Cost and performance improvement opportunities are often not fully realized during initial post-merger integration efforts. Many of our clients have initiated “second-wave” efforts, 1-3 years after a merger or acquisition has closed, to unlock those additional benefits and reduce costs by up to 20 percent in the areas examined.

Our clients have found that these "second wave" benefits come from two primary sources:

- **The reduction in internal (e.g., contractual, cultural) and external (e.g., political, regulatory) barriers to further integration**—After the initial integration efforts and oversight have subsided, management is often able to more effectively address these barriers to more fully integrate the companies and capture more savings.

- **Increased knowledge of the partner companies**—New savings and improvement opportunities typically surface as executives get to know each other's predecessor companies better, discover exceptionally well performing areas/practices to transplant and gain greater appreciation for the strengths and weaknesses of management team members.

The following pages describes Oliver Wyman’s perspectives on reaping the benefits from "second wave" post-merger integration and outlines the level and types of savings that management can expect.
Cost and performance improvement opportunities are often not fully realized during initial integration efforts, calling for a “second-wave” effort.

“Second-Wave” savings opportunities

External and internal constraints (e.g., political, regulatory) make it difficult to integrate fully and capture most savings prior to and shortly after merger closes, for example:

- Consolidating support staff and back office functions
- Vacating facilities; buying out leases or selling
- Streamlining organization structure (often post-merger positions are created for “additional” managers)

New savings and improvement opportunities typically also surface in the first 2-3 years following a merger or acquisition:

- Executives and managers get to know each other’s predecessor companies better and discover:
  - Additional operating, performance, or cost issues to address
  - Exceptionally well-performing areas and best practices to transplant
  - The strengths and weaknesses of management team members, and reorganization opportunities
- New performance and cost challenges arise

Opportunity = 5-20% savings, depending on relative cost position in targeted area
In addition to driving further cost and process improvements, companies can position the business for future growth.

Second-Wave Integration and Improvement Effort
(2-3 years after merger closing - unshaded)

Initial Integration Effort
(at merger closing - shaded)

Integrate Operations
• Integrate organization structure, e.g., single departments for corporate functions
• Achieve systems and data integration, e.g., ERP, CIS
• Consolidate processes (partial)

Realize or Exceed Synergies
• Reduce operating costs
• Transfer best practices
• Achieve common processes
• Leverage new systems

Must Do
Pressure to Deliver
Opportunity to Excel

Build the Future
• Deliver operational excellence
• Get the basics done right
• Reinvest in the business
• Focus on highest value activities
• Achieve consistency
• Put measures and metrics in place
• Deliver shareholder value

Conducting a “second-wave” effort has allowed our clients to reduce costs in a range of areas examined, achieving 5-20% savings (based on the relative cost position of the areas examined).

<table>
<thead>
<tr>
<th>Potential savings categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-merger event</td>
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<td>-----------------------------</td>
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<tr>
<td>Political and regulatory</td>
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<tr>
<td>pressures reduced or are</td>
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<td>eliminated</td>
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<td>contracts and leases expire</td>
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<tr>
<td>Best practices and</td>
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<td>well-performing</td>
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<tr>
<td>geographies emerge</td>
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<tr>
<td>High- or poor-performing</td>
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<tr>
<td>managers emerge</td>
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</tbody>
</table>
Oliver Wyman

Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm works with clients across a range of industries to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

Energy/Utilities Practice

Our dedicated consultants have significant experience in the energy/utilities sector. Previous clients include more than 75 electric and natural gas utilities in North America and Europe, as well as a range of unregulated service providers to energy companies and utilities.

Practice areas include:

Corporate strategy

M&A (targeting, synergy analysis, and post-merger integration)

Performance improvement

• Wholesale and Delivery
• Supply chain
• Support services
• Working capital
• Marketing
• Organization and staffing
• In-Market Experimentation

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