Trelleborg to its peers. The 8 researchers covered, conduct peer-research on a total of 36 companies of which only 8 appear in more than 3 different brokers peer-analyses. Describing a very split view on how Trelleborg should be correctly measured and compared. It is clear that SKF (used in 7/8) and Sandvik (used in 6/8) is most accepted as Trelleborg's peers. These are however companies outside of the polymer business. Handelsbanken is in this sense standing out as the only broker only comparing Trelleborg to other polymer players (Freudenberg and Tokai). Trelleborg on the other hand, considering the time consumed, only performs peer analysis upon request of the board (as in the Reeves and MacDermid case). The standards developed are therefore vastly inconsistent and the internal standards developed for evaluation do not match the external developed for valuation.

[139] Kumar K., Peiro M. (1994) "*Determinants of the ex-post performance of mergers and acquisitions: A case study*" 6th National Convention of Association of Indian Management Schools August 25-27

7.2.5. REWARDS

Due to lack of information equity researchers are seldom able to analyse the remuneration policies within Trelleborg (apart from senior executives). However, in general they have a positive attitude towards variable compensation, such as earn-out structures.

7.2.6. FEEDBACK

In connection to the announcement of the quarterly figures, the equity researchers attend meetings with senior management (in person or by phone) to discuss the performance. In addition, the researchers have on-going contact with the CEO/CFO or IR-department approximately once every week. As a consequence, Trelleborg representatives must be fully informed more or less constantly, since the researchers publish roughly 10 reports a year.

8. CONCLUSIONS

To summarize, we have found several aspects, affecting how post-acquisition performance evaluation is conducted. These are the following:

Size: In order for the Trelleborg board to request a specific follow-up of an acquisition, it needs to be of a considerable size, impacting the overall company.

Market: If the acquired unit operates in a market that is new for Trelleborg, the board's interest is triggered and they are more likely to follow-up an acquisition.

Macro: During financial turmoil pressure on management and the board increases and the need to justify/follow-up acquisitions are further enhanced.

Performance: Units performing well are less likely to be explicitly evaluated, while unsuccessful acquisitions often grasp more attention.

Payment structure: Payment structures including a variable component will automatically generate an extra follow-up mechanism.

Level of integration: The level of integration affects the possibility to conduct an acquisition evaluation; a fully merged acquisition is more or less impossible to evaluate in terms of investment relative to current value. This being said, on-going evaluation will of course be conducted in the same way as any operations.

In addition we can conclude the following regarding the relation between Trelleborg and the stock market.

Assuming the stock market is imperfect and that equity researchers published report have an impact on the share price, we can conclude that in order to maximize shareholder value, Trelleborg should try to satisfy equity researchers.

As part of this process, Trelleborg could potentially benefit from a better understanding of how equity researcher reasons regarding peers and the multiples being applied. By increase this understanding and expand the internal follow-ups to include peers Trelleborg might find and be able to improve the value drivers recognize by the stock market.

Furthermore, as we have been described in the case, there is a discrepancy between the equity researchers and representatives of Trelleborg regarding their view on the successfulness of the acquisitions of Reeves Brothers and MacDermid.

Consequently, one can conclude that this information asymmetry is negatively affecting Trelleborg. By publishing more information, potentially Trelleborg could prove the successfulness of its acquisition strategy and consequently get rewarded by the stock market. Obviously, the figures are included in the consolidated financial statements and these figures will be unaffected. However, if able to communicate being a successful acquirer, multiples can be increased and consequently shareholder value enhanced.

9. PROBLEMATIZATION

Interviewees from both Trelleborg and brokers might benefit from rationalising their thoughts and actions, which would make the empirical findings of this thesis biased. It is further biased as it only covers the view of Trelleborg in each acquisition and therefore is missing the selling party, whom might have a different view on events. This view was however stricken from the thesis due to their lack of insight into Trelleborg actions after conclusion.

The ability to generalize the conclusions presented in this paper can be somewhat discussed. As the study is based on one single company, one should be cautious when interpreting the findings obtained. Most likely, similar processes are undertaken by other Scandinavian large cap corporates, but they may also differ in some aspects, depending on historical, cultural and organizational conditions. The same can be said about Trelleborg, since we only obtained three acquisition processes upon which we based this thesis the process could in fact differ in other acquisition processes.

A similar reasoning can be applied regarding the equity researchers presented, as their working processes might differ, depending on factors such as what financial institution they work for, the amount of companies they follow, and the relative importance of Trelleborg to their assignments.

It is also essential to point out that many interviews was set up through Mr. Claes Lindqvist to whom both the authors have a personal relationship and thus might have affected the view of the analysis.

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Trelleborg representatives

Anders Wallström, Head of Strategic Development Group, Trelleborg AB - 2012-04-12

André Carlsson, Associate Strategic Development Group, Trelleborg AB – 2012-03-12

Claes Jörwall, Senior Vice President, Taxes and Group Structures, Trelleborg AB - 2012-04-12

Claes Lindqvist, Board Member, Trelleborg AB - 2012-04-23

Conny Torstensson, Vice President, Finance & IT at Trelleborg Industrial Solutions - 2012-04-12

Fredrik Meuller, President, Trelleborg Offshore & Construction - 2012-04-12

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Equity researchers

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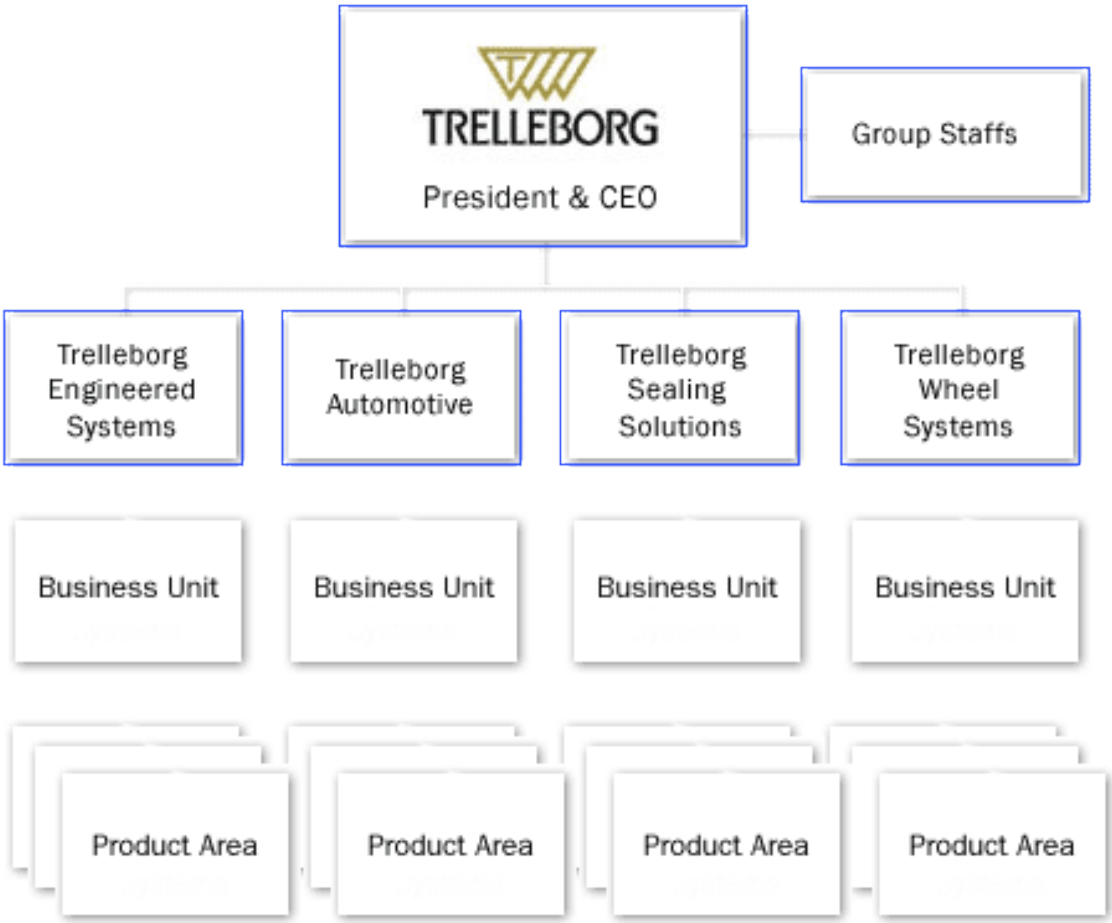
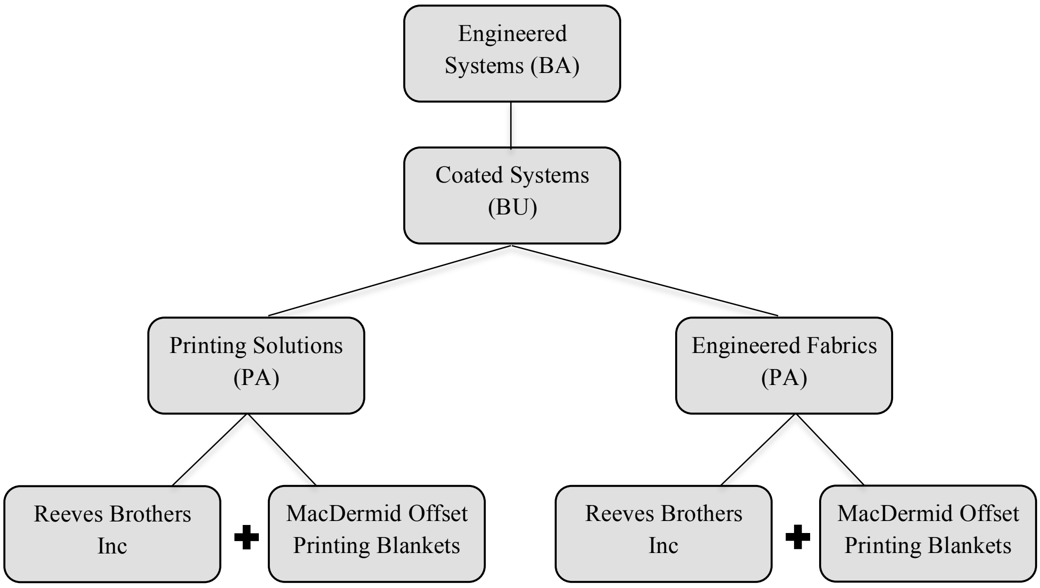
*All websites are checked as of 12 May 2012

11. APPENDIX



Source: http://www.trelleborg.com/en/The-Group/Organization/



Source: Anders Wallström, Head of Strategic Development Group, Trelleborg AB