GALION

CROSS-BORDER M&A

DRIVING GROWTH THROUGH ACQUISITION

WHITE & CASE

EURAZEO

EDITO

A CHALLENGING BUT FERTILE GROUND

To state the obvious, these are rough years for Tech companies: 2022 marked the industry's third worst year since the 2008 financial crisis and the dot-com bubble burst in 2000. The sector headwinds extended into 2023: fundraising in the first semester dropped by 50% vs 2022[1].

Yet we must remain optimistic: beneath the surface, more nuanced and promising forces are at work. Since 2021, the number of startup acquisitions in France has doubled compared to previous years. Furthermore, while funds and large companies have historically been the main acquirers, French scaleups have emerged as the dominant players, representing 29% of all acquisitions between 2021 and 2023, a sharp climb up from the 15% recorded between 2013 and 2020[2].

This is positive news for the entire French Tech ecosystem! For buyers, M&A serves as a definitive indicator of scaleups robustness and momentum: it is an opportunity for them to gain a competitive edge, erupt on the international scene and stand out in innovative growth areas. For sellers, it provides an opportunity to close a chapter or fuel growth under a fresh brand. For both parties, it's a chance to unlock extra value for truly innovative ventures.

But M&A endeavors are hardly risk-free. And cross-border M&A introduces additional complexities, including cultural, legal, organizational, and linguistic obstacles. These challenges converge to create a fraught but fertile ground for seasoned buyers who want to transform businesses.

In a context where confidence is crucial, successful acquisitions reflect the ambitious "*Go big or Go home*"
attitude that has propelled the rise of startups and scaleups in the French Tech market.

This Guide draws on the experiences of entrepreneurs and the expertise of its partners, Eurazeo and White & Case to assist startups and scaleups in evaluating their own approach and identifying efficient paths to success. We hope it will help other actors in the European and French startup ecosystem follow in the footsteps of these French Tech champions.

Agathe WAUTIER

Co-founder & CEO of The Galion Project

[1] Baromètre EY du capital risque en France - 1er semestre 2023

[2] BCG & Raise Lab “Acquisitions de startups françaises par les entreprises” - Juin 2023

EDITO

BEYOND BORDERS: WHY LEGAL MASTERY IS KEY FOR M&A TRANSACTIONS

Navigating the complexities of cross-border M&A requires crucial legal insights. These transactions involve different legal systems, market practices, cultures, and expectations. This means advisors should combine a global platform with experts in the relevant jurisdictions and possess in-depth market experience.

The legal aspects, including tax matters, are often neglected at the time the term sheet is negotiated because lawyers are brought onboard later in the process. This represents a missed opportunity to have experts facilitate the process from day one. Clearing potential misunderstandings on key business parameters and avoiding the need to completely restructure the transaction after signing the term sheet, due to tax-related issues, is crucial.

Our team members see themselves as facilitators. And that's also the reason for this Guide: to share our hindsight and experience.

Working with leading investors and tech companies is in our DNA. We are one of the few firms with a dedicated "fast growth" practice focused on working with investors, founders, and their companies. We understand both sides of the coin and pride ourselves on focusing on the key issues that really matter in a pragmatic and friendly manner.

We are pleased to bring our expertise to this publication and contribute to nurturing the tech ecosystem with our extensive experience. Our aim is to advise top-notch companies to ensure the success of their strategic transactions, minimizing delays and mitigating potential post-acquisition liabilities.

White & Case has local roots and a global reach. By fostering an understanding of local customs, we strive to create an environment conductive to successful deal execution. In an era where international expansion presents both challenges and opportunities, we stand as pillars of support, ensuring that cross-border M&A ventures are not only legally sound but also transformative catalysts for business growth.

Guillaume VITRICH

Partner at White & Case

EDITO

UNLOCKING GROWTH : THE POWER OF M&A FOR TECH STARTUPS IN TODAY'S MARKET

Mergers and acquisitions (M&A) play a vital role in Eurazeo's strategy. As a public company with over €10bn on our balance sheet, we have grown both organically and through acquisitions. Our anchor strategy is buyout, so our investment teams are well-versed in M&A. Thanks to our Growth & Venture strategies at Eurazeo, we have been pleased to see an increasing number of tech scale-ups recognizing and taking advantage of the benefits of M&A to strengthen their position as industry leaders.

This guide explains why and how startups should consider M&A in the current market. While traditionally associated with private equity, successful M&A strategies have been more and more developed by leading global tech companies, such as Salesforce's acquisition of Slack or Microsoft's acquisition of GitHub. More recently, with the economic slowdown, it has become less expensive to buy a customer portfolio through an acquisition than to acquire them directly in some cases. This effect has been emphasized by the lack of liquidity in the tech market, which has brought more assets to the market and led to more affordable valuations.

Mergers and acquisitions (M&A) can be a powerful tool to accelerate the internationalization of startups in Europe's fragmented market. Several scale-ups from our portfolio have entered or accelerated their growth in Germany through acquisitions, such as Qonto & Penta in 2022, Malt & Comatch or Tink & FintecSystems in 2021. Some global companies from our portfolio, like Contentsquare, have developed such a strong M&A muscle that it has become part of their competitive advantage.

Anne-Charlotte PHILBERT

Director – Growth at Eurazeo

As part of Eurazeo's Growth and Venture strategies, we have completed over $1.5 billion worth of M&A deals with our portfolio companies in the past two years. This has enabled us to develop expertise in supporting our portfolio companies in achieving strategic acquisitions. This guide shares our key learnings and provides a framework for entrepreneurs to consider M&A as an opportunity for growth towards becoming global category leaders.

PREAMBLE

In the realm of mergers and acquisitions, total acquisitions refer to a specific type of transaction that involves acquiring complete control and ownership of a target company.

Our Galion guide focuses on total acquisitions executed by both startups and scaleups. To provide valuable insights, we conducted in-depth interviews with influential figures from the French Tech startup ecosystem.

GALION

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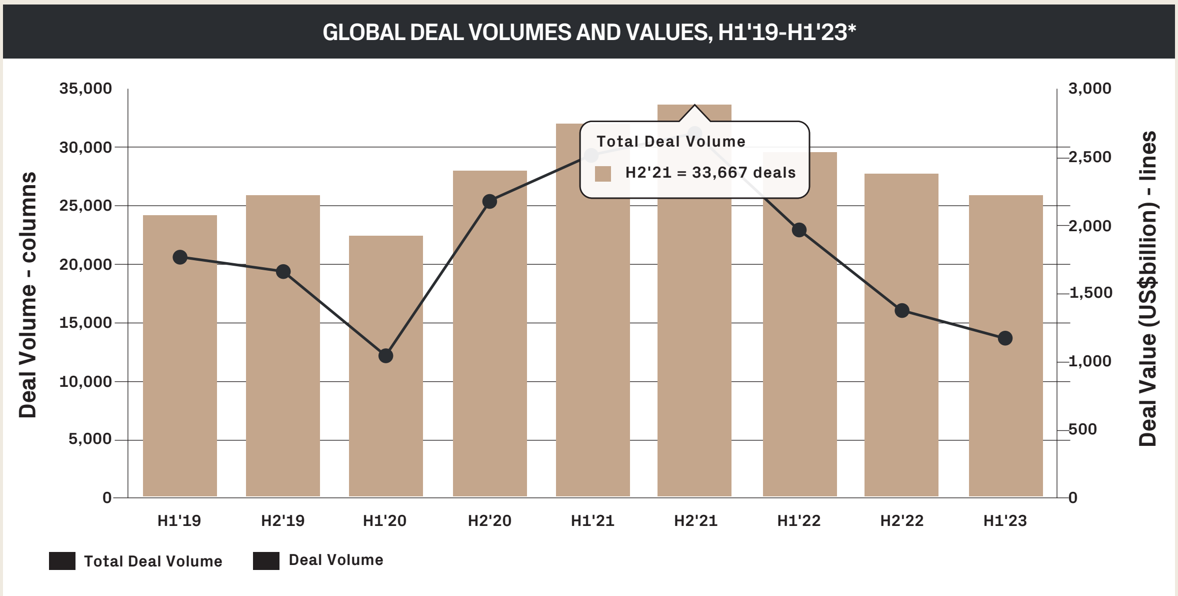
CROSS-BORDER M&A: CURRENT STATE OF PLAY

Consolidation trends amid tightening financial resources and declining valuations

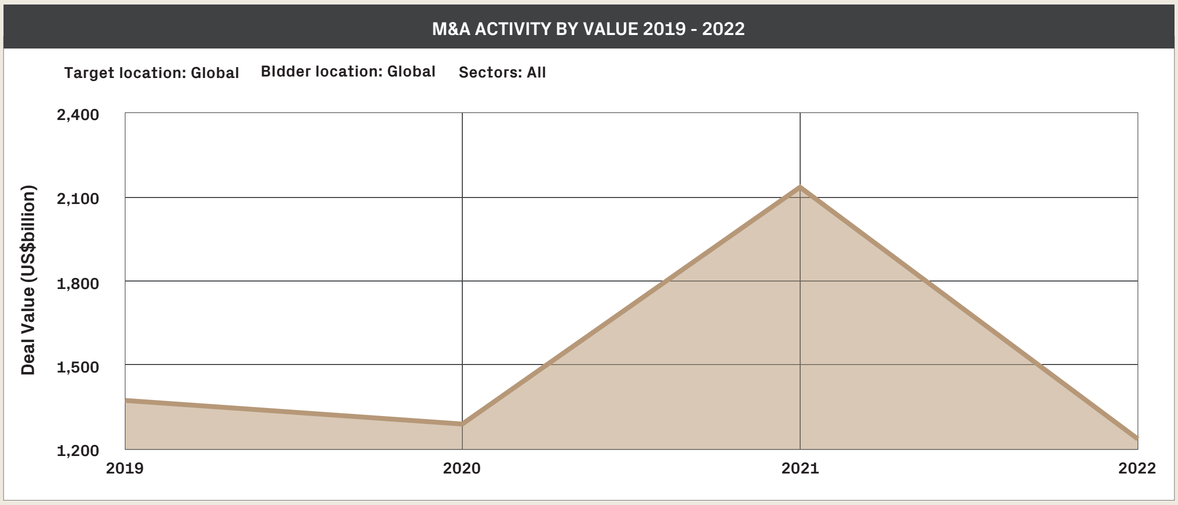
Both M&A values and volume have regularly declined since 2021, a record-breaking year, as the looming specter of a global recession eroded business and consumer confidence. Yet volumes dropped less than value, suggesting long-term confidence among dealmakers, returning to around 2020 levels.



Source : Refinitiv (LESG) and PwC analysis

A pause in mega deals

In 2022, although the year witnessed several significant megadeals, including Microsoft's acquisition of Activision Blizzard and Elon Musk's acquisition of Twitter, overall, the total number declined, indicating increased caution in pursuing large transactions due to factors like the tightening of regulations, valuation discrepancies, and a contracted market.



Source : Refinitiv (LESG) and PwC analysis

The cross-border M&A landscape

Despite these turbulent headwinds, cross-border mergers and acquisitions remain an attractive option for dealmakers. In 2022, they accounted for 32% ($1.1 trillion) of global mergers and acquisitions, broadly in line with the average share over the past decade (35%) [1].Mid-market cross-border transactions accounted for 11% of total M&A activity in 2022.[2]

North American acquirers continue to dominate, accounting for 47% of deal volume and 49% of deal value. European acquirers are in second place and have caught up slightly with shares of 32% and 30% respectively.[2]

As they tend to be more complex and require special expertise and additional effort, cross-border M&A deals usually result in a higher average transaction value, roughly 12% higher than similar transactions where both parties were based in the same country.[2]

Tracking the ups and downs of tech trends

Tailways turned for the tech industry in 2022. Accounting for 20% of total global deal volume, tech M&As declined by about 36% year-over-year[3] as valuations of publicly traded and private technology companies plummeted and growth prospects deteriorated.

However the tech industry continues to be an active area of M&A. It's now a buyers market: standout startups, mature scaleups and private equity funds that have plenty of dry powder are in a position to acquire tech (and other) companies that would have previously been out of reach at much higher valuations in 2021. At the same time, the shortage of financing solutions and cash availability is forcing more and more startups to consider M&A.

All eyes on French Tech's new buyers

Mergers and acquisitions in the French startup ecosystem are experiencing a healthy rise in activity. In 2022, a total of 355 M&A deals were completed, compared to 340 in 2021.[4] This upsurge is driven by new acquirers: as larger corporations have stepped back from the M&A market, acquisitions by scaleups have increased by 65% over the past year,[4] allowing those now mature and well-funded tech companies to reach leadership positions on the international stage and thus establish themselves as new forces to be reckoned with.

[1] "cross-border M&A - 2023 checklist for successful acquisitions in the US" by Harvard Law School
[2] Moore's Crossborder mid-market Compass Report 2022
[3] Bain's 2023 M&A Report
[4] Etude Avolta Partners / Les Echos 2022

1.

PROACTIVE PRE-ACQUISITION STRATEGIES FOR EFFECTIVE ANTICIPATION

Anticipation is the cornerstone of acquisitions. In an increasingly risk-averse environment, it is crucial to determine beforehand an acquisition strategy that leaves no room for ambiguity, to evaluate the feasibility of moving forward at the outset in order to circumvent potential showstoppers down the line, and to lay out all the requirements for getting a deal approved by your stakeholders.

1 - STRATEGIC ALIGNMENT

Grow or die?

"*The entrepreneurial spirit is intrinsically ambitious, especially for startups, where the 'Small is Beautiful' nature of the startup goes hand in hand with a 'Go big or Go home' mindset*", explains Jean Moreau, co-founder of Phenix. "*The whole ecosystem fosters and values that dream big attitude.*"

The phrase "*grow or die,*" provides a clear - if not always obvious - goal for entrepreneurs who wish to buy or sell. In a rapidly changing environment, where you have to move fast, growth is indeed key to survival. Sometimes it's about expanding the business, in other cases it's about entering new markets or developing new products. But in every case, growth is about increasing the overall value of your business, not just strictly turning a profit.

Organic growth, safe but slow

Organic growth involves a company's internal development of business activities. "*It's the natural first step for startups to demonstrate their ability to take-off, validate their market fit and worth, and steadily increase their market share on their own year after year*", explains Alexandre Prot, co-founder of Qonto. In uncertain economic conditions, organic growth is seen as a less risky approach compared to executing transactions.

However, the process can be time-consuming and complex. Additionally, organic growth often requires significant investments in expertise, labor, equipment, and resources, without a guarantee of success. It's a painstaking process which might prevent a company from responding effectively to market changes and driving sustainable acceleration, diversification and expansion.

Building your acquisition strategy

1- Why Build-up? Be clear about your goals

"*Acquisitions should be strategic and create something completely new that is stronger as a whole*" says Alexandre Prot.

The acquisition thesis is absolutely key. It must be very clear-cut and straightforward, to avoid any risk of failure. What do you want to achieve through this acquisition in the short and long term?

This means being realistic about your existing systems, processes and capabilities. "*It forces you to be very clear about how to get what you need to grow: build, buy or borrow,*" says Loïc Soubeyrand, co-founder of Swile.

"When you get involved in projects like this, the bottom-line is you have to align all stakeholders: investors, financiers, and teams, and show them that it's worth it for everyone involved."

Jean MOREAU

Co-founder of Phenix
220 employees
Acquired companies:
Graapz (France): March 2019
Komefy (Spain): April 2021
MyFoody (Italy): November 2021

"There's a lot to gain from M&A fast. But it's better to have solid foundations to begin with!"

Guillaume PAOLI

Co-founder of Aramis Group
2500 employees
Acquired companies:
Clicars.com (Spain): 2017
Cardoen (Belgium): 2018
Carsupermarket (England): 2021
Online Cars (Austria): 2022
Brumbrul (Italy): 2022

2- Scope deals, scale deals and acqui-hire

The many appealing reasons for mergers and acquisitions, be they foreign or domestic, fall into three categories:

- **scope deals** where the buyer seeks access to new capabilities and to new markets or other complementary services.
- **scale deals** where a company seeks to acquire a competitor to expand its market in a specific industry, streamline processes and cut costs.
- **Acqui-hire** deviates from these two more traditional types of acquisition. Here, the buyer's aim is to acquire the target's talent and sometimes intellectual property, rather than its products, services, or earnings stream.

Alix de Sagazan, co-founder of ABTasty, made a scope-deal when acquiring Epoq, a German company : "*It allowed us to integrate into our value chain a product in high customer demand and quickly power its development at an international scale through our sales and marketing structure. For our target, they could plug into our platform, sell their product internationally and scale up. It was win-win.*"

"*There are all sizes and set-ups possible for an acquisition,*" says Alexandre Prot, who made a scale-deal when acquiring its German competitor Penta in 2022. "*Before joining forces with Penta, we asked ourselves: How does buying Penta compare to our standalone growth? Through this acquisition, we grew in size, speed and efficiency – gaining 24 to 36 months in our growth ambitions to become number 1 in Europe by 2025-2026.*"

Thomas Pasquet, co-founder of Ogury, says about an acqui-hire deal: "*the strategic objective was not simply to increase our revenue tenfold. The market is big and we can still grow a lot. Our priority has consistently been to stay ahead of the curve by securing 'top gun' talent and maintaining agility.*"

3- No single strategy fits all, all the time

Ultimately, it's rarely an either-or question of whether to grow organically or inorganically. "*It's a balancing act,*" says Caroline Noublanche, co-founder of Apricity. "*You never plan to stop growing organically. We're all sort of in love with the idea that we can do everything alone. But it's not either or. Especially in our sector which moves incredibly fast. So, when the need arises to step on the gas pedal, it often requires leveraging additional driving forces and to proactively explore acquisitions.*"

But you have to keep in mind that acquiring and merging two companies is not a quick-win. Results in the first few years often don't match overly optimistic expectations. "*It takes time for an M&A transaction to be successful, and there are often obstacles along the way,*" says Olivier Pomel, co-founder of Datadog.

Determining the right timing

There are no predetermined rules when it comes to the timing of an acquisition. “*It is unique to each situation and can change from one opportunity to the next,*” nuances Guillaume Paoli, co-founder of Aramis Group.

Do you need to reach a critical size to envisage external growth? More than size, it’s the startup’s resilience and ability to absorb another company that you have to assess scrupulously. “*You shouldn't do it too soon*” says Jean Moreau. “*We decided to build up because we were looking for growth-relays and were aiming to double down in terms of development strategy, which was not possible if we were to keep growing organically. We did it during the scale-up phase after 4 or 5 years.*”

“*You need to have the financial means, of course. But also, the capacity to dedicate people, time and energy to the process: a cross-border acquisition is as strategic and time-consuming as the opening of a new country. So the structure needs to be strong enough to deal with it,*” says Vincent Huguet, co-founder of Malt who, 8 years after the company’s creation, bought its German competitor Comatch.

Sometimes an acquisition just isn't right for you. A company may not be prepared for that growth at all, and the “*growth for growth's sake*" mindset has crippled many profitable companies.

“To go faster, you will need to start thinking about acquisitions early.”

Caroline NOUBLANCHE
Co-founder of Apricity
70 employees
Acquired companies:
Altrui (GB): 2018
Woom (Spain): 2022

2 - PRE-ACQUISITION PROCESS

Defining priorities

Designing an acquisition strategy plan is all about priorities. "*The premise is that a company can't take advantage of every opportunity that comes its way, so you need to prioritize your M&A,*" advises Guillaume Paoli. "*We define priority themes, we look at startups and examine where they are in their development and if there is an interest, we look at the products and ways of working and establish possible synergies,*" says Fred Plais, co-founder of Platform.sh.

HOW TO DESIGN A SUCCESSFUL M&A STRATEGY?

M&A can be a powerful growth driver, but it needs to be properly designed to be well executed.
There are four main steps:

- **Define your objective.** Why do you want to acquire companies? The main reasons for startups to acquire companies are geographical expansion (e.g., Doctolib acquiring Dottori.it to expand to Italy), product expansion (e.g., Doctolib acquiring Siilo to launch a communication product), customer base acquisition (e.g. Doctolib acquiring MonDocteur) and top talent acquisition (e.g., BlaBlacar acquiring PostoInAuto to recruit a team to launch in Italy).

- **Staff a team in charge of M&A.** You can start with the CEO collaborating with a person in strategy or finance to make a list of potential targets, to reach out to them and to execute your first deal. A good practice is to start with a small acquisition in order to gain experience on how to execute a transaction and how to integrate into your organization an acquired company. If you become a serial M&A acquirer acquiring several companies per year, it's worth creating the function of a Head M&A with strong M&A execution experience and having two-three other people working with him.

- **Design a framework to perform due-diligences and to integrate acquired companies**. Compared to more traditional M&A, startups should put even more emphasis on specific topics including (i) the cultural fit with the potential target, (ii) integrating and incentivizing top management to retain them in the long term, (iII) the ability to technically integrate their product into your platform.

- **Prepare your funding sources if you acquire companies.** You can acquire companies in cash or in stock. If you acquire them in cash, it means that most of the time, you need to raise debt or equity. Early on, you should try to build strong relationships with potential equity and debt capital providers

Source : Eurazeo

Onboarding all shareholders

"*What's crucial is to never pursue an opportunity without careful evaluation and early consultation with relevant stakeholders, including your leadership team, board of directors, and potentially external advisors with expertise in mergers and acquisitions,*" says Guillaume Paoli.

Discussing the option of an M&A with the board or investors is an important step in the process. The risk of not being aligned with the shareholders is to increase the odds of them reneging from a deal they thought was problematic (about 6 percent of deals). "*Point out that you both have an invested interest in seeing your company succeed,*" says Fred Plais. "*The high failure rate arguably makes people nervous. If you can have those tough conversations with your investors that map out why an M&A is the best option for your company.*"

"*Your Investors are also good sparring partners for challenging the project,*" notes Emmanuel Arnaud. "*We had to convince them which led to several board sessions. They're fulfilling their role. As entrepreneurs, we can get a little overexcited or be driven by ego; it's healthy for the board to challenge us and our way of doing things.*"

WHAT TO EXPECT FROM YOUR INVESTORS?

Venture investors can support startups on several key aspects of executing an M&A strategy:

- **Screening support:** your investors have a broad view of the companies building in your category and in adjacent categories. They can provide industry insignts, can help you to screen the market and to get in touch with potential targets.
- **Due diligence support:** venture investors have an extensive network of financial, juridical, technical and strategic consultants that can be leveraged to perform the due diligence.
- **Negotiation and deal structuring:** your investors are used to complete many transactions when they're investing in or exiting startups. They can bring best practices on securing a deal with favorable terms for founders and shareholders.
- **Financial support:** venture investors can provide capital to fund acquisitions and can help you connect with the right debt and equity providers to fund your M&A strategy.

Source : Eurazeo

Investors have experience and feedback to share, networks and outside insight about a company that can be invaluable for your decisions down the line. Obtaining it well in advance can be decisive.

Fred PLAIS
Co-founder of Platform.sh
350 employees
Acquired companies
Commerce Guys Inc (Michigan, USA): 2010
Blackfire.io (France): 2021

Organizing your M&A

1- The systematic approach VS the opportunistic approach

Can opportunistic acquisitions be rewarding? In a word, yes.

“*Many M&A operations involve distressed companies, presenting opportunities for potential buyers,*" says Caroline Noublanche. “*The case of acquiring Woom in Spain was such an opportunity. Woom was struggling financially, unable to secure funds and limited in options, making it an attractive prospect. Our board was concerned about the timing, as we were in the midst of a fundraising process. But there is never a perfect time; it's a matter of seizing the opportunity or not. Although the move was risky, it was worth trying and it showcased our entrepreneurial talent within the whole team.*”

“*It’s not always the buyer who sees an opportunity and takes it. The seller can seek it out too,*” explains Camille Rumani, co-founder of VizEat about buying its Israeli-American competitor Eatwith. “*They struggled to raise a new round or sell to major corporates and contacted us. That's how we acquired them. We did an asset deal: no cash, no debt, we bought only the assets. For the financing, our investors were in. It gave us a foothold and brand name in the US, revenue, so it made sense.*”

2- Build an acquisition pipeline

Planning and anticipating being the operative words when it comes to M&A, the systematic approach should be preferred. The most successful M&A acquirers take a proactive, systematic and repeatable approach to selecting targets and initiating deals. They actively manage an M&A pipeline of appropriate acquisition targets rather than reflexively react to deals.

"*We went deal hunting with an internal team of experts who screened and reviewed potential acquisition targets that were in line with the company's acquisition strategy, both in France and in the countries where wanted to make a move,*" describes Jean Moreau. When a company has a clear vision and links each deal to the company's strategic goals, it can engage its shareholders and maximize the likelihood of identifying the most appropriate targets as it builds its acquisition pipeline.

3- Set up a dedicated team and distribute roles

An M&A is a strategic project, which might transform the company. It deserves a dedicated team. "*You have to be realistic about the available bandwidth,*" says Emmanuel Arnaud, "*and be prepared to free up some of your teams to devote 100% of their time to the merger.*"

First: Distribute roles between co-founders, one of them being dedicated to acquisitions.

Second: Not everyone is a seller. You may have to get in touch with dozens of companies to find the target that suits you best, which is incredibly time-consuming. In the pre-acquisition stage, it is advisable to set up a dedicated team. This will also allow you to be more efficient downstream and save time… and costs.

4- Which external support should you choose?

"*For certain areas you may not need an investment bank, because you're very familiar with the market, the product, or it's not your first rodeo. But when you don't know, get support,*" emphasizes Guillaume Paoli. The cost is worth it, because it will potentially avoid you some critical missteps which will cost you more down the road.

On the legal side, "*having a great lawyer, ideally one who follows deal after deal, is imperative, and for cross-border transactions, a local legal counsel who understands the subtleties of the cultural, political, legal and fiscal environment of your target acquisition is instrumental,*" insists Guillaume.

"*The risks in cross-border transactions are high,*" says Thomas Pasquet. "*The French entrepreneur typically has no knowledge of the intricacies of the US tax system. For example, our company may have had to pay taxes to the US on the profits of its subsidiaries worldwide if we hadn't set up the right structures.*"

Which one do you choose: an external or internal legal counsel? "*The local branch of your own law firm might be a good choice,*" according to Vincent Bryant, co-founder of Deepki, "*as they already have informed knowledge of your company, your goals and your specificities.*"

QUESTIONS AROUND HIRING A HEAD OF M&A

1. Who is the ideal profile to run your M&A operations?

Timing is key when hiring a Head of M&A. If the pace of acquisitions is slow, it is recommended that the CEO or CFO oversees the M&A operation, accompanied by their legal and finance team, along with possible external advisors. However, if acquisitions become central to the company's strategy and the financial strength is sufficient (large fundraising or post IPO), it is time to recruit a Head of M&A and a dedicated team. On finding the right profile, it is crucial to find someone who complements the CEO. Often people in this role come from PE / VC, banking, or M&A backgrounds. However, if you have a strong finance team in the company, someone with industry expertise, who really understands the product and go-to-market strategy and can work with the teams internally on the financial exercises, might be a better fit. There are therefore two options you can consider:

- A more traditional financial profile, who will be able to navigate the complexity of deals
- An entrepreneurial profile, strong in business development, who will be accompanied by advisors on the deal structuring (legal/finance)

2. How should you structure your team?

It is important to note that the Head of M&A should report directly to the CEO to ensure that the visions are completely aligned. Alternatively, reporting to the CFO is also possible. The product teams should work hand in hand with the M&A team, especially if the acquisitions are product-focused, and the sales team should leverage to assess upsell/cross-sell opportunities. If external growth is more focused on new markets/international, sourcing can be done by in-house business development teams or external actors capable of mapping the market. In general, M&A teams are quite small, with one Head of M&A at first. We typically see companies with 3,000 employees, doing 1-2 deals per year with an M&A team of 2-3 people

3. What skills should you be looking for in a Head of M&A?

The Head of M&A should possess key skills that include the ability to:

- Organize and lead teams
- Rally a team of executives to align or disagree
- Recognize patterns of what good and bad companies look like

Soft skills are major in this role as well. A good Head of M&A is able to read people and understand how they will fit within the organization. They have to be a strong negotiator, capable of optimizing financially but without sacrificing the relationship, and always keeping in mind that the ultimate goal is to create as many synergies as possible. Networking skills or an existing network are a plus as this role is also about sourcing the right companies and having the right network to activate them.

Source : Eurazeo

> **Finding the right target is similar to head-hunting: when a company is on the market it's almost too late. It's a big advantage to have a previous relationship with the founders: it shows genuine interest in the company.**

Vincent HUGUET

Co-founder of Malt
600 employees
Acquired company: Comatch (Germany): 2022

Successful sourcing: aim for the right target

Before getting into anything, make sure you know WHAT WHO WHERE AND HOW you're getting into by establishing a clear set of selection criteria.

A) WHAT: Finding your diamond in the rough

What makes a good target? Many criteria come into play, including cultural alignment, strategic objectives, geographic and technological advantages, and the potential contribution of talent. No wonder finding the right target is challenging! Here are a few sourcing tips:

- **It's not a question of size** but of converging dynamics. Big and small companies are both interesting targets for different reasons, says Wiktor Bourée, co-founder of Technis: "*big companies face technical challenges that we have solved, and they are about to become obsolete. But the integration part is risky. Whereas a small company is a good target if it has developed an interesting technology, but can't grow by itself.*"Olivier Pomel adds: "*The acquisition of smaller companies can also be a radical transformation, as they have very good development velocity, serving as a reminder to everyone that you can go very, very fast. It brings us back to entrepreneurship, injecting a shot of innovation! And that "need for speed" spirit is infectious!*" he enthuses.

- **Cast a wide net.** As the funnel quickly narrows. "*We saw over a hundred companies, talked to roughly thirty, then ten, then shortlisted three,*" explains Alix de Sagazan. Similarly, "*we weren't restrictive at the outset and cast a wide net,*" says Olivier Pomel. "*You start with a thousand and end with one ideal target. But it helps to have the in-house support to help you scope out the opportunities, understand who you're going to talk to, know what makes it a good opportunity, and then pass all this on for validation. It will accelerate the deal-making process.*"

- **Talk to everyone.** Informal discussions can yield unforeseen opportunities: Vincent Huguet, initiated the acquisition of Comatch during a family trip in Berlin, where he happened to spend time with the founders of his German competitor whom he already knew. Guillaume Paoli advises to originate as many opportunities for encounters as possible: "*In fact, most of our deals ended up happening with sellers who initially didn't intend to sell!*"

B) WHO: The role of personal chemistry in merger and acquisition success

- **Seduce the founder with your vision**

  “*The key aspect for us was establishing early connections with the person at the head of the company we eventually acquired—a direct competitor with whom we had a strong personal relationship, shared similar visions and philosophies. We would occasionally socialize, grabbing a beer and discussing industry trends and our respective competitors. Through regular contact, we nurtured the relationship and the seed we planted blossomed,*” says Vincent Bryant.

  For most founders, selecting a partner with whom they share a common vision is critical. “*As an acquiring company, you’re buying into a vision and agreeing with the founder on the best ways their vision can develop in the future and how the acquisition can take it to a higher level,*” underlines Alexandre Prot. “*If you have this powerful narrative, it’s attractive to teams on both sides. People will respond to it as they want to work for a company with a visionary storyline and with prospects of becoming a leader – don’t underestimate the power of that,*” he says.

- **Find the right team fit**

  A key factor that often influences the outcome of mergers and acquisitions is the chemistry between the management of both parties. For Olivier Pomel, THE key criterion for acquisition is the capacity to seamlessly integrate teams and align them towards a shared objective of achieving global success. “*We were especially looking for a compatible cultural fit. People we would appreciate working with, who are selling for the right reasons and looking to create an upswing. And actually, there aren’t that many like that.*”

“The founder is someone who seeks a partner who sees their vision, understands it, and will help them achieve it faster and better than they could on their own.”

Alexandre PROT
Co-founder of Qonto
1300 employees
Acquired company: Penta (Germany): July 2022

C) WHERE: Weathering cross border M&A risks and challenges

You don't just need to know what you're stepping into, and with whom, you need to know exactly where you're stepping and what issues this incursion may raise. This implies incorporating several additional considerations specific to targets outside your own borders, namely:

- **Political concerns** involve reckoning with all stakeholder concerns, such as government agencies, employees, and suppliers, to avoid potential government intervention or political risks.
- **Cultural chocs** require companies to invest time and effort in understanding local culture and communicating effectively to overcome negotiation pain points and differences in business practices.
- **Regulatory requirements** involve expanding government scrutiny of foreign direct investment, which may increase deal closure time and require careful risk allocation and response to scrutiny.
- **Legal constraints** include addressing differences in legal environments, labor laws, antitrust laws, and contractual obligations to ensure compliance and profitability.
- **Taxes and accounting** pose risks due to varying tax systems and debt-to-equity ratios, requiring attention to regional and national tax laws and financial information of the target company.

D) HOW: M&A due diligence

"*As with any other marriage, you must prepare for the possibility of divorce*", warns Vincent Bryant.
Before tying the knot, it is important to thoroughly consider the company's debt, liabilities, problematic contracts, litigation risks, intellectual property risks and more, and all of the local rules that apply, obligations and subtleties for cross-border M&As.
Acquiring a private company carries even more risks because buyers have less access to information from public sources. In any case, it's not a process you should rush, no matter how attractive the offer.

HOW TO SUCCESSFULLY COMPLETE YOUR DUE DILIGENCE AND USE IT AS A KEY TOOL FOR ACQUIRING A TARGENT COMPANY ?

Due diligence is a central part of the Buy side M&A process. It must be well anticipated, both in regards to its terms and objectives. It is crucial to set up a top notch advisory team (*e.g.,* on legal, financial and operational aspects), taking into account the activity and sector of the target company (*e.g.,* regulated activities, sector involving specific skills), and the jurisdictions where it operates. One has to adapt the depth of the audit to the characteristics of the transaction, specifically the amount of the acquisition and the maturity of the target.

In addition to the process of verifying the financial, legal and commercial integrity of the target company through assessing potential red flags, and the suitability of the transaction as a whole (go/no-go), the audit should also be used **as a tool to identify growth opportunities of the target company.** The audit allows you to create **an integration plan** that can be implemented effectively after acquisition (*i.e.*, identifying problems and developing solutions, minimizing risks and maximizing opportunities). A holistic and synergistic approach will ultimately enable the buyer to **optimize the costs** in connection with the transaction.

Transparency is also key. Comprehensive and qualitative information will be the basis for a successful audit. It will be necessary to remain flexible and adaptable throughout the audit process: the problems identified are not necessarily deal-breakers, but must always be followed up on, which may require solutions that help facilitate the integration of the target company, such as adjusting the share purchase agreement, or negotiating the purchase price.

Source : White & Case

2.

THE M&A PROCESS: INKING THE DEAL

Few projects present companies with as many perplexities as an M&A: by its very nature, the more details that are taken into account, the greater the added value. On the other hand, the process needs to be agile. Finding the balance is a challenge.

1 - A STEP-BY-STEP PROCESS

Negociating: a seduction game

Mergers and acquisitions are a complicated process that requires thorough analysis, but it's also a courtship between two interested - if wary - parties. Especially when you're dealing with the founder. You'll want to make the right moves. "*Remember, throughout the negotiation you are building your future relationship with the founders: you have to persuade them,*" says Vincent Bryant.

Approach the target company diplomatically. "*Understand the company's position before making contact and be sensitive to how it might receive your offer, which should never come across as a disrespectful one. It's not because a company has failed to raise their capital that they are necessarily in a weak position going into an M&A, namely if they have worked on their projections and can value the synergies,*" points out Jean Moreau.

1- The importance of physical "touchpoints"

M&A need to include physical touchpoints to ensure genuine strategic and cultural alignment: they are often the most ignored pieces of the whole puzzle, and yet they can prove to be the most fruitful.

"*There were times when we were on the verge of breaking up, and we resolved it by seeing each other physically, and making the effort on the buyer's side. We had to convince them, show them that we were interested in them, that we weren't just doing this because we were bigger than them,*" says Vincent Bryant.

2- Keep your emotions in check

Emotional factors can influence the highs and lows of negotiations, particularly when founders are selling their "*life's work*". Both parties should resist the urge to get too emotional or fixated — instead, ask for help when you need it and keep communication open and honest. Negotiations have their ups and downs: and it can feel a bit like a soap opera at times. "*You should expect them, not be surprised by them: it's part of the journey,*" says Emmanuel Arnaud.

Don't underestimate the language issue in a cross-border M&A process either. "*We had to negotiate in English where there are a lot of false friends in the language and things that were culturally taboo: I once used the word "disappointed", a very strong term, and people were offended...*" reveals Emmanuel Arnaud.

3- Be surrounded by your "best men and women"

Buyers also have their own emotional drivers.
"*Having outside advisors can be instrumental for the smooth running of the negotiations,*" says Guillaume Paoli. "*An investment bank will help you stay level-headed in your discussions about valuations. It can deal with the more sensitive parts of the negotiation, serve as the necessary punching bag when there are tough calls to make, or be able to iron out the kinks.*" If you use an outside consultant or legal team, build trust between the intermediary and the seller and maintain open lines of communication between all parties throughout the process.

4- Analyze motives and interests from BOTH buyer and seller perspectives

There is no "*it's not you, it's me*" in the negotiation process. The M&A is both parties' responsibility. Understanding the M&A motives is the result of a comprehensive analysis aimed at defining the strategic, financial and organizational needs to be met by both the buyer and seller parties.

"*This is actually the most intellectually stimulating part of the entire endeavor, in my experience. Having to mix negotiation strategy and persuasive mechanisms to convince each other of the price you have in mind, while also projecting yourself into the future in order to understand how much more valuable you would be together, and how much stronger both of you are compared to the competition,*" explains Alexandre Prot.

5- Know when to walk away

There are many reasons not to go through with a deal. "*Every M&A should be strategic for all companies involved, and create more opportunity and value together than separately. If an acquisition doesn't fit this model, always walk away from the deal,*" stresses Fred Plais. "*The cultural component is also crucial,*" he adds. "*This is not a soft requirement.*"

Getting out of a deal can be heart wrenching, when you have invested a lot of time and energy. In this respect, "*keeping roles separate is crucial,*" says Emmanuel Arnaud. "*My co-founder helps me keep a cool head; he can rein me in and prevent me from making emotional decisions or push through on a deal I should be getting out of. It's not always that easy to step out of a process when you have dedicated so much of yourself, time and energy!*"

Crafting the proposal

Valuation is consistently a top priority for all parties involved, but it's important to remember that the structure and terms of the transaction are equally crucial. The process of structuring a proposal involves aligning all shareholders to craft the desired deal with the appropriate target.

1- Adapt to the different types of shareholders

There are three types of shareholders: founders, investment funds and business angels. Aligning their different interests is a tightrope walking act. Each of them has different issues, goals and interests, so both sales prices and payment mechanisms or price complements favor some and not others.

That's what Caroline Noublanche experienced when buying Woom: "*The funds were quite facilitating, because they had a clear understanding that if the deal didn't go through, they'd lose everything. They recognized the potential synergy and opportunity to propel this remarkable project forward, despite its yet-to-be-established business model. However, we faced challenges with some of woom's prominent business angels who had made substantial investments, only to end up with minimal shares due to the waterfall in place.*"

2- Beware of complex cap tables

Anticipating and resolving complex capitalization tables is crucial, as it often requires addressing legal intricacies specific to each country, which can be time-consuming and necessitate local expertise. "*Woom had numerous business angel investors,*" says Caroline Noublanche. "*However, in Spain, the absence of digital share registers posed a significant challenge. Each shareholder had to personally visit a notary's office, sign a power of attorney, and pay associated fees to sell their shares at zero value. You can imagine how the collection process went!*"

3- Nurture before you structure your human capital

The feasibility of a merger or acquisition decision should not be considered only from a business, financial and legal perspective.

"*There are three main reasons for the high failure rate of M&As and the errors made in determining their sustainable value, and these reasons are not financially related, they're human related. 1) You're mistaken about the intrinsic quality of the teams who relied too heavily on the founders. 2) You didn't accurately discern the founder's true motives for selling. 3) The cultural model didn't fit,*" says Fred Plais.

Human capital-related issues can be very difficult to decipher during the negotiation process, but these are what will ultimately ensure the future success or failure of the new relationship: people have the ability to make or break an alliance.

2 - DEFINING TARGET VALUE

Determine the right price in a turbulent market: multiples and methods

HOW TO FIND THE RIGHT PRICE FOR AN M&A TRANSACTION

Price is a key challenge during an M&A transaction. The target company wants the offered price to match its expectations before spending time with the acquirer. The acquirer wants to know if the acquisition is affordable and fits in with its perceived value.

1. Target Company's Incentives and Options

Understand the other party's desires and bargaining power before starting a negatiation. You often have to convince multiple parties (founders, investors, business angels) that have different incentives. Make sure the target company shares its ask price before you do and use it as a starting point for your thinking.

You must accept that price is not an objective element. It reflects the amount of demand for a specific asset at a particular point in time. Determine your bargaining power by assessing the company's urgency to sell or the number of potential acquirers interested.

2. Market Value

When talking about tech startups, comparable transactions are frequently used as a point of reference. Gather market data from recent transactions in the same sector and when target companies have similar financial profiles. Looking at public peers to calibrate your valuation can also be an option. The bigger the company the more relevant this approach is, as smaller companies are not necessarily valued based on purely financial date, similar to what can be seen in pre-seen or seed rounds.

Keep in mind that i) there is no one-size-fits-all approach to valuing a business and ii) the strategic value of a company is not something that can be determined based on its P&L.

3. Alignment with Financial Vision and Means

Align the target's valuation with your financial means and the value it can create for your business in the short and long term. Spend time trying to quantify this value as well as potential cost and revenue synergies. Compare this with the price you obtained before, and ultimately compare the results with the cost of doing things organically (do not underestimate the time, cost and strategic focus it takes to do things organically!).

4. Triangulation to Find the Right Price, Deal Structure, and Iterations with Target Company

Once you've triangulated the three methodologies and have an idea of the price, think about deal structure. Valuation is only one part of the equation. Many more factors can enter into consideration when structuring your deal such as cash vs equity or upfront vs earnout.

Conclusion :

Finding the right price for an M&A transaction is an iterative process that involves collaboration between you, the target company's managers, and its shareholders.

The price should be fair fot both parties and serve as the starting point for a long-term relationship. Remember that the success of an M&A deal depends not on price, but on the successful integration and development of the team, product, or customer base after the acquisition.

Source : Eurazeo

Structuring the deal

FINANCING A DEAL: YOUR OPTIONS AND THE ADVANTAGES / DISADVANTAGES OF EACH		
FINANCING OPTION	+	-
CASH	• Need enough cash on balance sheet	• Not advised to finance 100% in cash as main asset
SHARE SWAP	• Preserves cash / no increase of leverage • Interesting option if target's company valuation is lower than yours	• Dilution • Loss of control if large part of your cap table • Cap table fragmentation
NEW EQUITY	• Preserves your cash and doesn't increase leverage • Interesting for investors that like build up strategies	• Depends on ability to raise at attractive terms
DEBT	• Always cheaper than equity, especially in times of low-interest rates • No dilution and limited loss of control	• Depends on cash flow forecast (ability to pay interests and repay debt) Terms can limit your operations (covenants, representations, undertakings) Possible dilution through warrants

Source : Eurazeo

STRUCTURING THE ACQUISITION PRICE OF THE TARGET COMPAGNY

LImited cash flow in Tech transactions, difficulty of raising funds purely intended for build-up, combined with the current scarcity of financing, push buyers towards hybrid solutions (i.e. cash and equity) to finance the acquisition of the target company.

Our recent experience shows that the purchase price usually includes only a small cash component (balance being paid through equity), and regularly involves instruments which grant access to the capital of the target company (under certain conditions, notably a new fundraising round). These hybrid instruments should be handled with care. Particular attention must be paid to **the threshold valuations** (sometimes ambitious) chosen to ensure effective conversion in the future, and to the realization of possible cash options that it is preferable not to leave in the hands of the sellers to avoid a strong constraint that could, for example, require emergency fundraising.

Source : White & Case

The difficulty of knowing what's under the hood

It only takes a small error in estimating these values to cause an acquisition effort to stumble. Acquirers invariably must cope with a lack of, or asymmetric, information.

“Before entering into a formal process and getting access to classified information, and before initiating a Due Diligence effort, you need to make sure it makes sense to dedicate energy to an advanced screening of the opportunity, which otherwise could generate defocus. You therefore try to evaluate the size and the margins of the business, the potential synergies, valuation expectations from the sellers, cash / equity mix, with limited data on the target company, limited access to managers, suppliers, distributors and customers, and insufficient experience. Even seasoned buyers rarely capture data systematically enough to improve their estimates for the next deal,” says Jean Moreau.

“You try to use benchmarks, leverage public information, obtain sector and sub-sector reports, rely on public information and press readings but you don’t precisely know if the company achieves $10M or $20M in annual recurring revenue. There is always deliberate confusion in the founders' public statements (projections, estimates, budget vs. actuals, GMV vs. Revenues, $ vs. €, etc ...) and that ‘fake it until you make it’ spirit, which is part of the game.”

WHAT GUARANTEES TO OBTAIN FROM SELLERS?

When acquiring a company, it is necessary to protect against liabilities that would not have been disclosed by the sellers. Negotiating Representations and Warranties ("R&W") based on the assets and liabilities of the target company and compensation schemes is therefore a necessary step. This descussion, which sometimes seems complex, has a double virtue that should not be neglected first, it is a natural means of encouraging sellers not to omit anything while declaring their liabilities as part of the audit, and secondly it can be a means of negotiating the price.

Since the financial investors of the target company will not provide more than Representations and Fundamental Warranties (i.e. the ownership of the transferred shares and the ability to validly sell them), it is usually the founders and the management associated with the capital who will provide them. The stakes are higher for them as they will seek to protect the potential impact of this compensation on the cash out received at the time of the sale. A part of the amount due to them will also often be placed in receivership so that it can be directly returned, either in whole or in part, to the buyer if the R&W guarantee is activated.

In order not to make this point of negotiation too polarising, we recommend, considering the size and characteristics of the transaction, to use an insurer who will take care of the compensation in the event of inaccuracy of one or more representatives. The use of a third party makes it possible to outsource the subject while reducing it to a cost element (that of the insurance premium).

Source : White & Case

Avoid integration burn-out with a well-structured earn-out

The earn-out is a contractual agreement between a buyer and seller where a portion or all of the purchase price is contingent upon the target firm achieving specific financial and/or operational milestones after the transaction is completed.

Earn-outs offer an opportunity to break purchase-price deadlocks and negotiations while forcing difficult conversations between the selling or surviving management team and the buyer around how the asset will be operated post-acquisition. For founders, they enable them to aspire to higher sale prices, provided they are willing to put in the effort necessary to earn it.

Fred Plais explains: "*Earn-outs, although demanding and difficult to negotiate, are popular in M&As - especially in tech deals between startups and scaleups where agreeing on valuation can be tricky: There's a reluctance to finance in cash up front, and deal structuration can be difficult. Earn-outs can help overcome impasses in purchase price negotiations, redistribute risk and generate interest in the seller to ensure the success of the new entity in order to benefit from the company's turnover.*"

For more on this subject, please refer to the Earn-out focused article published by the Galion Project.

"A full cash deal is always risky: it makes the earn out less interesting. While a deal with a large share of shares proves that the founder of the acquired company believes in the future."

Thomas PASQUET
Co-founder of Ogury
500 employees

Get the whole team "in" on it

However, it’s important to not lose the trust of the teams in the process. To do so, Alix de Sagazan recommends incentivizing everyone: “*The earn-out should benefit the whole company, not just the founder. It’s crucial to build an incentives framework that can be shared throughout the company, not only because it’s the right thing to do, but because it ensures the livelihood of the company, by aligning and incentivizing everyone to deliver on its future prospects. Otherwise, you might very soon have to deal with dissatisfaction and requests for raises from your employees who may feel they’ve been hung out to dry.*”

Being listed can be a competitive advantage to make a deal. “*It definitely reassures people - because everything is public,*” points out Guillaume Paoli. “*When it's time to encourage managers, the liquidity prospects are much better than in the unlisted company.*”

WHAT ARE THE INVESTMENT REQUIREMENTS FOR MANAGERS OF THE TARGET COMPANY?

The consistent involement of founders, top management and key employees is often a sine qua non condition fot the successful integration of the target company and to ensure success of the contemplated transaction. The future iincentive plan offered to them id thus a crucial tool for aligning interests, involviing managers, retaining key individuals and, ultimately, creating value.

The plan must be compatible with one that already exists on the buyer's side. This avoids creating a double mechanism that could be misunderstood by stakeholders. In this case, it is often useful to anticipate several options, one with vesting related to presence conditions and the other aligned on performance conditions.

In the case that the target company is located abroad, the taxation applicable to the incentive inistruments often becomes a structuring element of the negotiation. The challenge is then to adjust the current incentive plan of the buyer's company to benefit from the most favorable local tax regime, as much as possible. This often means writing a sub-incentive plan.

The last issue to consider is cultural and particularly, in relation to marketpractices that can vary significantly from one country to another. Leaver conditions clauses, a,d specifically the retention of post-sale instruments, are very common, for example, in the united States, while this is the exception in France.

Source : White & Case

Prepare for the long-game but develop a short-game plan

There are no hard and fast rules when it comes to the length of the M&A process: “The M&A process can take anywhere from six months to several years, depending on the complexity of the deal,” says Alix de Sagazan. Establish timelines and break down the M&A process into projects of short duration that sharpen the focus of those involved.

Brush up on cross-border compliance

Governments worldwide are broadening their scrutiny of foreign direct investments beyond the traditional focus on national security. They are becoming more proactive in assessing deals, even those that don't fall under mandatory notification requirements. As a result, parties involved in cross-border transactions with potential foreign investment risks must carefully consider these developments when negotiating the allocation of risk and time frames.

It is crucial not to overlook the challenges that merged companies may face in terms of legal compliance and regulations. If the legal landscape in the target country differs, it can increase operating costs and reduce profitability. Harmonizing employment contracts, for example, can become difficult due to conflicting employment laws.

"*In the US, it is common to receive as little as three weeks' notice or even just 15 days. Departures can happen abruptly, overnight even, which requires a prepared mindset,*" notes Thomas Pasquet.

Given that each country has a distinct tax system, taxes pose significant risks. While ensuring tax security may seem burdensome, being blindsided by tax regulations can be costly. Those involved in cross-border mergers and acquisitions should carefully consider common risks such as regional and national tax laws, as well as the target company's financial information and compliance with required regulations.

"Ideally, you want to be able to industrialize the process: what is interesting is to be able to pursue further M&As without wasting too much time and missing opportunities. This isn't an ad hoc exercise. You need to be able to remove stumbling blocks, know what works, what doesn't and be able to do it again."

Wiktor BOURÉE
Co-founder of Technis
60 employees
Acquisition in process

LOCATION OF THE TARGET COMPANY: HIGH-LEVEL POINTS TO CONSIDER

If the target company is located in...	Points to consider
Germany	**Co-determination:** Germany has strict co-determination laws that allow employees to have representation on the Supervisory Board ("Conseil de Surveillance"). In the context of a merger or acquisition, these rules can have significant consequences. **Due Diligence:** data privacy/clean-team rules is a major issue in Germany and this can sometimes limit the scope of due diligence. **Protection of minority shareholders:** minority shareholders have strong rights in Germany, which may effect the structure and dynamics of negotiotion. **Closing specificity:** a large part of contracts, including those relating to the transfer of shares, must be signed before a notary.
Spain	**Protection of employees:** Spanish laws offer significant protection to employees in the event of a change of control of a company. **Closing specificity:** notarial deed required for transactional documentation.
United Kingdom	**Data protection:** the United Kingdom implemented the UK General Data Protection Regulation (UK GDPR) after Brexit, replacing the EU GDPR and the texts are not entirely identical.$ **Cybersecurity:** the UK has strict cybersecurity laws. Technology companies must implement appropriate security measures to protect the information they hold and report any security breaches. **E-commerce:** the UK has specific rules for online transactions, including rules on distance contracts and consumer protection
United States	**Data Protection:** the United States does not have national legislation equivalent to the GDPR but it does have a patchwork of state and federal data privacy laws, such as the California Consumer Privacy Act (CCPA) in California. **Cybersecurity:** cybersecurity laws are complex in the United States, with regulations at the federal and state levels. Technology companies must comply with these regulations to secure data and report data breaches. **E-commerce:** The Federal Trade Commission (FTC) regulates many aspects of e-commerce, including online marketing and advertising practices.

In general, and in all of the above jurisdictions, merger control issues (competiton law) can occur and will have to be taken into account during the M&A process. In addition, companies operating in sensitive areas may also be subject to foreign direct investment ("FDI" and "CFIUS" in US), with non-harmonised national regimes often requiring so-called multifilling strategies on cross-border transactions. Anticipation and coordination are critical. It is Key to have a multifiling FDI screening strategy to ensure deal certainty and comply with time constraints. FDI regimes are wide-reaching in scope, from national security to public health, safety critical technologies and key infrastructures. They are divergent with respect to jurisdictional triggers across countries, process and timelines. The number of FDI regimes is growing around the world particularly in Europe.

Source : White & Case

3.

POST-M&A: INTEGRATE SUCCESSFULLY TO CREATE VALUE

The acquisition is just the beginning.
Integrating the two companies requires extensive planning in all areas: finances, organizational structure, roles and responsibilities, culture, communication, etc. It's an ongoing 360° process that affects every level of the company and needs to be monitored and evaluated over many months (and even years).

1 - MANAGING INTEGRATION

“Inking the deal is the easy part,” says Wictor Bourée, co-founder of Technis. “Finding out if it will be worth it, if you can operate together and create value over the long haul depends on how well you manage the integration process.”
This comprehensive process demands effective human management, attentive listening to all stakeholders involved, while continuing to measure satisfaction levels and monitor operational indicators.

Mastering the art of letting go, a little or not at all

Three approaches “*or integration models*” address specific founder “*traits*” and have demonstrated a stronger likelihood of success:

- **The standalone model:** This model involves treating the acquisition as a financial investment. The acquirer takes a hands-off approach after the transaction, focusing only on setting financial targets without interfering in the target's strategy or operations. “*The founder continues to operate independently as long as the financial targets (such as revenue, profits, or value) are achieved. While maintaining independence keeps the founder motivated, additional financial incentives like profit sharing or step acquisitions linked to milestones at progressively higher values keep the founder focused,*” says Thomas Pasquet.

- **The targeted merger model:** This is a “*bridge-building*” approach which implies building a succession plan from the founder and talents to the new leadership as an integral part of the acquisition agreement. The founder earns a significant portion of the transaction value only after successfully executing an agreed-upon succession plan to the new leadership approved by the acquirer.

- **The full integration model:** This approach capitalizes exclusively only hard (cost savings) and soft (revenue increases) synergies. “*There’s always the option of just wiping everything out, besides core operational synergies, and doing everything your own way,*” says Vincent Bryant. “*That happens, but it’s rarely well perceived, and you risk losing talent, customers and the benefits of the brand’s local notoriety. Also oftentimes the sauce just doesn’t take.*”

How do you "deal" with the founders?

Transactions often involve targets led by founders, and one key to success lies in how the founder(s) is handled after the acquisition. But founders are their own breed. Their companies represent more than just size, profits, and value to them. It is about their vision, capabilities, and ultimately their identities.

Once a founder... always a founder

Founders can be exceedingly complicated individuals to manage,” shares Camille Rumani: “*If they are the ‘visionary founder’ type, with limited operational responsibilities, integrating them as an employee has little chance to work out. You need a hands-on founder to make the integration as successful and smooth as possible.*” But let’s face it: generally, it is very taxing for a founder to return to an employee position. "*Pretty much everyone has run into difficulties trying to integrate founders, due to the culture, ego, the level of freedom they’re used to,*” says Vincent Bryant. “*We tried, but we quickly realized it wasn't going to work and set up in advance a practical/operational/legal framework, as we had anticipated from the start that it might not work out. The founder thus left on very good terms.*”

Ascribing new roles

Founders of the acquired company have to accept that their job will change.

To succeed in the transition, “*It is crucial to foster open discussions throughout the process*” according to Olivier Pomel. “*We often come across founders who hold leadership positions like CEOs but possess a deeper passion for being engineers. In such cases, we strive to identify roles that truly suit their talents and aspirations.*”

Traditional approaches of linking economic incentives to performance don’t always work with founders, often confusing and frustrating the acquiring parties.

“*Founders value their independence and oftentimes their positioning,*” explains Olivier Pomel. “*Most frequently, as an acquirer you will have to decide between granting them autonomy while setting financial targets or ensuring that the founder receives the full value of the acquisition only after successfully transitioning to an approved new leadership.*”

“The big challenge remains to find a place for the founder(s) of the acquired company in light of the new roles the acquiring founders take on, and to ensure that the position suits him or her.”

Alix DE SAGAZAN
Co-founder of AB Tasty
290 employees
Acquired company: Epoq (Germany): 2022

2 - PLAYBOOK FOR DIFFERENT INTEGRATION MODELS

The due diligence phase is a good time to start thinking about the integration phase. Make decisions early on about what should and shouldn't be integrated and at what pace. Once the deal is signed, develop an integration roadmap that includes, in particular, timing, senior management roles and staffing.

Define your roadmap

"*It's best to have a very clear idea of the organizational workstreams and timeline very quickly. You can't have an organizational chart that changes every 2 weeks. You have to be able to say what will happen in 2 weeks, 1 month, where you're going and how, to remove all uncertainties which can be anxiety inducing*", says Alexandre Prot.

Olivier Pomel has designed an in-house playbook that is devised upstream based on the integration methods which will be put in place: "*it's just a few very important points to which we pay close attention when we decide to make an acquisition that focus especially on the velocity of integration, establishing very short deadlines, key milestones and very specific goals to facilitate the mix between teams and interconnect all groups.*"

Velocity is definitely the key word. Olivier Pomel underlines: "*You need to start showing the acquisition's value three months after the deal, and then every three months. Quickly delivering on the added value is a signal of strong leadership that is necessary to keep your teams motivated and shareholders reassured: it materializes the vision they believed in going into the merger.*"

There is a lot at stake, stresses Fred Plais: "*You have to deliver on the promised synergies, or the teams can think it's just a marketing coup. You risk losing momentum and possibly the talent involved. And if you lose the talent, you lose the quality of the asset.*"

"When acquiring a company, the biggest risk is not to lose money but to demotivate both new and existing teams. That's why we deliver something within 3 months, to show both parties very quickly the value created by external growth."

Olivier POMEL
Co-founder of Datadog
5000 employees
Acquired companies:
Mortar Data (US): 2015
Logmatic (France): 2017
Madumbo (France): 2019
Undefined Labs (Spain): 2020
Sqreen (France): 2021
Ozcode (Israel): 2021

A PMI office to orchestrate everything

“*To get you through what can be an extended and complicated integration process, a best practice is to create a Post-Merger Integration Office,*” recommends Vincent Bryant. The PMI is a temporary project management office that orchestrates, balances, and prioritizes the efforts of the various integration teams. It should include your steering committee, a specialized integration manager, a communications manager, department leads, and cross-function leads. “*This will facilitate timely decision making, help you keep the rhythm going, and be pragmatic in resolving issues along the way,*” highlights Vincent.

The PMI should have a clear start and end date. It will be responsible for forging a detailed timeline, blending meticulous planning with the agility needed to deliver on the promised added-value at short intervals. Who makes up this PMI office? According to Vincent Huguet, “*the challenge is not to choose between an independent consultant or a big firm. It’s about picking the right people: make sure you know the individual or the team who will handle the PMI process.*”

Camille Rumani recommends another resource: "*To handle the duration of the process, if you don’t have a change management expert, consider seeking one externally. There are inevitable delays, from 6 months to a whole year. It takes a psychological toll that should not be underestimated and can stretch your resources thin and inevitably increase costs.*”

Communicate, communicate, communicate

Personnel issues arise primarily from differences in culture, values and vision of the companies entering into a new relationship. One must avoid inaccurate rumors, which are very detrimental to the morale and motivation of the organization and the individual. To do so, employees on both sides need to be informed as early as possible about what to expect after the acquisition. Clear, transparent, logical, precise and simple but descriptive “*personalized*” communication is what matters in such cases. One should not make the mistake of sending emails on this subject.

“*For cross-border mergers, there are strong cultural strings and emotional attachments to the company,*” explains Guillaume Paoli. “*So we set up group meetings every couple of weeks where we address key differences in management practices and processes directly, and make the new ways of working and the thinking behind them clear to employees.*”

Build bridges between teams

Successful integration is mostly an HR issue. Therefore priority - and budget - should be placed on connecting people: an offsite event to celebrate the acquisition, regular trips for key people, group meetings, and a proper onboarding at the headquarters for the integrated team who should be treated like new employees.

The acquisition offers interesting new perspectives to retain people. “*This enlarged environment should be appealing to talents: it can offer them wider perspectives, with international career options,*” stresses Vincent Huguet.

Working tools and processes are important too: mails, apps and processes should be standardized very quickly.

“*You need to impose your way of doing things. That’s why the semantics are important: it’s not a merger, but an acquisition. Some will like it and see it as an opportunity, others will leave,*” says Vincent Huguet.

Crossbreed corporate cultures

Corporate culture is a major challenge, which can jeopardize the success of the acquisition in the long term. Standardized systems and structures, as well as policies and procedures, must be quickly developed to meet the changing needs of the acquired organization. You also need to keep the best of both worlds... if you can.

"*It's very difficult for companies to maintain their different corporate cultures in an M&A setup,*" reveals Fred Plais. "*We envision the acquisition as a total fusion. Engineers go with engineers, sales with sales. There needs to be a real cultural fit and way of working. All the teams must feel a sense of corporate belonging to the new company and adhere to a common vision for it to work.*"

Striking the right balance between embracing differences and maintaining the operational boldness required for success is a delicate art, as Loïc Soubeyrand experienced. "*Our previous small-scale acquisitions brought in individuals with entrepreneurial mindsets, revitalizing the entire organization. However, the case of Bimpli was distinct: there was a notable disparity in culture, as it operated within a major banking group. But we successfully navigated this challenge through a robust methodology: integration was managed by our operational personnel, without relying on external consulting firms. We firmly believe the truth lies in the work field itself.*"

"*When you buy a bigger fish, oftentimes it goes with the territory that you're the one who has to fit into the larger mold. The focus as a result is more on preparing your own teams to understand the new culture, especially in the early stages of the M&A, to avoid faux pas and misunderstandings,*" signals Emmanuel Arnaud.

But often, one culture does absorb the other. And it shouldn't be a problem, stresses Vincent Huguet. "*At some point you have to admit that you cannot have a diluted, averaged-out corporate culture: you have to impose your own culture. This doesn't mean it's better or worse. And you have to accept that some people won't fit in.*"

The buyer has to make an effort. You have to show them that you are interested in them, that you respect their story and that you value their corporate culture, and it's not a question of who is bigger than whom. Empathy and understanding are at the heart of the whole process.

Vincent BRYANT
Co-founder of Deepki
400 employees
Acquired companies:
Fabriq (UK): 2022
Nooco (France): 2023

Honesty, sincerity, and a clear understanding of how you want to work together and function are the only attributes that actually count.

Loïc SOUBEYRAND

Co-founder of Swile
1000 employees
Acquired companies:
Sweevana and Briq (France): 2020
Vee Beneficios (Brazil): 2021
Okarito (France): 2022
Bimpli (France): 2023

Face the hard facts: departures and layoffs

Plan, define and review changes in the organization, the roles, the reporting relationships, etc., carefully and as a priority. Be fair to all, not just your own. "*It's important to evaluate and decide who and what is unique and what is similar in the structures, systems, and policies and procedures of the two organizations, and to promote people according to capabilities and not according to their original company,*" emphasizes Alexandre Prot.

Be realistic about new or changing work requirements. Examine whether layoffs or reductions in force may occur in the future.

It's important that everyone is aware of what is going to happen sooner rather than later. "*Never keep the teams in the dark. There should be no gray areas,*" emphasizes Fred Plais. Rather, you need to prepare people to embrace and acknowledge the new dimensions: Who will be promoted, whose position will be increased, whose job will no longer be needed, must be communicated personally to those affected.

"*The whole process can involve a lot of resources, research and costs, so be prepared. You need to understand the fine print of how things work in other countries - to decipher the legislation and labor laws. In England, for example, dismissing someone is extremely procedural: for this you'll need to find the right local partners to guide you through the process,*" advises Camille Rumani.

Inevitably, there will be those you can't bring on board. The company you acquire comprises individuals who did not choose you, and it is important not to pass judgment. Departures are not synonymous with failure. It is essential to have absolute clarity regarding the narrative you wish to convey and acknowledge that it may not resonate with everyone.

Cross-cultural integration: treading carefully

Cross-border mergers and acquisitions are even more challenging due to their political, cultural, legal, and fiscal intricacies. And of course, there are geographic distances and language barriers, which can provoke major crises and undermine the M&A's primary objective to create synergies and combine different teams.

Knowing the 'do's and don'ts' and having a proper understanding of other countries and organizations' cultural values are the keys to the success of these deals. A specialized team of internal or external advisors with expertise in local practices, risks and idiosyncrasies can prove decisive for delivering on the added-value of a successful integration.

"*To take decisions together, to bring your teams physically together, to not destroy value means having consideration for the culture of each country. For acquisitions in the United Kingdom, don't underestimate the common history between the two countries! It plays in the collective unconscious and still informs preconceived ideas that can emerge at inopportune moments between the 'frogs' and the 'rosbeef'. This still matters today!*" warns Vincent Bryant.

According to Olivier Pomel, "*in cross-border M&As, it's advisable to have a local referent as a representative of the parent company's culture, a moral authority aligned with the corporate values and DNA, who will liaise with the head office in case of problems.*"

"We learned the hard way about the necessity to conduct a real change management policy. Not only for teams (both existing and new additions) but also for customers and all stakeholders. It takes a huge amount of time but it is worth it to deliver the added value expected for the acquisition. Don't be afraid to ask for external help for this, if you don't have the skills internally."

Camille RUMANI
Co-founder of Eatwith
25 employees
Acquired companies:
Cookening (France): 2015
Eatwith (USA, Israel): 2017
Grubclub (UK): 2018

3 - UNLOCK ENDURING VALUE: HARNESS THE POWER OF MERGERS FOR SUSTAINABLE GROWTH

Although it's often tacitly assumed that mergers create value, it's not always easy to actually generate that value: companies often take two to three years to realize full returns.

Brand your story well

The brand issue is above all a business challenge: it depends on the assets of both companies and the project underlying the acquisition. However, it is also a very sensitive and symbolic matter, which should be cautiously dealt with.

"The brand name and logo are visually evocative of a company's whole history, cultural identity, and business and customer relationships. Rebranding should follow the same storytelling guidelines as your M&A narrative. It can be a powerful tool to demonstrate to the outside world the quality, sanity and added-value of your and the acquired company's relationship. We decided to keep our acquisition's name, and simply add "by Deepki," says Vincent Bryant, "which served to encapsulate our new combined value proposal while reassuring teams and customers and helping them progressively get accustomed to the new entity and brand identity."

Emmanuel Arnaud made another choice: "*Embracing the brand of the acquired company can aid in the integration process and showcase the acquiring company's positive intentions. In the case of Guest to Guest, we appreciated our brand obviously, but recognized that Home Exchange had superior search engine optimization and a larger community who was strongly attached to the brand and showed some initial discontent with the acquisition. Adopting the name of Home Exchange proved beneficial to our efforts."*

Develop a compelling value creation story

A successful M&A story is priceless in terms of reputation and credibility and should be crafted and controlled carefully. The story should include a strategic view of where the new merged company is headed, capture the strengths of each company and show how the merger will take both companies to the next level.

"*We were acquiring a company five times our size,*" says Emmanuel Arnaud. "*It was radically transformational for us. And on a PR, press and prestige level you don't have a better, sexier story than that: the small French fish eating the American shark – when it's usually the opposite. So, we capitalized on that story to build confidence and allegiance. However, we kept the company name of our American acquisition, so that at the end of the story it didn't come across as though they were being devoured by a minnow. The story worked well for both sides!*"

Loïc Soubeyrand shares his experience, saying, "*During the weeks preceding the official announcement of the Bimpli acquisition, we openly communicated about our financial challenges, emphasizing that the raised funds were intended for strategic investments. When we eventually announced the Bimpli takeover, it generated an overwhelmingly positive response, acting as a counterbalance to the earlier concerns. It created a significant buzz within the industry.*"

"*The impact of effective communication cannot be underestimated. In today's market, even unicorns face scrutiny regarding their viability and profitability. We underwent that scrutiny and emerged stronger through this acquisition, positioning it as a major milestone,*" says Emmanuel Arnaud.

These compelling success stories underscore the resounding impact of a shrewd M&A communication strategy, generating positive attention, countering concerns, and affirming business viability in the competitive market.

> **M&A's first objectives are industrial synergies and growth. But it also brings immense value within the ecosystem, as it helps get PR, puts you on many investors'map, and positions you as a player who acquires rather than being acquired. Our good track record in successful M&As enables us to consider bolder ones, and we fully intend to continue executing more of them.**

Emmanuel ARNAUD
Co-founder of Home Exchange
123 employees
Acquired companies:
Itamos (Italy): 2013
Home for Home (Spain): 2016
Trampolin (France): 2016
HomeExchange (USA): 2017
Echange de maison (France): 2018
Knock (Spain): 2018
Nightswapping (France): 2018
Love Home Swap (France): 2023
My weekend for you (UK): 2023

The Galion Project is a collective of tech entrepreneurs.

Founded in 2015 by Agathe Wautier and Jean-Baptiste Rudelle, founder of Criteo, The Galion Project brings togethers and empowers 450 entrepreneurs, in order to help the Tech ecosystem scale better and faster, and build a better future.

The Galion Project is based on 3 pillars:

• **A community for peer-to-peer sharing**, with start-uppers who have raised at least €3 million in venture capital. The Galion Project creates an exclusive circle of trust between entrepreneurs to encourage mutual support and sharing of experience, ideas and knowledge.

• **A Think Tank to help the ecosystem grow.** The Galion Project leverages the collective intelligence of its members to develop reference publications on growth topics and expand the reach of the French Tech industry worldwide.

• **Galion.exe**, a seed investment fund created by entrepreneurs for entrepreneurs, owned by Galion members. Aside from financial support, this unique model is underpinned by the force of the entire Galion community.

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