EMPLOYEE TURNOVER DURING M&A

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2019 Average Turnover Rate by Occupational Group, Without M&A – US

Occupational Group	Average Turnover Rate (%)
Mining and Logging	2.5
Construction	2.3
Manufacturing	1.6
Trade, Transportation and Utilities	2.8
Information	2.0
Financial Activities	1.4
Professional Business Services	2.6
Education and Health Services	1.3
Leisure and Hospitality	4.5
Other Services	2.4
Government	1.0

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2019 Average Turnover Rate by Occupational Group, Without M&A – UK

Occupational Group	Average Turnover Rate (%)
Distribution	10.1
Engineers	8.8
Retail	8.3
Financial Staff	13.7
General Management and Admin Staff	19.3
HR Staff	17.2
Legal Staff	12.4
Sales and Marketing Staff	31.0
Education Staff	16.1
Property and Estates	11.6
Media and advertising	17.0
Technology Staff	18.3
Contact and call centers	16.1

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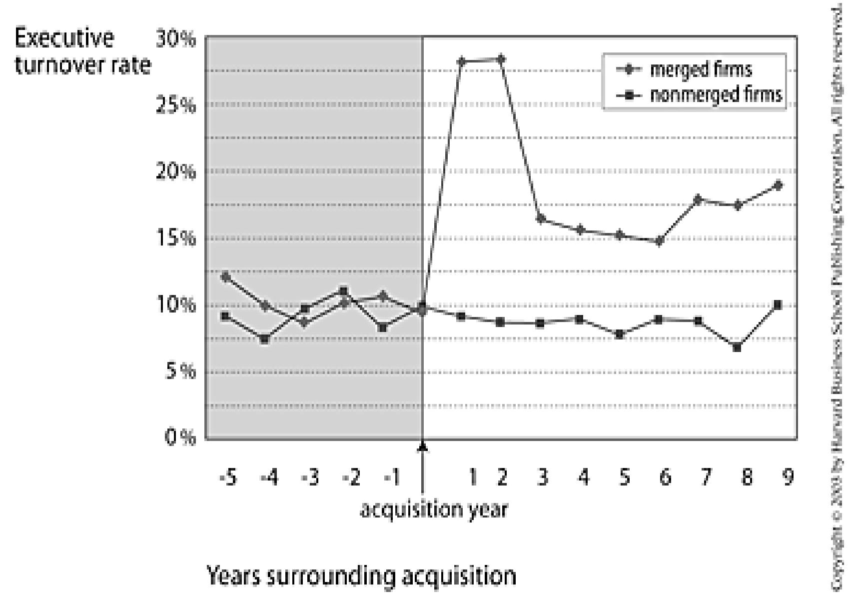
A 10% attrition rate is average for companies that have never undergone mergers; But for those that have, the rate remains twice that even nine years after the event (report published in 2003)

Executive Movement (2003)



- As per a study by Jeffrey A. Krug, an assistant professor of strategy and international business at the University of Illinois, Urbana- Champaign, in 2003, where he tracked the movement of 12,000 executives in 473 merged and non-merged firms over a 15-year period – 10% attrition rate is average for companies that have never gone through a merger. But for those that have, the rate remains twice that even nine years after the acquisition
- About **one third of those who leave do so involuntarily, and another third depart because of reduced job status or alienation**
- Acquiring firms frequently restructure and downsize the target company shortly after the acquisition to exploit synergies. Employees are expected to maintain or even increase productivity with fewer hands. The exodus of incumbent executives decreases leadership stability, disrupts lines of communication, and fractures the organizational culture
- New executives taking the reins in the new tough environment may be set up to fail, or at least to fall short of expectations. Just like incumbents, **executives who joined target firms after an acquisition also left at significantly higher rates than normal, beginning about two years after the acquisition.**

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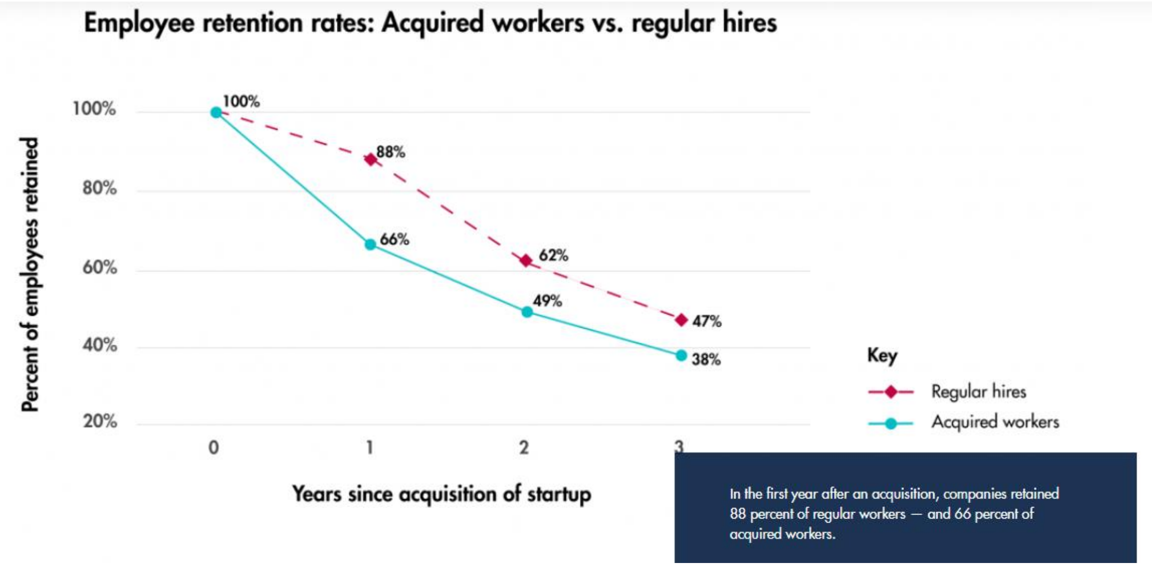
As per a new study (January 2019), 33% of acquired workers leave in the first year of their startup's purchase



According to Daniel Kim's paper, "Predictable Exodus: Startup Acquisitions and Employee Departures (January 2019)" within the first year of a company's acquisition, 33% of acquired workers left, compared to 12% of regular hires with similar skills and work experiences. **While those percentages tend to level off over time, in the three-year window Kim studied, acquired workers were 15% more likely to leave than new hires**

"People who work at startups join a startup for a reason," Kim said. "Primarily they want to be in a very entrepreneurial, scrappy organization. But once they get acquired by a big firm, that is in direct opposition with the preferences that they have."

Note: Kim used employee-employer matched data from the U.S. Census Bureau to build a dataset of 4,000 high-tech startup acquisitions in the U.S. between 1990 and 2011. Those acquisitions brought a collective 350,000 startup employees to new companies

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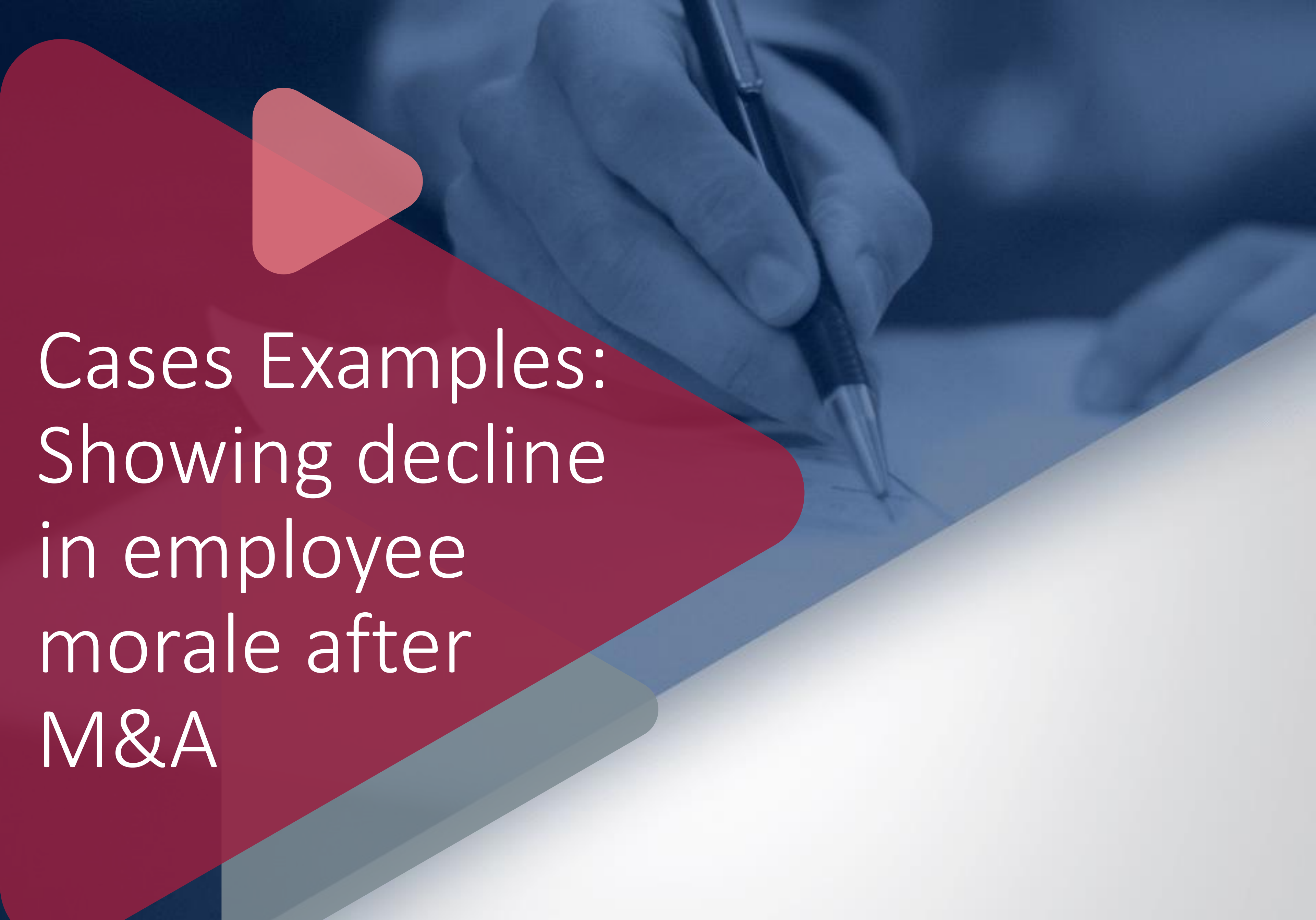
Cost of Employee Turnover

- High turnover after an acquisition is more than just a symptom of organizational problems—it may be an important cause. **The loss of incumbents at the outset affects operations directly, has the indirect effect of demoralizing a workforce already compromised by downsizing, and sometimes triggers a wave of further executive departures**

- Josh Bersin of Deloitte believes **the cost of losing an employee can range from tens of thousands of dollars to 1.5–2.0x the employee's annual salary.** These costs include hiring, onboarding, training, ramp time to peak productivity, the loss of engagement from others due to high turnover, higher business error rates, and general culture impacts.
  - Employees, Bersin explains, are appreciating assets that produce more and more value to the organization over time, which explain why losing them is so costly

- A paper from the Center for American Progress, citing 11 research papers published over a 15-year period, determined that the **average economic cost to a company of turning over a highly skilled job is 213% of the cost of one year's compensation for that role**



Cases Examples: Showing decline in employee morale after M&A

SHIRE AND BAXALTA MERGER

Shire Baxalta Merger

Overview

- In January 2016, Shire announced a merger agreement with Baxalta for $32 billion. The deal was completed in June 2016, creating what Shire called a global market leader in rare diseases and other specialized disorders
- As per UBS Evidence Lab's analysis, there was a sharp fall in Shire's employee reviews on Glassdoor post the merger
- Further, during July–August 2017, the company's Head of Research Phil Vickers and CFO Jeff Poulton announced plans to exit the company

Shire's merger with Baxalta in 2016 was followed by a decline in employee morale and exit of few top leaders

Although the company witnessed rise in revenue and EBITDA margin over 2017–2018; the company's stock price fell 29.5% Y-o-Y in June 2017, one year post its merger with Baxalta. The share price fell by 12.7% in June 2018 (vs. June 2016)

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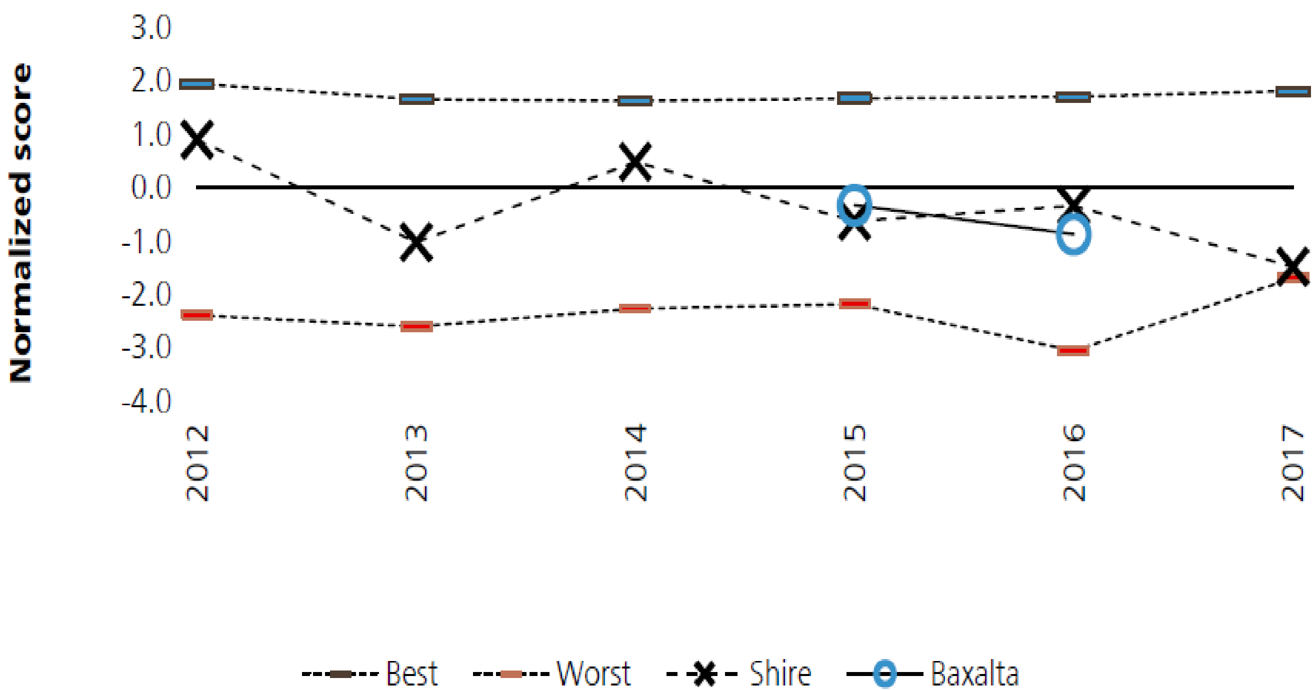
Overall Employee Satisfaction trend for Shire and Baxalta



In August 2017, UBS Evidence Lab ranked Shire 24 among 26 biopharma companies in terms of “overall employee satisfaction” rating. This was down from 2015 and 2016, when both Shire and Baxalta separately ranked just below the middle mark on most employee satisfaction measures among their peer group

Note: UBS Evidence Lab analyzed ~20K reviews of which ~400 were from Shire employees. Around 100 Shire reviews were from 2017. The reviews were analyzed up to the end of July 2017.

The scores have been normalized, so they can all be drawn on the same axes. They show “z-scores”. The top blue bars represent the best company among industry peers, and the low red bars represent the worst company. The horizontal line at zero on the x-axis represents the mean average score. Shire's scores are shown with a black cross, and Baxalta’s scores are shown with a blue circle.

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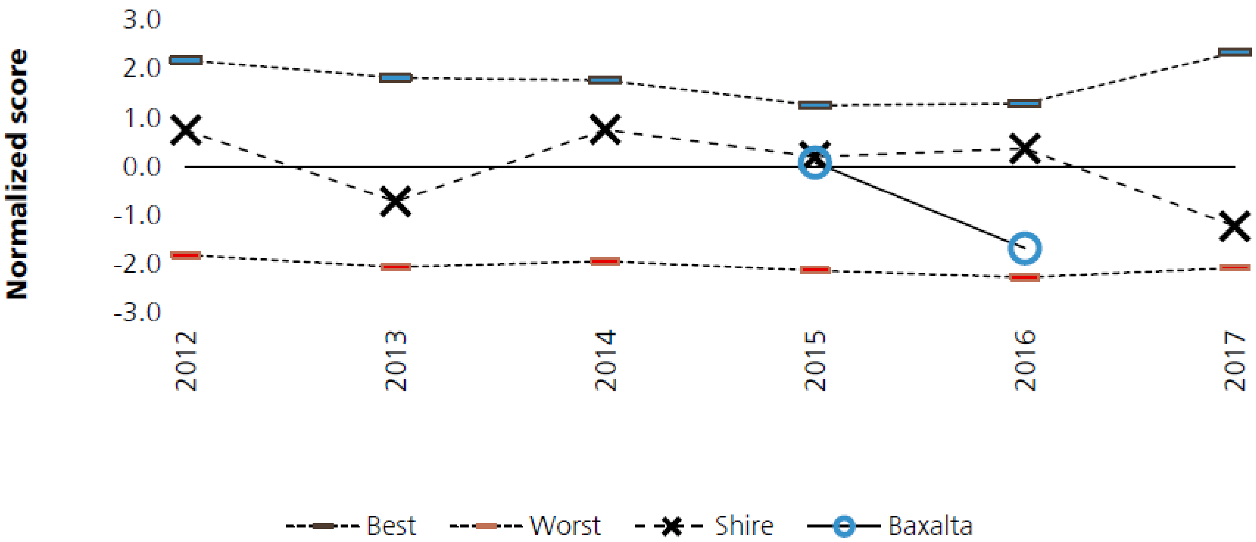
Business outlook rating trend for Shire and Baxalta



There was a large decline in Baxalta employees' view of the "Business Outlook" in 2016 versus 2015, which might reflect their concern over the impending acquisition by Shire, but might also reflect concerns over the wider business environment. This was followed in 2017 by a decline in Shire employees' view on the "Business Outlook," which again has more than one interpretation. It could be that former Shire employees have become more negative, or it could reflect the new mix of employees.

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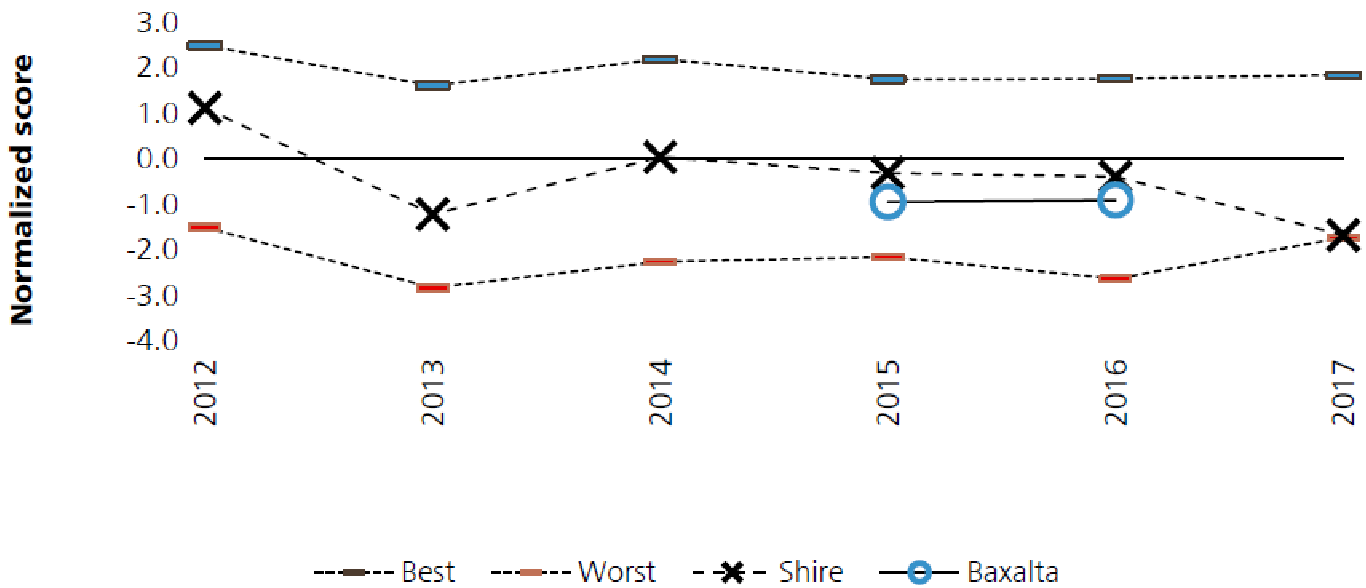
Senior management rating trend for Shire and Baxalta



In 2015 and 2016, Shire and Baxalta were ranked just below their peer average in terms of senior management rating. In 2017, employee satisfaction rating at Shire witnessed a drop dragging its ranking in terms of senior management rating to 22 among a peer set of 26 companies

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Employee Comments on Glassdoor (September 2017)

- Some of the reviews on the website suggest that employees were having a difficult time finding a balance between work and their everyday lives. There were also some questions as to whether or not upper management is on the same page when it comes to a “clear direction” for the company.
- One reviewer was critical of the company’s strategic direction. The reviewer, who had a “negative outlook” for the company, said that strategic direction “feels like it is constantly changing, and people cannot follow or understand the CEO's direction.” Other criticisms suggested that employees “burn out quickly” and had to constantly adjust to change within the company.
- Even some who said the company was a good place to work were critical of the leadership team, calling into question a lack of “direction and focus.”
- “Pick a direction and stick with it, you cannot constantly change the wheels on the bus while it is still moving,” said a satisfied reviewer, who claimed to be an associate director based in Boston

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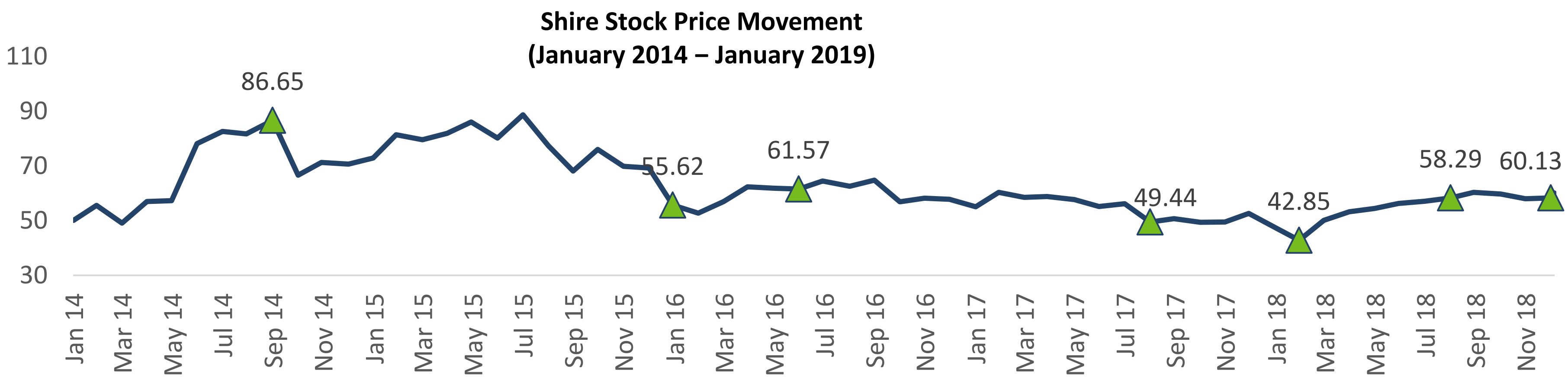
Shire's stock price fell 29.5% Y-o-Y in June 2017 and 12.7% in June 2018 (vs. June 2016 – when merger was completed)



- In August 2017, a drop in employee satisfaction coupled and few leadership departures prompted UBS to cut Shire's 12-month price target from $57.94 per share to $52.73 per share
- Shire's share price witnessed a sharp fall after the announcement of its merger with Baxalta in January 2016. One of the main reasons for this was fierce competition for Baxalta's hemophilia portfolio and its ongoing research in the domain, which made the market question whether Shire had paid more for Baxalta than it should have
  - Many players such as Biogen, Roche Holding, and BioMarin Pharmaceutical were conducting research on hemophilia drugs to come up with new therapies in the attractive hemophilia market – valued at $6 billion–$8 billion in terms of sales

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Vodafone India and Idea Cellular Merger

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Vodafone Idea

Overview

- In **August 2018**, India-based telecom operators **Vodafone India merged with Idea Cellular**, creating India's biggest telecom service provider with >408 subscribers. The combined entity was renamed as Vodafone Idea Limited.
- **The merger is expected to generate $10 billion synergies from both companies, with a major part being rationalization of tower tenancies. The company achieved about 70% synergy realization of the total guidance (on an annualized basis) by the end of June 2019**
- Vodafone-Idea **let go of around 4,000-5,000 employees** people in the lead up to the merger in August 2018. Seven months down, the employee count was around 12,500, down from the pre-merger combined headcount of over 17,000
- Vodafone Idea reported consolidated loss of INR 4,873.9 crore (~USD 682 mn) for the June 2019 quarter (Q1 2020). It has been reporting loss since Q2 2019
  - Its Opex declined 23.7% Q-o-Q, but increased 46% Y-o-Y in Q1 2020
- In August 2019, Balesh Sharma, CEO of Vodafone Idea, stepped down from his position citing personal reasons. He will be taking up a new role within the Vodafone Group. Ravinder Takkar, formerly Vodafone Group's representative in India, was appointed as Mr. Sharma's successor

Current Situation

A year after merger, Vodafone Idea's executives remain confused and tense about their future. According to a senior employee at the firm, the morale is quite low among employees, which is harming performance

Employees Speak

"The morale is quite low… The messaging we are getting is 'everyone's job is under threat', which is harming performance," said a Senior Employee at Vodafone Idea

"Every day we come to office to hear about more pink slips…," said a mid-level employee

""There is a huge turf war within the merged entity. The merger process has not been managed well by the leadership so one is not surprised that Balesh has quit," Company Executive.

"Operationally, the organization has split into two camps at several levels. Some of the senior executives who came from erstwhile Idea Cellular do not see eye to eye with executives who have brought in from Vodafone India," said an executive who has been with Idea Cellular for over a decade

"Employees continue to have their loyalties aligned to their parent firms. They haven't reached the stage where they consider their new regime bosses to actually be their bosses…," said a person, who deals with Vodafone-Idea executives for business. "This also sends contradictory signals to vendors."

Employees Dealing with Uncertainty, One Year Post Merger

Employees are discontent about the new employee designation structure that is being rolled out. Some employees claim that the new role classifications are both confusing and demoralizing – the most frequent example given was that various designations now have the same job profile. Some employees said that the new structure is leading to so-called 'demotions' and alleged that it could be a move to shed more jobs

Management's take on the situation

- As per former company CEO Balesh Sharma, the people integration is progressing smoothly within the company. He said that Vodafone Idea has already realized 60% of the targeted synergies in seven months, something which typically "would have taken four years" – this would not have been possible without functional and people integration
- A company spokesperson defended the new bands and said there was "a lack of understanding of the design of our new designation architecture".

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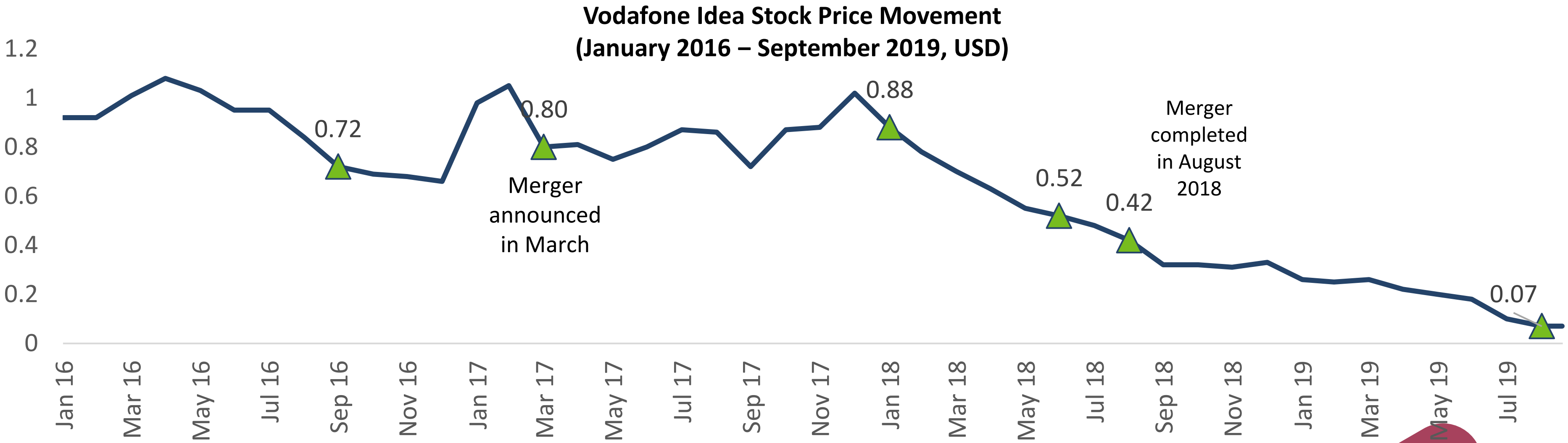
Steps being taken at Vodafone Idea to smoothen the integration process

- The company has set two goals: integrate as quickly as possible and protect market share
- Townhalls and constant two-way communications are being held across all levels to ensure employees are connected
- Teams and office spaces were created to ensure employees do not work in silos
- To avoid a “huge exodus”, the company stopped hiring from the time of announcing the merger. It opened up hiring in May 2019, but only for the internal people
- It is developing a new banding & designation architecture to make the organization leaner and make new hires fit in better

Vodafone Idea's stock price declined 83.3% Y-o-Y in August 2019



- Vodafone Idea is facing stiff competition from its peers Bharati Airtel and Reliance Jio. Its curbs on investment have hurt customer experience and lead to subscriber churn. Additionally, weak market conditions have made it difficult to raise funds

- "Vodafone Idea (IDEA) reported weak Q1FY20 with 4.3% QoQ revenue decline (Street estimate of 0.3% growth) and 11.0% adjusted EBITDA margin (15.6% estimate). The company's subscriber base declined further by 14.1mn without commensurate increase in ARPU, indicating that the company is not only losing marginal, low ARPU customers, but also subscribers upgrading to smartphones. Although we are positive on telecom operators with expectation of price hike from Q4FY20, we remain cautious on IDEA's ability to capitalize on it considering underwhelming mobile broadband (0.3mn versus 2.3mn QoQ) and 4G (4.1mn versus 5.4mn QoQ) subscriber additions. With weak Q1FY20 and slower 4G subscriber addition, we revise down FY20/FY21E revenue and adjusted EBITDA 3.9%/6.7% and 34.3%/30.8%, respectively. Maintain 'HOLD' with revised DCF-based TP of INR7 (earlier INR15)." – Edelweiss Securities Limited (July 2019)

IBM and RED HAT

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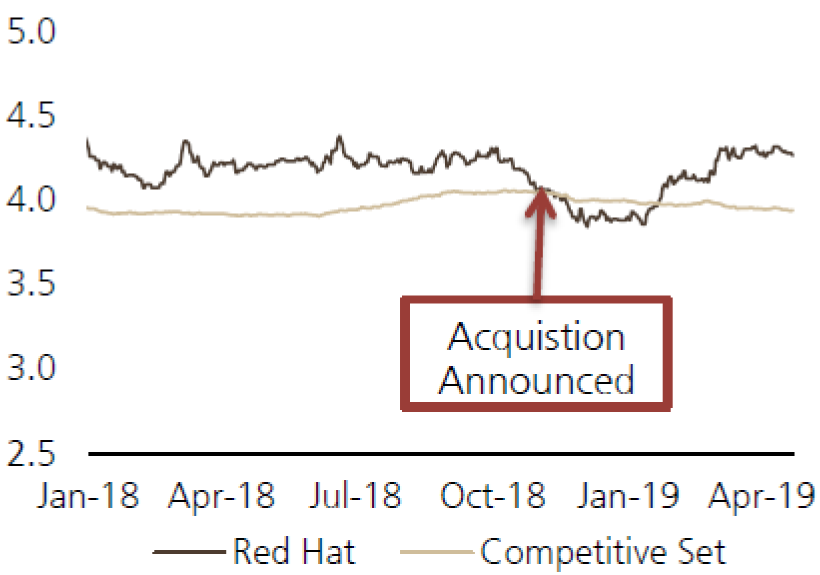
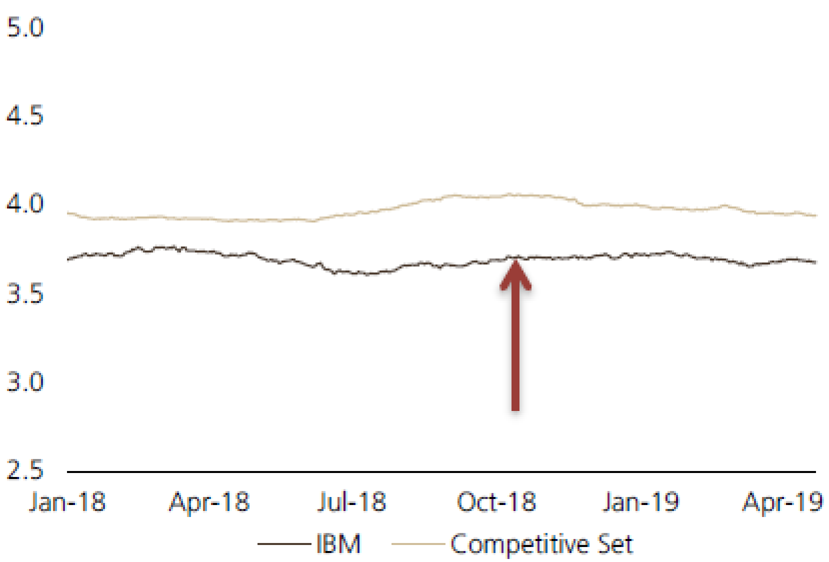
In July 2019, IBM completed the acquisition of Red Hat for $34 billion; the deal was announced in October 2018

Glassdoor Overall Employee Satisfaction Score – Red Hat vs. Peers



As per research by UBS evidence lab Red Hat's overall employee satisfaction score on Glassdoor, dropped after the acquisition announcement; but it picked up gradually later

Glassdoor Overall Employee Satisfaction Score – IBM vs. Peers



As per research by UBS evidence lab IBMs overall employee satisfaction score on Glassdoor remained stable post acquisition announcement

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Red Hat employees feel they might lose the company's great culture

"IBM acquisition created a lot of uncertainty and to make it worse, the management just kept on providing newer and newer excuses instead of making the impact clear and concise" -

"Sold out to IBM, so there goes the great culture . Stop the IBM acquisition, you'll lose $1B, but you'll save your souls" – Software Applications Engineer, Red Hat employee

"the IBM-Red Hat acquisition.. protect your culture to retain your talent. Remember, many RH employees are here specifically because of your culture. Lose that, lose us. " – Principal Solutions Architect, Red Hat employee

"Good culture learning until acquired by IBM" – Associate Software Engineer, Red Hat

Employee Reactions As of March 2019

"*Culture is still alive and being protected by all . Acquired recently by IBM. Red Hat to make IBM great again.*" – Red Hat employee

"Cons: *There seems to be no more money since Red Hat took over!.*" – IBM employee

"As a former IBM employee and current red hat employee I feel that we'd remain a different org and share resources and most importantly our commitment to open source and culture will remain the same. I hope anyways, if that changes" – Red Hat employee

"I can't imagine a bigger culture clash" – Red Hat employee

"As a former IBMer, I can tell you that redhat is as good as dead. RIP redhat" – Former IBM employee

"As a Red Hat employee, almost everyone here would prefer it if we were bought out by Microsoft."– Red Hat employee

I'll be looking for a job with an open-source company." – Red Hat employee

"Time to pick a new distro. IBM does the "long con" of embrace-and-extend. Nothing will happen right away, and then, insidiously, over a few years or more, RH will be "blue-washed" and all the coolness will be gone, replaced by everything having a dependency on DB2 and WAS."– Reditt Reaction

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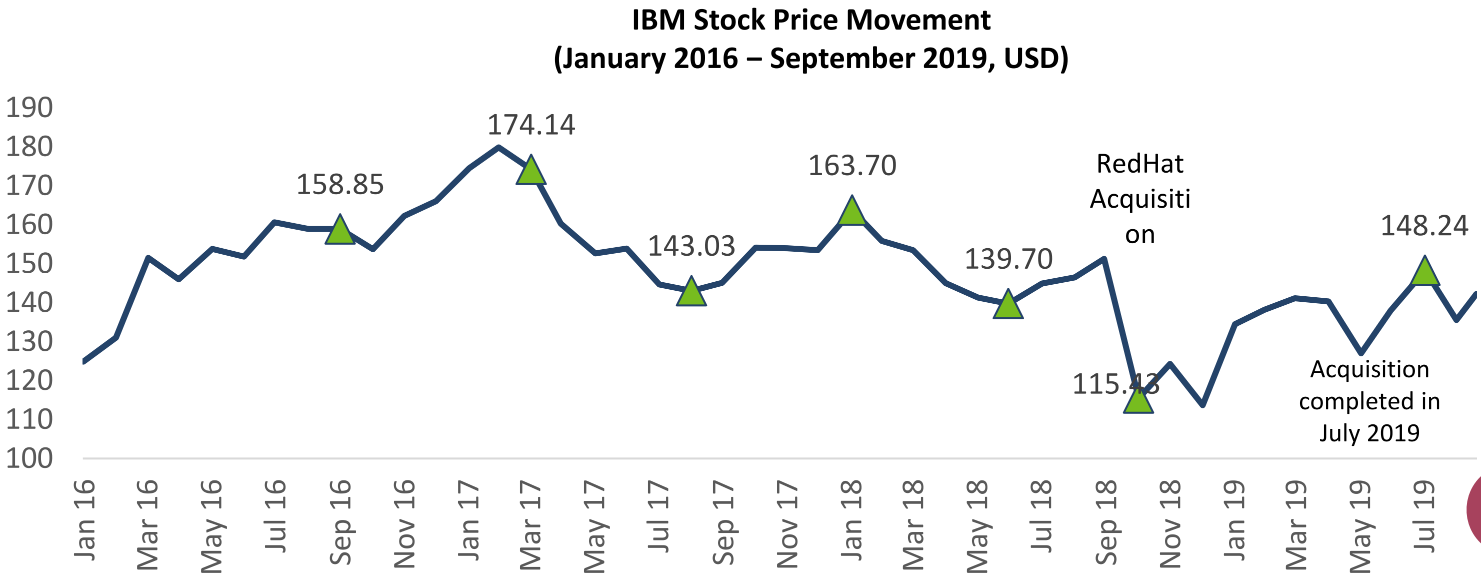
IBM's share price fell 24% M-o-M post announcement of its acquisition of Red Hat; it was up 7% M-o-M when the deal was closed



"IBM is in the middle of yet another digital revolution, and while the jury is still out on the long-term strategic and financial success of initiatives like analytics and cloud computing, we think rising sales from these products will mostly offset slow declines in legacy businesses. IBM's large, profitable, and sticky core operations will protect the company from any precipitous slide in competitive positioning, but we think its economic moat has narrowed, as we have concerns about the economics and competitive dynamics of its newer initiatives … Though still in the early stages, we think investments in IBM Cloud (a combination of SoftLayer and Bluemix); acquisition of Red Hat; establishment of development platforms like Watson Developer Cloud; and enterprise application partnerships with leading global companies present positive opportunities for IBM … We view IBM's stewardship of shareholder capital as Standard, down from a prior rating of Exemplary. We think the company's previous approach to financial roadmaps, or specific long-term earnings per share targets, while good for Wall Street expectations, was not necessarily the best approach for a business having to become agile in a rapidly evolving industry. We would have preferred to see a greater emphasis on improving the company's underlying technological and competitive positioning rather than meeting a strict financial figure. " – Morningstar (August 2019)

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Thank You!

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