MOSHER CONSULTING GROUP

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INTEGRATION PACESETTER™

WINNING THE AGRIBUSINESS M&A INTEGRATION GAME

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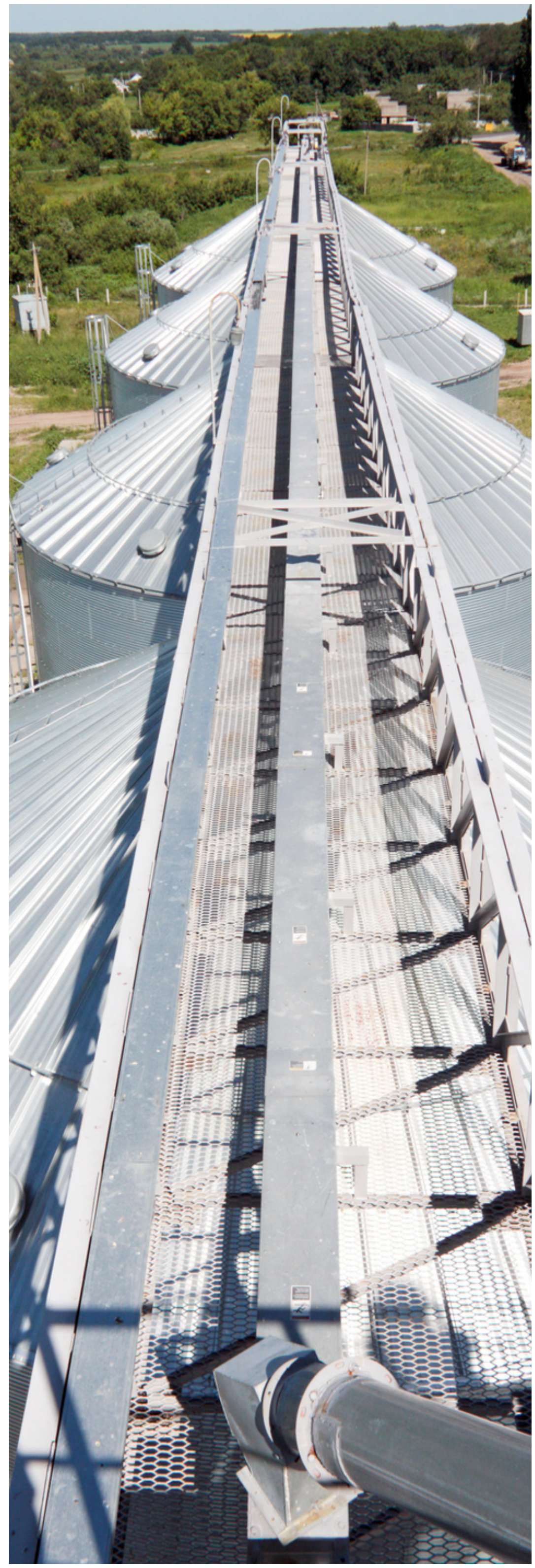
THE RISK



Mergers and Acquisitions (M&A) are an attractive path to accelerate the growth of your food or agribusiness firm. Buying or combining with another company opens all sorts of interesting and compelling opportunities. They include:

- Win market share
- Expand your product portfolio
- Gain access to new customers
- Grow into new markets
- Or capitalize on the efficiency gains that come with operating economies of scale

But M&A deals carry risk. There is a wide distribution of outcomes associated with executing a merger or acquisition and nearly all of them are to the downside. M&A results rarely exceed your expectations.

Abundant research indicates that well over half of all M&A transactions fail to deliver the commercial, financial, operational, or strategic value expected.

In our experience, many M&A deals destroy more value than they create.

Statistically, start-ups have a greater chance of success than a company who has completed a merger or acquisition hitting their goals.

In other words, you'll enjoy better odds starting a business from scratch compared to trying to combine two existing companies together!

THE REASON

M&A presents business leaders with a nearly irresistible promise: an express lane to growth. But what is left unsaid is that you get on the express lane via a dangerously short on-ramp.

First time, or first in a long time, acquirers quickly find traffic on the express lane to be threatening and chaotic.

The pace is erratic and fast, and it only accelerates the further you go and closer you are to deal closing. There is no shoulder available for buyers to pull over, collect themselves, and regain their bearings. Off-ramps are all but non-existent, meaning it's difficult—and costly—to pull the plug on the transaction. You are on the expressway being carried along by the traffic with little hope of decelerating or exiting in a controlled manner.

Why does this happen?

Mergers and acquisitions are a process, not an event.

Conventional approaches to M&A are front-loaded. Front-loaded to a fault.

Acquirers have bountiful options of skilled advisors and service providers for all of their needs early in the process:

- Brokers to originate prospects and targets, and make introductions
- Advisors to assist in business valuation, negotiation, and due diligence
- Lawyers to ensure proper transfer of title and entity structuring
- Accountants to advise on tax optimization strategies
- And bankers to syndicate deal financing or directly underwrite the transaction

All of these services and in-depth, technical knowledge are important. They are critical and invaluable. In fact, they are non-negotiable.

But this suite of M&A services is incomplete.

These services get both parties to a big milestone: closing the deal. But getting to M&A close does not equate to getting to M&A value.

Closing the deal is not the end. It is the end of the beginning.

M&A deals routinely fall short of expected results.

This is sometimes due to poor deal design: wrong company, wrong strategy, wrong price, wrong time. But more often it is not poor deal design that destroys value. It is poor integration execution.

A merger or acquisition is an exciting time. And the business case that is developed in the early stages of deal pursuit creates a center of gravity that pulls leaders in.

It is intoxicating to consider the upside impacts of your successful acquisition:

- The complementary capabilities you are bringing together
- The efficiencies to be gained by the combined entity
- The costs that can be eliminated by streamlining operations, technology, or production
- The new markets and customers that will be made available to you
- The free cash flow that will drop directly to the bottom-line post-transaction

But the business case is not your friend. The business case lays out the vision for growth and assumptions that roll up to expected value. But rarely provides a detailed path to growth.

Yes, there may be signals as to where you can unlock captive value once two companies become one, but those signals lack precision. And precision is what you need once you are handed the keys.

You don't want the first time you drive a car to be the first time you have thought about how to drive a car!

Front-loaded processes that do not prepare you for integration, and a business case that prescribes a destination without instructions of how to get there, are not the only drivers of value destruction. You must also account for the enormity of the challenges of integration itself.

Integration is the hardest part of the M&A process

When you attempt an integration you are putting intense pressure on every aspect of your business — simultaneously and with urgency.

- What does this mean for our customers?
- How do we manage and deliver the combined portfolio of products and services?
- What processes and systems will we follow?
- How do we need to be structured?
- Where are decisions made? How are they made? How are they communicated?
- What does this mean for the technologies we use?
- Do we preserve our culture or create a new one? How?
- How do we know if this is even working?

Integration is the most challenging undertaking a company and leader will ever undertake. More difficult than executing a new strategy. More difficult than managing a business turnaround amidst a crisis.

It requires thousands - sometimes tens of thousands - of important, difficult, and time-sensitive decisions. And every single one of them incremental to the work you were already doing within the existing business.

If you are not prepared for integration, you will be working harder and longer, for less reward and upside, than you ever have in your career. A drought of results awaits.

MAC WAS SITTING RIGHT WHERE YOU ARE

If most M&A deals fail to deliver their expected benefits due to poor integration, then how do you plan, manage, and execute well?

You need a proven process. A process that blends the winning practices of large, serial acquirers, with the pragmatism required of smaller organizations.

You need rigor, not rigidity.

I want to share with you a story of a business and agricultural industry leader that was sitting right where you are: looking down the barrel of an exciting (and intimidating!) M&A opportunity.

Mac Ehrhardt is third-generation owner, and president, of Albert Lea Seed. Established in 1923, Albert Lea Seed is an independent, family and employee owned company that provides conventional non-GMO and organic seed to farmers across the United States in addition to cover crops, small grains, and forages. Located in Southern MN, Albert Lea Seed is one of the largest suppliers of organic field seed in the country.

In 2021, Mac was presented with the opportunity to acquire a long-time competitor in the organic field seed space, Blue River Organic Seed.

This was an exciting time. Acquiring Blue River Organic Seed would position Albert Lea Seed as the leader in the thriving organic field seed business.

But Mac hesitated. He knew that as a small, single-location company with 50 employees and no prior M&A transactions in the nearly 100 years his family had owned and grown the business, they may not have the ability to successfully design and execute the integration.

Mac and the team rightly predicted a high probability of integration challenges. They were deeply concerned about failing to capture the value expected from the investment, and they recognized the potential damage to the brand equity of both their legacy and acquisition target seed brands if integration was not done well.

After issuing a Letter of Intent which was accepted by the parent company of Blue River Organic Seed, Mac and the management team began working with the Mosher Consulting Group (MCG) to design a comprehensive, company-wide integration plan using MCG's proven process, **Integration Pacesetter™**.

WHAT IS INTEGRATION PACESETTER™?

Integration Pacesetter™ is a 5-phase process that de-risks your M&A transaction by delivering better results, in less time, and with less disruption to your existing business – all through effective integration planning and execution.

1. OPERATING MODEL

2. PROCESS DISCOVERY

3. BUILD THE PLAN

4. EXECUTE THE PLAN

5. SUSTAIN & OPTIMIZE

The process ensures you have a defined plan to get you from value articulation in your M&A business case to value realization in your post-integration steady state operations.

This is about building a bridge to take from your expectations to results.

THE ALBERT LEA SEED EXPERIENCE

Rather than make big, bold promises that the process works or explain in exquisite detail all the features, bells, and whistles available, let's explore the experience of Mac and the Albert Lea Seed team as they went on their M&A journey.

PHASE I - OPERATING MODEL

An integration Operating Model sets the foundation of your plan by answering the fundamental questions that will guide your integration through to the end.

- Why are we doing the deal?
- Why should our customers be thrilled?
- Who needs to be involved?
- Who has decision rights?
- What is in or out of scope?
- How will we know if we have been successful?

While there had been plenty of discussions around if, how, and at what price to pursue a Blue River Organic Seed acquisition, the Albert Lea Seed team had plenty of work to do to get aligned.

There was no single point of view on precisely how they would know if this was a successful investment for the business. Nor was there clarity about who would be involved in the integration, what needed to be an immediate priority versus a secondary opportunity, or even where to chalk the lines to designate the field of play.

Would they operate two concurrent inventory and order fulfillment software applications or consolidate to one?

Would the legacy brands be marketed in separate websites, catalogs, and other collateral? Or be co-mingled? Or be recast into an entirely new combined brand?

Would the existing accounting, costing, and financial reporting processes be sufficient to manage the combined organization?

This is just scratching the surface of serious and impactful decisions that needed to be made to get the management team aligned before moving ahead.

A common objection to doing this work upfront is that the deal thesis is clear and the focus needs to be on due diligence and getting the deal across the finish line - there is no time to detail out how the acquirer plans to run the integration.

But experience proves time and again that the operating model becomes the operating system for your integration. It pre-defines the work you want to do, based on the results you want to get. It details how teams will work together and communicate to get to the optimal outcomes. It anchors the whole team in the alignment that has been reached, and guides decisions to be made later.

Mac and the team completed their Operating Model after just a few challenging and debate-rich calls with MCG and moved ahead with the benefit of a clear integration charter that codified the rules of engagement. It drove alignment around roles, responsibilities, expectations, and the scope of their integration.

PHASE II - PROCESS DISCOVERY

Process Discovery requires you to take a brief step back from your M&A deal and have a good, long look in the mirror.

Why do this?

Because while you cannot directly reduce the overall complexity of an integration, you can reduce the complexity your company introduces by being clear on key process questions.

- What are your core business processes?
- Do you expect they will align or differ from the target company?
- Which processes drive the most value? Is that value created for the benefit of your business or your customers?
- Which processes are most effective at reducing risk? Are those risks heightened, muted, or unaffected by M&A and integration?
- Based on the review of processes, does the scope of the integration need to change?

As Albert Lea Seed went heavy into due diligence, they were confronted with a dual challenge.

First, they did not have a consolidated inventory, a single source of truth, itemizing all the different processes they use to run their business.

And second, while Albert Lea and Blue River were both in the organic field seed business and had many processes that worked similarly, there were also some big differences. For example:

- One company was focused on direct sales to customers, and the other emphasized sales through an established dealer network.
- One company offered real-time, online inventory availability and sales order submissions, and the other required sales reps to check inventory and take orders over the phone.
- One company cleaned seed both in-house and via third-party tollers, and the other exclusively cleaned seed offsite.

And the differences hidden within the two similarly sized companies occupying the same narrow niche did not stop there.

They had different credit policies, prepayment calendars and discounts, physical inventory tracking procedures, quality management approaches, and back-office support structures.

The differences piled up fast.

Working with MCG, the Albert Lea Management team created a combined inventory of all major process categories and sub-processes within those categories to get onto a single sheet of paper all the moving parts of their business.

Affectionately referred to by the team as "*the Albert Lea Seed periodic table of elements*", this singular view on all the processes within the four walls of their business that serve customers, create value, and maintain compliance, created greater alignment among the management team around where to focus integration activities.

An objection we often hear is “we don’t need this, we have a procedure manual - we are not a big company and we don’t need this kind of centralized control or oversight."

While both objections are true on the surface, they miss the intent of Process Discovery.

First, process discovery is about naming the processes you have and what their purpose is. And specifically, which of those processes cut across multiple departments or functions and could be the stickiest challenges during integration. This is not about creating step-by-step job manuals or extensive SOP’s. This is about creating a conceptual map of all the major processes that are required to run your business.

Second, big companies do not have a monopoly on complexity. The seemingly small and straightforward business that is the hero of our story, Albert Lea Seed, discovered that they had 13 major process categories and more than 125 sub-processes!

There is a lot that must happen to run businesses of any size and Process Discovery is not only an accelerator of integration success, it better prepares the organization for future growth and agility.

Jumping ahead for a moment, late in the integration journey, Mac learned that a key talent from the business who oversaw elements of purchasing, contracting production, and maintaining organic certification, had accepted an exciting opportunity to join a large research institution. A generous 30-day notice was given, but the clock was ticking.

The loss of key talent at this time was true disruption and while the breakup was amicable, it created real stress for the management team. But as they leaned hard on the work of Process Discovery including some cross-functional swim-lanes for one of their most complex workflows, Mac realized that they had a tool in their hands to more reliably re-allocate the work and maintain operations.

> ***"There is a lot I would rather talk about and focus on than developing business processes, but in that moment, it became clear to me why we spent the time doing this and the real power of process when it comes to growing our business. If this had happened before we did the process work, it would be a fire drill to figure out what happens when people leave."***
>
> **Mac Ehrhardt**

Phase III - Build The Plan

This is where most companies begin their integration planning process. They recklessly leap past aligning on the underlying business case, value drivers, success metrics, customer requirements, and other foundational elements to successful M&A integration.

Building the integration plan should be the culmination of all the insights gathered, decisions made, and alignment reached during Operating Model and Process Discovery.

When you follow the process, you ensure the team knows why you are doing the deal, what metrics will tell if integration is going well, and why your customer should be thrilled about the transaction. As a result, you go into planning equipped with a clear-eyed view on which levers must be pulled in order to deliver deal value post-close.

Companies that jump right to the planning stage forfeit the power and alignment that come from Phases I and II. Further, the plans they cobble together are often incomplete, misaligned, working at cross-purposes among departments, and underestimate the enormity and complexity of the integration challenge.

These plans are more like a wish list masquerading as an integration plan. And will not provide you with a clear roadmap that bridges deal close and value realization.

For Albert Lea Seed, this marked the moment that integration work was no longer held centrally by members of management. A wider group of employees were engaged in defining the work to be done to achieve the objectives that had been set.

The integration structure (think of this as the work streams that manage different aspects like human resources, accounting, purchasing, or sales) had been agreed upon, goals set for each area, and the people to be involved identified.

A formal integration planning kickoff was held to introduce the team to the Integration Pacesetter™ process, review what had been completed, and introduce what the next steps were.

Over the subsequent 4-to-6 weeks small working teams answered the following for their areas of focus:

- What work needs to be done?
- Who does it?
- When does it need to be done and in what sequence?
- How long will it take?
- How do we manage related efforts and tasks?
- How do we communicate and stay aligned?

At the end of the Phase III, the Albert Lea Seed team was armed with an end-to-end plan to guide decisions and focus once the deal closed in the weeks ahead. The plan provided a roadmap to shorten their time-to-value and reduce the performance dips that accompany so many M&A integrations.

Again, it is dangerous and misguided to equate small company deals with short and easy integration plans.

The integration plan developed to guide the combination of Albert Lea Seed and Blue River Organic Seed had 8 core work streams with more than 1,100 total integration tasks identified. The plan was built in a trusted third-party project management software solution, Smartsheet, that allowed every employee involved in integration to access, view, or modify work completed, in-progress, or past-due.

Additionally, Albert Lea Seed was equipped with dynamic real-time dashboards that allowed management and employees from both legacy organizations to monitor performance, assess risks, and understand not just the status of the integration, but the why behind the status.

Phase IV - Execute The Plan

As a leader of a food or agribusiness firm focused on results and considering M&A as a vehicle for growth, you have a bias for action. One of our prior clients could hardly sit still when they reached Phase IV and called it the “chatter, chatter, let’s get at ‘er” phase!

So yes, we now arrive at the moment of execution.

While every business and deal is different, phases one through three generally occur during a two-month period prior to deal close.

The Execute the Plan phase is where you put the plan into action, continuously monitor progress, drive alignment among overlapping or competing activities, communicate risks, and celebrate successes.

This is where breakthroughs happen, and all the time invested in planning starts to pay dividends. This is where leaders start to see the untapped execution potential in their business when a plan is built right and managed well. It is an intense time with much uncertainty and friction but before long, there are more answers than questions.

Answers to questions like:

- How is it going?
- Are we on track?
- What are the issues and risks we need to pay attention to?
- Are we realizing value?
- What opportunities have been uncovered?
- How is the team doing?
- Do we need to change anything?

For Albert Lea Seed, execution was demanding and put significant strains on the business as the integration moved forward. Team members at all levels, from all departments, and from both the legacy companies, worked hard to build the new sales organization, develop new processes to accommodate the combined organization, and identify how to bring the legacy technologies together to satisfy customer, dealer, grower, and internal requirements.

We generally see integration plans completed between 6 to 12 months post-close.

Mac and the Albert Lea Seed team completed their integration plan in just under 8 months and outperformed similarly sized first-time acquirers doing similarly sized deals.

The deliverable of this phase is simple, but powerful: **results**.

More specifically, results generated by the integration of two companies into one and creation of new, novel value that would not be available independently.

Looking back at his M&A integration using MCG's proven process, Integration Pacesetter™, Mac highlighted a number of significant wins for the business including:

- "Retaining Blue River's book of business was key to the success of our deal. We exceeded our customer retention goal within the first nine months after closing."
- "We realized the sales and volume growth targets in new geographies that we had outlined in our original deal thesis."
- "Customer response was critically important to us and a big risk factor in this effort. With our plan, we enjoyed positive support for the acquisition."
- "Overall this experience has improved the professionalization of our business and improved the strength of our core business processes."

Phase V - Sustain & Optimize

As integrations wind down, it is far too easy to let attention wane and allow people to drift back to “normal.” But the old normal doesn’t exist anymore. And too much has been accomplished and learned during integration to simply allow the transformational endeavor to fizzle at the goal line.

The Sustain & Optimize phase is about bringing integration to a close without losing the momentum that the investments have created.

In this closing phase, it is important to do the fun and necessary work of explicitly crossing the finish line, declaring victory, and hugging it out. All without falling victim to the back-sliding that can happen without proper integration closeout.

- Has the business stabilized?
- Are we ready to transition to routine operations?
- Is it time to celebrate?
- Where do we go from here?

A successful integration will not just result in M&A success, but will also reveal untapped potential in your business and new opportunities you may wish to pursue.

Companies completing an integration commonly have a short-list of strategic priorities that need attention to further optimize the business.

The priorities may be pre-existing conditions that were put under pressure during integration or latent weaknesses that were exposed and highlighted. What was an opportunity pre-deal may become a necessity post-deal.

Priorities can also be “new to world” revelations that will help you accelerate into the next S-curve of growth.

As Albert Lea Seed closed their integration and looked ahead to running the newly combined organization in steady state, Mac centered the team on several growth imperatives that were stressed or uncovered during the journey.

Business Process Maturity

Albert Lea Seed closed integration equipped with an enterprise view of their core business processes across functions, better documentation of critical processes, and the ability to navigate staff turnover with less disruption.

Organizational Design

As Albert Lea Seed digested their first ever M&A transaction, they also continued to prepare for a transition of ownership to the next generation. The management team aligned on the optimal structure for growth and the need to create challenging opportunities to reward and attract talent in support of growth.

Clear Eyed View of Tomorrow

The Albert Lea Seed management team is looking ahead armed with clarity on what levers need to be pulled to set the company up for continued growth and maximizing the promise of the combined organization including major enterprise technology investments and a fresh go-to-market strategy.

THE OFFER

Are you considering or pursuing a merger or acquisition as part of the growth strategy for your food or agribusiness?

Are you a first time, or first in a long time, M&A acquirer?

Do you perceive or suspect a gap between your M&A growth ambitions and the company's ability to execute and deliver the desired results?

Does a greater than 50% failure rate for M&A make you nervous?

If yes to any of the above, we should talk.

Mosher Consulting Group is ready to support you through the integration planning, execution, and closing using our Integration Pacesetter™ process.

- We will help you debate, design, and codify your integration **Operating Model** to enable you to connect your deal to your strategy, quantify the expected results, and create a deeper level of leadership alignment than you may think possible.

- We will facilitate your **Process Discovery** and arm you with a robust yet simple understanding of all the value creation and business critical intersections that exist within your business and ensure your integration plan builds upon them.

- We will help you **Build the Plan** bringing together the key components from earlier phases, the inputs and insights of your team members, and our existing integration templates. All packaged in a software solution optimized for this work.

- We will provide you with the knowledge, skills, dashboards, and support you need to effectively **Execute the Plan** while not starving your existing business of the attention and leadership it needs to sustain momentum and results.

- And we will apply the tools and techniques you need to help you **Sustain** your integration gains and **Optimize** your business for continued growth. As integrations come to an end they mark a new beginning for your business.

Every deal is different but generally the first 3 phases are completed in two to three months and definitely before you close your transaction. The pace can ramp up or down depending on how early we get involved - ideally around the time you issue your Letter of Intent.

And support needs vary for different companies in different deals.

Some companies want the benefit of an experienced partner at their side from beginning to end and we handle not just integration plan development, but ongoing integration management.

Some companies are looking for front-end assistance to get a comprehensive integration plan ready and once the deal closes they take it from there and need only occasional support on an as-needed basis.

And some companies want to get a head start and dig into development of their integration Operating Model and perform Process Discovery as a means of getting fight-ready when the right M&A target is identified.

The Integration Pacesetter™ process is proven to work, but it does not do the work for you.

This will be a heavy lift for you and your management team.

But the effort is nothing compared to the lift required to pull your business out of a nosedive if you go into M&A integration unprepared.

Think about the value drivers of your M&A transaction:

- What are the results you expect to realize from doing the deal and what would it mean to your business to successfully deliver against them?
- How much are you willing to gamble by not investing in the experience and know-how to get you there?
- Are you prepared to bear the costs of course correcting months after closing when you don't have a plan and your integration goes sideways?

And reflect on what it will mean for you, your team, your customers, and your business if you get integration right.

It's worth revisiting what Mac from Albert Lea Seed shared earlier:

- "Retaining Blue River's book of business was key to the success of our deal. We exceeded our customer retention goal within the first nine months after closing."
- "We realized the sales and volume growth targets in new geographies that we had outlined in our original deal thesis."
- "Customer response was critically important to us and a big risk factor in this effort. With our plan, we enjoyed positive support for the acquisition."
- "Overall this experience has improved the professionalization of our business and improved the strength of our core business processes."

Less than a year after closing his first ever acquisition, and the first in his company's nearly 100 year history, this is what Mac had to say about working with us:

> *"Joe was right-sized for us. He had the technical know-how, experience, and ag-based business acumen to get us where we needed to go.*
>
> *He truly wanted to work with us, behaved like an extension of our team, was an exceptional communicator, and brought positivity to the hard work of integration. This is not just a job for Joe - he loves what he does.*
>
> *The process works - everyone involved had the confidence they could do what was needed to win. Joe set us up for success, held us accountable, and I would recommend him without hesitation."*
>
> Mac Ehrhardt

We work hard every day to provide insights and expertise that supports the profitable growth of the U.S. food and agribusiness industry. We wish you success and prosperity in your M&A pursuits and encourage you to reach out if we can be of assistance to you in your journey.

MEET THE INTEGRATION PACESETTER™

Hi, I'm Joe Mosher, founder of Mosher Consulting Group and The Integration Pacesetter™

We help food and agribusiness companies scale their business, deliver profitable results, and set their people up for future success, all while preserving the core and culture of what your business stands for.

For more than 15 years, we've been supporting food and agribusiness executives in executing strategy and realizing value from M&A investments. We are hyper focused on the small to middle market food and agribusiness sector — it's what we know and what we love.

We don't just talk that talk, we walk the walk. We've spent the majority of our careers working within food and agribusiness companies — not as external advisors, but as business operators.

We've lead strategy execution from a variety of perspectives including:

- Plant Operations
- Finance
- Risk & Assurance
- Process Improvement
- Organization Effectiveness
- And Business Transformation

Because we've been in the business, we know how hard it is to get strategy and M&A execution right. We've been through brutal harvests, major quality and inventory issues, supplier and customer disputes, plant closures, business turnarounds, and challenging acquisitions. We know how tough it is to manage the dual mandate of driving value creation through growth, while ensuring value preservation by defending the existing business.

Since we are seasoned business leaders — NOT career consultants — we speak from experience, not untested theories.

That's why small and middle-market food and agribusiness executives and owners trust Mosher Consulting Group to generate more profits, increase their bottom line, and change the growth trajectory of their business forever.

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